



Kip Memmott
Division Director

January 2, 2025

Fariborz Pakseresht, Director
Oregon Department of Human Services
500 Summer St NE, E15
Salem, Oregon 97301

Sejal Hathi, Director
Oregon Health Authority
500 Summer St NE, E20
Salem, Oregon 97301

Dear Director Pakseresht and Director Hathi:

We have completed audit work of selected financial accounts at your departments for the year ended June 30, 2024. This audit work was not a comprehensive financial audit of the departments but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and

255 Capitol St NE, Ste 180
Salem, Oregon 97310

therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

Significant Deficiency

Strengthen internal controls over the ONE system

Criteria: 2 CFR 200.303(a); Oregon Accounting Manual 10.60.00.PR

The Oregon Eligibility System (ONE system) is utilized by multiple federal programs at the Oregon Department of Human Services (ODHS) and the Oregon Health Authority (OHA). For the Medicaid program, the ONE system determines and verifies the eligibility of the 1.4 million Medicaid clients in Oregon, which leads to over \$17.5 billion in program expenditures each year. Additionally, the ONE system determines eligibility for the Supplemental Nutrition Assistance Program (SNAP) and calculated benefits totaling over \$1.7 billion during fiscal year 2024. The ONE system is owned by the ODHS, but an external vendor performs several key functions such as maintaining system documentation, performing quality control and quality assurance over reports required for federal reporting, and providing data management services, among other functions.

During our audit, we reviewed the internal controls over the SNAP program, including certain department controls related to the ONE system. Although the ODHS has a series of controls specific to the SNAP program, there are weaknesses in the overall controls around the ONE system. The Oregon Audits Division originally reported this issue in our fiscal year 2021 audit in management letter 443-2022-02-01. Specifically, because the ONE system is administered by an external vendor, best practices would include procedures to verify the internal controls at the external vendor are adequate to meet the business needs of ODHS and OHA. Such assurances are typically provided through a System and Organization Controls (SOC) 2 type II report. A type I review only verifies controls exist but does not test for their effectiveness. A type II report provides assurance that the controls are functioning and effective. ODHS and OHA management has taken steps to address the weaknesses identified within the departments. However, neither department has obtained a SOC 2 Type II report to identify and review the controls at the external vendor.

Without assurance the ONE system controls are functioning correctly at the external vendor, there is an increased risk of potential data breach, unapproved or unauthorized changes to system processes and data tables, and inappropriate expenditures for federal programs.

Additionally, as the ONE system calculates benefit payments for the SNAP program, the information interfaces with the mainframe system and then to the state accounting system (SFMA), which is used for statewide financial reporting and grant tracking for federal reporting purposes. When financial transaction data migrates from one system to another, a standard practice is to reconcile the data between the systems to ensure that all data migrates completely and accurately. Currently, the departments are working to finalize control reports from the ONE system to facilitate this reconciliation process with the mainframe system. During our audit we were able to materially reconcile ONE to SFMA to meet the requirements of the audit. However, unexplained variances existing between the two systems should be further investigated

and resolved by the departments. Failure to adequately reconcile data interfaces increases the risk of inappropriate expenditures and inaccurate financial and federal grant reporting.

We recommend management obtain a SOC 2 Type II report for the ONE system or perform other alternative procedures to ensure that the internal controls over the ONE system at the external vendor are sufficient to meet the business needs of ODHS and OHA. We also recommend management regularly reconcile transactions originating in the ONE system through the mainframe system to SFMA to ensure data remains complete, accurate, and valid through the interface process.

Prior Year Findings

In the prior fiscal year, we reported a material weakness related to the department's year-end accounting entries in a letter dated January 16, 2024. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2023, see Secretary of State audit report number 2024-14, finding number 2023-001. Additionally, in a letter dated March 27, 2023, we reported a material weakness relating to federal grant reporting for the Pandemic EBT (P-EBT) program. See finding 2022-001 in Secretary of State audit report number 2023-21. During fiscal year 2024, the department resolved both findings. The findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2024, with a status of corrective action taken.

The above significant deficiency, along with your response for each finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. Please prepare a response to the finding and include the following information as part of your corrective action plan:

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 Michell Searfus by January 10, 2025, and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter 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, Audit Manager or Geoff Hill, Principal Auditor at michelle.n.searfus@sos.oregon.gov or geoff.m.hill@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Liesl Wendt, ODHS Deputy Director
Kris Kautz, OHA Deputy Director
Rob Kodiriy, ODHS Chief Financial Officer
Rochelle Layton, OHA Chief Financial Officer
Shawn Jacobsen, Controller
Sarah Landis, Chief Audit Executive
Berri Leslie, Director, Department of Administrative Services
Robert Hamilton, State Controller, Department of Administrative Services