

Office of the Secretary of State

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March 21, 2014

Tina Edlund, Acting Director  
Oregon Health Authority  
500 Summer St., NE, E-20  
Salem, OR 97301-1097

Dear Ms. Edlund:

We have completed audit work of the following federal program at the Oregon Health Authority (authority) for the year ended June 30, 2013.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.268	Immunization Cooperative Agreements	\$ 41,508,749

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, 2013, we determined whether the authority 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

Compliance Requirement	General Summary of Audit Procedures Performed
	was for an immediate need.
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.
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.

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. 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.

### **Significant Deficiencies**

#### **Strengthen Controls Over Supporting Documentation**

Federal Awarding:	Department of Health and Human Services
Program Title and CFDA Number:	Immunization Cooperative Agreements, 93.268
Federal Award Number and Year:	5H23IP022550-10, 2012 1H23IP000767-01, 2013 3H23IP000693-01S1, 2012 1H23IP000785-01, 2013
Compliance Requirement:	Allowable Costs
Type of Finding:	Significant Deficiency

Programs funded by the federal government generally have requirements regarding what types of goods and services are allowed to be purchased with federal funds. Payroll costs are generally allowable as long as the payroll costs are in line with the purpose of the program.

We reviewed a sample of 51 employee pay periods, which included reviewing employee timesheets and reports used to support payroll funding splits in the Oregon State Payroll Application (OSPA) to verify that the payroll expenditures were for program related purposes. The funding splits shown on four of the reports tested did not agree to the actual funding splits used in the OSPA. In addition, the department was unable to locate and, thus, we were unable to review 11 of the reports used to support payroll funding splits in the OSPA.

Although the funding split differences identified in the audit did not exceed \$10,000, inadequate retention of funding split reports and lack of verification of funding splits entered into OSPA may result in the authority charging and not detecting unallowable costs to Immunization grants.

**We recommend** management ensure controls are in place to review and retain reports used to justify payroll funding splits. Management should ensure funding splits entered into OSPA are appropriate, including those with differences noted during the audit.

#### **Obligations Incurred Outside of the Period of Availability**

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Immunization Cooperative Agreements, 93.268
Federal Award Number and Year:	5H23IP022550-10, 2012
Compliance Requirement:	Period of Availability
Type of Finding:	Significant Deficiency, Non-Compliance

Federal grants generally limit the availability of federal funding to a specified period of time. Under those regulations, expenditures may only be charged to an open grant phase for the program.

Due to the accounting system continuing to charge payroll and cost allocations to a closed grant phase, and due to inadequate review of balance transfers, expenditures continued to be charged to a grant phase beyond its period of availability.

The authority successfully reversed the payroll and cost allocation costs but missed \$87,930 in phase 13 costs that remained incorrectly coded as phase 12 costs in the accounting system.

**We recommend** management strengthen its review of balance transfers to ensure costs are not charged to a grant outside of its period of availability. We further recommend management consider implementing a process to limit the charging of costs to a closed grant thereby minimizing the need for corrections.

#### Federal Financial Reports Not Supported by Accounting Records

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Immunization Cooperative Agreements, 93.268
Federal Award Number and Year:	5H23IP022550-10, 2012 1H23IP000767-01, 2013 3H23IP000693-01S1, 2012 1H23IP000785-01, 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Non-Compliance

Quarterly and Final Federal Financial Reports are to include all activity of the reporting period and are to be supported by underlying accounting records. Final Federal Financial Reports are to report the entire amount authorized and disbursed by the end of the award period.

We reviewed the Final Federal Financial Report for the Immunization program and found that the authority reported the full award amount as obligated and disbursed by December 31, 2012. However, an error in certain county payments caused a delay in disbursement of some 2012 obligations until the first quarter of calendar year 2013. Consequently, the authority submitted the wrong report; an interim Federal Financial Report should have been submitted and the amount of un-liquidated obligations should have been annotated to reflect unpaid expenses.

Additionally, due to inadequate reconciliation procedures two of the three quarterly Federal Financial Reports reviewed contained quarterly expenditure totals that did not agree to the accounting records, indicating the accounting records could be in error.

**We recommend** management ensure the appropriate report is submitted at the end of a grant period. We also recommend management strengthen its reconciliations of Federal Financial Reports to ensure accounting records fully support reported amounts.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. 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 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 your response to us by April 3, 2014.

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 report 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 Brian Nava or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

cc: Suzanne Hoffman, Oregon Health Authority (OHA) Chief Operating Officer  
Kelly Ballas, OHA Chief Financial Officer  
Lillian Shirley, Public Health Director  
Dr. Thomas Eversole, Administrator, Center for Public Health Practice  
Lydia Emer, Immunization Section Manager  
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Dave Lyda, Chief Audit Officer for OHA and DHS  
Michael J. Jordan, Director, Department of Administrative Services