



Kip Memmott
Division Director

December 2, 2024

Andrea Bell, Executive Director
Oregon Housing and Community Services
725 Summer Street NE, Suite B
Salem, Oregon 97301

Dear Andrea Bell:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2024. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in procedures that we consider to be a significant deficiency.

255 Capitol St NE, Ste 180
Salem, Oregon 97310

LaVonne Griffin-Valade
Oregon Secretary of State

Cheryl Myers
Deputy Secretary & Tribal Liaison

Information (503) 986-2255
sos.oregon.gov/audits

Significant Deficiency

Additional year-end procedures are needed to ensure prepaid expenditures are recognized when incurred

Near the end of fiscal year 2023, the department advanced funds to various entities and appropriately recorded the unspent portion of these payments, totaling \$77.9 million, in the general fund as prepaid expenditures. During fiscal year 2024, the prepaid entry was reversed, eliminating the prepaid balance and expending the entire balance of \$77.9 million.

Under governmental accounting standards, cash and other assets provided in advance should be reported as advances until allowable costs have been incurred and any other eligibility requirements have been met.

At the close of fiscal year 2024, \$25.1 million remained unspent and should have been recorded as prepaid expenditures. As a result, distribution expenditures were overstated and prepaid expenditures were understated by approximately \$25.1 million.

The department does not customarily provide funds in advance and therefore did not have a process in place to review prior year prepaid expenditures and record those that had been expended during the year.

We recommend the department ensure a process is in place to review prior year prepaids and properly record expenditures.

The above significant deficiency, along with your response for the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. Please prepare a response to the finding and include the following information as part of your corrective action plan:

1. Your agreement or disagreement with the finding. If you do not agree with the 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.
3. The anticipated completion date.
4. The name(s) of the contact person(s) responsible for corrective action.

Please provide a response to Sarah Anderson by Monday, December 9, 2024, and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter 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 Sarah Anderson, Audit Manager or Tracey Gates, Principal Auditor at Sarah.A.Anderson@sos.oregon.gov or Tracey.Gates@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Caleb Yant, Deputy Director
Dean Criscola, Controller
Matthew Harris, Capital Markets Director
Christian Kelly, Chief Internal Auditor
Claire Hall, Oregon Housing Stability Council
Berri Leslie, Director and Chief Operating Officer, Department of Administrative Services
Robert Hamilton, State Controller, Department of Administrative Services