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March 10, 2008

Dr. Bruce Goldberg, Director
Department of Human Services
500 Summer St. NE, E15
Salem, Oregon 973301-1097

Dear Dr. Goldberg:

We have completed the statewide single audit that included selected federal programs at the Department of Human Services (department) for the year ended June 30, 2007.

This audit work is not a comprehensive audit of your federal programs. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on each major federal program and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to federal programs.

We audited the following federal programs at the department to determine whether the department substantially complied with the federal requirements relevant to the federal programs. Our audit does not provide a legal determination of the department's compliance with those requirements.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.777, 93.778	Medicaid Cluster	\$1,967,072,388
93.558	Temporary Assistance for Needy Families	175,165,794
93.575 & 93.596	Child Care Development Fund Cluster	52,233,162
93.767	State Children's Health Insurance Program	40,298,542
84.126	Vocational Rehabilitation Grants to States	32,510,522
93.659	Adoption Assistance	30,702,960

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on the department's compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls. We identified deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

We believe the following are instances of noncompliance that are required to be reported and/or are significant deficiencies in internal control or significant deficiencies that constitute material weaknesses, as identified:

Temporary Assistance for Needy Families
Eligibility – Material Weakness
Questioned Costs

Federal regulations permit states to use federal Temporary Assistance for Needy Families (TANF) funds for activities previously authorized in a September 30, 1995, approved Emergency Assistance to Needy Families with Children State plan (Title IV-A). The authorized plan permits the Department of Human Services (department) to provide emergency child welfare intervention services as long as the services do not exceed \$25,350 per client and occur in a period of no more than 365 days.

The department interprets the plan as authorizing up to \$25,350 per client per year and clients are eligible for emergency child welfare services as long as the emergency exists even if it extends beyond a period of 365 days.

For the current state fiscal year, the department spent approximately \$24.7 million on emergency child welfare intervention services and approximately \$9.7 million represented adoption assistance subsidy payments. Federal TANF requirements do not specifically provide for adoption assistance subsidy payments. We reviewed 42 client case files and noted the following:

- For 13 clients (31 percent), the department exceeded the 365 day period without redetermination of eligibility. Federal regulations allow states to use federal funds for emergency assistance services in any 12 consecutive months. The time period the clients' eligibility extended beyond the 365 day period ranged from one month to five years. For the period that exceeded 365 days, the department received federal reimbursement for the 13 clients in the amount of \$128,879.
- The department made payments to 3 clients it determined not eligible for federal adoption assistance. The department made adoption assistance subsidy payments to these clients through the TANF emergency assistance program. The emergency child welfare assistance plan outlines eligibility criteria, which includes providing services to clients who are at imminent risk of harm. The clients' adoption assistance case files did not include a TANF eligibility determination or document how the clients were at imminent risk of harm. The department received federal reimbursement for the 3 clients in the amount of \$12,285.
- The department made TANF emergency assistance payments to 2 clients who did not live with a relative for six months prior to determining TANF emergency assistance eligibility, as required by the state plan. When determining eligibility, the department looks back to when the client was initially removed from the home and not at the six months prior to determining TANF emergency assistance eligibility. The department received federal reimbursement for the clients in the amount of \$790.
- The department made TANF emergency assistance payments to one client who exceeded the eligibility age requirement of 18 years of age. The department does not have a tracking mechanism to ensure TANF eligible clients do not exceed the age requirement. The department received federal reimbursement, after the client exceeded the age requirement, in the amount of \$16,284.
- For one client, the department exceeded the \$25,350 assistance limit for two 365 day periods. The department uses a monthly report to monitor clients to ensure they do not exceed the maximum yearly assistance limit. This client did not show up on the department's monthly report. The department received excess federal reimbursement for the two 365 day periods, in the amounts of \$14,402 and \$15,247. We also performed a high-level analysis to determine if other clients might have received assistance in excess of the limit. We identified 6 additional clients where it appeared each client's assistance exceeded the yearly limit as the assistance provided for the current fiscal year was over \$40,000.

We recommend department management work with the designated federal agency to determine, the allowability of providing emergency assistance after the 365 day period, whether adoption assistance subsidy payments are allowable under the state's plan, and if the department can determine eligibility based on when the client was initially removed from the home rather than six months from determining emergency assistance. We also recommend department management implement controls to ensure assistance payments are only made to clients who meet the age requirement and are within the yearly assistance limit of \$25,350.

Temporary Assistance for Needy Families
Eligibility – Material Weakness
Questioned Costs \$ 1,171,469

Federal regulations permit states to use federal Temporary Assistance for Needy Families (TANF) funds for activities previously authorized in a September 30, 1995, approved Emergency Assistance to Needy Families with Children State plan (Title IV-A). The Department of Human Services (department) uses its child welfare information system to make client payments and track client information to ensure compliance with federal requirements.

According to the department, the child welfare information system has client eligibility coding limitations. The system only allows a client to be coded eligible for one federal program even though the client might be eligible to receive benefits under more than one program. For example, if a client was determined eligible for IV-E Foster Care, the client is coded IV-E eligible in the system. If the client is provided a service that is not allowable to be paid with foster care funds, the system allocates the costs to a state funded grant. According to the department, approximately 4 percent of these costs are not eligible for foster care or TANF. On a monthly basis, the department manually allocates the remaining 96 percent of costs to federal programs, including TANF, at a summary level. According to the department, even though clients are not coded TANF emergency assistance eligible in the child welfare system, most of these clients meet the eligibility criteria. However, the department has not documented TANF emergency assistance eligibility for these clients.

The known questioned costs for the current state fiscal year is \$1,171,469.

We recommend department management consult with the designated federal agency to ensure the department's method for allocating these costs to TANF is allowable or whether the department is required to identify the specific client whose services are charged to TANF and maintain adequate eligibility documentation.

Temporary Assistance for Needy Families
Eligibility
Questioned Costs \$2,069

To be eligible for Temporary Assistance for Needy Families (TANF) child welfare emergency assistance, all applicants must have an emergent need and meet eligibility criteria as determined by the state. The Department of Human Services (department) uses its child welfare information system to make client payments and track client information to ensure compliance with federal requirements.

Of the 42 randomly selected client case files, the department incorrectly coded one client as eligible for TANF in its child welfare system after denying the TANF claim. The department received federal reimbursement for the client in the amount of \$2,069. When projected to the population; the likely questioned costs exceed \$10,000.

We recommend department management take steps to ensure employees are adequately trained to understand the coding that needs to be entered in the child welfare system.

Temporary Assistance for Needy Families

Eligibility

To be eligible for Temporary Assistance for Needy Families (TANF) child welfare emergency assistance, all applicants must meet the income level requirements as established by the state. In April 2006, the Department of Human Services (department) implemented a new policy that required income verification be documented in the case files.

During our testing of 42 TANF child welfare emergency assistance transactions, 19 did not contain documentation of income verification. Of these 19, 16 were prior to the department's new policy implementation and 3 were after the policy was implemented.

We recommend department management ensure income verification used for eligibility determinations is retained in accordance with department and federal requirements.

Vocational Rehabilitation

Allowable Costs (Material Weakness)

Questioned Costs \$84,349

Federal regulations require the Department of Human Services (department) to develop and maintain written policies covering the nature and scope of vocational rehabilitation services provided. The department's administrative rules governing vocational rehabilitation include standards for provision of services and rates of payment. In addition, costs should be reasonable and adequate documentation should be retained.

In our review of 40 random and 9 judgmental sample items, we question the allowability of the following costs charged to the vocational rehabilitation program:

- Vehicle modification costs are allowable if the department determines that other alternatives for meeting transportation needs, including using public transportation, are not available. The department paid for two client's vehicle modifications, which included wheelchair lifts for both clients and hand controls for one client. Both clients lived and worked in areas where public transportation was available. The clients' files did not include adequate documentation related to consideration of other alternatives for transportation needs. We question costs totaling \$89,970, of which the federal portion is \$70,806.
- The department may assist with reasonable and necessary start-up costs of viable business plans, when appropriate. A reasonable cost, as defined in OMB Circular A-87, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. For one client, whose vocational goal was to become an in-home childcare provider, the department paid \$16,649 for a commercial grade play structure that allowed for up to 20

children to play. The department only required the client to care for three children. Furthermore, providing a play structure, commercial or otherwise, is not a requirement to become a registered childcare provider in Oregon. We question the cost of the play structure, of which the federal portion is \$13,103.

- OMB Circular A-87 states costs incurred should be reasonable and necessary. The department incurred expenditures for a client to purchase clothing and supplies for employment as a painter. The department did not maintain documentation justifying why all items purchased were necessary and reasonable for the client's employment. The department paid \$203 for a weather resistant watch, prepaid cell phone, backpack, and sunglasses. We question costs totaling \$203, of which the federal portion is \$160.
- The department did not maintain supporting documentation and was unable to provide an explanation for an expenditure contained in a client's file. We question costs totaling \$180, of which the federal portion is \$142.
- Although department rules allow for the payment of prescriptions, the department incurred expenditures for prescriptions prior to determining if the client was eligible for vocational rehabilitation services. The client was determined ineligible for services. We question costs totaling \$175, of which the federal portion is \$138.

In total, we question costs totaling \$107,177, of which the federal portion is \$84,349.

We recommend department management ensure all costs incurred for vocational rehabilitation services are reasonable, necessary and adequately supported. Further, department management should ensure client files include adequate documentation of decisions made regarding the allowability of expenditures.

Vocational Rehabilitation Equipment (Material Weakness)

Federal guidelines require the Department of Human Services (department) to track all equipment, charged directly to a federal award, with a useful life of greater than one year and an acquisition cost of over \$5,000 or a lower threshold, as established by the department. Furthermore, the department must use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. The department's administrative rules for vocational rehabilitation services include a threshold of \$1,000 for all non-expendable property. Additionally, state rules require that a physical inventory be taken annually.

We reviewed the department's equipment tracking database and found the database does not include information necessary to comply with federal guidelines. Specifically, the database does not:

- Indicate whether property is temporarily or permanently assigned to a client.
- Indicate dates of purchase and disposal of equipment.

- Indicate whether equipment is for client or department use.
- Include several equipment purchases that we reviewed during testing of other compliance requirements.

In addition, the department does not perform periodic inventories of vocational rehabilitation equipment.

We recommend department management ensure the equipment tracking database includes adequate information to comply with OMB Circular A-133 requirements. At a minimum, the department should ensure the database includes all qualifying equipment, purchase and disposal dates, temporary or permanent assignments to clients, and whether equipment is for client or department use. We also recommend department management perform a periodic inventory of vocational rehabilitation equipment.

Vocational Rehabilitation **Allowable Costs**

The Department of Human Services' (department) administrative rules governing client transportation services state that where local public transportation is available and can be used by a client, any reimbursement will not exceed the public transportation rate. Use of transportation costing more than the least expensive mode available requires written justification, by the department, prior to authorization. Additionally, the department's internal policy requires a monthly mileage log be maintained when the department authorizes amounts that exceed the cost of a bus pass in a city that provides adequate mass transit. In areas without adequate mass transit, the client must provide a monthly mileage log for the gas allowance provided.

In two case files reviewed, the department provided clients with transportation funds in excess of public transportation rates when no mileage logs or written justifications were in the files to support the additional funds provided. In another case file reviewed, the client did not live in an area with adequate mass transit available and mileage logs were not maintained in the file to support the funds provided to the client.

We recommend department management ensure employees are aware of the policy related to transportation provisions and that adequate documentation is maintained, including mileage logs.

Vocational Rehabilitation **Eligibility**

Federal regulations require the Department of Human Services (department) to determine whether a client is eligible for vocational rehabilitation services within 60 days after the client has submitted an application for services or file an extension. The department is required to maintain documentation supporting eligibility determinations.

Of the 40 randomly selected case files reviewed, the department's support did not show that the department completed the eligibility determination for 7 clients, or file for eligibility extensions,

within 60 days of the client applying for services. The department determined eligibility or filed eligibility extensions for all 7 clients within a month after the 60 day requirement had passed.

In addition, the department did not obtain documentation to support the eligibility determination for one client. However, based on additional research, the client was eligible for services at the time of application.

We recommend department management ensure eligibility is determined or eligibility extensions are filed within 60 days of a client's application. We also recommend the department retain sufficient documentation to support eligibility determinations.

State Children's Health Insurance Program

Eligibility

Material Weakness

Federal funding from the State Children's Health Insurance Program (SCHIP) provides health assistance to uninsured, low-income children. To be eligible for SCHIP funded assistance, an applicant must have family income that is less than 185 percent of the federal poverty level, not be eligible for Medicaid, submit an application that identifies resources and is signed by all adults in the filing group, and provide proof of income. The Department of Human Services' (department) procedures for determining eligibility require compliance with the criteria noted above, but allow case workers flexibility in calculating family income as part of the eligibility determination process.

During our review of 40 case files, we identified errors and missing or incomplete documentation related to an applicant's determination of eligibility. Specifically, we found the following:

- Three case files were inappropriately determined eligible due to an incorrect income determination by the case worker. Two case files were determined eligible even though the average income exceeded 185 percent of the federal poverty level and the third case file included a child who should have been funded with Medicaid because they were below the allowable federal poverty level for their age group (133 percent for a child five years old). Questioned costs for these items total \$95.
- Three applications were not signed by all adults in the household.
- Five applications were not supported by sufficient documentation to calculate average income and two applications did not include a declaration of resources. For two of these applications, information from another state agency indicated there was additional income for the time period requested and there was no documentation that the case worker followed up on this information. Income and resource information is an important factor in determining eligibility for SCHIP funding.

Likely questioned costs exceed \$10,000 when projected to the population.

We recommend department management strengthen controls over the eligibility process to ensure that applications are complete and that income determinations are accurate and adequately supported. Further, department management should periodically remind staff of the importance of obtaining independent third party information, or questioning the applicant to verify information reported on client applications.

Adoption Assistance

Allowable Costs – Questioned Costs \$15,440

Each state having a Federal Title IV-E Adoption Assistance program is required to enter into adoption assistance agreements with the adoptive parents of children with special needs. Under those agreements, a state may make adoption assistance payments to the adoptive parents. These adoption assistance payments may not exceed the foster care payments that would have been made if the adopted child were in foster care. In addition, an adoption assistance agreement must be in place prior to the payment of monthly benefits and a new agreement must be signed prior to any change in payment amounts.

We examined 40 transactions and related adoption case files and identified one exception. Specifically, the adoption assistance payment for one client should have been \$714 per month; however, the payment made was \$772. This error is the result of the assistance payment being incorrectly entered at the full amount while a state budget reduction had reduced payments by 7.5 percent. When the budget reduction was cancelled all payments were automatically increased. The overpayment of \$58 per month began in November 2003 and continued through December 2007 for a total overpayment of \$2,895, of which \$1,770 was federal funds.

In addition, during a separate audit by the Oregon Audits Division of the department's child welfare information system, an exception was identified where an adoption assistance case received \$4,977 per month from June 2007 through October 2007, instead of the approved \$497 monthly payment, resulting in a total overpayment of \$22,400, of which \$13,670 was federal funds. When brought to department management's attention, the department took action to collect the overpayment and stated that corrections would be made to the next quarterly federal report.

In both of the above instances, the department's review process did not detect these errors.

We recommend department management create and implement policies and procedures for the timely and adequate review of adoption assistance entries into the child welfare information system. We further recommend that department management consider reviewing adoption assistance cases entered into the child welfare information system, during the budget reduction period, to ensure payment amounts were entered correctly. Finally, we recommend the department ensure all overpayments are collected.

Oregon Department of Human Services
Medicaid Cluster
Special Tests and Provisions – Automated Data Process

Federal regulations require the Department of Human Services (department) to review the Automatic Data Process (ADP) system security installations involved in the administration of federal Health and Human Services programs on a biennial basis. The last ADP risk analysis performed on the department's Medicaid systems was as of September 2005 and resulted in several findings. As of March 2008, department management had not planned or contracted for the next ADP risk analysis as they are waiting until the revised MMIS system is implemented. Without an ADP risk analysis, department management is less able to determine whether information systems administering the Medicaid program are adequately safeguarding program assets, restricting unauthorized access, and maintaining program integrity.

We recommend department management ensure that the ADP risk analysis and system security reviews are conducted at least every two years, as required.

Oregon Department of Human Services
Medicaid Cluster
Cash Management

In accordance with the Cash Management Improvement Act (CMIA), when a federal program exceeds \$36.5 million in expenditures per year, the Department of Human Services (department) is required to follow the state's established check clearance pattern when requesting federal funds. Additionally, the state is liable for interest on federal funds from the date the funds are credited to a state account until the date those funds are paid out for program purposes.

For the state fiscal year ended June 30, 2007, the federal Medicaid expenditures for administration were \$136 million. The department did not apply the check clearance pattern, as established in the CMIA agreement, to approximately \$27 million of these expenditures. As a result, the department owes the federal government interest on those funds.

We recommend department management apply the check clearance pattern to all applicable Medicaid expenditures. Additionally, the department should work with the federal government to determine the amount of interest owed for state fiscal year 2007.

Medicaid Cluster
Special Tests and Provisions – Provider Eligibility

Federal Medicaid regulations state that to receive payment for medical services provided, providers must be licensed in accordance with federal, state, and local laws and regulations and must make certain disclosures to the state. During our testing of 60 providers, we found the Department of Human Services (department) did not have current licenses on file for one physician and four pharmacists. However, we verified with the Oregon Board of Medical Examiners and the Oregon Board of Pharmacy that each of these providers held current licenses,

as required. Without current licenses on file, the department increases the risk of making payments to unlicensed and ineligible providers.

We recommend department management implement procedures to ensure current licenses are maintained for all providers receiving Medicaid payments.

Child Care Development Fund Cluster
Allowable Costs - Questioned Costs \$13,396

The Oregon Council on Developmental Disabilities (council), in its role as an advocate for persons with developmental disabilities, administers an inclusive child care program related to special needs children. The Department of Human Services (department) is the state agency designated to provide the fiscal control and accounting services for the council. The department, on behalf of the council, entered into an interagency agreement with the Oregon Employment Department, the lead state agency for the child care development fund program. According to the interagency agreement, monthly invoices, along with itemized expenditure reports, must be submitted to the Oregon Employment Department for federal reimbursement of the actual costs incurred.

Based on our review of the department's documentation, we noticed the department was adding a five percent administration fee to the monthly invoices submitted to the Oregon Employment Department for payment. According to the program coordinator, the five percent fee is calculated using actual council program expenditures and is for indirect administrative costs related to council staff. For the current fiscal year, \$13,396 was invoiced to the Oregon Employment Department for indirect administrative costs, which are not supported by the accounting records. The interagency agreement does not include a provision for reimbursement of indirect costs. In addition, the department did not provide any documentation to support that the council had incurred this amount of indirect costs or how the costs were allocated among its programs. Further, as the council's expenditures are charged to more than one federal program, an indirect cost rate should have been developed in accordance with OMB Circular A-87.

We recommend department management ensure child care expenditures, submitted to the Oregon Employment Department for reimbursement, are allowable under the interagency agreement and are supported in the accounting records. Furthermore, if indirect costs are allocated to this federal program, department management should ensure the allocation is done in accordance with OMB Circular A-87.

Medicaid Cluster
Child Care Development Fund Cluster
State Children's Health Insurance Program
Temporary Assistance for Needy Families
Vocational Rehabilitation

Procurement, Suspension, and Debarment

Federal regulations prohibit contractors that are debarred or suspended from participation in federal programs or activities. The Department of Human Services (department) implemented a procedure in December 2005 to review and document whether a potential contractor has been suspended or debarred prior to execution of a contract or agreement. We reviewed 49 contracts with effective dates subsequent to the effective date of this procedure. None of the contract files contained the required documentation indicating the results of a review for suspension or debarment. We verified that none of 49 contracts were with contractors who were suspended or debarred.

We recommend department management ensure that contracting procedures are adhered to and the review for suspension and debarment is documented in accordance with department policy.

Medicaid Cluster
Child Care Development Fund Cluster
State Children's Health Insurance Program
Temporary Assistance for Needy Families
Adoption Assistance
Vocational Rehabilitation

Cost Allocation Finding

According to the Oregon Accounting Manual, the primary focus of internal control policies and procedures is to process transactions correctly to ensure that all valid transactions are recorded.

The Department of Human Services (department) utilizes a federally approved plan for allocating indirect costs to federal programs. These costs are allocated on a monthly basis using cost pools. The process for allocating the cost pools is based on a variety of methodologies, which include the use of spreadsheets to calculate numerous statistics. The department enters the statistics into the accounting system in order to allocate the pooled costs to the designated federal programs. The accuracy of the allocation process is dependent upon the department manually updating various spreadsheets each month. While reviewing the allocation process, we noted the following two errors in the department's spreadsheets:

- A formula had been deleted, which caused 25 statistics to be misstated. As a result, indirect costs were inappropriately allocated in the accounting system.

- Monthly report data was not updated using current data. As a result, two statistics were incorrectly calculated and indirect costs were inappropriately allocated in the accounting system.

We recommend department management design and implement internal control procedures over the cost allocation process to ensure that indirect costs are allocated in accordance with the department's federally approved cost allocation plan. We recommend department management determine the effect of the errors identified above and make appropriate corrections to the cost allocation plan.

In addition to the significant deficiencies and/or material weaknesses and noncompliance identified above, we identified the following other matters that warrant management's attention.

OTHER MATTERS

Temporary Assistance for Needy Families

Contract Payments

Federal regulations permit states to use federal Temporary Assistance for Needy Families (TANF) funds for activities previously authorized in a September 30, 1995, approved Emergency Assistance to Needy Families with Children State plan (Title IV-A).

The department uses its child welfare information system to make TANF child welfare emergency assistance payments, which includes payments to contracted providers. The authorized state plan permits the department to provide emergency child welfare intervention services as long as the services do not exceed \$25,350 per client.

In accordance with the contracts, the providers receive a fixed monthly payment for services, which is not dependent on the actual number of clients served. On a monthly basis, the providers submit information to the department that list clients served and dates of service. The department enters the providers' information into its child welfare system, which tracks the benefits paid on behalf of clients using the daily rate coded in the system. Of the 42 client transactions tested, five transactions were for contracted providers payments. During our review of these transactions, we found that the daily rate in the department's system was established in the year 2000 and had not been updated to reflect the current contracts. Even though the department ensured the providers were paid the correct amount, the client's information within the child welfare system did not accurately reflect the actual cost of TANF services paid; as a result, the department may exceed the \$25,350 threshold.

We recommend department management review the process for contract payments and, at a minimum, ensure the daily rates entered into the system are updated based on current year contract amounts.

Adoption Assistance Reporting

The department submits quarterly Foster Care and Adoption Assistance Financial Reports to the federal government. The code of federal regulations states that a complete and accurate data report accurately reflects information available to the state in the financial records and automated data system.

We examined the third quarterly report and determined that it did not agree with the department's accounting system. Upon review, we determined the report submitted to the federal government was accurate and the variance between the department's accounting records and the federal report was caused by an inappropriately coded adjustment to the accounting system.

We recommend department management make the appropriate adjustment to bring the accounting system and federal reports into agreement and ensure information reported in future periods agrees with the department's accounting system.

Child Care Development Fund Cluster Reporting

The department prepares a quarterly financial report, Child Care and Development Fund Financial Report, to provide information on the department's portion of child care development fund expenditures. The department submits this report to the state's lead agency for this federal program, who then prepares and submits the complete federal report to the federal government.

We reviewed one quarterly report to verify that reported expenditures agreed to the department's accounting records. We noted that the department appropriately reported expenditures for one of the three grant numbers used to account for child care development fund expenditures. However, the department did not include the expenditures for the other two grant numbers. As a result, the department submitted a financial report to the lead state agency that did not include \$384,783 in child care expenditures for the current fiscal year.

We recommend department management ensure that the quarterly financial report is prepared using all grant numbers related to the child care program and work with the lead state agency to correct prior federal reports submitted to the federal government.

State Children's Health Insurance Program Calculation of Resources - Eligibility

The department administers the Oregon Health Plan (OHP) and the State Children's Health Insurance Program (SCHIP) is one of OHP's funding sources. As part of the SCHIP eligibility determination process, an applicant must declare that their liquid assets do not exceed \$10,000. The approved SCHIP State plan lists IRAs as one of the liquid assets. However, as a practice, the department specifically excludes IRAs from eligibility determination.

By not including IRAs, the department is not in compliance with the SCHIP State Plan. The revised state plan, submitted to the federal government in November 2007, excludes IRAs as part of the liquid assets and is consistent with the department's practice.

We recommend department management ensure all program policies are consistent with the SCHIP State Plan.

State Children's Health Insurance Program **Allowable Costs**

The department makes settlement payments, referred to as wraparound payments, to vendors for the managed care full cost reimbursement for services provided to eligible individuals. These payments are funded with state funds as well as Medicaid and SCHIP funds, according to the FMAP rate in effect at the time the payments are made. The percent of each payment that is funded with Medicaid and SCHIP is determined based on the percentage of SCHIP or Medicaid eligible encounters identified in the service detail submitted by the provider. Five out of nine wraparound payments tested were incorrectly allocated between Medicaid and SCHIP due to spreadsheet errors. Further, three of the nine transactions included an incorrect FMAP rate because an incorrect accounting code was used. These errors resulted in \$3,837 in underpayments of SCHIP funds and \$3,865 in overpayments of Medicaid funds.

We recommend department management correct the errors and strengthen controls to ensure wraparound payments are adequately allocated between Medicaid and SCHIP funding and that the correct FMAP rate is applied.

State Children's Health Insurance Program **Reporting**

Each quarter the department is required to submit the CMS 64.21 report, which includes expenditures and collections associated with SCHIP. The amounts reported 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 submitted the CMS 64.21 report for the quarter ended June 30, 2007, with a total for collections of state funding that was \$22,300 less than the amount recorded in the department's accounting records. Although the department was aware of the difference, it had not identified the cause and had not maintained supporting documentation for the amount reported.

Collections offset expenditures and reduce the amount of the department's federal draw. If collections are incorrectly recorded, or not recorded at all, reimbursable federal expenditures could be overstated.

We recommend department management investigate the cause of the discrepancy and make any necessary adjustments. Further, we recommend the department maintain documentation to support all amounts reported on the CMS 64.21.

Medicaid Cluster

Eligibility

Federal Regulations require the department to obtain a signed, written application from all clients applying for Medicaid benefits. The signed application is the basis for the department's decision regarding eligibility. At a minimum, the department is required to redetermine eligibility every 12 months. We tested 60 Medicaid transactions and found the department was unable to provide a signed, current application for one of the transactions.

We recommend department management ensure that current client applications are retained for all eligibility determinations.

Medicaid Cluster

Targeted Case Management – Administrative Rate

The department's Medicaid State Plan specifies the methodology to be used in developing the rate for the Children Adults and Families Division's targeted case management administrative costs. The rate used for targeted case management administrative costs during the current state fiscal year was established in August 2005 and was not calculated using the approved methodology identified in the federally approved Medicaid State Plan. Further, the department has not updated the supporting documentation for that rate since June 2006. By not updating the rate periodically and not applying the methodology specified in the Medicaid State Plan, the department may not be getting the full amount of reimbursement for administrative expenditures for which it is eligible.

We recommend department management apply the methodology outlined in the Medicaid State Plan for calculating the target case management administrative cost rate and maintain adequate supporting documentation.

Medicaid Cluster

Reporting

Within 30 days after the end of each quarter, the department is required to submit the CMS 64 report to the Centers for Medicare and Medicaid Services. The report provides a summary of Medicaid expenditures. The CMS 64.21 is a similar report, but provides expenditure information for the State Children's Insurance Program (SCHIP).

In state fiscal year 2006, we reported a management letter finding for the late submission of the CMS 64 reports. The department did not correct this finding in state fiscal year 2007; the initial submission of these reports to the federal government was still as much as three weeks past the federal due date. Further, the department submitted each of the four CMS 64.21 reports between 8 and 49 days late.

We recommend department management continue to work on improving the timeliness of submitting the CMS 64 and 64.21 reports to the federal government.

The significant deficiencies, material weaknesses, and noncompliance findings, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended

June 30, 2007. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to significant deficiencies, material weaknesses, and noncompliance findings 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 the 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.

Please respond by March 14, 2008. The other matters do not require a written response. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

This communication is intended solely for the information and use of management, others within the organization, and is not intended to be and should not be used by anyone other than the specified parties.

Should you have any questions, please contact me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk

cc: Clyde Saiki, Deputy Director of Operations
Jim Scherzinger, Deputy Director of Finance
Dave Upton, Internal Audits
Scott Harra, Director, Department of Administrative Services