



JACKSON COUNTY

Oregon

Internal Audit Report

Office of Management and Budget (OMB) Circular A-133 Compliance Audit of Federal Awards

Airport Improvement Program (AIP) (CFDA No. 20.106); Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC) (CFDA No. 10.557 and 10.578); Block Grant for Prevention and Treatment of Substance Abuse (SAPT) (CFDA No. 93.959); and Public Law 106-393 *Secure Rural Schools and Community Self-Determination Act 2000* and Public Law 110-343 *Reauthorization of the Act* (CFDA No. 10.665 and 15.XXX)

November 29, 2012

Presented to the
Jackson County Board of Commissioners
by the
Internal Audit Program

Audit Team
Debbie Taylor, County Auditor
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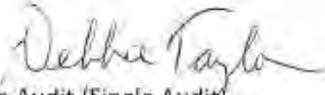
**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor 
Subject: OMB Circular A-133 Compliance Audit (Single Audit)
Date: November 29, 2012

The attached audit report provides information concerning the adequacy of internal controls and compliance with Federal laws, regulations, and the provisions of contracts or grant agreements in relation to the Airport Improvement Program (AIP), Special Supplemental Nutrition Program for Woman, Infants and Children (WIC), Block Grant for Prevention and Treatment of Substance Abuse (SAPT), and Secure Payments – Public Law 106-393 *Secure Rural Schools and Community Self-Determination Act 2000* and Public Law 110-343 *Reauthorization of the Act*. The audit was included in the fiscal year 2012-13 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 County staff throughout the audit process.

cc: Audit Committee
Moss Adams, LLP
Harvey Bragg, Sr Deputy County Administrator
Mark Orndoff, Health and Human Services Director
Bern Case, Airport Director

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CHAPTER 1 AUDIT AUTHORITY, OBJECTIVES, SCOPE & METHODOLOGY

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 2012-13 Internal Audit Plan as part of the work performed annually in support of the County’s 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.

Audit Objectives The objectives of our audit were to determine if:

- 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 major programs; and
- The County maintained internal controls over the major programs to provide reasonable assurance of compliance with laws, regulations, and the provisions of contracts or grant agreements pertaining to Federal awards.

Audit Scope & Methodology Our audit examined activities relating to the major Federal programs selected for audit for County fiscal year 2011-12.

Our audit procedures included:

- Reviewing applicable laws, regulations, and the provisions of contracts or grant agreements pertaining to Federal awards and other official guidance;
- Discussing procedures with the department directors and or appropriate personnel;
- Performing risk assessment procedures;
- Testing internal controls and compliance; 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 Federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and associated Compliance Supplement; Federal OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*; OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments*; American Recovery and Reinvestment Act of 2009 and related guidance; grant agreements; related Catalog of Federal Domestic Assistance (CFDA) Program information pertaining to the Federal programs; Code of Federal Regulations; the County’s Local Contract Review Board Rules and other applicable County policies; and other applicable criteria.

Internal Controls

Internal controls, sometimes referred to as management control, includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal controls includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal controls serves as a defense in safeguarding assets and in preventing and detecting errors, fraud, violations of laws, regulations, and provisions of contracts and grant agreements or abuse.

We gained an understanding of internal controls through communications with the department directors and or appropriate personnel, and through review of program documentation.

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.

Sensitive & Confidential Information

We did not withhold information from this report that was considered sensitive or confidential in nature.

Corrective Action on Prior Year Audit Findings

All prior year audit recommendations were resolved or the resolution is in progress.

CHAPTER 2 INTRODUCTION AND BACKGROUND

Single Audit Act

The Federal Single Audit Act of 1984, amended in 1996, established requirements for audits of States, Local Governments, and Non-Profit Organizations that administer Federal financial assistance programs. OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations (Single Audit)* provides the criteria to be used when determining which Federal programs to audit. Based on the criteria, the following programs were selected for audit as a major program¹:

<u>Federal Program</u>	<u>Federal Expenditures</u> Fiscal Year Ending June 30, 2012
Airport Improvement Program (AIP) (CFDA No. 20.106)	
<i>AIP Grant 36</i>	\$295,006
<i>AIP Grant 37</i>	\$1,232,496
Woman, Infants and Children (WIC) (CFDA No. 10.557 & 10.578)	\$1,173,519
Substance Abuse Prevention and Treatment (SAPT) (CFDA No. 93.959)	\$824,331
Secure Payments – Public Law 106-393 <i>Secure Rural Schools and Community Self-Determination Act 2000</i> and Public Law 110-343 <i>Reauthorization of the Act:</i>	
<i>U.S. Department of the Interior</i> (CFDA No. 15.XXX)	\$7,095,352
<i>U.S. Department of Agriculture</i> (CFDA No. 10.665)	\$2,773,949

Federal Programs

Introduction and background information for each Federal program selected for audit is presented below.

Airport Improvement Program (AIP)

AIP grants are awarded by the U.S. Department of Transportation 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 Airport was awarded \$525,000 and \$1,985,000 in September 2010 and August 2011 for AIP grants 36 and 37, respectively. The grants were for updating the Airport’s Master plan, including pavement management; conducting Taxiway improvements; and acquiring snow removal equipment.

¹ The Edward Byrne Memorial Justice Assistance Grant Program (JAG) Cluster (CFDA No. 16.738, 16.803, 16.804) was also selected as a major program; the audit work was performed by the County’s external auditor, as such the program is not included in this audit report.

**Woman, Infants
and Children
(WIC)**

The WIC program is a federally funded program administered by the U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) through grants awarded to State health departments or other comparable organizations. The objective of the WIC program is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk.

Jackson County has an intergovernmental agreement with the Oregon Health Authority to collaborate and cooperate in providing public health services through the use of financial assistance received by the Authority, which includes a pass-thru of WIC federal funds.

**Substance
Abuse
Prevention and
Treatment
(SAPT)**

The SAPT Block Grant program is a federally funded program administered by the Substance Abuse and Mental Health Services Administration (SAMHSA), an operating division of the U.S. Department of Health and Human Services. The objective of the SAPT Block Grant program is to provide funds to States, territories, and one Indian Tribe for the purpose of planning, carrying out and evaluating activities to prevent and treat substance abuse and other related activities as authorized by statute. While the SAPT Block Grant provides Federal support to addiction prevention and treatment services nationally, it allows States to design solutions to specific addiction problems that are experienced locally.

Jackson County has an intergovernmental agreement with the Oregon Health Authority to receive funding, which includes SAPT federal funds, to operate or contract for the operation of the County's community mental health, and addiction programs.

**Secure
Payments –
Public Law
106-393 and
110-343**

In October 2000 the Federal Secure Rural Schools & Community Self-Determination Act of 2000 (herein referred to as Public Law 106-393) was signed into law. 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, as part of an economic stimulus package, for four additional years in October 2008 (herein referred to as Public Law 110-343). On July 6, 2012 the Act was extended for one more year (Public Law 112-141). The Public Laws are commonly referred to as Secure Payments. The Act is comprised of Title I *Secure Payments for States and Counties Containing Federal Lands*, Title II *Special Projects on Federal Lands*, and Title III *County Projects*.

Title I payments come to counties from the U.S. Department of Interior's Bureau of Land Management (formerly known as O&C receipts) and U.S. Department of Agriculture (formerly known as Federal Forest receipts). O&C receipts are to be used for the benefit of public safety, law enforcement, education, and other public purposes. Federal Forest receipts are to be used for the benefit of public education and transportation. Eighty to eighty five percent of the O&C and Federal Forest receipts are to be expended in the same manner in which they were required to be

expended prior to the Act of 2000. For O&C receipts, 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. For Federal Forest receipts, Oregon Revised Statute 294.060 *Apportionment of moneys received by counties from federal forest reserves to road and school funds* states that the receipts 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 O&C and Federal Forest receipts: 1) reserve the balance for projects in accordance with Title II, 2) reserve not more than 7% of the total share for projects in accordance with Title III, or 3) return the balance to the U.S. General Treasury. For County fiscal year 2011-12 Jackson County elected to retain 15% for Title II, and elected not to reserve funds for Title III projects (*See Funding flow chart in Appendix A*).

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, recorded 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.

Title III payments must be expended on projects that meet one of the category requirements as specified by the Secure Rural Schools and Community Self-Determination Act. The Title III category requirements differ between PL 106-393 and PL 110-343, and remain the same between PL 110-343 and PL 112-141.

PL 106-393 allowed counties to choose between two payment methods for Title I payments: (1) the 25-percent payment under the Act of May 23, 1908 (16 U.S.C. 500), and section 13 of the Act of March 1, 1911 (16 U.S.C. 500); or (2) the full payment amount in place of the 25-percent. Jackson County elected the full payment option for years one (2001) through six (2006) and for the one year extension (2007).

PL 110-343 provided a new formula for payments to eligible counties, which was 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.

Funding levels by FFY are summarized as follows:

- 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: Approximately 36 percent of amount received for FFY 2006.

For PL 112-141, it is estimated for FFY 2012 that the County will receive approximately 95 percent of the amount received for FFY 2011.

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CHAPTER 3 COMPLIANCE WITH FEDERAL REQUIREMENTS

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

OMB Circular A-133 requires an audit finding to be reported if there is material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program; when known and or likely questioned costs exceed \$10,000 for a type of compliance requirement; and other instances described in OMB Circular A-133.

We performed the following procedures for each Federal program:

- Determined the direct and material compliance requirements applicable to each major program;
- Determined audit procedures to be performed over applicable compliance requirements based on the OMB Compliance Supplement and other applicable guidance; and
- Completed the audit procedures for each major program.

Audit Results

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 major programs audited. We did identify areas that can be improved upon, which were communicated to appropriate County personnel. See management's response in Chapter 4 on page 12.

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CHAPTER 4 INTERNAL CONTROLS

Entities receiving Federal awards must design and maintain internal controls that reasonably ensure compliance with Federal laws, regulations and the provisions of the award. Internal controls is defined through the following objectives for Federal programs:

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

In addition to *Government Auditing Standards*, Circular A-133 (2007 revision) states that the auditor shall:

1. Perform procedures to obtain an understanding of internal controls over compliance for Federal programs that is sufficient to plan the audit to support a low assessed level of control risk for major programs;
2. Plan the testing of internal controls over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program;
3. Perform testing of internal controls over compliance as planned; and
4. Report on internal controls over compliance describing the scope of the testing of internal controls and the results of the tests and, where applicable, if there were any significant deficiencies in internal controls and whether any such deficiencies were material weaknesses.

We performed the following procedures for each Federal program:

- Discussed program requirements with department directors and or appropriate personnel and reviewed program documentation to obtain an understanding of internal controls over compliance for Federal programs that was sufficient to plan the audit to support a low assessed level of control risk for each major program;
- Planned the testing of internal controls over compliance for the major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and
- Performed testing of internal controls over compliance as planned.

Audit Results

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 major programs audited. There were no significant deficiencies or material weaknesses in internal controls, although we identified areas that can be enhanced upon, which were communicated to appropriate County personnel or are summarized below for the following major program:

- Public Law 106-393 *Secure Rural Schools and Community Self-Determination Act 2000* and Public Law 110-343 *Reauthorization of the Act* – CFDA No. 10.665 and 15.XXX.

Secure Payments – Public Law 106-393 and 110-343

In July 2012², the United States Government Accountability Office (GAO) issued a report titled *Payments to Counties: More Clarity Could Help Ensure County Expenditures Are Consistent with Key Parts of the Secure Rural Schools Act (Act)*. The objectives of the GAO audit were to examine (1) actions the U.S. Forest Service and Bureau of Land Management (BLM) have taken to oversee county spending under Title III, (2) consistency of selected county spending under Title III, and (3) the extent to which these counties followed Title III’s administrative requirements. The GAO’s conclusion included that *“Within the act, Title III has helped counties address the consequences of their proximity to federal lands by providing reimbursements for emergency services the counties furnish on those lands, as well as funds to help protect communities from the threat of wildland fires. The act contains language limiting the use of Title III funds in carrying out these activities, but it does not define key terms or fully specify the activities that qualify as allowable uses of Title III funds – leaving some of its provisions open to interpretation. The Forest Service and BLM have provided relatively little oversight of county expenditures and have not issued regulations as required by the act; moreover, the guidance they have provided is sometimes vague and does not always appear consistent with the act. Such limitations, in combination with the sometimes-unclear language in the act itself, have left counties to interpret on their own what is allowable under the act and what is not – and some counties are spending their Title III funds in ways that appear inconsistent with the act’s requirements with little oversight from the agencies.”* In light of the GAO report, the U.S. Department of Agriculture and U.S. Department of Interior’s Bureau of Land Management issued updated guidance in August and September of 2012³, respectively.

According to the Senior Deputy County Administrator and the County Auditor’s own familiarity with Title III since inception, the restrictive nature of the Acts and vague or inconsistent guidance from oversight organizations have contributed to the difficulty of utilizing Title III funds. As discussed in Chapter 2 in the background section starting on page 4, the Act expired in 2011 (Public Law 110-343) and on July 6, 2012 the Act was extended for one more year (Public Law 112-141). The County has elected not to receive Title III funds for

² GAO-12-775

³ Further clarification was received, which supported that the updated guidance would not impact approved projects under Public Law 110-343.

the last year of Public Law 110-343 (2011) and under Public Law 112-141 (2012). The County will continue to fund approved Title III projects with remaining Title III funding under Public Law 106-393 and Public Law 110-343 until fully spent.

Public Law 110-343 allowed Title III funds to be used on the following activities:

1. To carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing, techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires;
2. To reimburse the participating county for search and rescue and other emergency services, including firefighting, that are (A) performed on Federal land after the date on which the use was approved; and (B) paid for by the participating county; and
3. To develop community wildfire protection plans in coordination with the appropriate Secretary concerned.

During our review of Title III expenditures under PL 106-393⁴ and PL 110-343 for fiscal year 2011-12, we noticed that approved projects usage of Title III could be interpreted as not being consistent with the Act. However, certain elements supporting the justification of the approval of the projects were documented, which were based on guidance received at the time the project was approved, and therefore supported the County's decision to fund the projects with Title III. The County's process to approve projects is sufficient to detect, material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to Secure Payments; however, due to the interpretative nature of the Act, prior to the updated guidance issued in August and September of this year, there are areas in which improvement is needed to further support the decision to reimburse certain project costs in the present and potential future, if the Act is extended and the County elects to receive Title III funds. Our audit results are summarized below.

Firewise Communities – Guidance for this activity has directed the County to the Firewise website or Oregon Department of Forestry liaison. The website is not exclusive to the use of Title III funds, as such the website includes areas that are inconsistent with the Act. As such, some Title III project costs appear to be inconsistent with the Act. For example, one Firewise program provided a paper shredding service, which appears inconsistent with the Act; however, the information on the Firewise website is not limited to home siting, home construction and home landscaping activities.

⁴ Public Law 106-393 allowed Title III funds to be used on six activities. This act expired in 2006, as such there has been no continuing guidance on how to spend the remaining funds received by the County under this Public Law. Therefore, the audit results section focuses on Public Law 110-343.

Search, Rescue and Emergency Services – Approved projects for fiscal year 2011-12 and associated costs reimbursed with Title III seem consistent with the Act requirements.

Community Wildfires Protection Plans – Guidance for this activity provides interpretation of the term “develop” to include monitoring and updating a community wildfire protection plan; however, it does not include implementation of the plan. Furthermore, the development of the plan needs to be coordinated with the Secretary or appropriate designee concerned. Some of the project activities could be interpreted as implementation of the plan. In addition, it was challenging to determine if the development of the plan was coordinated with the appropriate Secretary or designee concerned. Further explanation was needed to fully confirm the extent of coordination with the appropriate Secretary or designee, and the documentation provided was at times subjective in nature.

Audit Recommendations

1. To ensure the use of Title III funds is consistent with Public Law 106-393 and 110-343, the Title III Coordinator should continue to work with project coordinators to ensure projects seek reimbursement for activities and costs allowable by the Public Laws under the most conservative interpretations. Furthermore, continue to work with the project coordinators to revisit the activities allowed by Public Law 106-393 and 110-343.
2. Enhance the documentation of the justification, including the supporting guidance, of how the project activities, which are reimbursed by the County, are allowable under Title III.

Management Response

Secure Payments –The Senior Deputy County Administrator and the Title III Coordinator have reviewed the report and agree with the recommendations.

Airport Improvement Program (AIP) – No reportable findings; management response not required.

Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC) – No reportable findings; management response not required.

Block Grant for Prevention and Treatment of Substance Abuse (SAPT) – No reportable findings; management response not required.

APPENDIX A SECURE PAYMENTS FLOWCHART

Public Law 110-343

REAUTHORIZATION SECURE RURAL SCHOOLS & COMMUNITY SELF-DETERMINATION ACT OF 2000

