

Office of the Secretary of State

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March 12, 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 a selected 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>
93.558	Temporary Assistance For Needy Families	\$ 161,978,475

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.
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.
Level of Effort, Earmarking	Determined whether 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.

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 which 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. As discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies in internal control.

Audit Findings and Recommendations

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:	2013G996115; 2013, 2013G991524; 2013 2014G996115; 2014, 2014G991524; 2014
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 17 cases where the department did not adhere to the approved Work Verification Plan policies and procedures for maintaining documentation of hours of participation, appropriately projecting hours of participation, and accurately reporting hours of participation in their automated data processing system.

These inaccurate or unverified 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 adherence to department policy and procedure regarding documentation of participation, projection of hours of participation, and to ensure data entered into the automated data processing system is accurate and complete.

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 Numbers and Year:	2013G996115; 2013, 2013G991524; 2013 2014G996115; 2014, 2014G991524; 2014
Compliance Requirement:	Special Tests and Provisions: Income Eligibility and Verification System
Type of Finding:	Significant Deficiency, 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 2014 testing, 8 showed no evidence in the case file documentation that relevant income information was verified using IEVS screens when determining eligibility. We verified these clients did meet TANF financial eligibility criteria. However, by not providing assurance of verification of the use of IEVS screens, the department increases the risk of providing benefits to TANF ineligible individuals.

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

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 Numbers and Year:	2013G996115; 2013, 2013G991524; 2013 2014G996115; 2014, 2014G991524; 2014
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 for 5 of 40 randomly selected cases:

- 1 case received TANF benefits for April 2014, but was not included on the April 2014 report.
- 4 cases had one or more key line items that were reported in error.

During our Special Tests and Provisions testing we found the following additional ACF-199 TANF Data Report errors:

- 7 cases where the ACF-199 report showed a sanction, yet no sanction was imposed .
- 4 cases where work participation hours were incorrectly reported.

Additionally, the FY2014 ACF-199 report did not include any data for TANF funded child welfare cases. Similar to last year, 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." According to the department, this is due to an error in programming that has yet to be corrected.

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.

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:	2013G996115; 2013, 2013G991524; 2013 2014G996115; 2014, 2014G991524; 2014
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 the TANF program 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. Indian tribes are granted authority to establish and operate Tribal TANF programs and determine their own TANF eligibility criteria. Two tribes in Oregon

currently operate Tribal TANF programs: The Klamath Tribes and Confederated Tribes of Siletz Indians.

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, 8 of the counties in BIA’s designated “service areas” had more than 50% of adults not employed. Based on this determination, for FY2014 the department exempted an average of approximately 2,300 total cases each month, out of approximately 24,000 statewide cases, from the federal time limit monthly count.

We recommend the department seek a conclusion 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 material weaknesses and significant deficiencies related to the department’s Temporary Assistance for Needy Families program in a letter dated April 15, 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 2012-027, 2012-028, 2013-029, 2013-030, 2013-032, and 2013-034. During fiscal year 2014, the department continued to work on developing controls and procedures for these findings and they 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.

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, 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 the 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 respond by 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 Diane Farris or Julianne Kennedy at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jim Scherzinger, Chief Operating Officer
Dave Lyda, Chief Audit Executive
Kim Fredlund, Deputy Director, Office of Self Sufficiency
Lois Day, Director, Child Welfare
Xochitl Esparza, TANF Program Manager
George Naughton, Acting Director, Department of Administrator Services