



Steve Bergmann
Division Director

March 20, 2026

Sejal Hathi, Director
Oregon Health Authority
500 Summer Street NE, E-20
Salem, Oregon 97301-1097

Liesl Wendt, Director
Oregon Department of Human Services
500 Summer Street NE, E15
Salem, Oregon 97301-1097

Dear Director Hathi and Director Wendt:

We have completed audit work of a selected federal program at the Oregon Health Authority (OHA, referred hereafter as authority) and the Oregon Department of Human Services (ODHS referred hereafter as department) for the year ended June 30, 2025.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.777 and 93.778	Medicaid Cluster	\$ 13,247,263,195

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. 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 the federal program under audit.

We are required to be independent of both agencies 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 agencies' compliance with the compliance requirements referred to in Appendix A.

For the year ended June 30, 2025, we determined whether the agencies substantially complied with the compliance requirements listed in Appendix A as relevant to the federal program under audit.

Responsibilities of Management for Compliance

Agency 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

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requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the agencies' federal program referred to above.

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 agencies' 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 judgment made by a reasonable user of the report on compliance about each agency's compliance with the federal program.

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 each agency'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 each agency'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 the agencies' 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. Our opinion on the federal program is not modified with respect to these matters.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be 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 significant deficiencies.

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 strengthen internal controls over the ONE system

Federal Awarding Agency: U.S. Department of Health and Human Services
ALN and Program Name: 93.777 and 93.778 Medicaid Cluster
FAINs and Years: 2405OR5MAP, 2024; 2405OR5ADM, 2024;
 2505OR5MAP, 2025; 2505OR5ADM, 2025
Compliance Requirement(s): Activities Allowed or Unallowed; Eligibility; Special Tests and Provisions – ADP Risk Analysis and System Security Review
Type of Finding: Significant Deficiency; Noncompliance
Prior Year Finding: 2024-017
Questioned Costs: N/A

Criteria: 2 CFR 200.303(a); 42 CFR 95.621; Oregon Accounting Manual 10.60.00.PR

Condition: As in the prior year's audit, we noted the agency had not obtained a System and Organization Controls (SOC) 2 Type II report over the Oregon Eligibility System (ONE system). The ONE system determines and verifies the eligibility of Medicaid clients in Oregon, which leads to over \$13.2 billion in Medicaid federal expenditures each year. The ONE system is owned by the department but administered by an external service provider.

Cause: Because the ONE system is administered by an external vendor, best practices would include procedures to verify the internal controls at the external service provider are adequate to meet the business needs of the department. Such assurances are typically provided through a SOC 2 Type II report. A Type II report provides assurance about whether the controls are functioning and effective. The department is in the process of securing a contract for the performance of a SOC 2 Type II review over the external vendor administering the ONE system.

Effect: The department does not have assurance over the operating effectiveness of controls at the external service provider, which may affect the eligibility and allowability of Medicaid expenditures.

Recommendation: We recommend department management obtain an annual SOC 2 Type II report over the service organization's internal controls for the ONE application or perform other alternative procedures to ensure internal controls over the ONE system at the external service provider are sufficient to meet the business needs of the Medicaid program.

Continue to strengthen Medicaid fraud hotline reporting mechanisms

Federal Awarding Agency: U.S. Department of Health and Human Services
ALN and Program Name: 93.777 and 93.778 Medicaid Cluster
FAINs and Years: 2405OR5MAP, 2024; 2405OR5ADM, 2024;
 2505OR5MAP, 2025; 2505OR5ADM, 2025
Compliance Requirement(s): Special Tests and Provisions – Medicaid Fraud Control Unit
Type of Finding: Significant Deficiency; Noncompliance
Prior Year Finding: 2024-018
Questioned Costs: N/A

Criteria: 42 CFR 455.13(a); 42 CFR 455.14; 2 CFR 200.514 (c)(4); 2 CFR 200.303(a)

Condition: The state is required to have a method and criteria for identifying suspected fraud. For all suspected fraud reported, the state must complete a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation. The state is also required to maintain internal controls effective in preventing and/or detecting noncompliance. To ensure adequate compliance with these requirements, the state uses a publicly available hotline portal to collect suspected fraud details. The Oregon Department of Human Services (department) manages the state's online hotline portal and phone line. The department works collaboratively with the Oregon Health Authority (authority) and Department of Justice (DOJ) to complete fraud investigations and referrals within their individual jurisdictions as required by standards. Referrals from the online hotline portal are extracted and then reviewed and tracked by the individual agency with appropriate jurisdiction.

During inquiries and testing of the online hotline portal and phone line as part of the prior year audit, we noted the following:

- The online hotline portal instructions and term definitions were vague, and not all fields were available.
- The online hotline portal does not contain any case tracking details.

Per department management, work is underway to improve the website and set up a case tracking system.

Cause: Management has not established procedures to ensure current systems operate in a manner that allows the agencies to meet compliance standards.

Effect: Vague online hotline portal instructions and definitions and unavailable fields could lead to a higher number of cases being closed for insufficient information. Additionally, without tracking details the online hotline portal does not support any reporting to assist the department in ensuring all cases have had preliminary investigations. As such, we were unable to perform testing procedures over preliminary investigations.

Recommendation: We recommend department management continue to work to ensure public access to provide fraud referrals is not limited, and that a referral tracking mechanism is created to ensure all referrals are given preliminary investigations.

Continue to ensure compliance with federal Medicaid hospital audit requirements

Federal Awarding Agency: U.S. Department of Health and Human Services
ALN and Program Name: 93.777 and 93.778 Medicaid Cluster
FAINs and Years: 2405OR5MAP, 2024; 2405OR5ADM, 2024; 2505OR5MAP, 2025; 2505OR5ADM, 2025
Compliance Requirement(s): Special Tests and Provisions – Inpatient Hospital and Long-term Care Facility Audits
Type of Finding: Significant Deficiency; Noncompliance
Prior Year Finding: 2023-022
Questioned Costs: N/A

Criteria: 42 CFR 447.253(g); 2 CFR 200.303(a)

Condition: Federal regulations require management to establish and maintain effective internal controls to ensure compliance with federal program requirements. As part of its system of internal control, federal regulations require the Oregon Health Authority (authority) to conduct periodic audits of the financial and statistical records of participating hospitals. Inpatient hospitals are required to report actual costs to the authority who conducts audits of the reported costs.

During state fiscal year 2023, the authority did not conduct any cost settlement audits of the 61 hospitals that received Medicaid federal funds in the fiscal year. The auditors reported a finding (2023-022) during the audit of state fiscal year 2023 which remains

uncorrected. As of March 12, 2026, the authority is working on completing 2018 cost settlements. To be timely, the authority should be working on 2022/2023 cost settlements at this time. There are currently 28 cost settlements completed that cannot be finalized while the authority waits for an updated cost settlement form from the authority's shared services Office of Financial Services.

Cause: The department experienced a restructuring and unexpected turnover from 2023 through 2025, including the loss of the program manager. New staff were hired to fill some of the vacancies, but staffing has remained problematic. Per management, training for updated requirements and updating agency tools has also caused delays in the completion of audits.

Effect: By failing to complete required audits, the authority does not have assurance that participating hospitals use program funds properly, which could lead to inappropriate payments to the hospitals.

Recommendation: We recommend management ensure compliance with federal program requirements by continuing to prioritize the completion and documentation of hospital audits.

Strengthen and document controls over employee timesheet review

Federal Awarding Agency: U.S. Department of Health and Human Services
ALN and Program Name: 93.777, 93.778 Medicaid Cluster;
 93.268 Immunization Cooperative Agreements;
 93.659 Adoption Assistance;
 96.001 Disability Insurance/SSI Cluster;
 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases;
 93.958 Block Grants for Community Mental Health Services;
 93.959 Block Grants for Substance Use Prevention, Treatment and Recovery Services;
 66.468 Drinking Water State Revolving Fund
FAINs and Years: Multiple
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency
Prior Year Finding: N/A
Questioned Costs: N/A

Criteria: 2 CFR 200.303; 2 CFR 200.400; 2 CFR 200.430 (g)

Federal regulations require recipients of federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Personnel expenses must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable and properly allocated.

Condition: The Oregon Department of Human Services (ODHS) administers separate federally approved cost allocation plans for itself and the Oregon Health Authority (OHA). The plans outline the methods used to allocate the various cost pools to federal programs.

The cost allocation plans include compensation for ODHS and OHA (departments) employees whose roles provide shared benefit to multiple grants and programs. Timesheets related to these payroll expenditures require supervisor review and approval in accordance with payroll deadlines to ensure coding is appropriate for the employee's role, cost sharing and program billing.

We reviewed the payroll expenditures processed through Workday payroll and allocated to grants through the cost allocation system based on employee cost coding during state fiscal year 2025 and found seven of sixty randomly selected timesheets where no evidence of managerial review or approval was present.

Cause: Management does not have a complete process in place to ensure timely review of timesheets and related cost coding.

Effect: Timesheets that are not appropriately reviewed and approved may result in employee time being incorrectly charged to federal programs and shared cost pools.

Recommendation: We recommend each departments' management strengthen and document controls to ensure all employee timesheets are reviewed for cost coding and accuracy and are approved 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 program. For the fiscal year-ended June 30, 2024; see Secretary of State audit report number 2025-10, and for the fiscal year-ended June 30, 2023; see Secretary of State audit report number 2024-14.

During fiscal year 2025, the agencies took a number of corrective actions, some resulting in the resolution of prior year findings, while other prior year findings remain partially uncorrected. The uncorrected findings will be reported in the Statewide Single Audit Report for the fiscal year-ended June 30, 2025, with a status of partial corrective action taken.

Prior Year Finding No.	Finding Title	Status
2024-012	Ensure MMIS rates are accurate and updated timely	Partial Corrective Action Taken
2024-013	Improve documentation and controls over client eligibility	Partial Corrective Action Taken
2024-017	Strengthen internal controls over the ONE system	Partial Corrective Action Taken

2024-018	Strengthen Medicaid fraud hotline reporting mechanisms	Partial Corrective Action Taken
2024-020	Ensure nursing facility recertification surveys are completed	Partial Corrective Action Taken
2023-022	Ensure compliance with federal Medicaid hospital audit requirements	Partial 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, 2025. 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 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 for each audit finding.
3. The anticipated completion date.
4. The contact person(s) responsible for corrective action.

Please provide a response to Amy John by March 25, 2026, 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 Amy John at Amy.John@SoS.Oregon.gov and Austin Moore at Austin.R.Moore@SoS.Oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Dana Hittle, ODHS Deputy Director
Kris Kautz, Deputy Director
Rochelle Layton, OHA Chief Financial Officer
Rob Kodiriy, ODHS Chief Financial Officer
Emma Sandoe, OHA Medicaid Director
Vivian Levy, OHA Medicaid Deputy Director
Nathan Singer, ODHS Oregon Eligibility Partnership (OEP) Director
Nakeshia Knight-Coyle, ODHS Aging & People with Disabilities (APD) Director
Erika Miller, ODHS APD Program Deputy of Operations
Jennifer Stallsworth, ODHS APD Chief of Staff
Corissa Neufeldt, ODHS APD Deputy of Safety and Oversight
Jane-Ellen Weidanz, ODHS APD Deputy of Policy
Shawn Jacobsen, ODHS Controller
Sarah Landis, Chief Audit Executive
Betsy Imholt, Director, Department of Administrative Services
Rob Hamilton, State Controller, Department of Administrative Services

APPENDIX

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal awards 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.
Eligibility	Determined whether only eligible individuals and organizations received assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Cost Sharing (including 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.
Reporting	Verified the submitted financial and performance reports to the federal government were in accordance with the grant agreement and that those financial reports were supported by the accounting records.
Special Tests and Provisions	Determined whether compliance with the additional federal requirements identified in the OMB Compliance Supplement was met.