

STATE OF NEBRASKA
Auditor of Public Accounts



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March 7, 2007

Ms. Christine Peterson, Policy Secretary
Nebraska Health and Human Services System
301 Centennial Mall South
Lincoln, NE 68509-5026

Dear Ms. Peterson:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 6, 2007. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the Federal Office of Management and Budget (OMB) Circular A-1 33 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control matters related to the activities of the Health and Human Services System (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

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

Our comments and recommendations for the year ended June 30, 2006, are shown on the following pages.

COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Incorrect Payable Information

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the State of Nebraska's Comprehensive Annual Financial Report (CAFR), State Accounting requires all State agencies determine and report payable and receivable amounts at the end of the fiscal year. Good internal control requires procedures be established by the Agency to accurately report payables and receivables to State Accounting.

During our audit of the 2006 CAFR, we noted the following concerning payables reported by the Agency to State Accounting.

- The State Rx Drug Benefit Contribution payable was inappropriately split between fund 10000 and 40000. The payable should have been only from fund 10000. Payables in fund 40000 were overstated by \$1,906,990 and payables in fund 10000 were understated by \$1,906,990.
- The State Rx Drug Benefit Contribution payable was understated by \$3,099,179 due to not including services provided in June.
- Medicare Part B, Supplementary Medical Insurance Billings (SMIB), bills the State on a monthly basis for the Insurance Premium due for the following month. The Agency incorrectly included July's insurance premium of \$2,358,923 as a June 30, 2006, payable. Payables were overstated in fund 40000 by \$1,415,354 and in fund 10000 by \$943,569.
- The N-FOCUS payable calculation was incomplete. The Agency used only July 2006 actual payments for prior services to determine the payable at June 30, 2006. It appears there are payments made through out the subsequent year that are payable at June 30. The payable could be estimated as the July and August payments in the subsequent year for prior year services plus the September through June payments in the fiscal year being audited for services prior to that fiscal year. The Agency's method estimated the payable to be \$30,323,743 and the proposed method estimated the liability at \$36,068,733. As a result, payables were understated by \$5,744,990.
- The State Ward Education payable calculation was incomplete. The Agency used only the billings received as of August 16, 2006. The Agency had knowledge and the ability to estimate amounts not yet billed by providers for prior year services but thought they would be immaterial. Based on a request from the APA, the Agency accumulated a new list of State Ward Education payables, which increased the payable by \$1,870,456.

Based on our review and with the Agency's approval, all material discrepancies were corrected during the preparation of the basic financial statements. However, when payables and receivables are not accurately reported, there is an increased risk of inaccurate financial statements.

We recommend the Agency implement procedures to ensure the accrual information provided to DAS is accurate. These procedures should include a review and approval process.

2. Incorrect Receivable Information

As part of State Accounting's preparation of the State of Nebraska's CAFR, State Accounting requires all State agencies determine and report payable and receivable amounts at the end of the fiscal year. Good internal control requires procedures be established by the Agency to accurately report payables and receivables to State Accounting.

During our audit of the 2006 CAFR, we noted the following concerning receivables reported by the Agency to State Accounting.

- The estimated Patient and County Billings Receivable was overstated by \$410,643. The payable was overstated by \$597,670 because county payment receivables were added twice and the payable was understated by \$187,643 because approved write-offs were subtracted twice.
- The Medicaid Drug Rebate receivable was overstated by \$2,342,950 in the General Fund and by \$3,604,556 in the Federal fund. The overstatements were caused by unreasonable percentages used to calculate the allowance for doubtful accounts since the Agency's calculation included drug claims filed back to 1991. The Agency estimated Medicaid Drug Rebate receivables of \$17,214,027, based on an estimated allowance for doubtful accounts of 12.5%. The receivable could be estimated at \$11,266,521 by allowing a 1% allowance for the second quarter of 2006 claim, a 10% allowance for the first quarter of 2006 claim, and a 90% allowance for all quarters prior to 2006.
- The NFOCUS receivable used an allowance for doubtful accounts of 30%. However, the Agency did not have documentation supporting how they arrived at the 30%. The total receivable was reported at \$6,721,258, less allowance of \$2,016,377. The APA could not determine what the correct allowance should be.
- The NFOCUS receivable amounts submitted by the Agency switched the State receivable amount with the Federal receivable amount and the Federal receivable amount with the State receivable amount. As a result, Federal fund receivables were understated by \$940,976 and General Fund receivables were overstated by \$940,976.
- The estimated Medicare Tax Equity Fiscal Responsibility Act (TEFRA) and End-of-Year (EOY) Settlements receivable was overstated by \$3,072,894. The overstatement was due to the following:
 - A. An allowance for doubtful accounts of 100% should have been recorded for the \$3,379,257 in receivables from fiscal year 2002 back to 1998, as the Agency did not anticipate receiving any additional payments.

- B. The Norfolk fiscal year 2005 settlements for Medicare EOY were reported at \$52,404 and should have been \$99,212. This difference was caused because the Medicare Part B was not included.
 - C. The Lincoln fiscal year 2005 settlements for Medicare EOY were reported at (\$76,013) and should have been (\$75,983) due to a keying error.
 - D. The fiscal year 2005 errors noted above also affected fiscal year 2006, because 2006 amounts were estimates based on actual 2005 amounts. Therefore, the difference for the Medicare Cost Report amounts for 2006 was \$46,838.
 - E. The TEFRA amount of \$212,687 for Lincoln should have been included in the receivable balance. The Agency did not include the amount because there was a change to the prospective payments for Inpatient Psychiatric Facilities. However, this change was being phased in during fiscal year 2006 and the receivable should have been included as of June 30, 2006.
- The Third Party Liability receivable used an allowance for doubtful accounts of 60%. The Agency did not recalculate the percentage used for the allowance, but used the 60% allowance used in the fiscal year 2005 receivable calculation. Also, the report used to generate the beginning receivable amount included many accounts which had been closed. The total receivable was reported at \$32,156,628, less allowance of \$19,293,977. The APA could not determine what the beginning receivable amount should have been or what the correct allowance should have been.
 - The Agency overstated the Intergovernmental receivable amount by \$13,255,407. According to the Agency, Temporary Assistance to Needy Families (TANF) should not have any receivables for Aid. After a review of the balance reported, the Agency determined the correct TANF receivable balance should be \$3,015,220 and not the \$16,270,627 reported.
 - The Agency netted the amount of intergovernmental receivables and payables in order to determine whether a payable or receivable existed. The intergovernmental receivables were determined by calculating the difference between the program expenditures reported to the Federal government and the total amount drawn. If the State was overdrawn, a payable existed and if the State had not drawn enough for expenditures paid then a receivable existed. For fiscal year 2006, the Agency netted the amount of receivables and payables and reported \$42,545,677 as intergovernmental receivables. Intergovernmental payables were not reported separately. Due to this netting and an overstatement of the TANF receivables noted above, the intergovernmental receivable was understated by \$12,219,000 and the intergovernmental payable was understated by \$12,219,000.

Based on our review and with the Agency's approval, all material discrepancies were corrected during the preparation of the basic financial statements. However, when payables and receivables are not accurately reported, there is an increased risk of inaccurate financial statements.

We recommend the Agency implement procedures to ensure the accrual information provided to State Accounting is accurate. These procedures should include a review and approval process. We also recommend the Agency maintain documentation to support all estimations made.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #06-26-01

Program: CFDA 10.550 Food Donation – Subrecipient Monitoring

Grant Number & Year: All Food Donation grants open during State fiscal year 2006

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per OMB Circular A-133, a pass through entity is responsible for identifying to the subrecipient the Federal Award information (e.g. CFDA title and number, award name, name of Federal Agency) and applicable compliance requirements.

Condition: None of the 25 subrecipients tested had documentation of award notification detailing the CFDA number.

Questioned Costs: None.

Context: Food Donation had 508 subrecipients for fiscal year 2006. The CFDA title and Federal agency were identified to the subrecipient, but the CFDA number was not.

Cause: The Agency was unaware of this compliance requirement and did not have procedures in place to ensure the subrecipients were provided with essential award information.

Effect: Proper documentation of the award information ensures that subrecipients are fully informed of their award and granting agency.

Recommendation: We recommend the Agency provide subrecipients the required Federal award information. The CFDA number could be applied to the application form and the Food Distribution handbook.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: The CFDA Number has been added to all contract masters for any agency that may come on to the program from this point forward. Also, a letter has been sent to all current contract holders to inform them of the correct number and a copy of this letter has been filed in each recipient Agency file.

Contact: Julia West, Program Coordinator

Anticipated Completion Date: October 2006

Finding #06-26-02

Program: CFDA 10.561 State Administrative Matching Grants for Food Stamp Programs; 93.674 Chafee Foster Care Independence Program; 93.959 Block Grants for Prevention and Treatment of Substance Abuse – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Departments of Agriculture and Health and Human Services

Criteria: Office of Management and Budget (OMB) Circular A-87 requires charges for salaries and wages for employees who work solely on a single Federal award or cost objective, be supported by periodic certifications the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: We noted 3 of 50 employees tested worked on a single Federal award or cost objective. These 3 employees did not have periodic certifications as required by Circular A-87.

Questioned Costs: \$9,227

Context: The total payroll charged to Federal programs for the 3 employees for the month tested was \$9,227. Total payroll charged to those Federal programs for State fiscal year 2006 was:

<u>CFDA</u>	<u>Payroll Charged</u>
10.561	\$ 12,938,110
93.674	\$ 63,436
93.959	\$ 360,367

Cause: Unknown.

Effect: Increased risk for unallowable costs to be charged to the Federal grant.

Recommendation: We recommend the Department implement procedures to ensure employees who work solely on a single Federal award have periodic certifications in accordance with Circular A-87.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Employees working on one Federal program will complete periodic certifications.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-03

Program: CFDA 93.558 Temporary Assistance for Needy Families, 93.778 Medicaid, 93.575 and 93.596 Child Care Cluster, 93.659 Adoption Assistance Title IV-E, and 93.658 Foster Care Title IV-E

Grant Number & Year: All grants open during State fiscal year 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires access to the system to be limited to users who need access to complete their job responsibilities. Good internal control and sound business practice requires a reconciliation to be completed between NFOCUS and the Nebraska Information System (NIS) prior to posting transactions on NIS.

Condition: Three on-call Support Mainframe Programmers were permitted access to the mainframe production environment. This access was formally approved by the Technical Applications Manager and/or the IS&T Business Applications Manager. However, programmer access creates a segregation of duties issue as application programmers could circumvent existing change control procedures.

The Health and Human Services Finance Department did not reconcile the data sent from NFOCUS to NIS. In addition, the following segregation of duty issues were identified: 1) Two individuals had the ability to set up a case, make eligibility adjustments to that case, and create/approve claims payments for those cases. 2) Four individuals had the ability to create and approve claims payments, but do not need this access to complete their job responsibilities.

Notification of termination for 18 of 25 terminations tested was sent after the employee's termination date. User termination requests were not processed in a timely manner.

Questioned Costs: N/A

Process Description: NFOCUS supports an integrated service delivery platform to determine a family's eligibility for multiple programs and/or services from a single point. It provides an interactive expert system with rule based processing. NFOCUS also interfaces with NIS to pay claims such as Temporary Assistance to Needy Families, Foster Care, and Child Care. NFOCUS sends NIS PTF files of volume vouchers, financial numbers based on claims paid, and journal entries.

Context: Procedures were performed to evaluate the design and operating effectiveness of application specific controls for NFOCUS. This included performing procedures related to edit checks, validation checks, segregation of duties, and interface controls. The procedures commonly consisted of a combination of inquiry, corroboration, observation, and re-performance.

Cause: Unknown.

Effect: There is an increased risk the changes made to production data may not be properly authorized, and users may have excessive access to the system. There is also an increased risk for invalid claims payments because there is no reconciliation between NFOCUS and NIS being completed and there is a lack of segregation of duties.

Recommendation: We recommend the Agency implement the following:

- Procedures to ensure the ability to update code within the production environment is limited to personnel whose job does not include programming responsibilities. Also, changes made should be done utilizing a change control tool to check code in and out of production.
- Procedures to ensure access to the system is limited to users who need access to complete their job responsibilities and terminated employee's access is deactivated.
- Perform reconciliation between NFOCUS and NIS prior to posting transactions on NIS.

Management Response: This issue is not exclusively a TANF issue. The item has been cited for the IT area for several program audits and the Agency last responded to these findings in August of 2005. The Agency has made corrections by limiting the number of development individuals who have access to the database and production environment.

Corrective Action Plan:

- The mainframe production programmers referenced in the condition cited are On-Call Production Support Shift Analysts. Their primary job function requires access to the mainframe production environment to address production issues on a 24/7 basis. In reviewing access, it was determined that two of the individuals identified no longer needed mainframe production access to Agency applications and their access was terminated. The remaining individuals identified will retain their access to the production environment to perform their primary job function and support the Agency's critical applications.
- All access was removed in May 2006 during the Deloitte review for the four individuals cited in the 'segregation of duties' finding related to create/approve claims payments.
- The finance unit has developed a process to reconcile the data sent from NFOCUS to NIS.

Contact: Margo Gamet, Application Services Manager, Information Systems and Technology; Dian Carroll, NFOCUS Business Manager; Allan Albers, HHSS Security Officer.

Anticipated Completion Date: Completed.

Auditor's Response: No programmer should be permitted access to the mainframe production environment.

Finding #06-26-04

Programs: Various CFDA's, 93.658 Foster Care, 93.575 and 93.596 Child Care Cluster, 93.777 and 93.778 Medicaid Cluster, 93.558 Temporary Assistance for Needy Families, and 93.659 Adoption Assistance – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires procedures to ensure charges are allocated in accordance with the approved Public Assistance Cost Allocation Plan (Plan).

The Plan Allocation Methodology for HR Staff Development states “The cost center will be allocated to the benefiting cost centers and programs based on time and effort reports maintained by the training staff.”

The Plan Allocation Methodology for SM – Resource Development (009,010,011) states “The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the Resource Development staff.”

Condition: For the quarter ended March 31, 2006, we tested two cost pools utilizing Time and Effort allocation methodology.

Cost pool HR Staff Development had employees who recorded time and effort to two time codes, TANF/EF Employment First and Veterans Homes, which were not properly included in the calculations to allocate costs from this cost pool.

Cost pool SM – Resource Development had labor costs for 13 of 72 employees with the NIS Job Code Description ‘HHSS Resource Developer’ charged to 3 other cost pools. Additionally, 8 of 72 employees with Job Code ‘HHSS Resource Developer’ did not complete time and effort reports, and their time and effort was not included in the calculation to allocate costs.

Questioned Costs: Unknown.

Context: Two employees recorded 174.50 hours to TANF/EF Employment First, and one employee recorded 37 hours to Veterans Homes. These hours should have been included in the calculation used to determine allocation amounts. Costs of \$456,527 were allocated from HR Staff Development Pool for the quarter ended March 31, 2006.

There were 125 employees that had their labor distribution included in the SM-Resource Development Pool. There were 13 additional employees that should have had their labor distribution included in this cost pool. The Agency is in the process of clarifying the plan so that it reflects the intention of having only the 72 Resource Developers time and effort reports used to allocate the costs from this pool. Per Discussion with the Cost Accounting Manager, this clarification has been submitted to the US DHHS Division of Cost Allocation. However, there were still 8 of 72 Resource Developers that did not complete time and effort reports as required. Costs of \$1,639,305 were allocated from the SM – Resource Development Pool for the quarter ended March 31, 2006.

Cause: Cost allocation layers were not properly updated when additional time codes were added to time and effort recording. The Agency did not utilize human resources/payroll system to compile listing of employees with job title ‘HHSS Resource Developer’.

Effect: Incorrect allocation of direct and indirect costs may lead to misstatement of Federal claims for reimbursement.

Recommendation: We recommend the Agency develop and implement policies and procedures to ensure all costs are allocated in accordance with the approved Public Assistance Cost Allocation Plan.

Management Response: We agree with the Auditor’s finding.

Corrective Action Plan: Cost Allocation Source Setup on NIS will be reviewed each quarter to confirm that all variable statistic updates are accounted for in the setup. As mentioned above, a plan amendment was submitted to the US DHHS Division of Cost Allocation to clarify that the Resource Development cost center allocation base is time and effort reported by Resource Developers. The list of Resource Developers is periodically extracted from the human resources/payroll system on NIS. Responsible staff will make timely follow up with individual employee’s delinquent time and effort reports.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-05

Program: Various CFDA’s, 93.658 Foster Care, 93.575 and 93.596 Child Care Cluster, 93.777 and 93.778 Medicaid Cluster, 93.558 Temporary Assistance for Needy Families, and 93.659 Adoption Assistance – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires procedures to ensure charges are allocated in accordance with the approved Public Assistance Cost Allocation Plan (Plan).

Plan Appendix C-3 “Random Moment Time Study Implementation Plan,” states the sample size is “2,706 per quarter.” Appendix C-3 also states, “At the end of each fiscal quarter the percentages of total responses are computed for each program listed in Section II of the Observation Form ... These percentages are forwarded to NHHS’ Finance and Support Department for quarterly cost allocations of state and federal funded programs.”

Condition: For the quarter ended March 31, 2006, we tested two cost pools utilizing Random Moment Time Study allocation methodology.

The statistical reports from the Random Moment Time Study (RMTS) program did not include complete samples, which altered the actual allocation amounts. Cost allocation pools were not properly allocated based upon the percentages developed from the complete RMTS samples.

Questioned Costs: Unknown.

Context: Only 1,806 of the Service Management – 4 (PSW) samples and 1,811 of the Service Management – 3 (SSW) samples were included in the RMTS report. The correct amount should have been 2,709 for PSW and 2,715 for SSW. This caused costs to be incorrectly allocated. Using the correct sample, significant recalculated allocation variances are as follows:

SSW Over (Under) Allocations		PSW Over (Under) Allocations	
State	\$ 16,591	Adoption Assistance	\$ 34,813
Med Handicapped Children	26,058	Foster Care (Title IV-E)	(58,198)
LIHEAP	(27,454)	Food Stamps	15,326
Foster Care (Title IV-E)	64,906	SSBG (Title XX)	22,495
TANF (AFDC)	16,203	Other Cost Pools	(14,436)
TANF Work Activities	(23,138)	Net Difference	<u>\$ 0</u>
Food Stamps	(44,691)		
Medicaid Title XIX 50%	(23,803)		
Child Care	1,308		
Other Cost Pools	(5,980)		
Net Difference	<u>\$ 0</u>		

Costs of \$12,905,829 and \$6,118,997 were allocated from the Service Management 3 (SSW) Pool and the Service Management 4 (PSW) Pool for the quarter ended March 31, 2006.

Cause: Dashes were used in the date (to get the period needed) instead of slashes so the program did not run properly.

Effect: Incorrect allocation of direct and indirect costs may lead to misstatement of Federal claims for reimbursement.

Recommendation: We recommend the Department develop and implement policies and procedures to ensure that all costs are allocated in accordance with the approved Public Assistance Cost Allocation Plan.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: The total number of samples included on the RMS reports will be reviewed by the responsible staff to confirm the total sample number is equal to or exceeds the required sample size, 2,706. The reporting program in the RMS application was updated to only accept the required format. The variances identified by the Auditor will be incorporated into the next quarterly financial reports to the Federal agencies.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-06

Program: CFDA 93.778 Medicaid – Period of Availability

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per 45 CFR 92.23 “a grantee may charge to the award only costs resulting from obligations of the funding period.”

Condition: Fiscal year 2006 grant funds were used to pay for fiscal year 2004 and 2005 expenditures.

Questioned Costs: None.

Context: The Agency charged \$18,557,995 to the fiscal year 2006 grant for expenditures related to the fiscal year 2004 and 2005 grants. The 2004 and 2005 grants are fully expended. The Agency corrected \$1,986,279 in May 2006 and \$16,571,715 in June 2006.

Cause: Negative grant award in February 2006 due to error reported in prior fiscal year.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency comply with Federal regulations and charge grants only for obligations of the funding period.

Management Response: The Agency agrees with the Auditor’s finding.

Corrective Action Plan: The Agency will ensure that all expenditures are charged to the correct grant year.

Contact: Willard Bouwens

Anticipated Completion Date: December 31, 2006

Finding #06-26-07

Program: CFDA 93.778 Medicaid – Reporting

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. The Nebraska Information System (NIS) is the official accounting system of the State and all expenditures are generated from NIS. Good internal control requires timely, periodic reconciliations between required reports and the accounting system.

Condition: The Agency utilizes the Medicaid Management Information System (MMIS), the NFOCUS system, and NIS to prepare the quarterly Federal reports to the Centers for Medicare and Medicaid Services (CMS). The Agency reconciles MMIS to NIS monthly; however, no reconciliation is performed between the Federal reports to NIS.

Questioned Costs: Unknown.

Context: Our review of Medicaid aid expenditures for the quarter ended March 31, 2006, reported compared to NIS noted:

<u>Aid Expenditures</u>	<u>Federal</u>	<u>State</u>
Per Report to CMS	\$ 211,270,587	\$140,991,617
Per NIS	205,040,323	139,789,959
Variance	\$ 6,230,264	\$ (1,201,658)

The Agency prepares the Federal report using total expenditures and multiplies by the applicable Federal percentage to report the allocation between Federal and State funds. There is no reconciliation to ensure the Federal reports agree to NIS. Our cursory review of federal aid expenditures by quarter also noted variances in other quarters, including, the quarter ended June 30, 2006:

<u>Aid Expenditures</u>	<u>Federal</u>
Per Report to CMS	\$ 215,870,749
Per NIS	199,661,847
Variance	\$ 16,208,902

Cause: In May 2006, the Agency began developing a methodology to reconcile CMS reports to NIS; however, no quarterly reports had yet been reconciled.

Effect: Without adequate controls there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency perform a quarterly reconciliation of Medicaid aid expenditures per NIS to the CMS report.

Management Response: The Agency agrees.

Corrective Action Plan: As noted above, the development of reconciliation methodology was initiated earlier this year. However, there are barriers to a successful development of a fully automated process. Variances occur because a number of NIS accounts do not match MMIS or NFOCUS accounts and because there are different month end and year end transaction cutoff dates and a very complex array of fund, business unit, grant, and program numbers affecting reportable expenditures. To address this problem, sources of each variance will be identified and explained on the quarterly reconciliation report. This change should be fully implemented beginning with the reporting period of October 1, 2006 – December 31, 2006.

Contact: Jim Piazza

Anticipated Completion Date: December 31, 2006

Finding #06-26-08

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles/Reporting/Matching

Grant Number & Year: #050605NE5028, #050505NE5028, #050405NE5028; FFY 2006, 2005, 2004

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: To be allowable, Medicaid costs for medical services must be paid to eligible providers, and paid at the rate allowed by the State plan. Per OMB Circular A-87, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized under State laws or regulations. Title 45 CFR 92.20 requires the State expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own

funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The Nebraska Information System (NIS) is the official accounting system of the State of Nebraska. Title 42 CFR 433.10 provides “for payments to States, on the basis of a Federal medical assistance percentage.” Title 42 CFR 433.51 allows public funds to be considered as the State's share in claiming Federal participation if the public funds are appropriated directly to the local Medicaid agency, or certified by the contributing public agency as representing expenditures eligible for Federal participation; and the public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

Condition: The Agency reported an adjustment of \$7,742,848 on the March 31, 2006, quarterly CMS report for Developmental Disability services from October 2004 through December 2005; these costs were never paid to providers and were not recorded on NIS. The Federal share of these costs was \$4,618,444. The Agency did not have documentation to support these were allowable costs; or if allowable, that the costs were provided by public funds in accordance with Federal requirements.

Questioned Costs: \$4,618,444

Context: The Agency pays providers of developmental disability services at 90% of Agency determined rates. The Agency then reported an adjustment to claim the 10% not paid to public providers. The Agency did not have adequate documentation to support the amount paid was 90% of costs or that 10% was provided by Public funds. Further, the Public funds were not appropriated directly to the local provider, and were not certified as representing expenditures eligible for Federal participation.

The Agency reconciliation of allowable expenditures for fiscal year 2005 indicated providers were reimbursed 95%. This reconciliation used an unsupported administration allocation, without the unsupported allocation the providers were reimbursed 111%. In addition, the amount per Agency records provided by county funds was only 3%.

Criteria: Title 471 NAC 10-010.03H2 details the calculation for DSH payments and states, “Disproportionate share payments will be made one time for each federal fiscal year (FFY) following receipt of all required data by the Department.” Title 45 CFR 92.20 requires the State expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition: Payments during the State fiscal year ended June 30, 2006, for 2004 and 2005 DSH allotments were not in accordance with NAC regulations. One provider’s pool calculation for 2004 DSH was \$1,613,101; the provider was paid \$962,699 but the \$1,613,101 was claimed on the Federal report.

Questioned Costs: \$388,160

Context: Payments for 2004 DSH allotment were not made one time but were made June, August, September, November 2005 and June 2006. The first payment for 2005 DSH was made June 2006 but not all payments were made because other calculations for 2005 DSH were not complete as not all information had been received. The questioned costs \$388,160 is the Federal share of the amount over-reported for the 2004 DSH. ($\$1,613,101 - \$962,699 \times 59.68\%$)

Cause: Unknown.

Effect: Noncompliance with State and Federal regulations increases the risk for errors to occur and the loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure DSH payments comply with State and Federal regulations. We further recommend procedures to ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

Management Response: We disagree with the auditor’s findings.

Corrective Action Plan: The Department acknowledges the recommendation that procedures be implemented to ensure DSH payments comply with State and Federal regulations. However, the Department has procedures to ensure DSH payments comply with State and Federal regulations. Further, procedures are in place to ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

The Department has complied with State and Federal regulations regarding DSH payments. Disproportionate Share Hospitals payments have been subject to annual site visits by federal officials and they have accepted Nebraska’s procedures and reports.

It is the Department's position that the formula for DSH calculations was followed; that the calculations were accurate; and the calculations were in compliance with federal guidelines. The current language is intended to allow specific hospital payment as data and calculations are completed. This is particularly important in the instance where one facility may receive payment under more than one calculation and assures the hospital's specific upper payment limit is not exceeded.

One provider's pool calculation for 2004 DSH was \$1,613,101; the provider was paid the federal share of \$962,699 and the State share of \$388,160 was made via an intergovernmental transfer. The hospital in this case received and retained the full amount of the total computable payment. The payment is supported and consistent with the provider's financial records. The ability to make intergovernmental transfers as the basis for federal matching is currently defined to mean the State, city, county, or other governmental unit in the State. The Centers for Medicare and Medicaid (CMS) would determine compliance by examining any associated transactions that are related to the provider's total computable payment to ensure the State's claimed expenditure, which serves as the basis for Federal Financial Participation, is equal to the State's net expenditure, and that the full amount of the non-Federal share of the payment is satisfied.

Contact: Cec Brady, Deputy Administrator

Anticipated Completion Date: The Department will continue current procedures to ensure compliance with State and Federal regulations regarding DSH payments. The Department will also ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

Auditor's Response: **The Agency did not have adequate documentation to support the State share of \$388,160 was made via an intergovernmental transfer. Region VI did receive various payments from the State during the fiscal year; however, we were unable to determine from the information provided that any of the payments were for the State share of the DSH payment, or that Region VI subsequently paid the hospital for DSH. Furthermore, if the Region did pay the hospital for the State share of DSH, the Agency would also need documentation to support the matching funds were from an allowable source in accordance with 42 CFR 433.51.**

Finding #06-26-10

Program: CFDA 93.778 Medicaid - Allowable Costs/Cost Principles

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Social Security Act of 1927 [42 U.S.C. 1396r-8] (b) (2) states: "Each State agency under this subchapter shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form and strength and

package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, and shall promptly transmit a copy of such report to the Secretary.” Good internal control requires that all drugs which are paid for by Medicaid and are eligible for manufacturer rebate are submitted to the manufacturer for rebate.

Condition: Practitioner claims for injections Medicaid recipients receive in a physician’s office are not being reviewed and submitted to the drug manufacturers for rebate.

Questioned Costs: Unknown.

Context: Rebates for injectible drugs administered in a physician’s office are reported to Medicaid on a Practitioner Claim instead of a Drug Claim. Drug Claims are monitored by ACS (Affiliated Computing Services) and the total of each drug is compiled for Nebraska Medicaid to submit to the appropriate manufacturer for rebate. Practitioner claims were not monitored for injectible drugs.

Cause: Practitioner claims were not monitored for injectible drugs.

Effect: Possible loss of funds.

Recommendation: We recommended the Agency implement procedures to ensure all drugs paid for by Medicaid, which are eligible for rebate, are submitted to the appropriate manufacturer for rebate.

Management Response: The Agency agrees with the Auditor’s Finding.

Corrective Action Plan: The agency has invoiced for rebates for injectable drugs using a manual process. This covered two strengths of one drug for 9 calendar quarters. Subsequent to that and in lieu of that manual process, a computerized crosswalk between the J, Q CPT and other injectable drug codes used to bill for practitioner-administered drug, to the appropriate National Drug Code (NDC) number is in the process of being constructed. A second part of that crosswalk construction involves converting the units under which drugs are paid as J, Q, CPT or other codes to the units required for the rebate system. Some J, Q, CPT or other injectable codes on practitioner claims, convert to more than one NDC and one rebate quantity. When that is required, an allocation of the dollars paid for the drug to each of the NDCs is required and is a third part of the crosswalk that must be built.

Rebates for injectable drugs administered by practitioners will be invoiced for services covered back to the first calendar quarter of 2004 as a one time catchup. Subsequent to that, all claims paid during a calendar quarter will be invoiced each quarter.

Contact: Gary Cheloha 471-0800

Anticipated Completion Date: May 15, 2007

Finding #06-26-11

Program: CFDA 93.778 Medicaid – Eligibility

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 480 NAC 2-006 Client Eligibility Criteria states, “To be eligible for waiver services, the client must . . . Have documentation of a physical exam current within one year (may be waived with written documentation from the physician.)” Good internal control requires that documentation of each individual’s yearly physical be maintained in the case file. Title 480 NAC 2-001.02 Individual Program Plan (IPP) requires “A written plan specifying agreed-upon goals, methods to assist in achieving those goals, and services to be provided to address identified client strengths, needs, and preferences.” Good internal control requires staff sign the IPP which indicates they were in attendance during the review of the recipient’s plan.

Condition: Two of forty-five Developmental Disability Waiver Claims tested did not have documentation that yearly physicals were completed and for one claim tested the recipients Individual Program Plan was not signed.

Questioned Costs: \$1,987 known, \$2,118,491 extrapolated.

Context: Two payments tested did not have a physical in fiscal year 2006; they did have a March 2005 physical but did not have a physical in 2004 or a March 2006 physical. The Federal share for these two payments tested totaled \$1,987. The extrapolated error based on the sample was \$2,118,491 for the fiscal year. One individual has a current IPP on file, but the IPP was not signed by the individuals attending the IPP meeting.

Cause: Unknown.

Effect: Increased risk for improper payments.

Recommendation: We recommend the Agency implement procedures to ensure all Medicaid Developmental Disabilities Waiver recipients receive a yearly physical and have a signed IPP on file.

Management Response: Management agrees that 3 files were out of compliance for not maintaining an annual medical evaluation in two case files and for implementing a client’s Individual Program Plan (IPP) that was not signed by the IPP team members.

Corrective Action Plan:

1. Health and Human Services (HHS) Developmental Disabilities (DD) service coordination staff will obtain the most recent medical evaluation and maintain it in the case file, as part of the IPP. Service coordination staff was notified verbally

and in writing of this requirement on June 26, 2006. Current medical evaluations must be in the case file, by September 1, 2006, and thereafter, as annual medical evaluations are completed.

2. Supervisory staff will complete a 100% review of IPPs to ensure the most recent medical evaluation is included in the IPP documents.
3. Supervisory staff will review IPPs to ensure that all required signatures are in place.
4. The Supervisor has individually spoken to the Service Coordinator responsible for the unsigned IPP.
5. When completing annual Medicaid Waiver eligibility and IPP reviews, HHS Disability Services Specialists will inform Supervisory staff of missing documents or overdue medical evaluations and take corrective action when indicated.

Contact:

1. Cindy Brinker, Administrator, Developmental Disabilities Service Coordination, HHS Eastern Service Area.
2. Kay Rehtus, Administrator, Developmental Disabilities Service Coordination, HHS Central Service Area.
3. Pam Hovis, Program Manager, HHS Developmental Disabilities System Central Office.

Anticipated Completion Date: This is an ongoing plan of improvement. Above steps were implemented by October 1, 2006.

Finding #06-26-12

Program: CFDA 93.778 Medicaid - Special Tests and Provisions

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 42 CFR 456.4-456.5 regarding utilization control requires “The agency must 1) Monitor the statewide utilization control program; ... 3) Establish methods and procedures to implement this section; 4) Keep copies of these methods and procedures on file and 5) Give copies of these methods and procedures to all staff involved in carrying out the utilization control program . . . The agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services.”

Title 42 CFR 456.22-456.23 further states, “To promote the most effective and appropriate use of available services and facilities the Medicaid agency must have procedures for the ongoing evaluation on a sample basis, of the need for and the quality and timeliness of Medicaid services. The agency must have a post-payment review process that--(a) Allows State personnel to develop and review--(1) Recipient utilization profiles; (2) Provider service profiles; and (3) Exceptions criteria; and (b) Identifies exceptions so that the agency can correct misutilization practices of recipients and providers.”

A key component of the utilization control and post-payment review process of the Agency is the Survey and Utilization Review Services (SURS) Unit. Good internal control requires written procedures and documentation of sampling and profiling procedures.

Condition: The SURS Unit does not maintain adequate documentation regarding the methods and procedures used to perform the sampling and profiling of misutilization practices.

Questioned Costs: None.

Context: The SURS Unit has procedures to evaluate possible misutilization practices, but written copies of these methods and procedures are not available. Cases are selected for review from Medstat SURS profile and data mining reports and from referrals. SURS Computer Profiling system automatically generates the profiling of claims each quarter on an "Exception Report." Exception reports are used as a starting point for further data mining in most cases. The SURS Unit does not maintain or document how many of these MedStat Reports have been generated in a year, only the number of cases subsequently opened. All "Referrals" are investigated and entered into the Unit's Log system or referred on to a more appropriate area. The Agency does not have a written sampling plan detailing the profiling cases to be reviewed.

Cause: Unknown.

Effect: Increased risk for errors and fraud to occur and not be detected.

Recommendation: We recommend the SURS Unit establish written procedures and methods used by the SURS Unit in conducting sampling and profiling of possible misutilization practices; and distribute copies to staff of the SURS Unit.

Management Response:

Corrective Action Plan: The SURS Unit is compiling written methods and procedures to be distributed to and used by the staff of the Unit.

Contact: Kris L. Azimi

Anticipated Completion Date: March 1, 2007

Finding #06-26-13

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-87 states, “Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices . . . To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be adequately documented.” OMB Circular A-87 further states, “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person . . . In determining reasonableness of a given cost, consideration shall be given to whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.” Good internal control requires adequate documentation and procedures to ensure costs are reasonable for proper and efficient administration of Federal awards.

Condition: Two of five provider claims tested did not list the start and stop times for chore services provided.

Questioned Costs: Unknown.

Context: We tested 5 provider claims for chore services totaling \$12,231 with a Federal share of \$7,300; total Federal expenditures for chore services for fiscal year 2006 were \$14,551,725. Two of the providers tested did not list start and stop times; therefore, we were unable to determine if they worked more than 5 hours per day required for the partial day rate. The Federal share for these two claims totaled \$3,616.

Cause: Inadequate monitoring of chore provider contracts and claims.

Effect: Increased risk for unreasonable and excessive claims to be paid.

Recommendation: We recommend the Agency implement policies and procedures to ensure claims for chore services are adequately documented and rates paid are reasonable and prudent.

Management Response: At present, H & CB Services 480 NAC 5000 regulations regarding billing procedures required of Waiver Chore Service Providers contain no requirements to submit billings in a “time of day” format, and HHSS does not require it at this time.

Corrective Action Plan: Aged and Disabled Waiver Supervisory meetings were held this past Fall which included waiver billing procedures. The meeting discussed the need for hours to be recorded on billing documents. We will remind staff on a periodic basis and have included billing procedures in the A & D Waiver Web Based training.

Contact: Linda J. Shandera

Anticipated Completion Date: Completed Fall of 2006

Auditor's Response: Without start and stop times there is no documentation the providers worked enough hours to qualify for the partial day rate and there is a significant risk for fraud or errors to occur. We strongly recommend the Agency require billings to include actual times worked.

Finding #06-26-14

Program: CFDA 93.575 & 93.596 - Child Care Cluster - Allowable Costs/Cost Principles and Eligibility

Grant Number & Year: #0601NECCDF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Agency policy, parent or guardian signatures on the attendance sheets are required for in-home daycare providers. Good internal control requires proper supporting documentation in the case files to determine allowability of payments to appropriate parties.

Condition: Two of twenty-four in-home provider payments tested did not have attendance sheets signed by the parent or guardian.

Questioned Costs: \$279 known.

Context: Two payments of \$391 and \$78 (\$279 Federal share) did not have the parent or guardian sign the attendance sheets. Total Federal sample tested was \$4,111 and total Child Care assistance payments for fiscal year 2006 were \$28,016,300. Based on this information, an extrapolated error of \$1,907,373 was calculated. A similar finding was noted in the prior audit.

Cause: Agency's review process did not identify errors.

Effect: Increased risk for errors or fraud to occur.

Recommendation: We recommend the Agency review its policies and procedures to ensure proper supporting documentation is on file regarding attendance sheets.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: Currently, different staff in each area review payments for signed attendance sheets. We have requested all areas provide their current process and then this will be reviewed and implemented as our best practice. We will communicate with local office Resource and Development staff to emphasize the importance of checking attendance calendars for parent signatures.

Contact: Betty Medinger

Anticipated Completion Date: March 1, 2007

Finding #06-26-15

Program: CFDA 93.044 Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers. CFDA 93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services. CFDA 93.053 Nutrition Services Incentive Program - Subrecipient Monitoring.

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 Subpart B .200(a) requires entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. OMB Circular A-133 Subpart B .235(c)(1) states, "The audit shall be completed and the reporting required by ... nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide."

Condition: One of four audits selected for testing was not on file. Another audit was not received within the 9 month requirement set forth by OMB Circular A-133.

Questioned Costs: None.

Context: We tested four of eight subrecipients. One audit was never received by the Agency; this subrecipient received \$1,823,039 during fiscal year 2006. Another subrecipient audit was not on file but was received after we requested the audit. This audit was received three months after the limit set by OMB Circular A-133. This subrecipient received \$1,007,265 during the fiscal year.

Cause: Unknown.

Effect: Inadequate subrecipient monitoring increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to review all subrecipient audits and to ensure all audits are received in a timely manner.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: The central staff responsible for receipt and review of subrecipient audits and representatives of program offices issuing Federal subgrants has begun to develop a System wide procedure to ensure that A-133 audits are received and reviewed in a timely manner. This procedure will include sending written information to all eight Area Agencies on Aging informing them of their need to submit timely audit reports.

Contact: Larry Morrison, Grants and Cost Management and Joann Weis, Administrator-HHSS State Unit on Aging

Anticipated Completion Date: June 30, 2007

Finding #06-26-16

Program: CFDA 93.044 Special Programs for the Aging – Title III, Part B - Grants for Supportive Services and Senior Centers. CFDA 93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services. CFDA 93.053 Nutrition Services Incentive Program - Cash Management.

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 states, “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.” Title 31 CFR 205.11 requires a State to limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. Title 31 CFR 205.33 states, “States should exercise sound cash management in funds transfers to subgrantees.”

Condition: The Agency did not have written procedures or established guidelines regarding cash advances to subrecipients. Both cash advances tested appeared excessive.

Questioned Costs: None.

Context: We tested one cash request each for two of eight subrecipients. One Area Agency had a Federal cash balance of \$59,233 and estimated expenditures for the next two months were \$65,000; the Area Agency was advanced an additional \$33,000 Federal funds. Another Area Agency had a Federal cash balance of \$42,495 and estimated expenditures for the next two months were \$20,785; the Area Agency was advanced an additional \$30,000 Federal funds.

Cause: Unknown.

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement written procedures to minimize the time between the Area Agencies on Aging receiving and spending Federal dollars.

Management Response: The Agency agrees with the need to monitor Federal Funds advanced.

Corrective Action Plan: We will continue to monitor monthly as we have in the past and will look at implementing written procedures with the Area Agencies on Aging to limit excessive advance requests. Regardless of the Area Agency request, we monitor advances based on the need of the subgrantee. All funds are accounted for and balanced against reported expenditures at least quarterly.

Contact: Joann Weis, Administrator

Anticipated Completion Date: On-going monthly monitoring by our office and written notices to the Area Agencies on Aging regarding requested amounts. There are many check points on a monthly basis to monitor cash flow.

Finding #06-26-17

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Subrecipient Monitoring

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, Subpart D, requires a pass through entity to monitor the subrecipient's use of Federal awards to provide reasonable assurance the subrecipient administers the Federal award in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved.

Condition: Subrecipient monitoring procedures should be improved. Our review of 3 of the 6 regional governing boards and 5 of 51 providers noted the following:

- Regional governing boards and providers were required to file three audits for each contract period; a financial audit, a program fidelity audit, and services purchased audit. These audits were reviewed by the Program's field representatives; however, there was no documentation on file to document the review process was performed and what corrective action was taken.
- One regional governing board and two provider financial audits were not received by the Program within nine months after the end of the provider's fiscal year. The audits were one, two, and eight months late.
- One regional governing board financial audit did not report Block Grant Fund expenditures separately for all Mental Health and Substance Abuse services.
- One regional governing board and one service provider did not have a Service Purchased and Program Fidelity Audit on file with the Agency.

Questioned Costs: None.

Context: The Program operates under six regional governing boards which administer or contract with local community health facilities to provide services. The Agency has centralized monitoring procedures related to subrecipient audits, but did not receive all necessary reports and did not properly document the review of reports. The Agency passed through \$5,549,193 to the Regions in the fiscal year ended June 30, 2006. This was a prior year finding. The Agency indicated the status on the Schedule of Prior Year Audit Findings as corrected; however, deficiencies still exist.

Cause: Unknown.

Effect: When audits are not performed or adequately reviewed, there is an increased risk of loss or misuse of funds.

Recommendation: We recommend the Agency review their procedures to ensure compliance with contracts and regulations relating to audits of regions and other providers.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: A form will be developed by March 30, 2007 to review Services Purchased and Program Fidelity Audits: form will be used for FY 2007 audits. Field reps will ensure a review form is completed on each audit submitted. If audits are not received by due date, regions will be notified and requested to withhold payments until agencies audits are received.

Contact: Robert Bussard, BH Division Field Rep Supervisor

Anticipated Completion Date: March 2007

Finding #06-26-18

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Allowability

Grant Number & Year: #2C06B1NESAPT; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permits the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires adequate supporting documentation to ensure expenditures are proper.

Condition: One journal entry tested did not have adequate documentation to support expenses charged to the Federal Grant. The journal entry totaled \$1,174,430 and the amount not supported was \$86,583.

Questioned Costs: \$86,583

Context: The Agency paid the Regions with State funds for January and February 2006 substance abuse services. In April, the Agency prepared a journal entry to transfer the cost from State to Federal Funds. The amount transferred for one region was \$157,323; however, the substance abuse claim amount was only \$58,231. The transfer for another region was for \$44,994; however, the claim amount was \$57,503.

Cause: Agency stated they did not receive Federal funds until after expenditures had been made.

Effect: Increased risk Federal funds were not expended on allowable activities.

Recommendation: We recommend the Agency ensure transactions are adequately supported with detailed documentation to ensure payments are in accordance with Federal requirements.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: The Agency will maintain support for all journal entry transactions.

Contact: Dan Ransdell

Anticipated Completion Date: Immediately, if such borrowing needed in the current fiscal year.

Finding #06-26-19

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Special Tests

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 96.136(a) states, “The State shall for the fiscal year for which the grant is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved, and ensure that at least 5 percent of the entities providing services in the State under such program are reviewed. The programs reviewed shall be representative of the total population of such entities.”

Condition: The Agency did not have a peer review performed during fiscal year 2006.

Questioned Costs: None.

Context: The last peer review was performed in September 2004.

Cause: The Agency was initially under the impression the peer review requirement was to be eliminated; then during fiscal year 2006 the Agency attempted to contract for a peer review but was not successful.

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure a peer review is completed each fiscal year as required.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: Contract established with Nebraska Association of Behavioral Health Organizations to conduct peer review on at least five percent (5%) of entities providing services in Nebraska. Contract established will be continuous in support of federal funding requirements.

Contacts: Primary - Renee Faber, Contract Manager. Secondary – Robert Bussard, Substance Abuse Block Grant Manager.

Anticipated Completion Date: Completed. Contract implemented September 1, 2007.

Finding #06-26-20

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Allowability/Eligibility

Grant Number & Year: #G0602NETANF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Title 42 U.S.C. 608(a)(1), a State may not use the TANF grant to provide assistance to a family unless that family has a minor child.

Title 45 CFR Section 261.14(a) states, “if an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.”

Title 468 NAC 2-006 states “the worker shall determine the ability of the parent to support each dependent child in whose behalf ADC/MA is applied for or received.” Title 45 CFR Section 233.20(a)(3)(vi)(A) states, “In family groups living together, income of the spouse is considered available for his spouse and income of a parent is considered available for children under 21...” Title 64 F.R. 17825 states “A family may not receive “assistance” under the TANF program unless the family is needy ... the term “needy” for TANF and MOE purposes means financial deprivation, i.e., lacking adequate income and resources.” Title 45 CFR Section 205.55(d) states, “The Secretary may, based upon application from a

State, permit a State to obtain and use income and eligibility information from an alternate source or sources ... The State agency must demonstrate to the Secretary that the alternate source or sources is as timely, complete and useful for verifying eligibility and benefit amounts.”

Title 468 NAC 1-010 requires the worker to “redetermine eligibility for grant and medical assistance every six months.”

Condition: We noted 5 of 45 TANF payments tested did not comply with Federal and State regulations.

Questioned Costs: \$446 Known, \$3,084,836 Extrapolated.

Context: Two payments tested did not have documentation verifying the child’s date of birth to ensure the child was a minor. We noted for one of these payments the custodial parent was not required to participate in Employment First because the TANF caseworker stated the recipient was a victim of domestic violence. The case was reviewed by the caseworker’s supervisor and no verification of domestic violence was provided. The supervisor placed the custodial parent in mandatory Employment First status. There were an additional four TANF assistance payments noted during the fiscal year where the custodial parent was not required to participate in Employment First.

One payment tested did not have verification of the custodial parent’s income. The parent is an ineligible immigrant per the caseworker notes on NFOCUS and the notes in the case file. There was a verification of employment in the case file, but the caseworker had noted the custodial parent was working under another individual’s name. The employment verification was outdated and did not state the custodial parents name because the individual was working under another name and social security number. Therefore, it could not be confirmed whether the family was “needy.” The parent was not included in the unit size and no assistance was received for the parent. Per Title 468 NAC 1-004, the term “needy individual” means “one whose income and other resources for maintenance are found under assistance standards to be insufficient for meeting the basic requirements, and to be within the resource limits allowed an individual.”

In two payments tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews were three and seven months overdue.

Total Federal payment errors noted during testing was \$446. Total Federal sample tested was \$3,667 and total TANF Federal assistance payments for fiscal year 2006 were \$25,363,436. The extrapolated error for fiscal year 2006 was \$3,084,836, (error rate multiplied by the total expenditures).

Cause: Unknown.

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal and State regulations.

Management Response:

1. Missing birth certificates:

The missing verifications of birth in the two cases (four children) have been received and clearly establish that each child meets the definition of a minor child. Three of the birth certificates were requested timely by the caseworker from another state however, it took 13 months for the other state to return the documents.

2. Case cited as not having verification of the custodial parent's income:

HHS has written verification, documentation, and client responsibility guidelines. HHS believes these guidelines were followed in this case.

The Federal office of Administration for Children and Families (ACF) has confirmed with HHS that a state can use their own objective verification methods to substantiate eligibility and payment decisions.

Auditors have cited 45 CFR 205.55 as a basis for citing the exception in this case and similar cases in past audits. ACF has informed Nebraska that this CFR provision is not an appropriate basis for citing exceptions in this and similar cases in past audits.

3. HHS reviewed all 45 case review forms with audit staff. HHS appreciates the opportunity to work jointly with auditors during this review of all eligibility elements.

Corrective Action Plan: Nebraska initiated an aggressive TANF case review system in April 2006 to monitor caseworkers to ensure compliance with Federal and State regulations in response to the SFY 2005 single state audit that was released March 8, 2006. It should be noted the auditor's findings in this report (SFY 2006) are based on case actions before Nebraska's supervisory case review system was implemented. Following is a summary of Nebraska's corrective actions:

Case Review System:

In April 2006, Nebraska implemented a comprehensive TANF case review system to reduce and minimize at-risk TANF payment errors. During April through October, a total of 1,923 TANF cases were reviewed. The primary goals and objectives for these case reviews are:

- Ensure immediate, accurate and correct administration of cases through identification of errors;
- Development of training, and best practices that are specifically targeted at the causal factors for errors;
- Identification of policy and procedures that require clarification.
- Prevent future errors through analysis.

All key eligibility elements are reviewed, including family membership, income verification, Employment First referral processes, and timeliness of reviews.

Phase one of the corrective action plan was completed in October 2006. Phase one established a baseline of performance metrics to measure improvement in Phase two. Phase two will be completed in February or March 2007. The TANF supervisory case review system will continue throughout calendar year 2007.

Citizenship/Identification:

- Effective July 1, 2006, the following policy was implemented: All TANF participants must provide satisfactory proof of citizenship or lawful alien status, such as a birth certificate, U.S. Passport, Certificate of Naturalization or appropriate USCIS documentation, before they will be approved for payment. While this requirement was mandated for Medicaid eligibility by the Deficit Reduction Act of 2005, because TANF eligibility bestows Medicaid eligibility on an individual in Nebraska, the same requirements apply to both programs. Local Office staff received video training on this requirement in June 2006 and a Manual Bulletin implementing this new requirement was issued on July 10, 2006.

The Agency authorized the hiring of twenty temporary supportive staff to assist in the procurement of birth certificates for all individuals for whom they are required.

TANF Work Requirements:

- Revision of TANF work requirements mandated by the Deficit Reduction Act of 2005 has required the Agency make a number of changes to the Employment First program. These changes, which are being implemented effective December 2006, expedite the assessment and component assignment of Employment First participants. Statewide video training on these changes was given to EF Case Managers and Contractors on October 18, 2006.

Contact: Mike Harris

Anticipated Completion Date: Phase one of the corrective action plan was completed in October 2006. Phase one established a baseline of performance metrics to measure improvement in Phase two. Phase two will be completed in April 2007. The TANF supervisory case review system will continue through calendar year 2007.

Auditor's Response: The verification of income for the individual noted above was not adequate due to the circumstances stated in the Context. The Agency did not provide documentation that ACF informed Nebraska that 45 CFR 205.55 is not an appropriate basis. The HHS OIG Office of Audit Resolution recommends procedures be implemented to ensure: 1) income is properly verified in a timely manner and 2) valid social security numbers are obtained for all applicants.

Finding #06-26-21

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Special Tests

Grant Number & Year: All TANF grants open during State fiscal year 2006.

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires adequate procedures to ensure the recipient's assistance payments are properly reduced in a timely manner when notice of non-cooperation is received from Child Support Enforcement (CSE). Title 42 U.S.C. Section 608(a)(2)(A) states, "... the State shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance."

Condition: The TANF assistance was not properly reduced for Child Support non-cooperation in 9 of 28 cases tested.

Questioned Costs: \$1,272 Known.

Context: We tested 45 CSE sanctions to determine if the TANF assistance payment was properly reduced for non-cooperation and the reduction was applied in a timely manner. Of the 45 sanctions tested, 28 received TANF assistance during fiscal year 2006. A non-cooperating individual's assistance was not properly reduced by at least 25%, terminated, or, if not reduced the reason was documented and allowable, for 9 of the 28 applicable cases. The reduction in assistance for 2 of these 9 was eventually completed, but was not completed timely. The sanction amount was imposed from two to five months after the notice of non-cooperation form was sent to the TANF worker.

Cause: The Agency does not have a procedure in place to determine when a CSE-10 form has been sent to the TANF caseworker from CSE or to determine the total number of CSE sanctions at a given time.

Effect: Without proper procedures in place to ensure assistance payments are reduced and reduced timely there is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement controls to ensure all CSE referrals are properly reduced or terminated.

Management Response: HHS agrees that internal controls need to be strengthened to monitor caseworker compliance to reduce appropriate TANF grants upon receipt of CSE notices of non-cooperation. Nebraska has implemented corrective compliance strategies starting in February through November 2006 that identifies all CSE referrals and monitors to ensure that TANF grants are reduced timely by caseworkers. It should be noted that all CSE errors identified in this audit occurred before February 2006 or before the HHS corrective compliance plan went into effect.

Corrective Action Plan: HHS has implemented a corrective compliance plan that includes supervisory case reviews, automated reports that identify all CSE referrals, and a monitoring system to ensure that all CSE referrals are acted on timely by caseworkers. The corrective compliance plan is outlined in an October 20, 2006, letter to the Regional ACF Administrator in Kansas City, Missouri. Included in this plan are:

- Complete analysis of why Nebraska did not meet this requirement;
- A detailed description of how Nebraska will correct errors in a timely manner;
- The time period in which the errors will be corrected; and
- The milestones, including interim processes and outcome goals Nebraska will achieve to assure it comes into compliance within the specified time period.

Contact: Mike Harris

Anticipated Completion Date: We anticipate full implementation of this monitoring plan will result in improvement to Nebraska's CSE Sanction process by December 31, 2007. In the interim, monitoring of improvement will occur:

1. As the result of the 2006 and 2007 Nebraska State Audit. We note improvement has already occurred since the 2006 State Audit identified no cases where the eligibility worker failed to impose a CSE Sanction following receipt of the CSE-10, Request to Sanction.
2. From Policy Staff follow-up to the results of the CSE Sanction Report direction to eligibility staff. This monitoring of results will occur in February 2007.
3. By the Rushmore Group second phase case reviews. When they complete their reviews in Spring 2007, we will be able to identify any continuing issues with sanction implementation. We anticipate this review will reflect improved understanding of policy and processes relating to CSE Sanctions.

Finding #06-26-22

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Eligibility/Allowability

Grant Number & Year: All TANF grants open during State fiscal year 2006.

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Title 45 CFR Section 264.1(a)(1), “no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received Federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive).” Neb. Rev. Stat. Section 68-1724 R.R.S. 2003 requires for those families receiving assistance for two years at a monthly payment level shall not receive further cash assistance for at least two years after the assistance period ends. Title 468 NAC 2-020.09B1 states, “Families subject to a time limit may receive or be eligible to receive a grant for a total of 24 months within a continuous 48-month period. The

48 months begin with the month a signed application is received in the local office. The 24 months begin on the first of the month following the month the Self-Sufficiency Contract is signed.” Title 468 NAC 2-010 states, “If a client does not cooperate in developing and completing a Self-Sufficiency Contract or Non-Time-Limited Assistance Agreement within 90 days, the unit is ineligible for an ADC grant and the adult(s) is ineligible for medical assistance.” Circular A-87 requires allowable Federal costs to be authorized or not prohibited under State laws or regulations and to be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Condition: We tested 45 cases and noted three cases received greater than 60 months of Federal TANF payments. One of the three cases had also exceeded the State’s requirement of receiving more than 24 months of assistance in a continuous 48 month period of time.

Questioned Costs: Unknown.

Context: Prior to June 2003, the Agency had entered into Waiver Certifications approved by the Federal government. The waiver certification sent to the US Department of Health and Human Services by the Governor of Nebraska stated “the 24-month period begins with the month following the completion of a self-sufficiency contract or 90 days after a signed application is received in a Local Nebraska Department of Health and Human Services Local Office.” The waiver certification also stated the Federal 60 month time limit would be consistent in counting the applicable months as was stated in the State time limit regulation. The waiver certifications no longer applied after June 30, 2003.

Two of the case files that received more than 60 months of Federal TANF payments did not sign a self-sufficiency contract within 90 days of application. One of these cases received 76 assistance payments since September 1999, but did not sign a self-sufficiency contract until March 2005. The other case received 66 assistance payments since May 1998, but did not sign a self-sufficiency contract until May 2003. Therefore, their TANF assistance should have been closed for not completing the self-sufficiency contract within 90 days of application. The third case, which received 75 assistance payments, had completed a self-sufficiency contract, but the contract was not signed within 90 days of the date of application. The first 48 month period began in March 1998 and the self-sufficiency contract was not signed until August 1998. The second 48 month period began in March 2002 and the self-sufficiency contract was not signed until July 2003.

Cause: The Agency did not count TANF payments towards the 60 month time limit unless there was a self-sufficiency contract signed by the recipient. These TANF cases were not closed.

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency obtain specific guidance from the Federal regulatory agency regarding whether the 60 month time limit is applicable in these situations and if the payments are eligible for Federal financial participation given that the State was negligent in closing the cases.

Management Response: HHS agrees however that there were delays in signing the self-sufficiency contracts that were caused by the Agency.

Corrective Action Plan:

1. Case review system – this system monitors case managers to ensure timely completion of contracts (please see corrective action for Finding # 06-26-21).
2. The Agency expanded Employment First contract services in the Eastern Service area to ensure all clients are able to be served.
3. Revision of TANF work requirements mandated by the Deficit Reduction Act of 2005 has required the Agency make a number of changes to the Employment First program. These changes, which are being implemented effective December 2006, expedite the assessment and component assignment of Employment First participants. Statewide video training on these changes was given to EF Case Managers and Contractors on October 18, 2006.

Contact: Mike Harris

Anticipated Completion Date: We anticipate full implementation of these corrective actions will result in improvement to Nebraska's delays in signing the self-sufficiency contracts by October 31, 2007.

Finding #06-26-23

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Allowability

Grant Number & Year: #G0602NETANF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permits the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires adequate supporting documentation to ensure expenditures are proper.

Condition: Two journal entries tested transferred a total of \$7,000,000 of expenditures to Federal costs, which were originally paid with State funds. Detailed documentation was not available to determine if expenditures charged to the Federal grant were for allowable activities.

Questioned Costs: Unknown.

Context: The Agency used the same business unit (BU) on the Nebraska Information System for the Separate State Program benefit payments and State Maintenance of Effort (MOE) benefit payments. Because the two State expenditure types are accounted for in the same BU, but the Separate State Program would not be allowable Federal activities, the

transfer of costs from the State BU to the Federal BU resulted in an inability to determine which of the costs transferred to Federal funds were from which type of State expenditure. We noted as of February 2006, the Agency began using a distinct BU for the Separate State Program expenditures. Per our estimation, it appeared there were sufficient allowable expenditures available for the transfer; however, detailed documentation was not available to test the underlying charges.

Cause: Agency did not utilize a separate business unit for the Separate State Program until February 2006.

Effect: Inability to trace expenditures to detailed payments to determine if expenditures charged to the Federal grant were allowable activities.

Recommendation: We recommend the Agency ensure transactions are adequately supported with detailed documentation to ensure payments are proper per Federal and State requirements. All transfers should have sufficient detail to trace to the original transactions.

Management Response: We agree with this finding and have put into place procedures to identify allowable expenditures.

Corrective Action Plan: The Separate State Program Business Unit, in place since February 2006, will ensure payments in this program are not made with Federal funds.

Contact: Ann Linneman, Program Analyst/Lead

Anticipated Completion Date: February 2006

Finding #06-26-24

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Reporting

Grant Number & Year: #G0501NETANF, FFY 2005; #G0602NETANF, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires periodic reconciliations between computerized information systems used.

Condition: The two ACF-196 reports tested did not correctly report Federal expenditures in the appropriate grant award year and the Federal and State expenditures reported on the FFY 2005 and FFY 2006 grants were not actual expenditures as reported on NIS. We were also unable to determine if the amount reported for Separate State Program expenditures was accurate because the Agency did not have procedures to ensure amounts reported agreed to NIS, the official accounting system of the State.

Questioned Costs: Unknown.

Context: The Agency uses a percentage calculation to determine the amount of cash assistance being reported for Federal and State MOE expenditures. The Agency totals Federal and State expenditures and then reports 60% of the total as Federal expenditures and 40% as State MOE. The ACF-196 report for the FFY 2005 grant for the quarter ended March 31, 2006, had \$5,219,176 less Federal expenditures reported than the report submitted for the quarter ended December 31, 2005; this amount was also over-reported for the FFY 2006 grant. We also noted the FFY 2006 grant report included some expenditures from the FFY 2005 grant in the cash assistance calculation. We further noted \$3,453,339 was reported twice on the FFY 2006 grant report. The amount was reported as Federal expenditures for work subsidies and it was used in the calculation to determine the cash assistance. The table below shows the amounts for cash assistance, administration, and work subsidies reported as of March 31, 2006, for both the FFY 2005 and FFY 2006 grants and the amounts as they are reported on NIS. The amount reported on the FFY 2005 grant for administration did not agree to the calculated administration amount from the Cost Allocation Plan (CAP).

FFY 2006 Grant

As reported March 31, 2006	Federal	State MOE	Separate State	Total State	Total Federal and State
Basic Assistance	\$ 20,671,457	\$ 13,099,770	\$ 6,355,376	\$ 19,455,146	\$ 40,126,603
Administration	2,389,925				2,389,925
Work Subsidies	8,125,683				8,125,683
	<u>31,187,065</u>	<u>13,099,770</u>	<u>6,355,376</u>	<u>19,455,146</u>	<u>50,642,211</u>
<u>Expenditures per NIS/CAP</u>					
Basic Assistance	6,709,737	11,700,723		11,700,723	18,410,460
Administration	2,389,925				2,389,925
Work Subsidies	2,979,974	4,453,339		4,453,339	7,433,313
	<u>12,079,636</u>	<u>16,154,062</u>	<u>-</u>	<u>16,154,062</u>	<u>28,233,698</u>
Variance (over)/under reported	(19,107,429)	3,054,292	(6,355,376)	(3,301,084)	(22,408,513)

FFY 2005 Grant

As reported March 31, 2006	Federal	State MOE	Separate State	Total State	Total Federal and State
Basic Assistance	20,188,007	16,704,412	7,259,824	23,964,236	44,152,243
Administration	3,958,308				3,958,308
Work Subsidies	12,828,500				12,828,500
	<u>36,974,815</u>	<u>16,704,412</u>	<u>7,259,824</u>	<u>23,964,236</u>	<u>60,939,051</u>
<u>Expenditures per NIS/CAP</u>					
Basic Assistance	19,997,026	20,009,982		20,009,982	40,007,008
Administration	3,662,145				3,662,145
Work Subsidies	11,573,368	4,422,385		4,422,385	15,995,753
	<u>35,232,539</u>	<u>24,432,367</u>	<u>-</u>	<u>24,432,367</u>	<u>59,664,906</u>
Variance (over)/under reported	\$ (1,742,276)	\$ 7,727,955	\$ (7,259,824)	\$ 468,131	\$ (1,274,145)

The Agency did not use a separate business unit (BU) on NIS for Separate State Program (SSP) benefit payments and State MOE benefit payments until February 2006. The Agency uses the NFOCUS system to enter eligibility information and determine benefit amounts. After the benefit has been approved for payment the NFOCUS system interfaces with NIS for payment. The Agency also utilizes a shadow database of NFOCUS information to report the SSP expenditures on the TANF ACF-196 report. We noted the reported SSP expenditures were also included in the total calculation to determine the Federal and State MOE cash assistance expenditures. Therefore, these expenditures were reported twice.

Cause: The Agency uses a percentage of the expenditures reported on NIS to report Federal and State cash assistance expenditures. The Agency wanted to establish an unexpended balance in the 2005 grant award to use these funds at a later date. In order to establish the unexpended balance in the 2005 grant the Agency over-reported Federal expenditures in the 2006 grant. In order to show a \$10 million dollar balance on the 2005 grant the Agency reported the \$5,219,176 on the ACF-196 for the 2006 grant as Federal expenditures. The Agency stated they wanted to get the reports to match the balance showing on NIS, the State's accounting system.

Effect: Federal reports do not agree with the State's accounting system, increased risk for errors or fraud to occur.

Recommendation: We recommend the Agency ensure the expenditures reported on the ACF-196 report are actual expenditures per NIS, the State's accounting system. We also recommend the Agency perform periodic reconciliations between NIS and NFOCUS until the separate BU for the Separate State Program can be utilized for reporting purposes.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Coding was expanded to identify the Separate State Program. The practice of recording a standard split of the assistance was discontinued. Reported amounts are documented with NIS and the Public Assistance Cost Allocation Reports. Necessary changes will be reflected on NIS. A review of the 2005 and 2006 grant activity will be completed and revised financial reports prepared as necessary for the Federal agency. The revised reports will include the variances noted by the auditor.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-25

Program: CFDA 93.563 Child Support Enforcement – Subrecipient Monitoring

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D – Federal Agencies and Pass-Through Entities, Section 400(d) Pass-through entity responsibilities, states “A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.”

Condition: The Agency could not provide supporting documentation showing whether or not subrecipients were notified of the award information.

Questioned Costs: None.

Context: This was a prior audit finding. The Agency will be correcting this when the cooperative agreements are renewed.

Cause: Unknown.

Effect: When the Agency fails to notify their subrecipients of the award information, there is an increased risk of noncompliance with Federal laws and regulations and an increased risk of improper reporting.

Recommendation: We recommend the Agency implement procedures to notify counties and other subrecipients of award information to ensure compliance with Federal laws and regulations.

Management Response:

Corrective Action Plan: We will implement procedures when Cooperative Agreement for Clerks of the District Court and County Attorneys are renewed.

Contact: Margaret Ewing

Anticipated Completion Date: Clerk of the District Court Agreement will be renewed July 1, 2011. County Attorney Agreement will be renewed October 1, 2008.

Finding #06-26-26

Program: CFDA 93.563 Child Support Enforcement - Allowability

Grant Number & Year: #0G0504NE4004, FFY 2005; #0G0604NE4004, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The United States Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 8 (h)(4) states, “where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation ... or other substitute system has been approved by the cognizant Federal agency.”

Condition: For 1 of 8 employees tested, there was no written approval from the cognizant Federal agency for the substitute system used for the allocation of payroll costs for the Federal program. In addition, it was noted an additional employee did not have written approval for the allocation of payroll costs for the Federal program.

Questioned Costs: \$51,005

Context: These individuals worked on multiple programs (Treasury Management, State Disbursement Unit, College Savings Plan, and Unclaimed Property), but did not record the actual hours worked on each program on timesheets. The salaries of these employees were allocated based on the number of employees in each of the programs rather than actual time worked. Total Federal payroll charges for the two employees were \$51,005.

Cause: The Treasurer was unaware the allocation method used for these employees was improper.

Effect: Without proper documentation of the actual hours worked on the Federal program or written approval from the cognizant Federal agency to use a substitute system, the Treasurer is in noncompliance with OMB Circular A-87.

Recommendation: We recommend the Treasurer allocate salaries based on actual activity reports or obtain written approval from the cognizant Federal agency for the system in use.

Management Response: (Treasurer) The Treasurer is a contractor of HHSS for the operation of the SDU. As a contractor, the Treasurer submits a reimbursement request to HHSS for eligible funds spent in the operation of the SDU. Upon HHSS’s review and approval of the reimbursement request, HHSS releases federal grant monies to the Treasurer to offset operating costs. HHSS has approved the SDU’s allocation approach. Any written approval from the cognizant Federal Agency for the substitute system currently in place to allocate the salaries of the Business Manager and the IT Manager should be requested by HHSS from the cognizant Federal Agency.

Corrective Action Plan: HHSS is in the process of contacting the Federal Office to see if a substitute system for allocating salaries and wages to this Federal grant may be used in place of activity reports for employees working multiple State Treasurer activities.

Contact: John Kwiatek

Anticipated Completion Date: June 30, 2007

Finding #06-26-27

Program: CFDA 93.658 Foster Care Title IV-E – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. NIS is the official accounting system for the State of Nebraska. Good internal control requires reports be reconciled to the accounting system.

Condition: Adjustments were not adequately supported, adjustments were not recorded on NIS, and expenditures were incorrectly reported.

Questioned Costs: Unknown.

Context: We tested two of four quarterly financial status reports (FSR) submitted during the fiscal year and noted:

- The March 2006 FSR reported current quarter maintenance expenditures of \$1,871,580; per review of supporting documentation \$1,933,573 should have been reported, a variance of \$61,993 with Federal share of \$36,997.
- The March 2006 FSR reported prior quarter adjustments to decrease maintenance expenditures \$1,030,662; per review of supporting documentation the decrease should have been \$1,050,863, a variance of \$20,201 with a Federal share of \$12,056. None of the prior quarter adjustments were recorded on NIS. Decreasing adjustments were also noted in other quarters and the agency indicated no prior quarter adjustments were recorded on NIS. Total Federal share of decreasing adjustments for prior quarters during the fiscal year was \$2,611,272.
- Expenditures for legal costs associated with terminating parental rights in order to expedite adoptions were reported as maintenance expenditures on the Foster Care report and should have been reported as Adoption Assistance administrative expenses. Therefore, Foster Care maintenance was overstated by \$39,027. The Federal share was overstated \$23,292.
- An adjustment in the amount of \$2,221 on the June FSR was recorded as a decreasing adjustment but should have been recorded as an increasing adjustment. As a result maintenance was under-reported by 4,442. The Federal share under-reported was \$2,651. This adjustment was not recorded on NIS.

Reporting errors for the two quarters total \$4,300 under reported, (\$12,056 + \$23,292 - \$2,651 - \$36,997). Adjustments not recorded on NIS for the fiscal year totaled \$2,608,621, (\$2,611,272 - \$2,651). The initial expenditures were charged on NIS to the Federal grant; however, as the adjustments were not recorded on NIS, the amounts were not paid back. The Agency indicated awards were adjusted quarterly to the actual claimed amount and adjustments will be reflected when the final quarterly awards are issued by the Federal agency.

Cause: Inadequate review of report to supporting documentation and State accounting system.

Effect: Federal reports are not accurate and do not agree with funding processed through NIS.

Recommendation: We recommend the Agency implement procedures to ensure Federal reports are accurate and agree to the Nebraska Information System.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Reported amounts are documented with NIS and the Public Assistance Cost Allocation Reports. Necessary changes will be reflected on NIS. Corrections for the errors reported by the APA will be included in the next quarterly financial report to the Federal agency.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-28

Program: CFDA 93.658 Foster Care Title IV-E – Allowability and Eligibility

Grant Number & Year: #0G051NE1401, FFY 2005; #0G061NE1401, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per 42 USC 672 funds may be expended for Foster Care maintenance payments on behalf of eligible children. To be eligible for Foster Care benefits the requirements of 42 USC 672 and 45 CFR 1356.21 must be met. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement. A child's removal from the home must be the result of a judicial determination to the effect that continuation in the home would be contrary to the child's welfare. Within 60 days from the date of the removal from home there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent the removal. In addition, the provider must be fully licensed per 42 USC 671(a)(10) and 672(c). Unless the child is expected to graduate from a secondary educational, or an equivalent vocational or technical training, institution before his or her

19th birthday, eligibility ceases at the child's 18th birthday (45 CFR Section 233.90(b)(3)). Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

Condition: We noted 7 of 50 Foster Care maintenance payments tested were not allowable as all eligibility requirements were not met.

Questioned Costs: \$11,485 known, \$971,120 extrapolated.

Context: The average number of Foster Care children during the fiscal year ended was 1,388. We tested 50 cases, 34 September 2005 payments and 16 April 2006 payments, and noted the following:

- Four payments tested the child was not in a licensed foster care home and an additional payment did not have documentation on file during testing to support the child was in an approved home. Cases files were requested August 28, 2006, and documentation was not received until January 24, 2007.
- One child had been in foster care, returned to the family, and then returned to foster care. Eligibility was not redetermined for the second episode and therefore the payment was not allowable.
- For one payment tested, the child was 18 years old and not a full-time student.

Total known questioned costs for payments tested was \$3,257; additional questioned costs for these cases during the fiscal year were \$8,228. Total Federal charges for the sample was \$17,577. Extrapolated questioned costs for errors for the fiscal year would be \$971,120. (18.53% \$ error for sample times \$5,240,800 population)

Cause: Inadequate control procedures.

Effect: Increased risk for errors and questioned costs.

Recommendation: We recommend the Agency implement procedures to ensure Foster Care payments are in accordance with Federal regulations.

Management Response: HHSS acknowledges and agrees with 6 of the error findings. HHSS disagrees with one of the error findings pertaining to a payment made for a child placed in a home which was not licensed. HHSS has secured and provided a copy of the license, issued by the Omaha Tribe of Nebraska. Therefore, the error finding clearly is incorrect and payment was made correctly.

HHSS disagrees with the "Questioned Costs" of Finding #06-26-28. Payments used in calculating the questioned costs include the alleged error case in which the license has been provided (see above). Additionally, cost date used to calculate errors includes both the Title IV-E portion of payments, and the State portion of the payments. The disallowance should be taken against only the Federal or IV-E portion.

The error rate used in the finding is inaccurate, as that rate included the case in which the license was provided. Therefore, the stated error rate of 18.53% is inaccurate. The correct rate would be 12%. (The Federal case error rate is to be calculated using the total number of cases in error divided by the number of cases reviewed. HHSS has applied this Federal formula and determined the case error rate would be 6 divided by 50 equaling 12% vs. 18.53%.)

Based on use of an incorrect error rate and inclusion of the state portion of payments made for children in the sample and in the total amount paid for the year, we disagree with the questioned costs and the extrapolated costs.

Corrective Action Plan: The four payment errors are in relation to the Funding error of Child Care Cost. HHSS has initiated an electronic system fix in N-FOCUS with the target release date of 7-9-2007 to correct this system error.

One error is related to second episode with eligibility not determined. HHSS will provide written guidance and training to Protection and Safety and Income Maintenance-Foster Care staff to stress the importance of eligibility re-determination in relation to child returned home equal or greater than 6 months and subsequently removed and placed out of parental home again. Information from the Single Case Audit Findings will be shared with these staff. In addition, HHSS in conjunction with Nebraska Juvenile Justice System, is jointly working to improve judicial findings to meet required court determinations for Title IV-E eligibility.

One error is related to a ward age 18 and not attending school. HHSS will continue to stress the importance of ensuring that current school related information for each ward is communicated between all associated workers and will provide a written reminder and training to relevant HHSS staff to reinforce this requirement. HHSS will explore additional tools to assist all assigned workers. (It should be noted that only a single month's payment was made in error in conjunction with this eligibility requirement. Prior to the time that a second month's payment would have been made, the error had been corrected. No other services were paid from Title IV-E.)

HHSS is researching avenues to provide additional Quality Assurance for Title IV-E eligibility determinations. On-going training occurs with eligibility worker meetings. Supervisors or Protection and Safety and Income Maintenance-Foster Care had training on IV-E requirements at the Supervisors' Conference in 11-06. A similar training will occur at the Supervisors' Conference in 2007.

HHSS has already sent a report to ACF in Kansas City to extract Federal funding related to the 6 case errors for payment disallowance.

Contact: Ruth Grosse or Margaret Bitz

Anticipated Completion Date: December 2007

Auditor's Response: Questioned costs and extrapolated costs were determined using the Federal share of payments and does not include State costs. The method for extrapolating costs is in accordance with auditing standards. The questioned costs for the license issued by the Omaha tribe was included due to documentation not being available in a timely manner. As indicated, documentation was requested August 28, 2006, and was not received until January 24, 2007.

Finding #06-26-29

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. An Agency caseworker and supervisor review adoption subsidy agreement forms.

Condition: The adoption subsidy agreement forms were not reviewed by a supervisor.

Questioned Costs: None.

Context: Two of forty-five cases selected for testing were not signed by a supervisor. The adoption subsidy agreements were in October 2005 and March 2006. The agreements were signed and approved by a caseworker; however, there was no documented review by a supervisor.

Cause: Unknown.

Effect: Noncompliance with Agency's internal control policies increases the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency enforce the review policies and procedures in place to ensure all adoption subsidy agreements have a documented review by both a caseworker and a supervisor.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing

Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz

Anticipated Completion Date: June 30, 2007

Finding #06-26-30

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 479 NAC 8-001.02B5 states “The application and agreement for subsidy, specifying type, amount, purpose, and duration of subsidy must be completed and approved before the date of adoption finalization.”

Per 42 USC 675(3), “The term “adoption assistance agreement” means a written agreement, binding on the parties to the agreement, between the State agency, other relevant agencies, and the prospective adoptive parents of a minor child.”

OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. The Agency reviews the subsidized adoption agreements to verify the agreement was approved prior to adoption finalization.

Condition: The adoption subsidy agreements were not signed and in effect before the final decree of adoption.

Questioned Costs: \$454 known, \$224,776 extrapolated.

Context: During the testing of forty-five payments, we noted two agreements were not signed before the final decree of adoption. The adoption agreements were signed three weeks to three months after the final decree of adoption. Federal share of payments for the two cases totaled \$454 and the total sample tested was \$14,030. Based on this information, an extrapolated error of \$224,776 was calculated (3.235923% error rate times total expenditures of \$6,946,272).

Cause: Unknown.

Effect: The Agency is not in compliance with State and Federal requirements which increase the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency ensure all adoption subsidy agreements are signed prior to adoption finalization.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: HHSS will return the Federal Share of all claims paid on two of the error cases in which agreements were not signed prior to finalization. Additionally, these two adoption assistance cases have been changed in N-FOCUS, from federal to state subsidy so no future services will be paid from federal funds. HHSS has secured a revised agreement that reflects the increase and has all appropriate signatures.

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-31

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Matching

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 42 USC 673(a)(3) states “The amount of the payments to be made in any case ... shall be determined through agreement between the adoptive parents and the State or local agency administering the program ...”

The percentage of Title IV-E funding in adoption assistance subsidy payments will be the Federal Medical Assistance Program percentage. The Federal match rate for adoption subsidy payments in the State of Nebraska for the fiscal year was 59.68%.

Condition: Unallowed costs were noted including respite care and incorrect adoption subsidy payment amounts. Unallowed costs were included in determining the Federal match amounts.

Questioned Costs: \$523 known.

Context: During our testing of 45 cases, we noted one case tested the amount paid exceeded the subsidy agreement by (Federal share) \$142. The caseworker recalculated the payment amount based on request for an increase in the adoption subsidy payment by the parent. The request was approved; however, the adoption subsidy agreement was not updated.

Also during testing we noted two families with payments for multiple siblings. Three of the siblings included respite care that was correctly paid with State funds; however, the Federal share was calculated including the respite care. Federal funds were over-charged by \$381 due to the improper matching computation.

Cause: Unknown.

Effect: Unallowable charges to Federal program and the Federal match requirements were not met.

Recommendation: We recommend the Agency establish procedures to ensure payments are in accordance with Federal regulations.

Management Response: HHSS disagrees with this finding. HHSS approved the increase in the Adoption Assistance payments prior to payment being rendered. Supporting documentation included the families request for an increase, FC Payment determination and electronic approval from the Protection and Safety Administer. A revised Adoption Agreement has now been completed to reflect the subsidy increase.

Corrective Action Plan: None Required

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

Anticipated Completion Date: N/A

Finding #06-26-32

Program: CFDA 93.659 Adoption Assistance – Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 479 NAC 8-001.02Q2 Deletion or Termination of Federal IV-E Subsidy states “A federal subsidy is terminated ... On the child’s 18th birthday if the child is not determined disabled by SSI determination or determination of the Department’s Medical Review Team. In this case, if the need for subsidy continues between the child’s 18th and 19th birthdays, the child can be transferred to the state maintenance program.”

Title 42 USC 673 (a)(4)(A) states “no payment may be made to parents with respect to any child who has attained the age of eighteen (or, where the State determines that the child has a mental or physical handicap which warrants the continuation of assistance, the age of twenty-one)...”

Condition: Benefits were not discontinued when period of eligibility expired.

Questioned Costs: \$2,956 known.

Context: During our testing of 45 cases, we noted eleven individuals who turned 18 during the fiscal year. Three of the eleven cases, had payments after the individual turned 18 and there was no documentation in the case files showing the child was disabled. Payments during the fiscal year after eligibility had expired for the three cases totaled \$2,956.

Cause: Unknown.

Effect: Increase risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency implement procedures to ensure that IV-E payments cease when eligibility expires.

Management Response: HHSS does agree with the three cases tested as not meeting all eligibility requirements as they were not determined to be disabled.

Corrective Action Plan: HHSS has initiated the process of unclaiming all Federal funding for services paid regarding the 3 error cases. HHSS had already changed the eligibility on all three youth prior to the audit. Inappropriate periods of eligibility included 3 months for one youth, 4 months for another youth, and 7 months for the third youth. HHSS is also exploring the development of a report to assist staff in their review of cases for on-going eligibility beyond a youth’s 18th birthday.

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Margaret Bitz, Mary Dyer, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-33

Program: CFDA 93.659 Adoption Assistance – Allowable Costs/Cost Principles and Matching

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 1356.41(a) states: “The amount of the payment made for nonrecurring expenses of adoption shall be determined through agreement between the adopting parent(s) and the State agency administering the program. The agreement must indicate the nature and amount of the nonrecurring expenses to be paid.”

Title 45 CFR 1356.41(f)(1) states: “Funds expended by the State under an adoption assistance agreement, with respect to nonrecurring adoption expenses incurred by or on behalf of parents who adopt a child with special needs, shall be considered an administrative expenditure of the title IV-E Adoption Assistance Program. Federal reimbursement is available at a 50 percent matching rate, for State expenditures up to \$2,000, for any adoptive placement.”

Title 45 CFR 1356.41(i) states: “The term “nonrecurring adoption expenses” means reasonable and necessary adoption fees, court costs, attorney fees and other expenses which are directly related to the legal adoption of a child with special needs.”

Condition: Legal fees were paid that exceeded the amount specified on the adoption subsidy agreement and legal fees were not matched at the correct rate.

Questioned Costs: \$9,726 likely.

Context: During testing of 45 cases, we noted 4 payments for legal fees. Two payments exceeded the legal fees authorized on the adoption agreement by a total of \$64. Total sample tested was \$1,812 for an extrapolated error of \$1,739 was calculated (3.532% error rate times total legal expenditures of \$49,241). All four legal expenses tested were matched at the incorrect rate. The payments were charged as aid rather than administrative costs and were matched at the Federal aid rate of 59.68% instead of the 50% match rate for administrative costs. Total legal expenditures for the fiscal year 2006 of \$82,508 were charged at 59.68% for \$49,241, but should have been charged at the 50% match rate for \$41,254. Based on this information, an extrapolated error of \$7,987 was calculated (\$49,241 amount calculated at the 59.68% aid rate less \$41,254 amount calculated at the 50% administrative rate). Likely questioned costs total \$9,726 (\$1,739 + \$7,987).

Cause: The Agency was not aware of the correct matching requirements and the Agency paid total legal fees requested instead of paying the amount authorized per the agreement.

Effect: Unallowable charges to Federal program.

Recommendation: We recommend the Agency implement procedures to ensure costs charged to Federal programs do not exceed allowable amounts. Additionally, procedures should be implemented to ensure matching requirements are met.

Management Response: HHSS does agree that two of the cases reviewed the legal fees did exceed the adoption agreement amount by \$64 in total.

Corrective Action Plan: HHSS found that the States FFP was claimed against the service type of Legal Fees instead of the 50% Administrative matching rate. A “fix” has been written for this to correct N-FOCUS so that all legal fees paid will be claimed at the Administrative rate of 50%. This correction is on target for completion by July 2007. HHSS is also taking corrective action to unclaim the inappropriate federal match rate applied against the cases identified through the audit and is reviewing procedures to ensure the paid amount does not exceed the subsidy agreement.

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-34

Program: CFDA 93.994 Maternal and Child Health Services Block Grant - Earmarking

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Unless a lesser percentage is established in the State’s notice of award for a given fiscal year, the State must use at least 30% of payment amounts for preventive and primary care services for children (42 USC 705(a)(3)(A)). Unless a lesser percentage is established in the State’s notice of award for a given fiscal year, the State must use at least 30% of payment amounts for services for children with special health care needs (42 USC 705(a)(3)(B)). A State may not use more than 10% of allotted funds for administrative expenses (42 USC 704(d)).

Condition: The Agency does not have adequate support to demonstrate earmarking requirements were met. MCH tracks expenditures based on the Federal fiscal year and not by the allotment/grant period. As expenditures from one Federal fiscal year could include funds from up to two allotments/grants, the program is not able to identify what types of expenditures, i.e. by earmark categories, were specifically spent from each allotment.

Questioned Costs: Unknown.

Context: Total grant expenditures for State fiscal year 2006 were \$3,995,536. The earmarking percentages as determined by the Agency by Federal fiscal year for 2005 and 2004 are as follows:

Federal Fiscal Year	2004	2005
Includes Grants	2003 and 2004	2004 and 2005
Administration	3%	3%
Services for Children	29%	27%
Children with Special Needs	28%	29%

The Agency did not track expenditures by the allotment/grant year as required.

Cause: MCH tracks expenditures by the fiscal year because that is the format required in the maternal and Child Health Services Title V Block Grant Program “Guidance and Forms for Title V Application/Annual Report.” The allotment/grant (with 2-year period of availability) is the unit to be tested for earmarking compliance. The Agency has submitted recommendations to various Federal authorities in an effort to resolve this issue.

Effect: Without recording expenditures for each allotment/grant we are unable to determine if the Agency is in compliance with the earmarking requirements.

Recommendation: We recommend the Agency develop procedures to account for earmark expenditures by grant period.

Management Response: The Agency agrees with the Auditor’s finding.

Corrective Action Plan: Part I: Expenditures by earmark categories will be calculated for the 2006 grant using a retrospective methodology. The expenditures by earmarked categories, as reported by subrecipients, internal allocated units, and contractors in FY2006 and FY2007, will be applied to payment history for the 2006 grant. **Part II:** A coding methodology will be developed and prospectively implemented for the 2007 grant to record expenditures of earmark categories by grant.

Contact: Rayma Delaney

Anticipated Completion Date: December 31, 2007, (Part I) and March 1, 2007, (Part II). (**Note:** Because it uses a retrospective methodology, Part I relating to the 2006 grant will actually occur after the completion of Part II relating to the 2007 grant.)

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to you.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.



Pat Reding
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor