NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 16, 2010

Kerry Winterer, Chief Executive Officer
Nebraska Department of Health and Human Services
301 Centennial Mall South, 3rd Floor
Lincoln, Nebraska 68509-5026

Dear Mr. Winterer:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. 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 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 or compliance matters related to the activities of the Nebraska Department of Health and Human Services (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 the 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.

Comment Number 1 (Accrual Information) is considered a significant deficiency. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

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. 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.

The following are our comments and recommendations for the year ended June 30, 2009.

**1. <u>Accrual Information</u>**

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the fiscal year 2009 Comprehensive Annual Financial Report (CAFR), we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Agency did not use the enhanced Federal Medical Assistance Percentage (FMAP) under the American Recovery and Reinvestment Act (ARRA) of 2009 for reporting the split between Federal Fund and State Fund portions of the accruals. This resulted in the following misstatements:
    - The federal portion was understated and the State portion was overstated for the Medicaid short and long term payables by a total of $9,994,831.
    - The federal portion was understated and the State portion was overstated for the Medicaid Drug Rebates, Third Party Liability, Medicaid Estate Recovery, and Medicaid Pending Refunds receivables by a total of $1,948,437.
    - An understatement of the Patient and County billings receivable of $134,148 as the Federal portion included in the receivable was not calculated using the enhanced FMAP percentage.

- The Agency did not report payables to two vendors which were estimated at $6,385,321. An invoice had not been received as of June 30, 2009; however, the liability was expected and incurred for the period of March through May 2009.

- $2.9 million in payments made after June 30, 2009, were incorrectly recorded as fiscal year 2010 expenditures when they should have been recorded as fiscal year 2009 payables.

- Estimated accounts receivable accruals for Medicaid Drug Rebates were understated by a total of $2,166,095. The understatement was due to the allowance calculation not properly reflecting the current year collections of billed amounts and the inclusion of an amount that was not a true receivable at June 30, 2009.

- The Third Party Liability (TPL) accounts receivable was understated by $1,203,190 due to the use of an incorrect allowance for uncollectible accounts percentage.

- Intergovernmental accounts payable and accounts receivable accruals were understated by $810,055 and $49,889 respectively, due to two federal programs not being included in the amounts reported to State Accounting.

- The Medicaid Estate Recovery Receivable was understated by $684,425 due to various errors in the calculation of the receivable. These included amounts for payment plans not being included and the exclusion of amounts expected to be collected after the end of the next fiscal year.

- The Patient and County billings receivable was understated by $242,279 due to the net effect of allowances for uncollectible accounts being overstated and the duplication of amounts due from counties.

- The Cost Allocation Plan Amendment Payable did not include adjustments for Social Service Workers for the quarter ended June 2005. The net effect on the payable was an overstatement of $40,216.

- Allowances for uncollectible accounts were not determined for some receivables or were not adequately supported as noted:
    - The Agency did not calculate an allowance for uncollectible accounts for the Children Have a Right to Support (CHARTS), child support overpayment accounts receivable.
    - The calculation of the allowance for uncollectible amounts for the Nebraska Family Online Client User System (NFOCUS), client/provider overpayment receivables did not appear reasonable as the Agency used percentages based on the amount sent to the State Claims Board during fiscal year 2008 and did not consider the collectibility of NFOCUS receivables based on aging of amounts due.
    - The Agency had no documentation of the history of collection of the Non-Probate cases for the Medicaid Estate Recovery Receivable to support the uncollectible percentage.
    - The calculation of the allowance for Medicaid Drug Rebate receivables was not based on sampling of actual receivables and was not supported by historical information.

State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). Similar findings have been noted in our previous audits.

Without proper controls to ensure amounts reported to State Accounting are accurate, there is an increased risk of financial statement misstatements not being detected and corrected in a timely manner.

> We recommend the Agency implement procedures to ensure receivable and payable amounts reported are complete and accurate, including properly recorded allowance for uncollectible accounts.

***Management Response:*** *The Agency established written instructions in July 2009 for the completion of all accrual items to be reported. The Agency will implement any additional procedures necessary to address the current years identified misstatements.*

## 2. Information Security – Access Appropriateness

The Nebraska Information Technology Commission's (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control states, in part, "The issuance and use of privileged accounts will be restricted and controlled. Processes must be developed to ensure that users of privileged accounts are monitored, and any suspected misuse is promptly investigated."

A good internal control plan requires individuals who develop changes for systems to not have access to production datasets. Typically, entities restrict access to information resources (e.g., programs, data, networks) to enforce desired segregation of duties, facilitate on-line approvals, and help achieve business cycle control objectives. Logical security tools and techniques are used to define such access restrictions, including how and to whom the entity will limit the ability to view, use, or modify significant information resources.

- Two developers had alter access to the production datasets for the Agency's CHARTS application. In addition, there was one shared on call user ID with alter access to CHARTS production datasets. The activity performed using this ID was logged; however, no periodic documented review of the log was performed.

- Two developers had alter access to the production datasets of the Agency's Medicaid Management Information System (MMIS) application. In addition, one user ID with alter access to MMIS production datasets did not require this access to complete their job responsibilities.

- 45 developers had alter access to the production datasets of the Agency's NFOCUS application. In addition, there were 56 shared "test" user IDs which should have never been granted alter access to the NFOCUS production datasets. There were also 38 user IDs which did not require alter access to the NFOCUS production datasets to complete their job responsibilities.

- Two developers had alter access to the production datasets of the Agency's Home Energy Assistance (HEA) application. In addition, two user IDs did not require access to the HEA production datasets to complete their job responsibilities.

A similar comment has been noted in prior audits.

Without a proper segregation of duties, application developers could circumvent the change control process and modify the production environment without testing or obtaining management approval for changes. The resulting changes may lead to difficulties in maintaining system functions, processing errors, or inaccurate and misleading financial information.

> We recommend Agency management evaluate potential options to restrict application developers' access to the production environment. In the event access restrictions are not feasible, monitoring controls should be implemented to ensure all modifications to production are appropriately approved and tested.

***Management Response****: The Agency has implemented bi-annual review for all access assigned to production support and developers with access to CHARTS, MMIS, N-FOCUS and HEA data files. Reviews were completed on January 27, 2009 for three of the applications, and on June 11, 2009 for the N-FOCUS and HEA applications and August 10, 2009 for CHARTS and MMIS. Additional reviews are in progress for N-FOCUS, CHARTS, HEA and MMIS for the January 2010 time frame. The reviews are conducted by the Agency HIPAA Privacy/Security offices working with the mangers for each application.*

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 the Agency.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be and should not be used by anyone other than the specified parties. 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.

Signed Original on File

Pat Reding, CPA, CFE
Assistant Deputy Auditor