

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF HEALTH  
AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT  
AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT  
AGENCY FUNDS (FUNDS 7263, 7264, AND 7265)**

**JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**TABLE OF CONTENTS**

	Page
<b>Background Information Section</b>	
Background	1
Mission Statement - Department of Health and Human Services - Child Support Enforcement	1
Organizational Charts - Department of Health and Human Services:	
Office of Economic and Family Support	2
Child Support Enforcement Field Staff	3
Child Support Enforcement Finance Unit	4
Child Support Enforcement Program Enhancement Team	5
 <b>Comments Section</b>	
Summary of Comments	6 - 8
Comments and Recommendations	9 - 41
 <b>Financial Section</b>	
Independent Auditors' Report	42 - 43
Statement of Fiduciary Net Assets Arising from Cash Transactions - Agency Funds	44
Notes to Financial Statement	45 - 48
Supplementary Schedules:	
Supplementary Schedule of Fiduciary Net Assets Arising from Cash Transactions - Agency Funds	49
Supplementary Schedule of Changes in Fiduciary Net Assets - Agency Funds	50
Statistical Schedules:	
Schedules of Open Cases and Full-Time Equivalent Employees - UNAUDITED	51
Schedules of Support Due and Distributed and Arrearages Due - UNAUDITED	52
Personal Responsibility and Work Opportunity Reconciliation Certification Map - UNAUDITED	53
 <b>Government Auditing Standards Section</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54 - 55

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**BACKGROUND**

**Nebraska Department of Health and Human Services - Child Support Enforcement (Department)**

Child Support Enforcement services include locating parents, establishing paternity, establishing child and medical support orders, enforcing support orders, and the review and modification of court orders. The methods available to locate parents and collect support have increased because of recent legislation tied to welfare reform efforts, including a new hire registry and license suspension for people failing to pay support. Child Support Enforcement services are provided through a network of the Department's staff, county attorneys, authorized attorneys, and contracted service providers.

CHARTS (Children Have A Right To Support) is the State's Child Support computer system. CHARTS is a tool used by the Child Support program to enforce child support orders and collect child support money for children who need it. CHARTS was designed to support centralized collection and disbursement of Child Support payments. Previously, the Clerk of the District Court in each County handled child support collections and disbursements. Centralization of child support collection and disbursement was mandated by the Federal government through the Welfare Reform legislation of 1996 - Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. [CHARTS was implemented in July 1999]

**Nebraska State Treasurer - State Disbursement Unit (State Treasurer's Office)**

As noted above PRWORA mandated all child support collection and disbursement functions be performed centrally for the entire State. The Department contracted with the State Treasurer's Office to receipt and disburse certain child support. The Department also contracted with the State Treasurer's Office to provide a customer service center that would respond to questions relating to specific payments into and out of the SDU. The SDU became functional in December 2001.

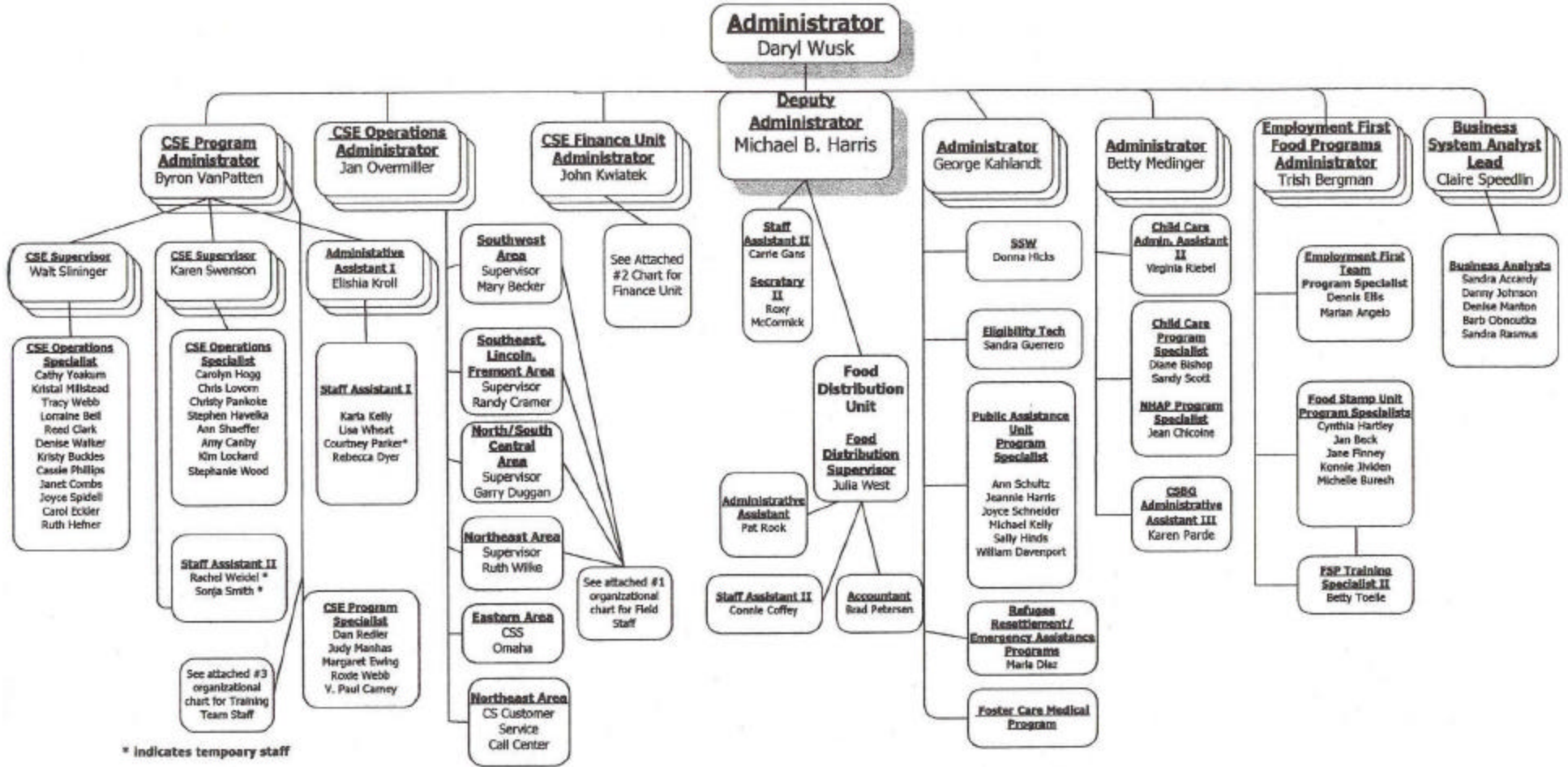
**MISSION STATEMENT**

**Nebraska Department of Health and Human Services - Child Support Enforcement**

We help people live better lives through effective health and human services.

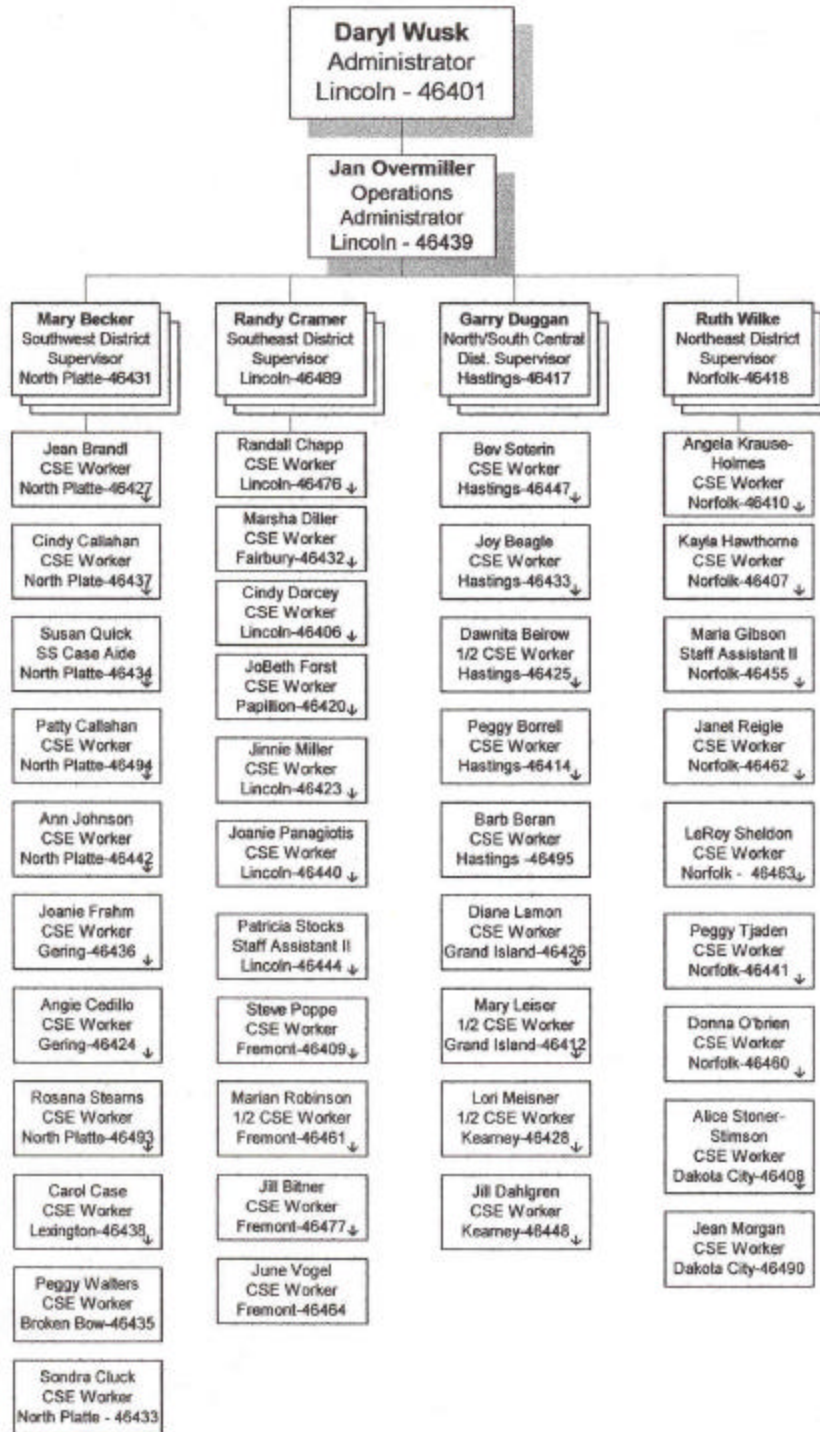
NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

ORGANIZATIONAL CHART  
OFFICE OF ECONOMIC AND FAMILY SUPPORT



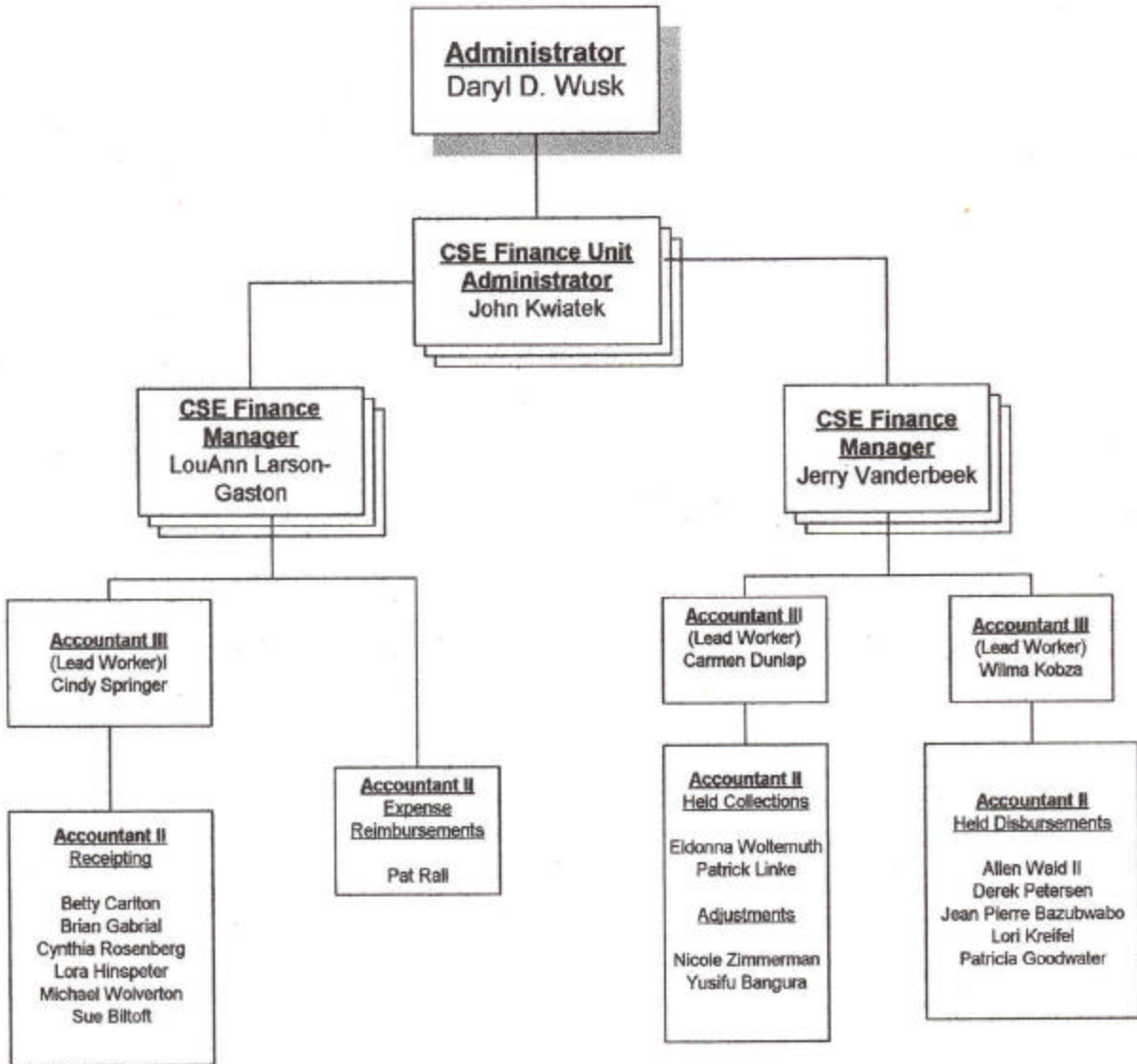
NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

**ORGANIZATIONAL CHART  
CHILD SUPPORT ENFORCEMENT FIELD STAFF**



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

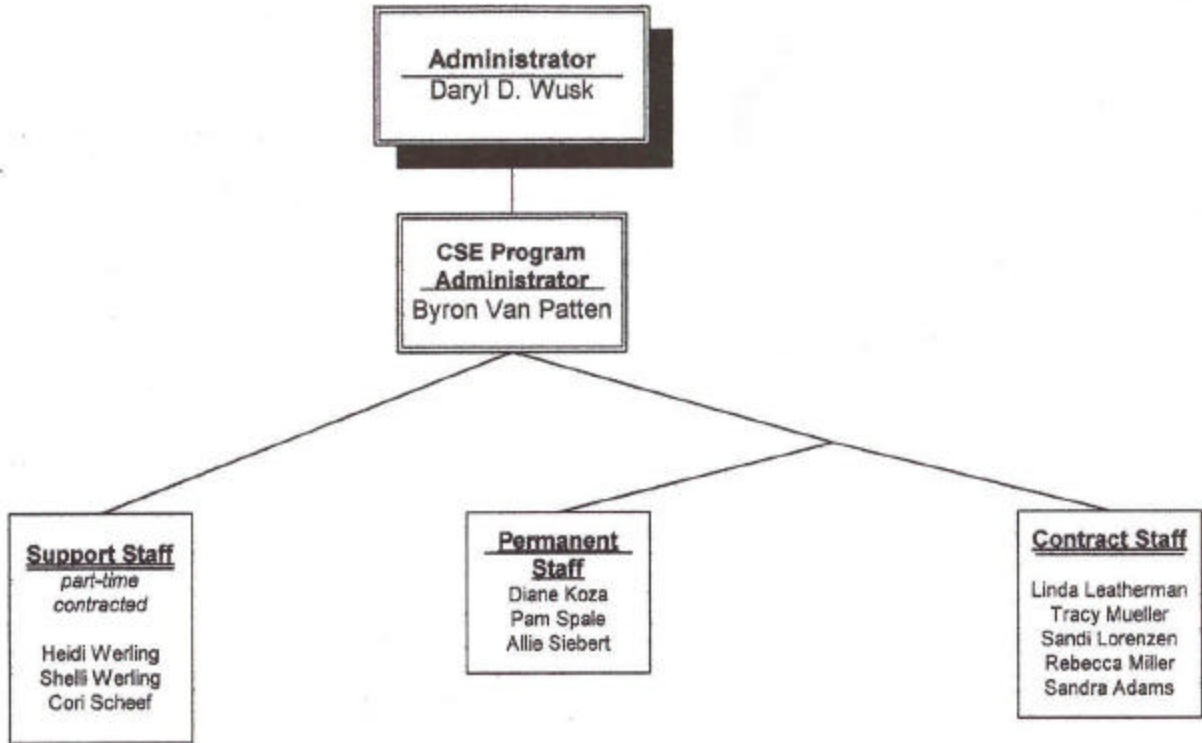
**ORGANIZATIONAL CHART  
CHILD SUPPORT ENFORCEMENT FINANCE UNIT**





NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

**ORGANIZATIONAL CHART  
CHILD SUPPORT ENFORCEMENT PROGRAM ENHANCEMENT TEAM**



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**SUMMARY OF COMMENTS**

During our audit of the Nebraska Department of Health and Human Services - Child Support Enforcement (Department) and the State Treasurer - State Disbursement Unit (State Treasurer's Office) Agency Funds (Funds 7263, 7264, and 7265) we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT (Comments Relating to both Agencies)**

1. ***Reconciliation Processes:*** There are three major systems the State of Nebraska uses to account annually for hundreds of millions of dollars of receipts and disbursements of child support. (CHARTS, KidCARE, and NAS). We noted there were limited reconciliation procedures for these systems to ensure all activity was properly accounted for and the systems were in balance. There was an unexplained variance between KidCARE and NAS of \$36,097.
2. ***Federal Certification Review:*** In December 2002, the Federal Office of Child Support Enforcement (OCSE) performed and completed its most recent certification review to determine whether or not the State's Child Support Systems of the Nebraska Department of Health and Human Services had met all federal certification requirements. The draft report noted 18 Certification Findings and Recommendations and seven Management Findings and Recommendations. Subsequently, the Department demonstrated 5 of 18 certification findings were not findings and thus are not included in this report. The remaining findings and recommendations were summarized and presented in this report.
3. ***Bad Debt, Duplicate Warrants, and Cancelled Warrants:*** The State Treasurer's Office did not record bad debt, duplicate warrants issued in error, and cancelled warrant activity for the period December 24, 2001 through June 30, 2002 on the Nebraska Accounting System (NAS). Therefore, resulting in a net overstatement of the IV-D Support Payment Distribution - SDU Fund (Fund 7264) cash balance at June 30, 2002 by \$375,017. Funding for this shortage would need to come from another source.

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT**

4. ***Case Compliance:*** The Department has a staff of caseworkers whose responsibility is to ensure that child support cases are being properly processed in compliance with all federal guidelines. Caseworkers keep track of events in both the CHARTS system and in physical case files. We noted the following:



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

SUMMARY OF COMMENTS  
(Continued)

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT** (Concluded)

- Some tasks were not accomplished within the timeframes allotted by federal regulations.
  - Some lack of documentation to ascertain that tasks were performed as required.
5. ***Conversion Process:*** In December 2001, the State of Nebraska converted the child support records from the JUSTICE system (used by Clerks of the District Courts) and the Douglas County District Court System. We noted that not all the Douglas County District Court records could be validated. Two of twelve balances on CHARTS did not agree to the JUSTICE system at the conversion date; the Department's management stated 1,633 judgments with a negative balance were compared but not validated.
6. ***Receipts Processed at the Department:*** The Department processes Internal Revenue Service intercepts, State Department of Revenue intercepts, voluntary payments, targeted payments, recovery payments, purged orders, and bond payments. For the fiscal year ending June 30, 2002 the Department processed approximately \$21,000,000 in receipts and in excess of \$11,000,000 in non-monetary receipts. Receipts are processed through a computerized system called Children Have A Right to Support (CHARTS). During our testing of receipt transactions we noted the following:
- Two of 32 receipts tested could not be traced to journal entry detail or disbursement document detail.
  - Three of 24 non-monetary receipts could not be traced to CHARTS.
  - No initial control was established for monies received and checks were not restrictively endorsed immediately upon receipt.
  - The amount deposited in the Nebraska Accounting System (NAS) did not agree to CHARTS batch information for 1 of 10 documents tested.
7. ***CHARTS - System Controls:*** The Department has developed a computerized system called Children Have A Right to Support (CHARTS). CHARTS maintains millions of records and annually keeps track of hundreds of millions of dollars of child support receipts and disbursements. We noted the following as they relate to the CHARTS system:
- The Information Technology security administrator's review of weekly RACF logs was not documented.
  - The CHARTS Disaster Recovery Plan (DRP) should be improved.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**SUMMARY OF COMMENTS**  
**(Concluded)**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

8. ***Control Structure:*** During the course of the audit of the Nebraska State Treasurer - State Disbursement Unit (SDU), the State Treasurer significantly restricted the auditors' access to SDU staff. Without having unrestricted access to agency staff the audit staff was greatly hindered in their ability to get complete and accurate information as required by Generally Accepted Government Auditing Standards (GAGAS). In addition, a significant amount of extra time was spent through written communications requesting information that was not always provided to the auditors in a timely manner.
9. ***Outstanding Warrant List:*** A listing of all outstanding child support warrants at June 30, 2002, was not provided to the Department of Administrative Services. Additionally CHARTS does not properly identify cancelled warrants.
10. ***KidCARE System:*** The SDU developed an automated system to record the receipts and disbursements related to child support. From December 24, 2001 to June 30, 2002 the SDU's receipting system, KidCARE, recorded child support receipts in excess of \$114 million. We noted the following areas as they relate to the KidCARE system:
- There was no documentation that management reviewed the Security Audit Log for Logins and Automated System Error Logs.
  - The SDU's Disaster Recovery Plan (DRP) should be improved.
  - System access should be changed so the same employee would not have access to process receipts and also apply the receipts to the records.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department and State Treasurer to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department and State Treasurer declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**1. Reconciliation Processes**

The Nebraska Department of Health and Human Services (Department) is responsible for the collection, disbursement, and enforcement of child support in the State of Nebraska. To meet this responsibility the Department has developed a computerized system called Children Have A Right to Support (CHARTS). CHARTS maintains millions of records and annually keeps track of hundreds of millions of dollars of child support receipts and disbursements.

The Department selected the State Treasurer's Office to operate the State Disbursement Unit (SDU) for the receipting and disbursement of child support beginning in December 2001. Prior to the SDU, a majority of child support payments were receipted and disbursed by the Clerks of the District Courts. The SDU developed an automated system (KidCARE) separate from the Nebraska Accounting System (NAS) to record the receipts and disbursements related to child support.

In gaining an understanding of the operations of the three systems noted above (CHARTS, KidCARE, and NAS) and in our discussion with management staff from the Department and the State Treasurer's Office, we noted there are limited reconciliation procedures performed between the systems to ensure all activity is properly accounted for and the fund balance per NAS equals the undisbursed child support as recorded in CHARTS. We noted the following not being performed:

- A. State Treasurer's Office responsibility - Reconciliation of child support payments collected by the SDU through KidCARE to CHARTS** - When this reconciliation is not performed there is a greater risk errors and omissions will go undetected and that all child support receipts received by the SDU will not be recorded in CHARTS. Staff from the Department and the State Treasurer's Office indicated they were working on a computer program to help them do this reconciliation.
  
- B. State Treasurer's Office responsibility - Reconciliation of child support payments collected by the SDU through KidCARE and NAS** - When this reconciliation is not performed there is a greater risk errors and omissions will go undetected and all child support receipts received by the SDU will not be recorded in NAS. Auditors attempted to

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**1. Reconciliation Processes** (Continued)

reconcile these two systems and originally noted a variance between the two systems of \$215,881. The State Treasurer's Office provided an explanation for \$179,784 of the difference and documentation to support the variance. However, a variance of \$36,097 remains unexplained.

- C. Department's Responsibility - Reconciliation of CHARTS to NAS** - When this reconciliation is not performed there is a greater risk errors and omissions will go undetected and the fund balance available per NAS will not equal the undisbursed support as recorded in CHARTS. Staff indicated they have a procedure to ensure all activity recorded in CHARTS is recorded in NAS and are working on the reconciliation of the balances between the two systems; however, this reconciliation has not yet been completed. This had been noted in our 2000 audit work performed on Child Support Enforcement.

Sound accounting practices and good internal control procedures would include reconciliation between systems to ensure all activity is properly accounted for and the systems are in balance.

We recommend the State Treasurer's Office and the Department develop reconciliation procedures to ensure CHARTS, KidCARE, and NAS systems reconcile to ensure all activity is properly accounted for and the systems are in balance. In addition, we recommend the difference of \$36,097 between NAS and KidCARE be identified and documented.

*Department's Response Item A: Program was changed 3-10-03 and was reviewed and approved by the Federal Office of Child Support Enforcement Review team.*

*State Treasurer's Response:*

*Item A - This was a finding from the Federal Audit of Child Support completed in January of 2003. As the State Auditor is aware we have worked with the Federal Auditors to resolve this issue. The initial reports back from the Federal Auditors have been very positive.*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**1. Reconciliation Processes (Concluded)**

*State Treasurer's Response, Concluded:*

*The State Disbursement Unit established and implemented processes and procedures to reconcile support payments processed with payment information sent to CHARTS through the creation of a Daily SDU Reconciliation Report. The Daily Reconciliation Report has been implemented since March 10, 2003.*

*Item B - The State Disbursement Unit's bank account is balanced on a daily basis. This situation was explained to the auditors. We can not finalize all corrections until all federal requirements for adjustments and write offs have been completed. This process is lengthy and time consuming therefore there will always be what appears as an unexplained variance. However as items progress through the system they will in effect clear themselves off.*

*Item C - See Department's Response.*

**2. Federal Certification Review**

By Federal law the State of Nebraska Child Support Systems (CSS) are required to meet Federal requirements. CSS consists of CHARTS, (Children Have A Right to Support), a computerized system maintaining millions of records and annually keeping track of hundreds of millions of dollars of child support receipts and disbursements and the State Disbursement Unit (SDU), which operates an automated system to process the receipts and disbursements of child support.

The Department is responsible for CHARTS and the SDU. The State Treasurer's Office operates the SDU through a contractual agreement with the Department.

In December 2002, the Federal Office of Child Support Enforcement (OCSE) performed and completed its most recent certification review to determine whether or not the State's CSS have met all Federal certification requirements. The Nebraska Auditor of Public Accounts (APA) was provided a draft copy of this report in March 2003. The draft report noted 18 Certification Findings and Recommendations and 7 Management Findings and Recommendations. Subsequently, the Department demonstrated 5 of the 18 certification findings were not findings and thus are not included in this report. The remaining findings and recommendations are summarized below.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

2. **Federal Certification Review** (Continued)

**Certification Findings** - (Of the 13 items noted, all are the responsibility of the Department. Items J and K relate to the SDU, and through the contractual agreement noted above with the Department, they become the responsibility of the State Treasurer's Office.)

- A. **UIFSA FORM** - The Douglas County contract office indicated that CHARTS sometimes does not pull information from the database that is required to be on the appropriate form, or puts incorrect information on the form. CHARTS must be modified to put the correct information from the database on all UIFSA forms generated by the system.
- B. **Accept and Maintain Information on all Participants** - CHARTS met all of identified requirements with the exception of its failure to delete certain information during the document generation process.
- C. **Legal Document Functionality** - In the Fremont Office, CHARTS was not used to generate legal documents.
- D. **Work Lists/Alerts** - Action alerts that are triggered by CHARTS to prompt a caseworker to take an action may be closed by the caseworker without the appropriate action being taken. The system does not monitor these actions from request to completion to ensure required actions are completed. In addition, CHARTS does not regenerate closed action alerts when the action has not been completed. The system must be modified so an action alert cannot be permanently closed unless the related case action has been taken by the system, or taken by the worker and recorded in the system. If the worker closes the alert, and no related action has been taken, the system must automatically regenerate the alert on the caseworker's work list the next morning
- E. **Review and Adjustment** - The system generates the Review and Adjustment notice to each party only once for each case. A notice to each party regarding the right to request a review at least once every three years is required.
- F. **Income Withholding** - For orders established prior to 1991, the notice of intent to withhold income is sent to the non-custodial parent indicating the non-custodial parent has 15 days to request a hearing. If no hearing is requested, a notice of income withholding is

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**2. Federal Certification Review** (Continued)

issued within 2 business days with a tickler to the worker. The State's practice is inconsistent with Federal law, which requires the system to automatically generate an income withholding notice within 2 business days of receipt of newly hired information or information from other source(s) including employment related information.

**G. Income Withholding Activities** - If income withholding is being implemented for the first time, there is no automated withholding. The worker gets a tickler to initiate issuance of the income withholding notice. The tickler can be deleted, and will not come back when the worker has failed to generate the notice to the employer. The system must be modified to automatically generate the notice of income withholding within 2 business days after receipt of employment information regarding the non-custodial parent.

**H. Initiated Withholding** - In cases of initiated withholding; the notice to the employer indicates that income withholding is not effective until 15 days after the date of the income withholding notice. Under federal law, in initiated income withholding cases, withholding must be implemented immediately.

**I. License Suspension** - The system does not automatically generate a notice of potential license suspension to the non-custodial parent for cases identified by the system as meeting prescribed criteria. The system must be modified to:

- automatically generate, in appropriate cases, a notice of potential license suspension to the non-custodial parent;
- print from CHARTS in the Central Office; and
- generate the notice of license suspension from CHARTS and automatically note it in the case history.

**J. Payment Reconciliation** - The State does not have a process for reconciliation of payments received, processed, and deposited by the SDU with payment information sent to CHARTS, including unidentified payments. Procedures must be developed to perform this reconciliation on a daily basis.



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**2. Federal Certification Review** (Continued)

- K. Payment Processing** - The SDU does not have procedures to ensure that one person does not perform more than one function with respect to a particular batch of payments. The SDU must have a procedure which ensures that the worker selected to perform the task of the absent worker cannot perform any other task with respect to processing the batch of payments.
- L. Electronic Funds Transfer/Electronic Data Interchange (EFT/EDI)** - The State has developed the capability to transmit outgoing EFT/EDI transactions, but this functionality is not yet in production. The system must be modified to transmit EFT/EDI transactions to other states using the CCD+ format, and at State option, the CTX 820 Remittance format.
- M. Risk Analysis Document** - The State conducted a Risk Analysis for CHARTS and issued a summary report. However, the report did not address the system's vulnerability to fraud, theft, physical destruction, physical intrusion, etc. The Risk Analysis for CHARTS, currently underway, and the subsequent report, must address the system's vulnerability regarding fraud, theft, physical destruction, physical intrusion, etc. In addition, the State must develop and issue formal written procedures for conducting a Risk Analysis, and issue a comprehensive report that identifies in detail the findings and appropriate corrective actions resulting from the Risk Analysis process.

**Management Findings** - The following findings are not considered certification issues relative to Federal requirements for automated child support enforcement systems. However, due to the nature of the issues presented in these findings, the State needs to address them as they impact the overall efficiency and/or effectiveness of the system, and the State's IV-D program.

- A. Scheduling of Appointments** - Workers can schedule appointments on CHARTS. However, the system does not automatically send an alert to the worker regarding the appointment schedule for each day. The system should be modified to automatically send an alert to the worker regarding appointments scheduled for each day.
- B. IV-A/IV-D Interface** - Non-custodial parent employer information, health insurance information, and support order information are not received via the electronic N-FOCUS/CHARTS interface. The State needs to modify N-FOCUS to include the data elements mentioned above and electronically transmit this information to CHARTS.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

2. **Federal Certification Review** (Continued)
- C. **Child Support Enforcement Network (CSENet)** - CHARTS sends and receives information to meet CSENet Phase I and II requirements as established by OCSE. However, CHARTS was not sending or receiving all of the other types of CSENet Standard Transactions (i.e., PAT, EST, COL). The system should be enhanced to send and receive all types of CSENet Standard transactions.
- D. **Archive Cases** - There is no capability to archive data maintained in the CHARTS system. The State should develop the ability to archive data maintained in the CHARTS system.
- E. **Accessing Information** - The worker is required to key in the Agency Related Person (ARP) number in order to access paternity information regarding the dependent child. The system should be modified to permit the caseworker to access any information regarding a dependent child without having to key in the appropriate ARP number.
- F. **Notification of Hearings** - CHARTS does not provide the initiating state, through CSENet, advance notice of hearings regarding paternity establishment or establishment/adjustment of a support order. The State needs to modify the system to send notice through CSENet, to the initiating state regarding paternity establishment, or establishment/adjustment of a support order, including the date(s) of hearings.
- G. **Reporting** - When the State has a IV-D case with a custodial parent, non-custodial parent, and two children, and one child moves with the grandmother, the State creates a new case with the mother as a non-custodial parent. However, a new case with the grandmother, non-custodial parent, and child is not created as required by the instructions to the OCSE-157. The State must modify CHARTS so that when a child goes to live with the grandmother, a new case is established with the grandmother as the custodial parent and the father as the non-custodial parent.

*Department's Response: The approved PRWORA Certification Supplemental Work Plan Effort 2003 (Plan) has been completed and will be implemented June 7, 2003. The Plan is available from the Nebraska Department of Health and Human Services - Child Support Enforcement (HHS-CSE). In addition, we make the following comments:*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**2. Federal Certification Review (Continued)**

*Department's Response, Concluded:*

Certification Findings

*Items J, K, L - These three have been reviewed and approved by the Federal Office of Child Support Enforcement Regional Auditors Team on April 24, 2003.*

Management Findings

*Item D - CHARTS is doing this now. Refer to the PWRORA Certification Supplemental Work Plan Effort 2003. (See Note)*

*Item E - CHARTS is doing this now. Refer to the PWRORA Certification Supplemental Work Plan Effort 2003. (See Note)*

**Note:** Plan is not included in this report but is available from HHS-CSE.

*State Treasurer's Response: The Federal Audit provided these findings to our Office and HHS. We provided the State Auditor a copy of these findings. Out of the 13-certification findings, 3 are the responsibility of the State Disbursement Unit.*

*Item J - Payment Reconciliation is a restatement of item 1A of the state audit comments and we believe based on our direct contact with the Federal Auditors that this issue will be resolved with the Federal Auditors.*

*Item K - This comment is a repeat of the Federal Audit and a is a restatement of item 10C of the state audit comments and recommendations. This item has been resolved for the Federal Auditors as follows:*

- *The State Disbursement Unit revised the payment process in several ways, including: 1) designating several staff exclusively to the 'Mail Opening' payment processing step, 2) the 'Batching' and 'Batch Logon' processing steps were consolidated, and 3) system edits were created to automatically disallow a person from performing multiple functions on a particular batch of payments. We have presented this improvement to the Federal Auditors.*

*Item L - Electronic Funds Transfer/Electronic Data Interchange (EFT/EDI) is once again a repeat of the Federal Audit finding and has been resolved for the Federal Government. The functionality to make EFT/EDI payments to other states was added on January 16, 2003 and the*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**2. Federal Certification Review (Concluded)**

*State Treasurer's Response, Concluded:*

*financial information for Georgia, Washington, and Alaska was added to KidCare in late February 2003. We have successfully sent multiple EFT/EDI to the State Disbursement Unit in Olympia Washington, the Child Support Enforcement Division in Anchorage Alaska, and the State Disbursement Unit in Atlanta Georgia.*

*E-Commerce is one of our many strengths noted by the Federal Auditors.*

**3. Bad Debt, Duplicate Warrants, and Cancelled Warrants**

Court ordered support is received and disbursed from one central location, the SDU. The SDU is responsible for the receipting, depositing, and crediting payment from the non-custodial parent and entering the correct effective date. In addition to the receipting function, the SDU is also responsible for the disbursement of child support to the payee. The Department selected the State Treasurer's Office to operate the SDU for a three-year contractual period.

We noted the following related to child support disbursements:

**Bad Check and Automated Clearinghouse Transactions Debt**

The State Treasurer's Office is accountable for all bad debts resulting from child support. The State Treasurer's Office contracted with a collection agency, e-Tech Solutions, to collect bad check debt resulting from insufficient funds and closed accounts only. The State Treasurer's Office pursued collections for bad checks that were not collected by e-Tech Solutions and bad electronic payments made through Automated Clearinghouse (ACH) transactions.

For those checks and ACH transactions for which the State Treasurer's Office pursued collection, an initial letter was sent to the payor notifying them of the bad debt and requesting payment to the State Treasurer's Office. The State Treasurer's Office also attempted to intercept any additional payments the payor may have remitted to the SDU for child support. Those funds were used to recover any bad debt.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**3. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

We noted the following related to bad check and ACH debt:

- Aside from the collections procedures noted above the State Treasurer's Office did not have a written policy or procedure to address further recovery of the outstanding bad debt.
- No written policies were noted for the collection of bad debt obligations arising from payors' insufficient funds. Additionally, we did not observe a written policy documenting the funding to offset the bad debt obligation or the write off of uncollectable bad debt.
- The State Treasurer's Office did not record all bad check debt on NAS. Bad check debt for the period December 24, 2001 to June 30, 2002 totaled \$257,124. The State Treasurer's Office recovered \$195,576 of the bad check debt. Outstanding bad check debt at June 30, 2002 was \$61,548.
- The State Treasurer's Office also did not record all bad ACH debt on NAS. Bad ACH debt for the period December 24, 2001 to June 30, 2002 totaled \$149,822. The State Treasurer's Office had recovered \$15,385 of the bad ACH debt. Outstanding bad ACH debt at June 30, 2002 was \$134,437.

**Duplicate Warrants**

On February 19 and 20, 2002 a warrant print file was sent to the print vendor twice. The State Treasurer's Office became aware of the problem when payees called in to report they had received duplicate payments. The State Treasurer's Office immediately changed procedures to verify when the warrant print file had been sent to the print vendor. The State Treasurer's Office stated the processes at the print vendor also changed to ensure duplicate warrants were not issued. The State Treasurer's Office did notify the Department of the duplicate disbursement, however, the disbursement was never recorded on NAS.

Per the State Treasurer's Office records:

- 3,162 duplicate warrants totaling \$488,842 were issued in error; an estimated \$242,102 were returned and did not need recovery at June 30, 2002.
- \$246,740 was determined to need recovery at June 30, 2002
- Per the SDU's records, recovery efforts were made for \$215,765. A letter was mailed to payees requesting the amount be paid in full or a payment plan could be established.
- \$30,975 was unaccountable and no collection procedures have been pursued to date.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**3. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

- An estimated \$44,184 of the \$215,765 was recovered at June 30, 2002.
- No additional recovery efforts or funding has been made for the outstanding duplicate warrant recovery amount of \$202,557.

**Cancelled Warrants**

On occasion the SDU will be notified by the Department that a warrant will need to be cancelled within KidCARE, the SDU's automated receipting and disbursement system. If the physical warrant is in the SDU's custody, it will be stamped cancelled, and the warrant's status will be changed within KidCARE. The physical warrants are kept at the SDU.

Additionally, the SDU will run a query for the Department to determine if any warrants are due to expire. The Department will notify the SDU to cancel these warrants so that the funds can be cancelled within NAS and transferred back to the fund of origination.

During the period December 24, 2001 to June 30, 2002 warrants totaling \$23,524 were cancelled within KidCARE. However, the journal entry to record the warrant cancellation was not recorded in NAS. Additionally, the cancelled warrants are not recognized within the Department's automated child support system, CHARTS. The Department's management is aware of the CHARTS defect and is currently working to correct the problem. Management stated they made an attempt to cancel warrants in October of 2002, however; the Department of Administrative Services (DAS) rejected the format of the cancellation.

No written policies or procedures have been developed regarding recording of cancelled warrants in NAS.

The Interagency Agreement-Attachment A (Request For Information) between the State Treasurer's Office and the Department stated that the contractor is "liable for the amount of subsequent Non Sufficient Fund (NSF) receipts from any payor or employer that tendered a receipt with NSF where the contractor has received notice from the bank. The contractor must provide the funds within twenty-four hours of the notification of the NSF."

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**3. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

The Request For Information (RFI) also noted, “if a payee receives an overpayment as a result of the contractor’s error, the contractor shall notify the payee that the payment was made in error and to return the payment to the contractor. The contractor shall provide the funds for the correct disbursement. If payment is not received from the payee after notification, the contractor may record in CHARTS the incorrect disbursement. The contractor may also be reimbursed by withholding future, current, or arrearage payments as the Child Support Enforcement policy permits.”

Sound business practice requires policies and procedures to be in place for the collection and funding of outstanding bad debt obligations, as well as the write-off of outstanding accounts deemed uncollectable. Sound business practice also requires written policies and procedures for the cancellation of State warrants in NAS.

The SDU did not record bad debt, duplicate warrants issued in error, and cancelled warrants activity for the period December 24, 2001 to June 30, 2002 in NAS. Therefore, resulting in a net overstatement of the IV-D Support Payment Distribution-SDU Fund (Fund 7264) cash balance at June 30, 2002 by \$375,017. Without policies or procedures in place to enforce the recovery or funding of bad debt and payments made in error there is a greater risk money will not be collected, and funding of this shortage will have to come from some other source.

When agencies do not have a written policy on the recording of cancelled warrants in NAS, these transactions may not be accounted for appropriately.

We recommend the following:

- The State Treasurer’s Office should record all bad debt and duplicate warrants in NAS.
- The State Treasurer’s Office should develop and implement written policies and procedures regarding the collection and funding of outstanding bad debt and the write off of any uncollectable accounts.
- The State Treasurer’s Office and the Department should work with DAS to ensure cancelled warrants are recorded in NAS.



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT AND NEBRASKA STATE TREASURER - STATE  
DISBURSEMENT UNIT**

**3. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Concluded)**

- Additionally, for those duplicate warrants that remain unrecovered, the State Treasurer's Office should pursue the adjustment of each payee's records in CHARTS to reflect the receipt of the duplicate payment and/or to retain future payments as the Department's policy permits.

*Department's Response: The duplicate warrants in the referenced situation were never recorded in CHARTS and, therefore, no need for adjustments in CHARTS. This duplicate payout situation was a direct result of duplicate processing between the SDU and their Print Vendor.*

*State Treasurer's Response: All bad debt regardless of source or type is recorded on multiple subsidiary ledgers, tracked and balanced daily. The auditor's staff reviewed the master ledger of all bad debt and observed that ALL bad debt is in fact recorded, tracked and balanced.*

*The 48-hour requirement to receive and pay out all child support makes it impossible to know if a payment received is a 'bad check'. The federal government does not permit us to recover the payment from the recipient. Therefore we must record all bad debt in a subsidiary ledger in order to ensure that the accounting system will allow other payments to be issued to other custodial parties which should not be effected by the bad debt. To recommend that the State lower the accounting system balance to reflect this bad debt indicates a lack of understanding by the auditor of the responsibilities and how this recommendation would jeopardize child support payments.*

**Auditors' Response: We reiterate that the State Treasurer's Office was not recording significant financial transactions in the State's accounting records. In addition, audit procedures are performed on a test basis. We did not observe, as the State Treasurer's Office stated above, that all bad debt was in fact recorded, tracked, and balanced.**

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT**

**4. Case Compliance**

The CHARTS computer system was designed to assist caseworkers with case initiation, case management, location efforts, establishment of paternity, and enforcement of child support orders. CHARTS is able to search various state and national databases on daily, weekly, and monthly intervals and link the information found to the child support cases actively logged in CHARTS. The CHARTS system sends caseworkers notice (a tickler) when information has been received for a case. All information regarding a case is located in the physical file or the electronic file in CHARTS.

Section 303 of Title 45 of the Code of Federal Regulations (C.F.R.) covers the bulk of federal regulations for child support case operations. Title 466 of the Nebraska Administrative Code (NAC) and agency procedures manual detail the actions necessary to achieve compliance with federal requirements. Federal regulations require that 75% of cases tested be without error, for each regulation reviewed, in order for the agency to be considered in compliance.

The Department is required by the Federal Office of Child Support Enforcement (OCSE) to submit a Self-Assessment report in which compliance with Federal criteria is gauged. The auditors did not rely on the report when selecting a test sample due to differences in testing methodology. The Department breaks the criteria down into categories. The cases they select for their sample are chosen based on the criteria and portioned out to corresponding categories, and only the criteria for that specific category are applied to those cases. During our audit we tested 50 randomly selected cases in the areas of case establishment, cases with medical support orders, case enforcement, case review and modification, and interstate cases. We noted that not all of the compliance requirements applied to every case. Our results were as follows:

	<b>Criteria</b>	<b>Compliance Requirement</b>	<b>Total cases reviewed</b>	<b>Total cases for which criteria was applicable</b>	<b>Number of Errors</b>	<b>Error %</b>	<b>Correct %</b>
		<b>Case Establishment</b>					
1	45 C.F.R. Sections 303.2.b & 303.7.b.2	Case record was established within 20 days of referral from public assistance social workers or filing of application for services by a custodial parent.	50	11	1	9%	91%
2	45 C.F.R. Section 303.2.b.1	Custodial parent filled out a paternity questionnaire if paternity was not known.	50	10	0	0%	100%

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT**

**4. Case Compliance (Continued)**

	<b>Criteria</b>	<b>Compliance Requirement</b>	<b>Total cases reviewed</b>	<b>Total cases for which criteria was applicable</b>	<b>Number of Errors</b>	<b>Error %</b>	<b>Correct %</b>
		<b>Case Establishment, Concluded</b>					
3	45 C.F.R. Section 303.3.b.3	Location efforts to find non-custodial parent were initiated within 75 calendar days of determining it was necessary.	50	24	3	13%	88%
4	45 C.F.R. Section 303.4.d	Service of process was completed within 90 calendar days of locating alleged non-custodial parent.	50	6	2	33%	67%
5	45 C.F.R. Section 303.101.b.2 I	Support order established within 1 year of completed service of process.	50	3	0	0%	100%
		<b>Medical Support Orders</b>					
6	45 C.F.R. Section 303.31.a.1	If health insurance was ordered, necessary steps were taken to determine if health insurance was available and reasonable.	50	22	12	55%	45%
7	45 C.F.R. Section 303.31.b.7	If medical support/insurance was included in the support order and available, but not obtained, steps were taken to obtain it.	50	6	4	67%	33%
8	45 C.F.R. Section 303.31.b.6	Medicaid was informed by the Department that medical coverage was obtained.	50	2	2	100%	0%
		<b>Case Enforcement</b>					
9	45 C.F.R. Section 303.100.e.2	For immediate income withholding, notice to withhold was sent to NCP employer within 15 calendar days of order and known address of employment or change of employment.	50	19	4	21%	79%

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT**

**4. Case Compliance (Continued)**

	<b>Criteria</b>	<b>Compliance Requirement</b>	<b>Total cases reviewed</b>	<b>Total cases for which criteria was applicable</b>	<b>Number of Errors</b>	<b>Error %</b>	<b>Correct %</b>
		<b>Case Enforcement, Concluded</b>					
10	45 C.F.R. Section 303.6.c.2	If no wage withholding done enforcement action was taken within appropriate timeframe 30 days if administrative and no service of process needed. 60 days if judicial and a service of process needed. Such as credit reporting, liens on property, license suspension, etc.	50	15	1	7%	93%
11	45 C.F.R. Sections 303.72 & 303.102 & 303.6.c.3	Federal and State income tax refund withholding was initiated for arrearages, if payment was at least 3 months behind and over \$500 for Federal and \$150 for State.	50	25	1	4%	96%
		<b>Case Review and Modification</b>					
12	45 C.F.R. Section 303.8.e	Within 180 calendar days of receiving a request for review or locating the non-requesting parent, whichever occurs later, determination was made based on the review that an adjustment was or was not necessary.	50	3	2	33%	67%
		<b>Interstate Cases</b>					
13	45 C.F.R. Section 303.7.b.4	When Nebraska receives a request for information from another state the request is answered in 30 days.	50	8	2	25%	75%
14	45 C.F.R. Sections 303.7.b.5 & 303.7.c.9	Nebraska notified the other state involved in the case of any new information within 10 working days.	50	6	2	33%	67%
		<b>Non-federal &amp; Good Practice Issues</b>					
15	Title 466 NAC 3-002	Non-cooperative custodial parents were properly sanctioned, if on assistance.	50	1	0	N/A	N/A
16	Good business practice	Case file type is correct: IV-A - Public Assistance; Non public assistance; IV-E - Foster Care; open/closed.	50	50	5	N/A	N/A

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD SUPPORT ENFORCEMENT**

**4. Case Compliance (Continued)**

	<b>Criteria</b>	<b>Compliance Requirement</b>	<b>Total cases reviewed</b>	<b>Total cases for which criteria was applicable</b>	<b>Number of Errors</b>	<b>Error %</b>	<b>Correct %</b>
		<b>Non-federal &amp; Good Practice Issues, Concluded</b>					
17	Good business practice	Amount of monthly child support obligation in CHARTS matches the court order.	50	43	0	N/A	N/A
18	Good business practice	Information from the court order in case file matches information in the CHARTS system: names of custodial parents, non-custodial parents, and dependants. The date of birth of dependants is correct.	50	46	4	N/A	N/A

Summary of test results:

- A. Six out of 14 compliance requirements tested did not meet the 75% compliance rate.
- B. Case establishment was in compliance with four out of five requirements tested.
- C. The best compliance rate achieved for the three medical support order requirements tested was 45%.
- D. The worst compliance percentage was 0%, for medical support order enforcement.

Without better compliance, the Department may not have the most current or most accurate data for its child support cases and the State of Nebraska may be making public assistance or Medicaid payments to individuals who should not be receiving these benefits.

We recommend the Department continue its efforts to comply with Federal regulations and increase monitoring of caseworkers to ensure compliance. We also recommend caseworkers make a concerted effort to review each of the cases assigned to them and to ensure all pertinent information is entered into CHARTS.

*Department's Response: This section is not statistically valid samples. Conclusions are not reliable.*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**4. Case Compliance (Concluded)**

**Auditors' Response:** We believe the sample of 50 shows areas of concern and the Department should take appropriate corrective action as outlined in our recommendation above.

**5. Conversion Process**

The Federal government, through the Welfare Reform legislation of 1996, Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), mandated states to develop a centralized child support collection and disbursement system. The State of Nebraska developed a system called CHARTS (Children Have A Right To Support). The State of Nebraska implemented this centralized system in December 2001. Prior to this date the Clerk of the District Court in each County handled child support collections and disbursements. The Clerk of the District Court in each county, except Douglas County, used a computerized system called JUSTICE to account for and maintain records for child support collections and disbursements. Douglas County maintained its own computerized system to perform the same functions. In December 2001 the State of Nebraska converted child support records from the two systems to CHARTS as mandated by the Federal government. The following was noted related to the conversion of records from the Douglas County system and the JUSTICE system.

**Douglas County**

From auditor's inquiries of the Department's management it was disclosed that not all the records converted from the Douglas County District Court could be validated in December 2001. Management provided the following information based on our inquiries:

- The total number of judgments as of June 30, 2002 maintained by CHARTS was 178,239 and the total judgments for Douglas County was 57,515. Thus, at June 30, 2002, Douglas County represented 32% of the CHARTS responsible judgments. CHARTS responsible judgments include child support; spousal support or maintenance, when it is in an order that also addresses child support; medical support; medical reimbursement; grant reimbursement; as well as blood test judgments.
- Management estimated that currently 91% of the Douglas County judgments have been validated.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**5. Conversion Process (Continued)**

- The present Douglas County District Court system has been in production since 1994. Some functions in this system require human intervention and review. At the time of the conversion to the statewide system, CHARTS had no way to identify the cases that had been validated by court staff. As a result, the Department continues to address these cases individually rather than with an automated system-wide review.

Following is a brief outline of the scenarios of the Douglas County System the Department and court staff continue to evaluate.

- Interest Computation and Balances. At the time of conversion to this system, many cases did not have an updated interest calculation. The “new” system computed interest forward, based on the values available. Cases were validated and interest was updated by request.
- Receipting by Effective/Credit Date. The system does not automatically support a backdated credit date. When receipts are posted the system applied the money to the account as of the date it was entered. In cases such as income withholding collections, this meant that the credit given might not have reduced arrears in the correct timeframe. This could cause interest to be over-stated. The courts made corrective entries to this type of collection upon request.
- Interstate Cases. Douglas County policy was that court cases that had been filed in other jurisdictions, such as interstate cases, should not automatically apply an obligation due amount to the payment ledger. This balance simply reflects the amount of payments processed, not the balance owed and remaining due.

**JUSTICE**

The conversion of JUSTICE records to CHARTS began in the year 2000 and continued until the implementation date in December of 2001. On the final day before implementation, all balances per JUSTICE were compared to the balance on CHARTS. Management stated that variances were identified, reviewed, and if needed subsequently corrected. Variances noted were due to the incorrect effective date used when posting JUSTICE receipts to CHARTS during the conversion process and the rounding of interest calculations. Variances also occurred when a payment was



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**5. Conversion Process (Concluded)**

received after the conversion date that was effective prior to that date. For example, a payment received on January 3, 2002 that had an effective date of December 10, 2001. Twelve judgments were selected for testing to ensure the balance per CHARTS agreed to the JUSTICE system.

Two of twelve balances on CHARTS at December 22, 2001 (date of comparison) did not agree to the JUSTICE system. The unexplained variances for the two judgments were \$.06 and \$280.78. The Department's management stated any judgment that had a negative balance at any time during the conversion process was compared; however, no correcting entry was made in CHARTS. A negative balance occurs when the non-custodial parent has paid more than is owed. The balances for the above noted judgments were not negative at December 22, 2001 but did have a negative balance at some point during the conversion process.

Management estimated the total number of JUSTICE judgments with negative balances that have been compared but not validated as 1,633 judgments.

We recommend the Department continue all appropriate efforts to ensure all of the State's child support records from Douglas County and JUSTICE courts are validated.

**6. Receipts Processed at the Department**

The Department processes Internal Revenue Service (IRS) intercepts, State Department of Revenue intercepts, voluntary payments, targeted payments, recovery payments, purged orders, and bond payments. For the fiscal year ending June 30, 2002, the Department processed approximately \$21,000,000 in receipts and in excess of \$11,000,000 in non-monetary receipts. Receipts are processed through CHARTS. During our testing of receipt transactions we noted the following:

**A. Receipts Not Transferred**

Two of 32 receipts tested could not be traced to journal entry detail or disbursement document detail. An IRS intercept totaling \$976,864 was received on March 8, 2002. The computer system used to track all child support payments, CHARTS, released the

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**6. Receipts Processed at the Department (Continued)**

receipts for disbursement on the following Saturday. IRS intercepts are automatically put on a one-day hold to ensure the money has been properly deposited. Since CHARTS does not operate on Sundays the transfer to State programs was not completed. Amounts paid out by warrants were processed promptly on the following day, however, the transfer to the State programs, totaling \$363,812, had not been completed as of March 7, 2003.

Sound business practice requires transfers of child support collections to State programs be performed in a timely manner.

There is an increased risk that the appropriate State program will not receive the amount due to it from a child support collection.

We recommend the Department complete the correcting journal entry to transfer amounts due to the appropriate State programs.

**B. Non-monetary Receipts**

Three of twenty-four non-monetary receipts tested could not be traced to CHARTS. The receipts were not applied to the payor's balance because they had been put on the Held Collection Non-monetary Excess work list. The work list was not being reviewed so the receipts were not corrected until after the auditor noted the problem. As of March 5, 2003 the work list contained 1,053 records totaling \$360,627. The earliest effective date was February 1, 2000.

Good internal control requires a timely review of the held collection-non-monetary excess work list to ensure all receipts are properly posted in CHARTS to the payor's balance.

When the work list is not reviewed there is an increased risk the payor will not receive proper credit for payments, and an increased risk the payor's balance is incorrect.

We recommend the Department review the work list on a timely basis to ensure each receipt posts properly to the payor's balance.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**6. Receipts Processed at the Department (Continued)**

**C. Receipting Controls at the Department**

During our review of the receipting procedures at the Department we noted the following:

- No initial control was established for monies received.
- Checks were not restrictively endorsed immediately upon receipt.

Good internal control requires an initial control list be prepared when monies are received, and checks be restrictively endorsed immediately upon receipt to ensure all amounts received are properly recorded.

When an initial control list is not prepared and checks are not restrictively endorsed immediately there is an increased risk of loss of child support funds.

We recommend the Department prepare an initial control list of all money received at the Department during the mail opening process and restrictively endorse all checks immediately upon receipt.

**D. Deposit Amount did not Agree to CHARTS**

The amount deposited to NAS did not agree to CHARTS batch information for one of ten documents tested. The document to record the receipts for the day was changed to reflect the actual amount of the checks; however, the information in CHARTS was not corrected.

Sound accounting practice requires amounts received and deposited in the State accounting system be correctly recorded in CHARTS, the system used to track child support orders.

When the information in CHARTS is not corrected, the non-custodial parent does not receive the appropriate credit for the amount paid and the custodial parent is not disbursed the appropriate amount.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**6. Receipts Processed at the Department (Concluded)**

We recommend the Department implement procedures to ensure amounts deposited in the State accounting system are properly recorded in CHARTS. Procedures should be in place to ensure that variances noted between the checks to be deposited and the receipt document amount are corrected in CHARTS in a timely manner.

*Department's Response:*

*Item A - The system problem was corrected to assure collections are transferred to the appropriate State programs. The Department will review and complete the correcting journal entry to transfer amounts due the State programs.*

*Item B - The Department is reviewing the Excess Non-Monetary Worklist daily to ensure credit is given to the court ordered payor.*

*Item C, second bullet - A control list of all money received in CSE Finance is prepared and reviewed by at least two separate staff persons during the mail opening process. All checks are immediately restrictively endorsed upon CSE identification.*

*Item D - The OFC (Other States Fee Costs) process has been reviewed to ensure deposited amounts and payor credits are properly reflected on CHARTS. The Department is taking steps to correct any errors discovered on CHARTS.*

**7. CHARTS - System Controls**

The Department is responsible for the collection, distribution, disbursement, and enforcement of child support in the State of Nebraska. To meet this responsibility the Department has developed a computerized system called Children Have A Right to Support (CHARTS). CHARTS maintains millions of records and annually keeps track of hundreds of millions of dollars of child support receipts and disbursements.

We noted the following as they relate to the CHARTS system:

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**7. CHARTS - System Controls (Continued)**

**A. Documentation of Review of RACF Logs**

The Department utilizes the State of Nebraska's mainframe resources to support CHARTS. The State utilizes IBM RACF software as the mainframe security control. RACF controls access to software applications and databases on the mainframe and logs activity connected to these applications and databases. RACF facilitates establishment of security rules governing application and database access.

The policy of the Department is to have the Information Technology (IT) Security Administrator review RACF Logs on a weekly basis. Based on discussion with and the documentation provided by the IT Security Administrator the auditor noted the IT security administrator reviews the weekly RACF logs but does not document the review.

Good internal control requires documentation of control procedures performed to ensure they are completed in accordance with management directives.

When internal control procedures performed are not documented management has no documentary evidence the control procedure is being performed in accordance with their directives.

We recommend the IT Security Administrator document his review of the RACF logs.

**B. Disaster Recovery Plan**

If a disaster should occur that significantly affected CHARTS, many Nebraskans and Non-Nebraskans alike would be affected as receipts and disbursements of child support could not be processed and vital child support records could not be accessed.

The auditors made inquiries of the Department's management on their preparedness to handle a disaster situation affecting the CHARTS system. The following was noted:

- The CHARTS system is on the mainframe of the State of Nebraska. As such, the system and the mainframe hardware that operates the system, is the responsibility of DAS-IMServices.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**7. CHARTS - System Controls (Continued)**

- The State of Nebraska does have a Disaster Recovery Plan (DRP) dated October 1998.
- The Department does not have a current DRP that is coordinated with the State of Nebraska's DRP.
- The Department's DRP that is coordinated with the State of Nebraska's DRP is in the process of being developed; however, a DRP document has not been prepared.
- The Department's Information Systems and Technology division is currently working with the Nebraska Information Technology Commission (NITC), its chief information officer, and a Security Architecture Work Group to complete a Disaster Recovery Planning Process. This plan will be all inclusive of the four large systems operated by the Department.

Good business practice and the State of Nebraska's DRP, which makes the following assumption: "Each user department will have developed its own disaster recovery plan, coordinated with and included in this plan as a series of appendices," requires agencies with significant computer systems to have a plan to get the system operating again in case of a disaster.

According to management there has been a lack of resources to get the plan developed.

Without a DRP, if a disaster should occur that affected CHARTS, the Department may not be prepared to handle the disaster in a timely and orderly fashion.

We recommend the Department develop a DRP that is coordinated with and included in the State of Nebraska's plan as an appendix to that plan. The plan, once developed, should be regularly updated and tested to ensure staff is prepared, as much as possible, to handle a potential disaster.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES - CHILD  
SUPPORT ENFORCEMENT**

**7. CHARTS - System Controls (Concluded)**

*Department's Response: HHSS is currently developing a comprehensive security audit procedure which will include CHARTS. Using industry best practices, this project is investigating consolidation of security, data, and access log reviews and the use of automated auditing and analysis tools. Once a new security analysis process is in place, security reviews and remediation action can be more tightly controlled and tracked. Until this audit project is completed (projected first quarter of 2004) the HHSS IT Security Administrator will immediately begin documenting reviews of the RACF logs. This documentation will be maintained in an Excel spreadsheet on a common drive and can be shared with the State Auditor upon request. This was approved by the Federal Office of Child Support Enforcement Review team during our December 2002 Certification review.*

*HHSS is working with the State's CIO office and DASIMS in development of a DRP that will address the items listed in the recommendations. Due to the detailed coordination necessary between HHSS and other State Agencies there are issues outside HHSS control that will impact the timeframe for completion. The current DRP however does provide for back up and recovery processes to meet all but catastrophic disasters. Such disasters will impact all of State Government of which HHSS would be on component. Development of a DRP to meet catastrophic disaster s will require coordinated efforts such as t hose HHSS is currently employing with the State CIO and DASIMS, and a mandate for agency compliance with budget impacts identified. Time frame to complete this level of DRP will depend on a number of requirements yet to be provided by the State Homeland Security Policy Group, the State CIO's office, HHSS Policy Cabinet, and DAS. The current process was approved by the Federal Office of Child Support Enforcement Review team, during our December 2002 Certification review.*

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**8. Control Structure**

In conducting an audit of an entity's financial statements in accordance with Generally Accepted Government Auditing Standards (GAGAS) an auditor is required to gain an understanding of that entity's internal control components. Internal control consists of the following components:

**Control Environment.** The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

8. **Control Structure** (Continued)

**Risk Assessment.** This control component deals with how management is identifying risk, considering their significance, the likelihood of their occurrence, and how they should be managed.

**Control Activities.** Control activities are the policies and procedures that help ensure management directives are carried out.

**Information and Communication.** This control component deals with whether or not an entity's information and communication processes (accounting system, records, and reports) are adequate to provide assurance information is available to management to make appropriate decisions in managing and controlling the agency's activities and to prepare reliable financial reports.

**Monitoring.** This control component deals with how management is monitoring its controls to ensure they are operating as intended and they are modified as appropriate for changes in conditions.

Based on this understanding the auditor then makes a decision on what, how much, and when to test transactions for financial statement purposes and for compliance with laws and regulations.

In order for auditors to effectively meet GAGAS, they must have unrestricted access and the ability to communicate with auditee staff and supervisors who are responsible for the above control components. Without this ability the audit is much less efficient and the auditor must often perform additional procedures, if possible, in order to develop an opinion on the financial statements.

During the course of the audit of the State Treasurer-SDU, the State Treasurer significantly restricted the auditor's access to SDU staff. The State Treasurer required all communications regarding the audit to go through the State Treasurer, Deputy State Treasurer, or manager of the SDU (collectively identified as management). We also did not have unrestricted access to information and documentation without it first going through one of these individuals. We could not talk to staff performing the work without first going through management and, in addition, it was a requirement of the State Treasurer that one of the managers above be present during the discussion.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**8. Control Structure (Continued)**

Without having unrestricted access to SDU staff, the auditors were greatly hindered in their ability to get complete and accurate audit evidence as required by GAGAS. In addition, a significant amount of extra time was spent through written communications requesting information that was not always provided to the auditors in a timely manner. Management, understandably, have their normal duties to perform, and cannot be expected to spend an inordinate amount of time with the auditors. However, management should have the appropriate level of staff available to the auditor, for a reasonable amount of time, as well as information and documentation so the audit may be performed in an effective and efficient manner and in accordance with GAGAS.

Without unrestricted access to staff and information, and, when documentation is not provided to auditors in a timely manner it is more difficult to perform an efficient and effective audit, and issue an audit in accordance with GAGAS.

We make no recommendation. We have no authority to recommend to the State Treasurer that she make a change in management directive. However, the Auditor of Public Accounts is statutorily required to audit the State Treasurer's Office. The auditors have a responsibility to perform that audit in an efficient and effective manner, and in accordance with GAGAS. In future audits, if the State Treasurer does not provide the auditors with unrestricted access to appropriate staff, information, and documentation in a timely manner the auditor may have to consider an appropriate modification to the Independent Auditors' Report.

*State Treasurer's Response: The individuals responsible for Internal Control are the Treasurer, Deputy Treasurer, and the Manager of the Child Support Payment Center.*

*We requested that the State Auditor refer questions and/or requests to the Deputy and the Manager of the Child Support Payment Center. This approach allows for an orderly flow of information and it also allows key management staff to be actively involved in the audit process.*

*It may be important to note that the following audits and reviews took place nearly simultaneously:*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

COMMENTS AND RECOMMENDATIONS

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**8. Control Structure** (Continued)

*State Treasurer's Response, Continued:*

*The annual year end KPMG*

*The State Auditor's Contract Review*

*The Federal Government's extensive audit of the Child Support Payment Center*

*The on-going IV&V audit of the Child Support Payment Center*

*The State Auditor's audit of the Child Support Payment Center*

*The State Auditor's audit of the State Treasurer's Office*

*Our management team believes that providing a structure for questions and information requests was the best approach to take given the high level of audit activity that occurred in a relatively compressed amount of time.*

*Further, it is important to acknowledge that the State implemented a new Human Resources/Payroll system and a new Accounting System during this exact same time frame. Few if any state agencies were impacted to the degree that the State Treasurer's Office by these implementations.*

*The most qualified staff was provided to the State Auditor. After the audit was underway the State Auditor was allowed unrestricted access to staff, to the KIDCARE SYSTEM, to all ledgers and programs.*

*The KIDCARE SYSTEM does not have a 'read only' function so if an auditor were allowed full access they may alter a payment record or other information. Therefore we allowed them unrestricted access to review any and all information they needed ---however since they were working with a live system our operator navigated the various tabs and ensured no records were altered.*

*Numerous issues arose that demonstrated the need to provide further training to the audit staff. Since this is a new program we believe it was in everyone's best interest to follow a structure to obtain information and documentation.*

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**8. Control Structure (Concluded)**

*State Treasurer's Response, Concluded:*

*No information, documentation or other requirements were withheld from the auditor.*

*The State Disbursement Unit has numerous banking deadlines along with a 48 hour federal deadline throughout the workday. We felt it was more conducive to our work environment (and to meet our numerous deadlines) to have all questions funneled through either the Deputy Treasurer Mary Brock or the State Disbursement Manager Tara Stretesky.*

**9. Outstanding Warrant List**

During our review over disbursements, the State Treasurer's Office provided an outstanding warrants listing as of June 30, 2002 from the SDU's automated receipt and disbursement system, KidCARE.

The State Treasurer's Office is responsible for updating the status of child support warrants issued by KidCARE. This warrant status information is sent to the Department to update the payout information within the automated child support system, Children Have A Right To Support (CHARTS).

Good internal control requires an accountability over all child support warrants disbursed. Additionally, a detailed and accurate listing of all outstanding warrants should be readily available upon request.

We noted the following:

- A detailed listing of outstanding warrants at June 30, 2002 was not provided to DAS.
- CHARTS does not provide for a warrant status code of "cancelled" within the system. Any warrants cancelled within KidCARE remained outstanding in CHARTS. The Department's Management has noted CHARTS is being modified to correct this problem.

DAS will not be able to perform a reconciliation of the State's accounting records to bank records if a list of outstanding (uncashed) warrants cannot be provided. Without accountability over support warrants, there is an increased risk of loss or misuse of child support funds. Additionally, CHARTS had an overstated outstanding warrant balance because those warrants which have been cancelled were still reported as outstanding.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**9. Outstanding Warrant List (Concluded)**

We recommend the State Treasurer's Office develop procedures to provide a listing of all outstanding (uncashed) warrants for any requested period of time within a timely manner. Additionally, we request the Department modify CHARTS to accept the cancelled warrant status.

*Department's Response: We currently have a Project Change Request active to pursue on this issue and is to be released in August 2003. CHARTS provided an Outstanding Warrant List according to the specifications provided by the audit team. Indication should be made that this is solely an SDU issue.*

*State Treasurer's Response: The State Auditor's comment regarding DAS is mis-guided and inaccurate. DAS has worked with our office for over eight years and does not request an itemized detailed report.*

*The State Disbursement Unit provided DAS with a total dollar amount of outstanding warrants in which is our standard operating procedure.*

**10. KidCARE System**

The Department selected the State Treasurer's Office to operate the SDU to oversee the receipting and disbursement of child support beginning December 24, 2001. Prior to the SDU, the majority of child support was receipted and disbursed by Nebraska Clerks of the District Courts. The SDU developed an automated system to record the receipts and disbursements related to child support. From December 24, 2001 to June 30, 2002 the SDU's receipting system, KidCARE, recorded child support receipts of \$114 million.

We noted the following areas as they related to the KidCARE system:

**A. Documentation of System Logs**

Management indicated Security Audit Logs for Logins and Automated System Error Logs are reviewed daily, however, there was no documentation of this review.

Good internal control requires that control procedures performed be documented to support control procedures were actually being performed.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**10. KidCARE System (Continued)**

When controls are not documented there is no evidence the control procedures were performed.

We recommend a worksheet be kept of the daily review being performed. The worksheet might contain the following information: identify the general responsibility of the reviewer (what the reviewer looks for in their review), a daily notation as to the conclusion of the review, and a daily initial of the reviewer.

**B. Disaster Recovery Plan**

During our discussion with management and our review of the Disaster Recovery Plan (DRP) for the SDU operations (manual and computer systems) the SDU does have a DRP. We noted the DRP, generally, appeared to be comprehensive; however, the DRP did not include the following, which should be included to enhance the plan:

- Identify the effective date of the DRP. There was no date on the DRP.
- Schedule when the DRP will be updated (DRP should be updated at least annually and as needed).
- Consider documenting agreements/communications with all vendors to ensure they can provide the services as indicated in the DRP (hardware and software).
- Include in the plan a schedule to test the DRP and what a test of the DRP should include.
- Perform a test of the DRP as identified in the DRP. (Testing procedures should be performed at least annually.)

A good continuity disaster plan for operations would include an effective date of the plan, updating schedule, agreements/communication documentation, testing plan, and documentation to support the appropriate testing of the plan was performed.

In the case of a disaster, if the plan does not include the above mentioned elements, there is more risk the SDU may not be able to process receipts and disbursements of child support payments in accordance with the SDU's directive.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**COMMENTS AND RECOMMENDATIONS**

**NEBRASKA STATE TREASURER - STATE DISBURSEMENT UNIT**

**10. KidCARE System (Concluded)**

We recommend the State Treasurer's Office implement the suggested enhancements to the DRP and make the plan a working document to better ensure that in case of a disaster the SDU is prepared to get the KidCARE system fully operational as soon as possible.

**C. System Access**

The auditors made inquiries and reviewed documentation of staff's access to the system. We noted four employees could process receipts and also apply the receipt to the non-custodial parent account.

Good internal control would require separation of duties so the person who processes receipts is different from the person who records the receipts to the records.

When there is a lack of segregation of duties between the person who processes the receipt and the person who may apply receipts to the records there is a greater risk of errors or irregularities going undetected.

We recommend system access be adjusted so a person who has access to the system to process receipts does not also have access to the system to apply the receipt to the records.

*Department's Response to Item C: This change was implemented April 18, 2003. Federal Office of Child Support Enforcement Regional Auditors team on April 24, 2003 reviewed and approved this change.*

*State Treasurer's Response: A date has now been hand written on the cover page of the Disaster Recovery Plan to address the State Auditor's concerns.*

*Again, these comments are redundant and appear elsewhere in this audit see our previous responses.*

*A complete observation of our system processes and log on processes would have clearly demonstrated that this process is performed daily. A written document would prove little in light of computer records that record these processes.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER STATE DISBURSEMENT UNIT AGENCY FUNDS (FUNDS 7263, 7264, AND 7265)

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### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of the Nebraska Department of Health and Human Services-CSE (Department) and the Nebraska State Treasurer's-SDU (State Treasurer's Office) Agency Funds (Funds 7263, 7264, and 7265) as of and for the year ended June 30, 2002. This financial statement is the responsibility of the Department and State Treasurer's Office management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.




Also, as discussed in Note 1, the financial statement of the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) are intended to present the cash balances of the State that is attributable to the transactions of the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265). They do not purport to, and do not, present fairly the cash balances of the Agency Funds of the State of Nebraska as of June 30, 2002, for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash balance of the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) as of June 30, 2002 in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2003, on our consideration of the Department and State Treasurer's Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts as it relates to the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264 and 7265). That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264 and 7265). The accompanying Supplementary Schedules and Statistical Schedules, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statement of the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265). Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statement for Agency Funds and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

March 28, 2003

  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**  
June 30, 2002

	<b>Agency Funds</b>
<b>Assets</b>	
Cash in State Treasury	\$ 963,556
<b>Liabilities</b>	963,556
<b>Net Assets</b>	-
Total Net Assets	\$ -

The accompanying notes are an integral part of the financial statement.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**NOTES TO FINANCIAL STATEMENT**

For the Fiscal Year Ended June 30, 2002

**1. Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Health and Human Services - Child Support Enforcement (Department) and the Nebraska State Treasurer - State Disbursement Unit (State Treasurer's Office) Agency Funds (Funds 7263, 7264, and 7265) are on the basis of accounting as described in the Nebraska Accounting System Manual.

**A. Reporting Entity**

The Department and State Treasurer's Office Agency Funds (Funds 7263, 7264, and 7265) are funds in which both agencies record transactions. The Department and State Treasurer's Office are State agencies established under and governed by the laws of the State of Nebraska. As such, the funds are exempt from State and Federal income taxes.

The Department and State Treasurer's Office Agency Funds (Funds 7263, 7264 and 7265) are part of the primary government for the State of Nebraska's reporting entity.

**B. Basis of Presentation and Basis of Accounting**

**Basis of Presentation.** The Statement of Fiduciary Net Assets Arising from Cash Transactions—Agency Funds is in the format required by Governmental Accounting Standards Board (GASB) Statement Number 34. Agency funds are used to report resources held by the Department and State Treasurer's Office in a purely custodial capacity. As such, the Statement of Fiduciary Net Assets Arising from Cash Transactions-Agency Funds reflects assets equal liabilities. In addition, under GASB Statement Number 34 a Statement of Changes in Fiduciary Net Assets is not shown as a basic financial statement.

A brief description of the Agency Funds the Department and the State Treasurer's Office use in the collection, receipt, and disbursement of child support are as follows:

**Fund 7263** - This fund was used for the receipt and disbursement of child support required to be paid to the State before the State implemented a statewide receipt and disbursement system. (For the audit period this would be July 1, 2001 through December 22, 2001).

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**NOTES TO FINANCIAL STATEMENT**

(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

Generally, the child support receipts in this fund were:

- Receipts from non-custodial parents for child support payments for cases where the custodial parent was receiving Federal and State aid. These monies would go back to the State to help defer the cost of Federal and State aid provided to the custodial parent and child(ren).
- Internal Revenue Service (IRS) and State Department of Revenue intercepts. These monies would either go to the State (to defer the cost of Federal and State aid as noted above) or would have been paid out to the custodial parent.

**Fund 7264** - This fund was used for the receipt and disbursement of all child support on a statewide basis required to be processed through the State Treasurer's State Disbursement Unit (SDU). The SDU became operational in December 2001 and processed its first receipts on December 24, 2001.

**Fund 7265** - The Department used this fund to record the receipt and disbursement of the following child support starting December 2001: (The Department started using this fund at the same time the SDU started processing receipts on a statewide basis. See explanation of Fund 7264 above).

- IRS and State Department of Revenue intercepts. These monies would either go to the State (to defer the cost of Federal and State aid as noted above) or would have been paid out to the custodial parent.
- Targeted payments. Child support payments received directly from the courts and targeted for a specific purpose as identified in the court order.
- Other miscellaneous payments.

**Basis of Accounting.** The accounting treatment applied to an Agency Fund is determined by its basis of accounting. The accounting records of the Department and the State Treasurer's Office are maintained and the financial statement was reported on the basis of cash receipts and disbursements. As such, only those assets and liabilities arising from cash transactions are shown on the Statement of Fiduciary Net Assets Arising From Cash Transactions-Agency Funds. Additions are recognized when received and deductions are recognized when paid. This differs from governmental generally accepted accounting principles (GAAP), which

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**NOTES TO FINANCIAL STATEMENT**

(Continued)

**1. Summary of Significant Accounting Policies (Concluded)**

requires the fiduciary-agency fund type-financial statement to be accounted for using the accrual basis of accounting. Under this basis of accounting, additions are recorded when earned and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows.

**C. Assets**

**Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. Agency Funds 7263, 7264, and 7265 were designated for investment during fiscal year 2002.

**2. Contingencies**

**Litigation.** The potential amount of liability involved in litigation pending against the Department and State Treasurer's Office, if any, could not be determined at this time. However, it is the Department and State Treasurer's Office's opinion that final settlement of those matters should not have an adverse effect on the Department and State Treasurer's Office's ability to administer current programs. Any judgment against the Department and State Treasurer's Office would have to be processed through the State Claims Board and be approved by the Legislature.

**3. Transfers**

The transfers between the child support funds were for cash flow purposes when the State Disbursement Unit became operative in December 2001.

**4. GASB 34**

The Department and State Treasurer's Office implemented GASB 34 by presenting its financial statement in a format as required by GASB 34. However, as explained in Note 1.B. the Department and State Treasurer's Office's financial statement of Agency Funds 7263, 7264, and 7265 is presented on the cash basis of accounting, which is a basis of accounting other than

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

**NOTES TO FINANCIAL STATEMENT**

(Continued)

**4. GASB 34 (Concluded)**

generally accepted accounting principles. Previous period financial statements of the Department and State Treasurer's Office's financial statement of Agency Funds 7263, 7264, and 7265 (where applicable) were also prepared on the cash basis of accounting; therefore, the financial statement, even though in a different format, are comparable to previous period financial statements of the Department and State Treasurer's Office's Agency Funds 7263, 7264, and 7265.

**5. Adjustments to Cash in State Treasury**

The following is a reconciliation of the Cash in State Treasury recorded on the Nebraska Accounting System (NAS) and the Cash in State Treasury reported on the Statement of Fiduciary Net Assets Arising from Cash Transactions.

Cash In State Treasury per NAS	\$ 1,898,998
Adjustments:	
Bad debt, duplicate warrants, and cancelled warrants not recorded on NAS	(375,017)
Transfers to State programs not performed as of June 30, 2002	<u>(560,425)</u>
Adjusted Cash In State Treasury Reported on Financial Statement	<u><u>\$ 963,556</u></u>

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)  
**SUPPLEMENTARY SCHEDULE OF FIDUCIARY NET ASSETS**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**  
June 30, 2002

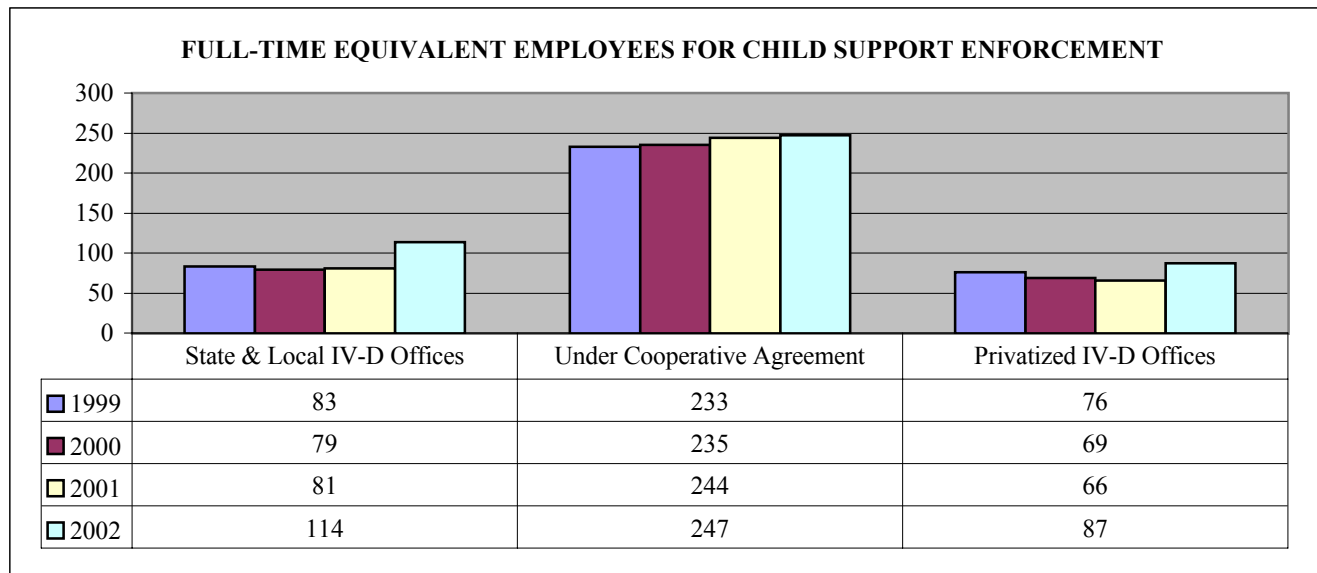
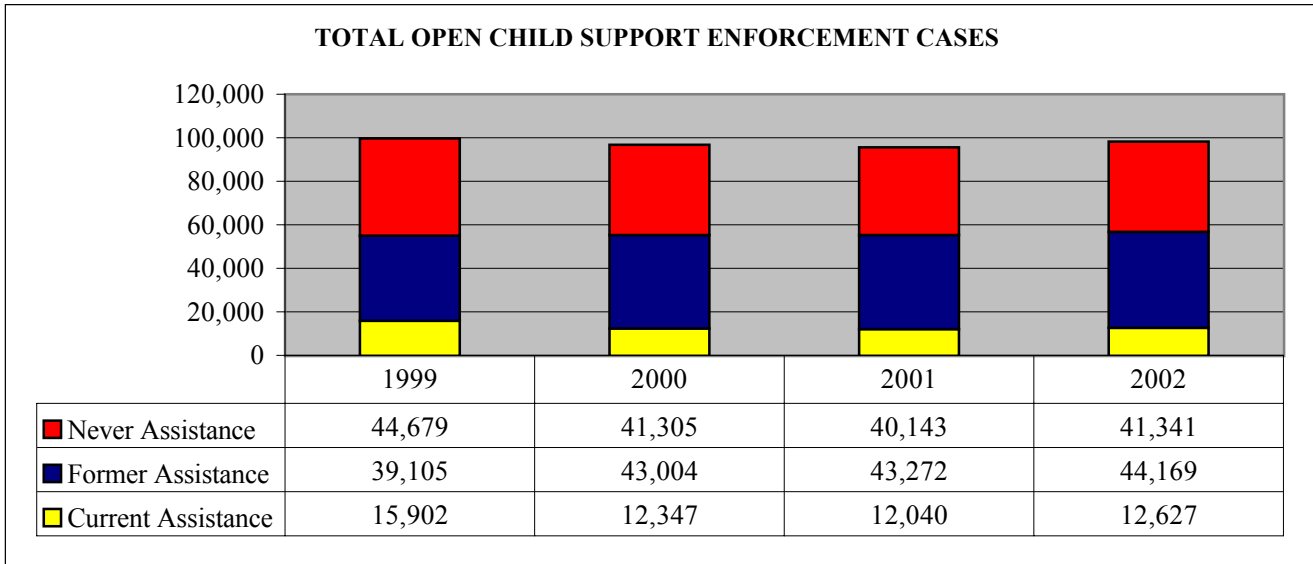
	<b>Child Support Operations Fund 7263</b>	<b>IV-D Support Payment Distribution-SDU Fund 7264</b>	<b>IV-D Support Payment Distribution-HHS Fund 7265</b>	<b>Total Agency Funds</b>
<b>Assets</b>				
Cash in State Treasury	\$ 209,710	\$ 158,568	\$ 595,278	\$ 963,556
Total Assets	<u>209,710</u>	<u>158,568</u>	<u>595,278</u>	<u>963,556</u>
<b>Liabilities</b>	<u>209,710</u>	<u>158,568</u>	<u>595,278</u>	<u>963,556</u>
<b>Net Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)  
**SUPPLEMENTARY SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
For the Fiscal Year Ended June 30, 2002

	<b>Child Support Operations Fund 7263</b>	<b>IV-D Support Payment Distribution SDU Fund 7264</b>	<b>IV-D Support Payment Distribution HHS Fund 7265</b>	<b>TOTAL Agency Funds</b>
<b>ADDITIONS:</b>				
Child Support	\$ 9,817,805	\$ 114,059,109	\$ 11,437,762	\$ 135,314,676
Transfers In	200,000	200,000	200,000	600,000
Miscellaneous	-	-	-	-
Total Additions	<u>10,017,805</u>	<u>114,259,109</u>	<u>11,637,762</u>	<u>135,914,676</u>
<b>DEDUCTIONS:</b>				
Child Support	13,805,296	113,900,541	11,042,484	138,748,321
Transfers Out	400,000	200,000	-	600,000
Total Deductions	<u>14,205,296</u>	<u>114,100,541</u>	<u>11,042,484</u>	<u>139,348,321</u>
Change in Net Assets Held in Trust	(4,187,491)	158,568	595,278	(3,433,645)
Assets July 1, 2001	<u>4,397,201</u>	<u>-</u>	<u>-</u>	<u>4,397,201</u>
Assets June 30, 2002	<u>\$ 209,710</u>	<u>\$ 158,568</u>	<u>\$ 595,278</u>	<u>\$ 963,556</u>



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)  
**SCHEDULES OF OPEN CASES AND FULL-TIME EQUIVALENT EMPLOYEES**  
**UNAUDITED**



**SOURCE:** Child Support Enforcement Annual Data Reports for Federal Fiscal Years 1999, 2000, 2001, and 2002 filed by the State of Nebraska.

**CURRENT ASSISTANCE** is a Child Support Enforcement Case (IV-D) that is currently receiving public assistance [Temporary Assistance to Needy Families (TANF), Aid to Dependent Children (ADC)].

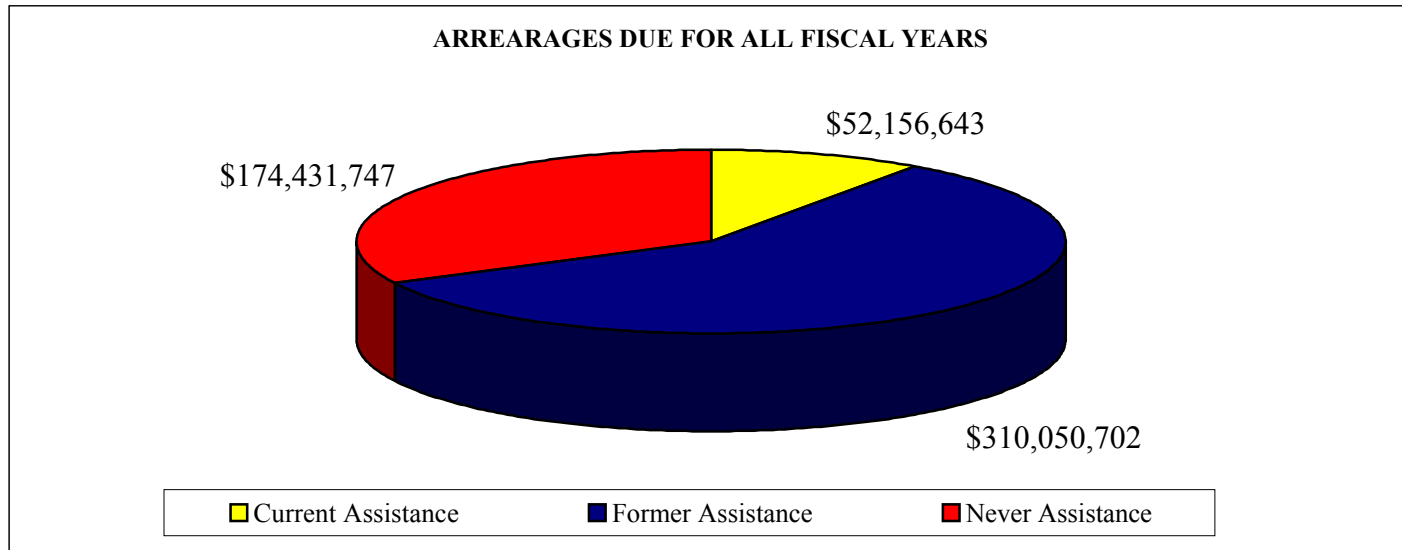
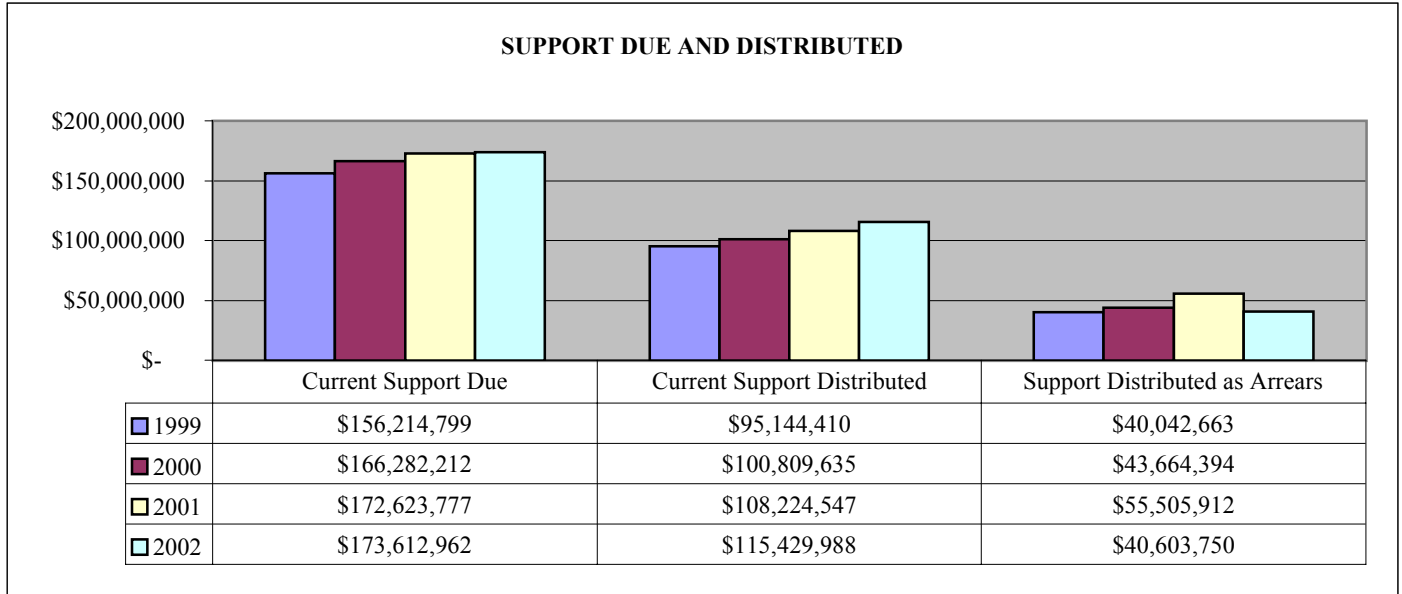
**FORMER ASSISTANCE** is a Child Support Enforcement Case that received public assistance at one point but is no longer receiving public assistance.

**NEVER ASSISTANCE** is a Child Support Enforcement Case that has never received public assistance.

Employees **UNDER COOPERATIVE AGREEMENT** includes county attorneys and counties who contract with a private attorney or a State-authorized attorney.

**PRIVATIZED IV-D OFFICES** represents Douglas County, which contracts with a private firm, to provide child support enforcement services.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)  
**SCHEDULES OF SUPPORT DUE AND DISTRIBUTED AND ARREARAGES DUE  
UNAUDITED**



**SOURCE:** Child Support Enforcement Annual Data Reports for Federal Fiscal Years 1999, 2000, 2001, and 2002 filed by the State of Nebraska.

**CURRENT ASSISTANCE** is a Child Support Enforcement Case (IV-D) that is currently receiving public assistance [Temporary Assistance to Needy Families (TANF), Aid to Dependent Children (ADC)].

**FORMER ASSISTANCE** is a Child Support Enforcement Case that received public assistance at one point but is no longer receiving public assistance.

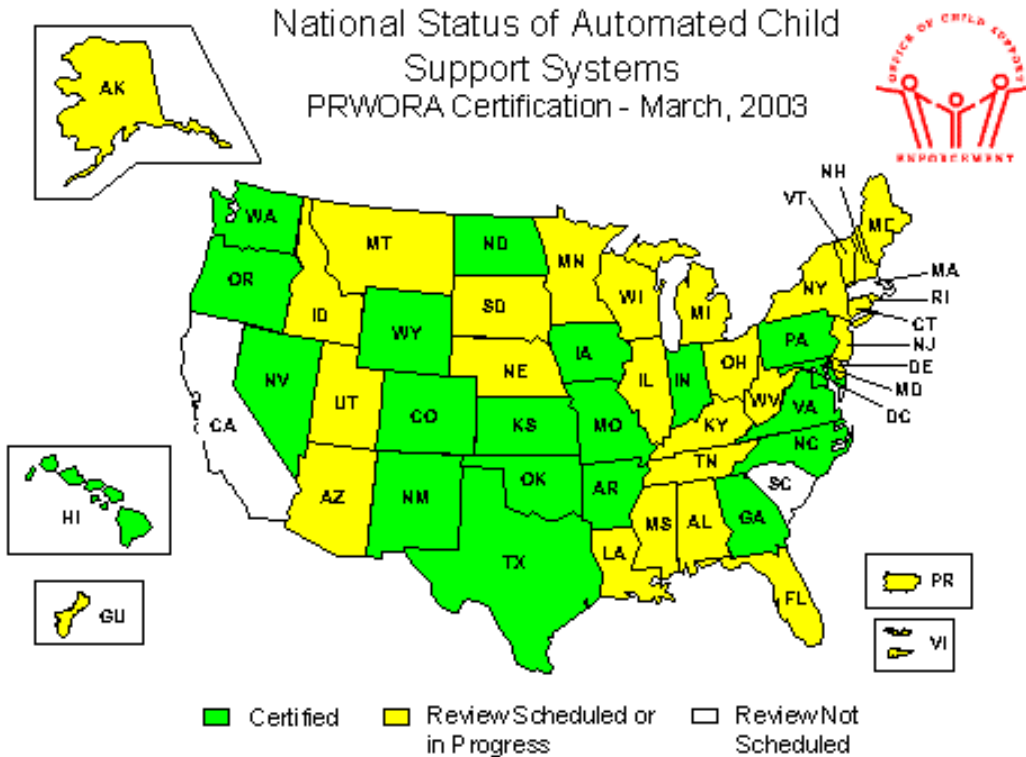
**NEVER ASSISTANCE** is a Child Support Enforcement Case that has never received public assistance.

**ALL FISCAL YEARS** equals the total amount of arrears due for all Federal fiscal years, since the Clerks of District Courts began tracking arrears on support. Beginning December 2001, CHARTS tracks arrears on support.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
 CHILD SUPPORT ENFORCEMENT AND THE  
 NEBRASKA STATE TREASURER  
 STATE DISBURSEMENT UNIT AGENCY FUNDS  
 (FUNDS 7263, 7264, AND 7265)

**PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY  
 RECONCILIATION CERTIFICATION MAP  
 UNAUDITED**

The Federal government passed a law (Public Law 104-193), the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). PRWORA requires all state governments to automate their child support systems following certain guidelines in order to facilitate information exchanges among all 50 states. States complying with the guidelines are certified by the federal Office of Child Support Enforcement (OCSE).



Last Modified on: January, 2003

Source: OCSE website <http://www.acf.hhs.gov/programs/cse/stsys/certmap.htm>

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE  
NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
(FUNDS 7263, 7264, AND 7265)

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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We have audited the financial statement of the Department of Health and Human Services-CSE (Department) and the State Treasurer-SDU (State Treasurer's Office) Agency Funds (Funds 7263, 7264, and 7265) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 28, 2003. The report notes the financial statement was prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statement presents only the Agency Funds (Funds 7263, 7264, and 7265) of the Department and State Treasurer's Office. We conducted our audit 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*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. We noted certain immaterial instances of noncompliance that we have reported to management of the Department and State Treasurer's Office's Agency Funds

(Funds 7263, 7264, and 7265) in the Comments Section of this report as Comment Number 2 (Federal Certification Review) and Comment Number 4 (Case Compliance).

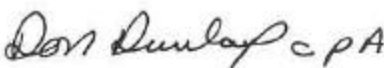
#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the Comments Section of the report as Comment Number 8 (Control Structure).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Department and State Treasurer's Office's Agency Funds (Funds 7263, 7264, and 7265) in the Comments Section of the report as Comment Number 1 (Reconciliation Processes), Comment Number 2 (Federal Certification Review), Comment Number 3 (Bad Debt, Duplicate Warrants, and Cancelled Warrants), Comment Number 4 (Case Compliance), Comment Number 5 (Conversion Process), Comment Number 6 (Receipts Processed at the Department), Comment Number 7 (CHARTS-System Controls), Comment Number 9 (Outstanding Warrant List), and Comment Number 10 (KidCARE System).

This report is intended solely for the information and use of the Department, State Treasurer's Office, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2003

  
Assistant Deputy Auditor