



Robert Taylor
Deputy Secretary of State

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March 10, 2015

Lynne Saxton, Director
Oregon Health Authority
500 Summer Street, NE, E-20
Salem, Oregon 97301-1097

Dear Ms. Saxton:

We have completed audit work of a selected federal program at the Oregon Health Authority (authority) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.268	Immunization Cooperative Agreements	\$42,506,311

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, 2014, we determined whether the authority 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.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.

Compliance Requirement	General Summary of Audit Procedures Performed
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.
Reporting	Verified the authority 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 authority 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 that is required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Authority management is responsible for establishing and maintaining effective internal control over compliance with program requirements. In planning and performing our audit, we considered the authority’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 authority’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 authority’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.

Audit Findings and Recommendations

Ensure Compliance Site Visits Are Performed Timely

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Immunization Cooperative Agreements
Federal Award Numbers and Year: 1H23IP000767-01; 2013, 5H23IP000767-02; 2014, 3H23IP000693-01S1; 2014, 1H23IP000785-01; 2013, 5H23IP000785-02; 2014, 3H23IP000785-01S1; 2013
Compliance Requirement: Special Tests and Provisions
Type of Finding: Significant Deficiency, Noncompliance

In state fiscal year 2014, the authority processed vaccine orders to 481 different providers throughout the State of Oregon. To comply with Centers for Disease Control requirements, the authority must perform a compliance site visit of its enrolled and active providers at least once every other calendar year. According to authority management, due to limited resources, the authority was not able to perform compliance site visits timely for 26 of the 481 providers. Without performing compliance site visits in a timely manner, providers could be operating out of compliance with the Immunization Program requirements.

We recommend management ensure compliance site visits are performed timely for all enrolled and active providers.

Strengthen Controls Over Timesheet Review

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Immunization Cooperative Agreements
Federal Award Numbers and Year: 1H23IP000767-01; 2013, 5H23IP000767-02; 2014, 3H23IP000693-01S1; 2014, 1H23IP000785-01; 2013, 5H23IP000785-02; 2014, 3H23IP000785-01S1; 2013
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency

Payroll costs can be directly charged to the Immunization Cooperative Agreements Grant as long as those costs are directly related to allowable efforts in the Immunization Program. Employees are expected to track and submit their time into the payroll system using the proper coding to reflect the programs they worked on during the month. The employee's supervisor is responsible for approving the hours and coding selected by the employee and does this by reviewing the Timesheet Audit and Control Report, which displays the 12 digit coding indicating how the charges are entered into the system. The supervisor reviews the hours and coding, and locks the timesheet to show approval. The report shows only the coding and does not display the program title or other information that could allow for a more efficient and effective review.

We reviewed a sample of 43 employee pay periods, which included reviewing employee timesheets and reports used to support employee payroll funding splits in the system. Ten of the 43 monthly payroll entries we reviewed were not locked in the system by the supervisor, signifying the supervisory review was performed.

We did not identify any funding split errors in our testing. However, a properly designed system of internal control should provide sufficiently detailed information to allow supervisors to efficiently and effectively review employee payroll data for the purpose of preventing and detecting unallowable costs charged to federal programs.

We recommend management consider implementing a payroll process that is sufficiently detailed to allow for an efficient and effective review of employee time and coding. We also recommend management ensure controls are fully implemented to document the review used to justify payroll funding splits.

Other Matter

In addition, we identified the following other matter that is an opportunity to strengthen internal control but is not considered to be a material weakness or significant deficiency in controls over compliance. This other matter does not require a written response from management.

Improve Internal Controls Over Federal Financial Reporting

Management is responsible for designing and implementing controls to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

We reviewed the Immunization Program's federal financial report for three of the four quarters in state fiscal year 2014. Our review of the quarterly report ending in March 2014 identified an overstatement of \$449,376 in the amount of cash disbursements reported due to an error in how the data was captured. This error was subsequently corrected in the report ending in June 2014. However, our review of the quarterly report ending in June 2014 identified an additional error that resulted in overstating cash disbursements by \$2,688.

We recommend management strengthen controls to ensure that the reported amounts are complete, accurate and presented in accordance with program requirements. We also recommend management review the reports submitted for fiscal year 2014 and submit corrections to the federal awarding agency, if necessary.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. 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 respond by March 18, 2015 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 Brian Nava or Julianne Kennedy at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Linda Hammond, OHA Interim Chief Operating Officer
Kelly Ballas, OHA Chief Financial Officer
Lillian Shirley, Public Health Director
Dr. Tom Eversole, Center for Public Health Practice Administrator
Aaron Dunn, Immunization Program Manager
Shawn Jacobsen, Controller
Dave Lyda, Chief Audit Officer
George Naughton, Acting Director, Department of Administrative Services