

Office of the Secretary of State

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March 14, 2016

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

Dear Mr. Saiki:

We have completed audit work of the following selected federal programs 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>
93.658	Foster Care – Title IV-E	\$ 94,815,923
93.659	Adoption Assistance – Title IV-E	\$ 44,960,776

This audit work was not a comprehensive audit of your federal programs. 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 programs.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>	<b>Federal Program</b>
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

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>	<b>Federal Program</b>
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 Performance	Determined whether federal funds were used only during the authorized period of performance.	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 Foster Care – Title IV-E and Adoption Assistance – Title IV-E 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 the Foster Care – Title IV-E and Adoption Assistance – Title IV-E 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**

#### **Financial Transaction Processing Errors in Child Welfare System**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658) Adoption Assistance – Title IV-E (93.659)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015, 1401OR1407; 2014, 1501ORADPT; 2015
<b>Compliance Requirement:</b>	Activities Allowed or Unallowed
<b>Type of Finding:</b>	Material Weakness, Material Noncompliance
<b>Questioned Costs:</b>	\$107,200

The department utilizes OR-Kids, Oregon's child welfare information system, to track placements, eligibility, payments, and other case information. Information systems should be designed to ensure information processed by the system is complete, accurate, and valid. As with any significant program or system, management should have an adequate understanding of the processes and controls they are relying on and should obtain assurance those processes and controls are functioning as intended.

While reviewing the financial data processed by OR-Kids in fiscal year 2015, we identified errors that occurred when various types of corrections were made to placement information in the system. When placement corrections are initiated, OR-Kids issues a “new” payment, and simultaneously recovers the funds from the old payment, which generally should result in no payment to the provider.

For some placement corrections, OR-Kids recorded the “new” expenditure to the federal program when the recovery of funds related to a state only grant instead of the federal program. This results in the department incorrectly reporting and drawing federal funds for these transactions, as explained below:

- For some placement corrections related to service periods prior to fiscal year 2014, OR-Kids processes the recovery of the funds as revenue in a state grant. However, in these cases it should have also reduced the federal expenditures and increased state expenditures for correct financial reporting. This process did not occur, resulting in questioned costs of \$66,000 for Foster Care and \$24,000 for Adoption Assistance.
- For some placement corrections related to fiscal year 2014 service periods, OR-Kids processed the recovery of funds as an expenditure reduction to a state grant instead of to the federal program, resulting in inappropriate federal expenditures. We identified questioned costs of \$16,600 for Foster Care.
- Due to other OR-Kids edits, if a placement correction is made that requires a child to be entered in a different age range for services (after the child’s birthday), OR-Kids will not allow it. We noted cases where the “new” payment was processed at the new rate for a prior service period, and the recovery was processed at the old rate, resulting in overpayments to the provider. We identified questioned costs of \$600 for Foster Care.

We also scanned transactions from the prior fiscal year and determined these transaction processing errors were occurring at that time.

**We recommend** department management review OR-Kids transaction processing and make system modifications as appropriate to ensure proper financial reporting of program expenditures. We also recommend department management review prior year and current year transactions and reimburse the federal agency for grant expenditures claimed inappropriately.

**Child Welfare System Allows Claims Outside Period of Performance**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658) Adoption Assistance – Title IV-E (93.659)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015, 1401OR1407; 2014, 1501ORADPT; 2015
<b>Compliance Requirement:</b>	Period of Performance
<b>Type of Finding:</b>	Material Weakness, Material Noncompliance

According to federal requirements, to be eligible for federal funding, expenditures must be submitted for reimbursement within two years after the calendar quarter in which the department incurred the expenditures (period of performance). 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, processes 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 performance.

When preparing the quarterly expenditure reports during fiscal year 2015, the department used a process that nets increases and decreases recorded in the accounting system for prior quarter adjustments 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 performance. For the quarter ended June 30, 2015, the department excluded \$377,000 in Title IV-E Adoption Assistance expenditures from the quarterly report as the department determined these expenditures were outside the period of performance. The department did not correct the accounting records to reduce federal expenditures for these reporting adjustments until after the audit period.

This issue was also reported in prior year findings 2013-025 and 2014-012.

**We recommend** department management implement system changes to OR-Kids to prevent transactions from reimbursing outside the period of performance. We also recommend management make timely adjustments to the accounting records to prevent the department from requesting federal reimbursement for expenditures incurred outside the period of performance.

### **Improve Child and Provider Eligibility Documentation**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015
<b>Compliance Requirement:</b>	Eligibility
<b>Type of Finding:</b>	Material Weakness, Material Noncompliance
<b>Questioned Costs:</b>	\$4,020

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 (including other adults residing in the home), and the foster home is fully licensed. In Oregon, a provider home is fully licensed after initially completing a home study, criminal background check (including other adults living in the provider's home), and child and abuse neglect registry check (including other adults residing in the home); these checks must also be completed at each two-year renewal for continuing certification as a licensed foster home.

We reviewed a random sample of 60 cases to determine whether the child and provider eligibility determinations were supported and identified the following exceptions:

- A child over age 18 received foster care reimbursement after the child had stopped attending school, making them ineligible for federal foster care payments, resulting in known questioned costs of \$1,400 and projected errors that total more than \$300,000.
- One case where the required initial home study for a provider was not signed or dated by the certifier or the supervisor. For initial certification, it has been the department's process to use the date the home study was signed by the supervisor. The date of certification in OR-Kids was in January 2015; the supervisor's electronic approval in OR-Kids was February 2015. There is no documentation to support the provider was certified in January 2015. The questioned costs for the provider in January were \$1,100.
- For one case, the department was unable to provide documentation to support that criminal background checks for other adults living in the provider's home were completed for the most recent renewal certification; the checks were completed for the prior renewal.
- One case where the department was unable to provide documentation to support that a child and abuse neglect registry check was completed for all adults in the home, and unable to support that a criminal background check was performed for another adult living in the provider's home for a renewal. A subsequent renewal had occurred and the department provided all required documentation.
- 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.

- One case where the department was unable to provide documentation to support that a child and abuse neglect registry check was completed for the most recent renewal certification; the checks were completed for the prior renewal.

We also performed procedures to determine if prior year eligibility errors had been corrected. For one provider that had lacked documentation to support certification in the prior year, some of the corrections had been made, but others remain outstanding; we identified an additional \$1,520 in questioned costs in fiscal year 2015.

This issue was also reported in prior year findings 2013-027 and 2014-014.

**We recommend** department management ensure all required documentation is completed, reviewed, and maintained and ensure client eligibility is terminated timely; as well as clarify and document whether the home study must be signed by the supervisor for a provider to be certified. We also recommend department management reimburse the federal agency for costs paid related to the ineligible child and provider.

#### **Provider Eligibility Documentation Incomplete**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Adoption Assistance – Title IV-E (93.659)
<b>Federal Award Numbers and Year:</b>	1401OR1407; 2014, 1501ORADPT; 2015
<b>Compliance Requirement:</b>	Eligibility
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Questioned Costs:</b>	\$7,900

Federal regulations require that the department meet certain requirements to receive adoption assistance 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 satisfactorily met a criminal background check and child abuse and neglect registry check. In Oregon, a verified criminal history requires a documented exception in certain instances to ensure the provider satisfactorily passed a criminal records check.

We reviewed a random sample of 60 cases to determine whether eligibility was supported and identified one case where the provider had a documented criminal history and child abuse and neglect registry history. The department documented an exception for the provider's child welfare history, but did not document the exception for the criminal history to support that the provider satisfactorily passed a criminal records check, resulting in known questioned costs of \$7,900, and likely questioned costs that exceed \$10,000.

**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 related to the ineligible provider.

**Data Necessary to Estimate Savings in State Expenditures is Incomplete**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Adoption Assistance – Title IV-E (93.659)
<b>Federal Award Numbers and Year:</b>	1401OR1407; 2014, 1501ORADPT; 2015
<b>Compliance Requirement:</b>	Level of Effort
<b>Type of Finding:</b>	Significant Deficiency

Beginning in fiscal year 2010, states are required to have two sets of program eligibility criteria for 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 must meet the eligibility requirements in place before 2010. In addition, States are required to estimate any savings in state expenditures as a result of applying the additional applicable child eligibility rules and spend an amount equal to the savings to provide other program related services.

During fiscal year 2015, the department revised its methodology for estimating savings in state expenditures based on guidance for adoption savings calculations provided by the federal agency. The department relies on reports from the child welfare system, OR-Kids, to identify actual cost savings related to children determined eligible as an applicable child. The error cases noted below were not included in the reports used by the department to estimate the savings because their eligibility was not properly marked in the system, resulting in underestimating the savings.

We tested 60 eligibility cases to determine if the department properly documented the child’s type of eligibility in OR-Kids and found 4 cases where the department determined the child eligible as an applicable child and noted the eligibility in a comment box rather than marking the applicable eligibility section in OR-Kids. Additionally, two cases identified in the prior year with the same error have also not been corrected.

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

This issue was also reported in prior year finding 2014-017.

**We recommend** department management continue to correct known applicable child eligibility data issues in OR-Kids to ensure data used to estimate the savings in state expenditures is complete and accurate.

### **Unsupported Costs Charged to Program**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015
<b>Compliance Requirement:</b>	Activities Allowed or Unallowed; Matching
<b>Type of Finding:</b>	Material Weakness, Noncompliance
<b>Questioned Costs:</b>	\$508

The Title IV-E Foster Care program provides matching funds at the federal financial participation rate 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 and identified the following exceptions:

- Two transactions where the activities may be allowable, but 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 for investigative services for specific cases, and the other was for legal services and witness fees, and the support did not identify what program the cases were related to. The department allocated the invoice amounts of \$7,856 and \$104,394 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.
- Two transactions were coded incorrectly in the accounting system as foster care expenditures, resulting in \$508 in questioned costs.
- Two transactions were coded properly, but the federal financial participation rates in the accounting system had not been updated, resulting in the department under claiming federal funds.

This issue was also reported in prior year finding 2014-015.

**We recommend** department management ensure its methodology for allocating administrative costs to the Title IV-E Foster Care program is documented and adequately supported, and also ensure that coding is correct and up-to-date in the accounting system. We also recommend department management reimburse the federal agency for unallowable costs.

### **Review Doesn't Prevent Incorrect Costs Charged to Program**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015
<b>Compliance Requirement:</b>	Activities Allowed or Unallowed
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Questioned Costs:</b>	\$28

Federal regulations allow expenditures to be reimbursed to foster care providers at the federal financial participation rate for various program costs, including maintenance payments and transportation costs. The department utilizes the child welfare system, OR-Kids, to process payments to providers for services.

We selected a random sample of 60 transactions recorded in OR-Kids to determine the allowability of costs charged to the foster care program and identified the following exceptions:

- Two transactions where the mileage rates paid did not agree with the mileage reimbursement rates in effect at the time of service. In one case, the provider was underpaid, and in the other case, the provider was overpaid.
- One transaction where a manual placement correction was entered in OR-Kids, triggering the reprocessing of payments, including a requested overpayment that was never approved or processed to recover the funds.

The department did not identify these errors during their review of these transactions. The known questioned costs for these errors is \$28, with likely questioned costs exceeding \$10,000.

**We recommend** department management ensure payments are reviewed and approved properly to ensure appropriate payments to providers. We also recommend department management reimburse the federal agency for unallowable costs.

### **Document Methodology to Review Payment Rates**

<b>Federal Awarding Agency:</b>	U.S. Department of Health and Human Services
<b>Program Title and CFDA Number:</b>	Foster Care – Title IV-E (93.658)
<b>Federal Award Numbers and Year:</b>	1401OR1401; 2014, 1501ORFOST; 2015
<b>Compliance Requirement:</b>	Special Tests and Provisions
<b>Type of Finding:</b>	Significant Deficiency

The department establishes payment rates for maintenance payments (e.g., payments to foster parents, child care institutions or directly to youth). In accordance with federal requirements, the department's approved state plan must provide for periodic review of payment rates for foster care maintenance payments at reasonable, specific, time-limited periods established by the department to assure the rates continue to be appropriate for the administration of the foster care program.

In 2009, the department utilized data from multiple sources to review its foster care maintenance rates and increased rates by more than 60% from the rates previously established in 2007. The department did not document its methodology for establishing the 2009 rates. According to the department, it has reviewed the rates each biennium for budget purposes but has not re-performed the methodology used in 2009. In 2012, the department reduced the rates by 10% to budget reductions. As of the end of fiscal year 2015, no changes have been made to the rates since 2012. The department's state plan also does not provide for specific, time-limited periods for reviewing maintenance payment rates.

**We recommend** department management document the methodology used to review maintenance payment rates for continuing appropriateness, including a specific, time-limited schedule for review.

### **Prior Year Finding(s)**

In prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to Foster Care and Adoption Assistance. 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 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, 2015 with a status of partial corrective action taken.

<u>Finding Title</u>	<u>Prior Year Finding No.</u>
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
Reimbursements Submitted Outside Period of Availability	2014-012
Quarterly CB-496 Report Not Supported	2014-013
Provider Eligibility Not Supported	2014-014
Undocumented Methodology for Costs Charged to Program	2014-015
Improve Reliability of Date Used to Estimate Savings in State Expenditures	2014-017

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 Kelly Olson by March 18, 2016 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 or Kelly Olson 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