



# JACKSON COUNTY

*Oregon*

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## **Internal Audit Report**

**PUBLIC LAW 106-393**  
**Secure Rural Schools & Community Self-Determination Act of 2000**  
**and**  
**PUBLIC LAW 110-343**  
**Reauthorization of the Act**

**November 23, 2010**

**Presented To The**  
**Jackson County Board of Commissioners**  
**By The**  
**Internal Audit Program**

### **Audit Team**

**Debbie Taylor, County Auditor**  
**Tanya Baize, Senior Auditor**  
**Kathryn Finwall, Senior Auditor**



**JACKSON  
COUNTY**  
*Oregon*

**MEMO**  
INTER-OFFICE

**CAO**  
**Internal Audit**

**Debbie Taylor, County Auditor**  
*CIA, CFE, CGAP, CGFM*

10 S Oakdale Ave Room 214  
Medford, OR 97501  
Phone: (541) 774-6021  
Fax: (541) 774-6455  
taylordk@jacksoncounty.org

**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor   
**Subject:** Audit of Secure Rural Schools & Community Self Determination Act of 2000  
(Public Law 106-393) and Reauthorization of the Act (Public Law 110-343)  
**Date:** November 23, 2010

The attached audit report provides information concerning an audit of the funds received from the Secure Rural Schools & Community Self Determination Act of 2000 (Public Law 106-393) and Reauthorization of the Act (Public Law 110-343). The audit was included in the fiscal year 2010-11 Internal Audit Plan and the work was performed in conjunction with the county's annual external financial audit.

The results have been discussed with Harvey Bragg, Senior Deputy County Administrator and Shannon Bell, Finance Director. Their responses are included at the end of the report.

The Internal Audit Program appreciates the cooperation and assistance it received from County Administration staff throughout the audit process.

c: Audit Committee  
C.W. Smith, Commissioner  
Danny Jordan, County Administrator  
Shannon Bell, Finance Director/Treasurer  
John Vial, Roads & Parks Director  
Malisa Dodd, Health & Human Services Deputy Director  
Eric Guyer, Community Justice Transition Center Manager  
Harvey Bragg, Senior Deputy County Administrator  
Kenneth Kuhns & Co.

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**Internal Audit Report**  
**PUBLIC LAW 106-393**  
**Secure Rural Schools & Community Self-Determination Act of 2000 and**  
**PUBLIC LAW 110-343**  
**Reauthorization of the Act**

**Audit Authority**

Our audit was conducted in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the Single Audit work performed annually in conjunction with the County's external audit.

**Audit Background**

**Secure Rural Schools & Community Self-Determination Act**

The Federal Secure Rural Schools & Community Self-Determination Act of 2000 (Public Law 106-393) was signed into law on October 30, 2000. The Act ensured that for Federal fiscal years (FFY) 2001 through 2006 counties across the country would receive a specific amount of money that historically came to them as a result of Federal timber sales and other receipts. The Act was extended for one more year in 2007 and reauthorized for four additional years in 2008. The Act is comprised of Title I Secure Payments for States and Counties Containing Federal Lands (formerly known as O&C and Federal Forest Receipts), Title II Special Projects on Federal Lands, and Title III County Projects.

Reauthorization of the Secure Rural Schools and Community Self-Determination Act (PL 110-343) was included as part of the economic stimulus package that was approved by Congress and signed into law on October 3, 2008. Under the reauthorized Act, the structure and certain significant elements of Title I were amended. In addition, while Titles II and III remain mostly intact there have been a few important changes. The modifications are discussed in the following paragraphs or in the Findings section of this report.

PL 106-393 allowed counties to choose between two payment methods for Title I secure payments. The first was the normal 25% of the value of the receipts received in that fiscal year. The second called "full payment," was an amount equal to the average of the three highest 25% payments made to the eligible State for fiscal years 1986 through 1999. Jackson County elected the full payment option for years one (FY 2001-02) through six (FY 2006-07) and the FY 2007-08 one year extension.

PL 110-343 provided a new formula for payments to eligible counties for FFY 2008-2011, which is a significant change from PL 106-393. PL 110-343 provides declining payments to Oregon counties over four Federal fiscal years, FFY 2008 through FFY 2011. A new distribution formula which was based on several factors including acreage of Federal land, previous payments, and per capita person income was established to calculate State payments, but Oregon and seven other States will not receive their payments under the new formula until 2011. Instead, Oregon and the other States will receive "transition" payments for FFY 2008-2010 that ramped down from payment levels in recent years.

Anticipated levels by FFY are summarized as follow:

- FFY 2008 – County FY 08-09: 90 percent of amount received for FFY 2006
- FFY 2009 – County FY 09-10: 81 percent of amount received for FFY 2006
- FFY 2010 – County FY 10-11: 73 percent of amount received for FFY 2006
- FFY 2011 – County FY 11-12: between 40 and 50 percent of amount received for FFY 2006.

## **Single Audit Act**

The Federal Single Audit Act of 1984, amended in 1996, established requirements for audits of States, Local Governments, and Indian Tribal Governments that administer Federal financial assistance programs. The Federal Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations provides implementing guidance. One objective is to determine whether Federal financial assistance program resources are being managed and controlled appropriately and used in accordance with legal and contractual requirements.

Under the Single Audit Act a major Federal program is defined as any program for which Federal expenditures during the year exceed the larger of \$300,000 or three percent of such total Federal expenditures for all programs. For FY 2009-10, three percent of County expenditures of Federal awards was \$1,008,770; therefore, Secure Rural Schools & Community Self-Determination Act funds were a major program and therefore selected for audit.

## **Audit Objectives**

The objectives of our audit were to determine if:

- The County maintained internal controls that reasonably ensured compliance with the Secure Rural Schools & Community Self-Determination Act (PL 106-393) and the reauthorized Act (PL 110-343), and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.
- The County complied with the conditions of the Secure Rural Schools & Community Self-Determination Act (PL 106-393) and the reauthorized Act (PL 110-343); and if funds received under the Acts were expended in accordance with Federal OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations compliance requirements which incorporates Federal OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments.

## **Audit Scope & Methodology**

Title I, II and III audit work covered revenues and expenditures for County FY2009-10.

Audit procedures we applied included:

- Reviewing applicable laws, Federal circulars and other official guidance;
- Discussing procedures with the Management Analyst from County Administration who assumed Title III Coordinator duties effective July 1, 2009;
- Obtaining Board Orders pertaining to election to receive funds, and approval of Title III projects;
- Reviewing allocations of Secured Payments to the appropriate County funds;
- Reviewing revenue detail ledgers, program, and summary reports to verify receipt and proper accounting of Title I and III Funds;

- Reviewing expenditure detail ledgers, programs, subprograms, and summary reports as applicable for Title I and III to determine use of funds and verify any unusual items; and
- Performing other activities as considered appropriate.

### **Audit Criteria**

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria for our audit consisted of the Secure Rural Schools and Community Self-Determination Act of 2000 (Public Law 106-393); the reauthorized Act (Public Law 110-343); Federal Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; Federal OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments; and related Association of O&C Counties guidance.

OMB Circular A-133 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 Circular includes a related Compliance Supplement that identifies fourteen compliance requirements that the Federal Government expects to be considered as part of the required Single Audit work. Additionally, the Supplement suggests audit procedures for determining compliance with applicable requirements. The fourteen compliance requirements are:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Procurement and Suspension and Debarment
- J. Program Income
- K. Real Property Acquisition and Relocation Assistance
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

### **Internal Controls**

We gained an understanding of internal controls by discussing the funding approval and expenditure process with the Senior Deputy County Administrator and the Management Analyst from County Administration who assumed Title III Coordinator duties effective July 1, 2009.

### **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.

### **Privileged and Confidential Information**

We did not withhold any information from this report because it was considered confidential.

### **Corrective Actions on Prior Year Audit Findings**

Last year in our audit of Public Law 106-393 Secure Rural Schools & Community Self Determination Act of 2000 and Public Law 110-343 Reauthorization of the Act – Fiscal Year 2008-09, we made four recommendations. The following restates these recommendations and describes actions taken by the Title III Coordinator<sup>1</sup>:

1. Prepare written procedures for Title III administrative and accounting duties.  
Follow Up: The Title III Coordinator has written administrative and accounting procedures for Title III activities.
2. Track time associated with Title III projects on a daily basis and allocate both direct and indirect costs to Title III on a quarterly basis.  
Follow Up: The coordinator's time has been tracked, and was allocated annually for 2009-10.
3. Work with the Sheriff's Office to establish a reimbursement plan for non Title III use of Search and Rescue vehicles purchased with Title III funds;  
Follow Up: The Sheriff's Office has refunded Title III for the Search and Rescue vehicles in question, so that non Title III use no longer needs to be tracked.
4. Seek guidance from the Association of O&C Counties to determine if indirect costs can be charged to Title III projects under the reauthorized Act, Public Law 110-343.  
Follow Up: Per the Association of O&C Counties, reasonable overhead, administrative, and capital costs can be included for reimbursement under Public Law 110-343 for search, rescue, and other emergency services.

### **Audit Results**

#### **General Findings:**

- Our audit found that the County maintained internal controls that reasonably ensured compliance with the Secure Rural Schools & Community Self-Determination Act (PL 106-393) and the reauthorized Act (PL 110-343); and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.
- Our audit found that the County complied with the Secure Rural Schools & Community Self Determination Act of 2000 (PL 106-393) and the reauthorized Act (PL 110-343); and that funds received under the Acts were expended in accordance with Federal OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations which incorporates Federal OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments.

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<sup>1</sup> Prior to July 1, 2009, the County's Natural Resources Coordinator served as the Title III Coordinator. Beginning in FY 2009-10, the County Administration Management Analyst assumed the Title III Coordinator responsibilities.

## Detailed Findings:

### Adequacy of Internal Controls

- Our audit found that the County maintained internal controls that reasonably ensured compliance with the Secure Rural Schools & Community Self-Determination Act (PL 106-393) and the reauthorized Act (PL 110-343); and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

Entities receiving Federal awards must design and maintain internal controls that reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

The objectives of internal control pertaining to the compliance requirements are as follows:

- (1) Transactions are properly recorded and accounted for to:
  - (i) Permit the preparation of reliable financial statements and Federal reports;
  - (ii) Maintain accountability over assets; and
  - (iii) Demonstrate compliance with laws, regulations and other compliance requirements.
- (2) Transactions are executed in compliance with:
  - (i) Laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
  - (ii) Any other laws and regulations that are identified in the compliance supplements; and
- (3) Funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

Policies and procedures are a basic element of a sound internal control system. They help ensure that employees understand their responsibilities; help confirm changes over time; and provide management a method to identify gaps in controls that could lead to accounting errors. The Title III Coordinator has written administrative and accounting procedures for Title III activities. The procedures provide a time line of activities to be performed in awarding and monitoring Title III funds throughout the year.

### Compliance with Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations

Our audit found that the County complied with the Secure Rural Schools & Community Self Determination Act of 2000 (PL 106-393) and the reauthorized Act (PL 110-343); and that funds received under the Acts were expended in accordance with Federal OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations which incorporates Federal OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments.

The following sections provide detail regarding our review of each of the fourteen A-133 compliance requirements for Title I and Title III and for compliance requirement "A" - Activities Allowed or Unallowed for Title II<sup>2</sup>. We also considered the differences between PL 106-393 and PL 110-343 when performing our work.

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<sup>2</sup> The other thirteen compliance requirements are not applicable to Title II. Jackson County chooses the allocation option for Title II, but these funds do not physically come to Jackson County.

## A. *Activities Allowed or Unallowed*

### Criteria

#### *Title I O&C Replacement Receipts*

Title I payments to counties from the U.S. Department of Interior's Bureau of Land Management Lands (formerly O&C Receipts) are to be used for the benefit of public safety, law enforcement, education, and other public purposes. Eighty to eighty five percent of the funds are to be expended in the same manner in which they were required to be expended prior to the Act of 2000. For Title I O&C Replacement this means that the funds are to be used as other County funds and there are no other restrictions on the use of this money.

Under the reauthorized Act, a recipient county must elect one or more of the following options for the remaining 15 to 20% of the funds: 1) reserve the balance for projects in accordance with Title II, 2) reserve not more than 7 percent of the total share for projects in accordance with Title III, or 3) return the balance to the General Treasury. For fiscal year 2009-10 Jackson County elected to retain 15% for Title II and Title III projects, dividing the funds 8% for Title II and 7% for Title III.

#### *Title I Federal Forest Replacement Receipts*

Title I payments to States from the U.S. Department of Agriculture's National System Lands (formerly Federal Forest Receipts) are for use by counties to benefit public education and transportation. Eighty to eighty five percent of the funds are to be expended in the same manner in which they were required to be expended prior to the Act of 2000. Oregon Revised Statute 294.060 states that the Federal funds shall be divided 75% to the County Road Fund, and 25% to the County Schools Fund.

A recipient county must elect one or more of the following options for the remaining 15 to 20% of the funds: 1) reserve the balance for projects in accordance with Title II, 2) reserve not more than 7 percent of the total share for projects in accordance with Title III, or 3) return the balance to the General Treasury. For fiscal year 2009-10 Jackson County elected to retain 15% for Title II and Title III projects, dividing the funds 8% for Title II and 7% for Title III.

#### *Title II*

The amount allocated to Title II projects, which are for Federal projects on Federal land or on non-Federal land where projects would benefit resources on Federal land, is not sent to Jackson County. Instead the funds are reserved and held by the Federal government until spent. The funds are budgeted, receipted, and expended in Fund 031 – "Title II Projects" because the County has control over the allocations; however, the entries in Fund 031 are "on paper" only. On occasion, the Federal government contracts with the County to perform certain Title II projects. When this occurs the resulting revenue is received and recorded in the appropriate fund and department of the County.

#### *Title III*

Under PL 106-393, Title III payments must be expended on projects that meet one of six category requirements as specified by the Secure Rural Schools and Community Self-Determination Act. These six categories are:

1. Search, Rescue, and Emergency Services,
2. Community Service Work Camps,
3. Easement Purchases,

4. Related Educational Opportunities,
5. Fire Prevention and County Planning, and
6. Community Forestry.

Under PL 110-343, Title III funds may be used only on the following projects:

1. Firewise Communities Program,
2. Search, Rescue and Emergency Services performed on Federal land, and
3. Community Wildfires Protection Plans.

The 2008-09 fiscal year was the first year that the County received PL 110-343 funds. PL 110-343 funds not obligated by September 30, 2012 must be returned to the U.S. Treasury. With this in mind, in 2008-09 all former projects funded with PL 106-393 money that met the more restrictive authorized uses under PL 110-343 were funded with PL 110-343 funds. PL 106-393 funds do not have to be returned to the Treasury, and so the remaining projects not qualifying for PL 110-343 money will be funded with PL 106-393 funds until depleted.

As with PL 106-393, qualifying projects under PL 110-343 must be approved by the participating county after a 45 day public comment period, at the beginning of which the County must publish a description of the proposed project in the publication of record, and send the proposed projects to the appropriate established resource advisory committee if one exists.

#### Audit Procedures & Results

##### *Title I O&C Replacement Receipts*

For Title I funds received in lieu of O&C Receipts, we tested compliance with the 85% allocation to the General Fund, and the 15% allocation to Title II & III (8% and 7%, respectively). No exceptions regarding the allocations were noted. During FY 2009-10, the County received \$14,735,289 of O&C funds. (See the related flow chart in Appendix A.)

##### *Title I Federal Forest Replacement Receipts*

For Title I funds received in lieu of Federal Forest Receipts, we tested compliance with the 85% allocation to Schools and Roads, and the subsequent 75% allocation to the Road Fund and 25% allocation to the Schools Fund. We also tested the remaining 7% allocation to Title III projects. No exceptions regarding the allocations were noted. During FY 2009-10, the County received \$5,207,187 of Federal Forest funds. (See the related flow chart in Appendix B.)

##### *Title III*

For Title III funds, we confirmed that all projects fell under one of the six approved categories when PL 106-393 funds were used, and one of the three approved categories when PL 110-343 funds were used. Of the \$1,955,437 expended for Title III projects in FY 2009-10 (including \$17,500 in revenue from other entities for project #2116 Jackson/Josephine Local Coordinating Group), \$1,082,972 was expended from PL 106-393 and \$872,465 was from PL 110-343 funds.

We also reviewed and verified compliance with the 45 day comment period. Title III projects were published in the Mail Tribune on March 2, and March 11, 2009. The projects were approved by the Board of Commissioners on May 6, 2009, which was a 57 – 66 day comment period.

## *B. Allowable Costs/Cost Principles*

### Criteria

The County follows OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments. Under Circular A-87, costs including those used in determining indirect costs are allowable if they are:

- Reasonable and necessary
- Allocable to specific awards
- Consistently treated
- Conform to laws, regulations and agreements
- Net of all applicable credits
- Properly documented

### Audit Procedures & Results

#### *Title I O&C Replacement Receipts*

O&C replacement revenues may be used as other County General Funds. As such they are used to fund various General Fund programs. The Sheriff's Office is the largest recipient of General Fund dollars. For 2009-10 the Sheriff's Office received approximately \$19,218,891 in non-dedicated funds from the General Fund. These expenditures were funded from O&C Replacement receipts, taxes, fines, fees, licenses, grants and other miscellaneous revenue. Of this amount, approximately 28% was Title I money (\$5,303,493). A FY 2009-10 detail ledger showing \$7,558,345 of Sheriff's Office non-personal services expenditures was reviewed. During the review nothing came to our attention that would indicate that O&C replacement funds were not spent in accordance with OMB Circular A-87 requirements.

#### *Title I Federal Forest Replacement Receipts*

Road maintenance costs are accounted for under the Roads Maintenance and Roads Engineering Programs. We reviewed a detail ledger of material & services and capital outlay expenditures for the Roads Maintenance and Engineering Program and also for the County Schools Fund for unusual items. We also reviewed financial system expense reports to determine that engineering costs were net of transfers (account 570000). We did not identify any indications of inappropriate expenditures.

#### *Title III*

We reviewed the Title III project spreadsheets maintained by the Title III Coordinator, and agreed expenses to the E1 financial system without exception. We also reviewed selected Funding Agreements from Title III project recipients. We noted that project 2116 Jackson/Josephine Local Coordinating Group (JJLCG) received \$17,500 from other entities. Project 2505, Jackson/Josephine Animal Evacuation & Shelter Planning, received \$30,000 from other entities. These funds were appropriately posted in Title III revenue accounts.

In the prior year it was noted that \$12,500 in revenue for project 2116 was posted in the general fund rather than the Title III fund. This caused Title III expenses to appear higher than actual. In December 2009 The County's External Auditor recommended that the 2008-09 Federal Financial Assistance Schedule be corrected to reflect the actual net expenditures, and a journal entry be prepared to correct the Title III fund balance. The Federal Financial Assistance Schedule was updated, but the Title III fund balance was not corrected.

In addition to direct costs, we reviewed \$18,513.63 in administrative costs that were charged to Title III accounts. Indirect costs are allowable for PL 106-393 under guidance from the Association of O&C Counties. The only guidance that has been issued relating to indirect costs for PL 110-343 has been for the search, rescue, and other emergency services categories. Therefore, to be conservative, all indirect costs were charged to PL 106-393 for 2009-10. This will continue to be the case until further guidance is received authorizing the charging of indirect costs to all PL 110-343 categories.

### *C. Cash Management*

#### Criteria

OMB Circular A-133 states that when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Under PL 106-393, there are no time restrictions regarding how quickly the funds must be expended after receipt. In addition, Public Law 106-393 states that any Title III funds not obligated by September 30, 2008 shall be available to be expended by the county for the uses identified in section 302(b) Authorized Uses. Under PL 110-343, Title III funds not obligated by September 30, 2012 shall be returned to the Treasury.

#### Audit Procedures & Results

The County Finance Director/Treasurer manages cash for all County departments including the O&C and Federal Forest Replacement funds received under the reauthorized Act. The County receives the O&C Replacement funds directly from the Federal government as a wire into to the County's bank. The Federal government automatically deposits the Federal Forest Replacement funds to the Oregon State Local Government Investment Pool (LGIP). After the County Treasurer's Office receives notification of these deposits, the funds are transferred to the appropriate funds. (See Appendix A and Appendix B.)

We reviewed detail ledgers noting transfers of funds to the appropriate account, and verified that funds were remitted to the schools in a timely manner. The journal entry to transfer monies to the Title III Fund was also performed in a timely manner. At year end, a deferred revenue account was established for unspent Title III funds under PL 110-343 since the new law requires any funds not obligated by September 30, 2012 to be returned to the U.S. Treasury. Deferred revenue from Title III funds for FY 2009-10 was \$2,050,913.

### *D. Davis Bacon Act*

#### Criteria

The Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000, financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)). Non-Federal entities must include in their construction contracts a requirement that the contractor or subcontractor will comply with the requirements of the Davis-Bacon Act. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29CFR sections 5.5 and 5.6).

## Audit Procedures & Results

We reviewed the Davis-Bacon Act requirements under OMB Circular A-133 and confirmed that this requirement does not apply to the Secure Rural Schools & Community Self-Determination Act (PL 106-393) or the reauthorized Act (PL 110-343). For capital projects, Jackson County complies with Oregon’s “Little Davis Bacon”, formally known as the “Prevailing Wage Rates for Public Works Contracts in Oregon”.

The County serves as the pass-through agent for the schools’ share of Federal Forest Replacement Receipts. It does not use these funds on construction activities. Title III funds are expended only for allowable purposes as defined under the Acts, and to date no funds have been awarded for capital projects.

### *E. Eligibility*

#### Criteria

This compliance requirement specifies the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify. The reauthorized Act (PL 110-343) states that the Secretary of the Treasury shall calculate the amount that each eligible State qualifies to receive. A State that receives funds shall distribute the payment among all eligible counties in the State.

## Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the eligibility compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties<sup>3</sup> (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. However, we reviewed the reauthorized Act and determined that the county is eligible to receive timber replacement funds. Section 2 Findings & Purpose of the reauthorized Act addresses this area.

### *F. Equipment & Real Property*

#### Criteria

Equipment and real property purchases were allowable under PL 106-393 and PL 110-343 for Title I “O&C” purchases. These acquisitions are also allowed for Road and School use (“Federal Forest”) when they benefit a public road or public school. The County is a pass through agency for the schools and does not monitor the expenditure of funds once they are distributed. PL 106-393 Title III funds may be used to purchase equipment and real property if allowed under one of the six permitted uses. PL 110-343 Title III funds, except in very limited circumstances, do not allow for purchases of equipment or real property.

## Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the equipment and real property compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. However, we reviewed a fixed asset additions report for the General and Road Funds, and

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<sup>3</sup> CFDA 10.666 is clustered with CFDA 10.665 Secured Payments for States and Counties Containing Federal Lands.

noted no areas of concern relating to equipment or real property. There were no capital asset additions in the Schools Fund.

We reviewed Title III project agreements to verify that grantee's are required to follow applicable Federal requirements. We noted that contract terms include the following language, "Recipient must obtain Department [County] advice and consent to any purchase of real property, capital improvements, vehicle purchases and/or other expenditures for property in which such expenditure exceeds \$5,000."

The Search and Rescue (SAR) Infrastructure Support project under the Sheriff's Office was the only Title III project to purchase equipment. Title III funds were used to purchase three F-350 trucks, one F-450 truck, one passenger van, and one dive boat. All purchases were outlined in the SAR funding agreement. Two of the F-350 trucks were upgraded with \$11,125 of additional equipment, and one was upgraded with \$10,550. The additional upgrade charges were posted in the Minor Equipment or Supplies and Expense accounts, so they were not included in the amount capitalized for the trucks.

#### *G. Matching, Level of Effort, Earmarking*

##### Criteria

Matching requirements are contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. There is no matching requirement associated with the Secure Rural Schools and Self Determination Act.

##### Audit Procedures & Results

We reviewed the Secure Rural Schools & Community Self-Determination Act (PL 106-393) and the reauthorized Act (PL 110-343) and determined there is no matching requirement.

#### *H. Period of Availability of Federal Funds*

##### Criteria

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

Under PL 106-393, funding was ongoing for Federal fiscal years 2001 through 2006 and the funding extended for 2007. Under PL 110-343, funding is based on declining payments for Federal fiscal years 2008 through 2011.

Section 303 of the PL 106-393 states that for Title III, any County funds not obligated by September 30, 2008 shall be available to be expended by the county for the uses identified in section 302(b) (Authorized Uses). The Act does not specify a time period during which the non-Federal entity must use Title III funds. Section 304 of PL 110-343 states that the authority to initiate Title III projects terminates on September 30, 2011. Funds not obligated by September 30, 2012, must be returned to the Treasury of the United States.

## Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the period of availability compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds.

We reviewed the County’s Schedule of Expenditures of Federal Awards for years ending June 30, 2002 through 2009 to confirm that the Title I funds have always been expended in the year received. Title III funds have been carried over consistent with requirements of the Act. Beginning in FY 2008-09, PL 110-343 funds not expended by year end were classified as deferred revenue, because funds not obligated by September 30, 2012 must be returned to the Treasury of the United States.

### *I. Procurement and Suspension and Debarment*

#### Criteria

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

## Audit Procedures & Results

The County requires departments to follow Local Contract Review Board Rules when making a procurement and has instructed departments to check the State Construction Contractor’s Board website to identify contractors who have been disqualified from participating in public improvement contracts. This web site is [www.ccb.state.or.us](http://www.ccb.state.or.us). In addition, the agreements require recipients to list a business license #, State business registry #, tax identification #, and business type. This helps verify that they are a legitimate business.

We reviewed Title III agreements to verify that contractors are required to provide a statement that they are a legal entity and if applicable are registered with the State Corporation’s Division Business Registry.

For Title I funds, we selected a sample of 15 entities conducting business with the Sheriff’s Office or Roads Department, and reviewed the Excluded Parties List System (EPLS.gov) to see if any of the entities were on the list. None of the entities reviewed were found on the list.

### *J. Program Income*

#### Criteria

Program income is gross income received that is directly generated by the Federally funded project during the grant period. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest earnings.

## *Audit Procedures & Results*

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the program income compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. However, we reviewed detail ledgers to confirm that Secure Rural Schools and Community Self-Determination Act funds generally do not generate any program income. Title III funds are kept in a separate Fund to ensure interest earnings are used for Title III uses.

### *K. Real Property Acquisition & Relocation Assistance*

#### Criteria

Persons displaced by Federally-assisted programs from their homes, businesses, or farms must be treated uniformly and equitably. There is nothing that precludes the County from using the General Fund or Road Fund portion of the Act's funds from making real property purchases. However, Road Fund purchases must benefit the public road system. The County serves as the pass-through agent for the schools' share of Federal Forest Receipts. It does not use these funds for real property purposes. PL 106-393 Title III funds may be used for easement purchases to provide for non-motorized access to public lands for hunting, fishing, and other recreational purposes, however, this is not an allowable use under PL 110-343.

#### Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the real property acquisition and relocation assistance compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. However, we reviewed a detail ledger of capital accounts and real property asset additions for the General Roads, Schools, and Title III Funds. We noted that the Road Fund used Federal Forest Replacement funds for public improvements, which may have included right of way purchases. These purchases are allowable because the expenditures benefit public transportation. There were no real property asset additions in the Schools or Title III Funds. There were no relocations as a result of real property acquisition with PL 106-393 or PL 110-343 funds.

### *L. Reporting*

#### Criteria

Federal requirements under PL 106-393 do not require any Federal financial reports to be sent to the Federal government relating to O&C or Federal Forest related activities. The County requests quarterly progress/billing reports from Title III grant recipients.

Section 303 of PL 110-343 does require that not later than February 1 of the year after the year in which any County funds were expended by a participating County, the appropriate official of the participating County shall submit to the Secretary concerned a certification that the County funds expended in the applicable year have been used for the uses authorized under section 302(a), including a description of the amounts expended and the uses for which the amounts were expended.

## Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the reporting compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. However, we verified that the FY 2009-10 Title III project agreements require grant recipients to submit quarterly reports. We confirmed with the Title III Coordinator that grant recipients are submitting quarterly reports. The first certification under PL 110-343 was due February 1, 2010 and was sent January 4, 2010.

### *M. Subrecipient Monitoring*

#### Criteria

A pass-through entity is responsible for:

- Award Identification – identifying to the subrecipient the Federal award information.
- During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, etc.
- Subrecipient Audits – Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133.
- Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.

## Audit Procedures & Results

The OMB Circular A-133 Part 2 – Matrix of Compliance Requirements indicates that the subrecipient monitoring compliance requirement does not apply to Catalog of Federal Domestic Assistance (CFDA) 10.666 Schools and Roads – Grants to Counties (formerly Federal Forest Receipts). There is no CFDA number for O&C Replacement funds. The County serves as the pass-through agent for the schools’ share of Federal Forest Receipts, but the schools are not considered to be subrecipients.

Seventeen of the Title III grants were made to individual County departments, which are not considered to be subrecipients. The remaining six grants were made to entities outside Jackson County government. The Title III Coordinator monitored expenditures for all recipients to ensure they complied with terms of grant agreements. Nothing came to our attention that indicated non-compliance with OMB Circular A-133 by the subrecipients or individual County departments.

### *N. Special Tests and Provisions*

We found no special tests or provisions relating to the Act that are not covered in preceding sections of this report.

### **Audit Recommendations**

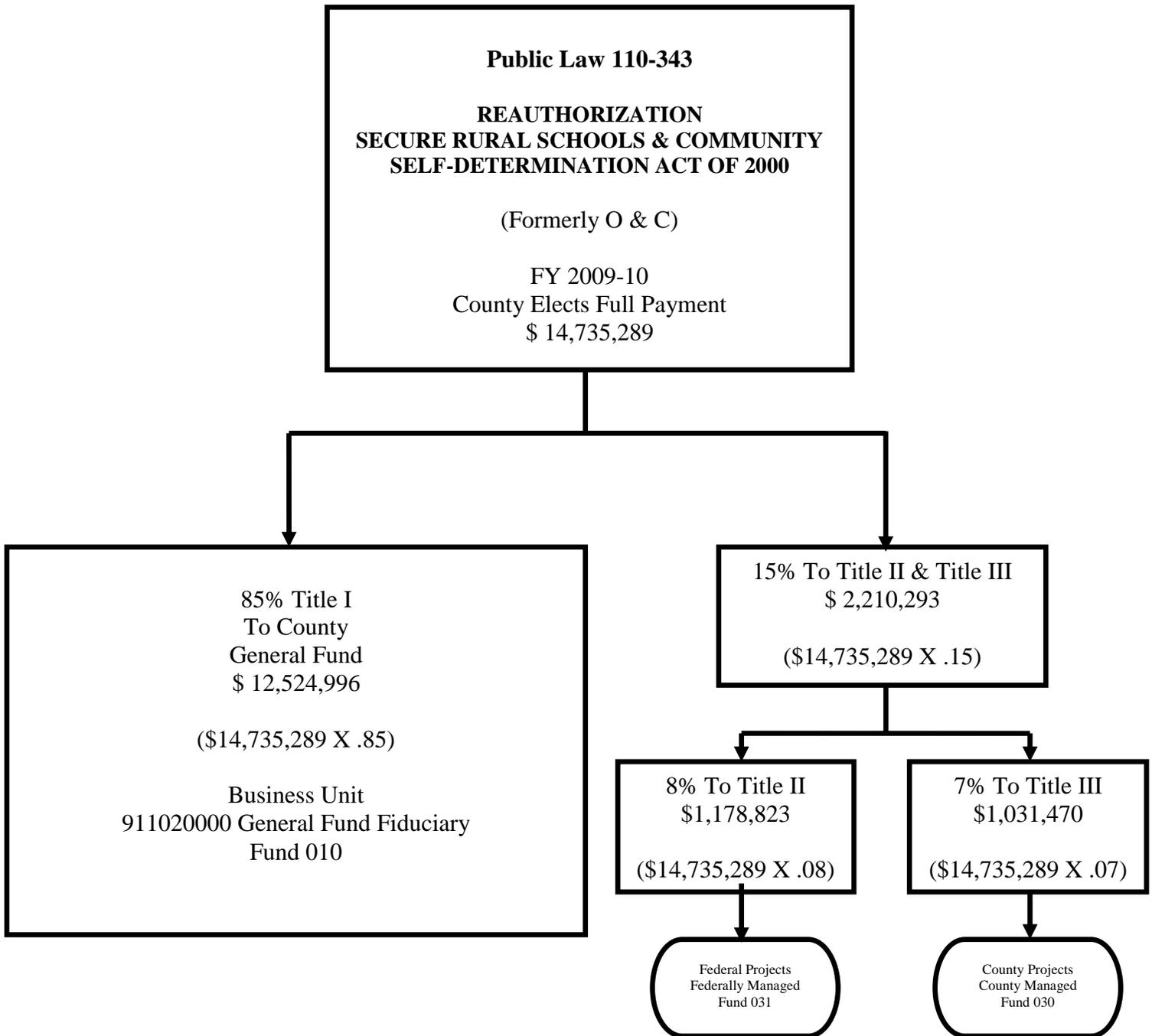
1. To accurately reflect Title III funds expended, the Title III Coordinator should process a journal entry to correct Title III entries posted in the General fund in prior years. This will produce a more accurate Title III fund balance. Note: the correcting journal entry was processed November 3, 2010.

2. To accurately reflect the full cost of vehicles in the county's fixed asset system, the Finance Director should advise all departments that all additional expenses to put a vehicle into service should be charged to the capital outlay equipment account. This will help ensure proper capitalization of the county's assets.
3. To accurately reflect the full value of the Search and Rescue vehicles purchased in 2009-10 with Title III funds, the Capital Asset Accountant should correct the vehicles' value in the current year to show the additional equipment purchased to put them into service.
4. To accurately reflect Title III use of the Search and Rescue vehicles purchased in 2009-10, the Title III Coordinator should work with the Sheriff's Office to establish a reimbursement plan for non Title III use of Title III vehicles.

### **Management Response**

Finance Director Shannon Bell, who oversees the county's capital assets, reviewed this report and responded by email that she agrees with recommendation number two and three. Senior Deputy County Administrator Harvey Bragg, who supervises the Title III Coordinator, also reviewed this report. He responded by email that he agreed with audit recommendation number four.

# Appendix A



# Appendix B

