Oregon

Kate Brown, Governor

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DATE: October 16, 2018

TO: Joint Legislative Committee on Legislative Audits

FROM: Leah Horner, DHS Legislative Director

SUBJECT: Status Update on the Department of Human Services Statewide Single Audits

Dear Members of the Joint Committee on Legislative Audits:

As a follow up to the testimony on the review of Statewide Single Audit during September legislative days, the Oregon Department of Human Services would like to submit the ten status updates below.

- **2017-010 Department of Human Services: <u>Child Welfare Systems Allows Claims Outside Period of Performance</u>**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care – Title IV-E (93.658)
Federal Award Numbers and Year: 1601ORFOST; 2016, 1701ORFOST; 2017
Compliance Requirement: Period of Performance
Type of Finding: Material Weakness, Material Noncompliance
Prior Year Finding: N/A
Questioned Costs: N/A

Criteria: Criteria: 42 USC 1320b-2

According to federal requirements, to be eligible for federal funding, expenditures must be submitted for reimbursement within two years after the calendar quarter in which the department incurred the expenditures (period of performance). There is no time limit imposed for adjustments that would decrease federal funding.

As reported in prior audit findings, the department's child welfare system, OR-Kids, processes transactions as far back as January 1, 2008. The system was not designed to prevent the department from requesting federal reimbursement for expenditures incurred outside the period of performance. The department is pursuing system changes to OR-Kids and is considering the requirements and design work to make the changes.

As a result of the system limitations, when preparing the quarterly expenditure reports during fiscal year 2017, the department used a process that nets increases and decreases recorded in the accounting system for prior quarter adjustments and excludes expenditures that have net increases that are older than two years from the report date. The department adopted this process because of the limitations in the availability of accounting system data to determine the actual amount of transactions recorded outside the period of performance. The department also adjusts the accounting records for net increases.

However, not all OR-Kids adjustments are appropriate to net. In some cases, netting the transaction is appropriate due to the way OR-Kids processes refinancing adjustments. OR-Kids will reverse the entire payment and simultaneously record the payment again with the same transaction identifier resulting in no actual change to federal expenditures. If the department did not net the increase and decrease, the report would incorrectly reflect a decrease in federal expenditures. In other cases, netting adjustments is not appropriate because it may result in not including adjustments that should be reported.

The department has developed an OR-Kids report to help identify transactions that are appropriate to "net" and transactions that are not, but the report is not yet in use and has not been validated to ensure it includes the information necessary to report adjustments.

We recommend department management continue to pursue system changes to OR-Kids to prevent transactions from reimbursing outside the period of performance. In the meantime, the department should develop a process to better identify transactions that are appropriate to net and transactions that should not be netted to ensure adjustments are reported appropriately.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

A report has been developed that will allow DHS to analyze increasing and decreasing adjustments, isolating increasing adjustments that fall outside the period of performance. DHS is no longer netting increases and decreases beginning with the filing of the June 30, 2018 CB-496 report.

Additionally, resources are currently working on reviewing all activity back to September 30, 2011 (27 quarters), to evaluate if any federal funds were improperly claimed beyond the two-year limit. Any necessary repayment from this analysis will be reported on the September 30, 2018 CB-496 report.

- **2017-011 Department of Human Services: Improve Contract Monitoring**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care – Title IV-E (93.658)
Federal Award Numbers and Year: 1601ORFOST; 2016, 1701ORFOST; 2017
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Material Weakness
Prior Year Finding: N/A
Questioned Costs: N/A

Contracting best practices indicate that contracts for services should clearly specify the deliverables, timelines, and costs for services. Contract monitoring is also an essential part of the contracting process, and should ensure that contractors comply with contract terms and performance expectations are achieved.

As part of the federal waiver (demonstration project) to improve positive outcomes among foster care children, the department contracts with providers for additional services to support child welfare clients and families. These services may include parent mentoring, parent coaching, family navigators, and other forms of assistance.

Generally, the department contracts on a yearly basis for these services. For many services, the department pays providers an equal monthly amount based on their total contract amount.

According to the department, this method provides for consistent payments to providers throughout the year, as actual services may vary from month to month.

The department's monthly invoice template instructs providers to enter clients served and the number of units for each service, which must comply with language in the related contract. The invoice template, however, does not require providers to include billable rates for each service provided during the month. As a result, information is not available for the department to evaluate whether they utilized the expected level of services outlined in the contract.

The department verifies that clients listed on invoices were referred to providers for services. The department then allocates the monthly amount paid among the clients based on various units. As a result, for the same provider, the cost for the same service unit could vary each month depending on the number of clients.

When inquiring about contract monitoring practices, the general response indicated monitoring only occurs monthly, when validating the invoices. Without a sound monitoring process, the department does not have adequate assurance it receives what it contracts for.

We selected a random sample of 40 client payments related to 22 contracts. The value of these contracts for fiscal year 2017 was approximately $12.3 million. We reviewed the contracts and related invoices and identified the following:

- Two department districts contracted with the same provider for mentoring services with different monthly rates for the services. One contract expects 6 mentors each with 11 clients for $30,000 per month; the other contract expects 4 mentors each with 12 clients for $24,000 per month.
- One contract provides for a monthly payment for services, but the expected level of service is not defined.
- One contract includes a subcontract for mentoring services with a provider who is already providing mentoring services for the department under separate contracts.
- One contract provided $216,715 to a provider to pay for startup costs, which were paid to the provider in three equal monthly amounts. The contract provides no description of what these startup costs are related to, should be spent on, or their purpose other than they will benefit the department. It is unclear if the startup costs are allowable.
- One contract for $134,544 provided for 40 children to attend six weeks of summer camp, including transportation, and have an assigned mentor for each child for one year. Each mentor is only required to have a minimum of one meeting per month with each client. The contract states the goal is to support the holistic development of young athletes. The contract did not separate costs between camp and mentoring.
- One contract included $136,000 in emergency funds for clients, which were paid to the provider at the beginning of the contract for services for the entire year. It is unclear if these costs are allowable before services are provided to clients.

We recommend department management ensure adequate contract monitoring processes are in place to provide assurance that the department is receiving the services provided for in these waiver based contracts. We also recommend department management seek clarification regarding allocation of equal monthly payments among clients served and verify that startup costs, camp services, and pre-paid flexible funds are appropriate waiver expenditures.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

In December 2017, the Child Welfare Program authored a contract consistency proposal as the basis for a project currently underway with the support of the Office of Continuous Improvement. The goal of the project is to develop consistent understanding and application of contract-related rules and language, and put into place practices to address and eliminate issues raised by both this audit finding and findings in a 2018 internal audit report related to DHS Child Welfare contract administration. Work accomplished so far includes the development of standard recommended language for inclusion in contracts regarding acceptance criteria/reporting requirements and invoicing/payment terms, to increase consistency and ensure that services invoiced have been received. One expected outcome of the project will address oversight and coordination of contracts with providers that serve multiple districts, to ensure consistent rates and terms across the state. Completion of the contract consistency project is anticipated by December 31, 2018.

The agency will obtain clarification from Children's Bureau on any limitations for states to create flexible payment methodology for services allowable under Title IV-E or Title IV-B. This clarification is expected by December 31, 2018.

- **2017-012 Department of Human Services: Improve Foster Care Provider Eligibility Documentation**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care – Title IV-E (93.658)
Federal Award Numbers and Year: 1601ORFOST; 2016, 1701ORFOST; 2017
Compliance Requirement: Eligibility
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: 2016-019
Questioned Costs: $3,487

Criteria: 42 USC 672(c); 42 USC 671(a)(20)(A); 42 USC 671(a)(20)(B)

Federal regulations require that the department meet certain requirements to receive Foster Care funding for certain child welfare expenditures. The department is required to determine child eligibility and maintain documentation of that determination, ensure providers have met a criminal background check and child abuse and neglect registry check (including other adults residing in the home), and ensure the foster home is fully licensed.

We reviewed a random sample of 60 foster care cases to determine whether the provider eligibility determinations were supported, and identified the following exceptions:

- One provider was not licensed while receiving federal reimbursement for payments. The provider was licensed in April 2017, but information was entered incorrectly in the system showing licensure starting in September 2016. We questioned costs of $2,422 for September 2016 through March 2017.
- The home study for one provider was completed after the provider was fully licensed. The provider was licensed in March 2016 and the home study was approved in April 2016. We questioned costs of $1,065 for March 2016.

We recommend department management ensure all required documentation is completed timely, reviewed, and maintained, and that eligibility is determined appropriately. We also recommend department management reimburse the federal agency for costs paid related to ineligible providers.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

A correcting adjustment was entered into ORKIDS on March 28, 2018 to change the status to ineligible for the time period September 2016 – March 2017. This was reported on the 2018 Quarter 2 (1/1/18 – 3/31/18) CB-496 report on the following lines:

- *Decreasing Line 44 (Phase 16): $198*
- *Decreasing Line 45 (Phase 17): $2224*

A correcting adjustment was entered into ORKIDS on April 25, 2018 to change the status of children residing in the home to ineligible from March 14, 2016 – April 26, 2016. This was reported on the 2018 Quarter 3 (4/1/18 – 6/30/18) CB-496 report on the following line:

- *Decreasing Line 1 (Phase 16): $1,065*

The agency is on track to create the exception reports by October 31, 2018.

- **2017-013 Department of Human Services/Oregon Health Authority: <u>Financial Transaction Processing Errors in Child Welfare System</u>**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Foster Care – Title IV-E (93.658)
Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year: 1601ORFOST; 2016, 1701ORFOST; 2017
1605OR5MAP; 2016, 1605OR5ADM; 2016; 1705OR5MAP, 2017, 1705OR5ADM; 2017
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Material Weakness, Material Noncompliance
Prior Year Finding: 2016-018
Questioned Costs: $92,486 (Foster Care); $45,339 (Medicaid)

Criteria: 45 CFR 1356.21

The department uses OR-Kids, Oregon's child welfare information system, 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 follow-up related to prior year findings that identified processing issues within OR-Kids in fiscal year 2017, we found errors continue to occur when various types of 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 2017 of $92,486 for Title IV-E Foster Care, and $45,339 for Medicaid.

This issue was originally identified in fiscal year 2015. The department has not completed permanent fixes to the OR-Kids system to prevent these processing errors from occurring. Reports have been developed to identify the extent of corrections necessary to repay questioned costs, but these reports have not been validated, and no questioned costs have been repaid to date related to the processing errors.

We recommend department management review OR-Kids transaction processing and make 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.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

A report has been developed to identify adjustments that impact a state grant rather than the federal grant, and is in the final validation stage. Once the report is validated, the report will be used to accurately report federal expenditures. The new report will be used for the reporting period ending September 30, 2018.

Adjustments for previous quarters reported incorrectly will be reported on the federal report for the period ending December 31, 2018. Questioned costs in this finding are estimates only. Actual amounts needing correction and repayment will be calculated based on the report for the period.

A change request for a system fix has been written. However, the date for the system fix is not yet determined.

- **2017-014 Department of Human Services/Oregon Health Authority: <u>Ensure Medicaid Payments are Sufficiently Supported</u>**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year: 1605OR5MAP, 1605OR5ADM, 1705OR5MAP, 1705OR5ADM
Compliance Requirement: Allowable Costs, Eligibility
Type of Finding: Material Weakness, Material Noncompliance
Prior Year Finding: 2016-024
Questioned Costs: $33,928 (CFDA 93.778)

Criteria: 42 CFR 435.907(f); 42 CFR 435.916(b); 42 CFR 435.916(f); 42 CFR 435.916(d); 42 CFR 435.914; 42 CFR 434.6

Federal regulations require certain conditions be met for the department and authority to receive Medicaid funding for medical claims, including a signed application and redetermination of eligibility for the program every 12 months or when the agency receives information regarding a change in the client's circumstances that may affect their eligibility. In addition, the department and authority are required to maintain sufficient documentation supporting the client's eligibility and individual claims.

We randomly selected 70 Non-MAGI clients and one Medicaid service payment associated with each client. We reviewed agency documentation to verify eligibility and allowability of Medicaid service. For 18 clients, we found the issues described below. Some clients had more than one issue.

- For seven clients, the department was unable to provide signed applications.
- For nine department clients and one authority client, management was unable to provide evidence that a redetermination for the client had been performed timely. However, we were able to verify that seven of these clients were eligible for Medicaid services. For three clients, verification of client resources during our audit period was not documented. However, based on resources documented in prior determinations and/or determinations occurring outside of the audit period, it is reasonable to assume the client would have been eligible for Medicaid services. If management verifies during redetermination that these clients exceeded resource limits, program costs should be returned.
- For the 10 clients noted in the previous bullet, four redeterminations were completed within one year or less of the required redetermination date, one was completed within one to two years past the required redetermination date, one was completed two to three years past the required determination date, and one was completed more than three years past the required redetermination date. As of March 1, 2018, three had yet to be redetermined and were already between one and half and two and a half years past due.
- For one client, in March 2017, the department determined the client's benefits should end as the client was living in another state and receiving benefits from that state. This case was not closed until January of 2018 resulting in questioned costs of $4,901 for fiscal year 2017 and $11,443 for fiscal year 2018.
- For one client, the department did not ensure the client was enrolled in Medicare when the client became eligible in February 2014. As a result, the department paid a higher capitation payment for the client in the Medicaid program. For fiscal year 2017, the total questioned costs are $16,319.
- For one client, the authority enrolled the client in the wrong Medicaid program. There are no questioned costs as the correct program would have been for the same cost during fiscal year 2017.
- For one client, we noted no errors during fiscal year 2017; however, we noted that in fiscal year 2018 the authority re-enrolled the client for services while the client was in a correctional facility and should not have received benefits. The total questioned costs for fiscal year 2018 are $1,265. The authority closed benefits as of January 2018.

We recommend management strengthen controls to verify applications exist during client eligibility redeterminations, perform timely eligibility redeterminations and verification of client resources, close benefits for clients no longer eligible, and ensure eligible clients are enrolled in both Medicare and Medicaid. We also recommend management correct all identified issues and reimburse the federal agency for unallowable costs.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

The individual who was enrolled in the wrong Medicaid program has had eligibility corrected in MMIS to show the correct Medicaid program for the affected period.

In response to the individual who was enrolled in a correctional facility, the agency has reviewed the identified issue and has taken partial action. Eligibility and related payments *have been reversed from the MMIS system. Procedures and system updates are still being reviewed and implemented. The anticipated completion date is December 31, 2019.*

- **2017-015 Department of Human Services/Oregon Health Authority: Improve Documentation for Provider Eligibility Determinations and Provider Revalidations**

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Medicaid Cluster (93.777, 93.778)
Federal Award Numbers and Year:	1605OR5MAP, 1605OR5ADM, 1705OR5MAP, 1705OR5ADM
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency, Noncompliance
Prior Year Finding:	2016-025; 2015-020
Questioned Costs:	$36,576

Criteria: 8 CFR 274a.2(b)(1)(ii)(B); 42 CFR 455.436; Oregon Administrative Rules (OAR 411-031-0040)

Provider eligibility requirements for the Medicaid cluster differ depending upon the type of services provided; however, all providers are subject to specified database checks and are required to sign an adherence to federal regulations agreement (agreement). State requirements also include a background check and proof of the right to work in the United States (I-9 form) for providers such as homecare workers and personal care providers. The department is responsible for determining the eligibility of these Medicaid providers.

We tested 62 of the department's providers receiving Medicaid funds during fiscal year 2017 and found the department could improve its documentation supporting provider eligibility. Specifically, we found:

- For two providers, the department was unable to locate an I-9 form. For four providers, the portion of the I-9 for verifying identity and employment authorization was not completed. For one provider, the provider had not signed the I-9 form. Upon identification by the auditors, the department was able to complete two of the previously incomplete I-9 forms. Overall, for the remaining outstanding items, we were unable to determine the provider's eligibility, resulting in $36,576 of questioned costs for the fiscal year.
- State administrative rules require a background check for each provider to be completed every two years. For one provider, the background check expired in February 2017. Upon inquiry, the department subsequently completed the background check to verify the provider's eligibility in February 2018.

Additionally, federal regulations require that the department periodically revalidate providers by performing database checks to ensure providers are still eligible to participate in the Medicaid program. We selected an additional sample of 60 providers and found:

- For nine providers, the authority did not complete the required database checks within the required time frame. After we identified the specific items, the authority completed the necessary database checks and all nine providers passed the database checks. Accordingly, there were no questioned costs.

We recommend management strengthen controls to ensure documentation supporting a provider's eligibility determination is retained. For current providers with missing documentation, we recommend the department verify they are eligible to provide services and obtain the necessary documentation.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

The Office of Developmental Disability Services (ODDS) has begun the process of amending the contract with PPL, the Fiscal Intermediary, to validate the I-9 forms prior to paying providers. We anticipate the completion of this amendment by September 1, 2018. In addition, ODDS has refinanced the three claims in question to reimburse the federal portion in the amount of $5,570.62.

The management of the Oregon Health Authority (OHA) Provider Support Services conducted specific database check training for enrollment staff between December 2017 and February 2018. The state will provide additional database check training beginning July 2018 as part of a second enrollment quality improvement plan and continues to pull quarterly, a missing database check report, to ensure all missing database checks are completed.

For the one provider that was the responsibility of the Aging and People with Disabilities program (APD), the department obtained a current completed I-9 form and confirmed the provider's eligibility; therefore, there are no questionable costs remaining for the APD program.

- **2017-016 Department of Human Services: <u>Improve Controls Over Monthly Copay Calculations</u>**

Federal Awarding Agency: U.S. Department of Health and Human Services
Program Title and CFDA Number: Child Care and Development Fund Cluster (CFDA 93.575, CFDA 93.596)
Federal Award Numbers and Year: 2017G996005; 2017 and 2016 2017G999004; 2017 and 2016 2017G999005; 2017 and 2016 2016G996005; 2016
Compliance Requirement: Allowable Costs
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: 2016-022
Questioned Costs: Known questioned costs; $1,939
Likely questioned costs; $259,126

Criteria: 45 CFR 98.45(k)

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).

We tested a random sample of 40 families for eligibility and verified the monthly copay calculated for each family was accurate based on family size and income. We identified the following errors in 8 of the 40 cases.

- For seven cases, the client's monthly copay was incorrectly calculated due to a caseworker not capturing bonus income, not using all paystubs to calculate income, transposing amounts when calculating income, not including child support payments in calculating income, allowing a reduced copay for a case not eligible for reduced copay, and using an incorrect family size. Additionally, in one case, the authorized work search was extended two months and the reason was not documented. These errors resulted in five client's co-pay being too low resulting in a department overpayment of $2,301 and two client's co-pay being too high resulting in a department underpayment of $362.

- For one case, page one of the application was scanned into the imaging system, but the rest of the application could not be located.

Ensuring compliance with childcare copay and subsidy payments reduces the risk of program overpayments.

We recommend department management ensure a client's monthly copay is correctly calculated and applications are retained. We also recommend department management reimburse the federal agency for unallowable costs.

Status: Partial corrective action was taken. This finding has been partially resolved. The agency's response is as follows:

DHS completed the reimbursement to the federal agency for the known questioned costs of $1,939 on June 21, 2018.

Tools were developed and shared with field staff during the year in efforts to improve co-pay calculations and documentation. An ERDC mini-training was held in June 2018 to address such topics as ERDC copays and ERDC coding. On June 15, 2018, Child Care Policy reissued a transmittal to department staff as a reminder to reinforce the importance of increased accuracy in the ERDC program.

Quality Assurance also in collaboration with the policy team published another edition of an "Accuracy in Action" newsletter focusing on ERDC budgeting and child care hours. This issue, which was sent to field staff on March 15, 2018, included information referring to verifying income and hours, ERDC hours, marginal income, two parent working families, child support and ERDC, prospective eligibility, budgeting, and transitioning TANF to ERDC.

- **2017-027 Department of Human Services: <u>Strengthen Controls Over Client Payments, Payroll Processes, and Cell Phone Review</u>**

Federal Awarding Agency: U.S. Department of Education
Program Title and CFDA Number: Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
Federal Award Numbers and Year: H126A150054; 2015, H126A160054; 2016
Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: N/A
Questioned Costs: $60 (known)

Criteria: 29 USC 723(a)(b); 2 CFR 200.430

Some expenditures may be inappropriately charged to the Vocational Rehabilitation federal program. Federal regulations require the department to expend funds for vocational rehabilitation services to eligible individuals as described in an individualized plan for employment or for services provided for the benefit of a group, such as cell phones used to improve delivery method, and for salaries and wages based on records that accurately reflect the work performed.

We reviewed expenditures and found department management does not always conduct reviews or timely reviews to ensure expenditures are appropriately charged to the federal program. Specifically, we found:

- Two of 28 client payments sampled showed services were provided before the Authorization for Purchase (AFP) form was reviewed and approved by the client's counselor. The AFP form ensures services have been identified in a client's individual plan for employment.
- One of 28 client payments sampled showed services were inappropriately provided prior to the client's determination of eligibility, resulting in known questioned costs of $60 and projected likely questioned costs of less than $200.
- Three of 25 monthly timesheets sampled were not reviewed and approved by the employee's supervisor. Without supervisory review, payroll costs may be inappropriately charged to the program.
- Two of 30 non-client payments sampled were monthly cell phone charges that were reviewed by department coordinators more than seven months after the billing month. Without review, some of those costs could have been inappropriately applied to the program. Management indicated problems accessing a third-party vendor system hindered the review function for several months.

We recommend department management strengthen its controls to ensure appropriate expenditures are charged to the federal program and that timely reviews of client payments, monthly employee timesheets, and cell phone invoices are performed.

Status: Partial corrective action was taken. The finding has been partially resolved. The agency's response is as follows:

The timeframe requirements for issuing Authorization for Purchase (AFP's) were reviewed with Branch Management Staff and Leadership in May 2018, and the specific cases identified by the audit were individually reviewed. Both identified discrepancies had been identified in the IEP. Business audits of the field will be conducted in all branches on an ongoing basis (these started in August of 2017), reviewing both issues and requiring corrective action plans and follow-up reviews to ensure the issues are addressed. The review of future audits will determine if this discrepancy continues.

The client payment identified in the finding was for medical records and is an acceptable practice to issue the payment after the records and appropriate invoice is received. This discrepancy was discussed at May Leadership and will be addressed again at the August Leadership Meeting.

The unsigned timesheets were due to personnel coverage issues at the time and was brought up with Branch Leadership Staff at the May Leadership meeting. A new timekeeping process - Workday - is about to be implemented and a new review process will be initiated. We will wait until the new process is in place to train all responsible staff on the new timekeeping system and review process. This will be implemented in October of 2018, and full training and implementation will be overseen by the Workday Project.

The cell phone bill review has been with Business Integrity Consultants, and the systems access issue that initiated the problem has been rectified.

- **2017-028 Department of Human Services: Improve Controls Over Federal Financial Reporting**

Federal Awarding Agency: U.S. Department of Education
Program Title and CFDA Number: Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
Federal Award Numbers and Year: H126A160054; 2016
Compliance Requirement: Reporting
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: N/A
Questioned Costs: N/A

Criteria: 2 CFR 200.303(a)

The department's FY17 Annual Vocational Rehabilitation Program Cost Report (RSA-2) contained many inaccuracies. Federal regulations require the department to annually prepare and submit an RSA-2 report that includes all activity of the reporting period and to ensure the report is accurate and adequately supported by applicable accounting records. Department management has not ensured controls are effective over the accurate preparation of RSA-2 reports.

We identified the following inaccuracies in the FY17 RSA-2 report and management's review of the report did not identify these errors.

- Some supporting financial data was obtained using incorrect data query limits, resulting in the reporting of activity outside the reporting period.
- Incomplete data supporting payroll hours and expenditures was provided and used by the preparer of the report and not retained.
- Report instructions state actual hours must be reported for part-time employees; however, department staff incorrectly used the formula to calculate full-time employee hours for part-time employees. The U.S. Rehabilitation Services Administration re-opened the report to allow the department to re-submit the report using actual hours for all employees. Auditor recalculations of report line items using actual hours for all employees identified the following errors from the original report:
    - Direct administration costs were understated by $1,070,410;
    - Services provided by agency field staff were overstated by $1,608,656;
    - Total agency expenditures were overstated by $538,248;
    - Administrative staff hours were under-reported by 22,927 hours;
    - Counselor staff hours were over-reported by 19,856 hours;
    - Staff supporting counselor activity hours were over-reported by 46,573 hours;
    - Other hours were over-reported by 31,184 hours; and
    - Category 1 staff total hours were over-reported by 74,686 hours.

We recommend department management submit accurate RSA-2 reports and strengthen its controls over RSA-2 reports to ensure the reports are properly prepared, adequately supported, and properly reviewed.

Status: Corrective action was taken. This finding has been resolved. The agency's response is as follows:

The Grant Accounting unit in the Office of Financial Services has adopted a new methodology for reporting hours and dollars based on payroll actuals. This was approved by the federal oversite agency Rehabilitation Services Administration (RSA) in July 2017. Additionally, the query used for the report has been adjusted to exclude the second payroll run for the prior fiscal year and include the second payroll run for the current fiscal year (October 16, 2015 to October 15, 2016). Grant Accounting will retain the data queries used to construct the report and review these with the Business Operations Manager for Vocational Rehabilitation prior to submission. The RSA 2 report was corrected August 2017 for federal fiscal year 2016 and new payroll reporting methodology was implemented thereafter, so that federal fiscal year 2017 was reported correctly.

- **2017-029 Department of Human Services: Procurement Controls Not Always Followed and New Contracting System Not Reviewed**

Federal Awarding Agency: U.S. Department of Education
Program Title and CFDA Number: Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
Federal Award Numbers and Year: H126A150054; 2015, H126A160054; 2016
Compliance Requirement: Procurement and Suspension and Debarment
Type of Finding: Significant Deficiency; Noncompliance
Prior Year Finding: N/A
Questioned Costs: N/A

Criteria: 2 CFR 180; 2 CFR 200; ORS 279B.070; OAM 10.10.00.PR.102

The department did not always follow state and federal procurement procedures when contracting for vocational rehabilitation services. Federal regulations require agencies to follow state contracting laws when contracting for services paid for with federal funds. Federal regulations also restrict contracts with parties that are debarred, suspended, or otherwise ineligible for federal programs.

Department procedures in place at the beginning of the fiscal year required its Office of Contracts and Procurement (OC&P Unit) to complete a checklist to ensure all contracting steps are performed. For the last part of the fiscal year, the OC&P Unit implemented a new contracting system (CSTAT). However, the OC&P Unit is not performing periodic reviews, tests, or analysis of CSTAT to ensure controls are properly functioning over the procurement process.

Department controls were not effective to ensure compliance with federal and state rules.

- We tested 14 randomly selected contract files and found that the checklist was not completed for one of the contracts.
- We tested four contract solicitations. For one solicitation the OC&P Unit did not retain sufficient documentation of the efforts taken to obtain the required number of bids and the decision to close the solicitation prior to obtaining three bids. Oregon statutes state that if three proposals are not available, the department shall make a written record of the effort made to obtain the proposals.
- For four of the 14 sampled contract files, the OC&P Unit could not locate evidence to support that it had verified the contractor was not suspended or debarred. For one of the contracts issued under solicitations, we found debarment was checked for the first contract but not for the contract amendments. We were able to verify the contractors were not suspended or debarred.

We recommend department management strengthen controls to ensure all procurement procedures are followed, including the verification of suspension and debarment for all contracts, and maintain supporting evidence for procedures performed. We further recommend department management create and implement review procedures over its new CSTAT system to ensure controls over procurement procedures are operating effectively.

Status: Corrective action was taken. This finding has been resolved. The agency's response is as follows:

The Office of Contracts and Procurement (OC&P) has developed and implemented new electronic standards that require OC&P support to conduct the checks and make the initial entry in CSTAT and then the contract specialist is required to check the information for accuracy. In addition, the OC&P Compliance Manager has completed review of 2,037 contract files and will continue to review a sampling of the contracts moving forward