

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol Street NE, Suite 500  
Salem, OR 97310

(503) 986-2255

**fax** (503) 378-6767

March 11, 2011

Dr. Bruce Goldberg, Director  
Oregon Health Authority  
500 Summer Street NE  
Salem, Oregon 97301-1097

Erinn Kelley-Siel, Acting Director  
Department of Human Services  
500 Summer Street NE  
Salem, Oregon 97301-1097

Dear Dr. Goldberg and Ms. Kelley-Siel:

We have completed audit work of selected federal programs at the Department of Human Services (department) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of your federal programs. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal programs and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the selected 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.

CFDA Number	Program Name	Audit Amount
93.558	Temporary Assistance for Needy Families	\$ 164,478,410
93.714	Temporary Assistance for Needy Families (ARRA)	78,853,250
93.767	Children's Health Insurance Program	84,623,678
93.777, 93.778	Medicaid Cluster	2,651,643,905
93.778	Medicaid Cluster (ARRA)	392,140,741
84.126	Vocational Rehabilitation Cluster	19,432,374
84.390	Vocational Rehabilitation Cluster (ARRA)	3,722,366

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 major federal

programs to determine the auditing procedures for the purpose of expressing our opinion on the department's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies in internal control over compliance described below to be material weaknesses. We also identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### **Material Weaknesses**

#### **Automatic Data Process**

**Program Title & CFDA Number:** Medicaid Cluster: CFDA 93.777 & 93.778

**Federal Award Numbers:** 05-1005OR5MAP, 05-1005OR5ADM, 05-1005ORARRA,  
05-1005ORQUAL, 05-0905ORMDSH, 05-0905OR5028,  
05-0905OR5048, 05-0905ORARRA

Federal regulations (45 CFR 95) require the 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 or when significant system changes occur. The department implemented a new Medicaid Management Information System (MMIS) in December 2008. As of June 30, 2010, department management had not completed an ADP risk analysis of the new system. Without this risk analysis, department management is less able to determine whether the new information system administering the Medicaid program is adequately safeguarding program assets, restricting unauthorized access, and maintaining program integrity.

**We recommend** management ensure the required ADP risk analysis and system security reviews are conducted of the new Medicaid Management Information System.

**Eligibility– System coding issues**

**Program Title & CFDA Number:** TANF Cluster: CFDA 93.558 & 93.714  
**Federal Award Numbers:** TANF Cluster: G-1002ORTAN , G-0902ORTANF  
**Questioned Costs:** \$1,397

Federal regulations [45 CRF §263.11(a)] 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 for a period of no more than 365 days. The department uses its child welfare information system (system) to make client payments and track client information to ensure compliance with federal requirements.

In the fiscal year 2009 audit, it was determined that services were being paid with federal funds even though the client was correctly coded as ineligible for TANF emergency assistance. The department indicated that it had corrected the system coding for those services and made adjustments during the fiscal year 2010 audit. We randomly selected and reviewed 25 client cases. Although one client tested was correctly coded as ineligible for TANF in the system, TANF payments were made to the client for various services not previously identified. The department researched and discovered that additional system coding errors resulted in payments made regardless of eligibility. Total questioned costs for this client for fiscal year 2010 were \$1,397. Total potential questioned costs exceed \$10,000 for the population.

**We recommend** department management identify and correct system coding for all services for which the system is not considering eligibility. Once all service and coding issues have been corrected, department management should identify and reimburse the federal agency the total amount of TANF funds spent on behalf of ineligible clients for these services starting in fiscal year 2009.

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## **Significant Deficiencies**

### **Incorrect Eligibility Determinations**

**Program Title & CFDA Number:** Medicaid Cluster: CFDA 93.777 & 93.778  
**Federal Award Numbers:** 05-1005OR5MAP, 05-1005OR5ADM, 05-1005ORARRA,  
05-1005ORQUAL, 05-0905ORMDSH, 05-0905OR5028,  
05-0905OR5048, 05-0905ORARRA  
**Known Questioned Costs:** \$639

Federal regulations (42 CFR 435) require the department to redetermine the eligibility of Medicaid recipients at least every 12 months. In addition, for a recipient to be eligible, the family income must be under the federal poverty level established for the program.

In our sample of 60 clients, the department miscalculated 3 clients' income and resources resulting in the clients being incorrectly determined eligible to receive Medicaid benefits. This error resulted in known questioned costs of \$639. Likely questioned costs exceed \$10,000 when projected to the population. In addition, for 3 clients the department could not provide evidence that a redetermination was performed within the required 12 months.

**We recommend** department management strengthen controls over the eligibility process to ensure that eligibility redeterminations are performed timely and income determinations are accurate.

### **ACF-199 & ACF-209 Data Reports – Incomplete or Inaccurate data**

**Program Title & CFDA Number:** TANF Cluster: CFDA 93.558 & 93.714  
**Federal Award Numbers:** TANF Cluster: G-1002ORTANF, G-0902ORTANF

Federal regulations [CRF 45 §265.3(a)] require the Department of Human Services (department) to report certain non-financial data elements for services paid with TANF federal funding. The department obtains a portion of the ACF-199 report data from its child welfare information system (system).

We compared client system information to data submitted on an ACF-199 quarterly report. We identified child welfare cases that were coded as eligible in the system, but not reported on the quarterly report. The department researched and found that system coding issues resulted in the quarterly report not containing complete and accurate client information.

Federal regulations also require the department to report data for TANF eligible clients whose benefits are paid with designated state funds called separate state program maintenance of effort (SSP-MOE). The department obtains data for the ACF-209 report from multiple systems.

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We compared client system information to data submitted on an ACF-209 quarterly report. We identified instances for which information reported on certain key line items were inaccurately reported. The department is researching why certain line items are not reported accurately.

**We recommend** department management ensure that complete and accurate client information is used to compile the quarterly data reports.

### **Eligibility – Incorrect Adjustment Coding**

**Program Title & CFDA Number:** TANF Cluster: CFDA 93.558 & 93.714  
**Federal Award Numbers:** TANF Cluster: G-1002ORTANF, G-0902ORTANF  
**Questioned Costs:** \$48,091

On occasion, the Department of Human Services (department) manually adjusts coding to previously posted TANF federally funded child welfare transactions. During fiscal year 2010 eligibility testing, we noted three instances where federal funds were posted twice for the same transaction. Inquiry with the department identified a coding error causing federal funds to be charged twice. Our analysis also identified instances when the coding error resulted in the department not reducing previously drawn federal funds. The total questioned costs for the fiscal year were \$48,091.

**We recommend** department management ensure coding is correct when making manual coding adjustments. Department management should correct the coding errors identified.

### **Cash Management – Clearance Patterns not Updated**

**Program Title & CFDA Number:** Medicaid Cluster: CFDA 93.777 & 93.778  
TANF Cluster: CFDA 93.558 & 93.714  
Children's Health Insurance Program (CHIP): CFDA 93.767  
**Federal Award Numbers:** Medicaid Cluster: 05-1005OR5MAP, 05-1005OR5ADM, 05-1005ORARRA, 05-0905OR5028, 05-1005ORQUAL, 05-0905ORMDSH  
TANF Cluster: 05-0905OR5048, 05-0905ORARRA  
CHIP: 05-1005OR0521, 05-0905OR0521, 05-905ORCPBP

The Federal Cash Management Improvement Act of 1990 requires states that receive federal funding to enter into agreements establishing procedures and requirements related to the transfer of funds. The agreements are called treasury-state agreements and the requirements for the

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agreements are established in 31 CFR part 205. One of the methods of fund transfer is a clearance pattern.

For state fiscal year 2010, the clearance pattern used to calculate the amount of federal funds to draw down did not agree to the fiscal year 2010 treasury-state agreement. The department did not update the clearance pattern percentages. On a cumulative basis, however, the percentages used did not exceed the allowed clearance pattern. Failure to use the correct clearance pattern could result in interest liability.

**We recommend** department management ensure that the clearance pattern used to draw down federal funds is updated to reflect any changes in the treasury-state agreement.

### **Suspension & Debarment – Not Always Verified for Governmental Entities**

**Program Title & CFDA Number:** Medicaid Cluster: CFDA 93.777 & 93.778  
TANF Cluster: CFDA 93.558 & 93.714  
Children’s Health Insurance Program (CHIP): CFDA 93.767  
Vocational Rehabilitation Cluster: CFDA 84.126 & 84.390

**Federal Award Numbers:** Medicaid Cluster: 05-1005OR5MAP, 05-1005OR5ADM, 05-1005ORARRA, 05-1005ORQUAL, 05-0905ORMDSH, 05-0905OR5028, 05-0905OR5048, 05-0905ORARRA  
TANF Cluster: G-1002ORTANF, G-0902ORTANF  
Vocational Rehabilitation Cluster: H126A090064A, H126A100054C, H390A090054A  
CHIP: 05-1005OR0521, 05-0905OR0521, 05-0905ORCPBP

Federal regulations (2 CFR part 180) prohibit the department from entering into contracts with entities that are suspended or debarred from participation in federal assistance programs. The department’s current policy requires staff to review the Excluded Parties List System (EPLS) for non-governmental entities but is silent about governmental entities.

In our sample of contracts, we reviewed 17 intergovernmental agreements of which 11 did not contain any documentation that the department reviewed EPLS to ensure these entities were not suspended or debarred nor did the contracts include a clause or condition that addressed suspension and debarment. We verified through EPLS that the 11 entities were not suspended or debarred. If the department contracts with a suspended or debarred entity, the responsible federal agency may disallow costs and take other actions as appropriate.

**We recommend** department management update their contracting policy to address suspension and debarment for governmental entities and communicate this change to contract staff.

**Prior Year Findings**

In the prior fiscal year, we reported significant deficiencies, material weaknesses, and noncompliance findings to you in a letter dated March 16, 2010. The findings can also be found in the Statewide Single Audit Report for the Fiscal Year Ended June 30, 2009; see Secretary of State Audit Report number 2010-19. 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, 2010, 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.
Medicaid Cluster & Children's Health Insurance Program	Eligibility, Allowable Costs, Activities Allowed or Unallowed	09-12
Medicaid Cluster	Allowable Costs	09-13
Children's Health Insurance Program	Eligibility	09-14
TANF	Eligibility	09-15, 09-16
TANF	Special Tests & Provision	09-17
Vocational Rehabilitation cluster	Eligibility	09-35
Medicaid Cluster	Special Tests & Provisions	08-31
Medicaid Cluster	Allowable Costs	08-32

The significant deficiencies and material weaknesses, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. 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 significant deficiency and material weakness 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 Monday, March 21, 2011.

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This communication is intended solely for the information and use of management, others within the organization, 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) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Kelly L. Olson, CPA  
Audit Manager

KLO:nmj

cc: Jim Scherzinger, Deputy Director of Finance  
Dave Lyda, Chief Audit Officer  
Michael Williams, Economic Recovery Executive Team, Office of the Governor  
Kris Kautz, Acting Director, Department of Administrative Services