

Office of the Secretary of State

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March 25, 2014

Erinn Kelley-Siel, Director
Department of Human Services
500 Summer St. NE
Salem, OR 97301-1097

Dear Ms. Siel:

We have completed audit work of the following federal programs at the Department of Human Services (department) for the year ended June 30, 2013.

CFDA Number	Program Name	Audit Amount
93.658	Foster Care Title IV-E	\$ 81,993,669
93.659	Adoption Assistance	\$ 37,943,140

This audit work was not a comprehensive audit of your federal programs. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance issues. The Office of Management and Budget (OMB) Circular A-133 identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that are direct and material to the federal program under audit. For the year ended June 30, 2013, we determined whether the department substantially complied with the following compliance requirements relevant to the federal programs.

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was

Compliance Requirement	General Summary of Audit Procedures Performed
	for an immediate need.
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Matching, Level of Effort	Determined whether the minimum amount or percentage of contributions or matching funds was provided, and if the specified service or expenditure levels were maintained.
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.

Department management is responsible for establishing and maintaining effective internal control over compliance with program requirements. 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 a 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. *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.

Our consideration of internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. As discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

OR-Kids System Weaknesses

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Foster Care Title IV-E (93.658) Adoption Assistance (93.659)
Federal Award Numbers and Year:	1201OR1401; 2012, 1301OR1401; 2013 1201OR1407; 2012, 1301OR1407; 2013
Compliance Requirement:	Activities Allowed or Unallowed; Eligibility
Type of Finding:	Material Weakness, Material Noncompliance
Questioned Costs:	\$13,010

OR-Kids, Oregon's automated system for supporting Foster Care and Adoption Assistance 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 has been working to correct issues with OR-Kids that we reported as part of our fiscal year 2012 audit. While reviewing the department's compliance with Foster Care and Adoption Assistance program requirements for fiscal year 2013, we identified the following errors related to OR-Kids processes:

- Due to data conversion issues and incorrect coding of data from the prior child welfare system, duplicate claims for federal reimbursement may result when OR-Kids refinances past transactions see OR-Kids Refinancing Results in Duplicate Claims finding for more detail.
- User's access to the system did not align with their job responsibilities, which could result in greater system access than necessary to perform their job duties for 15 employees. Department policy requires immediate revocation of access privileges when changes occur and the user no longer requires the same access privileges.
- One user had two user IDs with different access for a period of time.
- Some administrative costs' service codes (50% federal match rate) were coded as a recurring service type (FMAP federal match rate, over 62%). These coding errors resulted in department incorrectly requesting an additional \$13,000 in federal reimbursement.

- For 9 of 60 Adoption Assistance cases the child was correctly determined eligible, but OR-Kids changed the cases to ineligible. The department identified this as a known problem. When closing the pre-adoptive case and opening the adoptive home case, OR-Kids inappropriately closes the federal adoption assistance eligibility.
- For 1 of 60 Foster Care cases the child was incorrectly determined ineligible as the wrong information was selected for conversion, creating an “eligibility” gap where OR-Kids determined the child was ineligible due to lack of information.
- For 1 of 60 Foster Care cases, the department had identified that a payment was made in error, and subsequently established an overpayment adjustment in OR-Kids. However, the OR-Kids adjustment to recover the payment did not process for the amount of the original payment, resulting in a net overpayment to the provider of \$10.

We recommend department management review user access to OR-Kids, ensure services are coded correctly in OR-Kids, review Adoption Assistance and Foster Care cases to verify eligibility is correct in OR-Kids, and ensure overpayment adjustments process correctly. We also recommend department management reimburse the federal agency for unallowable costs.

OR-Kids Refinancing Results in Duplicate Claims

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Foster Care Title IV-E (93.658) Adoption Assistance (93.659) Temporary Assistance for Needy Families (93.558) Medicaid Cluster (93.720, 93.777, 93.778) Centers for Disease Control and Prevention Investigations and Technical Assistance (93.283) Stephanie Tubbs Jones Child Welfare Services Program (93.645) Promoting Safe and Stable Families (93.556) Social Services Block Grant (93.667) Chafee Foster Care Independence Program (93.674)
Federal Award Numbers and Year:	Various
Compliance Requirement:	Activities Allowed or Unallowed
Type of Finding:	Material Weakness, Material Noncompliance
Questioned Costs:	\$23.4 million

OR-Kids, Oregon’s automated system for supporting Foster Care and Adoption Assistance case management, was implemented in August 2011. OR-Kids was designed to assist the department in maximizing its use of federal funds by refinancing transactions when triggered by another action in the system, such as retroactive changes to eligibility, new trust money, or cancellation of a payment. Currently, OR-Kids will refinance transactions that originated as far back as January 1, 2008, when the prior child welfare system was in place.

OR-Kids contains data from the prior case management system. While the original transactions were recorded correctly in the prior system, the data in OR-Kids was converted incorrectly and recorded transactions from different funding sources than the original transactions. Due to the

incorrectly converted data in OR-Kids, the refinanced payments are causing the department to request duplicate federal reimbursement for payments that had already been claimed prior to the implementation of OR-Kids. The department was aware in fiscal year 2012 of data conversion issues, however, the department did not make any adjustments to the OR-Kids data or accounting records during fiscal year 2013 to correct the duplicate federal claims.

The department performed an analysis of the financial impact of the duplicate claims and estimated it owes the federal government \$23.4 million related to multiple federal programs as of December 31, 2013. The majority of this liability is related to Temporary Assistance for Needy Families (\$5.8 million), Adoption Assistance (\$5.6 million), Medicaid (\$5.6 million), and Foster Care (\$4.7 million).

In addition to the programs noted above, the following five programs also had questioned costs that exceed \$10,000: Chafee Foster Care Independence Program (\$1.4 million), Stephanie Tubbs Jones Child Welfare Services Program (\$141,000), Social Services Block Grant (\$128,000), Promoting Safe and Stable Families (\$41,000) and Centers for Disease Control and Prevention Investigations and Technical Assistance (\$17,000).

We recommend department management identify and correct data conversion issues and repay the federal government for the duplicate claims.

Reimbursements Claimed Outside Period of Availability

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Foster Care Title IV-E (93.658) Adoption Assistance (93.659)
Federal Award Numbers and Year:	1201OR1401; 2012, 1301OR1401; 2013 1201OR1407; 2012, 1301OR1407; 2013
Compliance Requirement:	Period of Availability
Type of Finding:	Material Weakness, Material Noncompliance

Per federal requirements, to be eligible for federal funding, claims must be submitted for reimbursement within two years after the calendar quarter in which the department made the expenditure. There is no time limit imposed for adjustments that would decrease federal funding.

During our audit, we determined the department's information system, OR-Kids, refinances transactions as far back as January 1, 2008. The system was not designed to prevent the department from claiming reimbursement for claims outside the allowable timeframe.

During fiscal year 2013, the department was able to create a report from the OR-Kids system in order to better identify which adjustment transactions exceeded the time requirement. For the quarter ended June 30, 2013, the department excluded \$327,000 in Foster Care and \$4 million in Adoption Assistance from the reports for expenditures claimed by the department outside the period of availability. However, as no corrections were made to the accounting records, it did not prevent the department from incorrectly requesting federal reimbursement.

We recommend department management make appropriate corrections and adjustments to the accounting records to prevent the department from requesting federal reimbursement for expenditures incurred outside the period of availability.

Certification of Eligibility Not Supported

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care Title IV-E (93.658)
Federal Award Numbers and Year: 1201OR1401; 2012, 1301OR1401; 2013
Compliance Requirement: Eligibility
Type of Finding: Significant Deficiency, Noncompliance
Questioned Costs: \$5,100

Federal regulations require that the department meet certain requirements to receive Foster Care funding for certain child welfare claims. The department is required to determine child eligibility and maintain documentation of that determination, as well as ensuring the foster home is fully licensed, which includes completing a home study for initial and continuing certification of foster parents.

We reviewed a sample of 60 cases to determine whether eligibility was supported and found the following:

- In one instance, the child's eligibility file could not be located. However, the department was able to provide other scanned documentation to support the child's eligibility for Foster Care.
- Two cases where the required home study was not completed or reviewed prior to claiming Foster Care reimbursement. The department uses the certification approval date in OR-Kids as the date for determining when a provider is certified. In these two instances, the certification approval date in OR-Kids occurred prior to the date the home study was certified, and the department was unable to provide documentation to support the certification approval date that was documented in OR-Kids, resulting in known questioned costs of \$5,100 and projected errors that total more than \$300,000.

We recommend department management ensure all required documentation is completed, reviewed and maintained, and that certification dates in OR-Kids are supported by corroborating documentation. We also recommend department management reimburse the federal agency for costs paid to providers who were not certified at the time of payment.

CB-496 Report Not Supported

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care Title IV-E (93.658)
Federal Award Numbers and Year: 1201OR1401; 2012, 1301OR1401; 2013
Compliance Requirement: Reporting; Matching
Type of Finding: Significant Deficiency, Material Noncompliance

The department is responsible for reporting quarterly financial information for the Foster Care program on the CB-496 report. The report contains multiple sections, including sections for reporting expenditures and prior quarter expenditure adjustments. Expenditures are actual payments made to vendors, service providers and contractors or for administrative, personnel, and other cost items. The expenditures must be actual, verifiable transactions supported by readily available accounting records and source documentation.

We found the report submitted by the department for the quarter ending June 30, 2013 was not supported by accounting records or other source documentation. We found:

- For multiple lines, the reported amounts were not supported by accounting records. The department did not maintain documentation to support the original reports and could not explain the discrepancies between the reported amounts and the amounts in the accounting records. Based on accounting records, the largest discrepancies were In-Placement Administrative Costs – Agency Management, which were underreported by \$85,000 and Demonstration Project Costs, which were underreported by \$15,000.
- The reported expenditures did not include all expenditures incurred. Expenditures incurred and reimbursed for transactions outside of the period of availability were recorded in the accounting system, but excluded as expenditures on the report. See finding Reimbursements Claimed Outside Period of Availability.

Reporting issues for the Foster Care program were also noted in the prior year, see prior year finding 12-23 in the Statewide Single Audit Report 2013-07. We were able to verify that the department materially met the matching requirements for the quarter ending June 30, 2013, however, based on the department's reported status to the prior year finding, prior reports have not been adjusted and resubmitted, and we cannot verify that matching funds were supported and adequate for the prior fiscal year or all of fiscal year 2013.

We recommend department management ensure CB-496 reports are complete, accurate, and adequately supported.

CB-496 Report Not Complete

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Adoption Assistance (93.659)
Federal Award Numbers and Year:	1201OR1407; 2012, 1301OR1407; 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

The department is responsible for reporting quarterly financial information for the Adoption Assistance program on the CB-496 report. The report contains multiple sections, including sections for reporting expenditures and prior quarter expenditure adjustments. Expenditures are actual payments made to vendors, service providers and contractors or for administrative, personnel, and other cost items. The expenditures must be actual, verifiable transactions supported by readily available accounting records and source documentation. The report also includes reporting the average monthly number of children assisted.

We found the report submitted by the department for the quarter ending June 30, 2013 was not completed correctly. We found:

- The report line item for Adoption Assistance Non-recurring Administrative Costs was not correct. The department's accounting system is intended to facilitate the reporting of expenditures on the report; however, the specific codes in the accounting system for Adoption Assistance Non-recurring Administrative Costs were not turned on, causing the \$36,000 in expenditures not to be reported for this line item, but they were reported in other expenditure lines of the report.
- The report line item for the Number of Children: Title IV-E Non-Recurring Administrative Cost Expenses was underreported by an average of 47 children due to the inappropriate exclusion of a code for non-recurring expenses;
- The reported expenditures did not include all expenditures incurred. Expenditures incurred and reimbursed for transactions outside of the period of availability were recorded in the accounting system, but excluded as expenditures on the report. See finding Reimbursements Claimed Outside Period of Availability.

We recommend department management ensure CB-496 reports are complete, accurate, and adequately supported. We also recommend department management implement processes to ensure the numbers reported for the average number of children assisted are accurate.

Prior Year Findings

In the prior fiscal year, we reported material weaknesses and a significant deficiency related to the department's Foster Care program in a letter dated March 13, 2013. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07. During fiscal year 2013, 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, 2013, with a status of partial corrective action taken.

Finding Title	Prior Year Finding No.
Inaccurate Reporting and Unsupported Matching Funds	12-23
New Child Welfare System Has Significant Weaknesses	12-24
Eligibility – Required Verification of Age and Home Study Not Documented	12-25

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, 2013. 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 weaknesses 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 provide your written response by Friday, April 4, 2014.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

cc: Jim Scherzinger, DHS Chief Operating Officer
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Shawn Jacobsen, Shared Services Controller
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