

**Office of the Secretary of State**

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March 13, 2013

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

Dear 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, 2012.

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 to Needy Families	\$ 188,460,080
93.658	Foster Care Title IV-E Foster Care Title IV-E (ARRA)	77,203,398 (107, 049)
10.551, 10.561	Supplemental Nutrition Assistance Program Supplemental Nutrition Assistance Program (ARRA)	1,398,595,396 8,772,777

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. As indicated below, we consider two of the deficiencies in internal control over compliance 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.

**Foster Care Title IV-E, CFDA 93.658  
New Child Welfare System Has Significant Weaknesses  
Material Weakness**

OR-Kids, Oregon's automated system for supporting foster care and adoption case management, was implemented by the Department of Human Services (department) in August 2011. Information systems should be designed and implemented to ensure data input into the application is complete, accurate and valid. As with any significant program or system, management should have an adequate understanding of the processes and controls they are relying on and should obtain assurance those processes and controls are functioning as intended.

The department hired a contractor to provide a high-level quality control assessment of the OR-Kids system so the department could fully understand the sustainability, operability and maintainability of the system. The contractor identified several risks including the high-level of known defects, lack of sufficient current system documentation, non-working components and data issues in the system. The department had been aware of significant defects including poor data conversion, difficulties balancing trust accounts and financial audit tables, time-consuming work-arounds, and risks of duplicate payments. These serious usability issues require numerous fixes and system enhancements in order to support necessary business functions, stabilize operations, and produce expected efficiencies in workflows.

We inquired of staff and performed certain procedures to determine the department's compliance with Foster Care Title IV-E program regulations. We found Foster Care transaction errors involving funding splits, data fixes, and federal match rates. Additionally, staff expressed concerns that the reporting capabilities of OR-Kids were limited and Foster Care data and reports were either not available or were unreliable.

**We recommend** department management continue to work toward developing a stable system that meets business needs, has accurate and complete reporting, and helps ensure compliance with the Foster Care Title IV-E state and federal regulations.

**Foster Care Title IV-E, CFDA 93.658**  
**Inaccurate Reporting and Unsupported Matching Funds**  
**Questioned Costs \$1.6 Million**  
**Material Weakness, Material Noncompliance**

Foster Care Title IV-E grant requirements state the Department of Human Services (department) must provide nonfederal matching funds for expenditures claimed for the Foster Care grant. Additionally, federal requirements require the department to submit quarterly financial reports, which must be actual, verifiable transactions supported by readily available accounting records and source documentation.

We found that amounts submitted on the June 30, 2012, quarterly report did not agree to the accounting records and that the nonfederal matching fund amounts were not fully supported. The department identifies total federal expenditures reported in the state's accounting system and makes other adjustments as necessary based on additional supporting documentation. The federal amount is then used as a basis to calculate the total expenditures, including the nonfederal matching funds. The total expenditures (nonfederal share) are not verified as accurate and adequate support is not maintained to support the report. As reported for the quarter ended June 30, 2012, the department's nonfederal share of expenditures included about \$1.9 million in matching expenditures that were not supported by the accounting records or other documentation. Upon inquiry and research, the department was able to identify about \$260,000, which is supported by other entities or other state agency records

**We recommend** the department maintain sufficient accounting records and other documentation as appropriate to support the federal and nonfederal expenditures reported for each quarterly report. Further, we recommend department management consider whether increased staff training is necessary. Finally, department management should submit corrected quarterly reports and reimburse the federal agency for any amounts owed due to insufficient matching funds.

**Foster Care Title IV-E, CFDA 93.658**  
**Eligibility - Required Verification of Age and Home Study Not Documented**  
**Question Costs \$869**  
**Significant Deficiency, Noncompliance**

Federal regulations require that the department meet certain requirements to receive Foster Care Title IV-E funding for certain child welfare claims. The department is required to determine child eligibility partially on age (verified by the department through birth certificates) and completing a home study for initial and continuing certification of foster parents.

During our testing we identified two cases where the child's birth certificate was not obtained and maintained. Without a birth certificate or equivalent, the department cannot verify the child's age to determine the child's eligibility and funding rate for Foster Care IV-E reimbursement.

During testing we also identified two providers who were certified even though there was no record of the required home study having been completed prior to initial or ongoing certification. These errors appear to have occurred due to oversight and the child welfare staff

misreading the provider's eligibility screens in the child welfare system (OR-Kids) resulting in known questioned costs of \$869 and projected errors that total more than \$760,000.

**We recommend** the department ensure all required documentation is completed, reviewed and maintained prior to certifying providers or determining children eligible for Foster Care IV-E reimbursement.

**Temporary Assistance for Needy Families, CFDA 93.558  
Eligibility – Child Welfare, Exceeding Benefit Threshold  
Questioned Costs \$102,334  
Significant Deficiency, Noncompliance**

Federal regulations permit states to use federal Temporary Assistance for Needy Families (TANF) funds for activities previously authorized in a September 30, 1995 approved plan. 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 for no more than 365 days. The department's procedure is to re-determine eligibility for child welfare clients every twelve months to determine if an emergent need still exists. If the re-determination is not completed within 30 days of the last day of the month the review is due, eligibility must be denied. The department uses its statewide automated child welfare information system, OR-Kids, to make client payments and track client information to ensure compliance with federal requirements.

We reviewed client data for fiscal year 2012 and identified 4 clients whose benefits exceeded the \$25,350 threshold within the 365 day period. The department intended to use automated notifications in OR-Kids to alert eligibility staff when a client was nearing or exceeding the \$25,350 threshold, but the threshold notifications were not operating effectively. Total questioned costs for these cases for the fiscal year were \$96,312.

In addition, of the 25 child welfare clients we randomly selected for testing, the department did not perform eligibility re-determinations timely for eight of the clients. The department intended for OR-Kids to alert eligibility staff when the required annual eligibility re-determination was due, but the notifications were not operating effectively. The department was aware the notifications were not operating as intended and have been working for over a year to develop a report to notify staff of pending re-determinations. The department independently identified seven of the eight clients in our sample and credited back TANF federal funds appropriately. However, the department did not identify one of the eight cases thereby resulting in known questioned costs of \$6,022 for the fiscal year.

**We recommend** department management prioritize the completion of the development of a report to alert eligibility staff when a client is nearing or exceeding the \$25,350 threshold, or when re-determinations are due. In addition, 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, CFDA 93.558  
Special Tests and Provisions – Income Eligibility Verification System  
Significant Deficiency, Noncompliance**

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 determination. The verification of using these screens is to be documented by the caseworker in the case file for each client.

Although the department is making improvement toward meeting this requirement, it reported only partial corrective action has been taken on the prior year 2009 finding. Of the 40 files randomly selected for 2012 testing, one file did not have documentation that the IEVS screens were verified when determining eligibility. We verified that the client did meet TANF eligibility criteria.

**We recommend** department management complete their corrective action plan to ensure that verification of IEVS required screens is documented when determining client eligibility.

**Temporary Assistance for Needy Families, CFDA 93.558  
Special Tests and Provisions –Work Verification Plan Not Always Followed  
Significant Deficiency, Noncompliance**

Federal regulations require each state to maintain adequate documentation, verification and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. Each state must have procedures in place to determine how to count and verify reported hours of work and each state must comply with its Work Verification Plan as approved by the Department of Health and Human Services (HHS). Oregon's work verification plan states that employment attendance will be verified and documented in one of four ways: pay stubs, time cards, sign-in sheets or other specific attendance records, or by documenting a phone conversation with the employer. If the client has stable employment; the state may use a six-month projection of actual hours.

We randomly selected 40 participating clients and reviewed the case file and case notes for verification of work participation for one month during our fiscal year. The results of our testing show that the department reported hours for two clients without documenting verification of the hours worked. Neither client met the requirements for using projected hours. The unverified hours were used in calculating the work participation rate reported to HHS. If the state fails to follow the approved Work Verification Plan, HHS may penalize the state.

**We recommend** department management ensure that hours of work are verified before being reported, as outlined in the state's HHS-approved Work Verification Plan.

**Prior Year Findings**

In the prior fiscal years, we reported material weaknesses, significant deficiencies and non-compliance findings to you. These findings can be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2011; see Secretary of State audit report number 2012-08.

For findings 11-25, 10-15 and 10-26, the department developed controls and procedures but they were not fully implemented. For finding 10-13, the new system, OR-Kids, was meant to solve the issue of future eligibility coding inaccuracies; however, OR-Kids has presented its own issues. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012, with a status of partial corrective action taken.

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, 2012. 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 the 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 15, 2013.

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 Amy Dale or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Kelly L. Olson, CPA  
Audit Manager

KLO:nmj

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