

Office of the Secretary of State

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March 11, 2015

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, 2014.

CFDA Number	Program Name	Audit Amount
93.658	Foster Care – Title IV-E	\$ 79,864,925
93.659	Adoption Assistance – Title IV-E	\$ 27,037,701

This audit work was not a comprehensive audit of your federal programs. We performed these federal compliance audits 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, 2014, 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	Federal Program
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.	Foster Care Adoption Assistance
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.	Foster Care Adoption Assistance
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.	Foster Care Adoption Assistance

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.	Foster Care Adoption Assistance
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.	Foster Care Adoption Assistance
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.	Foster Care Adoption Assistance
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.	Foster Care Adoption Assistance
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.	Foster Care

Noncompliance

Noncompliance is a failure to follow compliance requirements or a violation of prohibitions included in compliance requirements that are applicable to a federal program. *Material noncompliance* is a failure to follow compliance requirements or a violation of prohibitions included in compliance requirements that are applicable to a federal program that results in noncompliance that is material either individually or when aggregated with other noncompliance to the affected federal program. As described in the “Audit Findings and Recommendations” section, we identified noncompliance with federal requirements for the Foster Care – Title IV-E and Adoption Assistance – Title IV-E programs that we consider to be material noncompliance. Compliance with such requirements is necessary, in our opinion, for the department to comply with the requirements applicable to these federal programs.

Internal Control Over Compliance

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.

Audit Findings and Recommendations

Reimbursements Submitted 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 – Title IV-E (93.659)
Federal Award Numbers and Year:	1301OR1401; 2013, 1401OR1401; 2014 1301OR1407; 2013, 1401OR1407; 2014
Compliance Requirement:	Period of Availability
Type of Finding:	Material Weakness, Material Noncompliance

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

During our audit, we determined the department's child welfare system, OR-Kids, refinances transactions as far back as January 1, 2008. The system was not designed to prevent the department from requesting federal reimbursement for expenditures incurred outside the period of availability.

When preparing the quarterly expenditure reports during fiscal year 2014, the department used various methods to identify adjustment transactions that were outside the period of availability. For the quarter ended December 31, 2013, the department would have excluded \$603,000 in Title IV-E Adoption Assistance federal expenditures from the quarterly report under the current methodology. For the quarter ended June 30, 2014, the department excluded \$747,000 in Title IV-E Adoption Assistance federal expenditures from the quarterly report as they determined they were outside the period of availability.

The department previously performed reconciliations of reported federal expenditures to actual expenditures requested for federal cash reimbursement (reimbursement), but temporarily suspended this process for Title IV-E Foster Care and Title IV-E Adoption Assistance. The department resumed this reconciliation practice in June 2014 for the quarter ending March 31, 2014. For reimbursements exceeding the reported allowable expenditures, the department reduced the amount requested for reimbursement. The department did not make corrections to the accounting records after performing this reconciliation and reimbursement reduction. Further, the amounts identified for exclusion in the preparation of the quarterly expenditure reports did not agree to the subsequent reimbursement reductions resulting from the reconciliation. Specifically, in the report preparation process, \$23,000 in Title IV-E Foster Care expenditures and \$664,000 in Title IV-E Adoption Assistance expenditures were excluded from the March 2014 report. However, the subsequent reconciliation in June 2014 resulted in a reimbursement reduction of \$222,000 for Title IV-E Foster Care and \$593,000 for Title IV-E Adoption Assistance. The department was unable to provide documentation to support the reimbursement reduction was for amounts claimed outside the period of availability.

We recommend department management implement system changes to OR-Kids to prevent transactions from reimbursing outside the period of availability. We also recommend 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.

Quarterly CB-496 Reports 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) Adoption Assistance – Title IV-E (93.659)
Federal Award Numbers and Year:	1301OR1401; 2013, 1401OR1401; 2014 1301OR1407; 2013, 1401OR1407; 2014
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness, Material Noncompliance

The department is responsible for reporting quarterly financial information for the Foster Care and Adoption Assistance programs 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 actual payments 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 quarterly reports submitted throughout the year by the department were prepared using different methodologies that were not always supported by accounting records or other source documentation and included various types of adjustments that were not always recorded in the accounting system. Specifically, we found:

- To report prior quarter adjustments, the department uses a process that nets increases and decreases recorded in the accounting system and excludes expenditures that have net increases that are older than two years from the report date. This process may result in not including adjustments that should be reported. The department adopted this process because of the limitations in the availability of data to determine the actual amount of transactions recorded outside the period of availability. Refer to finding Reimbursements Submitted Outside Period of Availability.
- According to the department, from implementation through June 2014, the child welfare system, OR-Kids, was refinancing transactions that resulted in submitting duplicate federal requests for reimbursement; see Statewide Single Audit Report Number 2014-09, finding number 2013-24. Some of these duplicate transactions were financed outside the period of availability, and would have been excluded from reporting based on the process identified above; other transactions would have been included in the quarterly reports. In the current year, the department made accounting adjustments to correct the effects of the duplicate claims and included these adjustments in the fiscal year 2014 reports; however, the department is unable to determine the portion of these adjustments that had already reduced expenditures in the reports filed in the current and prior years.
- For the quarter ended December 31, 2013, the requirements of Section 3 (Foster Care Demonstration Project) of the quarterly report were revised. The department prepared and submitted the revised Foster Care Demonstration Project format, but did not update Part 1, Line 17 (Demonstration Project Costs) of the report to reflect the amounts derived from the revised Foster Care Demonstration Project section, resulting in over-reporting total expenditures related to Demonstration Project Costs in Part 1 by \$2 million.
- For the quarter ended June 30, 2014, the department did not use complete data when preparing the Foster Care Demonstration Project section of the report, resulting in underreporting expenditures by about \$265,000 in Part 3, and over-reporting total expenditures by about \$265,000 in Part 1, Line 1 (Maintenance Assistance Payments).

We recommend department management implement and document processes to ensure quarterly CB-496 reports are complete, accurate, and adequately supported by the accounting records.

Provider 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:	1301OR1401; 2013, 1401OR1401; 2014
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness, Material Noncompliance
Questioned Costs:	\$8,100

Federal regulations require that the department meet certain requirements to receive Foster Care funding for certain child welfare expenditures. The department is required to determine child eligibility and maintain documentation of that determination, as well as ensuring providers have met a criminal background check, child abuse and neglect registry check and the foster home is fully licensed. In Oregon, a provider home is fully licensed after initially completing a home study, criminal background check, and child and abuse neglect registry check; these must also be completed at each two-year renewal for continuing certification as a licensed foster home.

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

- In one case, the required initial home study, background checks, and child and abuse and neglect registry checks were not completed. The department was unable to provide documentation to support the provider certification, resulting in known questioned costs of \$8,100, and projected errors that total \$407,000.
- For one case, the department was unable to provide documentation to support that a criminal background check for the provider was completed for the most recent renewal certification.
- In one case the department was unable to provide documentation to support that a home study and child and abuse neglect registry check was completed for a renewal. A subsequent renewal had occurred and the department provided all required documentation.
- Two cases where the department was unable to provide documentation to support that a child and abuse neglect registry check was completed for a renewal. For one case, subsequent to our audit period, a renewal was performed and the department provided all required documentation.

We recommend department management ensure all required documentation is completed, reviewed, and maintained. We also recommend department management reimburse the federal agency for costs paid to the provider who was not certified at the time of payment.

Undocumented Methodology for Costs Charged to Program

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:	1301OR1401; 2013, 1401OR1401; 2014
Compliance Requirement:	Activities Allowed or Unallowed
Type of Finding:	Significant Deficiency, Noncompliance

The Title IV-E Foster Care program provides federal matching funds for child placement and other administrative or training costs associated with the program.

We selected a random sample of 25 administrative or training transactions recorded in the department's accounting system that were directly charged to the Foster Care program. For 2 transactions, while the activity may be allowable, the department could not support its methodology for how the costs were allocated to the Foster Care program prior to the federal financial participation rate being applied.

One transaction was an invoice for professional legal services related to general juvenile immigration. The department allocated the \$182 payment as follows: 70% to Title IV-E Foster Care, 12% to Title IV-E Adoption Assistance, and 18% to state only programs.

The second transaction was an invoice for investigative services for specific cases and the support did not identify what program the case was related to. The department allocated the invoice amount of \$7,857 as follows: 65% to Title IV-E Foster Care and 35% to state only programs.

Upon inquiry, the department stated the allocations were a product of past management and no basis or explanation was available as to the allocation of the costs.

We recommend department management ensure its methodology for allocating administrative costs to the Title IV-E Foster Care program is documented and adequately supported.

Federal Adoption Assistance Eligibility Incorrectly Closed

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Adoption Assistance – Title IV-E (93.659)
Federal Award Numbers and Year:	1301OR1407; 2013, 1401OR1407; 2014
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness

The department relies on information entered in its child welfare system (OR-Kids) to ensure payments are made to providers and to receive appropriate federal reimbursement. Part of the information necessary to ensure adoption assistance subsidies are paid, and the department receives appropriate reimbursement for federal eligibility, is maintained in an eligibility determination screen in OR-Kids.

For 12 of 60 (20%) Title IV-E Adoption Assistance cases we reviewed, the child was correctly determined eligible for Title IV-E Adoption Assistance, but the federal eligibility was closed in

OR-Kids. As a result, the department is not receiving federal reimbursement of \$15,000 in fiscal year 2014 for these eligible cases. As this error is expected to be representative of the population of eligibility determinations occurring in fiscal year 2014, the department could have requested federal reimbursement for an estimated \$3.8 million. The department investigated the causes for these exceptions and determined that, in some cases, the department's process of closing pre-adoptive cases was incorrect and caused the system to close federal eligibility for adoption assistance. For the other cases, the department is still researching what caused the federal adoption assistance eligibility to close.

During the prior year audit, the department identified this as a known problem and it was included as part of a prior year finding; refer to the Statewide Single Audit Report, Secretary of State audit report number 2014-09; finding 2013-023.

We recommend department management identify all causes of closed federal eligibility and improve its case management processes to ensure federal reimbursements are received for eligible cases. We also recommend department management re-open federal eligibility for all eligible cases that were incorrectly closed.

Improve Reliability of Data Used to Estimate Savings in State Expenditures

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Adoption Assistance – Title IV-E (93.659)
Federal Award Numbers and Year:	1301OR1407; 2013, 1401OR1407; 2014
Compliance Requirement:	Level of Effort
Type of Finding:	Significant Deficiency

Beginning in fiscal year 2010, states are required to have two sets of program eligibility criteria for the Title IV-E Adoption Assistance. One set of criteria applies to a child who is considered an “applicable child” due to the child’s age, length of time in care, or as a sibling of an applicable child. The second set of criteria is for a child who is considered “not an applicable child” and who, in order to receive Title IV-E Adoption Assistance, must meet the eligibility requirements in place before 2010.

States are also required to estimate any savings in state expenditures as a result of applying the additional Title IV-E Adoption Assistance applicable child eligibility rules and spend an amount equal to the savings to provide other program related services.

Beginning in fiscal year 2010, the department began noting whether a child met the applicable child criteria and estimating the amount of savings based on a methodology that included multiple assumptions, such as the manually tracked number of applicable children, the average payment amount, and other parameters. According to the department, during fiscal year 2014, issues were identified with the applicable child eligibility data in the child welfare system (OR-Kids) and the department began a process to correct errors.

During our audit, a question was raised about the department’s practice to not determine if the applicable child criteria was met if the child was already eligible for Title IV-E Foster Care. As a result, the department submitted a question to the federal agency seeking clarification.

We tested 60 eligibility cases and reviewed whether the department correctly identified whether a child was or was not an applicable child. We identified 4 cases where applicable child criteria was met in addition to the prior eligibility for Title IV-E Foster Care that were not identified or noted as an applicable child in OR-Kids. According to the department, the OR-Kids system will not allow them to check more than one eligibility box. Therefore, if a child is eligible for Title IV-E Foster Care, or other eligibility criteria, and is an applicable child, both boxes cannot be marked. We also noted 5 additional cases where the department determined the child met the applicable child criteria and noted the eligibility in a comment box rather than marking the applicable eligibility section in OR-Kids.

In order for the department to estimate the savings in state expenditures, it is necessary for the department to have accurate data related to applicable child eligibility. If the data is not accurate, the department may not accurately estimate the savings to be spent on program related costs in future years.

We recommend department management continue to correct known applicable child eligibility data issues and develop a consistent process to identify and document applicable child eligibility to ensure data used to estimate the savings in state expenditures is accurate. Also, once clarification is received from the federal agency, department management should ensure applicable child eligibility is applied appropriately to prior cases and make any necessary corrections.

Prior Year Findings

In prior fiscal years, we have reported noncompliance and internal control findings related to Foster Care and Adoption Assistance in the Statewide Single Audit Report. For the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09, and for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07.

During fiscal year 2014, the department made progress in correcting these findings. The findings listed below will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, 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
OR-Kids System Weaknesses	2013-023
OR-Kids Refinancing Results in Duplicate Claims	2013-024
Reimbursements Claimed Outside Period of Availability	2013-025
CB-496 Report Not Supported	2013-026
Certification of Eligibility Not Supported	2013-027
CB-496 Report Not Complete	2013-028

The audit findings and recommendations, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. 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 is 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 Tuesday, March 17, 2015 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

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 communication 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, In-Charge Auditor, or Kelly Olson, Audit Manager, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jim Scherzinger, DHS Chief Operating Officer
Eric Moore, DHS Chief Financial Officer
Lois Day, Child Welfare Director
Shawn Jacobsen, Shared Services Controller
Dave Lyda, Chief Audit Officer
George Naughton, Acting Director, Department of Administrative Services