

Office of the Secretary of State

Shemia Fagan
Secretary of State

Cheryl Myers
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

503-986-2255

February 16, 2021

Fariborz Pakseresht, Director
Department of Human Services

Patrick Allen, Director
Oregon Health Authority
500 Summer Street NE
Salem, OR 97301

Dear Mr. Pakseresht and Mr. Allen:

We have completed audit work of selected financial accounts at your departments for the year ended June 30, 2020. This audit work was not a comprehensive financial audit of your 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, 2020, 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 significant deficiencies and therefore, significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiency

Strengthen review procedures

State accounting policies require management to develop control activities to ensure that transactions entered in the state's accounting system are accurately recorded and recorded in the proper accounting period.

During our review of year-end accounting entries, we found transactions recorded to incorrect accounts or recorded improperly within a fund. Although these transactions were independently reviewed, errors were not detected.

These errors resulted in the following misstatements:

- The year-end transactions for transferring cash between funds was determined using incorrect spreadsheet values, overstating cash in the General Fund and understating cash in the Health and Social Services Fund by \$139.7 million.
- In the Internal Service Fund, Services and Supplies expenditures were overstated by \$1.7 million, and Special Payments expenditures were understated by the same amount.

We also found federal revenue in the Nutritional Support Fund related to the prior fiscal year was recorded during the current year, as the dates were entered incorrectly in the accounting system, resulting in an overstatement to federal revenue and related expenditures of \$68.1 million in fiscal year 2020.

We recommend management ensure transaction review is adequate and includes examination of proper and complete coding, accounting periods, and supporting documentation.

Ensure year-end balances are properly classified

State accounting policies require management to develop control activities to ensure transactions entered to the state's accounting system are properly classified in the accounts.

During our review of year-end balances, we found the deposit liability balance was overstated by \$103 million. At year-end, \$83 million of the deposit liability balance should have been reported as a reduction to accounts receivable; this did not occur because underlying system transactions had not processed during their typical timeframe. The remaining \$20 million should have been reported as unearned revenue.

We recommend management strengthen year-end review procedures to ensure necessary system processing has occurred, and account balances are reasonable and properly classified.

Prior Year Findings

In prior fiscal years, we reported material weaknesses in the Statewide Single Audit Report related to financial reporting. For the fiscal year June 30, 2019, see Secretary of State audit report number 2020-14; and for the fiscal year ended June 30, 2018, see Secretary of State audit report number 2019-14.

During fiscal year 2020, the department made progress in correcting these findings. These findings will be reported in the Statewide Single Audit report for the fiscal year ended June 30, 2020, with a status of partial corrective action taken:

Finding Title	Prior Year Finding No.	Level of Finding
Ensure Accrual Methodologies are Complete	2019-001	Material Weakness
Improve Controls for Monitoring MMIS Claims Edits and Audits	2018-002	Material Weakness

The above significant deficiencies, along with your response for the findings, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. Please prepare a response to the findings 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 Julianne Kennedy by February 23, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, 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 Julianne Kennedy, Audit Manager or Michelle Searfus, Principal Auditor at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Liesl Wendt, Deputy Director, Department of Human Services
 Kris Kautz, Deputy Director, Oregon Health Authority
 Eric Moore, CFO, Department of Human Services
 David Baden, CFO, Oregon Health Authority
 Shawn Jacobsen, Controller
 Sarah Landis, Chief Audit Officer
 Katy Coba, Director, Department of Administrative Services
 Robert Hamilton, SARS Manager, Department of Administrative Services