

Office of the Secretary of State

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Audits Division

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March 23, 2021

Fariborz Pakseresht, Director
Department of Human Services
500 Summer St NE E-15
Salem, Oregon 97301

Dear Mr. Pakseresht:

As part of the annual Statewide Single Audit for the year ended June 30, 2020, we performed procedures to assess the reasonableness of the corrective action and status as reported by the agency related to prior year findings as reported in the Statewide Single Audit Report for the years ended June 30, 2019, June 30, 2018, and June 30, 2017. This follow-up on prior year findings is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Department management is responsible for establishing and maintaining effective internal control over compliance with federal compliance requirements and for implementing corrective action for reported findings. In planning and performing our follow-up we performed procedures to determine the status of prior year audit findings and whether the findings are corrected. Our procedures were specific to this purpose and did not include an audit of the applicable federal programs.

During our finding follow-up procedures related to Single Audit findings 2019-017 titled "Complete System Modifications to Ensure Proper Reporting of Program Expenditures" and 2018-018 and 2017-013 titled "Financial Transaction Processing Errors in Child Welfare System," we identified new questioned costs greater than \$25,000 related to the Foster Care-Title IV-E program.

When performing the follow-up procedures, the Uniform Guidance requires auditors to report a current year finding when the auditor identifies known questioned costs that are greater than \$25,000. The following finding will be reported in the Single Audit Report for the fiscal year ended June 30, 2020.

Complete system modifications to ensure proper reporting of program expenditures

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Foster Care – Title IV-E (93.658) Temporary Assistance for Needy Families (TANF) (93.558)
Federal Award Numbers and Year:	1901ORFOST, 2019; 2001ORFOST, 2020; 1901ORTANF, 2019; 2001ORTANF, 2020
Compliance Requirement:	Allowable Costs/Cost Principles
Type of Finding:	Noncompliance
Prior Year Finding:	2017-013; 2018-018; 2019-017
Questioned Costs:	\$127,654 (Foster Care known), \$4,404 (TANF known)

Criteria: 45 CFR 1356.21

The department uses its child welfare information system, OR-Kids, to manage placements, eligibility, payments, and other case information. Information systems should be designed to ensure information processed by the system is complete, accurate, and valid. As with any significant program or system, management should have an adequate understanding of the processes and controls it is relying on, and should obtain assurance those processes and controls are functioning as intended.

While performing current year follow-up procedures related to prior year findings that identified processing issues within OR-Kids, we found errors continue to occur when certain corrections are made to placement information in the system. When placement corrections are initiated, OR-Kids issues a “new” payment, and simultaneously recovers the funds from the payment issued at the time of original services, which generally results in no payment to the provider. However, this process does not always occur as it should, and results in the department incorrectly reporting and drawing federal funds. For some placement corrections, OR-Kids processed the recovery of the funds in a state grant instead of the federal program, resulting in estimated inappropriate federal expenditures in fiscal year 2020 of \$127,654 for Title IV-E Foster Care and \$4,404 for TANF.

This issue was originally identified in fiscal year 2015. During fiscal year 2019 the department developed a partial fix to the OR-Kids system to prevent a subset of these processing errors from occurring. During fiscal year 2020 the department stated they are developing a report that will identify errors needing to be corrected to accurately report federal expenditures. The agency has also repaid estimated questioned costs identified in the prior year; however, the actual questioned costs to be repaid have not been identified.

We recommend department management review OR-Kids transaction processing and complete system modifications as appropriate to ensure proper financial reporting of program expenditures. We also recommend department management review prior year and current year transactions and reimburse the federal agency for grant expenditures claimed inappropriately.

The finding and recommendations above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. Including your response satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the finding includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

- 1) Your agreement or disagreement with the finding. If you do not agree with the 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 Kelly Olson, Audit Manager, by Tuesday, March 30, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michael Yamamoto, Senior Auditor, or Kelly Olson at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Eric Moore, Chief Financial Officer
Sarah Landis, Chief Audit Officer
Rebecca Jones Gaston, Child Welfare Director
Shawn Jacobsen, Controller
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services