



Auditing for a Better Oregon

February 10, 2005

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

Dear Mr. Weeks:

The statewide single audit that included selected financial accounts and federal awards at the Department of Human Services for the year ended June 30, 2004, 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.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
General Fund – GAAP Fund 0001		
6300	Distribution to Counties	\$141,412,122
6800	Distribution to Individuals	\$686,102,245
6200	Intra-agency General Fund/Other Fund transfers	\$99,256,987
Special Revenue Fund – GAAP Fund 1108		
0300	Federal Revenues	\$2,243,543,260
1105	Other Revenues	\$148,998,673
6300	Distribution to Counties	\$224,652,041
6800	Distribution to Individuals	\$1,977,562,600
0065;0070;0075	Cash	\$99,503,538

Management Letter No. 100-2005-02-01

We also 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	\$151,125,145
93.667	Social Services Block Grant	\$22,835,410
93.777, 93.778	Medicaid Cluster	\$1,730, 602,620

Based on our audit, we identified seven reportable conditions relating to the above federal programs and two reportable conditions relating to 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 of the contact person responsible for corrective action.

For the reportable conditions, please respond by date agreed upon. Should you have any questions, please contact Julianne Kennedy or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Neal Weatherspoon, CPA, CISA, CISSP
Audit Manager

Gary Weeks, Director
Department of Human Services
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NW:bk

cc: Clyde Saiki, Chief Administrative Officer
Tami Dohrman, Chief Financial Officer
Cindy Scheick, Chief Audit Officer
Laurie Warner, Acting 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 Department of Human Services Statewide Audit State Fiscal Year 2004

REPORTABLE CONDITIONS

Oregon Department of Human Services (department) Segregation of Duties

As instructed by the *Oregon Accounting Manual*, the department should ensure cash and cash related transactions are properly accounted for and safeguarded by providing controls to:

- Ensure mail containing remittances is opened by two people.
- Restrictively endorse all checks as they are received.
- Record all cash received using pre-numbered documents, cash register tapes, mailroom listings or similar documents.
- Daily reconcile all cash received with the above reports.
- Separate cash handling from record keeping duties.
- Ensure that no one person handles cash transactions from beginning to end.

The department has not established adequate controls over cash receipts. Although it indicated that checks were restrictively endorsed when received, mail containing remittances were routinely opened by one person who often had complete control over cash transactions. Checks also were not logged when received; thus, they could not be reconciled as required.

As a result, cash receipts have not been adequately safeguarded and the risk of fraud or misuse of state funds has not been sufficiently reduced. In addition, the above issues limited the department's ability to detect potential problems.

We recommend the department develop and implement policies and procedures to provide for segregation of duties over cash receipts, ensure adequate documentation of cash receipts is created, and ensure that cash is reconciled to that documentation.

Oregon Department of Human Services (department) Cash Reconciliations

The *Oregon Accounting Manual* indicates that departments should regularly perform reconciliations of cash recorded in agency records to amounts reported on Treasury statements. Those reconciliations should be performed by persons not otherwise responsible for handling or recording cash and should be reviewed by management.

During state fiscal year 2004, the department did not properly perform reconciliations for 90 percent of cash recorded in account 0075 – Cash on Deposit Suspense Account at Treasury, for Health and Human Services Fund, 1108. After this condition was detected during the audit, department staff

completed reconciliations for the majority of amounts reported in the above suspense account. As a result of those reconciliations, errors totaling approximately \$4.4 million were identified and corrected.

Reconciling bank statements to amounts recorded in agency accounting records is an essential internal control. Timely and effective reconciliations can help identify errors or other problems that may have occurred, and provide additional assurance that reported cash balances are valid. By not performing reconciliations, the department's ability to timely detect and correct potential problems was unacceptably limited.

We recommend department management ensure suspense account reconciliations are regularly and accurately performed. In addition, they should ensure that those reconciliations are reviewed and adjusting entries made to correct errors identified during reconciliation.

Temporary Assistance to Needy Families (TANF) CFDA 93.558, State Maintenance of Effort (MOE) Requirements, Inaccurate Financial Reporting For Federal Fiscal Year 2003

The Office of Management and Budget A-133 Compliance Supplement states that every fiscal year a state must maintain an amount of "qualified State expenditures" for eligible families. "This is termed 'basic MOE' (Maintenance of Effort) and the requirement is based on the Federal fiscal year." "In addition, expenditures by the State from amounts that originated from Federal funds may not count toward meeting a MOE requirement even if the expenditures 'qualify'." Federal requirement 45 CFR 265.7 also indicates that agencies must submit a complete and accurate financial report.

Because the Oregon Department of Human Services (department) routinely anticipates that TANF expenditures will significantly exceed the required MOE for any given year, it applies a predetermined funding split to all TANF expenditures made during the year, then makes adjustments to that funding at year end to ensure state expenditures meet, but do not exceed the MOE. For federal fiscal year ended September 30, 2003, the department reported that it met the required MOE of \$91,636,299. However, \$8,283,247 of that amount represented funding adjustments the department intended to make, but did not make until April 2004. Thus, when the September 30, 2003 federal report was filed, the reported MOE did not agree to the agency's financial records. In addition, \$2,752,762 of the reported MOE for federal fiscal year 2003 was expended during federal fiscal year 2002 and later transferred to the 2003 fiscal year. Therefore, the department was short of meeting the required MOE by approximately \$11 million for federal fiscal year ended September 30, 2003.

We recommend department management ensure compliance with state MOE requirements and ensure federal financial reports are fully supported by its financial system. We also recommend the department ensure that the approximate \$2.7 million shortfall, not adjusted in April 2004, is resolved using state originated funds.

Temporary Assistance to Needy Families (TANF) CFDA 93.558, State Maintenance of Effort (MOE) Requirements, Inaccurate Financial Reporting For Federal Fiscal Year 2004

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We recommend department management ensure compliance with state MOE requirements and ensure federal financial reports are fully supported by its financial system. We also recommend that the department ensure that the MOE shortfall of approximately \$15.6 million is resolved using state originated funds.

Temporary Assistance To Needy Families (TANF) CFDA 93.558, Questioned Cost \$4,125

The Code of Federal Regulations requires that financial management systems “permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.” This documentation should be complete, accurate, and readily available for examination.

During testing, Oregon Department of Human Services’ (department) staff did not provide sufficient or timely documentation supporting two of the TANF expenditures included in the sample. As a result, we questioned their actual costs totaling \$4,075. In addition, one sample item contained costs that were not allowable under the state plan for TANF. Actual costs for that exception was \$50.

We recommend department management ensure that supporting documentation is readily available for all TANF expenditures in such a form as to allow for subsequent verification and testing.

Temporary Assistance To Needy Families (TANF) CFDA 93.558 and Medicaid Cluster, Cash Management

Expenditures for Medicaid and TANF must be paid for by the state before reimbursement is requested from the Federal government. 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 Oregon Department of Human Services (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, because staff 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.

We recommend 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.

Medicaid Cluster, Calculation of Interest Obligation for Cash Management

The Code of Federal Regulations requires that records be retained to allow for calculations outlined in the Treasury-State agreements to be reviewed and replicated for compliance purposes. States must maintain these records to be readily available, fully documented, and verifiable.

Oregon Department of Human Services (department) staff calculated the interest obligation for Medicaid using a running overdraft balance maintained by department staff on a spreadsheet. However, department staff could not provide sufficient documentation to support the overdraft balances on the spreadsheet. Therefore, we could not ascertain whether the interest amounts the department calculated were in compliance with the Treasury-State agreement.

We recommend department management develop and implement policies and procedures to ensure compliance with documentation requirements for cash management of federal programs. The department's records should be readily available and verifiable for compliance purposes.

Medicaid Cluster, Lack of Supporting Documentation for Eligibility, Questioned Cost \$108

Federal regulation CFR 435.913 indicates that facts supporting the agency's decision to award Medicaid benefits must be included in the client's case file.

During eligibility testing, Oregon Department of Human Services' (department) staff could not locate current Medicaid eligibility applications for two of 31 sample items. Because the department could not

provide documentary evidence that the clients were eligible for the benefits provided, we questioned the costs associated with those exceptions. The actual questioned cost totaled \$108.

We recommend department management provide assurance that supporting documentation for eligibility redeterminations is retained to allow for independent verification according to federal requirements.

Medicaid Reporting, Medicaid Cluster

Office of Management and Budget A-133 Compliance Supplement 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 Oregon Department of Human Services (department) did not report actual total expenditures on its CMS-64 for fiscal year 2004. During our audit, we reviewed the report for the quarter ended December 31, 2003. Total Medicaid expenditures for that quarter were understated by approximately \$13 million.

In addition, the department generally did not submit CMS-64 reports to the required Federal agency in a timely manner. For example, the CMS-64 for the quarter ended December 31, 2003 was submitted about 45 days after the required deadline.

We recommend that department management implement procedures to appropriately report Medicaid expenditures and to ensure that CMS-64 quarterly reports are submitted to the Federal agency within 30 days of the end of each quarter as required by federal regulations.