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Auditing for a Better Oregon

February 2, 2004

Jean Thorne, Director
Department of Human Services
500 Summer St. NE, E15
Salem, OR 97301-1097

Dear Ms. Thorne:

The statewide single audit that included selected financial accounts and federal awards at the Department of Human Services for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the Department of Human Services will continue on a periodic basis.

The following Department of Human Services accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

SFMA Account	Description	Audit Amount
General Fund – GAAP Fund 0001		
6300	MHDDSD – Distribution to Counties	$107,503,888
6800	MHDDSD – Distribution to Individuals	$105,996,264
	DO Distribution to Individuals	$160,339,310
	SDSD – Distribution to Individuals	$269,908,390
	SCF – Distribution to Individuals	$33,840,870
	AFS Distribution to Individuals	$24,414,293

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Special Revenue Fund – GAAP Fund 1108

0300	MHDDSD – Federal Revenues	$385,276,385
	DO – Federal Revenues	$1,030,543,917
	SDSD – Federal Revenues	$376,851,769
1105	DO – Other Revenues	$128,880,124
6300	MHDDSD – Distribution to Counties	$154,230,222
6800	MHDDSD – Distribution to Individuals	$190,013,410
	DO – Distribution to Individuals	$1,294,548,611
	SDSD – Distribution to Individuals	$344,663,939
	SCF – Distribution to Individuals	$66,760,047
	AFS – Distribution to Individuals	$216,290,287

We determined whether the Department of Human Services substantially complied with the federal requirements relevant to the following federal programs.

CFDA Number	Program Name	Audit Amount
93.558	Temporary Assistance to Needy Families	$168,653,999.39
93.667	Social Services Block Grant	$17,853,674.01
93.767	State Children's Health Insurance Premiums	$23,908,060.78
93.775,93.777,93.778	Medicaid Cluster	$1,812,515,423.80

Based on our audit, we identified six reportable findings relating to the above federal programs and one reportable condition during our financial audit work needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable conditions, along with your responses, will be included in our statewide audit report. Including your responses with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each reportable finding includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response.

1. Your agreement or disagreement with the finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.

2. The corrective action planned.

3. The anticipated completion date.

4. The name(s) of the contact person(s) responsible for corrective action.

The other condition is an issue of lesser significance that we wanted to communicate to agency management. This condition does not require a Corrective Action Plan. We will follow up on the agency's progress in addressing this issue during the next fiscal year audit.

For the reportable conditions, please respond by February 6, 2004.

Should you have any questions, feel free to contact Michelle Rock or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Neal Weatherspoon, CPA, CISA
Audit Administrator

NW:bk
cc: Tami Dohrman, Chief Financial Officer
Cindy Scheick, Chief Audit Officer
Gary Weeks, Director, Department of Administrative Services
John Radford, Administrator, State Controller's Division,
Department of Administrative Services
Jean Gabriel, SARS, State Controller's Division, Department of Administrative Services

Audit Findings and Recommendations Summary for the Department of Human Services Statewide Audit, State Fiscal Year 2003

REPORTABLE CONDITIONS

Social Services Block Grant (SSBG), Insufficient Documentation of Expenditures, CFDA 93.667

Allowable costs for Social Services Block Grant (SSBG) expenditures must follow state cost principles. The Oregon Accounting Manual requires departments to maintain documentary proof that goods or services have been received and expenditures qualified for federal funding.

Of the 49 SSBG expenditures tested, 22 did not have adequate documentation to determine whether they qualified for SSBG reimbursement. For example, cost allocation transactions did not agree to the supporting documentation and a number of transactions were supported only by journal entries. Based on the results of our sample tests of expenditures, we estimated that $8,617,513 of the $17,853,674 fiscal year 2003 SSBG expenditures reported by the Oregon Department of Human Services lacked of sufficient support. Thus, we question those costs.

Adequate documentation for those expenditures did not exist because the department had not complied with *Oregon Accounting Manual* requirements to ensure documentation for expenditures existed and was readily accessible to state and federal auditors.

We recommend that department management implement procedures that ensure SSBG cost allocation transactions agree to supporting documentation and ensure that all transactions are supported by documents indicating when expenditures occurred, the specific goods or services provided, amounts expended for those services and other information necessary to determine compliance with federal funding requirements.

Social Services Block Grant (SSBG), Cash Management, CFDA 93.667

Office of Management and Budget (OMB) circular A-133 requires that programs funded on a reimbursement basis must be paid for by entity funds before federal reimbursement is requested. In addition, reimbursement requests must be traceable to supporting documentation.

During fiscal year 2003, the state received SSBG Federal funds totaling $38,585,773. Of this amount, $22, 212,946 represented reimbursement for expenditures paid during fiscal year 2003. However, the department could not provide sufficient documentation to determine the validity of the remaining $16,372.827 amount drawn.

We recommend that the department ensure that all SSBG draws for Federal reimbursement are traceable to supporting documentation. Supporting information should be readily available, fully documented, and verifiable for compliance purposes.

Temporary Assistance to Needy Families (TANF), Compliance with Cash Management Agreement, CFDA 93.558

Expenditures for TANF must be paid for by the state before reimbursement is requested from the Federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds. The state of Oregon has entered into a formal agreement with the U.S. Treasury outlining requirements for drawing down Federal funds. Federal regulations indicate that records must be retained to allow for calculations, outlined in the Treasury-State agreements, to be reviewed and replicated for compliance purposes. States must ensure that these records are readily available, fully documented, and verifiable.

The department relies on its financial accounting system to track expenditures and federal reimbursements. On a daily basis, department employees use on-line cumulative expenditure totals to determine the amounts to be drawn. Because personnel performing this procedure did not retain documentation that later could be verified, compliance with the Treasury-State Cash Management Agreement could not be ascertained as required. Although monthly totals could be confirmed using financial system inquiries, department staff could not provide verifiable documentation of the daily expenditures it used to support the daily draw amounts.

The department's financial records also indicated that Federal TANF draws exceeded expenditures by approximately $3.5 million, or 2 percent of the Federal portion of TANF expenditures during fiscal year 2003. Thus, the department did not comply with the Treasury-State agreement and was, therefore, subject to interest provisions.

We recommend that department management develop and implement procedures or methods to ensure compliance with documentation requirements for cash draws for TANF expenditures. The department's records should be readily available and verifiable for compliance purposes. We also recommend that the department take action to ensure that the $3.5 million drawn in excess is resolved with the Federal agency and all requirements of the Treasury-State cash agreement satisfied.

Medicaid, Compliance with Cash Management Agreement, CFDA 93.778

Expenditures for Medicaid must be paid for by the state before reimbursement is requested from the Federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds. The state of Oregon has entered into a formal agreement with the U.S. Treasury outlining requirements for drawing down Federal funds. Federal regulations also indicate that records must be retained to allow for calculations, outlined in the Treasury-State agreements, to be reviewed and replicated for compliance purposes. States must ensure that these records are readily available, fully documented, and verifiable.

The department relies on its financial accounting system to track expenditures and federal reimbursements. On a daily basis, department employees use on-line cumulative expenditure totals to determine the amounts to be drawn. However, personnel performing this procedure did not retain documentation that later could be verified. Thus, compliance with the Treasury-State Cash Management Agreement could not be ascertained as required. Although monthly totals could be confirmed using financial system inquiries, department staff could not provide verifiable documentation of the daily expenditures it used to support the daily draw amounts.

On April 3, 2003, the U.S. Department of Health and Human Services deferred approximately $45.5 million from Federal Financial Participation in the state's Medicaid grant award. As a result, department management decided to proactively fund federally qualifying Medicaid expenditures using the state's General funds. On June 30, 2003, the department reclassified approximately $45.5 million in Federal Medicaid expenditures to the General fund. However, the department had already drawn Federal reimbursements for those expenditures. As a result, Medicaid draws exceeded expenditures by approximately the amount of the adjustment. As of January 20, 2004, agency accounting staff indicated that corrections to remedy the above over-draws had not been made.

We recommend that department management develop and implement procedures or methods for documenting its daily draw process to ensure that supporting records are readily available, fully documented, and verifiable for compliance purposes. In addition, we recommend that the department make arrangements with the U.S. Department of Health and Human Services to address the amount overdrawn.

Medicaid, Federal Reporting of Expenditures, CFR 93.778

Office of Management and Budget (OMB) circular A-133 requires that amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed.

The department did not report actual total expenditures on its CMS-64 for fiscal year 2003. During our audit, we reviewed the report for the quarter ended December 31, 2002. Total Medicaid expenditures for that quarter were overstated by approximately $3.2 million.

In addition, other tests indicated that Federal Medicaid expenditures reported on the department's CMS-64 for the quarter ended June 30, 2003, were overstated by $21,212,635.

We recommend that the department implement procedures to ensure that actual total expenditure amounts are reported on the quarterly CMS-64 reports as required by Federal regulations. In addition, the department should correct and resubmit CMS-64 reports submitted in error.

Medicaid, Matching Requirements for Expenditures, CFDA 93.778

The state is required to pay part of the cost of providing health care to the poor and part of the cost for administering the program. Different state participation rates apply to medical assistance payments. These rates are specified in the formal state plan.

For the quarter ended December 31, 2002, the department's federal draws exceeded the allowed federal participation by approximately $1.3 million. Because the department did not meet its matching requirements, we questioned the above amount. The department's internal controls were not sufficient to detect the above error so that it could be timely corrected.

We recommend that the department evaluate its procedures for ensuring that federal participation rates are consistently applied to Medicaid expenditures.

General Accounting and Internal Control Weaknesses

During our prior year's audit, we reported that internal controls within the Oregon Department of Human Services were insufficient to ensure that transactions posted to the financial statements were valid, accurate, and made in accordance with federal regulations. Although the department generally disagreed with the finding, significant internal control weaknesses continue to exist. The following issues are of most concern:

- Supporting or source documentation was often missing or insufficient to determine the validity of financial transactions or ascertain compliance with Federal requirements.
- Management has not committed sufficient resources to address information technology security risks.
- Control activities were not sufficient to effectively prevent and detect accounting errors introduced during manual processes.

We recommend that department management develop and implement policies and procedures to ensure that all accounting transactions are appropriately authorized, justified, documented and reviewed for accuracy and compliance with federal requirements. Department management also should ensure that sufficient resources are allocated to timely address information technology security risks.

OTHER CONDITIONS

Reconciliation of Check System to Accounting System

The department's check writing system interfaces with Treasury and the Statewide Financial Management Application (SFMA). Although the Department of Administrative Services (DAS) is responsible for ensuring that Treasury cash accounts reconcile with SFMA, the department must provide information regarding differences that may occur to facilitate the reconciliation.

The department reconciles amounts from its check writing system to Treasury accounts. However, the department has not provided DAS personnel with the needed information to explain differences currently existing between department SFMA balances and Treasury accounts.

Department personnel indicated that they are planning to migrate from the current automated reimbursement system to a simpler system used by other state agencies to prevent future reconciliation issues. However, that change will likely not resolve all prior reconciliation issues.

We recommend that the department implement plans to change its reconciliation system and interface with SFMA and actively work to resolve all prior outstanding reconciling items.