

Office of the Secretary of State

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March 16, 2016

Clyde Saiki, Interim Director
Department of Human Services
500 Summer Street NE E-15
Salem, OR 97301-1097

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.

CFDA Number	Program Name	Audit Amount
93.575 & 93.596	Child Care and Development Fund Cluster	\$50,335,575.46

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

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.

Compliance Requirement	General Summary of Audit Procedures Performed
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. *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 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 Child Care and Development Fund Cluster.

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 certain deficiencies in internal control over compliance that we consider to be a material weakness.

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:	2014G99WRFD; 2014G999004 2014G999005; 2014G996005 2015G999004; 2015G999005 2015G996005; 2015G99WREL
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness, Material Noncompliance
Questioned Costs:	Known questioned costs: \$1,571 Likely questioned costs; \$1,033,640

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 60 families for eligibility and verified the monthly copay calculated for each family was accurate based on family size and income. We also verified that the monthly payment was accurate using the authorized hours and allowed amount for each provider. We identified the following errors in 13 of the 60 cases.

- For six cases the client's monthly copay was incorrectly calculated as too low with monthly errors totaling \$291. These errors were due to a caseworker
 - using the hourly rate and not documenting a reason for not considering overtime or an extra hourly rate;
 - reducing the copay to zero when it was calculated at a higher amount and not documenting a reason for the change;
 - entering the wrong income amount into the system that calculates the copay; and
 - using net income instead of gross income.
- For three cases, the department was unable to locate documentation to support the client's income. Based on the income narrated, the client was eligible and the copay was correctly calculated. However, there is a risk that the income narrated is incorrect as we could not verify it.

- For one case, the billing form included a total for four children. The department inadvertently input the total as the monthly charge for one of the children, causing the provider to be overpaid by \$125.
- For three cases, the department was unable to provide support for using the special needs rate. Children may qualify for this higher rate if they require a higher level of care; documentation should be retained to support the higher rate. Using the special needs rate resulted in the provider being overpaid by \$161.
- For three cases the department was unable to locate the client's application.
- For one case, the authorized hours for childcare were not supported but were based on the client asking for an increase in hours. This allowed the provider to bill at the monthly rate and not the part time rate. When eligibility was redetermined three months later, the hours authorized were for part time. This resulted in known questioned costs of \$906.
- For three cases, multiple providers were used to provide childcare to a family and in all cases the billing form for the primary provider included 100% of the copay. For these cases, we found that the primary provider either stopped billing or did not bill enough to cover the copay but the secondary provider billed enough hours. In two of the cases, it took the department several months to fix the copay and in one instance it was not fixed until the next application. The department's policy is to not collect the unmet copay, but to split the copay in future months between the providers. The department has a report to identify when a copay is not met. However, if the primary provider does not submit a bill, the copay will not be on the report. For these cases, the monthly errors totaled \$88.

Ensuring compliance with childcare copay and subsidy payments reduces the risk of overpayments from the program.

This was also reported in prior year finding 2014-032.

We recommend department management ensure a client's monthly copay is correctly calculated and a client's application, income and special needs rate documentation is maintained. Additionally, department management should develop a process to identify when the copay is not being met when multiple providers are used.

Prior Year Finding

For the prior fiscal year ended June 30, 2014, we reported a noncompliance and internal control finding related to the Child Care and Development Fund Cluster; see Secretary of State audit report number 2015-05, finding 2014-032. During fiscal year 2015, the department took some steps to address this finding, which 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 audit finding and recommendation above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. 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 material weakness 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 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 Rock or Kelly Olson at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: James R. Scherzinger, Chief Operating Officer
Eric Moore, Chief Financial Officer
Rhonda Prodzinski, Program Manager of Child Care,
Dr. Reginald Richardson, Director of Self Sufficiency Programs
Dave Lyda, Chief Audit Officer
George Naughton, Interim Director, Department of Administrative Services