

Office of the Secretary of State

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March 20, 2009

Dr. Bruce Goldberg, Director
Department of Human Services
500 Summer St. NE, E15
Salem, Oregon 97301-1097

Dear Dr. Goldberg:

We have completed audit work of selected federal programs at the Department of Human Services (department) for the year ended June 30, 2008.

This audit work is for the statewide single audit and 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) obtain an understanding of the state's 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.

CFDA Number	Program Name	Audit Amount
93.777, 93.778	Medicaid Cluster	\$2,086,445,525
93.558	Temporary Assistance for Needy Families	\$ 181,824,045
93.767	State Children's Insurance Program	\$ 51,680,221
84.126	Vocational Rehabilitation Grants to States	\$ 34,313,805
93.659	Adoption Assistance	\$ 32,109,843

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 paragraphs and would not necessarily identify all deficiencies in internal controls. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies or 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 that the following findings are instances of noncompliance required to be reported and are significant deficiencies or material weaknesses in internal control.

Adoption Assistance
Payments Do Not Match Adoption Agreement
Allowable Costs – Questioned Costs \$735,000
Material Weakness

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. 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.

In 2007, we identified an overpayment resulting from errors that occurred when the department restored adoption assistance payments after a budget reduction in 2003. During the 2008 audit, we identified additional overpayments caused by those errors.

In February 2003, the department reduced adoption assistance payments by 7.5 percent as a result of a budget reduction. The reduction period lasted through October 2003. Payments on adoption cases opened during this nine-month period did not appear to be treated consistently. For example, payments were entered into the department's system at either the signed agreement rate or at the 7.5 percent reduced rate. For more than 500 cases entered at the signed agreement rate, the department could not support that all of the agreements had been negotiated at the 7.5 percent reduced rate. When the budget reduction was cancelled, the department restored the assistance payments to the signed agreement rate. The department, however, also adjusted assistance payments on new adoption agreements entered at the signed agreement rate as well as agreements impacted by the budget reduction, resulting in overpayments. For new cases entered at the signed agreement rate, the restored rate exceeded the rate in the adoption agreement. We estimated the potential overpayments as of January 2009 to be more than \$1.2 million of which more than \$735,000 was federal funds.

The department did not detect the overpayments because the department did not have a procedure in place to detect whether the signed agreement rate agreed to the adoption assistance payment. As a result of prior year finding, the department has recently developed a report that will identify these discrepancies.

We recommend department management implement a procedure to detect whether assistance payments agree with the signed adoption agreements. We further recommend that department management work with the designated federal agency to determine the appropriate way to resolve any potential overpayments.

Adoption Assistance
Incorrect Eligibility Determination
Eligibility – Questioned Costs \$19,175

For a child to receive Federal Title IV-E Adoption Assistance, the child must meet the eligibility requirements of the Social Security Act. In part, eligibility is based upon whether the child resides with a relative intending to adopt the child and that relative meets the definition of a blood relative or half blood relative.

We examined 40 transactions and the related adoption case files and identified one instance where a child was incorrectly identified as Title IV-E eligible. The adoption application indicated the child was being adopted by a relative; however, we found evidence in the file that indicated the adoptive parents did not meet the definition of a blood relative or half blood relative.

The department has received federal reimbursement for this case since November 2001. The total questioned costs from that date through December 2008 is \$19,175.

We recommend department management correct this case in its system so that the appropriate funding source is used for assistance payments and return any disallowed costs to the appropriate federal agency.

Temporary Assistance for Needy Families (TANF)
Client Maintenance System Coding Errors
Eligibility – Questioned Costs \$254

Upon determination of eligibility, monthly benefits under Temporary Assistance for Needy Families (TANF) are calculated using information such as number in household and earned or unearned income received based on policies and procedures outlined in the Department of Human Services' (department) Self-Sufficiency Family Services Manual.

In testing 36 self-sufficiency payments, we found five instances where caseworker input errors resulted in either underpayments or overpayments to clients. In four cases, the department's documentation of the client's household composition did not agree to the data entered into the Client Maintenance System (CMS). In two cases, changes occurred upon redetermination, but the coding in CMS was not updated. For one case, the client's unemployment benefits were coded incorrectly when the case was opened and the coding was not updated when unemployment benefits ended.

These errors resulted in \$376 in underpayments and \$254 in overpayments for the fiscal year.

We recommend department management implement procedures to ensure coding and client data are accurately entered and appropriately updated in CMS and correct the identified errors.

Temporary Assistance for Needy Families (TANF)
Expenditures Not Allowable or Unsupported
Allowable Costs - Questioned Costs \$1,564

Federal requirements state that the department may use TANF funds for expenditures that are not in violation of the Office of Management and Budget (OMB) Circular A-87. The OMB Circular A-87 states that allowable costs must meet the following general criteria: (1) be necessary and reasonable for proper and efficient performance and administration of federal awards, and (2) be adequately documented.

We identified one transaction that included payment for repairs to a state-owned vehicle damaged while a department employee was attending allowable TANF training. The department used federal TANF monies to pay \$317 of the total repair costs of \$634.

For another transaction, we were unable to determine the allowability of the expenditures because the department was unable to provide documentation to support a \$1,247 charge to the federal program.

We recommend department management ensure that funding transactions are allowable for federal programs and documented in accordance with OMB Circular A-87.

Medicaid Cluster
Private Health Insurance Not Billed
Allowable Costs – Questioned Costs \$11,206

Federal regulations require the department take all reasonable measures to ascertain the legal liability of third parties (private health insurance) for Medicaid claims. To meet this requirement, the department requires its clients to provide information about private health insurance on their Medicaid application. If clients indicate they have other insurance, this information is entered into the department's Medicaid Management Information System (MMIS). If providers are aware a client has private health insurance, they are required to bill the private health insurance first, prior to billing the department.

During our testing, we found controls were not sufficient to ensure that each private health insurer listed on one client's application was entered into MMIS. As a result, claims for the client were not first billed to the private health insurance as required by federal regulations. The client's Medicaid claims totaled \$11,206 for the fiscal year, a portion of which may be recoverable from the private health insurer.

We recommend department management implement controls to ensure all private health insurance listed on client applications is entered into MMIS and seek recovery from the private health insurer for the appropriate portion of the client's claims.

Medicaid Cluster
Required Provider Agreements Missing Required Disclosures
Special Tests and Provision – Provider Eligibility

Federal regulations require Medicaid providers enter into an agreement with the department to provide Medicaid eligible services. As part of the agreement, federal regulations require providers to disclose ownership interests and criminal history as well as agree to maintain pertinent records and

provide them for audit. We performed tests of 60 provider files and found the department did not comply with this federal requirement as 19 agreements lacked one or more of the required disclosures.

We recommend department management comply with federal regulations and ensure provider agreements contain the required disclosures.

Medicaid Cluster

Lack of Documentation

Allowable Costs

State policy requires controls be implemented to ensure that all transactions are accurate, authorized and adequately supported. We tested seven payments made for clients in residential treatment facilities. The signed monthly rate for three of these clients did not agree to the rate paid to the provider. After research, the department provided additional information regarding the rate differences. The information, however, did not clearly document whether the payment rates were correct or appropriately authorized. Without a clearly defined process for documenting approved rates and ensuring that the documentation is readily available, the department is less able to identify potential errors.

We recommend department management implement procedures to ensure that adequate supporting documentation is maintained for all payments, specifically provider payment rates and any authorized changes to each rate.

Prior Year Partially Corrected Findings

In the prior fiscal year, we reported significant deficiencies, material weaknesses, and noncompliance findings to you in a letter dated March 10, 2008. The findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2007; see Secretary of State Audit Report number 2008-03. During the current fiscal year, the department made progress in correcting these findings. The findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2008, with the status of partial corrective action. The specific prior year findings still outstanding are listed in the following table.

Name of Federal Program	Federal Compliance Requirement	Prior Year Finding No.
Vocational Rehabilitation Grants	Allowable Costs, Equipment	07-24, 07-25, 07-26
Temporary Assistance to Needy Families	Eligibility	07-35, 07-36, 07-37, 07-38
State Children’s Insurance Program	Eligibility	07-39
Adoption Assistance	Eligibility	07-42
Medicaid Cluster	Special Tests & Provisions	07-46, 07-48
Multiple Federal Programs	Procurement, Suspension & Debarment	07-49
Multiple Federal Programs	Allowable Costs – Cost Allocation	07-50

The above 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, 2008. 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 25, 2009.

This communication is intended solely for the information and use of department management, others within the department, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Should you have any questions, please contact me at (503) 986-2349.

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 Lyda, Interim Chief Audit Officer
Scott Harra, Director, Department of Administrative Services