

Office of the Secretary of State

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April 12, 2021

Fariborz Pakseresht, Director
Department of Human Services
500 Summer Street NE E-15
Salem, OR 97301-1097

Dear Mr. Pakseresht:

We have completed audit work of a selected federal program at the Department of Human Services (department) for the year ended June 30, 2020.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.575, 93.596	Child Care and Development Fund Cluster	\$ 57,024,869

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 issues. 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 are direct and material to the federal program under audit. For the year ended June 30, 2020, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program.

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal monies 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.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified in the OMB Compliance Supplement.

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

Department management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the department's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

Audit Findings and Recommendations

Improve controls over copay and child care hour calculations and multiple provider copays

Federal Awarding Agency:	U.S. Department of Health and Human Services
Assistance Listing Name and Number:	Child Care Development Fund Cluster (93.575, 93.596)
Federal Award Numbers and Years:	G999005, 2018-2020; G999004, 2018-2020; G996005, 2018-2019
Compliance Requirement:	Allowable Costs/Cost Principles
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	2017-016
Questioned Costs:	\$10,241 (known); \$1,354,980 (likely)

Criteria: 45 CFR 98.45(b)(5); 42 USC 9858;

The Child Care Development Fund program offers federal funding to states to increase the availability, affordability, and quality of child care services. As required by federal regulations, the department has developed a sliding fee scale, based on family size and income that provides for cost sharing by families that receive child care services (monthly copay). The copay is attached to one provider's monthly bill regardless of the number of providers a client uses. The department also calculates authorized monthly child care hours based on parent work schedules.

We tested a statistically valid random sample of 60 provider payments for client eligibility and verified the monthly copay calculated for each family was accurate based on family size and income. We also verified the child care hours calculated were accurate based on parent work schedules. We identified the following errors:

- Nine cases where the copay was calculated incorrectly due to not capturing tips or child support income, using an incorrect family size, or mathematical errors.
- Eight cases where authorized child care hours were calculated incorrectly due to missing support of parent work hours or mathematical errors.
- One case in which the client did not pay the copay because the copay was attached to a provider no longer providing care. Federal funds subsidized the copay amount of the payment made to the provider.
- One case in which the provider's zip code was not updated in the system for 14 months. As provider rates are determined by zip code groupings, the provider received a higher subsidy each month in error.

These errors resulted in total known questioned costs of \$7,621 and projected questioned costs of \$1,284,027.

We also tested a random sample of 25 instances in which a client with multiple providers in one month used fewer providers in a subsequent month to verify the copay was attached to the provider still providing care. For two cases, the client's copay was attached to a provider that did not provide care or bill for the sampled month, therefore the client did not pay their required copay. According to the department, it generates a monthly report that identifies situations where the primary provider, with copay attached, stopped providing care. However, the department does not require the client to reimburse the agency for the copay not met. Federal funds subsidized the copay portion of these two payments to the providers, resulting in questioned costs of \$2,620. Projected questioned costs for this population total \$70,953.

We recommend department management ensure a client’s monthly copay and childcare hours are correctly calculated, and provider addresses are updated timely. In addition, in situations with multiple providers, the department should seek reimbursement from a client when the client copay is not met as the primary provider did not provide care . We also recommend department management reimburse the federal agency for unallowable costs.

Improve controls over incentive payments

Federal Awarding Agency: U.S. Department of Health and Human Services
Assistance Listing Name and Number: Child Care Development Fund Cluster (93.575, 93.596)
Federal Award Numbers and Years: G999005, 2018-2020; G999004, 2018-2020;
G996005, 2018-2019
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: N/A
Questioned Costs: \$12,250 (known); \$619,121 (likely)

Criteria: 45 CFR 75.303, 45 CFR 75.403

The Child Care Development Fund program’s lead agency implemented a limited duration incentive payment for eligible providers who provided care during the alternate hours of evenings and weekends. Each month, providers were eligible to receive \$250 per child when providing alternative hour care at least 20 hours per month, or \$500 per child when providing alternative hour care at least 40 hours per month. The incentive program ran from January through September 2019 with federal funds providing over \$5 million in fiscal year 2020. The department implemented a policy stating providers must: 1) have received a child care billing form from the department, 2) provide care during certain hours, 3) maintain attendance logs of all hours a child is in care, and 4) request the incentive by submitting an alternative hour incentive form.

We tested a nonstatistical random sample of 25 monthly provider incentive payments for alternate and weekend child care to verify these payments were necessary and reasonable for the performance of the federal award.

The department did not retain sufficient support to verify these payments. The department relied solely on provider self-attestation on the alternative hour incentive form that they provided care during alternate hours. We found no evidence of other corroboration by the department for alternative hour care, including client attestation. In addition, attendance records were not available to us as providers were instructed to retain attendance logs for a minimum of one year. This retention schedule ended September 2020.

We used a combination of client applications, paystubs, and case narratives to establish a client’s need for evening or weekend child care. When this was not available, we used provider websites or other department documentation that supported at least the provider offered care during alternate hours. We found the following issues:

- For two sample items, the clients’ work schedules did not support the clients’ need for child care during alternate hours, resulting in total known questioned costs of \$10,250.
- For one sample item, the client’s work schedule would have supported a need for alternate care for less than 40 hours for the month. The provider was paid at the higher rate of \$500 per child instead of \$250 per child, resulting in total known questioned costs of \$1,500.

- For payments made to the 25 sampled providers, six providers received duplicate payments during the program’s existence, totaling \$31,750. The department identified \$31,250 of these payments and initiated repayment procedures, leaving \$500 in questioned costs. We analyzed data for the incentive payment population and found an additional \$77,125 in potential duplicate payments.

Without attendance logs, we were unable to verify that correct incentive payment rates were paid to providers; incorrect rates may have been paid, resulting in excess payments to providers.

We recommend department management extend its retention policies for a sufficient length of time to ensure the department and auditors can verify federal awards are necessary and reasonable. In addition, the department should review all incentive payments made to providers to ensure duplicate payments have been identified and reimburse the federal agency for all improper costs.

Investigate fraud referral cases and conduct other fraud detection activities

Federal Awarding Agency:	U.S. Department of Health and Human Services
Assistance Listing Name and Number:	Child Care Development Fund Cluster (93.575, 93.596)
Federal Award Numbers and Years:	G996005, 2019-2020; G999004, 2019-2020; G999005, 2019- 2020
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 45 CFR 98.16(cc)

The Child Care and Development Fund (CCDF) Plan (plan) serves as a state’s application for CCDF funds by providing a description of, and assurance about, the grantee’s child care program and all services available to eligible families. Plans include federally required processes to recover child care payments that are the result of fraud. The Oregon Department of Education, designated as Oregon’s lead agency in Oregon’s 2019-2021 plan, has assigned the establishment of a fraud unit to the Department of Human Services (department).

We tested a random sample of 13 fraud referral cases and found five were closed before the department verified whether the result of fraud, averaging 812 days between referral and closure dates. At least four of the five could have resulted in repayment procedures being necessary. Department management made a decision to close older cases without investigation to alleviate its significant backlog of cases, stating it is no longer cost effective to investigate old cases.

We reviewed several fraud activities listed in the plan that were assigned to the department and found two were not occurring. This heightens the risk that remaining fraud detection activities will be insufficient to detect fraud.

- The monthly audit of child care for school age children, conducted for selected months when school is in session, did not occur during the fiscal year. The department did not detect it had stopped performing these reviews in fiscal year 2019, citing the intermittent nature of the audit reports as the cause. In addition, the department did not provide the annual summary of fiscal year 2019 audits, due September 2019, to the lead agency. The department stated in June 2020 it would resume audits, process missing reports, and submit the fiscal year 2019 annual summary to the lead agency.

- Site visits to review attendance and billing records of randomly selected providers did not occur. The department stated this activity was met with resistance from providers and unions and was discontinued at least two years prior; it was an oversight to not remove it from the plan.

We recommend department management implement controls to ensure actions listed in Oregon's CCDF State Plan are accurate and occurring. We also recommend department management timely investigate its fraud referral cases in order to recover improper payments.

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, 2020. 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 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 Kelly Olson by April 16, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

The purpose of this communication is solely 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 Janet Lowrey or Kelly Olson at 503-986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Eric Moore, Chief Financial Officer
Lyn Pope, Senior Internal Auditor
Kirstin Holman, Program Design Manager, Child Care Policy and DPU
Claire Seguin, Deputy Director Self Sufficiency Program Design
Travis Labrum, Grant Accounting Manager
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services