

Office of the Secretary of State

Shemia Fagan
Secretary of State

Cheryl Myers
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

April 1, 2021

Sophorn Cheang, Director
Oregon Business Development Department
775 Summer St NE, Suite 200
Salem, Oregon 97301

Dear Ms. Cheang:

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

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
14.228	Community Development Block Grant	\$ 20,915,025

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.
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.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified in the OMB Compliance Supplement.

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 a certain deficiency in internal control over compliance, as described below, that we consider to be a significant deficiency.

Audit Finding and Recommendation

Document review of the annual Performance and Evaluation Reports

Federal Awarding Agency:	U.S. Department of Housing and Urban Development
Assistance Listing Name and Number:	Community Development Block Grant (CDBG) (14.228)
Federal Award Numbers and Years:	B-10-DC-41-0001, 2010; BC-11-DC-41-0001, 2011; B-12-DC-41-0001, 2012; B-13-DC-41-0001, 2013; B-14-DC-41-0001, 2014; B-15-DC-41-0001, 2015; B-16-DC-41-0001, 2016; B-17-DC-41-0001, 2017; B-18-DC-41-0001, 2018; B-19-DC-41-0001, 2019
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 200.303(a)

Federal regulations require management to establish and maintain effective internal controls over federal awards and financial reporting to ensure compliance with statutes, regulations, and the terms and conditions of the federal award.

The department does not have documented policies or procedures to ensure the annual Performance and Evaluation Report is reviewed prior to submission and to ensure that evidence of the review is maintained. Department management has not required this review to be formalized or documented. As a result, we were not able to verify whether reports were reviewed prior to being submitted to the federal government. A lack of documented policies and procedures and inadequate review could result in incomplete and inaccurate reports being submitted to the federal government.

As part of our review of compliance with the Reporting requirement, we selected a statistically valid sample of the submitted reports. Of the eleven reports submitted for grant year 2019, we reviewed four and identified immaterial errors and inaccuracies throughout the reports.

We recommend department management document review procedures that are sufficient to ensure accurate reports are submitted. We also recommend department management maintain evidence of reviews performed.

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 the audit finding.
- 3) The anticipated completion date.
- 4) The contact person(s) responsible for corrective action.

Please provide a response to Amy Dale by April 8th, 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 Synthea Russell or Amy Dale at 503-986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

State of Oregon

cc: Renee Frazier, Chief Financial Officer
Brooks Peacock, Chief Audit Executive
Christina McMichael, Accounting Manager
Fumi Schaadt, CDBG Program Specialist
Ed Tabor, Program and Incentives Manager
Andrea Klaas, Chair, Infrastructure Finance Authority Board
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services