

Office of the Secretary of State

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March 16, 2010

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

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, 2009.

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	\$2,604,331,706
93.558	Temporary Assistance for Needy Families	\$ 189,488,498
93.767	Children's Health Insurance Program	\$ 69,533,711
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	\$ 31,860,986
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 1,748,372

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.

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.

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, as identified, in internal control.

Medicaid Cluster

Children's Health Insurance Program

Eligibility, Allowable Costs, Allowable Activities

Lack of Assurance Over MMIS Internal Controls

Material Weakness

During fiscal year 2009, the department relied on an independent service provider to develop and maintain a new Medicaid Management Information System (MMIS). The MMIS processes Medicaid and CHIP eligible claims and includes payments to providers and individuals, capitated payments for managed care and other non-claim payments and transactions. Between system implementation in December 2008 and June 2009, the MMIS processed \$1.3 billion in expenditures. Payments processed through the MMIS utilize system coding to help ensure compliance with state and federal rules related to eligibility, and allowable costs and activities.

We inquired of department management regarding internal controls over transactions processed through the MMIS. Though the department had some procedures in place that provided limited controls over financial reliability and compliance, the department lacked adequate assurance that transactions processed by the service provider through the MMIS were accurate and in compliance with federal and state rules. Please refer to the current year financial finding for additional detail [Management Letter No. 100-2010-02-01 dated February 25, 2010].

We recommend department management obtain independent assurance over the reliability and accuracy of the system's controls.

Medicaid Cluster

Allowable Costs – Incorrect/Unsupported Payment Rates

Questioned Costs of \$3,668

Federal funding from the Medicaid Program provides medical benefits to low-income, eligible persons. Medicaid payments made for allowable services should be based on documented and approved rates. During State fiscal year 2009, we found that controls were not adequate to ensure all payment rates were documented and accurate. Specifically, we tested 62 payments and found four were paid at a rate that was not adequately supported and one was made based on an incorrect rate.

The above errors resulted in known questioned costs of \$3,668 for the fiscal year. Likely questioned costs exceed \$10,000 when projected to the population.

We recommend department management strengthen controls to ensure that all rates are correct and adequately supported. Further, department management should determine the amount of Medicaid funds applied toward the incorrect or unsupported rates and ensure any unallowable amounts are credited back to the federal program.

Children’s Health Insurance Program

Eligibility – Incorrect Eligibility Determinations

Questioned Costs of \$5,892

Material Weakness

Federal funding from the Children’s Health Insurance Program (CHIP) provides health assistance to uninsured, low-income children. To be eligible for CHIP funded assistance, an applicant must have family income that is less than 185 percent of the federal poverty level and not be eligible for Medicaid, submit an application that is signed by all adults in the filing group, provide proof of income, and have been uninsured for the previous 6 months.

During our fiscal year 2009 review of 50 client case files, we identified department errors and missing or incomplete documentation related to an applicant’s determination of eligibility. Specifically, we found the following:

1. Eight clients were not within the allowable CHIP income limit.
 - Four Clients’ income levels were incorrectly calculated and were ineligible;
 - Two clients were correctly determined ineligible, but were entered into the system as eligible;
 - Two clients should have been funded with Medicaid instead of CHIP because they were below the allowable federal poverty level for their age group.
2. One client had not met the 6 month period of un-insurance. Though the department later identified their error, they did not make sure CHIP funds applied to the client’s claims were properly reimbursed back to the federal program.
3. One client reported third party liability insurance after they were on CHIP. The department did not terminate benefits timely, resulting in two additional months of CHIP funded benefits.

4. The department was unable to locate one of 50 requested client applications.
5. Four applications were not signed by all adults in the household.

The above eligibility errors resulted in known questioned costs of \$5,892 for the 2009 fiscal year. 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, income determinations are accurate, and information entered into the department's systems is accurate. Further, department management should determine the total amount of CHIP funds paid on behalf of ineligible clients and ensure it is properly credited back to the federal program.

Temporary Assistance for Needy Families
Eligibility – Child Welfare System Coding Issues
Questioned Costs \$ 648,943
Material Weakness

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 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 uses its child welfare information system to make client payments and track client information to ensure compliance with federal requirements.

For seven of 25 randomly selected fiscal year 2009 child welfare clients, federal TANF funds were used to make payments for some services even though the client was not eligible and the system correctly reflected the client's ineligibility. Upon inquiry and research by the department, the department discovered that certain family support services codes were coded to be paid with federal TANF funds without considering the client's eligibility. The questioned costs for these cases for the fiscal year were \$5,249.

In addition, we reviewed client data for fiscal year 2009 and identified 25 clients whose benefits exceeded the \$25,350 threshold. The department uses a monthly report to monitor clients to ensure they do not exceed the maximum yearly assistance limit. The department was monitoring and correctly coding the clients as ineligible in the child welfare system. Upon inquiry, the department determined that system coding issues caused the payments to continue to be funded with federal funds regardless of eligibility. Further, the department noted that clients continued to appear on the monthly report as exceeding the threshold, yet no further follow-up had been performed. The questioned costs for these cases for the fiscal year were \$643,694.

We recommend department management identify and correct all system coding to ensure compliance with federal eligibility requirements. In addition, department management should ensure follow-up and resolution occurs if a client coded as ineligible in the system remains on the monthly report. Further, department management should determine the total amount of TANF

funds paid on behalf of ineligible clients and ensure it is properly credited back to the federal program.

Temporary Assistance for Needy Families

Eligibility

Questioned costs \$3,227

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 to provide emergency child welfare intervention services for a period of no more than 365 days. After 365 days, the department re-determines client eligibility based on the 1995 approved plan.

For non-child welfare clients to be eligible for TANF benefits, the client must meet specified financial and non-financial eligibility criteria including deprivation. Deprivation encompasses the continued absence of a parent that does not visit the child in the child's home more than four times or 30 hours per week.

Of the 25 child welfare emergency assistance clients selected for testing, the department did not perform a re-determination of eligibility for one of the clients receiving services for more than 365 days. Questioned costs for this case for services, provided beyond the 365 days, for the fiscal year were \$2,976. In addition, the department provided some services for one month for a client designated as pre-TANF, but eligibility documentation stated there was no deprivation as required by department policy. Questioned costs for this case for the fiscal year were \$251.

We recommend department management ensure that eligibility re-determinations are conducted timely and that all eligibility criteria are substantiated. Further, department management should determine the total amount of TANF funds paid on behalf of ineligible clients and ensure it is properly credited back to the federal program.

Temporary Assistance for Needy Families

Special Tests and Provisions – Income Eligibility Verification System

Federal regulations require each state to participate in the income eligibility verification system (IEVS), which includes using income and benefit screens accessible through the department's client maintenance system when making TANF eligibility determinations. The verification of utilizing these screens is documented for each client.

Of 25 client files tested, three files did not have documentation that the IEVS screens were verified when determining eligibility. We verified that all three clients did meet TANF eligibility criteria.

We recommend department management ensure that verification of IEVS required screens are documented when determining client eligibility.

Vocational Rehabilitation

Cash Management – Lack of Controls Over Cash Management

Material Weakness

In accordance with the Cash Management Improvement Act (CMIA), when a federal program exceeds the state's threshold, the federal program is required to follow the state's established funding techniques for various payment types when requesting federal funds. State fiscal year 2009 was the first year the department's expenditures for vocational rehabilitation program payments exceeded the state's CMIA threshold. Consequently, it was the first year the department was required to follow the established estimated clearance pattern for program payments.

We found that the department did not have adequate internal controls in place to ensure the department complied with the state's established clearance pattern and appropriately calculated federal draws. We reviewed formulas the department uses to comply with the established estimated clearance pattern and we reviewed 12 of the department's 26 federal draw requests. We noted the following:

- The formulas did not agree to the established estimated clearance pattern for program expenditures. The formula errors generally resulted in the department drawing federal funds too soon;
- Seven of the federal draw amounts were calculated using incomplete or incorrect expenditure amounts;
- One federal draw was based on a comparison of program expenditures to federal revenues drawn instead of the established estimated clearance pattern; and
- The process used for determining federal draw amounts does not ensure that all expenditures are drawn when eligible.

Department management is responsible for ensuring adequate controls are in place to comply with federal program requirements. The department did not have a review process in place to ensure it correctly calculated federal draw amounts and complied with the state's established estimated clearance pattern. For amounts that may have been drawn too soon, the department may be liable for interest on federal funds.

We recommend department management apply the correct estimated clearance pattern to all applicable vocational rehabilitation expenditures and implement a review process to ensure federal draws are calculated correctly and drawn in compliance with established estimated clearance patterns. Additionally, the department should determine the effect of the errors for the year and assess whether interest is owed to the federal program for vocational rehabilitation federal funds drawn too soon during state fiscal year 2009.

Vocational Rehabilitation
Eligibility – Timeliness of Eligibility Determinations

Federal regulations require the department to determine whether an individual is eligible for vocational rehabilitation services within 60 days after the individual has submitted an application for services or file an extension.

We reviewed the timeliness of eligibility determinations for all 6,883 individuals the department determined eligible for vocational rehabilitation services in fiscal year 2009. We found the department did not complete eligibility determinations or file for eligibility extensions for 542 of the individuals within the 60 day requirement. The department determined eligibility or filed eligibility extensions for 523 individuals within two months after the 60 day requirement had passed and within 9 months for the remaining 19 individuals.

We recommend department management comply with federal requirements and ensure eligibility is determined or eligibility extensions are filed within 60 days of an individual’s application for services.

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 20, 2009. The findings can also be found in the Statewide Single Audit Report for the Fiscal Year Ended June 30, 2008; see Secretary of State Audit Report number 2009-07. 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, 2009, with the status of partial corrective action. The specific prior year findings still outstanding are listed in the following table.

<u>Name of Federal Program</u>	<u>Federal Compliance Requirement</u>	<u>Prior Year Finding No.</u>
Vocational Rehabilitation Grants	Allowable Costs, Equipment	07-25
Children’s Health Insurance Program	Eligibility	07-39
Medicaid Cluster	Special Tests & Provisions	07-46, 08-31
Medicaid Cluster	Allowable Costs	08-30, 08-32
Multiple Federal Programs	Procurement, Suspension & Debarment	07-49

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, 2009. 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 each finding above 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.

Please respond by March 23, 2010.

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

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact me at (503) 986-2349.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:sms

cc: Jim Scherzinger, Deputy Director of Finance
Dave Lyda, Chief Audit Officer
Scott Harra, Director, Department of Administrative Services