



Steve Bergmann
Division Director

March 6, 2025

Dr. Sejal Hathi, Director
Oregon Health Authority
500 Summer Street NE, E-20
Salem, Oregon 97301

Dear Director Hathi:

We have completed audit work of selected federal programs at the Oregon Health Authority (department) for the year ended June 30, 2024.

| Assistance Listing Number | Program Name | Audit Amount |
|---------------------------|---|---------------|
| 93.788 | Opioid STR/SOR | \$ 18,365,655 |
| 93.958 | Block Grants for Community Mental Health Services | \$ 26,816,672 |
| 93.959 | Block Grants for Substance Use Prevention, Treatment, and Recovery Services | \$ 25,027,490 |

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. The Office of Management and Budget (OMB) Compliance Supplement identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls over compliance for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that could have a direct and material effect on each of the federal programs under audit.

We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. Our audit does not provide a legal determination of the department's compliance with the compliance requirements referred to in Appendix A.

For the year ended June 30, 2024, we determined whether the department substantially complied with the compliance requirements listed in Appendix A as relevant to the federal programs under audit.

Responsibilities of Management for Compliance

Department management is responsible for compliance with the requirements referred to in Appendix A, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the federal program referred to above.

255 Capitol St NE, Ste 180
Salem, Oregon 97310

Tobias Read
Oregon Secretary of State

Michael Kaplan
Deputy Secretary of State

Information (503) 986-2255
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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to in Appendix A occurred, whether due to fraud or error, and express an opinion on the department's compliance based on our audit work. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirement referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the department's compliance with the federal programs.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Noncompliance

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and are described below.

Material Noncompliance is a failure to comply with federal statutes, regulations, and the terms and conditions of the federal award that results in an aggregation of noncompliance that is material to the affected federal programs. As described below, 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 Block Grants for Community Mental Health Services and Block Grants for Substance Use Prevention, Treatment, and Recover Services programs.

Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described below to be material weaknesses and significant deficiencies, as indicated.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Audit Findings and Recommendations****Continue to implement and strengthen controls to ensure subrecipients are appropriately identified and monitored***

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| Federal Awarding Agency: | U.S. Department of Health and Human Services |
| Assistance Listing Number and Name: | 93.958 Block Grants for Community Mental Health Services 93.958 Block Grants for Community Mental Health Services (COVID-19) 93.959 Block Grants for Substance Use Prevention, Treatment, and Recovery Services 93.959 Block Grants for Substance Use Prevention, Treatment and Recovery Services (COVID-19) |
| Federal Award Numbers and Years: | 93.958: B09SM086032, 2022; B09SM087383, 2023; B09SM085378, 2022 (COVID-19) 93.959: B08TI084667, 2022; B08TI085829, 2023; B08TI083963, 2022 (COVID-19) |
| Compliance Requirement(s): | Subrecipient Monitoring |
| Type of Finding: | Material Weakness; Material Noncompliance |
| Prior Year Findings: | 2023-020; 2022-043 |
| Questioned Costs: | N/A |

Criteria: 2 CFR 200.331; 45 CFR 75.352(b); 45 CFR 75.352(d)

Federal regulations require passthrough entities to determine if the recipients of disbursements of federal funds are subrecipients or contractors. The subrecipient and contractor determination will impact which federal compliance requirements recipients are subject to and how program expenditures are reported on the Schedule of Expenditures of Federal Awards (SEFA). For recipients meeting the definition of a subrecipient, federal regulations require pass-through entities to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for the purpose of determining appropriate subrecipient monitoring activities. Monitoring activities should be completed based on the results of the subrecipient's determined risk to ensure subawards are used appropriately.

We reviewed the department's classification of a sample of recipient contracts with expenditures recorded during state fiscal year 2024. The sample included 7 of 34 Block Grants for Community Mental Health (MHBG) and 13 of 76 Block Grants for Substance Use Prevention, Treatment, and Recovery Services (SUPTRS). Based on the following inconsistencies identified during our review, it is unclear if the department correctly classified recipients as subrecipients or contractors and whether the related expenditures are reported accordingly.

- One recipient of SUPTRS funds was classified as a subrecipient by the department, but it was unclear if it met the definition of a subrecipient.
- Two recipients of MHBG funds and 2 recipients of SUPTRS funds were classified as contractors; however, payments made to these recipients were recorded as passthrough expenditures. In each case, the recipient appeared to meet the definition of a subrecipient.

In addition, we followed up on similar errors noted during the prior fiscal year. Six recipients of MHBG funds and 1 recipient of SUPTRS funds appeared to be inappropriately categorized as subrecipients in the prior fiscal year yet reported passthrough expenditures in state fiscal year 2024.

Finally, post-award monitoring was not completed for 5 of 7 MHBG and 8 of 13 SUPTRS subrecipients selected for testing.

The above issues did not result in questioned costs. However, a total of \$3,875,104 in MHBG funds and \$357,406 in SUPTRS funds may be inappropriately reported as passthrough expenditures instead of direct expenditures.

We inquired about the department's risk assessment and monitoring activities for subrecipients. During state fiscal year 2024, the department began to develop and implement new processes and controls to help staff better distinguish recipients as subrecipients or contractors and ensure compliance with federal subrecipient monitoring requirements. Specifically, the department developed a determination checklist using the subrecipient determination criteria in 2 CFR 200.331. Staff are to complete the determination checklist for each new contract. Identified subrecipients are then required to complete a self-risk assessment tool, the result of which generates a monitoring plan outlining what monitoring procedures department staff will perform. In addition, the department is working with another entity to develop subrecipient monitoring training videos. Implementation of the above processes and controls was initiated near the end of state fiscal year 2024 with full implementation planned the end of state fiscal year 2025.

We recommend department management continue to implement and strengthen controls to ensure recipients of federal funds are appropriately identified as subrecipients or contractors and the corresponding disbursement of federal funds are appropriately reported as direct or passthrough expenditures. **We further recommend** department management comply with subrecipient monitoring requirements, continue to develop and implement internal controls to ensure risk assessments are performed and documented for each subrecipient, and monitoring activities are completed and documented according to the risk assessment results.

Submit required Federal Funding Accountability and Transparency Act reports

Federal Awarding Agency: U.S. Department of Health and Human Services

Assistance Listing Number and Name: 93.788 Opioid STR
93.958 Block Grants for Community Mental Health Services
93.959 Block Grants for Substance Use Prevention, Treatment, and Recovery Services

Federal Award Numbers and Years: 93.788: H79TI085732, 2023; H79TI085732, 2024
93.958: B09SM086032, 2022; B09SM087383, 2023
93.959: B08TI084667, 2022; B08TI085829, 2023

Compliance Requirement(s): Reporting

Type of Finding: Significant Deficiency; Noncompliance

Prior Year Findings: 2022-045

Questioned Costs: N/A

Criteria: 2 CFR 170 Appendix A; 2 CFR 200.303

Federal regulations require recipients of federal awards to report certain subaward information in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System for subawards meeting the criteria for reporting. Reports must be submitted no later than the end of the month following the month in which the subawards were made. Federal regulations also require recipients of federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

We identified and reviewed the reporting status of all the department's new subawards subject to FFATA reporting during the audit period. We determined:

- 12 of 12 Opioid STR subawards were not reported, totaling \$750,000 in obligations.
- 7 of 7 Block Grants for Mental Health Services subawards were not reported, totaling \$4.4 million in obligations.
- 13 of 13 Block Grants for Substance Use Prevention, Treatment, and Recovery Services subawards were not reported, totaling \$2.8 million in obligations.

The department utilizes a spreadsheet to track and maintain subaward information needed to comply with FFATA reporting requirements. However, we found the tracking spreadsheet had not been updated to include information for the majority of new contracts initiated during state fiscal year 2024. Per management, FFATA reporting was not completed due to the FFATA Reporting Coordinator position being vacant since July 2024.

We recommend department management resume FFATA reporting as soon as feasible and ensure all necessary subawards are reported. **We further recommend** department management strengthen existing controls to ensure all subawards are appropriately tracked and reported.

Strengthen existing controls to ensure only those costs incurred during the period of performance are charged to the grant

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| Federal Awarding Agency: | U.S. Department of Health and Human Services |
| Assistance Listing Number and Name: | 93.959 Block Grants for Substance Use Prevention, Treatment, and Recovery Services |
| Federal Award Numbers and Years: | B08TI084667, 2022 |
| Compliance Requirement(s): | Period of Performance |
| Type of Finding: | Significant Deficiency; Noncompliance |
| Prior Year Findings: | N/A |
| Questioned Costs: | \$82,315 |

Criteria: 2 CFR 200.303; 42 USC 300x-62

Federal regulations provide for amounts awarded to the department be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were awarded. Federal regulations also require recipients of federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

During state fiscal year 2024, one grant award under the Block Grants for Substance Use Prevention, Treatment, and Recovery Services closed. The period of performance for this grant was October 1, 2021 through September 30, 2023. During the closeout process, the grant accountant reviews program expenditures recorded in the state accounting system and shifts expenditures incurred after the period of performance to a subsequent grant. During testing, we reviewed all grant expenditures recorded in the state accounting system after the period of performance. We found indirect expenditures for October and November 2023, totaling \$82,315, had been charged to the closed grant.

Upon inquiry, we learned the query used to identify transactions incurred after the period of performance was inadvertently filtered to identify only direct expenditures. As a result, some indirect expenditures were not identified in the query and were not appropriately moved to the subsequent grant.

We recommend department management strengthen existing controls to ensure only those expenditures incurred during the period of performance are charged to the grant.

Prior Year Findings

In the prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to the Block Grants for Community Mental Health, Block Grants for Substance Use Prevention, Treatment, and Recovery Services, and the Opioid STR federal programs. For the fiscal year ended June 30, 2023; see Secretary of State audit report number 2024-14 and for the fiscal year ended June 30, 2022; see Secretary of State audit report number 2023-21.

During fiscal year 2024, the department made progress addressing findings identified in fiscal years 2023 and 2022. The uncorrected 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 or partial corrective action taken.

| Prior Year Finding No. | Finding Title | Status |
|---------------------------|--|---------------------------------|
| 2023-021 | Implement controls to ensure earmarked expenditures are tracked and compliance achieved. | Corrective Action Taken |
| 2023-020 | Implement controls to ensure subrecipients are appropriately identified and monitored. | Partial Corrective Action Taken |
| 2022-048 | Improve review of federal performance progress reports. | Partial Corrective Action Taken |
| 2022-047 | Implement controls to comply with subrecipient monitoring requirements. | Partial Corrective Action Taken |
| 2022-045 | Submit required FFATA reports. | Partial Corrective Action Taken |
| 2022-044 | Implement a consistent methodology for calculation of maintenance of effort. | Corrective Action Taken. |
| 2022-043 | Implement controls to ensure subrecipients are appropriately identified and monitored. | Partial Corrective Action Taken |
| 2022-042 | Ensure expenditures of federal funds are for allowed activities. | Corrective Action Taken |

Response to Current Year Findings

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, 2024. 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 weakness 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 the [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 for each audit finding.
3. The anticipated completion date.
4. The contact person(s) responsible for corrective action.

Please provide a response to Michelle Searfus by Friday, March 14, 2025 and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

The purpose of this communication is solely for the information and use of management and others within the organization to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. 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 Alan Bell or Michelle Searfus at alan.j.bell@sos.oregon.gov or michelle.n.searfus@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Kris Kautz, Deputy Director for Administration
Dave Baden, Deputy Director for Policy and Programs
Rochelle Layton, Chief Financial Officer
Shawn Jacobsen, Controller
Ebony Clarke, Director, Behavioral Health
Christa Jones, Deputy Director, Service Delivery, Behavioral Health
Lynnea Lindsey, Deputy Director, Equity & Community Partnerships, Quality Assurance,
Behavioral Health
Jon Collins, Deputy Director, Operations & Strategy, Behavioral Health
Samantha Byers, Adult Behavioral Health Director, Behavioral Health
Kirsten Brown, Adult Behavioral Health Manager, Behavioral Health
Travis Labrum, Accounting Manager, SHD OCF, Management & Reporting
Mick Kincaid, Business Operations Director, Behavioral Health
Sarah Landis, Chief Audit Executive
Berri Leslie, Director and Chief Operating Officer, Department of Administrative Services
Rob Hamilton, State Controller, Department of Administrative Services

APPENDIX A

| Compliance Requirement | General Summary of Audit Procedures Performed | Federal Program |
|--|---|------------------------------|
| Activities Allowed or Unallowed | Determined whether federal awards were expended only for allowable activities. | 93.788; 93.958; 93.959 |
| Allowable Costs/Cost Principles | Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated. | 93.788; 93.958; 93.959 |
| Cash Management | Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn in advance was for an immediate need, and applicable interest was reported/remitted. | 93.788; 93.958; 93.959 |
| Matching, Level of Effort, Earmarking | 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. | 93.958; 93.959 |
| Period of Performance | Determined whether federal funds were used only for allowable costs incurred during the authorized performance period. | 93.958; 93.959 |
| Procurement and Suspension and Debarment | Determined whether procurements were made in compliance with state procurement requirements and verified that contractors were not suspended, debarred, or otherwise excluded from receiving federal funds. | 93.788 |
| 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. | 93.788; 93.958; 93.959 |
| Subrecipient Monitoring | Determined whether the state agency monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with federal requirements. | 93.788; 93.958; 93.959 |