

Office of the Secretary of State

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Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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Salem, OR 97310

503-986-2255

April 7, 2021

Fariborz Pakseresht, Director
Department of Human Services
500 Summer Street NE
Salem, OR 97310

Dear Mr. Pakseresht:

We have completed audit work of a selected federal program at the Department of Human Services (department) for the year ended June 30, 2020.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	\$ 55,527,855

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 issues. 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 are direct and material to the federal program under audit. For the year ended June 30, 2020, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program under audit.

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn in advance was for an immediate need, and applicable interest was reported/remitted.

Matching, Level of Effort, Earmarking	Determined whether the minimum amount or percentage of contributions or matching funds was provided, the specified service or expenditure levels were maintained, and the minimum or maximum limits for specified purposes or types of participants were met.
Period of Performance	Determined whether federal funds were used only during the authorized performance period.
Program Income	Determined whether program income was correctly determined, recorded, and used in accordance with the program requirements.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.

Internal Control over Compliance

Department management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the department’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department’s internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

Audit Findings and Recommendations

Strengthen controls over program expenditures

Federal Awarding Agency:	U.S. Department of Education
Assistance Listing Name and Number:	Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
Federal Award Numbers and Years:	H126A180054 (2018), H126A190054 (2019), H126A200054 (2020)
Compliance Requirement:	Allowable Costs/Cost Principles, Activities Allowed or Unallowed
Type of Finding:	Significant Deficiency

Criteria: 34 CFR §361.50(e)

The state is required to establish policies related to the timely authorization of services. All recorded transactions should be supported by copies of source documents and other supporting information and provide clear evidence that the transaction was properly authorized. We reviewed a statistical sample of 56 client and nonclient program expenditures to ensure they were properly documented and approved and noted the following:

- A contract payment for \$115,587.67 for Youth Transition Program services was approved by contract payment staff. The approval exceeded the individual's \$50,000 signature authority.
- A \$1,500 payment was made for client job placement services. The department provided copies of the vendor invoice, a completed authorization for purchase, and the client individualized plan for employment, which included the service billed. However, none of the documents were signed as approved, and signed copies could not be provided.

Controls at the department were not followed to prevent or detect the errors noted. Unallowable costs or activities could be charged to the program if transactions are not reviewed by staff with appropriate authority, or the review is not documented.

We recommend department management review policies and procedures surrounding documentation and approval of transactions, and provide additional staff training on processes involved, including verification of signature authority during the invoice review process.

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, 2020. 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 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, Audit Manager, by April 16, 2021, and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

The purpose of this communication is solely 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 Tracey Gates at tracey.gates@oregon.gov or Michelle Searfus at michelle.n.searfus@oregon.gov or (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Keith Ozols, VR Director
Heather Lindsey, VR Deputy Director
Bryan Campbell, VR Business Operations Manager
Sarah Landis, Internal Auditor
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services