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March 12, 2012

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

Erinn Kelley-Siel, 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, 2011.

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.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.558	Temporary Assistance for Needy Families	\$ 142,977,781
93.714	Temporary Assistance for Needy Families (ARRA)	4,546,065
93.767	Children's Health Insurance Program	123,465,272
93.777, 93.778	Medicaid Cluster	3,023,410,068
93.720, 93.778	Medicaid Cluster (ARRA)	347,196,948
84.126	Vocational Rehabilitation Cluster	39,159,358
84.390	Vocational Rehabilitation Cluster (ARRA)	50,975
66.468	Safe Drinking Water Revolving Loan Fund	2,035,935
66.468	Safe Drinking Water Revolving Loan Fund (ARRA)	12,363

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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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we 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.

Significant Deficiencies

Required Disclosures Missing From Provider Agreements

Program Title and CFDA Number:	Medicaid Cluster (93.720; 93.777; 93.778)
Federal Award Number and Year:	05-1105OR5MAP; 2011, 05-1105ORARRA; 2011, 05-1105OREXTN; 2011, 05-1005OR5028; 2010, 05-1005ORARRA; 2010

In order to participate in the Medicaid program and receive Medicaid payments, providers of Medicaid eligible services must be licensed in accordance with applicable Federal, State, and local laws and regulations. Federal regulations require providers to disclose ownership interests and criminal history as well as agree to maintain pertinent records and make them available for audit.

We reviewed 58 provider files and noted three contracts did not include the required disclosures and agreements. Department management stated that standardized contract language had been placed into use, which includes the required disclosures and agreements. When a subcontractor is used, the

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contracted entity is required to include the same standardized language within any subcontract. Specifically:

- One Seniors and People with Disabilities Foster Home contract did not contain adequate federal disclosures per the compliance requirements, and
- One Developmental Disability provider contract and one subcontract did not contain adequate federal disclosures per the compliance requirements.

We recommend department management use the standardized contract language and ensure contractors include the standardized contract language with subcontractors to ensure compliance with federal regulations.

Medicaid Payments Not Sufficiently Supported

Program Title and CFDA Number:	Medicaid Cluster (93.720; 93.777; 93.778)
Federal Award Number and Year:	05-1105OR5MAP; 2011, 05-1105ORARRA; 2011, 05-1105OREXTN; 2011, 05-1005OR5028; 2010, 05-1005ORARRA; 2010
Questioned Costs:	\$9,145 (Non-ARRA); \$1,268 (ARRA)

Federal regulations require that the department meet certain requirements to receive Medicaid funding for medical claims. These include requiring a written application for clients, verifying client reported income, ascertaining the legal liability of third parties (private health insurance) and requiring approved in-home care plans for clients receiving home based care.

During our testing, we found the following:

- The department could not locate an application for two of the clients in our sample. This error resulted in total known questioned costs of \$9,151. Likely questioned costs exceed \$10,000.
- The department was unable to provide documentation demonstrating income had been verified for one client.
- For two clients, neither the application nor the department's case file narration included documentation of whether or not the clients had private health insurance. In these instances, the department used an application for a different program that did not require private health insurance information.
- One client reported having private dental insurance but it was not entered into the department's Medicaid system. Further review showed the department made payments on behalf of the client for dental care. This error resulted in known questioned costs of \$1,262.

We recommend department management strengthen controls to ensure documentation is maintained in the case files sufficient to demonstrate compliance with federal requirements.

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Medicare Part B Buy-In Reimbursement Incorrectly Calculated

Program Title and CFDA Number: Medicaid Cluster (93.720; 93.777; 93.778)
Federal Award Number and Year: 05-1105OREXTN; 2011
Questioned Costs: \$165,292

The federal Medicare Savings Program (MSP) provides certain Medicaid recipients assistance in paying Medicare Part B premiums, deductibles, coinsurance, and copayments. Federal regulations allow the department to use Medicaid funds to “buy-in” to the MSP for these recipients. The department also provides assistance to other recipients not eligible under the MSP as a cost savings measure for the state. Buy-ins for these clients are not eligible for federal Medicaid funds.

Monthly, the department receives an invoice from the Centers for Medicare and Medicaid Services (CMS) for the total amount of Medicare Part B buy-ins related to Oregon Medicaid recipients. The department produces its own report of buy-ins, which is reconciled to the CMS invoice, to determine how much of the total is eligible for federal Medicaid funding. The federal portion is entered into a spreadsheet and multiplied by the Federal Medical Assistance Program (FMAP) rate to calculate the appropriate federal share. During federal fiscal year 2011, the American Recovery Reinvestment Act (ARRA) enhanced FMAP rate changed quarterly. For the April 2011 Medicare Part B buy-in, the department incorrectly used the prior quarter’s FMAP rate. This error caused the department to overdraw \$165,292 in ARRA funds.

We recommend department management implement controls to ensure correct rates are used when calculating the Medicare Part B buy-ins and reimburse the federal agency for the overdrawn ARRA funds.

Cost Allocation Statistics Incorrectly Calculated

Program Title and CFDA Number: Medicaid Cluster (93.720; 93.777; 93.778)
Children’s Health Insurance Program (93.767)
Temporary Assistance for Needy Families (93.558; 93.714)
Vocational Rehabilitation Cluster (84.126; 84.390)
Federal Award Number and Year: 05-1005OR5028, 2010 05-1005OR5048, 2010
05-1005ORARRA, 2010 1005OR5021, 2010
1005ORCPBP, 2010 G-1002ORTANF, 2010
G-1105ORTANF, 2011 H126A100054A, 2010
H126A11054A, 2011 H390A090054A, 2009

The department follows a federally approved plan for allocating indirect costs to federal programs. These costs are allocated on a monthly basis using cost pools. Allocation is based on a variety of cost drivers, which are used to develop statistics. These statistics are developed through the use of complex spreadsheets designed by the department to ensure costs are allocated in accordance with the plan. The department enters the statistics in the accounting system to allocate the pooled costs to the designated

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federal programs. The department has automated some aspects of the spreadsheets in order to reduce error; however, 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 expenditure information from the previous month had not been removed prior to processing the new information. As a result, the statistics for one cost pool were not calculated in accordance with the cost allocation plan.

We recommend department management ensure adequate review of the various calculations of the cost pool statistics is performed.

Suspension and Debarment – Lacking Documentation of Review

Program Title and CFDA Number: Medicaid Cluster (93.720; 93.777; 93.778)
Children’s Health Insurance Program (93.767)
Temporary Assistance for Needy Families (93.558; 93.714)
Vocational Rehabilitation Cluster (84.126; 84.390)

Federal Award Number and Year: 05-1105OR5MAP, 2011 05-1105OR5ADM, 2011
05-1105ORARRA, 2011 05-1105OREXTN, 2011
1005OR5021, 2010 1005ORCPBP, 2010
G-1002ORTANF, 2010 G-1105ORTANF, 2011
H126A100054A, 2010 H126A11054A, 2011
H390A090054A, 2009

Federal regulations prohibit contractors that are debarred or suspended from participating in federal programs or activities. The department has a policy to perform a review of the Excluded Parties List System (EPLS) and to maintain documentation of that review prior to the execution of a contract or agreement. We reviewed 13 contracts and found four files did not contain any documentation that the department had reviewed EPLS to ensure these entities were not suspended or debarred. Three entities were non-governmental and one was a governmental entity whose contract was executed prior to February 2011 when the department began requiring documentation of verification for intergovernmental agreements. We verified through EPLS that the four entities were not suspended or debarred.

We recommend department management ensure the review for suspension and debarment is documented in accordance with department policy.

Prior Year Findings

In the prior fiscal year, we reported significant deficiencies, material weaknesses and non-compliance findings to you in a letter dated March 11, 2011. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2010; see Secretary of State audit report

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number 2011-06. During fiscal year 2011, the department made progress in correcting these findings. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2011, with a status of partial corrective action taken. 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>
Medicaid Cluster	Special Tests and Provisions	10-11
Medicaid Cluster	Eligibility	10-12
Medicaid Cluster & Children's Health Insurance Program	Eligibility, Allowable Costs, Activities Allowed or Unallowed	09-12
Medicaid Cluster	Allowable Costs	09-13
TANF	Eligibility	10-13, 09-15, 09-16
TANF	Reporting	10-15
TANF	Special Tests and Provisions	09-17

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, 2011. 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 Friday, March 16, 2012.

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.

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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Sarah Anderson or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:SAA:nmj

cc: Jim Scherzinger, DHS Chief Operating Officer
Suzanne Hoffman, OHA Chief Operating Officer
Shawn Jacobsen, DHS Interim Controller
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