

**Office of the Secretary of State**

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**Audits Division**

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March 8, 2016

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

Dear Mr. Saiki:

We have completed audit work of a selected federal program at the Department of Human Services (department) for the year ended June 30, 2015.

| <u>CFDA Number</u> | <u>Program Name</u>                     | <u>Audit Amount</u> |
|--------------------|---|---------------------|
| 93.558             | Temporary Assistance for Needy Families | \$ 206,867,883      |

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, 2015, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program.

| <b>Compliance Requirement</b>   | <b>General Summary of Audit Procedures Performed</b>   |
|---------------------------------|--|
| 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. |

| <b>Compliance Requirement</b> | <b>General Summary of Audit Procedures Performed</b>  |
|-------------------------------|---|
| 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 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. |
| 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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

### **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 (93.558)                           |
| Federal Award Number and Year: | 2014G996115; 2014, 2014G991524; 2014, 2015G996115; 2015, 2015G9915TC; 2015 |
| Compliance Requirement:        | Special Tests and Provisions   |
| Type of Finding:               | Significant Deficiency, Noncompliance                                      |

Federal regulations require each state to maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of data used in calculating work participation rates. Each state must have procedures to count and verify reported hours of work and must comply with its Work Verification Plan as approved by the Department of Health and Human Services (DHHS). 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 40 out of approximately 71,000 participating clients and reviewed case file documentation for verification of work activity participation for one month during the fiscal year. We found the following six exceptions:

- For two clients the department did not accurately enter work hours into the automated data processing system;
- For two clients the department projected inaccurate hours of participation; and
- For two clients the department did not maintain adequate documentation to support the hours of participation.

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 finding has been outstanding since 2012.

**We recommend** department management strengthen controls to ensure adherence to department policy and procedure regarding documentation of participation and projection of hours of participation, and to ensure data entered into the automated data processing system is accurate and complete.

Improve Accuracy of Performance Data Reports

|                                 |  |
|---------------------------------|--|
| Federal Awarding Agency:        | Department of Health and Human Services                                    |
| Program Title and CFDA Number:  | Temporary Assistance for Needy Families (93.558)                           |
| Federal Award Numbers and Year: | 2014G996115; 2014, 2014G991524; 2014, 2015G996115; 2015, 2015G9915TC; 2015 |
| 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 be supported by applicable performance records.

We reviewed data submitted on the ACF-199 reports for line items specified by DHHS as “key”. We identified inaccuracies in the federal countable months key line item in 16 of 40 randomly selected cases.

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

- 36 out of 50 randomly selected cases where a sanction was reported, yet no benefit reduction occurred during the report month; and,
- 2 cases where work participation hours were inaccurately reported.

We also reviewed data submitted on the ACF-209 quarterly reports and identified the “type of family for work participation” key line item was inaccurate for 3 of 18 randomly selected cases. We also identified 3 instances where the same client was reported on two separate cases, and one case where work participation hours were inaccurately reported.

According to the department, these errors are due to errors in programming.

This finding has been on-going since fiscal year 2010.

**We recommend** department management ensure the report accurately reflects the activity of the reporting period.

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 (93.558)                              |
| Federal Award Numbers and Year: | 2014G996115; 2014, 2014G991524; 2014,<br>2015G996115; 2015, 2015G9915TC; 2015 |
| 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.

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. During FY2015 DHHS directed the department to utilize the definition consistent with the US Code and to supply DHHS with a methodology for accomplishing the directive. The department requested clarity from DHHS regarding whether they should adopt a definition of "Indian country" without reference to the tribal restoration acts, and are still waiting for a response.

Consequently, there may be TANF clients improperly receiving federal assistance that have exceeded the five-year time limit. Over the past several years, between 5 and 8 of the counties in BIA's designated "service areas" had more than 50% of adults not employed. Based on this determination, the department exempted an average of approximately 2,100 total cases each month, out of approximately 23,600 statewide cases, from the federal time limit monthly count.

**We recommend** the department comply with the directive from DHHS and work with DHHS to resolve the different interpretations of the federal requirements for the TANF program.

Prior Year Finding(s)

In the prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to Temporary Assistance for Needy Families. For the fiscal-year ended June 30, 2014; see Secretary of State audit report number 2015-05, and for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09.

During fiscal year 2015, the department continued to work on developing controls and procedures for these findings. The findings listed in the following table will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015 with a status of partial corrective action.

| <u>Finding Title</u>  | <u>Prior Year Finding No.</u> |
|---|-------------------------------|
| Improve Compliance with Work Verification Plan                | 2013-030                      |
| Improve Accuracy and Completeness of Performance Data Reports | 2013-032                      |
| Questionable Interpretation of Federal Five-Year Time Limit   | 2013-034                      |
| Improve Compliance with Work Verification Plan                | 2014-024                      |
| Improve Accuracy and Completeness of Performance Data Reports | 2014-026                      |
| Questionable Interpretation of Federal Five-Year Time Limit   | 2014-027                      |

The audit findings and recommendations above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. 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 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 provide a response to Julianne Kennedy by March 16, 2016 and provide a copy to Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager.

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 Shelly Cardenas, Senior Auditor or Julianne Kennedy, Audit Manager at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

Clyde Saiki, Interim Director  
Department of Human Services  
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cc: Nadja Jones, Tribal Affairs Director  
Shawn Jacobsen, Controller  
Dave Lyda, Chief Audit Officer  
Xochitl Esparza, TANF Program Manager  
Tammy Brooks, TANF Policy Manager  
George Naughton, Interim Director, Department of Administrative Services