

Office of the Secretary of State

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Audits Division

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March 12, 2015

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

Dear Ms. Kelly-Siel:

We have completed audit work related to the following federal program at the Department of Human Services (department) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.575 & 93.596	Child Care and Development Fund Cluster	\$60,680,788

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, 2014, 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.
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.

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. As described in the “Audit Findings and Recommendations” section, we identified noncompliance with federal requirements that is required to be reported in accordance with OMB Circular A-133.

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described below, that we consider to be a significant deficiency.

Audit Findings and Recommendations

Improve Controls Over Income Calculations for Eligibility

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Child Care and Development Fund Cluster (CFDA 93.575, CFDA 93.596)
Federal Award Numbers and Year:	2014G996005; 2014 2014G999004; 2014 2014G999005; 2014 2013G996005; 2013 2013G999004; 2013 2013G999005; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$287,176

The Child Care Development Fund program offers federal funding to states to increase the availability, affordability, and quality of child care services. As required by federal regulation, the department has developed a sliding fee scale, based on family size and income, that provides for cost sharing by families that receive child care services (monthly copay). Proof of income is required when applying for the program.

We tested a random sample of 65 families for eligibility and verified the copay calculated for each family was accurate based on family size and income. We identified 4 cases where the client's monthly copay was incorrectly calculated. The exceptions were due to the caseworker (1) using medical income instead of the calculated child care income in 2 cases; (2) using client's estimate of income instead of the pay stub provided; and (3) retroactively applying a change to the case when the change should have only been made going forward.

These errors caused the department to underestimate the client's monthly copay ranging from \$23 to \$80. The known questioned costs are \$190 and the projected questioned costs are \$287,000.

Additionally, for 3 cases, the department was unable to locate documentation of the client's income. Based on the income narrated, the client was eligible and the copay was correctly calculated.

We recommend department management ensure client's monthly copay is correctly calculated and client's income documentation is maintained.

The above audit finding and recommendation, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. Including your response 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 the finding includes the information specified by the

federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the 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 Wednesday, March 18, 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 Rock, in-charge auditor, or Kelly Olson, audit manager, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jim Scherzinger, Chief Operating Officer
Eric L. Moore, Chief Financial Officer
Rhonda Prodzinski, Child Care Program Manager
Shawn Jacobsen, Controller
Dave Lyda, Chief Audit Officer
George Naughton, Acting Director, Department of Administrative Services