

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

January 21, 2015

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

Suzanne Hoffman, Interim Director
Oregon Health Authority
500 Summer Street NE
Salem, Oregon 97301

Dear Ms. Kelley-Siel and Ms. Hoffman:

We have completed audit work of selected financial accounts at your departments for the year ended June 30, 2014. This audit work was not a comprehensive financial audit of your departments, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered your department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of your department's internal control. Accordingly, we do not express an opinion on the effectiveness of your department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the following deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiencies

Controls in Receipting Unit Should Continue To Be Strengthened

The Department of Human Services (department) receipted more than \$562 million in revenue through paper checks during fiscal year 2014. As part of our fiscal year 2013 audit, we found that two administrative employees within the department's Office of Financial Services picked up the checks from the mailroom, sorted them into category types, and accounted for the checks at an aggregated level by category type. The administrative staff then delivered the checks by category type to individuals in the Receipting Unit who were each solely responsible for the custody and recording of checks for their category type in the financial records. Of the \$562 million, about \$52 million was exposed to risk of misappropriation throughout the fiscal year.

Department management is responsible for establishing adequate controls and safeguards to ensure all checks are properly accounted for and controlled. Checks lost before being receipted are more difficult to trace and detect than a check that is logged and tracked. The department's control process needs to include enough information to track a check from when it is opened in the mail through its delivery to the receipting unit to when the revenue is recorded in SFMA. Such a process generally includes a method to track the check information (amount, remittance detail) and ensure no one person has both access to the check and the accounting records. This would help ensure the detection of a missing, altered, or replaced check with one of a lesser value.

To improve controls over the custody and recording of checks, the department piloted a new reconciliation process in March 2014 for some of the check category types. The department's process includes having the checks received by two employees and recorded on a log. The log is to include the sender's name, the purpose for which the money was sent, and the amount. The process also includes department staff reconciling the number and dollar amount of checks received to the number and dollar amount of checks deposited. Although this reconciliation process was not fully implemented until after the close of fiscal year 2014, it is a start to ensuring sufficient controls are in place to ensure all checks received are deposited into the bank and appropriately recorded in the financial records.

We recommend department management ensure internal controls over its check receipting process are sufficient to ensure all checks are safeguarded, properly tracked and accounted for in its financial records.

Lack of Assurance that Controls Exist and are Effective over a Significant Financial System

Management is responsible for ensuring internal controls are adequate to provide reasonable assurance that transactions are accurate and properly recorded and executed in accordance with management's objectives. That same level of assurance is required for services and financial information provided to the department by independent service providers.

During the audit, we noted that Oregon Health Authority management does not have assurance that information processed through the Medicaid Management Information System (MMIS) is accurate and reliable. The department has relied on an independent service provider to maintain the MMIS since its implementation in 2008. The MMIS processes Medicaid eligible claims including payments to providers and individuals, capitated payments for managed care, and other non-claim payments and transactions. The MMIS processed \$4.6 billion in expenditures in fiscal year 2014.

We inquired of management regarding internal controls over transactions processed through the MMIS. Management demonstrated an understanding of the internal controls related to the MMIS information for the processes carried out within the department. However, without an adequate understanding and documentation of the controls implemented by the service provider, or an independent review of those controls, management does not have adequate assurance that the MMIS financial information, as a whole, is accurate and reliable. Specifically, management lacks assurance that the service provider for the MMIS has adequate controls to ensure the \$4.6 billion in expenditures processed through the system in fiscal year 2014 was accurately reported.

We recommend department management seek adequate assurance for the accuracy of all financial information they report. Management should have a documented understanding of the controls involved in transactions, whether automated or manual, to ensure the integrity of the information. When necessary, such as for significant financial systems operated by independent service providers, department management should obtain timely independent assurance over the accuracy and reliability of the information.

Prior Year Findings

In the prior fiscal year, we reported a material weakness and significant deficiencies related to the department's controls over 1) check receipting, 2) accounting for insurance premium revenues, 3) accounting for the state hospital buildings and related accumulated depreciation, and 4) accounting for drug rebate revenue in a letter dated February 20, 2014. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09, finding numbers 2013-001, 2013-004, 2013-005, and 2013-007. During fiscal year 2014, the department began corrective action on all findings by reviewing processes and controls and implementing changes or corrections as appropriate. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, with statuses of partial corrective action.

The above significant deficiencies, along with your response for each finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. Please prepare a response to each finding and include the following information as part of your corrective action plan:

- 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 February 4, 2015.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of your department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering your department's internal control. Accordingly, this letter 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 Sarah Anderson or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:saa

cc: James R. Scherzinger, Department of Human Services COO
Eric L. Moore, Department of Human Services CFO
Linda Hammond, Oregon Health Authority Interim COO
Kelly Ballas, Oregon Health Authority CFO
Dave Lyda, Chief Audit Officer
Shawn Jacobsen, Controller
Michael J. Jordan, Director, Department of Administrative Services