

**Office of the Secretary of State**

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Secretary of State

Robert Taylor  
Deputy Secretary of State



**Audits Division**

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February 29, 2016

Lynne Saxton, Director  
Oregon Health Authority

Clyde Saiki, Interim Director  
Department of Human Services  
500 Summer Street NE  
Salem, OR 97301

Dear Ms. Saxton and Mr. Saiki:

We have completed audit work of selected financial accounts at your departments for the year ended June 30, 2015. This audit work was not a comprehensive financial audit of the department, 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, 2015, 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 the 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 the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

### **Significant Deficiencies**

#### **Evidence of Key System Updates Should Be Retained**

The Department of Human Services (department) and Oregon Health Authority (authority) expended more than \$10 billion in state and federal funds to provide services to Oregonians during fiscal year 2015. The department and authority rely on multiple systems to process these transactions, which interface into the state's accounting system (SFMA).

The systems are coded to split the expenditures between state and federal funding sources to pay for the provided services. When changes to the state and federal funding splits are required, the system coding is updated accordingly. The department was able to describe the controls intended to ensure the split rates are correctly updated in the systems, but did not retain evidence the controls were in place during the fiscal year. Compensating controls are in place to detect a material miscoding; however, based on the design of the compensating controls, the detection of the material miscoding would not occur in a timely manner.

Other system coding updates are, at times, required to address changes to federal programs such as the expansion of services provided. The department was unable to provide support for one system that coding updated during the year was reviewed for accuracy thereby substantiating that the state and federal amounts paid were reasonable.

Department management is responsible for maintaining adequate documentation of the proper functioning of controls intended to ensure expenditures are paid at the proper state and federal rates. Payments made at higher than allowable federal rates could result in overpayments of federal funds. Conversely, if the state pays more than necessary, this reduces the level of services that could possibly be provided using state funds.

**We recommend** department management ensure that adequate documentation is retained to demonstrate controls are operating as intended to ensure that expenditures are paid at proper rates.

#### **Identifying Year End Interagency and Interfund Entries**

To properly present the state's financial statements, agencies are responsible for reporting whether they owe funds to another agency or GAAP fund or whether funds are owed back to them. This is accomplished by recording a "Due to Other Funds" (due to) or "Due from Other Funds" (due from) during the fiscal year-end closing process. We noted the following during fiscal year testing:

- During the year, \$15.6 million of expenditures typically paid from the Health Services Fund (GAAP fund 5006) were paid for from the General Fund. At the end of the fiscal year, a due to and due from should have been posted to properly reflect the expenditures as belonging to GAAP fund 5006 and the amount owed to the General Fund. Further, an accompanying year end accrual in GAAP Fund 5006 was not posted to properly record the total expenditures related to the fiscal year.

- A \$70.4 million due to and due from was recorded in the General Fund (GAAP Fund 0001) and also in the Health and Social Services Fund (GAAP Fund 1108). The creation of the due to and due from was an unintended consequence of an entry that was recorded to make adjustments to the underlying coding in the accounting system. The entries resulted in an overstatement to the due to and due from accounts in each GAAP fund as there were no actual amounts owed to either GAAP Fund.

**We recommend** department management consider the financial statement impact resulting from adjustments or entries made in underlying coding to ensure amounts are properly reported.

### **Prior Year Findings**

In fiscal year 2013, we reported a significant control deficiency related to Drug Rebate Revenue in a letter dated February 20, 2014. In fiscal year 2014, we reported a significant control deficiency related to the Medicaid Management Information System in a letter dated January 21, 2015. The department took partial corrective action for both findings by contracting for an independent audit of controls performed by HP Enterprise Services (a third party vendor) and through biweekly meetings with HP. These findings can also be found in the Statewide Single Audit Reports for fiscal years ended June 30, 2013 and 2014 (report number 2014-09, finding number 2013-007; and, report number 2015-05, finding number 2014-002, respectively). These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015, with a status of partial corrective action taken.

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, 2015. 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 March 11, 2016.

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 the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 Michael Yamamoto, Senior Auditor or Julianne Kennedy, Audit Manager at (503) 986-2255.

Lynne Saxton, Oregon Health Authority  
Clyde Saiki, Department of Human Services  
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Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Mark Fairbanks, OHA Chief Financial Officer/ Chief Operating Officer  
Bill Coulombe, OHA Budget Director  
James R. Scherzinger, DHS Chief Operating Officer  
Eric L. Moore, DHS Chief Financial Officer  
Shawn Jacobsen, Controller  
Dave Lyda, Chief Audit Officer  
George Naughton, Interim Director, Department of Administrative Services