

**CITY OF PORTLAND, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of Major Programs

| <i>CFDA Numbers</i> | <i>Name of Federal Program or Cluster</i> | <i>Type of Auditor’s Report Issued</i> |
|-------------------------|---|--|
| 14.239 | Home Investment Partnership Program | <i>Unmodified</i> |
| 14.241 | Housing Opportunities for Persons with AIDS | <i>Unmodified</i> |
| 16.738 ARRA - 16.804 | Justice Assistance Grant (JAG) Program Cluster Edward Byrne Memorial JAG Program Recovery Act - Edward Byrne Memorial JAG Program/Grants To Units Of Local Government | <i>Unmodified</i> |
| ARRA - 20.321 | Railroad Safety Technology Grants | <i>Unmodified</i> |
| 20.500 20.507 | Federal Transit Cluster Federal Transit – Capital Investment Grants Federal Transit – Formula Grants | <i>Unmodified</i> |
| ARRA - 81.128 | Energy Efficiency and Conservation Block Grant Program (EECBG) | <i>Unmodified</i> |

Dollar threshold used to distinguish between type A and type B programs:

\$1,517,210

Auditee qualified as low-risk auditee?

Yes No

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Section II – Financial Statement Findings

FINDING 2013-001 – Capitalization of Internally Developed Software Personnel Costs, Significant Deficiency in Internal Controls

Criteria: Internally developed software costs are to be capitalized and depreciated over their useful life pursuant to GASB No. 51 – *Accounting and Financial Reporting for Intangible Assets* that became effective for the City in its year ended June 30, 2010. The amount to be capitalized, in part, consists of costs incurred in the development stage of the project including personnel directly involved in software development.

Condition: In our audit testing and inquiry procedures over internally developed software, the City Controller brought to our attention that the City was not consistently capturing all personnel time and costs incurred for specific internally developed software projects. Specifically, personnel time involved in the administration and supervision of a particular project was not found to be consistently tracked and included in the capitalized cost of the software.

Context: Management initiated an assessment of internally developed software projects for the fiscal years 2010 - 2013, and estimated the administration and supervision personnel costs that were not capitalized at approximately \$1.2 million.

Cause: Personnel in the various Bureaus involved in internally developed software did not appear to be aware of the accounting requirements.

Effect: City functional and operational costs have been overstated by \$1.2 million, net of the depreciation expense that would have been claimed, in the past three years since the implementation of GASB No. 51.

Recommendation: We recommend that management provide education to Bureau personnel responsible for internally developed software on the requirements of GASB No. 51 generally, and the types of costs specifically, required to be capitalized.

Views of responsible officials and planned corrective actions (unaudited): Management of the City prepared their response in a separately issued document.

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Section III – Federal Award Findings and Questioned Costs

FINDING 2013-002 – Procurement, Suspension and Debarment – Significant Deficiency in Internal Control and Instances of Noncompliance

| <i>CFDA Number</i> | <i>Federal Agency - Program Name</i> | <i>Award year</i> |
|--------------------|---|-------------------|
| | <i>U.S. Department of Justice</i> | 2012-13 |
| | Justice Assistance Grant (JAG) Program Cluster: | |
| 16.738 | Edward Byrne Memorial Justice Assistance Grant (JAG) Program | |
| ARRA -16.804 | Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government | |

Criteria: Per Title 2 Code of Federal Regulations (CFR), Part 215.48 (e), all contracts, including small purchases awarded by recipients and their contractors, shall contain the procurement provisions of appendix A to this part, as applicable. This section covers compliance with laws and regulations when obtaining a good or services from a vendor, supplier, or provider. The procurement requirement is established to ensure that such goods and services are obtained in an effective manner and in compliance with laws and regulations, including the prohibition of conflicts of interest, the fair selection of vendors, provide open and free competition among vendors, etc. The suspension and debarment requirement establishes that certain non-Federal entities have been prohibited from participating in or receiving Federal assistance for various reasons, including prior mismanagement of funds or previous non-compliance with laws and regulations. This prohibition may be temporary (suspension) or indefinite (debarment; until specifically allowed by the government). When performing this purchase, the recipient must verify that the vendor, supplier, provider or their respective principals (e.g., owners, top management, etc.) are not suspended, debarred or otherwise excluded by the Federal government.

Condition: During our testing of procurement, we noted three instances in three contracts tested for this program where there was no documentation that was retained to substantiate that the required procurement procedures noted in the *Criteria* discussed above had occurred. However, through our test procedures we noted the costs paid by the grant were allowable per the scope of the grant and the vendors were not suspended or debarred parties.

Questioned Costs: None noted

Context: The lack of federal language in the contract is due to the City utilizing open purchase orders for specific program purchases from a qualified vendor. The purchase orders were initially procured when no federal funding was being used.

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Cause: The Police bureau did not notify the Purchasing bureau that the open purchase orders were going to be utilized towards purchases that were federally funded.

Effect: Federal funds are being expended under procurement contracts that are missing required certifications and evidence of the City following required procurement procedures. Without these certifications a contractor may be in direct violation of a federal compliance requirement and ineligible for contracting under federal laws.

Recommendation: We have noted that the City began corrective action during the fiscal year 2013 on a go-forward basis for new contracts. However, this federal program was still utilizing contractors in place prior to the implementation of the corrective action plan. It is our recommendation that the City continue to enforce its established policies to help ensure federal language is included in contracts when federal funding is being applied.

Views of responsible officials and planned corrective actions: (unaudited): Management of the City prepared their response in a separately issued document.

FINDING 2013-003 – Sub-recipient Monitoring – Significant Deficiency in Internal Control and Instance of Noncompliance

| <i>CFDA Number</i> | <i>Federal Agency/Pass-through Entity - Program Name</i> | <i>Award year</i> |
|--------------------|---|-------------------|
| 14.241 | U.S. Department of Housing and Urban Development Housing Opportunities for Persons with AIDS (HOPWA) | 2012-13 |

Criteria: Per OMB Circular A-133, Section 400(d) outlines the responsibilities of recipients of Federal awards regarding funds passed-through to other organizations. Specifically, the pass-through entity is to: (1) monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant agreements and that performance goals are achieved; and (2) ensure that sub-recipients, as qualified, meet the audit requirements of Circular A-133, and to review sub-recipient audit findings and corrective action. To help meet this requirement the Portland Housing Bureau (PHB) has sub-recipient monitoring policies and procedures in place that require a risk assessment and desk review to be conducted within the first three and nine months, respectively, of the effective date of the contract as well as annual risk assessment and desk reviews or on-site monitoring, as needed.

Condition: During our testing of sub-recipient monitoring, we examined four sub-recipient files and noted that PHB had not performed any risk assessment or desk review or on-site monitoring for one of the program sub-recipients. PHB has a process in place, through internal policy, to ensure that federal requirements are being met. However, PHB did not follow their own internal policy that each sub-recipient receives an initial risk assessment and annual desk review. The breakdown in internal control led to noncompliance with sub-recipient monitoring.

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However, based on our audit procedures and a sample of sub-recipients tested, we noted that the City's sub-recipients for this program did not have audit findings in their most recent A-133 audits.

Questioned Costs: None noted.

Context: The grants department provides tools and resources to the bureaus to help monitor sub-recipient's A-133 audit compliance. In addition, the PHB has internal written sub-recipient monitoring processes and procedures. During our testing of sub-recipient monitoring, we noted one of the four sub-recipients for this program was not being monitored in accordance with City and Bureau policies.

Cause: The absence of thorough and complete monitoring for the sub-recipient appears to be due to oversight at the project manager level.

Effect: The OMB Circular A-133 requirement for sufficient sub-recipient monitoring is not being met. Without sufficient monitoring, funds passed through to the sub-recipients may not have been used in compliance with program provisions or could be inappropriate for the services performed.

Recommendation: We recommend that PHB communicate and provide training to their project managers on the City's and the Bureaus' current policies to ensure appropriate sub-recipient monitoring activities are occurring timely. Additionally, we recommend that the City enforce compliance with these policies and procedures to help ensure that all sub-recipients are adequately monitored.

Views of responsible officials and planned corrective actions (unaudited): Management of the City prepared their response in a separately issued document.