

Office of the Secretary of State

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April 15, 2014

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 a selected federal program at the Department of Human Services (department) for the year ended June 30, 2013.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.558	Temporary Assistance For Needy Families	\$ 178,917,825

This audit work was not a comprehensive audit of your federal program. 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 program.

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.

Compliance Requirement	General Summary of Audit Procedures Performed
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was 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, Earmarking	Determined whether the minimum amount or percentage of contributions or matching funds was provided, the specified service or expenditure levels were maintained, and the minimum or maximum limits for specified purposes or types of participants were met.
Procurement and Suspension and Debarment	Ensured payments were in accordance with contract requirements and that the vendor was not suspended or debarred from receiving federal funds.
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.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.

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 the 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.

Material Weaknesses

Improve Documentation of Required Income and Benefit Verifications

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year:	2012G996115; 2012, 2012G991524; 2012 2013G996115; 2013, 2013G991524; 2013
Compliance Requirement:	Special Tests and Provisions: Income Eligibility and Verification System
Type of Finding:	Material Weakness, Noncompliance

Federal regulations require each state to participate in the Income Eligibility and 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 using these screens is to be documented by the caseworker in the case file for each client.

Of 60 files randomly selected for fiscal year 2013 testing, 22 showed no evidence IEVS screens were verified when determining eligibility. We verified the 22 clients did meet TANF financial eligibility criteria. However, by not documenting verification of the IEVS screens, the department increases the risk of providing benefits to individuals who are not eligible to receive benefits. The inconsistent documentation of caseworker verification of income has been an on-going issue since State Fiscal Year 2009.

We recommend department management ensure verification of income with IEVS screens is clearly documented in client case files when determining client eligibility

Improve Compliance with Work Verification Plan

Federal Awarding Agency: Department of Health and Human Services
Program Title and CFDA Number: Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year: 2012G996115; 2012, 2012G991524; 2012
2013G996115; 2013, 2013G991524; 2013
Compliance Requirement: Special Tests and Provisions: Penalty for Failure to
Comply with Work Verification Plan
Type of Finding: Material Weakness, Noncompliance

Federal regulations require each state to maintain adequate documentation, verification, and internal control procedures to ensure accuracy of data used in calculating work participation rates. Each state must have procedures to count and verify reported actual hours of work activities and must comply with its Work Verification Plan as approved by the Department of Health and Human Services (HHS). Oregon's Work Verification Plan states employment attendance will be documented and verified 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 a client has stable employment, the department may use a six-month projection of actual hours. However, if the department receives information that actual hours have changed, the department is required to re-verify the current average and update the projection as needed.

We randomly selected 25 participating clients and reviewed case file documentation for verification of work activity participation for one month during the fiscal year. We found the following seven exceptions:

- For three clients the department was informed the client was no longer employed but continued to report projected hours of participation.
- For one client the department projected inaccurate hours of participation.
- For one client the department reported a standardized amount of hours instead of actual hours and did not report the hours in the appropriate work activity.
- For two clients the department did not accurately enter work hours into the automated data processing system.

These inaccurate 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. This is a repeat finding.

We recommend department management strengthen controls to ensure projected hours of participation appropriately reflect the client's employment status, reported activity participation reflects actual hours, and data entered into the automated data processing system is accurate and complete.

OR-Kids Refinancing Results in Duplicate Claims

The details of this finding were communicated to you in a letter dated March 25, 2014. That letter communicates the results of federal compliance audit work over the Foster Care and Adoption Assistance federal programs. Since the OR-Kids system processes child welfare emergency assistance payments funded with TANF funds, the TANF program was also referenced in that finding. Please refer to that letter for further details.

Significant Deficiencies

Implement Controls to Ensure Emergency Assistance Does Not Exceed Maximum Level

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year:	2012G996115; 2012, 2012G991524; 2012 2013G996115; 2013, 2013G991524; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$229,457

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 to provide emergency child welfare intervention services up to \$25,350 for a period of not 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 from when the review is due, emergency assistance is not authorized. The department uses its statewide automated child welfare information system, OR-Kids, to make client payments and track client information.

We reviewed child welfare client data and identified 7 cases where TANF benefits exceeded \$25,350 for fiscal year 2013. Total questioned costs for these cases for the fiscal year were \$220,947. When brought to their attention, department management transferred these costs to fund them with state funds instead of federal funds. In addition, we randomly selected 25 child welfare cases for testing and found the department did not perform eligibility re-determinations timely for 12 cases. Of these, 5 received TANF benefits past their eligibility re-determination dates resulting in fiscal year 2013 total questioned costs of \$8,510.

These 19 exceptions were due to:

- OR-Kids coding issues causing incorrect claiming of expenditures as TANF, and/or
- OR-Kids automated notifications, intended to alert caseworkers when required re-determinations are due or the \$25,350 threshold is reached, not operating effectively.

Exceptions related to child welfare payments exceeding the benefit threshold and untimely re-determinations have been on-going issues since fiscal year 2007. Further, the department has been aware of the OR-Kids ineffective operating system notifications since 2012.

We recommend department management prioritize the correction of OR-Kids coding errors and completion of monitoring reports to ensure the benefit threshold of \$25,350 is not exceeded and re-determinations are completed timely.

Ensure Sufficient Supporting Documentation is Readily Available

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year:	2012G996115; 2012, 2012G991524; 2012 2013G996115; 2013, 2013G991524; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency

The department's Family Services Manual requires each TANF client to complete and sign an application both at the initial application and at eligibility re-determination. Completing the application form is key in determining a client's TANF eligibility. By signing the application, the client assigns rights to support received from any other person to the department, as required for eligibility by federal regulations, and agrees to actively pursue any asset for which they have a legal right or claim.

Of 60 clients randomly selected for testing, the department was unable to readily provide signed applications needed for eligibility determination for 4 of the clients. Although we were able to verify other eligibility criteria were met through review of clients' case files, we were not able to verify clients' assignment of support received and/or their agreement to pursue other assets. By not maintaining adequate documentation, the department may not be able to demonstrate compliance with all eligibility requirements.

We recommend department management coordinate resources to better maintain and more readily provide sufficient application documentation.

Improve Accuracy and Completeness of Performance Data Reports

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year:	2012G996115; 2012, 2012G991524; 2012 2013G996115; 2013, 2013G991524; 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

Federal regulations require the department collect monthly, and report quarterly in the ACF-199 report, certain non-financial data elements for services paid with TANF federal funding. Federal regulations also require the department to report data quarterly, in the ACF-209

report, for TANF eligible clients whose benefits are paid with designated state funds called separate state program maintenance of effort (SSP-MOE). Reports should include all activity of the reporting period and should be supported by applicable performance records.

We reviewed data submitted on the ACF-199 reports and identified the following inaccuracies:

- The July to September 2012 quarterly report included cases that should have been reported in the separate state program maintenance of effort report.
- The July to September 2012 quarterly report did not report cases exempted from the federal time limit due to living in “Indian country” where at least 50% of the adults were not employed.
- Reported hours of work participation were inaccurately reported in 6 of 25 randomly sampled cases.

Additionally, the department did not include any data for TANF funded child welfare cases in fiscal year 2013 ACF-199 reports because child welfare system coding issues were causing data inconsistencies.

We also reviewed data submitted on ACF-209 quarterly reports and identified instances of cases being reported twice with conflicting information. For example, a client’s reported work participation status indicated “participating and meeting the minimum requirements” in one entry and a second entry indicated the client was “required to participate but not meeting minimum requirements.” The department is researching why certain line items are not reported accurately. This finding has been on-going since fiscal year 2010.

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

Noncompliance

Questionable Interpretation of Federal Five-Year Time Limit

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Temporary Assistance for Needy Families, CFDA 93.558
Federal Award Number and Year:	2012G996115; 2012, 2012G991524; 2012 2013G996115; 2013, 2013G991524; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Noncompliance

The department may not be in compliance with federal regulations over TANF as it is using a different definition for eligibility than specified in the TANF regulations. The TANF federal regulations specify no state may use any of its federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive). The federal regulations over TANF also specify that states may not count toward the five-year limit any month of assistance received by an adult while living in “Indian country”,

as defined in section 1151 of title 18, United States Code where at least 50% of adults were not employed.

Rather than use the US Code to define "Indian country", the department uses the Bureau of Indian Affairs (BIA) definition of "service areas" as defined by 25 CFR, which is broader than "Indian country" and encompasses 24 of 36 Oregon counties. The department was directed by the US Department of Health and Human Services to seek guidance from the BIA and the Office of the Solicitor in the US Department of Interior on determining Oregon's "Indian country". The department requested guidance from BIA, who noted they did not use the term "Indian country" and provided the definition of "service area" per CFR 25.

Consequently, there may be TANF clients improperly receiving federal assistance that have exceeded the five-year time limit. Most recently, 5 of the counties in BIA's designated "service areas" had more than 50% of adults not employed. Based on this determination, for October 2012 through June 2013 the department exempted an average of approximately 2,300 total cases each month, out of approximately 25,250 statewide cases, from the federal time limit monthly count.

We recommend the department seek additional guidance from the federal government to ensure five-year time limit monthly exemptions are being appropriately applied in accordance with federal regulations.

Prior Year Findings

In the prior fiscal year, we reported significant deficiencies related to the department's Temporary Assistance for Needy Families 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, finding numbers 12-26, 12-27 and 12-28. During fiscal year 2013, the department continued to work on developing controls and procedures that have not been fully implemented. These 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.

The findings, 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 finding 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.

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4) The name(s) of the contact person(s) responsible for corrective action.

Please provide your response by April 25, 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 Diane Farris or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:DBF

cc: Jim Scherzinger, Chief Operating Officer
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Carol Lamon, Deputy Director, Office of Self Sufficiency
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