



Office of Management and Budget (OMB) Compliance Audit of Federal Awards

January 2020

A Report to the
Jackson County
Board of Commissioners

Commissioners

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Airport Improvement Program – CFDA No. 20.106



Federal-Aid Highway Program – CFDA No. 20.205



Internal Audit Program

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**JACKSON
COUNTY**
Oregon

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Internal Audit

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To: Board of Commissioners
Re: Office of Management and Budget (OMB) Compliance Audit of Federal Awards
Date: January 10, 2020

The enclosed audit report provides information regarding the adequacy of internal control and compliance with Federal laws, regulations, and the provisions of contracts or grant agreements in relation to the Airport Improvement Program (AIP) and Federal-Aid Highway Program.

We did not identify any issues that were required to be reported in accordance with Office of Management and Budget (OMB) requirements.

The audit was included in the fiscal year 2019-20 Internal Audit Plan, and the work was performed in support of the County's annual external financial audit. The Internal Audit Program appreciates the cooperation and assistance it received from Airport and Roads staff throughout the audit process.

C: Audit Committee
Jerry Brienza, Airport Director
John Vial, Roads & Parks Director
Moss Adams, LLP

Compliance Audit of Federal Awards

Audit Authority

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the Fiscal Year 2019-20 Internal Audit Plan as part of the work performed annually in support of the County’s external audit.

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Additionally, the standards address the importance that auditors be independent of management. The Internal Audit program operates in compliance with the generally accepted government auditing independence standard for internal audit shops.

Confidential or Sensitive Information

We did not withhold information that would be considered sensitive or confidential.

Audit Conclusion

The County maintained internal controls and complied with laws, regulations, and the provisions of contracts or grant agreements pertaining to the Airport Improvement Program and Federal-Aid Highway Program.

Audit Objectives

The objectives of our audit were to determine if:

- The County maintained internal control over the Airport Improvement Program and Federal-Aid Highway Program to provide reasonable assurance of compliance with laws, regulations, and the provisions of contracts or grant agreements pertaining to federal awards; and
- The County has complied with laws, regulations, and the provisions of contracts or grant agreements pertaining to federal awards that may have a direct and material effect on the Airport Improvement Program and Federal-Aid Highway Program.

**Audit
Background &
Introduction**

The County spent about \$10,000,000 in federal awards during fiscal year 2018-19. As such, the County is required to have an audit in accordance with regulations issued by the Federal Office of Management and Budget (OMB).¹

The audit requirements include performing the audit objectives listed previously over programs categorized as “major programs.” OMB establishes a dollar threshold and risk-based criteria to be used when determining whether a program should be classified as a “major program” and thus subject to the audit requirements. The Airport Improvement (AIP) and Federal-Aid Highway Programs were the County’s only two programs that met this criteria.

Airport Improvement Program (AIP)

The AIP grants are awarded by the Federal Aviation Administration (FAA) to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics. The County has received millions of dollars from AIP grants over the course of twenty plus years. These funds are the key means for airport development and therefore they are vital to Jackson County.

The expenditures for the program are summarized below.

<u>Airport Improvement Program</u>	<u>FY 2018-19 Expenditures</u>
Grant 42 – Taxiway A (Phase 1) and Commercial Apron Reconstruction	\$34,632
Grant 43 – Taxiway A (Phase 2) and Construct Taxiway C Connectors	\$3,423,242
Grant 44 – Pavement Condition Index Study, Reconstruct Taxiway (Phase 1), Acquire Snow Removal Equipment, Improve Terminal Building (Phase 1)	\$1,016,001
Grant 45 – Environment Assessment, Apron Expansion, Taxiway C Extension	\$258,104
TOTAL Expenditures	\$4,731,979.00

Source: Draft Schedule of Expenditures of Federal Awards FY 18-19

Federal-Aid Highway Program

The Federal-Aid Highway Program grants are awarded by the U.S. Department of Transportation to States to assist in the planning and development of an integrated, interconnected transportation system. The State of Oregon passed-through \$1,384,340 in federal monies to the County’s Roads Department for the improvement of Table Rock Road from I-5 to Biddle Road.

¹ OMB requires non-federal entities that expend \$750,000 or more during a year to have an audit of federal awards.

Audit Criteria

Criteria for our audit consisted of requirements, guidance, and standards established by the Federal Office of Management and Budget (OMB), and other applicable federal guidance from the U.S. Department of Transportation. Criteria also consisted of the County’s purchasing policy and agreements between the County and the FAA and State of Oregon.

OMB sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, Local Governments, and Non-profit Organizations expending federal awards. The standards include a related Compliance Supplement that identifies 12 compliance requirements that the federal government expects to be considered as part of the audit work. Additionally, the Supplement provides guidance on how to assess compliance and evaluate internal controls over these 12 requirements.

Each of the 12 compliance requirements are not always applicable to each program receiving federal awards. The table below documents which requirements were determined applicable (**direct and material**) to the Airport Improvement Program and Federal-Aid Highway Program during the audit period.

Compliance Requirement	Direct & Material to AIP	Direct & Material to Hwy Program
Activities Allowed or Unallowed – Awards can specify what activities funds can be expended on. For example, AIP funds may only be used on approved Federal Aviation Administration (FAA) projects at the Airport.	Yes	Yes
Allowable Costs/Cost Principles – This requirement establishes what costs are allowable/unallowable, how to define direct and indirect costs, and allocation models for indirect costs.	Yes	Yes
Cash Management – This requirement establishes the conditions over when funds are directly reimbursed from the federal government either in advance of costs being incurred or as a reimbursement of expenses. For example, interest earned on advance funding is to be remitted back to the federal government.	Yes	No
Eligibility – Awards may specify eligibility requirements for the population to be served. For example, the Women, Infants, and Children (WIC) program requires individuals to meet 4 requirements in order to be considered eligible for WIC services.	No	No
Equipment and Real Property Management – Establishes requirements regarding the purchase, inventory management, and disposal of equipment and real property purchased with award funds.	No	No

Compliance Requirement	Direct & Material to AIP	Direct & Material to Hwy Program
Matching, Level of Effort, Earmarking – Awards may specify that a portion of the program must be funded with non-federal funds or a certain amount of the federal award must be spent on a specified activity.	No	No
Period of Performance – Awards may specify a time period that the funds must be used within.	No	No
Procurement and Suspension and Debarment – This requirement establishes that local governments must use their own procurement procedures (as long as they conform to applicable federal statutes) and that the County cannot contract with parties that are suspended or debarred.	No	No
Program Income – Established requirements regarding income that is directly generated by the federally funded project.	No	No
Reporting – Awards may establish financial and/or performance reporting requirements.	Yes	No
Subrecipient Monitoring – Establishes responsibilities when a non-federal entity passes-through a federal award to another non-federal entity to carry out the federal program.	No	No
Special Tests and Provisions – Additional requirements that the Federal oversight agency proscribes. For example, FAA wants to know that Airport revenue is restricted to the Airport and was not used to fund other County projects.	Yes	No

Corrective Action on Prior Year Audit Findings There were no prior year audit recommendations.

Audit Scope & Methodology Our audit examined activities relating to the Airport Improvement Program and Federal-Aid Highway Program during County fiscal year 2018-19. We focused our review of internal control on ensuring that there were adequate authorization and approval of transactions, reimbursement requests and submission of reports; and that the contract to provide services had been approved by those charged with governance.

The audit was completed prior to the finalization of the Schedule of Expenditures of Federal Awards (SEFA), as such some procedures performed relied on draft amounts and some of the background information also comes from the draft SEFA.

Our audit procedures included:²

- Reviewing applicable laws, regulations, and the provisions of contracts or grant agreements pertaining to federal awards and other official guidance;
- Discussing program procedures with appropriate personnel;
- Performing risk assessment procedures;
- Selecting a random sample of 10 to 20 transactions to test internal control and compliance over the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements;
- Selecting a judgmental sample of 7 reimbursement requests to test internal control and compliance over the Cash Management requirement; and
- Reviewing all reports and certified payrolls to test internal control and compliance over the Reporting and Davis Bacon requirements respectively.

Audit Results

Internal Controls

Our audit found that the County maintained internal controls that reasonably ensured compliance with laws, regulations, and the provisions of the award that could have a material effect on the Airport Improvement Program and Federal-Aid Highway Program.

Compliance

Our audit found that the County materially complied with federal laws, regulations, and the provisions of the award that could have a direct and material effect on the Airport Improvement Program and Federal-Aid Highway Program.

² This work is performed in support of our external audit, as such additional audit procedures could be performed by the County's external auditor and the results of those procedures are not included in this audit report.

Jackson County

Internal Audit Program

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