



Secretary of State **Oregon Audits Division**

Fiscal Year 2019
Keeping Oregon Accountable

June 2020
Report 2020-23

Secretary of State Bev Clarno
Audits Division Director Kip Memmott

Executive Summary

Keeping Oregon Accountable

Fiscal Year 2019

June 2020

Purpose

The Secretary of State Audits Division annually audits the State of Oregon's financial statements and compliance with federal program requirements. The federal government requires these audits for the approximate \$12 billion in financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported; evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations; conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements; and review accounting and compliance control procedures. The results of these audits are included in the State's Comprehensive Annual Financial Report (CAFR), and in the annual Statewide Single Audit Report. This report summarizes the results of the fiscal year 2019 audits.

Results

Audit of the State of Oregon's Financial Statements

- » We identified \$1.3 billion in accounting errors and proposed adjustments to correct them.
- » We issued an unmodified opinion (clean) on the state's financial statements for fiscal year 2019.
- » We issued a finding for a material weakness in internal control to the Oregon Health Authority and the Department of Human Services. When internal controls are weak, there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.
- » We issued six significant deficiencies in internal control with recommendations to improve standard controls used to ensure the accuracy of financial information. A significant deficiency is less severe than a material weakness, yet requires corrective action.

Audits of Compliance with Federal Program Requirements

- » We audited 10 federal programs at seven agencies and issued 17 findings.
- » We questioned whether \$2,778,477 in expenditures were appropriately paid with federal funds.
- » We issued a qualified opinion on the Temporary Assistance for Needy Families (TANF) program. A qualified opinion indicates the department's internal controls are inadequate to prevent or detect significant noncompliance in a timely manner.
- » We followed up on 53 prior year findings from the prior three years to see if corrective action had been taken at eight agencies.

The Oregon Secretary of State Audits Division is an independent, nonpartisan organization that conducts audits based on objective, reliable information to help state government operate more efficiently and effectively. The summary above should be considered in connection with a careful review of the full report.

Overview of Annual Financial and Federal Audits

The Secretary of State Audits Division annually audits the State of Oregon's financial statements and compliance with certain federal program requirements. The federal government requires these audits for the approximate \$12 billion in financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported and evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations. The results of these audits are included in the State's Comprehensive Annual Financial Report (CAFR), and in the annual Statewide Single Audit Report, both of which are on the Secretary of State website.¹ This report summarizes the results of the fiscal year 2019 annual audits.

Comprehensive Annual Financial Report

State agency directors and managers are accountable to the citizens of Oregon for how they use public monies. To help ensure accurate financial reporting, state agencies are to comply with Generally Accepted Accounting Principles. Preparing accurate financial statements is essential for ensuring that reliable and transparent financial information is provided to decision makers and key stakeholders.

These statements provide a comprehensive view of the state's financial activities during the fiscal year (Statement of Activities) and an overall picture of the state's financial position at the end of the fiscal year (Statement of Net Position). The management of each state agency is responsible for implementing and maintaining effective internal controls to ensure the integrity of financial and accounting information.

Statewide Accounting and Reporting Services, part of the Department of Administrative Services, prepares the statements by compiling financial information from more than 100 state agencies into the proper format for governmental reporting. They also provide accounting guidance and training to state agency staff throughout the year.

We audit these financial statements following *Government Auditing Standards* applicable to financial audits, which require that we plan and perform audit work to obtain reasonable assurance about whether the financial statements are materially correct. As part of the annual audit of the state's financial statements, we provide our professional opinion about the completeness, accuracy, and reliability of the state's accounting information. Accurate and reliable accounting data is crucial to tracking how state dollars are spent and provides a starting point for the next budget cycle.

Fiscal Year 2019 Results

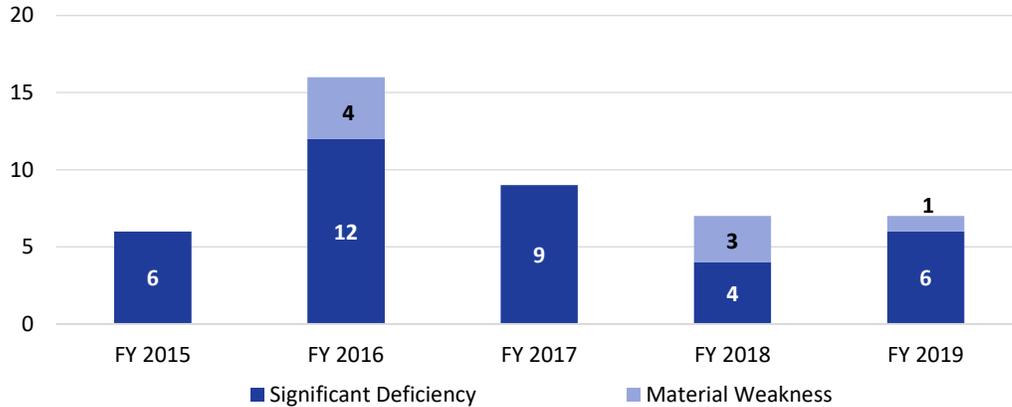
We issued an unmodified opinion on the state's financial statements for fiscal year 2019. An unmodified opinion means the financial statements, as corrected, are "fairly presented in conformance with Generally Accepted Accounting Principles."

To conduct this audit, our financial auditors performed audit procedures of all major funds of the government and audited hundreds of accounts at 22 state agencies including, but not limited to, the Departments of Human Services, Education, Transportation, Revenue, and the Oregon Health Authority. During the course of our audit, we reviewed assets of \$42.6 billion, liabilities of \$16.9 billion, revenues of \$29.5 billion, and expenditures of \$26.8 billion. We reported the results of our audit to agency management, the state Legislature, federal officials, and the public.

¹ The Comprehensive Annual Financial Report 2019-46: <http://records.sos.state.or.us/ORSOSWebDrawer/Recordpdf/7091817>
The annual Statewide Single Audit 2020-14: <http://records.sos.state.or.us/ORSOSWebDrawer/Recordpdf/7227904>

Our audit of the state’s financial records resulted in seven findings to five state agencies² with recommendations to improve standard controls commonly used to ensure the accuracy of financial information. The type of control finding we report depends on the degree of control weakness and generally falls into one of two categories, as shown in Figure 1: a significant deficiency or material weakness. A material weakness is more severe and more likely to have an impact on the financial statements.

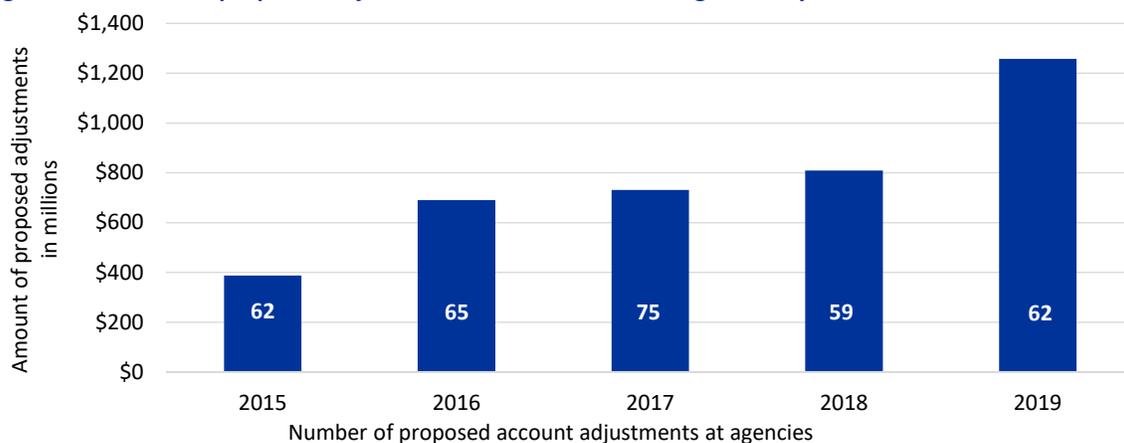
Figure 1: Although the number of findings has declined, material weaknesses continue to be identified



In 2019, we reported a material weakness to management of the Department of Human Services and the Oregon Health Authority for incomplete accrual methodologies. The methodologies need to be improved to provide reasonable estimates of expenditures for accurate reporting in the financial statements. Although one material weakness was reported for the year, two prior year material weaknesses remain uncorrected at other agencies. The Oregon Business Development Department has had uncorrected material weaknesses dating back to 2016.

We proposed audit adjustments to correct accounting errors in the state’s financial statements. Accounting errors occur when an agency does not record a transaction, or records a transaction using incorrect account coding, resulting in amounts appearing in the wrong year or the wrong place in the financial statements. Adjustments may also be necessary when an accounting standard is misinterpreted or misapplied. When errors are large enough to misrepresent the balance of a fund, we propose adjustments to correct the account balance. Figure 2 shows the number of accounts impacted by our audit adjustments and the amount of those adjustments over the past five years.

Figure 2: The total of proposed adjustment amounts increased significantly in FY 2019



² The five agencies with findings were the Department of Human Services (DHS), Oregon Health Authority (OHA), Department of Administrative Services (DAS), Higher Education Coordinating Commission (HECC), and Oregon Department of Transportation (ODOT).

Figure 3 lists the agencies where we proposed audit adjustments for fiscal year 2019. Most of the accounting errors were the result of classifying revenue and expenditures to an incorrect account or to an incorrect reporting period, or creating transfers for budgetary reasons that are not compliant with accounting standards. The audit adjustments we proposed align Oregon’s financial statements with accounting standards and demonstrate the importance of the annual financial audit.

Figure 3: Proposed financial audit adjustments totaled \$1.2 billion for fiscal year 2019

State agency	Accounts affected	Amount
Department of Human Services / Oregon Health Authority	32	\$ 779,567,988
Department of Education	4	268,110,611
Judicial Department	2	92,600,000
Department of Consumer and Business Services	2	51,539,265
Department of Transportation	4	51,077,165
Department of Revenue	2	6,804,369
Higher Education Coordinating Commission	7	3,259,965
Oregon Department of Forestry	7	3,192,520
Oregon Business Development Department	2	1,633,446
Total	62	\$ 1,257,785,327

History of CAFR findings

When considering the extent of financial findings, it is important to know that uncorrected prior year findings also need to be addressed to have strong internal controls. As shown in Figure 4, we reported 16 financial findings for fiscal year 2019: seven new findings and nine prior year findings that have not been corrected. Four financial findings from prior years were corrected in 2019.

Figure 4: Agencies struggle to correct findings

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
New findings	6	16	9	7	7
Prior year findings, not resolved	6	2	10	13	9
Total findings at year-end	12	18	19	20	16
Prior year findings corrected this year	11	8	7	5	4
Rate of corrections	92%	44%	37%	25%	25%

Note: Rate of correction is calculated as findings corrected during the year compared to total findings reported for the year.

Statewide Single Audit

Oregon annually receives an approximate \$12 billion in federal dollars through grant agreements with federal agencies. These grants are awarded to state agencies for programs that provide various services, including public health and safety, agricultural research, and homeland security. Agencies receiving the funds are required to comply with various federal requirements for the administration of the programs.

The Audits Division issues the Single Audit Report, which includes a schedule prepared by the Department of Administrative Services of all federal funds spent by the state for the year. The report also includes audit findings from the CAFR audit and the federal compliance audits. Agency management provides responses about whether they agree with each finding and what actions they plan to take to correct the underlying issues. In addition, the report presents the status of findings for the prior two years and any action management has taken to correct the findings.

The federal Office of Management and Budget (OMB) develops nationwide policy for performing federal compliance audits. OMB provides strict instructions for determining which programs to audit and the specific audit procedures we need to perform for each federal program to ensure the state is complying with federal requirements when administering the programs. The federal government uses the annual Single Audit Report to monitor how well their programs are administered and to follow up on any findings we identify. Federal granting agencies follow up on our audit findings for purposes of enforcing compliance and determining whether questioned costs need to be repaid or if any sanctions will be imposed.

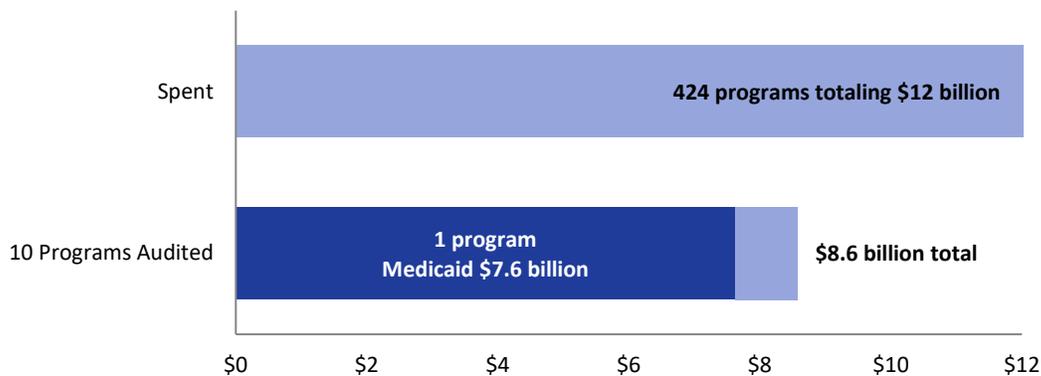
The following highlights key information from the 2019 Statewide Single audit.

Fiscal Year 2019 Federal Expenditures

In fiscal year 2019, the State of Oregon spent \$12 billion in federal funds for 424 federal programs administered by 41 state agencies. Adhering to OMB requirements designed to select programs based on expenditures and risk, we audited 10 major federal programs for compliance with federal requirements.

As shown in Figure 5, the audited programs accounted for \$8.6 billion, or 71%, of the \$12 billion spent in fiscal year 2019. Medicaid is the single largest program and accounts for \$7.6 billion in federal funds spent by the state.

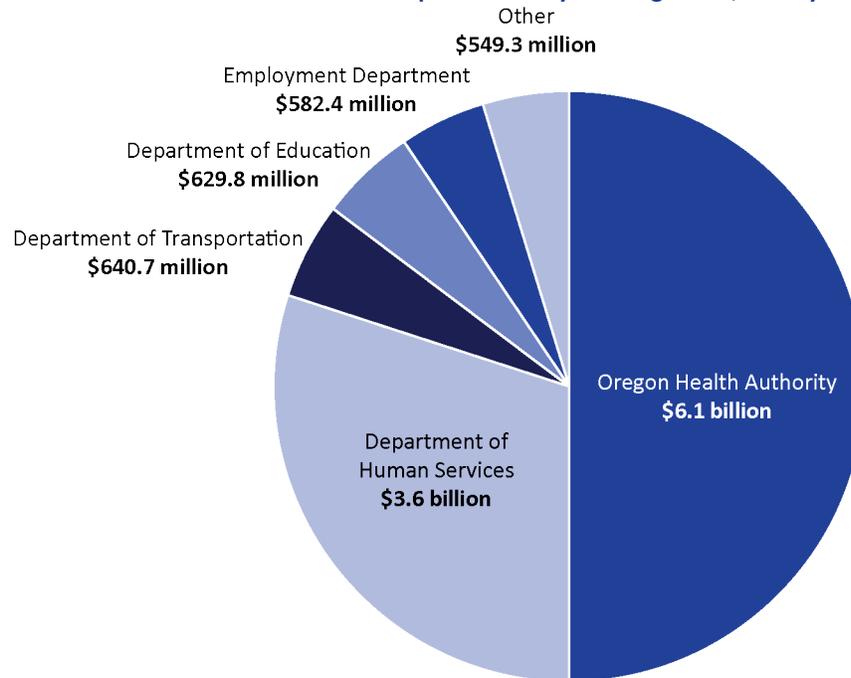
Figure 5: We audited 71% of fiscal year 2019 single audit expenditures



As shown in Figure 6, the Oregon Health Authority and the Department of Human Services accounted for \$9.7 billion, or 81%, of the state's federal expenditures. The Medicaid program accounts for 91% of the Oregon Health Authority's federal expenditures and 59% of the Department of Human Services' federal expenditures. The Department of Human Services

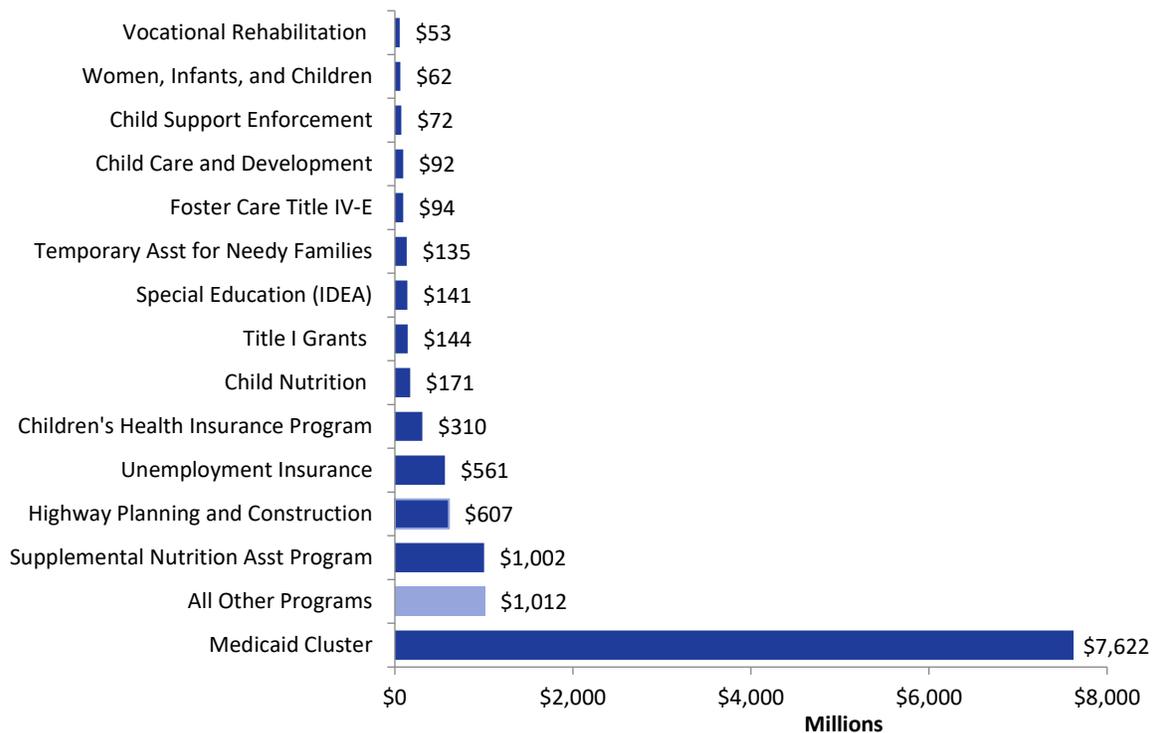
administers other large federal programs, including Supplemental Nutrition Assistance, commonly known as food stamps, Temporary Assistance for Needy Families, and Foster Care.

Figure 6: DHS and OHA account for 81% of federal expenditures by state agencies, fiscal year 2019



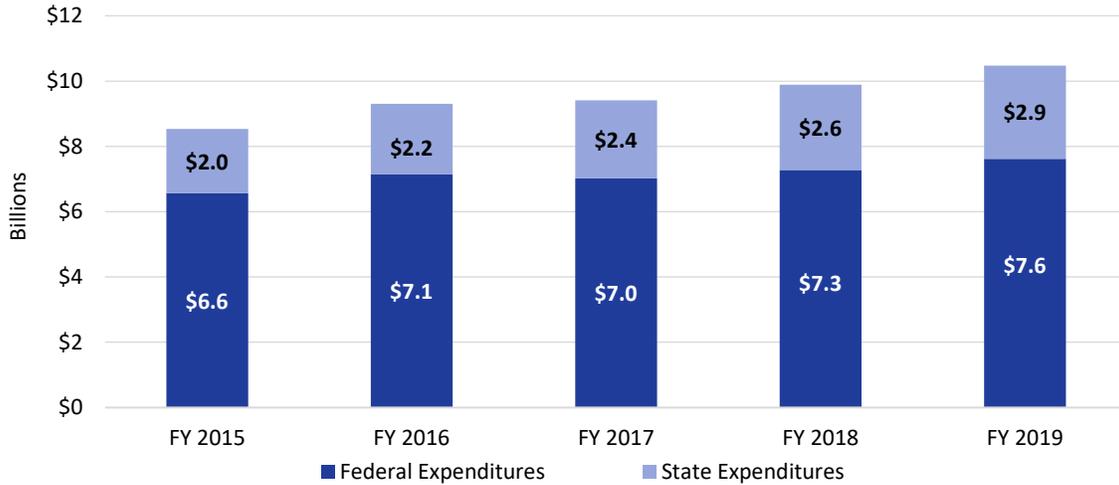
Of the 424 federal programs administered by the State of Oregon in fiscal year 2019, 14 programs account for 92% of the state's total federal expenditures. The Medicaid program is by far the largest public assistance program administered by the state, as depicted in Figure 7. The Other category combines 410 federal programs, each with expenditures less than \$52 million.

Figure 7: Medicaid expenditures far exceed expenditures of other programs, fiscal year 2019 (in millions)



The Medicaid program provides health insurance coverage to low-income families. The cost to provide this coverage grows every year. Figure 8 shows Oregon’s Medicaid costs, both federal and state, for the past six years.

Figure 8: Federal and state Medicaid expenditures continue to increase



Fiscal year 2019 Statewide Single Audit Results

As shown in Figure 9, we audited 10 federal programs that are administered by the State of Oregon. In addition to Medicaid, which is required to be audited every year, we audited five other programs at the Department of Human Services and Oregon Health Authority. We also audited programs at the Department of Transportation, Oregon Military Department, Department of Forestry, Oregon State Police, and the Department of Justice. These audits were required for the state to be in compliance with the OMB Single Audit requirements.

We reported 17 findings to four of these agencies with recommendations to improve controls over compliance with the key federal requirements relevant to each program. Similar to our audit of the CAFR, the type of control finding we report depends on the degree of control weakness and generally falls into one of two categories: a significant deficiency or a material weakness in controls over compliance.

Figure 9: We audited 10 programs expending \$8.6 billion in federal funds for fiscal year 2019

Federal Program	2019 Findings	Federal Program Expenditures
Medicaid Cluster	5	\$ 7,621,634,081
Highway Planning and Construction Cluster	0	\$ 606,995,959
TANF Cluster	4	\$ 134,632,740
Immunization Cooperative Agreements	0	\$ 51,934,397
National Guard Military Operations and Maintenance Projects	2	\$ 51,010,844
Adoption Assistance	1	\$ 33,696,508
Fire Management Assistance Grant	1	\$ 27,649,231
Crime Victim Assistance	0	\$ 20,487,312
Food Distribution Cluster	1	\$ 17,354,971
Opioid STR	2	\$ 10,252,410
Multiple Programs*	1	
	17	\$ 8,575,648,453

*Allocated costs finding shared by multiple programs at DHS and OHA.

In addition to the findings, we questioned whether Oregon’s spending of \$2,778,477 in federal funds was appropriate under federal program rules. “Questioned costs” is a term OMB requires when reporting findings. When we question costs, we are identifying program costs that may, or may not, be allowed to be paid for with federal funds. The federal funding agency reviews our findings and determines whether the costs are federally reimbursable.

Questioned costs are not always a good measure of an agency’s compliance. Often an internal control weakness is identified, but costs are not linked directly to that control so they are not able to be estimated. This year, we questioned \$2.2 million in directly identifiable costs and another \$557,000 in projected errors based on our sample testing. Figure 10 shows the amount of questioned costs we identified by program and state agency. The TANF program has the largest amount of questioned costs, with \$2.4 million in known and projected errors. The questioned costs were due to errors made in calculating the allocation of costs between programs and caseworker errors in determining client benefits.

Figure 10: The majority of 2019 questioned costs reported were for the TANF program

State Agency	Federal Program Expenditures	Questioned Costs
Department of Human Services		
Medicaid Cluster	\$ 2,098,890,910	\$ 10,577
Temporary Assistance for Needy Families (TANF)	134,632,740	2,401,728
Foster Care		50,811
Oregon Health Authority/Department of Human Services		
Medicaid Cluster	5,503,937,145	84,706
Oregon Military Department		
National Guard Military Operations and Maintenance	51,010,844	230,655
Total	\$ 7,788,471,639	\$ 2,778,477

Qualified opinions

When the results of an audit determine the agency has sufficient controls to administer the program and the program is generally in compliance with federal requirements, we issue an unmodified opinion. An unmodified, or “clean” opinion means there are no “qualifications” (concerns) that would cause us to alter our opinion. However, each year we identify programs where a state agency’s internal controls are inadequate to reasonably prevent or detect material noncompliance in a timely manner. When this is the case, we issue a qualified opinion for the program.

For fiscal year 2019, we found the Department of Human Services did not establish adequate internal controls and was not materially compliant with federal requirements for the TANF program. We issued a qualified opinion on the TANF program for the second consecutive year.

History of Statewide Single Audit findings

The OMB establishes categories of compliance requirements and the federal awarding agencies determine which categories are key for their programs. Not all requirements apply to every program and some requirements are more complex than others. Figure 11 illustrates compliance requirements with findings for the past five years. Totals by category indicate which requirements are most problematic for Oregon.

Figure 11: Findings history by type of compliance requirement

Compliance requirement	2015	2016	2017	2018	2019
Allowable Activities and Costs	4+	8+	8+	8+	5+
Cash Management	1	1			
Eligibility	6	4	2	5+	2
Equipment			1		
Matching, LOE, Earmarking	4	1	2	5	1
Period of Performance	2		1		1
Procurement and Suspension and Debarment		1	2		1
Reporting	3	2	4+	3	3
Subrecipient Monitoring	4	3	6	5	1
Special Tests and Provisions	8+	3	1	3	3
Total findings	32	23	27	29	17

Note: Plus sign indicates multiple compliance requirements appear in one finding, but are only counted once in this display.

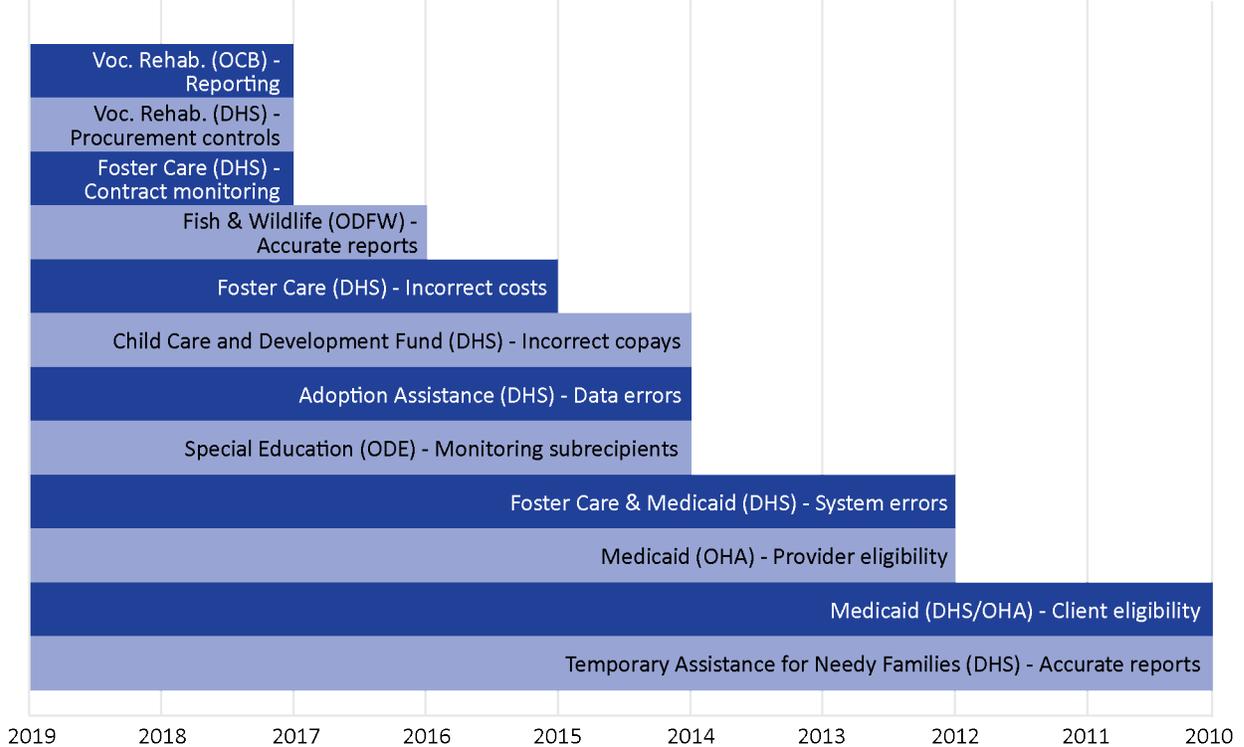
The OMB requires auditors to perform follow-up procedures in the following year to determine whether an agency has taken appropriate corrective action to resolve the findings. We reported on the status of 46 federal compliance findings from the prior two years and found that agencies had corrected 25 of them; however, 21 prior year findings will continue into fiscal year 2020 because they remain uncorrected. In addition, eight of the 10 programs audited for fiscal year 2019 have findings that will require follow-up or full audits in 2020.

Some findings remain uncorrected from one year to the next because agencies do not correct the underlying issues that cause the noncompliance or control weaknesses. While some findings take time and resources to correct, others may remain simply because management does not make it a priority to address them.

Figure 12 displays a history of ongoing findings by program, agency, and nature of the findings that continue to be uncorrected at the end of fiscal year 2019. The figure shows those findings that have been ongoing for at least three years. When a finding is uncorrected, we are required to continue auditing the requirement until it is resolved.

The TANF and Medicaid programs both have unresolved audit findings from 2010. Originating in fiscal year 2010, TANF data reports that are required to be submitted to the federal agency do not accurately reflect case status and activity of the reporting period. Medicaid's client eligibility findings include eligibility that was not re-verified, ineligible individuals receiving payments, and missing applications.

Figure 12: History of ongoing findings



DHS – Department of Human Services
 OHA – Oregon Health Authority
 ODE – Oregon Department of Education
 ODFW – Oregon Department of Fish & Wildlife
 OCB – Oregon Commission for the Blind

It is the responsibility of the federal granting agency to follow up with state agencies on findings included in the Single Audit Report. After investigating, the federal agency issues a determination letter to the state agency, providing its conclusion about the finding and the corrective action the state agency plans to take to resolve the finding. Generally, the determination letters uphold our findings, reinforce our recommendations, and request action from the state agency. Sometimes the federal agency imposes a sanction upon the state or adjusts future funding to correct the issue. Occasionally, the federal agency will clarify a requirement in favor of the state agency and the finding is no longer valid. Only federal agencies have the authority to enforce their grant requirements.



Audit Team

Mary Wenger, CPA, Deputy Director

Dale Bond, CPA, Audit Manager

Julianne Kennedy, CPA, Audit Manager

Kelly Olson, CPA, Audit Manager

Janet Lowrey, CPA, Senior Auditor

Financial and Compliance Audit Staff

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources.

Copies may be obtained from:

Oregon Audits Division

255 Capitol St NE, Suite 500 | Salem | OR | 97310

(503) 986-2255

sos.oregon.gov/audits