

Office of the Secretary of State

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Audits Division

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April 6, 2021

Major General Michael E. Stencel, The Adjutant General
Oregon Military Department
1776 Militia Way SE
PO Box 14350
Salem, Oregon 97309

Dear Major General Stencel:

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

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
97.036	Disaster Grants – Public Assistance	\$ 28,697,084

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.
Matching, Earmarking	Determined whether the minimum amount or percentage of contributions or matching funds was provided, 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.
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.
Subrecipient Monitoring	Determined whether the state agency monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with federal requirements.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified in the OMB Compliance Supplement.

Noncompliance

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and are described below. Our opinion on the federal program is not modified with respect to these matters.

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

Fully implement subrecipient risk assessments

Federal Awarding Agency:	Department of Homeland Security
Assistance Listing Name and Number:	Disaster Grants – Public Assistance (Presidentially Declared) (97.036)
Federal Award Numbers and Years:	FEMA-4258-DR-OR, 2016; FEMA-4296-DR-OR, 2017; FEMA-4328-DR-OR, 2017; FEMA-4432-DR-OR, 2019; FEMA-4452-DR_OR, 2019; FEMA-4499-DR-OR, 2020; FEMA-4519-DR-OR, 2020
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 200.331(b)

Federal regulations stipulate that pass-through entities evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for the purpose of determining appropriate subrecipient monitoring. Monitoring activities should be completed based on the results of the subrecipient’s determined risk.

During fiscal year 2020, the department developed procedures to assess subrecipient risk of noncompliance with program requirements. These procedures include a risk assessment matrix tool, and a self-assessment risk questionnaire sent to subrecipients at the beginning of each new disaster. Department staff enter questionnaire responses into the risk assessment matrix and calculate the subrecipient’s overall risk score to determine the level of monitoring required.

We selected a sample of 12 subrecipients for review. The department had not completed the risk assessment matrix for 10 of the selected subrecipients. Management also noted that the self-assessment risk questionnaires had not been received for a number of the subrecipients in our test sample.

The department’s risk assessment procedures are a new process. Management stated that the procedures are still being developed and have not been fully implemented due to staffing issues.

Risk assessments help prioritize subrecipients for monitoring and guide the breadth and depth of procedures to be applied. Without this guidance, the department may not provide an adequate level of monitoring, which could lead to an increased risk of noncompliance with program requirements.

We recommend department management continue to implement and document its risk assessments process for each subrecipient.

Improve accuracy of quarterly performance reporting

Federal Awarding Agency:	Department of Homeland Security
Assistance Listing Name and Number:	Disaster Grants – Public Assistance (Presidentially Declared) (97.036)
Federal Award Numbers and Years:	FEMA-4258-DR-OR, 2016; FEMA-4296-DR-OR, 2017; FEMA-4328-DR-OR, 2017; FEMA-4432-DR-OR, 2019; FEMA-4452-DR_OR, 2019; FEMA-4499-DR-OR, 2020; FEMA-4519-DR-OR, 2020
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR section 200.328(b)(1)

Federal regulations require pass-through entities to establish and maintain effective internal control that provides reasonable assurance the award is managed in compliance with regulations and terms and conditions of the award. Effective controls ensure submitted reports are both accurate and complete. The Disaster Grants – Public Assistance award requires the department to submit quarterly performance reports. The department is responsible for completing a number of fields within the report with applicable financial information, including applicant expenditures to date, total grantee drawdown, and federal funds disbursed by disaster and subgrantee.

The department’s existing controls are not effective to ensure the reports are complete and accurate prior to submission to the federal awarding agency. We reviewed two of the four performance reports submitted during fiscal year 2020, and found inaccurate information was reported in two reports. For example, we reviewed eight projects included on the report submitted for the quarter ending June 30, 2020. Selected projects comprised 46% of the reported total applicant expenditures to date field. Errors were identified in five of the eight reviewed projects. Specifically, we found:

- A \$270,000 overstatement caused by a transposition error.
- Two instances where the department could not fully support the expenditures reported in the applicant expenditures to date field, resulting in a potential overstatement of \$1.7 million.
- Expenditures totaling \$1.6 million that were not included in the applicant expenditures to date field.

Similar errors in the same projects were noted on the performance report for the quarter ending September 30, 2019.

Management stated that previous staff, with reporting responsibilities, did not always prepare accurate reports. However, management’s review of the reports did not identify the errors.

We recommend department management improve existing controls to ensure quarterly performance reports are complete and accurate prior to report submission.

Response to Current Year Findings

The audit findings and recommendations above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. Including your responses 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 each significant deficiency includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

- 1) Your agreement or disagreement with the finding. If you do not agree with 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 Kelly Olson by Wednesday, April 14, 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 Alan Bell or Kelly Olson at 503-968-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Dave A Stuckey, Deputy Director
Sean McCormick, Financial Administration Division Director
Sonja Dettwyler-Gwin, Controller
Pam Stroebel-Powers, Chief Audit Executive
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services