

Office of the Secretary of State

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Audits Division

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April 7, 2021

Dacia Johnson, Executive Director  
Oregon Commission for the Blind  
535 SE 12<sup>th</sup> Avenue  
Portland, OR 97214

Dear Ms. Johnson:

We have completed audit work of a selected federal program at the Oregon Commission for the Blind (commission) 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	\$ 7,986,589

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.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
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.
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.

## Noncompliance

The results of our auditing procedures disclosed instances of noncompliance that 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

### *Implement controls to ensure the accuracy of federal financial reporting*

<b>Federal Awarding Agency:</b>	U.S. Department of Education
<b>Assistance Listing Name and Number:</b>	Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
<b>Federal Award Numbers and Years:</b>	H126A180055 (2018), H126A190055 (2019), H126A200055 (2020)
<b>Compliance Requirement:</b>	Reporting
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Prior Year Finding:</b>	2017-031
<b>Questioned Costs:</b>	N/A

Criteria: 2 CFR 200.303(a)

Federal regulations require financial reports include all activity of the reporting period and be supported by applicable accounting records. The commission did not have an effective review in place during the year to ensure these reports are accurate and supported by accounting records. As a result, we identified errors on the Federal Financial Report (SF-425) and the Annual Vocational Rehabilitation Program/Cost Report (RSA-2).

Four SF-425 reports were submitted covering federal awards that were active during fiscal year 2020. We tested three reports and identified the following errors:

- The base indirect payroll reported on Line 11d for each of the three reports tested did not include all Pre-Employment Transition Services payroll expenditures. This error also resulted in errors on Lines 11e and 11f as these are based in part on Line 11d.
- The incorrect indirect cost rate was reported on Line 11b.1 for the grant phase 19, quarter ending March 31, 2019 report. This error also resulted in errors on Lines 11e and 11f as these are based in part on Line 11b.

We tested the annual RSA-2 report submitted for 2019 and identified the following errors:

- Amounts reported on Schedule II, Line 1.c and 1.d were incorrectly reported resulting in an overstatement of Line 1.c and understatement of Line 1.d by \$36,398.
- The amount reported on Schedule III, Line 15 was \$50,000 less than the supporting accounting record.
- An amount of \$1,040 was incorrectly reported in Schedule III resulting in an overstatement of Line 21 and understatement of Line 18 by that amount.

Data collected through the SF-425 and RSA-2 reports is used by the federal government to evaluate and monitor the financial and programmatic performance of the Vocational Rehabilitation program. As such, it is important that the data be accurately collected and reported.

**We recommend** commission management implement an effective review of its federal financial reports prior to filing. This will ensure reports contain accurate information, are supported by accounting records, and follow federal reporting guidelines. We also recommend that the final versions of the erroneous reports be corrected and resubmitted.

***Improve documentation of management review of program costs***

<b>Federal Awarding Agency:</b>	U.S. Department of Education
<b>Assistance Listing Name and Number:</b>	Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
<b>Federal Award Numbers and Years:</b>	H126A180055 (2018), H126A190055 (2019), H126A200055 (2020)
<b>Compliance Requirement:</b>	Allowable Costs/Cost Principles, Activities Allowed or Unallowed
<b>Type of Finding:</b>	Significant Deficiency
<b>Prior Year Finding:</b>	N/A
<b>Questioned Costs:</b>	N/A

Criteria: 2 CFR §200.430, §200.303

Commission management is responsible for maintaining adequate internal controls over the approval of expenditures of federal awards. Proper segregation of responsibilities is a necessary element of effective controls.

During testing of internal controls over allowable costs and allowable activities we found the following:

- We randomly selected a statistical sample of 11 timesheets. One employee timesheet was not signed as approved by management.
- We randomly selected a statistical sample of 10 program expenditure transactions. One transaction, a request for reimbursement of program expenditures, was approved by the same person requesting the reimbursement with no indication of approval by separate staff.

The issues appeared to be caused when established controls for review, approval, and documentation were not followed. Lack of documented approval or segregation of responsibilities could lead to unallowable costs or activities charged to the program or misappropriation of federal funds.

**We recommend** commission management provide staff with additional training and develop procedures for timesheet and expenditure review and retain electronic copies of any paper documentation to support the review or revision of the timesheets.

**Response to Current Year Finding**

The audit findings and recommendations 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](mailto:tracey.gates@oregon.gov) or Michelle Searfus at [michelle.n.searfus@oregon.gov](mailto:michelle.n.searfus@oregon.gov) or (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Kat Martin, Chief Financial Officer  
Clay France, Internal Auditor  
Angel Hale, Director of Rehabilitation Services  
Scott McCallum, Commission Chair  
Katy Coba, Director, Department of Administrative Services  
Rob Hamilton, SARS Manager, Department of Administrative Services