

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

March 25, 2021

Andrew Stolfi, Director
Department of Consumer and Business Services
350 Winter Street NE
Salem, Oregon 97309

Dear Mr. Stolfi:

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

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.423	1332 State Innovation Waivers Program	\$ 96,327,339

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.
Suspension and Debarment	Verified that contractors were not suspended, debarred, or otherwise excluded from receiving federal funds.

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.

Other Deficiencies

We identified the following other matters that are an opportunity to strengthen internal controls but are not considered to be material weaknesses or significant deficiencies in controls over compliance. These other matters do not require a written response from management.

Implement controls for verifying suspension and debarment

Terms and conditions of the federal award require the department to consult the ineligible parties list and ensure organizations under funding consideration are not ineligible. Department management should maintain effective controls over federal awards to provide reasonable assurance of compliance with the terms and conditions. Payments made to ineligible organizations are considered non-compliant and may be required to be paid back to the federal agency.

Department management indicated they consulted the ineligible parties list to verify recipient organizations were not suspended or debarred prior to disbursing funds. However, the department did not retain documentation of the verification results.

We recommend department management implement a written procedure to verify vendors under funding consideration are not ineligible and retain documentation of the verification.

Improve controls over federal financial reporting

Department management should maintain effective controls over federal awards to ensure quarterly reports are complete, accurate, and supported by adequate documentation. Each year the department submits three quarterly reports one annual report. We reviewed all three quarterly reports and found the department did not maintain sufficient supporting documentation. Additionally, we noted that the report data was submitted to the federal reporting website without independent review. We were able to verify that expenditures reported on the quarterly reports in fiscal year 2020 agreed to the accounting records.

We recommend department management retain documentation that is sufficient to support the completeness and accuracy of quarterly federal financial reports. We also recommend quarterly report data be reviewed prior to submission to ensure accuracy.

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 Janet Lowrey or Amy Dale at 503-986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

State of Oregon

cc: Carolina Marquette, Financial Services Manager
Lane Foulger, Accounting Services Manager
Chiqui Flowers, OHIM Division Administrator
Joel Payton, DFR Reinsurance Program Analyst
Michael Campbell, Chief Internal Auditor
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services