



Secretary of State **Oregon Audits Division**



Fiscal Year 2020 **Keeping Oregon Accountable**

June 2021
Report 2021-19

Secretary of State Shemia Fagan
Audits Division Director Kip Memmott

Executive Summary

Keeping Oregon Accountable

Fiscal Year 2020

June 2021

Purpose

The Secretary of State Audits Division annually audits the State of Oregon's financial statements and compliance with federal program requirements. The federal government requires these audits for the financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported; evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations; conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements; and review accounting and compliance control procedures. The results of these audits are included in the State's Annual Financial Report, and in the annual Statewide Single Audit Report. This report summarizes the results of the fiscal year 2020 audits.

Results

Audit of the State of Oregon's Financial Statements

- » We identified \$6.4 billion in accounting errors (unintentional mistakes) and proposed adjustments to correct them in the financial statements.
- » We issued an unmodified opinion (clean) on the state's financial statements for fiscal year 2020.
- » We issued three findings with recommendations, for material weaknesses in internal control to the Department of Revenue and one finding for a material weakness to the Department of Consumer and Business Services. When internal controls are weak, there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.
- » We issued eight significant deficiencies in internal control with recommendations to improve standard controls used to ensure the accuracy of financial information. A significant deficiency is less severe than a material weakness, yet requires corrective action.

Audits of Compliance with Federal Program Requirements

- » We audited 14 federal programs at 11 agencies and issued 28 findings and recommendations.
- » We questioned whether \$5,115,844 in expenditures were appropriately paid with federal funds.
- » We issued a qualified opinion on the Temporary Assistance for Needy Families (TANF) program. A qualified opinion indicates the department's internal controls are inadequate to prevent or detect significant noncompliance in a timely manner.
- » We followed up on 38 prior year findings from the prior three years to see if corrective action had been taken at nine agencies.

Overview of Annual Financial and Federal Audits

The Secretary of State Audits Division annually audits the State of Oregon’s financial statements and compliance with certain federal program requirements. The federal government requires these audits for the financial assistance Oregon receives annually. In fiscal year 2020, that assistance increased from \$12 billion to \$17 billion, due largely to a substantial increase in federal funding for Unemployment Insurance in response to the global pandemic. These audits determine whether amounts reported in Oregon’s financial statements are materially correct and adequately supported and evaluate the state’s administration of major federal programs for compliance with applicable laws, rules, and regulations.

This report summarizes the results of the fiscal year 2020 annual audits. The State’s Annual Financial Report and annual Statewide Single Audit Report are on the Secretary of State website.¹ Detailed financial and federal findings, auditor recommendations, and agency planned corrective actions are included in the Statewide Single Audit Report. A glossary of accounting terms is located at the end of this report.

Annual Financial Report

State agency directors and managers are accountable to the citizens of Oregon for how they use public monies. To help ensure accurate financial reporting, state agencies are to comply with Generally Accepted Accounting Principles. The management of each state agency is responsible for implementing and maintaining effective internal controls to ensure the integrity of financial and accounting information.

Preparing accurate financial statements is essential for ensuring that reliable and transparent financial information is provided to decision makers and key stakeholders. These statements provide a comprehensive view of the state’s financial activities during the fiscal year (Statement of Activities) and an overall picture of the state’s financial position at the end of the fiscal year (Statement of Net Position).

Statewide Accounting and Reporting Services, part of the Department of Administrative Services, prepares the statements by compiling financial information from more than 100 state agencies into the proper format for governmental reporting. They also provide accounting guidance and training to state agency staff throughout the year.

We audit these financial statements following *Government Auditing Standards* applicable to financial audits, which require that we plan and perform audit work to obtain reasonable assurance about whether the financial statements are materially correct. As part of the annual audit of the state’s financial statements, we provide our professional opinion about the completeness, accuracy, and reliability of the state’s accounting information. Accurate and reliable accounting data is crucial to tracking how state dollars are spent and provides a starting point for the next budget cycle.

Fiscal Year 2020 Results

We issued an unmodified opinion on the state’s financial statements for fiscal year 2020. An unmodified opinion means the financial statements, as corrected, are “fairly presented in conformance with Generally Accepted Accounting Principles.”

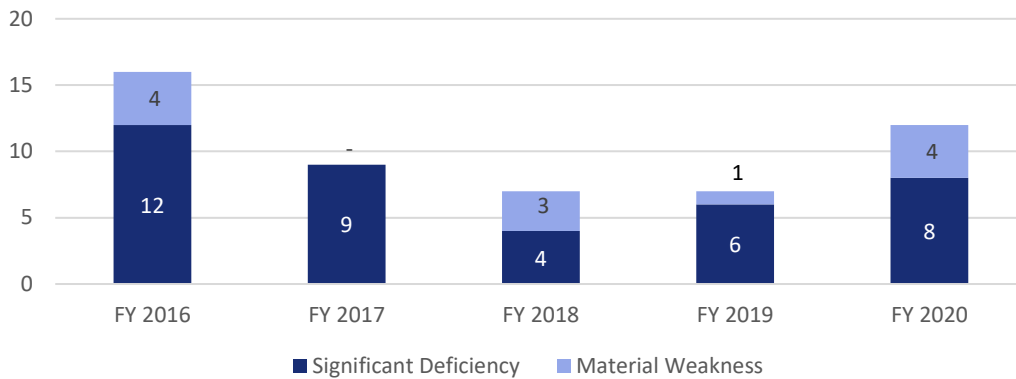
To conduct this audit, our financial auditors performed audit procedures of all major funds of the government and audited hundreds of accounts at 23 state agencies including, but not limited to, the Departments of Human Services, Education, Transportation, Revenue, and the Oregon Health

¹ The Annual Financial Report 2021-04: <https://sos.oregon.gov/audits/Documents/2021-04.pdf>
The annual Statewide Single Audit 2021-13: <https://sos.oregon.gov/audits/Documents/2021-13.pdf>

Authority. During the course of our audit, we reviewed assets of \$47 billion, liabilities of \$19 billion, revenues of \$38 billion, and expenditures of \$36 billion. We reported the results of our audit to agency management, the state Legislature, federal officials, and the public.

Our audit of the state’s financial records identified 12 findings involving eight state agencies.² To mitigate risks from these findings, we offered recommendations to improve standard controls commonly used to ensure the accuracy of financial information. The type of control finding we report depends on the degree of control weakness and generally falls into one of two categories, as shown in Figure 1: a significant deficiency or material weakness. A material weakness is more severe and more likely to have an impact on the financial statements.

Figure 1: Material weaknesses increased



In 2020, we reported three material weaknesses to management of the Department of Revenue. Recommendations were made to improve the taxes receivable accrual methodology, ensure sufficient transaction review is performed when implementing new accounting standards, and to improve reconciliation procedures. We also reported a material weakness to management of the Department of Consumer and Business Services with a recommendation to allocate adequate resources to implement significant financial reporting changes and ensure complete reporting of activity.

We proposed audit adjustments to correct accounting errors in the state’s financial statements. Accounting errors occur when an agency does not record a transaction, or records a transaction using incorrect account coding, resulting in amounts appearing in the wrong year or the wrong place in the financial statements. Adjustments may also be necessary when an accounting standard is misinterpreted or misapplied. When errors are large enough to misrepresent the balance of a fund, we propose adjustments to correct the account balance. In fiscal year 2020, two of the material weaknesses noted above related to improper or incomplete implementation of a new accounting standard. At the Department of Revenue, \$3.9 billion was adjusted to record the appropriate account balance, and at the Department of Consumer and Business Services, \$408 million was adjusted to record appropriate account balance. Figure 2 shows the number of accounts impacted by our audit adjustments and the amount of those adjustments over the past five years.

² The eight agencies with findings were the Department of Revenue (DOR), Department of Consumer and Business Services (DCBS), Department of Human Services (DHS), Oregon Health Authority (OHA), Department of Administrative Services (DAS), Oregon Employment Department (OED), Oregon Department of Transportation (ODOT), and Oregon Liquor Control Commission (OLCC).

Figure 2: New accounting standard caused increase in adjustment amounts in fiscal year 2020

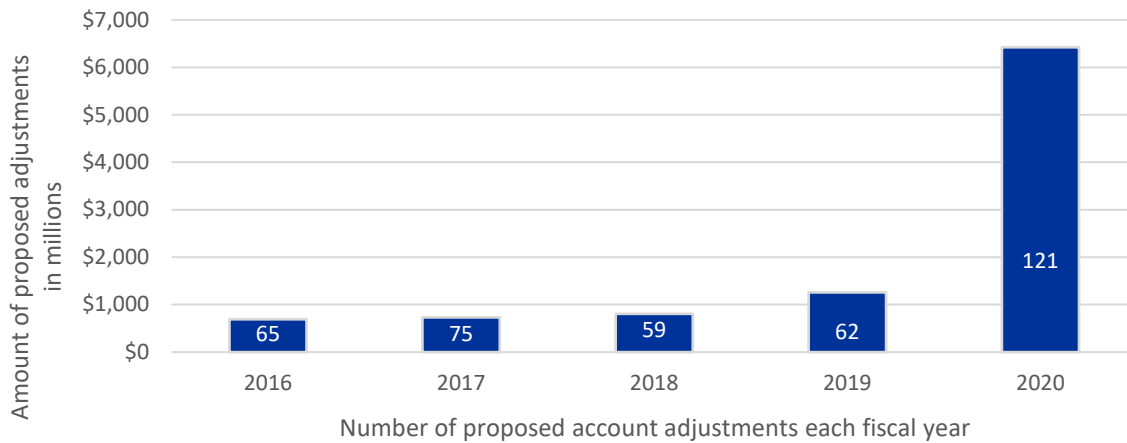


Figure 3 lists the agencies where we proposed audit adjustments for fiscal year 2020. As noted above, the largest adjustments were related to inaccurate implementation of a new accounting standard; the remainder were the result of control deficiencies related to reconciliations, year-end accounting entries, system access, benefit payments, and inventory. Most proposed adjustments moved reported amounts from one financial account to another to properly report account balances in the correct classification in the financial statements. The audit adjustments we proposed align Oregon’s financial statements with accounting standards and demonstrate the importance of the annual financial audit.

Figure 3: Proposed financial audit adjustments totaled \$6.4 billion for fiscal year 2020

State agency	Accounts affected	Amount
Department of Revenue	14	\$ 4,769,421,145
Department of Human Services / Oregon Health Authority	30	924,922,587
Department of Consumer and Business Services	3	407,913,080
Employment Department	4	102,167,818
Multiple Agencies*	30	93,364,669
Department of Education	11	58,718,002
Department of Administrative Services	8	31,183,110
Oregon Department of Forestry	3	10,481,629
Department of Transportation	7	8,687,904
Oregon Military Department	5	7,840,865
Oregon Business Development Department	2	5,205,496
Judicial Department	2	1,400,000
Housing and Community Services Department	2	1,229,774
Total	121	\$ 6,422,536,080

*In fiscal year 2020, adjustments were proposed to identify and track activity related to late Coronavirus Relief Fund and Federal Emergency Management Fund (FEMA) distributions that were not included in the financial statements, as well as smaller agencies that are part of the reporting entity, but optionally excluded from the financial statements.

History of Annual Financial Report findings

When considering the extent of financial findings, it is important to know that uncorrected prior year findings also need to be addressed to have strong internal controls. As shown in Figure 4, nine financial findings from prior years were corrected in 2020. While seven prior year findings remain outstanding, the agencies have made progress toward addressing the recommendations.

Figure 4: Agencies improve correction of findings

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Total prior year findings reviewed	12	18	19	20	16
Prior year findings, not resolved	2	11	14	13	7
Prior year findings, corrected	10	7	5	7	9
Rate of corrections	83%	39%	26%	35%	56%

Statewide Single Audit

Oregon annually receives an approximate \$12 billion in federal dollars through grant agreements with federal agencies, which increased to \$17 billion in fiscal year 2020. These grants are awarded to state agencies for programs that provide various services, including public health and safety, agricultural research, and homeland security. Agencies receiving the funds are required to comply with various federal requirements for the administration of the programs. Oregon received substantially more in federal dollars in fiscal year 2020 to assist with the response to the global pandemic. Unemployment Insurance and Medicaid each saw significant increases in program expenditures. Oregon also received funding for the new Coronavirus Relief Fund, to assist with costs for personal protective equipment, employee leave costs related to COVID-19, and to assist local governments with similar costs.

The Audits Division issues the Single Audit Report, which includes a schedule prepared by the Department of Administrative Services of all federal funds spent by the state for the year. The report also includes audit findings from the annual financial report audit and the federal compliance audits. Agency management provides responses about whether they agree with each finding and what actions they plan to take to correct the underlying issues. In addition, the report presents the status of findings for the prior two years and any action agency management has taken to correct the findings.

The federal Office of Management and Budget (OMB) develops nationwide policy for performing federal compliance audits. OMB provides rigid instructions for determining which programs to audit and the specific audit procedures we need to perform for each federal program to ensure the state is complying with federal requirements when administering the programs. The federal government uses the annual Single Audit Report to monitor how well their programs are administered and to follow up on any findings we identify. Federal granting agencies follow up on our audit findings for purposes of enforcing compliance and determining whether questioned costs need to be repaid or if any sanctions will be imposed.

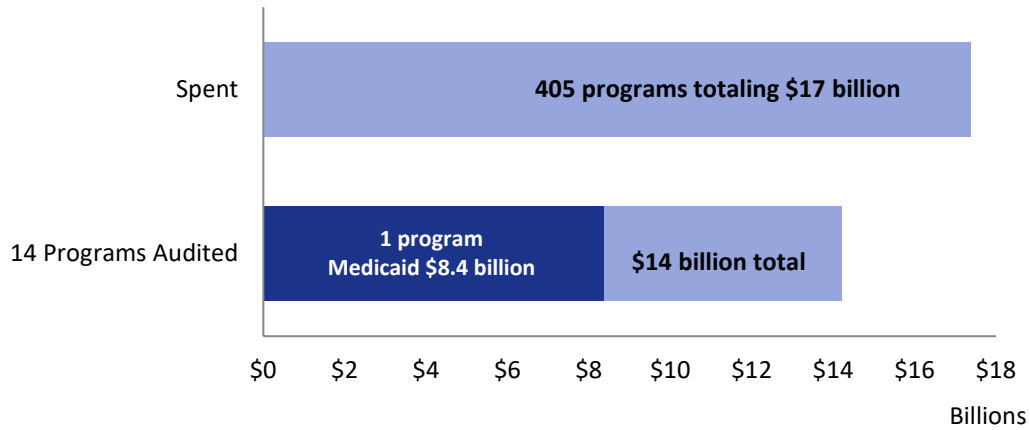
The following highlights key information from the 2020 Statewide Single audit.

Fiscal Year 2020 Federal Expenditures

In fiscal year 2020, the State of Oregon spent \$17 billion in federal funds for 405 federal programs administered by 51 state agencies. Adhering to OMB requirements designed to select programs based on expenditures and risk, we audited 14 major federal programs for compliance with federal requirements.

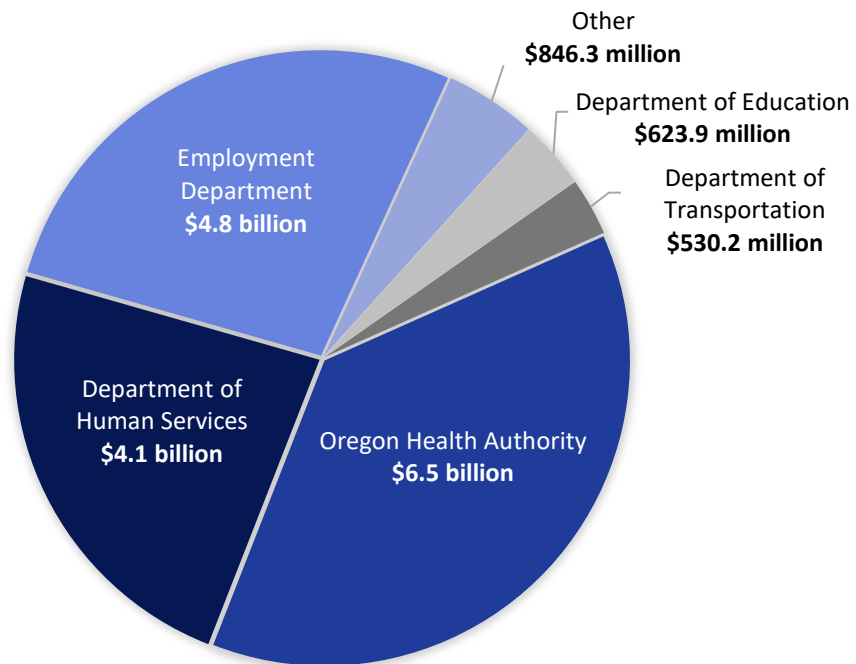
As shown in Figure 5, the audited programs accounted for \$14.2 billion, or 82%, of the \$17 billion spent in fiscal year 2020. Medicaid is the single largest program and accounts for \$8.4 billion in federal funds spent by the state.

Figure 5: We audited 82% of fiscal year 2020 single audit expenditures



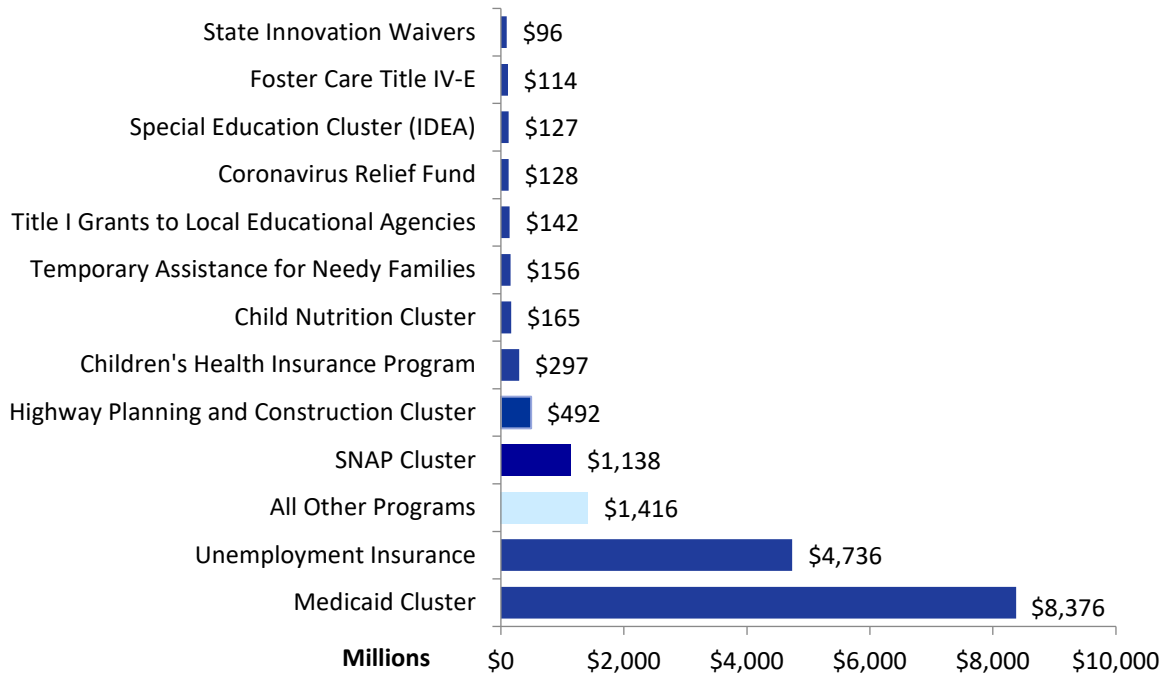
As shown in Figure 6, the Oregon Health Authority and the Department of Human Services accounted for \$10.6 billion, or 61%, of the state’s federal expenditures. The Medicaid program accounts for 92% of the Oregon Health Authority’s federal expenditures and 58% of the Department of Human Services’ federal expenditures. The Department of Human Services administers other large federal programs, including Supplemental Nutrition Assistance, commonly known as food stamps, Temporary Assistance for Needy Families, and Foster Care.

Figure 6: DHS and OHA account for over half of federal expenditures by state agencies, fiscal year 2020



Of the 405 federal programs administered by the State of Oregon in fiscal year 2020, 12 programs account for 92% of the state’s total federal expenditures. The Medicaid program is by far the largest public assistance program administered by the state, as depicted in Figure 7. The Other category combines 393 federal programs, each with expenditures less than \$96 million.

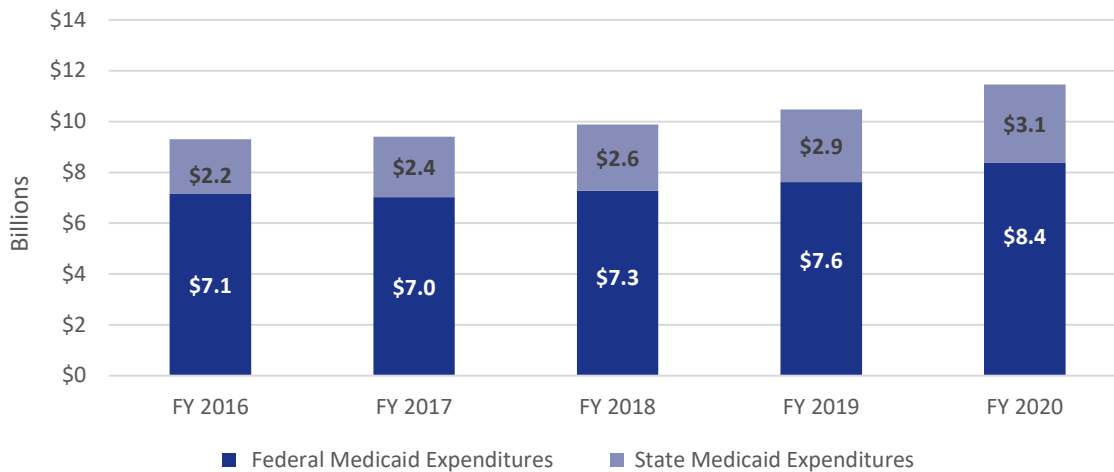
Figure 7: Medicaid and Unemployment Insurance expenditures far exceed expenditures of other programs, fiscal year 2020 (in millions)



Fiscal year 2020 brought the largest program increase in the history of the state’s Unemployment Insurance program administered by the Oregon Employment Department, which increased expenditures from a four-year average of \$586 million to \$4.7 billion. This significant change in expenditures was in response to the pandemic, which gave rise to sudden increased levels of unemployment in the state, going from 3.7% in July 2019 to 10.3% in June 2020 (seasonally adjusted).³

The Medicaid program provides health insurance coverage to low-income families. The cost to provide this coverage grows every year, but the rate of increase rose from an average of 4% to 10% this year due to pandemic-increased funding. Figure 8 shows Oregon’s Medicaid costs, both federal and state, for the past five years.

Figure 8: Federal and state Medicaid expenditures increase each year



³U.S. Bureau of Labor Statistics

https://data.bls.gov/timeseries/LASST410000000000003?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

Fiscal year 2020 Statewide Single Audit Results

As shown in Figure 9, we audited 14 federal programs that are administered by the State of Oregon. In addition to Medicaid, which is required to be audited every year, we audited seven other programs at the Department of Human Services and Oregon Health Authority. We also audited programs at the Oregon Department of Education, Department of Administrative Services, Oregon Military Department, Oregon Employment Department, Oregon State Police, Department of Consumer and Business Services, Department of Environmental Quality, and the Commission for the Blind. OMB Uniform Guidance requires these audits.

We reported 27 findings to seven of these agencies with recommendations to improve controls over compliance with the key federal requirements relevant to each program. Similar to our audit of the annual financial report, the type of control finding we report depends on the degree of control weakness and generally falls into one of two categories: a significant deficiency or a material weakness in controls over compliance.

Figure 9: We audited 14 programs expending \$14.2 billion in federal funds for fiscal year 2020

Federal Program	2020 Findings	Federal Program Expenditures
Medicaid Cluster	3	\$ 8,376,349,854
Unemployment Insurance	1	\$ 4,735,799,800
Children’s Health Insurance Program	3	\$ 296,909,193
Temporary Assistance for Needy Families (TANF)	5	\$ 155,983,197
Coronavirus Relief Fund	0	\$ 128,073,293
1332 State Innovation Waivers	0	\$ 96,327,339
Child Care and Development Fund (CCDF)	5	\$ 95,250,099
Disaster Grants – Public Assistance	2	\$ 84,290,275
Vocational Rehabilitation	3	\$ 64,267,312
National Guard Military Operations and Maintenance Projects	3	\$ 59,152,418
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	0	\$ 55,993,089
Clean Water State Revolving Fund Cluster	0	\$ 24,750,898
Aging Cluster	1	\$ 21,536,555
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	1	\$ 20,915,026
	27	\$ 14,215,921,222

Two findings for non-major programs (Foster Care and Fish & Wildlife Cluster) not included in this chart; Foster Care finding shared with TANF which is counted above.

In addition to the findings, we questioned whether Oregon’s spending of \$5,115,844 in federal funds was appropriate under federal program rules. “Questioned costs” is a term OMB requires when reporting findings. When we question costs, we are identifying program costs that may, or may not, be allowed to be paid for with federal funds. The federal funding agency reviews our findings and determines whether the costs are federally reimbursable.

This year, we questioned \$2.3 million in directly identifiable costs and another \$2.9 million in projected errors based on our sample testing. Figure 10 shows the amount of questioned costs we identified by program and state agency. The Child Care and Development Fund (CCDF) program has the largest amount of questioned costs, with \$4.2 million in known and projected errors. The CCDF questioned costs at the Department of Human Services were due to calculation errors, multiple provider copays, and lack of documentation to support payments. For CCDF at the Oregon

Department of Education, the questioned costs were largely due to payments made beyond the allowed period of time and unallowable payroll charges.

Figure 10: The majority of 2020 questioned costs reported were for the CCDF program

State Agency	Federal Program Expenditures	Questioned Costs
Department of Human Services		
Temporary Assistance for Needy Families (TANF)	\$ 153,460,930	\$ 12,857
Foster Care (non-major program)	112,150,255	127,654
Child Care and Development Fund (CCDF)	57,024,869	1,996,592
Oregon Health Authority/Department of Human Services		
Medicaid Cluster	8,357,819,779	16,500
Oregon Health Authority		
Children’s Health Insurance Program	289,364,244	367,995
Oregon Military Department		
National Guard Military Operations and Maintenance	59,152,418	148,519
Department of Education		
Child Care and Development Fund (CCDF)	38,225,230	2,181,058
Oregon Employment Department		
Unemployment Insurance	4,735,799,800	264,669
Total	\$ 13,802,997,525	\$ 5,115,844

Qualified opinions

When the results of an audit determine the agency has sufficient controls to administer the program and the program is generally in compliance with federal requirements, we issue an unmodified opinion. An unmodified, or “clean” opinion means there are no “qualifications” (concerns) that would cause us to alter our opinion. However, when we identify programs where a state agency’s internal controls are inadequate to reasonably prevent or detect material noncompliance in a timely manner, we issue a qualified opinion for the program.

For fiscal year 2020, we found the Department of Human Services did not establish adequate internal controls and was not materially compliant with federal requirements for the TANF program. We issued a qualified opinion on the TANF program for the third consecutive year.

History of Statewide Single Audit findings

The OMB establishes categories of compliance requirements and the federal awarding agencies determine which categories are key for their programs. Not all requirements apply to every program and some requirements are more complex than others. Figure 11 illustrates compliance requirements with findings for the past five years. Totals by category indicate which requirements are most problematic for Oregon.

Figure 11: Findings history by type of compliance requirement

Compliance requirement	2016	2017	2018	2019	2020
Allowable Activities and Costs	8+	8+	8+	5+	6+
Cash Management	1				
Eligibility	4	2	5+	2	5+
Equipment		1			1
Matching, Level of Effort, Earmarking	1	2	5	1	2+
Period of Performance		1		1	2
Procurement and Suspension and Debarment	1	2		1	
Reporting	2	4+	3	3	5
Subrecipient Monitoring	3	6	5	1	2
Special Tests and Provisions	3	1	3	3	5+
Total findings	23	27	29	17	28

Note: Plus sign indicates multiple compliance requirements appear in one finding, but are only counted once in this display.

The OMB requires auditors to perform follow-up procedures in the following year to determine whether an agency has taken appropriate corrective action to resolve the findings. We followed-up on the status of 38 federal compliance findings that remained uncorrected from prior years and found that agencies had corrected 12 of them; however, 26 prior year findings will continue into fiscal year 2021 because they remain uncorrected. In addition, ten of the 14 programs audited for fiscal year 2020 have findings that will require follow-up or full audits in 2021.

Some findings remain uncorrected from one year to the next because agencies do not correct the underlying issues that cause the noncompliance or control weaknesses. While some findings take time and resources to correct, others may remain simply because management does not make it a priority to address them.

Figure 12 displays a history of ongoing findings by agency, program, and nature of the findings that continue to be uncorrected at the end of fiscal year 2020. The figure shows those findings that have been ongoing for at least four years. When a finding is uncorrected, we are required to continue auditing the requirement until it is resolved.

The TANF and Medicaid programs both have unresolved audit findings from 2010. Originating in fiscal year 2010, TANF data reports that are required to be submitted to the federal agency do not accurately reflect case status and activity of the reporting period. Due to implementation of a new system, fixing the data issues has not been prioritized, but agency management is working to ensure proper reporting from the new system. Medicaid's client eligibility findings include eligibility that was not re-verified, ineligible individuals receiving payments, and missing applications. Progress has been made related to client eligibility, and the number of errors and severity of the issue has lessened over time.

Figure 12: History of ongoing findings

Agency	Program	Finding Summary	Origination Year	Years Ongoing
DHS	Temporary Assistance for Needy Families	Accurate reports	2010	11
DHS/OHA	Medicaid	Client eligibility	2010	11
DHS/OHA	Medicaid	Provider eligibility	2012	9
DHS	Foster Care*	System errors	2012	9
DHS	Adoption Assistance	Data errors	2014	7
DHS	Child Care and Development Fund	Incorrect copays	2014	7
ODFW	Fish & Wildlife Cluster	Monitoring real property	2017	4
OCB	Vocational Rehabilitation	Reporting	2017	4

*This system error affects additional programs in various years

DHS – Department of Human Services

OHA – Oregon Health Authority

ODFW – Oregon Department of Fish & Wildlife

OCB – Oregon Commission for the Blind

It is the responsibility of the federal granting agency to follow up with state agencies on findings included in the Single Audit Report. After investigating, the federal agency issues a determination letter to the state agency, providing its conclusion about the finding and the corrective action the state agency plans to take to resolve the finding. Generally, the determination letters uphold our findings, reinforce our recommendations, and request action from the state agency. Sometimes the federal agency imposes a sanction upon the state or adjusts future funding to correct the issue. Occasionally, the federal agency will clarify a requirement in favor of the state agency and the finding is no longer valid. Only federal agencies have the authority to enforce their grant requirements.

Glossary of Terms

Asset: A resource with economic value that the government owns or controls with the expectation it will provide future benefit.

Annual Financial Report: The government entity's official annual report that includes financial statements designed to report the financial position and results of operations of the primary government (including its blended component units) and provide an overview of the discretely presented component units.

Determination Letter: Letter written by the federal awarding agency in response to the single audit findings. This letter provides their conclusions about the findings and the actions the state agency plans to take to resolve the findings.

Expenditure: Designates the cost of goods delivered or services rendered, whether paid or unpaid.

Federal Expenditure: Charges made by a non-Federal entity to a project or program for which a Federal award was received.

Error: A mistake in an accounting entry that was not intentional.

Generally Accepted Accounting Principles (GAAP): A combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

Government Auditing Standards: The professional standards and guidance issued by the Comptroller General of the United States that provide the framework for conducting high quality audits of governmental entities.

Internal Controls: Methods put in place by management to ensure the integrity of financial and accounting information.

Liability: Legal debts or obligations between one party and another not yet completed or paid for, defined by previous business transactions, events, sales, exchange of assets or services, or anything that would provide economic benefit at a later date.

Qualified Opinion: The type of audit opinion given when audit procedures identify a department or program's internal controls are inadequate to prevent or detect significant noncompliance or financial material misstatements.

Questioned Cost: A cost that is questioned by the auditor for violation of federal award provisions, or lack of supporting documentation, or because the cost appears unreasonable.

Revenue: Income received or earned during a specific period.

Statement of Activities: Required basic financial statement that shows the financial results of the year's activities. The statement of activities presents revenues less expenditures to show net position.

Statement of Net Position: Required basic financial statement that shows the balance of the assets, liabilities, deferrals, and net position at June 30.

Subrecipient: An entity that receives federal funds from the state to carry out a federal program.

Unmodified Opinion: The type of audit opinion given when the financial statements, as corrected, are fairly presented in conformance with GAAP.



Audit Team

Mary Wenger, CPA, Deputy Director

Amy Dale, CPA, Audit Manager

Julianne Kennedy, CPA, Audit Manager

Kelly Olson, CPA, Audit Manager

Michelle Searfus, CPA, Audit Manager

Janet Lowrey, CPA, Senior Auditor

Financial and Compliance Audit Staff

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources.
Copies may be obtained from:

Oregon Audits Division

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

(503) 986-2255

sos.oregon.gov/audits