



Kip Memmott
Division Director

December 5, 2024

Dr. Nakeia Daniels, Director
Oregon Department of Veterans' Affairs
700 Summer St. NE
Salem, Oregon 97301

Dear Director Daniels:

We have completed audit work of a selected federal programs at the Oregon Department of Veterans' Affairs (department) for the year ended June 30, 2024.

Assistance Listing Number	Program Name	Audit Amount
64.015	Veterans State Nursing Home Care	\$ 33,632,913.22

This audit work was not a comprehensive audit of your federal program. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance. The Office of Management and Budget (OMB) Compliance Supplement identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls over compliance for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that could have a direct and material effect on the federal program under audit.

We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. Our audit does not provide a legal determination of the department's compliance with the compliance requirements referred to in Appendix A.

For the year ended June 30, 2024, we determined whether the department substantially complied with the compliance requirements listed in Appendix A as relevant to the federal program under audit.

Responsibilities of Management for Compliance

Department management is responsible for compliance with the requirements referred to in Appendix A, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the federal program referred to above.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to in Appendix A occurred, whether due to fraud or error, and express an opinion on the department's compliance based on our audit work. Reasonable assurance is a high level of

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assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirement referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the department's compliance with the federal program.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over*

compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described below to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Audit Findings and Recommendations

Ensure accuracy of per diem recalculations

Federal Awarding Agency:	U.S. Department of Veterans Affairs
Assistance Listing Number and Name:	64.015 Veterans State Nursing Home Care
Federal Award Numbers and Years:	648-Y37190, 2023; 648-Y37191, 2023; 648-Y47191, 2024; 648-Y48191, 2024
Compliance Requirement(s):	Activities Allowed or Unallowed
Type of Finding:	Significant Deficiency
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 200.303; 38 CFR 51.40

Federal regulations allow for the department to request a per diem from the federal awarding agency each month for every day an eligible veteran resides in a veteran state nursing home. Federal regulations require the department establish, document, and maintain effective internal control over the federal award that provides reasonable assurance they are managing the federal award in compliance with federal statutes. The department performs a recalculation for each per diem to provide reasonable assurance they are managing the award in compliance with federal statutes.

We selected a total of eight out of 24 per diem requests for review. Of the eight requests we reviewed, we identified four requests where the recalculation performed was not accurate. The recalculated per diem totals did not agree to the actual amount requested, due to differences in the number of resident per diem days or per diem amounts used in the recalculation. Department staff has indicated the recalculation has been updated over the past year as staff has become more familiar with the recalculation process, but additional updates are still needed. Without an appropriate recalculation, the department may request a per diem for ineligible individuals residing in the nursing home, or the per diem may be for an incorrect number of days.

We recommend department management strengthen internal controls to ensure per diem requests are accurately recalculated.

Response to Current Year Finding

The audit finding and recommendation above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. Including your response satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings.

Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

1. Your agreement or disagreement with the finding. If you do not agree with the [an] audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned for each audit finding.
3. The anticipated completion date.
4. The contact person(s) responsible for corrective action.

Please provide a response to Michelle Searfus by December 12, 2024, and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

The purpose of this communication is solely for the information and use of management and others within the organization to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this communication is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Tyler Folska-Fung or Michelle Searfus at tyler.folska-fung@sos.oregon.gov or michelle.n.searfus@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Nicole Dolan, Interim Chief Financial Officer
Kelly Breshears, Director, Aging Veteran Services
Berri Leslie, Director and Chief Operating Officer, Department of Administrative Services
Rob Hamilton, State Controller, Department of Administrative Services

APPENDIX A

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal awards were expended only for allowable activities.
Eligibility	Determined whether only eligible individuals and organizations received assistance under federal programs, and amounts provided were calculated in accordance with program requirements.