

Analysis

Item 35: Military Department

Internal Controls Over Grant Management

Analyst: Julie Neburka

Request: Acknowledge receipt of a report on the Office of Emergency Management's analysis of internal controls over management of its federal grants.

Analysis: Oregon's Office of Emergency Management (OEM) is responsible for managing over \$180 million in federal grants in a given biennium. A 2013 federal audit found that OEM was charging overhead costs to its federal grants in the absence of a federally-approved indirect cost allocation plan. In addition to the immediate steps the agency took to address the audit findings and to develop and implement an indirect cost allocation plan, the Legislature approved the following budget note in HB 5201 (2018):

The Oregon Military Department - Office of Emergency Management (OEM) is directed to assess and update OEM's processes, policies, and practices for internal control over grants management, separate from and in addition to any external financial or programmatic audits currently underway. The updated practices should align to the Internal Control-Integrated Framework as updated in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Military Department is to undertake immediate action to correct any identified deficiencies. The Military Department is directed to submit a quarterly progress report to the Legislature at each meeting of the Emergency Board in 2018. The Military Department is directed to provide a final written report on the assessment and corresponding updated processes, policies, and procedures to the Joint Committee on Ways and Means during the 2019 legislative session, prior to consideration of the agency's budget for 2019-21.

The agency first reported in May 2018 that after determining that it did not have the internal resources and expertise to conduct the required assessment, it contracted with an independent certified public accounting firm to conduct the analysis, test the agency's internal controls over grants management, report its findings, and make recommendations for improvement. OEM reports that work began in June 2018 and has been focused on reviewing existing policies, procedures, desk manuals, and prior audit reports; interviewing grants management staff and developing workflow charts; and evaluating the internal controls that exist in the agency's current work processes.

Issues identified to date include lack of a grants management system, duplicative and/or non-standardized processes, and staffing levels and responsibilities relative to workload. Next steps will include a review of completed grant files, field work to evaluate the agency's monitoring of grant subrecipients, and management review. OEM will present its final report in January 2019, prior to legislative review of its 2019-21 budget.

Legislative Fiscal Office Recommendation: Acknowledge receipt of the report.

35
Oregon Military Department
Lisper

Request: Report on the status of assessing and updating the Oregon Military Department (OMD) processes, policies, and practices for internal control over grants management, separate from any external financial or programmatic audits currently underway, as directed in a House Bill 5201 (2018) Budget Note.

Recommendation: Acknowledge receipt of the report.

Discussion: House Bill 5201 (2018) included the below Budget Note directing OMD to assess and update the Office of Emergency Management (OEM) processes, policies, and practices for internal controls over grant management.

Budget Note:

The Oregon Military Department - Office of Emergency Management (OEM) is directed to assess and update OEM's processes, policies, and practices for internal control over grants management, separate from and in addition to any external financial or programmatic audits currently underway. The updated practices should align to the Internal Control-Integrated Framework as updated in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Military Department is to undertake immediate action to correct any identified deficiencies.

The Military Department is directed to submit a quarterly progress report to the Legislature at each meeting of the Emergency Board in 2018. The Military Department is directed to provide a final written report on the assessment and corresponding updated processes, policies, and procedures to the Joint Committee on Ways and Means during the 2019 legislative session, prior to consideration of the agency's budget for 2019-21.

The Budget Note specifically requests the Department's updated practices to be in alignment with the Internal Control-Integrated Framework, as revised in 2013 by the Committee of Sponsoring Organization of the Treadway Commission (COSO). In 2018, OMD is to submit a quarterly progress report to the Legislature each time the Emergency Board meets. A final written report will be submitted to the Joint Committee on Ways and Means during the 2019 Legislative Session.

The OMD conducted an internal assessment of OEM's practices and determined OEM did not meet COSO standards as outlined in the Budget Note. The agency contracted with Powers CPA, LLC in May 2018 and commenced work on the project in June 2018.

To date, key accounting and program staff in the Mitigation and Recovery and Operations and Preparedness sections have been interviewed. The contractor continues to gather background data and is in the process of discovery and analysis. The contractor is in continual communication with OMD staff regarding the ongoing progress of the assignment. The Department expects to provide a more comprehensive report during the December 2018 meeting of the Emergency Board.



OREGON MILITARY DEPARTMENT
JOINT FORCE HEADQUARTERS, OREGON NATIONAL GUARD
DEPUTY DIRECTOR STATE AFFAIRS
1776 MILITIA WAY SE
P.O. BOX 14350
SALEM, OREGON 97309-5047

August 27, 2018

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Oregon Military Department (OMD) respectfully submits this second progress report as required by a Budget Note in HB 5201 from the 2018 Legislative Session.

The Budget Note directs the Military Department to:

“Assess and update OEM’s processes, policies, and practices for internal control over grants management, separate from and in addition to any external financial or programmatic audits currently underway. The updated practices should align to the Internal Control-Integrated Framework as updated in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Military Department is to undertake immediate action to correct any identified deficiencies. The Military Department is directed to submit a quarterly progress report to the Legislature at each meeting of the Emergency Board in 2018. The Military Department is directed to provide a final written report on the assessment and corresponding updated processes, policies, and procedures to the Joint Committee on Ways and Means during the 2019 legislative session, prior to consideration of the agency’s budget for 2019-21.”

Agency Action

After passage of HB 5201, and the associated Budget Note, the Military Department contracted with Powers CPA, LLC to conduct a review of the Office of Emergency Management’s (OEM) grants management practices following COSO’s Internal Control Framework. Owner and Managing Member Ms. Pamela J. Stroebel Powers began her work in June 2018.

The consulting engagement is being performed to assess OEM’s processes, policies and practices for internal control over grants management, and to provide recommendations for improvement. The engagement is being conducted under the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework, and when complete will specifically conclude on OEM’s Grants Management processes in each of the following areas:

1. **Control Environment**
2. **Risk Assessment**
3. **Control Activities**
4. **Information and Communication**
5. **Monitoring Activities**

To date, eleven key accounting and program staff in the Mitigation and Recovery and Operations and Preparedness Sections have been interviewed to walk through and outline key processes for OEM's grants management practices. Currently, flowcharts of these processes are being developed for review with staff this fall. These flowcharts will be used to identify risks to OEM's ability to meet its grants management objectives as well as controls that are currently embedded within the processes. Additionally, background documentation has been gathered including policies, procedures, desk manuals and prior audit reports. Further analysis will be performed to illuminate additional or revised controls to be recommended and as well as additional opportunities for streamlining processes to improve efficiency and effectiveness.

The most significant issue identified to date is the lack of a grants management system. Accounting staff within OEM currently use an Access database and Excel spreadsheets to document and track grants management activities. Both program and accounting staff are also required to input various aspects of grant information into federal systems. As a result of the various systems used, there appear to be redundancies in manual data entry processes and the risk for error increases the more times information has to be re-entered into additional systems. Additional efficiencies and controls may result from OEM's ability to implement a true grants management system.

Some topics for further consideration during the review process will include staffing levels for program responsibilities; standardization of processes across the variety of grants managed; and additional opportunities for streamlining processes.

The next progress report to be submitted by OMD in October 2018 will contain an update from Ms. Stroebel Powers regarding the work her organization conducts in September and October 2018. Planned steps include: finishing at least two additional key program staff interviews and reviewing preliminary results with management; interviewing staff in areas of OMD OEM interfaces with for grants management practices; walking through examples of completed grant files to assess effectiveness of controls described during interviews and shadowing OEM staff on sub-recipient site visits to learn about monitoring practices. The final report will be issued in January 2019.

Action Requested

Accept the report.

Legislation Affected

None.

Thank you for your consideration of accepting this report.

Sincerely,



David A. Stuckey
Deputy Director
Oregon Military Department