

Office of the Secretary of State

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March 14, 2016

Lynne Saxton, Director
Oregon Health Authority

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

Dear Ms. Saxton and Mr. Saiki:

We have completed audit work of the following federal program at the Oregon Health Authority (authority) and 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>
93.777, 93.778	Medicaid Cluster	\$ 6,522,992,326
93.778	Medicaid Cluster – ARRA	\$27,212,241

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 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.

Compliance Requirement	General Summary of Audit Procedures Performed
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Matching	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.
Procurement and Suspension and Debarment	Ensured payments were in accordance with contract requirements and that the vendor was not suspended or debarred from receiving federal funds.
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. *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 Medicaid program.

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 material weaknesses and significant deficiencies.

Audit Findings and Recommendations

Department of Human Services

Strengthen Controls to Ensure Provider Eligibility Documentation is Maintained

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Material Weakness, Material Noncompliance
Questioned Costs:	\$58,722

Provider eligibility requirements for the Medicaid cluster differ depending upon the type of services provided; however, all providers are subject to specified database checks and are required to sign an adherence to federal regulations agreement (agreement). State requirements also include a background check and proof of the right to work in the United States (I-9 form) for providers such as homecare workers and personal care providers. The department is responsible for determining the eligibility of these Medicaid providers.

We tested 49 of the department's providers receiving Medicaid funds during fiscal year 2015 and found the department could improve its documentation supporting provider eligibility. Specifically, we found:

- The department was unable to provide an agreement and I-9 form for one provider. We were unable to determine the provider's eligibility, resulting in \$536 of questioned cost for the fiscal year.
- For three providers, the department was unable to locate I-9 forms. We were unable to determine the eligibility for these providers, resulting in \$58,186 of questioned costs for the fiscal year.
- The department was unable to provide documentation of a completed background check prior to enrollment for one provider. We were able to verify the provider's eligibility.
- For two providers, evidence of two of the required federal database checks was missing, but we were able to verify the providers were eligible to provide services.

This finding is related to prior year audit findings 2013-035 and 2014-019.

We recommend department management strengthen controls to ensure documentation supporting a provider's eligibility determination is retained. For current providers with missing documentation, we recommend the department verify they are eligible to provide services.

Department of Human Services/Oregon Health Authority

Improve Client Eligibility Documentation

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Activities Allowed/Unallowed; Eligibility
Type of Finding:	Material Weakness; Noncompliance
Questioned Costs:	\$6,051

Federal regulations require certain conditions be met for the department and authority to receive Medicaid funding for medical claims, including a signed application and a redetermination of eligibility for the program every 12 months. In addition, for certain clients in long-term care the department calculates a client liability for the client's share of their monthly cost of care.

We tested 83 fiscal year 2015 Medicaid claims and found the following:

- For nine clients, the department could not provide applications. Through review of available documentation, we were able to determine that the clients were eligible for Medicaid.
- For seven clients, the department was unable to provide evidence that redeterminations had been performed timely. However, we were able to verify the clients were eligible for Medicaid.
- An eligibility coding error for one client in MMIS incorrectly caused the system to not require the client's eligibility to be redetermined. The client was initially eligible due to pregnancy as the household income was over the income level. The client's eligibility should have been redetermined for October 2013. The authority ended eligibility for the client effective August 31, 2015. Total overpayments made on behalf of the client for fiscal year 2015 were \$5,736.
- For one client, the client liability was calculated by the department using an incorrect income amount, which resulted in the client's liability being understated by \$105. This occurred for three months, resulting in a total of \$315 in overpayment.

This finding is related to prior year audit findings 2013-038 and 2014-018.

We recommend department and authority management strengthen controls to ensure sufficient documentation is maintained to demonstrate compliance with federal requirements and the client liability is calculated accurately.

Department of Human Services/Oregon Health Authority
Strengthen Controls over Non-Automated Transactions

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Allowable Costs; Matching
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$1,321,804

Federal regulations require that the department and the authority charge only allowable program expenditures to the program and at the appropriate federal financial participation (FFP) rates. Internal controls should ensure that only allowable expenditures are paid and done so at the appropriate FFP rates. Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance of the achievement of program requirements. A system of internal controls includes retaining documentation that supports the transactions such as contracts, invoices, or communications.

We judgmentally selected 32 expenditure transactions processed by the state's accounting system, instead of another sub-system such as the Medicaid Management Information System, to ensure the expenditures were for allowable costs and that the appropriate amount was

charged to the Medicaid program. For all 32 transactions reviewed, we found that each was reviewed and approved prior to payment; however, we found the following errors.

- For one transfer transaction, the authority shifted expenditures from the FFP rate to an enhanced rate of 90% to capture increased federal funding level for family planning expenditures. However, the transfer also included a subset of family planning services for an expansion population previously claimed at 100% FFP. This error resulted in \$790,479 being inappropriately paid for with federal funds.
- One transaction was an invoice for a quarterly payment related to an intergovernmental agreement (agreement). However, there was no valid agreement in place as of February 2016. The prior agreement, which expired March 2014, included a clause that total payments should not exceed \$150,000. During fiscal year 2015, the authority charged Medicaid \$900,000 for services related to this agreement, of which \$566,685 was paid with federal funds.
- For another transaction, incorrect account coding for splitting expenditures between federal and state funding sources resulted in the authority not claiming \$35,360 in federal Medicaid funds.

We recommend management strengthen controls to ensure only allowable costs are paid for at appropriate federal funding participation rates.

Oregon Health Authority/Department of Human Services
Continue to Strengthen ADP Risk Analyses and System Security Review Procedures

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency; Noncompliance

Federal regulations (45 CFR § 95.621) prescribe that states are responsible for the security of all operational Automatic Data Processing (ADP) systems involved in the administration of health and human service programs, including Medicaid. ADP requirements include establishing a security plan, biennially reviewing ADP system security installations involved in program administration, and establishing and maintaining a program for conducting periodic risk analyses, which includes performing risk analyses whenever significant system changes occur.

Prior year findings, dating back to fiscal year 2007, indicate that management has not devoted sufficient resources to fully comply with the federal requirement to perform ADP risk analyses and system security reviews. Inquiries with the management during fiscal year 2015 revealed the following:

- The agencies do not have a documented security plan addressing federally required components; however, in March 2015, an updated security policy was finalized, which was the basis of the development of a security plan. In addition, the authority, conducts vulnerability scans of the Medicaid Management Information System (MMIS) software at least every three years with the most recent scan performed in August 2012.
- The authority has not conducted reviews of the ADP system security installation on a biennial basis. In March 2015, the authority completed a review of the MMIS system; however, the authority and the department have not conducted system security installation reviews of the other systems involved in the administration of the Medicaid program.
- Management does not have a formalized risk analysis program in place to address all systems involved with the administration of the Medicaid program. The authority obtained a SSAE 16 Type II review of the MMIS from a third party in September 2015, which focused on user access and system security. However, there have not been any reviews of the other systems employed to administer the Medicaid program.

Without conducting ADP risk analyses and security reviews in accordance with federal regulations, management is less able to determine whether systems administering the Medicaid program are adequately safeguarding program assets and maintaining program integrity.

This finding is related to prior year audit findings 2013-042 and 2014-021.

We recommend management develop a security plan that addresses all federally required components, develop and implement a formalized risk analysis program, and ensure system security reviews are conducted timely for all applicable systems involved in the administration of the Medicaid program.

Department of Human Services **Improve Timeliness of Nursing Facility Surveys**

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency, Noncompliance

Federal regulations require the department to conduct surveys of nursing facilities receiving federal monies to determine compliance with applicable federal requirements. The survey should include prescribed health and safety standards and occur at a survey interval of no greater than fifteen months.

We reviewed 15 of the 142 nursing facilities receiving federal monies to verify the department performed the surveys and at an interval not exceeding fifteen months. All 15 nursing facilities

met the prescribed health and safety standards. We found the department had made significant improvement in conducting surveys within the 15 month requirement; however, six of the facilities surveys were completed one to three months beyond the 15 months.

According to the department, the reviews were not completed timely due to limited staffing resources. Without completing surveys in the time frame stipulated by federal regulations, there is an increased risk that Medicaid clients could receive substandard care.

This finding is related to prior year audit findings 2013-040 and 2014-020.

We recommend management develop a plan based on current resources to ensure the timely completion of provider health and safety standard surveys for nursing facilities.

Oregon Health Authority
Ensure Required Provider Screening is Documented Prior to Enrollment

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1405OR5MAP, 1405OR5ADM 1505OR5MAP, 1505OR5ADM
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency

Federal regulations (42 CFR § 455.436) require that the authority screen all Medicaid enrolled providers by ensuring providers are not listed in any of the following four federal databases: the Social Security Administration's Death Master File (DMF), the National Plan and Provider Enumeration System (NPPES), the List of Excluded Individuals/Entities (LEIE) and the System for Award Management (SAM).

In response to prior year single audit findings, the authority implemented new functionality in the Medicaid Management Information System (MMIS) in August 2014 to allow staff to document the verification of the four databases for new and revalidated providers. However, for one provider revalidated in June 2015, we found that only two of the four databases were marked as verified. Without evidence these databases were checked, the authority could be providing payment to providers that are not eligible to participate in the Medicaid program. We were able to confirm the provider was eligible.

This finding is related to prior year audit findings 2013-041 and 2014-023.

We recommend management ensure staff are documenting that all databases were verified for new and revalidated providers.

Department of Human Services/Oregon Health Authority
Unallowable Costs

Federal Awarding Agency:	U.S. Department of Agriculture U.S. Department of Health and Human Services
Program Title and CFDA Number:	SNAP Cluster (10.561) Medicaid Cluster (93.777, 93.778) TANF (93.558) Foster Care – Title IV-E (93.658) Adoption Assistance – Title IV-E (93.659) CCDF (93.596)
Federal Award Numbers and Year:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Type of Finding:	Significant Deficiency; Noncompliance
Questioned Costs:	\$130,000

In the course of providing services to clients and administering agency operations, the department and the authority receive and process numerous invoices for payment. The invoices are reviewed and approved to ensure the expenditures are valid, the coding directs the expenditure to the appropriate cost center, and the cost is allowable. The cost centers may be directed specifically to a federal or state program, or to a cost pool that allocates the expenditures through the cost allocation process. The cost allocation process provides a mechanism to allocate indirect costs to multiple programs receiving benefit from the expenditures or shared service, and is administered in accordance with federally approved plans for the department and the authority.

During our testing of the expenditures entering the cost allocation process, we reviewed a sample of 51 non-payroll related transactions to ensure that expenditures were (1) allowable per the federal guidelines in OMB Circular A-87 and (2) appropriately charged to the indirect cost pool. We identified the following exceptions:

- One sample related to a court settlement for \$15,000 was coded to a cost pool, but was not allowable per OMB Circular A-87. We performed additional procedures and did not identify any other legal settlements in the cost pools so we did not project the error to the population.
- One sample related to the purchase of gas cards for clients totaling about \$2,404. It was incorrectly charged to the indirect cost pool in addition to being recorded in the department's child welfare system and charged to applicable federal programs.
- Two samples where documentation either was not available or did not support the amount reimbursed resulting in questioned costs of \$96.

The projected total is over \$115,000 of unallowable costs entering the cost pools that were ultimately allocated to various federal programs.

We recommend management ensure staff receive training regarding the proper coding for expenditures and allowability of expenditures to be paid with federal funds. Additionally, we

recommend that management ensure documentation is maintained to support expenditures paid. Further, for the specific items identified, we recommend the management correct the coding errors and ensure the expenditures are billed to the appropriate program and/or source of funds.

Department of Human Services/Oregon Health Authority
Cost Allocation Plans Not Updated Timely

Federal Awarding Agency:	U.S. Department of Agriculture U.S. Department of Health and Human Services
Program Title and CFDA Number:	SNAP Cluster (10.561) Medicaid Cluster (93.777, 93.778) TANF (93.558) Foster Care – Title IV-E (93.658) Adoption Assistance – Title IV-E (93.659) CCDF (93.596)
Federal Award Numbers and Year:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Type of Finding:	Significant Deficiency

The department administers separate federally approved cost allocation plans for both the department and the authority. The plans outline the allocation methods used to apportion various cost pools to federal programs.

Federal rules allow state agencies to make changes to federally approved cost allocation plans, but require state agencies to promptly notify the federal oversight agency when changes are made that will affect the allocation of costs. At a minimum, agencies are required to submit an annual statement certifying that their plan is not outdated.

In allocating costs from the pools, various statistics are used. Some are based on random moment sampling (surveys to department staff to identify what programs they were working on at specified dates and times), as well as other data such as number of program participants eligible for federal assistance, and financial data. During our review, we found that the calculations for some of the random moment statistics did not agree to the details in the most recently submitted plans.

Additionally, we identified instances in which the methodology used to allocate costs for several pools in April 2015 was not the methodology listed in the applicable federally approved cost allocation plans.

According to the department, when changes are made to the plans the department only communicates those changes to the federal government when subsequent plans are submitted. Due to staff turnover in previous years within the cost allocation unit and recent structural changes for the authority, detailed plans have not been submitted since June 2013; the department is currently in the process of updating cost allocation plans for the department and the authority.

Failure to follow the requirements of federally approved cost allocation plans may result in allocated costs being disallowed by the federal oversight agency.

This finding is related to prior year audit findings 2014-031.

We recommend management update the cost allocation plans for the department and authority to reflect current practices and ensure future changes are communicated timely.

Prior Year Findings

In the prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to the Medicaid Cluster. 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.

Finding Title	Prior Year Finding No.
Provider Eligibility Documentation Not Maintained	2013-035
MMIS Key Edits Should be Periodically Tested	2013-037
Medicaid Payments Not Sufficiently Supported	2013-038
Nursing Facility Provider Health and Safety Standard Surveys Not Performed Timely	2013-040
Required Provider Screening Not Documented	2013-041
ADP Risk Analyses and System Security Review Procedures Need Strengthening	2013-042
Ensure Medicaid Payments are Sufficiently Supported	2014-018
Strengthen Controls to Ensure Provider Eligibility Documentation is Maintained	2014-019
Improve Timeliness of Nursing Facility Surveys	2014-020
Strengthen ADP Risk Analyses and System Security Review Procedures	2014-021
Improve Controls Over the Identification and Review of MMIS Key Edits	2014-022
Ensure Required Provider Screening is Documented	2014-023
Timely Submit Changes to Cost Allocation Plan Statistics	2014-031

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 Wendy Hewitt or Kelly Olson at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Bill Coulombe, OHA Budget Director
Mark Fairbanks, OHA Chief Financial Officer
Jim Scherzinger, DHS Chief Operating Officer
Eric L. Moore, DHS Chief Financial Officer
Shawn Jacobsen, Controller
Dave Lyda, Chief Audit Officer
George Naughton, Interim Director, Department of Administrative Services