

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 12, 2021

Colt Gill, Director
Oregon Department of Education
255 Capitol Street NE
Salem, OR 97310-0203

Dear Mr. Gill:

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

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.575, 93.596	Child Care and Development Fund Cluster	\$ 38,225,230

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.

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, 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.
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

Improve controls to ensure expenditures are liquidated by federally mandated date

Federal Awarding Agency:	U.S. Department of Health and Human Services
Assistance Listing Name and Number:	Child Care Development Fund Cluster (93.575, 93.596)
Federal Award Numbers and Years:	G999005, 2018
Compliance Requirement:	Period of Performance
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	\$1,452,166 (known)

Criteria: 45 CFR 98.60

The Oregon Department of Education (department) receives federal awards for the Child Care Development Fund program (CCDF) in three categories, each with a specified time period by which funds must be spent. The department uses coding within the state's accounting system to prevent payments beyond each fund category's liquidation period.

We tested fiscal year 2020 payments and found four transactions, totaling \$1,452,166, that were not liquidated by the required date and, therefore, not allowed to be expended from the federal award number G999005, 2018. The system coding the department relied on is not designed to prevent payments beyond the liquidation period.

We recommend department management review and revise how it relies on the accounting system coding to ensure payments are liquidated by federally mandated dates. We also recommend department management reimburse the 2018 grant award .

Improve controls over expenditures

Federal Awarding Agency:	U.S. Department of Health and Human Services
Assistance Listing Name and Number:	Child Care Development Fund Cluster (93.575, 93.596)
Federal Award Numbers and Years:	90YE0200-03-00, 2020; G999004, 2020; G999005, 2019; G996005, 2018-2020
Compliance Requirement:	Allowable Costs/Cost Principles
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	\$40,282 (known); \$688,610 (likely)

Criteria: 45 CFR 75.403(a), 45 CFR 75.430(a)

Federal regulations state that allowable costs are costs necessary and reasonable for the performance of federal awards. Payroll costs directly related to a federal award are allowable costs, provided they are reasonable for the services rendered and are supported.

The department has implemented the following procedures to ensure allowable costs are charged to the program. Managers approve monthly timesheets submitted by employees in the state's payroll system. When managers do not approve by a specified date, the payroll system will automatically approve the timesheet, shown with the words "system approval." In such cases, managers are to document their approval with signatures on paper timesheets. Additionally, each employee should have a signed position description, which details the duties of the position and the amount of time to be charged for each duty.

We tested a nonstatistical random sample of 25 employees to ensure payroll was appropriately charged to the program. We also tested 7 additional employees with certain payroll months identified as outliers. We verified payroll timesheets were reviewed by a manager and signed position descriptions were retained per state guidelines, and identified the following exceptions:

- Six timesheets did not have evidence of manager approval, and the department could not locate the signed physical timesheets.
- Position descriptions could not be located for two employees. Management verified one of these employees did not work on the Child Care Development Fund program (CCDF), however, a CCDF default labor cost code was entered in the payroll system for this employee. A total of three months' salary was incorrectly charged to the federal program, resulting in \$25,679 in known questioned costs and \$575,222 in likely questioned costs when projected to the population. The second employee was verified to have 100% of duties assigned to CCDF.
- For eight employees, the position descriptions provided were unsigned and did not include the name of the employee. The department stated that it is best practice for position descriptions to be signed and retained but that it does not always happen. We did not question these costs as department management verified job duties were appropriate to the program.

We also tested a nonstatistical random sample of 13 service and supply expenditures. We found one was not entered into the accounting system correctly due to a data keying error. The department subsequently corrected the \$14,603 charged to the federal program after we informed them of the error.

We recommend department management improve its review of timesheets, ensure position descriptions are completed and retained, and strengthen its review of data entry. We also recommend department management reimburse the federal agency for unallowable costs.

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 the 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, 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 Janet Lowrey or Kelly Olson at 503-986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Miriam Calderon, Early Learning Division Director
Jenny Wilfong-Cribbs, Early Learning Division Deputy Director
Rick Crager, Assistant Superintendent, Office of Finance & Administration
Tomas Flores, Financial Services Director, Office of Finance & Administration
Latham Stack, Internal Auditor
Sue Miller, Chair, Early Learning Council
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services