

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF HEALTH  
AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT  
AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
JANUARY 1, 2016, THROUGH DECEMBER 31, 2016**

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**Issued on June 27, 2017**

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
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**BACKGROUND**

In 1996, the Federal government mandated the centralized collection and disbursement of child support monies through the Welfare Reform legislation of 1996 – Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). At that time, Nebraska Clerks of the District Court were responsible for the collection and disbursement of child support. In December 2001, Nebraska initiated a centralized process involving two separate State agencies, the Nebraska Department of Health and Human Services (DHHS) and the Nebraska State Treasurer’s Office.

DHHS is responsible for ensuring support orders are met and disbursed appropriately, while the State Treasurer’s Office is responsible for the actual receipt and disbursement of child support monies. Child support cases involve primarily two types: Social Security Act Title IV-D (IV-D) cases, those in which the custodial parent is receiving services from Child Support Enforcement; and Non-IV-D cases, those that are established and maintained privately.

Over \$300 million in child support payments are received, processed, and disbursed each year in Nebraska. For the reporting period October 1, 2016, through December 31, 2016, there were 108,316 open child support cases; of those, 93,751 had support orders. Also, as of December 31, 2016, there were 68,766 cases with arrears balances totaling \$708,916,299. As part of this attestation, the APA did not specifically look at the procedures around enforcement of payments due.

Title IV-D child support cases are initially established in the State’s child support computer system known as CHARTS (Children Have A Right To Support). Court orders are established in the various Nebraska District Courts in each County and are entered into the Nebraska Trial Courts Case System (JUSTICE). Once entered, the two systems interface. The Child Support Enforcement (CSE) Office within the Department of Health and Human Services, or the county, is then responsible for determining the amount to be paid to the custodial parent according to the court order and applicable Federal laws, or the amount that has been assigned and payable to the State. DHHS, or its subgrantees, are also involved in locating parents, establishing paternity, establishing and modifying child or medical support orders, and enforcing child, spousal, and medical support orders.

As far as the receipt and disbursement of child support, those activities run through the Nebraska Child Support Payment Center (NCSPP), which is administered within the State Disbursement Unit (SDU) of the Nebraska State Treasurer. The SDU functions include data entry, customer service, employer outreach, accounting, banking, collections, and research analyst. Neb. Rev. Stat. § 43-3342.01(1) (Reissue 2016) states the following:

*The responsibilities of the State Disbursement Unit shall include the following:*

- (a) Receipt of payments, except payments made pursuant to subdivisions (1)(a) and (1)(b) of section 42-369, and disbursements of such payments to obligees, the department, and the agencies of other states;*
- (b) Accurate identification of payments;*
- (c) Prompt disbursement of the obligee’s share of any payments;*
- (d) Furnishing to any obligor or obligee, upon request, timely information on the current status of support order payments; and*
- (e) One location for employers to send income withholding payments.*

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**BACKGROUND**

(Concluded)

As part of this attestation, the APA examined a separate bank account (State Ward Child Support Account) that is under the control of the DHHS Division of Children and Family Services. The excess child support monies that flowed into this State ward account on a daily basis had grown to almost \$1.4 million at December 31, 2016.

**Child Support Information Technology (IT) Applications**

A number of State and local IT systems support or provide child support information to the State. However, two noteworthy IT applications are maintained by the State for the processing of child support amounts received, processed, and disbursed. The following is a brief description of those applications:

- **CHARTS** – The State of Nebraska child support computer application used to support the centralized collection and disbursement of child support monies to ensure amounts are properly disbursed and enforced per court orders or Federal regulations.
- **KidCare** – The computer application utilized by the SDU to track child support payment processing, including receipts and disbursements for over 100,000 child support payments to custodial parents each month.

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**KEY OFFICIALS AND AGENCY CONTACT INFORMATION**

**Department of Health and Human Services – Child Support Enforcement**

<b>Name</b>	<b>Title</b>
Courtney Phillips	CEO
Doug Weinberg	Director of Division of Children and Family Services
Byron Van Patten	Child Support Enforcement Administrator
Cindy Wiesen	Administrator I
Jerry Vanderbeek	Child Support Enforcement Finance Manager
Doug Kreifels	Divisional Financial Officer

Department of Health and Human Services  
301 Centennial Mall South  
Lincoln, NE 68509  
[dhhs.ne.gov](http://dhhs.ne.gov)

**State Treasurer – State Disbursement Unit**

<b>Name</b>	<b>Title</b>
Don Stenberg	State Treasurer
Jason Walters	Deputy State Treasurer
Troy Reiners	Assistant State Treasurer
Maria Scheinost	Assistant State Treasurer
Jeremy Kaiser	Banking & Accounting Manager
Charles Luginbill	Assistant State Treasurer

Nebraska Child Support Payment Center  
P.O. Box 82600  
233 South 10<sup>th</sup> Street #100  
Lincoln, NE 68508  
[childsupport.nebraska.gov](http://childsupport.nebraska.gov)

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**SUMMARY OF COMMENTS**

During our examination of the Nebraska Department of Health and Human Services Child Support Enforcement (DHHS), the State Ward Child Support Account, and the Nebraska State Treasurer State Disbursement Unit (SDU), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comment #1 (DHHS Child Support Overpayments) and #3 (State Ward Child Support Account), which are considered to be significant deficiencies.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***DHHS Child Support Overpayments:*** DHHS had over 1,200 individual's outstanding overpayments due to the State of \$1.2 million at December 31, 2016. There was an additional \$700,000 in potential recoveries that had not been worked by DHHS staff. There were other issues identified by the APA including DHHS failing to follow their policies and procedures, DHHS not setting up overpayments timely, and other issues noted.
2. ***Purge Order Control Issues:*** DHHS was not allocating purge orders in accordance with regulations, and their internal policies. An error resulted in a non-custodial parent wrongfully having a bench warrant issued for his arrest.
3. ***Lack of CHARTS to State Accounting System Reconciliation:*** DHHS does not perform a reconciliation between the activity entered into CHARTS and the amounts entered into the State's accounting system, EnterpriseOne.
4. ***State Ward Child Support Account:*** DHHS had excess balances of State ward child support monies that had grown to almost \$1.4 million at December 31, 2016. DHHS did not perform an adequate reconciliation of systems to the bank account.
5. ***Inadequate Procedures Over Bad Debt:*** The SDU had an outstanding balance at December 31, 2016, of \$205,047 in bad checks and electronic fund transfers that had not been recovered.
6. ***Unidentified Receipts:*** The SDU had 262 unidentified receipts, totaling \$56,008, as of April 24, 2017. The APA was able to identify the correct recipient of the funds for three receipts tested that the SDU was unable to identify.
7. ***Misapplied Payments:*** The SDU paid out monies in error due to receipting the money under the incorrect non-custodial parent even though, in multiple cases, enough information was available to correctly apply the receipt.
8. ***Rejected Receipts:*** The SDU did not resolve receipts that were rejected by CHARTS in a timely manner.

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**SUMMARY OF COMMENTS**

(Concluded)

9. ***SDU Policies and Procedures:*** The SDU lacked updated policies and procedures regarding child support monies.
10. ***Information Technology (IT) Control Issues:*** The State Treasurer's Office did not perform periodic review to evaluate individuals with local administrator access to the KidCare servers to ensure their access was appropriate for their job responsibilities. The State Treasurer's Office also does not have a formal change management process with procedures to request, evaluate, develop, test, and implement changes to the applications and systems.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of DHHS or the SDU.

Draft copies of this report were furnished to DHHS and the SDU to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Where no response has been included, DHHS or the SDU declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.



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**COMMENTS AND RECOMMENDATIONS**

**1. DHHS Child Support Overpayments**

The Department of Health and Human Services (DHHS) is responsible for recovering overpayments of child support monies distributed. Such overpayments can occur for various reasons, including the following:

- Misapplying a support payment where the overpaid party received a payment due to another court-ordered payee.
- A party's receipt of Internal Revenue Service (IRS) tax intercept monies in error or subsequent action by the IRS to recover the intercepted monies that created the overpayment.
- A party's receipt of support payments that should have been assigned to the State of Nebraska. Per Title 466 NAC 11-002.01, "As a condition of receiving ADC, Medicaid, or foster care, a recipient of services must assign his/her right to any child support, medical support or spousal support payments to the state, to reimburse the state for assistance dollars expended."

As of December 31, 2016, there were over 1,200 individuals who owed DHHS \$1,280,590 for child support-related overpayments. Of those 1,200, DHHS has never received a payment on 743 overpayments, totaling \$513,699, and a number of these overpayments were activated 20 or more years ago. It appears that no overpayments have been written off due to being past the statute of limitations or otherwise uncollectable.

The following is a summary of the outstanding overpayments due as of December 31, 2016.

<b>Year</b>	<b># of Overpayments</b>	<b>Overpayment Amounts</b>
1986	1	\$963
1992	2	\$3,630
1993	4	\$4,264
1994	8	\$7,604
1995	4	\$4,794
1996	1	\$515
1997	26	\$21,949
1998	17	\$23,474
1999	18	\$13,887
2000	1	\$774
2001	23	\$16,688
2002	3	\$744
2003	28	\$34,477
2004	11	\$11,295
2005	34	\$23,611

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

<b>Year</b>	<b># of Overpayments</b>	<b>Overpayment Amounts</b>
2006	41	\$28,273
2007	161	\$114,634
2008	240	\$126,077
2009	112	\$106,259
2010	62	\$62,007
2011	71	\$70,842
2012	111	\$131,867
2013	121	\$147,736
2014	57	\$104,295
2015	21	\$36,759
2016	226	\$183,172
<b>Total</b>	<b>1,404</b>	<b>\$1,280,590</b>

The above information does not include additional potential recoveries that had not been worked by DHHS, which totaled a further \$700,000 at March 7, 2017.

The APA identified several issues regarding DHHS's working of such overpayments, including the following:

- A significant number of potential recovery cases have not been worked by DHHS.
- DHHS failed to follow its own policies and procedures, including considering income and resources of the overpaid party.
- Repayment amounts were not established.
- DHHS did not set up overpayments timely or properly in several cases.
- DHHS did not follow through with the enforcement of non repayments.
- Other issues noted.

The APA has provided below more detailed information regarding each of these issues.

***Potential Recoveries***

The CHARTS application automatically creates potential overpayments based on certain established criteria within the system. It is then the responsibility of DHHS staff to review the potential recovery and determine if an actual overpayment has occurred in order to activate the recovery. However, the APA noted that this process of working potential overpayments was not being done by DHHS in a timely manner. As of March 7, 2017, there were approximately 4,727 cases, totaling over \$700,000, that had not been worked. Several of these potential cases date back to 1999, or 18 years ago.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

The APA has included a summary of the potential recoveries below.

<b>Cases</b>	<b>Potential Recovery Amount</b>
INDIVIDUAL 1	\$46,779.72
INDIVIDUAL 2	\$12,077.32
INDIVIDUAL 3	\$11,780.14
INDIVIDUAL 4	\$10,749.07
INDIVIDUAL 5	\$8,051.50
INDIVIDUAL 6	\$6,640.45
INDIVIDUAL 7	\$6,549.80
INDIVIDUAL 8	\$6,465.45
INDIVIDUAL 9	\$6,073.25
INDIVIDUAL 10	\$5,960.33
INDIVIDUAL 11	\$5,899.98
INDIVIDUAL 12	\$5,033.11
INDIVIDUAL 13	\$4,334.73
INDIVIDUAL 14	\$4,181.69
INDIVIDUAL 15	\$4,168.85
INDIVIDUAL 16	\$3,909.04
INDIVIDUAL 17	\$3,799.86
INDIVIDUAL 18	\$3,648.00
INDIVIDUAL 19	\$3,410.90
INDIVIDUAL 20	\$3,276.00
INDIVIDUAL 21	\$3,120.00
INDIVIDUAL 22	\$3,115.40
INDIVIDUAL 23	\$3,096.90
INDIVIDUAL 24	\$2,973.60
INDIVIDUAL 25	\$2,755.18
Subtotal of Top 25	\$177,850.27
Total of Other 4,702 Individuals	\$522,350.28
<b>Total</b>	<b>\$700,200.55</b>

The APA examined 10 of these potential recovery cases and noted several issues, including the following:

- Nine out of 10 cases appeared to be legitimate overpayments that need to be activated to begin the recovery process.
- Two of the cases were identified as potential recoveries over two years ago.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

- For one case, the support payment was paid to the wrong party due to an error by the Child Support Enforcement (CSE) worker.
- For two cases, it appears that DHHS could have avoided all or a portion of the overpayment if it had followed its own guidelines.

Per Title 466 NAC 9-014.06, DHHS may delay the disbursement of a tax intercept based on a joint tax return for a maximum of six months. In one case, DHHS was aware the non-custodial parent filed a joint tax return in March 2015; however, it disbursed the tax intercept to the custodial parent in May 2015, two months after the collection rather than waiting the six months. The IRS recalled the tax intercept in July 2015 – and, because the custodial parent had already received the money, DHHS was responsible for collecting the money back from the custodial parent.

The APA also noted that a child support referral was not completed timely for a medical support case. Title 477-000-005 (Medicaid Eligibility Appendix) states that a referral is not completed for a child-only medical case. The referral is completed when the adult is eligible for Medicaid. The adult (custodial parent) was approved for Medicaid in October 2016; however, the referral was not completed until December 29, 2016. The custodial parent received medical support during November and December 2016, totaling \$156, which should have been assigned to the State at the time of the approval.

Good internal controls and sound business practice require that DHHS have adequate policies and procedures in place to ensure potential recoveries are worked timely. Without such policies and procedures, there is an increased risk that a legitimate overpayment will not be activated to start the collection process, resulting in a loss of funds. When applicable guidelines are not followed, moreover, there is an increased risk for an overpayment to occur, also resulting in a loss of funds.

We recommend DHHS establish policies and procedures to ensure potential recoveries are worked timely to start the collection process for legitimate overpayments. We also recommend DHHS follow established guidelines.

*DHHS Response: Based on preliminary figures of national rankings for federal fiscal year 2016, the Nebraska Child Support Enforcement program is 8th best in the country for percentage of collection on current support and 9th best in the country for collection on arrears cases, putting into a national context information provided in the Background section.*

*The Agency is developing procedures to assist staff in determining which cases should be pursued or closed. Child Support Enforcement is current on new cases and has devoted resources to the backlog.*

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(Continued)

**1. DHHS Child Support Overpayments (Continued)**

*Regarding the backlog, the dates cited represent the date of the overpayment and not necessarily the date the Agency became aware of it; for example, there are cases involving interstate activity where other states took several years to notify Nebraska Child Support Enforcement of an overpayment.*

***Policies and Procedures for Child Support Overpayments***

The APA tested 10 individuals who had received an overpayment as of December 31, 2016. In many cases, the clients had significant income and resources; however, they were paying only the minimum amount required by the repayment agreement negotiated with DHHS. In one case, an individual making over \$96,000 annually had received an overpayment totaling \$2,141. Nevertheless, that individual was required to pay only \$25 per month. At that rate, it would take over seven years to pay back the overpaid amount. In two other cases, the overpaid parties signed agreements to make payments below the minimum amount required.

According to Title 466 NAC 11-006.03 and the DHHS Child Support Overpayment/Recovery procedure manual, the repayment agreement should consider the overpaid party's income and resources, including the Aid to Dependent Children (ADC) grant, and the total amount of retained support. However, DHHS has not considered the income and resources for those parties who received overpayments.

The chart below summarizes the agreed upon repayment amount and the income of the individuals tested.

#	Date OP Activated	OP Amount	Repayment Amount	# of Years to Pay Off	Yearly Income at Time of Agreement	APA Notes
1	5/19/2016	\$2,141	\$25	7.1	\$96,100	The overpaid party had additional resources, including vehicles and a home.
2	5/13/2016	\$2,953	N/A <b>Note 2</b>	N/A <b>Note 2</b>	\$59,387	The overpaid party had additional resources, including vehicles and a trailer.
3	12/8/2015	\$1,442	N/A <b>Note 1</b>	N/A <b>Note 1</b>	\$51,439	The overpaid party made one \$400 payment in February 2016. The overpaid party had additional resources, including vehicles.
4	2/26/2016	\$1,033	\$25	3.4	\$50,000	The overpaid party signed the repayment agreement after the audit period, on April 26, 2017. The overpaid party began working as a State of Nebraska employee on March 27, 2017. The overpaid party had additional resources, including vehicles, a trailer, and a home.
5	2/1/2016	\$4,382	\$25	14.6	\$47,726	The overpaid party had additional resources, including vehicles and a home.

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**1. DHHS Child Support Overpayments (Continued)**

#	Date OP Activated	OP Amount	Repayment Amount	# of Years to Pay Off	Yearly Income at Time of Agreement	APA Notes
6	5/12/2016	\$534	\$25	1.8	\$36,228	The overpaid party had additional resources, including a home and vehicles. The overpaid party made a \$375.73 payment on March 13, 2017, and paid off the balance due.
7	9/28/2016	\$544	\$15	3.0	\$25,620	The overpaid party had additional resources, including a vehicle.
8	2/3/2004	\$2,713	\$5	45.2	\$20,515	The overpaid party is a State employee and, during the audit period, was making \$34,170.24 annually. The overpaid party had additional resources, including vehicles.
9	12/30/2008	\$1,352	\$25	4.5	\$6,966	The overpaid party began working as a State of Nebraska employee on August 26, 2013, and, during the audit period, was making \$35,916 annually. The overpaid party had additional resources, including vehicles and a mobile home.
10	12/14/2009	\$548	N/A <b>Note 1</b>	N/A <b>Note 1</b>	Unknown	The APA is unable to determine income from 2009; however, the overpaid party began working as a State of Nebraska employee in April 2017, making \$18,720 annually.

**Note 1:** Neither of the overpaid parties is currently making payments, nor have they signed a repayment agreement.

**Note 2:** The overpaid party did not sign a repayment agreement.

During other testing of overpayments, we also noted an additional nine cases in which DHHS did not review income and resources prior to establishing repayment agreements. In one case, the overpaid party owed \$17,599 and signed an agreement to make \$25 monthly payments. At this rate, it would take 58.7 years to repay the overpayment. During the audit period, the overpaid party worked for Lincoln Public Schools, making \$25,183 annually.

By failing to review income and resources when determining a repayment agreement, DHHS is not compliant with its own administrative rules and regulations, and there is an increased risk that the repayment amount established will not be reasonable.

We recommend DHHS comply with its own administrative rules and regulations by negotiating a reasonable repayment amount based on the income and resources of the overpaid party.

*DHHS Response: The Agency is developing procedures to ensure payment plans are reasonable. Child Support Enforcement will consult with DHHS Legal Services to determine whether the terms of the payment agreement can or should be modified to provide flexibility if there is significant change in the economic status of the overpaid party.*

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

***Repayment Amount***

Upon identifying that an overpayment has occurred, DHHS will attempt to negotiate a repayment agreement with the overpaid party. The standard repayment agreement amount is \$25, but DHHS will allow monthly repayment amounts as low as \$5. The \$25 amount is not documented in any DHHS procedure manuals or written policies. Rather, that standard amount was established several years ago to keep in line with ADC overpayment recovery amounts. An overpaid party can also agree to have money taken out of his or her current ADC payment or child support payment.

In addition to those in the chart above, the APA identified nine other overpayments during testing that would have taken a number of years to pay off based on the \$25 repayment amount. The following table illustrates the number of years to pay off the original overpayment amount, including adjustments, based on the minimum monthly payment, as required by the repayment agreement. It should also be noted that the table is based on the minimum repayment amount; however, the APA noted two individuals had additional recoupments of aid greater than their required minimum amounts.

#	Overpayment Amount	Agreement Repayment Amount	# of Years to Pay Off
1	\$17,598.84	\$25.00	58.7
2*	\$9,119.00	\$25.00	30.4
3*	\$3,067.00	\$25.00	10.2
4	\$2,660.48	\$25.00	8.9
5	\$2,260.43	\$25.00	7.5
6	\$1,758.82	\$25.00	5.9
7	\$884.40	\$25.00	2.9
8	\$814.11	\$25.00	2.7
9*	\$490.00	\$25.00	1.6

*\*No repayment agreement was signed, but three attempts were made to obtain a signed agreement. The final notification for the agreement had a monthly repayment amount of \$25.*

The APA has also included below an example of a repayment agreement that DHHS sent to an overpaid party, whose name has been redacted. As noted in this agreement, \$25 was minimum amount that DHHS required the overpaid party to pay back on a monthly basis.

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**1. DHHS Child Support Overpayments (Continued)**

<small>NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES ATTENTION: CHILD SUPPORT OVERPAYMENT UNIT P.O. BOX 94728 LINCOLN, NE 68509-4728</small>	
Overpaid Party's Name and Address	Overpaid Party's SSN and ARP ID
<b>CHILD SUPPORT OVERPAYMENT</b>	
Overpaid Party's SSN: ARP ID:	
<b><u>Repayment Agreement For A Child Support Overpayment</u></b>	
I agree to repay the Nebraska Department of Health and Human Services the amount of _____ which represents a child support overpayment.	
<b><u>Payment Information</u></b> <ul style="list-style-type: none"><li>• If you are receiving ADC, repayments will automatically be deducted from your monthly ADC payment or you may pay the overpayment amount in full.</li><li>• If you are not receiving ADC payments, then you may:<ul style="list-style-type: none"><li>○ Have all of your child support payments applied toward the repayment until the overpayment is paid in full; or</li><li>○ Make monthly payments in the amount of at least \$25.00 (first payment to be included with this signed agreement); or</li><li>○ Pay overpayment in full.</li></ul></li></ul>	
<b><u>Method of Payment</u></b> <ul style="list-style-type: none"><li><input type="checkbox"/> I am currently receiving ADC. I understand that my ADC payment will be automatically reduced by up to \$25 per month. Once I stop receiving ADC payments, it will be my responsibility to make a payment of at least \$25 each month by check or money order.</li><li><input type="checkbox"/> I will pay the overpayment amount in full. Payment must be paid within thirty (30) days of the date of this agreement.</li><li><input type="checkbox"/> Yes, I give my permission for the Department to take the repayment directly from my support payments. (Please note: The entire monthly support amount will be taken). If my support payments stop for any reason, it will be my responsibility to make a payment of at least \$25.00 each month until the overpayment amount is paid in full. (This option does not apply if you are currently receiving ADC).</li><li><input type="checkbox"/> Yes, I give my permission for the Department to take the repayment of \$ per month directly from my support payments. If my support payments stop for any reason, it will be my responsibility to make a payment of at least \$25 each month until the overpayment amount is paid in full. (This option does not apply if you are currently receiving ADC).</li><li><input type="checkbox"/> I will make monthly payments of at least \$25 (Payments must be made by the 15th of the month). Payments will begin, and will continue at \$ _____ until the entire overpayment balance is paid in full.</li></ul>	
Payments must be made by <u>check</u> or <u>money order</u> and must include the last four 4 digits of your Social Security Number.	
I understand that I am required to pay the debt in full, either in a lump sum payment or in regular monthly payments. I understand that the Child Support Overpayment Unit may apply any support collections to this overpayment which includes the application of future tax intercept collections.	
<b><u>Failure to Repay</u></b> <p>If I am receiving Public Assistance, I understand that my Social Service Worker will be notified that I am not cooperating with Child Support requirements if I miss any payment. I understand that my ADC payments, Child Care, SNAP benefits (Food Stamps) and Medicaid benefits may be sanctioned if I do not cooperate.</p> <p>I understand that this overpayment reference in this agreement is a debt that I owe to the State of Nebraska. I also understand that if this agreement is broken, appropriate collection action will be taken.</p> <p>I have read and understand this agreement. My signature indicates I agree with the terms of this agreement as indicated above.</p>	
Signature _____	Date _____
<small>DHHS Child Support Enforcement P.O. Box 94728 Lincoln, Nebraska 68509-4728 (402) 471-1400 OUTSIDE OF NEBRASKA 1 (800) 831-4573 INSIDE OF NEBRASKA TDD/TT (Telephone for the Hearing Impaired) (402) 471-9570 An Equal Opportunity/Affirmative Action Employer</small>	
CSE0064	

When the overpayment/recovery manual and written policies do not include guidelines regarding repayment amounts, there is an increased risk that such amounts will be unreasonable.

We recommend DHHS establish policies and procedures to document the repayment agreement process, including a minimum repayment agreement amount that is reasonable based on the length of time for repayment and the available income and resources of the overpaid party.



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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

*DHHS Response: The Agency is developing procedures to ensure payment plans are reasonable. Child Support Enforcement will consult with DHHS Legal Services to determine whether the terms of the payment agreement can or should be modified to provide flexibility if there is significant change in the economic status of the overpaid party.*

***Untimely and Improper Establishment of Overpayments***

Of 20 overpayments tested by the APA, 12 were not worked in a timely manner. These 12 overpayments were activated between 78 days and 3.2 years after the potential recovery was identified.

A good internal control plan requires that procedures be in place to ensure overpayments are activated in a timely manner – at least, within 60 days of identification. According to the Child Support Overpayment/Recovery procedure manual, supporting documentation for an identified potential overpayment should be given to the Child Support Overpayment/Recovery Unit within 30 calendar days. Once the supporting documentation is obtained, the overpayment unit should activate legitimate overpayments or close overpayments determined to be invalid.

Below is a summary of the 12 overpayments that were not activated timely.

<b>Date Potential Recovery Identified</b>	<b>Date Recovery Activated</b>	<b># of Days</b>
10/1/2005	12/30/2008	1,186
2/19/2015	8/16/2016	544
7/5/2011	11/28/2012	512
6/30/2015	2/26/2016	241
4/28/2015	12/8/2015	224
8/21/2015	3/8/2016	200
8/14/2003	2/3/2004	173
9/8/2015	2/1/2016	146
6/2/2016	10/18/2016	138
9/30/2015	2/1/2016	124
2/16/2016	5/12/2016	86
7/12/2016	9/28/2016	78

We also noted one overpayment that was not properly established. A tax intercept of \$1,254 was disbursed to the custodial party on March 24, 2016. On April 11, 2016, the IRS recalled \$814 of the amount disbursed. DHHS activated the overpayment on April 18, 2016, for \$1,254 even though only \$814 was recalled. DHHS did not complete the adjustment timely, failing to correct the overpayment amount until August 1, 2016 – 105 days after the initial overpayment was activated.

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(Continued)

**1. DHHS Child Support Overpayments (Continued)**

Without adequate controls and resources to ensure the timely activation of potential recoveries, the chance of collecting overpayments will be greatly reduced.

We recommend DHHS implement procedures and devote adequate resources to investigating and establishing overpayments in a timely manner.

*DHHS Response: Child Support Enforcement is current on new cases and is working on the backlog. The Agency is developing procedures to assist staff in determining which cases should be pursued or closed.*

***Enforcement of Overpayment Recovery***

Overpayments more than 30 years old still have outstanding balances due to the State. Nevertheless, the enforcement regulations and payment agreements were not followed in four of five cases tested where the overpaid party failed to repay the assigned support.

- For two overpayments activated in October 2013 and February 2016, totaling \$11,379, the only enforcement action taken was to send monthly accounting statements. No payments have been received for these overpayments.
- For one \$490 overpayment, activated in August 2016, the overpaid party failed to sign the repayment agreement in September 2016, and no enforcement action was taken during the audit period except for sending billing statements. The overpaid party became eligible for an ADC grant after the audit period, and \$50 was recaptured from the ADC grants beginning in March 2017.
- One overpayment of \$17,599 was activated in November 2012. The overpaid party made a total of \$150 in payments towards the overpayment, the last payment being made in September 2013. Monthly accounting statements were sent through April 2015 but were ended due to the lack of a verified address. No enforcement action has been taken since.

Good internal control requires DHHS to follow the enforcement regulations and payment agreements. Title 466 NAC 11-006.06 states the following:

*The Department will consider other enforcement action(s) if the overpaid party refuses or fails to repay any assigned support. These actions include but are not limited to:*

1. *The Department will apply future support payments to offset the amount of the overpayment when the overpaid party:*
  - a. *Appeal is not upheld;*
  - b. *Does not enter into a payment agreement; or*
  - c. *Fails to make payments in accordance with the terms of the signed payment agreement; or*

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(Continued)

**1. DHHS Child Support Overpayments (Continued)**

2. *Contact with the County/Authorized Attorney to request a judgment against the overpaid party; or*
3. *Contact with a private attorney or collection agency to assist with the collection of the assigned support.*

We noted also that the amounts captured from ADC or child support payments were not correct for one overpayment. Chapter 7, “Enforcement Actions,” of the DHHS Child Support Overpayment/Recovery procedure manual states the following:

*If the OPP fails to make regular monthly payments as per the signed repayment agreement or the default terms, the Overpayment/Recovery Unit will begin the process of recapturing the overpayment . . . by capturing their child support and/or public assistance (ADC/TANF) payments and applying them toward the overpayment amount.*

The overpaid party did not sign a repayment agreement; therefore, the recovery was set to the default terms. The final notification letter sent to the overpaid party states that, if no response is made regarding repayment, and the party is receiving ADC, then Child Support will set up the repayment amount of \$25 to be deducted from the monthly ADC grant. The overpaid party did not become eligible for an ADC grant until December 2016, and the first recoupment could have been made in January 2017, after the audit period. This recoupment was missed. The overpaid party was not eligible for the ADC grant in February 2017 and became eligible again in March 2017. A recoupment was set up beginning with the March 2017 ADC grant; however, the recoupment amount was set at 10% of the ADC grant or \$50 per month, which did not agree to the final notification letter repayment amount of \$25.

Per the Child Support Enforcement staff, no other enforcement procedures are implemented when an individual does not make payments on the recovery. The overpaid party continues to receive monthly billing statements as long as the recovery is active and there is a valid address. The regulations and the overpayment/recovery manual do not give direction on other enforcement actions to be taken if the overpaid party is not receiving an ADC grant, is no longer receiving child support, or when the overpayment was caused for other reasons than assigned support incorrectly allocated to the overpaid party.

We noted an additional three overpayments – two caused by tax intercepts being recalled by the IRS and one caused by a misapplied payment – for which the only enforcement action on non-payment was to send monthly billing statements.

Per Title 466 NAC 11-006.04, Child Support staff must refer a case to the DHHS Economic & Family Support division for non-cooperation when the overpaid party refuses to sign a repayment agreement or fails to comply with the terms of such agreement. When an overpaid party receiving public assistance is referred for non-cooperation, the social service worker will initiate action for a sanction, and the overpaid party may lose benefits until he or she complies with the terms of the agreement.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Continued)**

For one case, the overpaid party was Medicaid eligible in October 2016 and made no payments during the audit period. The overpaid party was not referred to the Economic & Family Support division for non-cooperation in October 2016. A payment was made in March 2017 after the audit period.

Inadequate controls and procedures regarding enforcement actions result in fewer collections of Federal and State funds, which could be used to reduce taxpayer costs for child support enforcement.

We recommend DHHS improve collection efforts. DHHS should implement controls and procedures to ensure regulations and policies are followed and documented. Additionally, DHHS should review its enforcement policies and include collection procedures for all overpayments regardless of cause.

*DHHS Response: The Agency does not agree that no other enforcement procedures are implemented beyond monthly billing statements. Pursuant to Title 466 NAC 11-006.06, the Agency has set 1,120 cases for global recapture, meaning future child support payments are offset and applied toward the recovery balance. Recovery payments collected in calendar year 2016 were \$152,703, of which \$85,727 was the result of global recapture. Recovery payments collected through May for calendar year 2017 were \$78,863, of which \$46,627 were the result of global recapture. The Agency is developing policies to refer overpayment cases to county or authorized attorneys when the individual has sufficient resources and the process is cost effective.*

***Other Issues Noted***

The APA noted the following additional issues.

***1. ADC Overpayments***

When a custodial parent receives an ADC grant, the child support received is assigned to the State. Otherwise, an overpayment occurs. An overpaid party currently receiving an ADC grant may agree to have an amount deducted from his or her ADC payment. In order for this recoupment to work, Child Support staff will have Nebraska Family On-line Client User System (NFOCUS) staff set up a receivable within NFOCUS as well. This causes the overpayment to be recorded on two separate State systems, as NFOCUS is a computer application used by DHHS to automate benefit/service delivery and case management.

NFOCUS applies any ADC recoupments to the receivable but is not informed of payments made by the overpaid party directly to child support. Child support staff must inform NFOCUS staff of any payments made directly to child support.

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(Continued)

**1. DHHS Child Support Overpayments (Continued)**

For two overpayments tested, the balance in CHARTS did not agree to the accounts receivable balance in NFOCUS. A good internal control plan requires procedures to ensure that recovery balances in CHARTS agree to the accounts receivable balances in NFOCUS.

- For one overpayment activated in March 2016, the overpaid party was making monthly cash payments and also had amounts deducted from the ADC grant to be applied to the child support overpayment. The CHARTS overpayment recorded both the cash payments and the ADC recoupments; however, the NFOCUS receivable included only the ADC recoupment amounts and did not decrease the balance by the cash payments. Therefore, the balance recorded in CHARTS, as of December 7, 2016, was \$225 lower than the NFOCUS balance.
- For the second overpayment, an accounts receivable was established in June 2014 within NFOCUS to recapture payments from the ADC grant. Recoupments from the ADC grant were made through September 2014. Being no longer eligible for ADC after this time, the overpaid party began making cash payments. Child support staff periodically notified NFOCUS staff of the cash payments being made, and the receivable balance on NFOCUS was decreased to agree to the CHARTS overpayment balance. The last adjustment completed on NFOCUS of the balance was done on February 1, 2016, and there was a remaining balance of \$530. The overpaid party made a cash payment of \$530 on February 17, 2016, to pay off the balance, but this amount was never communicated to NFOCUS staff; therefore, NFOCUS continues to show a balance due. It should also be noted that, on May 2, 2017, after the audit period, a monthly account statement was sent to the overpaid party from NFOCUS showing a balance due of \$530 for an ADC overpayment.

**2. *Tax Intercepts***

For one case tested, a tax refund intercept based on a joint tax return was disbursed to the custodial parent on March 24, 2016, only 22 days after it was receipted. DHHS was notified on March 22, 2016 that the non-custodial parent's spouse had completed an injured spouse form and had received her portion of the Federal tax refund. However, DHHS had not received notification of the adjustment made to the tax refund by the IRS and they released the entire refund. If DHHS had followed their regulation regarding tax intercepts and waited the maximum of six months to disburse the funds on September 2, 2016, there would have been no overpayment as the IRS recalled a portion of the tax refund on April 11, 2016.

Tax intercept receipts are not being consistently disbursed based on regulations. According to Title 466 NAC 9-014.06, "If the collection is based on a joint tax return, the state may delay disbursement until notification that the unobligated spouse's proper share of the refund has been paid or for a maximum of six months."

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. DHHS Child Support Overpayments (Concluded)**

**3. *Monthly Accounting Statements***

We noted one overpaid party did not receive proper notification of the balance due. The overpaid party had two overpayments, and the monthly accounting statements noted the balance due of only one overpayment. Good internal control requires procedures to ensure that monthly accounting statements sent to the overpaid party record the full balance due of all overpayments.

When receivable balances in the CHARTS and NFOCUS systems do not agree, there is an increased risk of erroneous billing statements being sent. When distributions are not made in accordance with rules and regulations, there is an increased risk of loss of funds. When proper notification of overpayment balances is not given, there is an increased risk the full amount due will not be collected.

We recommend DHHS ensure receivables reflected on two systems are accurate on both, and collection efforts are not duplicated. We also recommend DHHS implement procedures to ensure all support received is paid out in accordance with applicable regulations. Finally, we recommend DHHS ensure monthly accounting statements reflect the accurate balance due for all overpayments.

*DHHS Response: The Agency will review the current procedures and processes for deducting ADC payments to satisfy an overpayment and ensure adequate account balance reconciliation between CHARTS and NFOCUS.*

*The Agency will provide additional training to staff on the IRS early release process.*

**2. Purge Order Control Issues**

The Department of Health and Human Services (DHHS) is responsible for ensuring support order payments are distributed in accordance with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Exceptions to the PRWORA include purge orders with special allocation instructions, as specified by a Court order. A purge order is filed when a non-custodial parent (NCP) is delinquent on his or her support order and requires the non-custodial parent to make payments towards support arrearages in order to avoid jail for contempt of a support order.

As of December 31, 2016, there were 4,065 purge orders active within CHARTS. During our testing of purge orders, the APA noted multiple control issues, as described below.

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(Continued)

**2. Purge Order Control Issues (Continued)**

***Incorrect Case Allocation***

Several instances were identified of a payment not being allocated appropriately or multiple payments being allocated inconsistently based on the Federal and State regulations and DHHS' internal policy.

According to a June 19, 2002, memo sent by DHHS, "[T]he distribution of child support payments follows the hierarchy that is set out in Neb. Rev. Stat. § 42-358.02."

Neb. Rev. Stat. § 42-358.02(4) (Reissue 2016) provides the following sequence for support orders on delinquent payments:

*Support order payments shall be credited in the following manner:*

*(a) First, to the payments due for the current month in the following order: Child support payments, then spousal support payments, and lastly medical support payments;*

*(b) Second, toward any payment arrearage owing, in the following order: Child support payment arrearage, then spousal support payment arrearage, and lastly medical support payment arrearage; and*

*(c) Third, toward the interest on any payment arrearage, in the following order: Child support payment arrearage interest, then spousal support payment arrearage interest, and lastly medical support payment arrearage interest.*

Additionally, Neb. Rev. Stat. § 42-369(5) (Reissue 2016) states the following:

*Unless otherwise specified by the court, an equal and proportionate share of any child support awarded shall be presumed to be payable on behalf of each child subject to the order, decree, or judgment for purposes of an assignment under section 43-512.07.*

(Emphasis added.) While courts have authority under State statute to determine the proportion of child support awarded, allocation of multiple support orders through income withholding is addressed in the Code of Federal Regulations. Title 45 CFR § 303.100(a)(5) (October 1, 2016) states, "The State must establish procedures for allocation of support among families . . . ."

Referencing 45 CFR 303.100(a)(5), the previously noted DHHS memo explains, "Federal regulations are very specific that payments received through income withholding are to be allocated among all families." (Emphasis added.)

Furthermore, Title 466 NAC 9-008.04F(1)(a) states the following:

*If there is not sufficient income available within the limits set by the federal Consumer Credit Protection Act to satisfy all current support obligations, then the amount that is available to be withheld must be distributed across all orders on a pro rata basis[.]*

A good internal control plan also requires procedures to be in place to ensure the applicable statutes, regulations, and court orders are followed in a consistent manner.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Purge Order Control Issues (Continued)**

The APA tested five purge orders that were opened during calendar year 2016. For four of these five purge orders, the APA noted payments that were not allocated in accordance with regulations and the DHHS's internal policy, as described in the following table.

		Allocation		
NCP	Amt Paid in 2016	Case 1 (Purge Order)	Case 2/ Judgment 2	APA Notes
NCP 1	\$2,575.95	\$2,534.57	\$41.38	NCP made 18 child support payments during 2016. Of these 18 payments, 9 payments were income withholdings that were allocated to the Case 1 (purge order) rather than in accordance to the PRWORA as required by Federal regulations. The purge order states, "The State of Nebraska is ordered to allocate all money paid on this case first to this purge plan. Any withholding entered in this case is vacated." DHHS interprets this directive as all payments should be allocated towards the purge order first and not according to PRWORA. The income withholding was turned off in CHARTS; however, payments were still received from the employer through income withholding. In addition, the APA noted May 2016 payments exceeded the purge order amount, and therefore, this excess should have been allocated to Case 2.
NCP 2	\$2,139.00	\$1,829.00	\$310.00	The NCP made 19 child support payments during 2016. None was made through income withholding. In March 2016, the NCP made a payment, which was for a missed payment in February and the current payment for March. However, a portion of this payment was paid to Case 2, which did not follow the purge order. A similar situation occurred in September for a missed payment in April. Per discussion with DHHS, they do not account for missed purge amounts when allocating payments. Therefore, if the NCP paid more than the monthly purge amount in order to make-up a missed purge payment, the amount over the monthly purge amount is allocated per PRWORA. DHHS does not have a written policy on how to allocate payments made for missed purge amounts.
NCP 3	\$2,319.00	\$2,000.00	\$319.00	This NCP had one case with two judgments: a child support order and a medical support order. The purge plan pertained only to the child support order. During 2016, the NCP made 12 child support payments. Of these, none was made through income withholding. For the months of March, June, July, September, and December 2016, DHHS did not follow the purge plan and allocated payments based on the current judgments. In addition, the APA noted a payment was made in May 2016 that appears to have been for April, which was allocated based on current judgments rather than in accordance with the purge order.



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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Purge Order Control Issues (Continued)**

		Allocation		
NCP	Amt Paid in 2016	Case 1 (Purge Order)	Case 2/ Judgment 2	APA Notes
NCP 4	\$2,466.17	\$2,064.70	\$401.47	In March 2016, the NCP made a payment that was for a missed payment in February and the current payment for March. This payment was incorrectly allocated based on PRWORA rather than in accordance with the purge order. In addition, the APA noted that payments in June and August 2016 were allocated based on PRWORA, instead of being based on the purge order. In this situation, a note was made in CHARTS stating that all payments, regardless of pay source, should be allocated in accordance with PRWORA instead of following the purge order.

The five cases selected for testing do not represent a statistically valid sample; therefore, the APA did not project the errors noted. The purge orders tested above were exceptions to the PRWORA, and ordered child support payments to be credited first to the purge order. The following is an example of a purge plan that orders the child support payments to be allocated to the purge plan first.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Purge Order Control Issues (Continued)**

**THIS MATTER COMES** on for hearing on the Order to Show Cause dated May 21, 2015. The State is represented by [REDACTED]. [REDACTED] (hereinafter referred to as Payor) is represented by [REDACTED]. Payor admits to being in willful contempt of the order of this court requiring Payor to pay child support and the court so finds. Court finds Payor was ordered to pay child support in the amount of \$223.00 per month, is currently in arrears, and has had the ability to pay the support so ordered. Payor is found to be in willful contempt of court.

**IT IS THEREFORE ORDERED** that Payor is committed to the Lancaster County jail for 30 days. Execution of this sentence is suspended as long as Payor pays to the State Distribution Unit \$ 223 a month on current child support and \$ 50 on arrearage, commencing March 1, 2016. If Payor complies with this payment schedule for 18 months, Payor will be purged of contempt, and the foregoing sentence shall be deemed null and void. However, if Payor fails to comply, commitment shall issue and Payor will be imprisoned pursuant to such commitment. If commitment is issued as a result of noncompliance, Payor may be released and purged of contempt upon payment of the lesser of \$2,000 or all arrearages then due and owing.

The State of Nebraska is ordered to allocate all money paid on this case first to this purge plan. Any withholding entered in this case is vacated.

The table below illustrates the effects on payment allocation when a purge order is filed that directs all money paid to be credited first to the purge plan.

	Purge Plan				Case 2		
NCP	Amt Owed	Amt Allocated	Balance Due		Amt Owed	Amt Allocated	Balance Due
NCP 1	\$2,730.00	\$2,534.57	\$195.43		\$2,350.00	\$41.38	\$2,308.62
NCP 2	\$2,616.00	\$1,829.00	\$787.00		\$2,376.00	\$310.00	\$2,066.00

When a purge plan similar to the one shown above is filed, any money received on the case with the purge order is allocated first to that purge order and case, which results in the other cases/judgments receiving less than what would have been received when allocated in accordance with PRWORA.

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(Continued)

**2. Purge Order Control Issues (Continued)**

***Misapplied Purge Order Payments and Data Entry Error***

In addition to the testing noted above, the APA received information regarding a specific non-custodial parent and whether the payments were applied correctly to his account. This individual had delinquent child support payments that resulted in a purge order being filed. In this purge order, the non-custodial parent was to make payments of \$285, of which \$50 was to be applied to his delinquent balance, and the remaining \$235 was to be applied to his current child support balance.

The APA noted the non-custodial parent made monthly cash payments from April 2015 to September 2015. Of those months, payments received for June, July, and August 2015, did not follow the purge order and were applied incorrectly, as shown below.

Month	Receipt Date per CHARTS	Receipt Amount	Amount Applied to Non-Sufficient Funds	Amount Applied to Current Support
April 2015	4/1/2015	\$285.00	\$50.00	\$235.00
May 2015	5/8/2015	\$285.00	\$50.00	\$235.00
June 2015	6/5/2015	\$285.00	\$0.00	\$285.00
July 2015	7/24/2015	\$285.00	\$0.00	\$285.00
August 2015	8/25/2015	\$287.00	\$0.00	\$287.00
September 2015	10/15/2015	\$285.00	\$50.00	\$235.00

Furthermore, the non-custodial parent made a payment of \$285 on September 29, 2015, for the September payment, which would have an effective date of September 30, 2015. However, when the State Disbursement Unit entered this receipt into the KidCare system, an incorrect date of October 15, 2015, was entered rather than the correct effective date. As a result, it appeared that the non-custodial parent did not make a payment for September 2015, and a bench warrant was incorrectly issued for his arrest.

Section 42-369(5) recognizes the authority of the courts to determine the proportionate share of any child support awarded. Furthermore, a good internal control plan requires procedures to be in place to ensure: 1) support order payments are applied correctly in accordance to the applicable statutes, regulations, and court orders; and 2) the correct effective date is entered in the KidCare system.

When support order payments are not allocated consistently in accordance with applicable Federal and State statutes, regulations, and court orders, there is an increased risk of loss and/or misuse of child support funds. There is also an increased risk that a non-custodial parent may not receive the proper credit to his or her court orders, possibly resulting in further court action for that individual.

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(Continued)

**2. Purge Order Control Issues (Concluded)**

We recommend DHHS and the State Disbursement Unit work together to implement procedures to ensure the following:

- Support order payments are allocated to the appropriate court cases in a consistent manner and in accordance to the applicable statutes, regulations, and court orders;
- Support orders payments are applied to the correct balance, as required by the applicable statutes, regulations, and court orders; and
- The correct effective dates for receipts are entered into the KidCare system.

*DHHS Response:*

*Incorrect Case Allocation*

*The Agency does not agree with two of the four findings noted in the report.*

*NCP 1 example: The Agency does not agree with this portion of the finding. The targeted purge order vacated the income withholding and ordered all money paid be applied first to this purge plan. The Agency terminated the income withholding, however additional income withholding payments were later received and allocated according to the targeted order. Therefore, the Agency followed the terms and conditions of the order.*

*NCP 2 example: The Agency does not agree with this portion of the finding. If a purge payment is missed and the payor intends to make multiple payments the following month, the agency cannot utilize these payments to make up for the missed purge payments. Payments made during a month are for the month received. Once the purge amount is met for a specific month, any excess amounts are applied per PRWORA.*

*NCP 3 example: The Agency agrees with this portion of the finding.*

*NCP 4 example: The Agency agrees with this portion of the finding and will initiate contact with the appropriate attorneys reminding them of the appropriate language necessary for the Agency to allocate purge payments across all orders.*

**3. Lack of CHARTS to State Accounting System Reconciliation**

The Department of Health and Human Services (DHHS) does not perform a reconciliation between the activity entered into CHARTS and the amounts entered into the State's accounting system, EnterpriseOne. DHHS provided the APA with two reports that were pulled from CHARTS and contained the undistributed amounts at December 31, 2016. One of those reports contained the undistributed balances that were reported to the Federal Government as part of the Child Support Enforcement form 34A report, while the other CHARTS report, "Held Balances for Child Support Funds," contained additional items not included on the required form.

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**3. Lack of CHARTS to State Accounting System Reconciliation (Concluded)**

The following is a comparison of the fund balance to the two DHHS reports at December 31, 2016.

Description	Amount
Fund Balance per State Accounting System	\$2,734,887.00
Form 34A Report	\$2,946,261.00
Held Balances for Child Support Funds	\$3,059,976.55

Some of the variance would be due to the timing of when the receipts and disbursements of child support monies actually occurred; however, DHHS should have procedures in place to reconcile these amounts on at least a monthly basis.

Upon the APA's testing of receipts entered in CHARTS, as compared to the State Accounting System, the APA noted the following issues:

- A non-custodial parent, who had delinquent child support, won \$600 from the lottery in May 2016. As a result, the State confiscated the winnings to cover the delinquent child support. An entry was made into the State Accounting System; however, the receipt of these funds was not entered into CHARTS until the APA inquired about the receipt in early May 2017, resulting in the non-custodial parent receiving credit for the receipt, and the recipient receiving the funds almost an entire year later.
- Another confiscated lottery winning, totaling \$201.81, was incorrectly entered into EnterpriseOne as \$210.81, resulting in a difference of \$9.

Good internal control and sound accounting practices require periodic reconciliations between receipts entered by DHHS into both CHARTS and the State's accounting system. Such reconciliations should include a review of the two undistributed balance reports to ensure that any variances or discrepancies are researched and corrected in a timely manner.

When such reconciliations are not performed, there is an increased risk that variances or discrepancies will go undiscovered, resulting in the possible misuse or loss of funds. Furthermore, a lack of reconciliations could result in the intended recipients not receiving the appropriate child support funds and the non-custodial parents not receiving the proper credit for payment, possibly causing further court action for the non-custodial parent.

We recommend DHHS implement procedures to ensure reconciliations between CHARTS receipts/reports and EnterpriseOne are completed on a periodic basis, and any variances or discrepancies are researched and corrected in a timely manner.

*DHHS Response: The Agency will develop and implement a daily reconciliation between CHARTS and EnterpriseOne.*

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**4. State Ward Child Support Account**

The Department of Health and Human Services (DHHS) controlled a State ward child support bank account in order to collect excess child support payments received on behalf of minor children who were wards of the State. The excess funds collected and maintained could then be used to offset other costs of care incurred by the State of Nebraska or others. This excess balance of State ward child support monies had grown to almost \$1.4 million at December 31, 2016. The APA did not include this accumulated balance in the schedule; however, certain activity would have been recorded as additions and reductions.

Over the past 20 plus years, the excess balance had continued to accumulate, as DHHS lacked procedures to apply or pay out these monies to the appropriate parties, including the State, in a timely manner. Over \$1 million of this excess balance was attributable to the Advanced Institutional Management Software (AIMS) system, which has not been used by DHHS since 1997.

DHHS staff has been working on this excess balance in order to determine where the money should go. During the examination of these excess State ward child support monies, the APA noted the following:

***Lack of Formal Written Procedures***

In July 2015, DHHS created an Excel spreadsheet to monitor the excess balances at that time and to track any future excess funds to be received. A tab within the spreadsheet contained a description of the process to be completed by DHHS; however, that process does not appear to have gone through any formal approval process and may be subject to change at any time.

A good internal control plan requires formal written policies and procedures to govern the activity of these excess State ward child support monies to ensure adequate monitoring and follow up of the account balances.

***Inadequate Monitoring and Compliance with Unclaimed Property***

The excess child support monies currently contain balances from two systems: NFOCUS (post-1997 activity) and AIMS (pre-1997 activity). The AIMS system was used through July 1, 1997, when NFOCUS was implemented. The balances maintained have not been adequately reviewed or monitored by DHHS; therefore, the account contains balances that have not been applied or paid out to the appropriate individuals in a timely manner.

The following chart summarizes the balances held in the account from the AIMS system, containing those individuals who were once wards of the State:

Description	Number of Wards	Balances
Wards Over 21 Years of Age	1,908	\$862,616.30
Wards Between 18-21 Years of Age	314	\$138,486.07
Wards Under 18 Years of Age	239	\$70,994.97

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**4. State Ward Child Support Account** (Continued)

Description	Number of Wards	Balances
Unknown (Date of Birth not provided)	323	\$40,936.56
<b>AIMS Total</b>	<b>2,784</b>	<b>\$1,113,033.90</b>

Note: Ages calculated as of 5/1/2017.

As AIMS contains information from before July 1, 1997, the number of individuals under 18 years of age should be minimal; therefore, the APA questions the accuracy of some of the date of births provided by the system. Regardless, for the majority of wards, the balances maintained in this account were well past the age of majority and should have been previously applied to the cost of care or remitted to the State Treasurer as unclaimed property.

The following chart summarizes the balances held from the NFOCUS system:

Description	Number of Wards	Balances
Wards Over 21 Years of Age	163	\$111,359.04
Wards Between 18-21 Years of Age	225	\$76,966.43
Wards Under 18 Years of Age	650	\$89,043.26
<b>NFOCUS Total</b>	<b>1,038</b>	<b>\$277,368.73</b>

Note: Ages calculated as of 5/1/2017.

There were approximately 69 wards included on both the NFOCUS and AIMS list; however, they appear to have separate balances maintained in both systems.

From the information provided, it appears that 2,071 ward accounts, totaling \$973,975.34, were, at a minimum, over four years past the age of majority and should have been paid out, applied to claim balances, or sent to the State Treasurer as unclaimed property. The ages of the individuals included in this category range from 21 to 87 years old.

Neb. Rev. Stat. § 69-1307.01 (Reissue 2009), which is found in the Uniform Disposition of Unclaimed Property Act, presumes intangible personal property to be abandoned when it is held by a “court, public corporation, public authority, or public officer of this state, or a political subdivision thereof” and is unclaimed for more than three years. Neb. Rev. Stat. § 69-1310(d) (Reissue 2009) requires any such abandoned property, as of June 30, to be reported and remitted to the State Treasurer before November 1 of each year.

Good internal control requires DHHS to have procedures in place that provide an ongoing, detailed review of all trust accounts to ensure compliance with applicable regulations and statutes.

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**4. State Ward Child Support Account (Continued)**

***Bank Reconciliations***

DHHS did not perform an adequate reconciliation of the NFOCUS and AIMS systems to the outside bank account, as summarized below.

- A listing of NFOCUS could not be provided by DHHS. When the reconciliation was completed, documentation was provided to show all excess accounts at December 31, 2016, totaling \$282,763.94; however, when requesting the individual wards who accounted for this balance, DHHS was able to provide support for only \$277,368.73. When questioned regarding this variance, DHHS explained that the balance of \$277,368.73 appears to be accurate, resulting in an unknown balance of \$5,395.21 maintained in the account.
- On June 3, 2016, \$1,298,169.25 was transferred for collateral purposes to a bank account monitored by the Nebraska State Treasurer. Since the transfer, the account has earned \$13,675.86 in interest; however, this balance has not been considered or adjusted into ward accounts. In fact, DHHS did not appear to be aware that the account was earning interest at all. Prior to June 2016, this separate bank account had an accumulated balance of \$1,367,867, none of which was earning interest.

A good internal control plan and sound business practices require procedures to ensure performance of a timely reconciliation between amounts maintained in the bank account and system records. Without such procedures, there is an increased risk for misuse or loss of funds.

***Authorized Signers***

One employee continued to have access to the bank account after termination. This employee was included as an authorized signer on the account until February 17, 2017; however, she was terminated on July 8, 2016, or 224 days prior to her removal from the account.

A good internal control plan and sound business practices require authorized signature cards for bank accounts containing public funds to be updated in a timely manner after a designated signer terminates employment with the State to ensure that only current employees are authorized to access the bank account. When signature cards are not updated in a timely manner, there is an increased risk for the loss or misuse of State funds.

***Other Issues***

During testing of reimbursement checks paid out of the account, the APA noted the following:

- For one ward tested, the amount reimbursed to DHHS for expenses exceeded the claim amount, resulting in an overpayment of \$42.
- For seven wards tested, excess child support received was not recorded into the individual trust accounts for 23 days after receipt.



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**4. State Ward Child Support Account (Continued)**

Good internal control requires DHHS to implement procedures to ensure that all trust activity is properly recorded, disbursed, and documented.

We recommend DHHS implement procedures to ensure the following:

- Written, approved policies and procedures are implemented;
- Proper bank reconciliation is completed, including distribution of interest earned on the account;
- Terminated employees are removed from accessing the bank account in a timely manner;
- Trust accounts are properly reviewed and monitored to permit compliance with the Unclaimed Property Act;
- Current balances maintained in the account are reviewed, and proper action is taken to resolve those balances; and
- All trust activity is properly recorded, disbursed, and documented.

*DHHS Response:*

*Lack of Formal Written Procedures*

*Prior to the initiation of this attestation, the Agency began work to reconcile this state ward account. Under Federal and State law, the assigned child support was applied to the cost of foster care and the remainder was allowed to be retained by the Agency for future foster care-related needs. The Agency has identified the proper payee for all funds in this account, including the state as additional expenditures were incurred while children were in DHHS custody.*

*During this process, the Agency developed and implemented procedures to prevent the accumulation of these funds moving forward. All child support funds received are now applied against current State expenditures for foster care or returned to the proper individuals on a timely basis. The Agency will ensure this process is properly documented.*

*Inadequate Monitoring and Compliance with Unclaimed Property*

*As previously mentioned, the Agency has developed and implemented adequate monitoring procedures and will ensure that these procedures are documented. Additionally, these procedures will adhere to the Uniform Disposition of Unclaimed Property Act.*

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**4. State Ward Child Support Account (Concluded)**

Bank Reconciliations

*Bank reconciliations are occurring on a monthly basis for this account and any discrepancies noted in the audit are being resolved as the Agency finalizes the payee for all excess funds. This fund was moved from an external bank account into the State Accounting system per instruction by the State Treasurer's Office. At that time, the decision was made to move it to an interest earning account; the methodology used to pay the interest to the appropriate parties was developed at that time.*

Authorized Signers

*The Agency has developed and implemented policies and procedures to update all account information on external bank accounts authorized by DAS and the State Treasurer. Additional communication and training will be provided to all account custodians to ensure compliance with current policies.*

**5. Inadequate Procedures Over Bad Debt**

The State Disbursement Unit (SDU) of the Nebraska State Treasurer is responsible for the collection of any child support payments that are later returned from the bank for a multitude of reasons, including nonsufficient funds, closed accounts, or stop payment orders. As of December 31, 2016, the SDU had an outstanding balance of \$205,047 in bad checks and electronic fund transfers to be collected.

However, during our review of the SDU's procedures over these amounts, the APA noted the following:

- For 9 of 15 receipts tested, appropriate action was not taken to recover the uncollected funds and to ensure that they were being followed up on periodically. Some of these accounts had not been pursued in over a year, as summarized below.

Return Date	Bad Debt Remaining	Last Follow Up by SDU	Days Since Last Activity*
6/7/2013	\$336.53	6/14/2016	200
8/11/2014	\$750.00	4/14/2016	261
1/5/2015	\$1,000.00	7/8/2015	542
3/26/2015	\$4,078.12	10/27/2015	431
9/16/2015	\$220.85	8/04/2016	149
11/25/2015	\$1,600.00	6/15/2016	199
2/12/2016	\$2,180.00	9/6/2016	116
3/17/2016	\$400.00	9/26/2016	96
8/8/2016	\$200.00	8/12/2016	141

\*Calculated as of 12/31/2016; however, no further activity was noted on these accounts through fieldwork in April 2017.

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**5. Inadequate Procedures Over Bad Debt (Concluded)**

- For 1 of 15 receipts tested, the collection status was not properly recorded in the records maintained by the SDU. The money was determined to be uncollectible from the payor, so the SDU then switched to pursuing collection from the payee but did not update its records to reflect the change.

Neb. Rev. Stat. § 81-8,297 (Reissue 2014) states, in relevant part, the following:

*The State Claims Board shall have the power and authority to receive, investigate, and otherwise carry out its duties with regard to . . . (4) all requests on behalf of any department, board, or commission of the state for waiver or cancellation of money or charges when necessary for fiscal or accounting procedures . . . .*

According to Title 466 NAC 11-005.07, moreover, the SDU “must be responsible for insufficient funds checks received or electronic payments not accepted.”

A good internal control plan requires that appropriate action be taken to recover bad debts, as well as the periodic review of such uncollected amounts. A good internal control plan also requires making timely changes to the collection status in KidCare, the computer application utilized by the SDU to track child support payment processing, to ensure the outstanding item is properly reflected.

Without ensuring policies and procedures over the funding and writing off of bad debt are followed, there is an increased risk of items not being reviewed in a timely manner and ultimately not collected. A similar finding was noted in our prior attestation examination.

We recommend the SDU ensure the collection of bad debts is reviewed periodically and pursued as appropriate. This would include making timely changes to the collection status in KidCare and the records maintained by the SDU to ensure the item status is properly reflected.

*State Treasurer Response: Banking and Collections are currently working together on ways to balance collections manager and payment register to ensure that statuses are properly reflected. The collections department is working hard to reduce the number of active collections, making it possible to timely follow up on all active accounts. As shown by the numbers below, significant improvements have been already made in this area, and we will continue to work on reducing these numbers. DHHS has hindered our ability to collect on some of these items. The Treasurer has sent a letter to the DHHS Director requesting access to certain data that will facilitate collection of bad debt.*

*Bad debt (bad checks and electronic fund transfers to be collected) as of Dec 2010: \$395,526  
Bad debt (bad checks and electronic fund transfers to be collected) as of Dec 31, 2016: \$205,047  
Number of uncollected accounts as of April 2013 (when tracking of this number began): 1569  
Number of uncollected accounts as of May 31, 2017: 583*

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**6. Unidentified Receipts**

CHARTS has the capability to generate an Unidentified/Unallocated Receipt Worklist, which lists the collections receipted into KidCare and CHARTS that have not been identified to the proper case due to insufficient information on the original payment. As of April 24, 2017, there were 262 unidentified receipts, totaling \$56,008, and the State Disbursement Unit is currently working to identify the receipts.

We reviewed the Unidentified/Unallocated Receipt Worklist obtained from CHARTS for April 24, 2017, and noted the following:

- For 3 of the 10 items tested, no action was taken by the SDU to follow up on the unidentified receipt; however, during testing, the APA was able to identify the appropriate recipient of the funds. Two of the receipts, totaling \$175, have now been applied to the correct payor. The remaining receipt, totaling \$23, was identified as owed to a different state, and the SDU is working on returning the funds to the payor.
- For 3 of 10 items tested, totaling \$822, adequate action was not taken by the SDU to follow up on the unidentified receipt. One payment was remitted by an employer and was paid by mistake. That money has been recovered from the custodial parent; however, it has not yet been returned to the employer. The other two payments came from individuals who do not owe support in Nebraska; however, the funds have not yet been refunded.
- For 4 of 10 items tested, totaling \$848, the SDU did not follow up on the unidentified receipt in a timely manner. The untimely follow-up ranged from 13 to 637 days after receipt. Per the SDU Program Director, sometimes these items may have been followed-up on, but the resulting action may have not been recorded.

Processing Date	Receipt Amount	Research Conducted	Days After Processed
9/12/2014	\$500.00	6/10/2016	637
1/23/2015	\$300.00	11/20/2015	301
5/26/2015	\$23.08	2/14/2017	630
6/30/2016	\$25.00	7/13/2016	13

Neb. Rev. Stat. § 43-3342.01(1) (Reissue 2016) provides, in relevant part, the following:

*The responsibility of the State Disbursement Unit shall include the following:*

\* \* \* \*

*(b) Accurate identification of payments;*

*(c) Prompt disbursement of the obligee's share of any payments;*

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**6. Unidentified Receipts (Concluded)**

In 2017, the SDU updated their policies and procedures regarding unidentified items and when receipts should be identified, as summarized below.

*Resolve collection exceptions . . . within one hundred and twenty (120) calendar days of receipt. If exception is not resolved within one hundred and twenty (120) calendar days, the research analyst shall refund the collection to original source utilizing the refund request form when appropriate and by submitting an adjustment request through CHARTS. At the discretion of DHHS, the one hundred and twenty (120) calendar day time frame may be extended.*

The exceptions to these policies and procedures include when the payor of an item is unable to be identified, or the payor is unable to be contacted.

A good internal control plan requires unidentified receipts to be reviewed and researched periodically. When receipts are not identified in a timely manner, the disbursement to the custodial parent could be delayed, which could result in noncompliance with State statute. A similar finding was noted in our prior attestation examination.

We recommend the SDU use the Unidentified/Unallocated Receipt Worklist from CHARTS to ensure unidentified receipts are being identified in a timely manner. We further recommend the SDU record all actions when determining the correct allocation of payments.

*State Treasurer Response: We agree with this recommendation. DHHS has policies in place that blocked some refunds we have attempted to send to employers. The Treasurer has written to the DHHS Director requesting that these policies be changed. We look forward to working with DHHS on developing policies that will be beneficial for all parties involved. HHS has also blocked access to some areas of CHARTS. This has hindered our ability to quickly identify receipts. The Treasurer has sent a request to DHHS Director to have this access restored. We are also looking into utilizing skip tracing tools such as Lexis-Nexis or First Search to help refund/identify items more quickly.*

*The 120 calendar day policy was not in place in 2016, although it is mentioned in the attestation report. The policy was created in 2017, and we have updated procedures to comply with this updated policy.*

**7. Misapplied Payments**

The U.S. Department of Health and Human Services Office of Child Support Enforcement PIQ (Policy Interpretation Question)-02-01, "Recoupment of Child Support Overpayment," defines an overpayment as a misdirected payment or an erroneous payment based on a bad check or the reversal of an electronic payment due to insufficient funds. Child support payments may be intercepted if permission is obtained from the custodial parent. However, permission may be assumed if the custodial parent does not respond to multiple contact attempts made by the State Disbursement Unit (SDU).

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**7. Misapplied Payments (Continued)**

In reviewing misapplied payments for the attestation period, we noted the following for the 10 payments tested:

- For one item tested, totaling \$515, the SDU did not adequately attempt to recoup the money paid out in error. The SDU has attempted to contact the individual three times, in accordance with its policies; however, no monies have been recaptured, and no additional collection efforts have been made since April 2016.
- For six items tested, adequate information was available upon receipt of the support; therefore, the funds should have been applied to the appropriate case. One payment came in the form of a personal check for the correct payor, but the SDU did not verify that the name on the check agreed to the payee to whom the funds were applied. Payments were made by three different employers where the amounts applied were to employees who were no longer receiving a wage withholding from that employer. Two payments came from employers for multiple employees and included documentation verifying how much of the check was associated with each employee, but the funds were applied to only one employee.

Prior to October 2005, misapplied payments were funded by the Nebraska Department of Health and Human Services (DHHS). No funds had been returned to DHHS as reimbursement for the misapplied payments, nor has it been determined how much should be returned to DHHS. This finding was noted in our prior attestation examination. If the SDU does not reimburse DHHS for all funds transferred to the SDU for misapplied payments, there is an increased risk of these old balances not being resolved.

During testing, we noted that, if the custodial parent does not respond and the SDU must intercept future child support payments in order to recover misapplied receipts, the CHARTS system does not allow partial recovery. For example, if an individual owes \$75 back to the SDU, but his or her child support payments are larger than this balance, CHARTS will not refund \$75 back to the SDU and the remaining balance on to the custodial parent. Only payments less than the amount owed will be diverted back to refund the money to the State.

A good internal control plan requires not only written policies and procedures to pursue the collection and recovery of monies owed to the SDU but also consistent adherence to such policies and procedures.

Without adequate controls to ensure that child support funds are applied to the appropriate non-custodial payment and paid out to the correct custodial parent, there is an increased risk of loss or misuse of State funds. Without being able to intercept child support payments to recover a payment to an incorrect payee, moreover, there is an increased risk of the entire balance not being repaid.

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**7. Misapplied Payments (Concluded)**

We recommend the SDU work with DHHS to determine the amount of SDU misapplied payments that are owed to DHHS and to repay them in a timely manner. We also recommend the SDU work to ensure payments are applied to the correct payor based on the information available. We further recommend the SDU work with DHHS to intercept child support payments of any amount to repay a payment to an incorrect payee.

*State Treasurer Response: The SDU will work with DHHS to implement this recommendation.*

**8. Rejected Receipts**

We reviewed the list of rejected receipts for two months (June 2016 and December 2016) obtained from the State Disbursement Unit (SDU), selecting five rejects from each list. Rejected receipts are those that did not meet specific criteria within CHARTS for a proper receipt and may have been rejected for missing key or invalid information. For 1 of the 10 items tested, the rejected receipt was not resolved in a timely manner. This \$413 receipt was rejected because the effective date was over 60 days prior to the processing date; however, the receipt was not retransmitted for eight business days after the original notification of rejection. Per discussion with the State Treasurer, they were following debt preventative measures to ensure this check cleared the bank.

A good internal control plan requires rejected receipts to be reviewed and corrected in a timely manner.

Neb. Rev. Stat. § 43-3342.01(1) (Reissue 2016) provides, in relevant part, the following:

*The responsibility of the State Disbursement Unit shall include the following:*

\* \* \* \*

*(b) Accurate identification of payments;*

*(c) Prompt disbursement of the obligee's share of any payments;*

When rejected receipts are not researched and applied correctly in a timely manner, there is an increased risk for the loss or misuse of State funds.

We recommend the SDU research all rejected receipts in a timely manner and work to ensure the receipts are applied correctly.

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**9. SDU Policies and Procedures**

The State Disbursement Unit (SDU) has developed written policies and procedures for the collection and disbursement of child support payments. However, these guidelines have not been updated in some time and, in certain areas, have become outdated. The areas requiring updates include, but are not limited to, the following:

- The funding and writing off of bad debt;
- The identification and correction of misapplied receipts;
- The correction of rejected receipts; and
- The identification and proper allocation of unidentified receipts.

A good internal control plan requires policies and procedures to be updated periodically to ensure that the money is received and disbursed properly by the SDU.

Without policies and procedures established and updated for all types of receipts, there is an increased risk of items not being taken care of in an effective and timely manner. This finding was noted in our prior attestation examination.

We recommend the SDU update its written policies and procedures for all types of receipts, including bad debt, misapplied receipts, rejected receipts, and unidentified receipts. We further recommend the Nebraska Child Support Payment Center periodically review their written policies and procedures to ensure updates are made as needed.

*State Treasurer Response: Some policies and procedures have already been updated, others will soon be updated.*

**10. Information Technology (IT) Control Issues**

During testing of the State Treasurer's procedures over information technology and the KidCare application, the APA noted the issues described below.

***KidCare Application User Access***

The State Treasurer's Office contracts with an external firm to provide information security, including the review of security event logs, in lieu of hiring additional State IT staff. During testing of individuals with unrestricted access to the KidCare servers – including both State employees and the information security firm personnel – the APA noted that an independent, periodic review of these individuals was not completed. Furthermore, the APA noted that the State Disbursement Unit (SDU) Assistant Director had Administrator access to the KidCare application, which provides a level of access that is unnecessary to complete her job responsibilities.



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**10. Information Technology (IT) Control Issues (Continued)**

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, "User Account Management," states, in relevant part, the following:

*Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . .*

*Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.*

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.7.3, "Privileged Accounts Management," states, in relevant part, the following:

*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 . . . .*

Furthermore, NITC Standards and Guidelines, Information Security 8-101, Section 4.3.2.3, "Separation of Duties," provides the following:

*To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical.*

*Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, audit trails and management supervision must be implemented. At a minimum the audit of security must remain independent and segregated from the security function.*

(Emphasis added.) A good internal control plan requires an independent review of privileged account users to be completed periodically to ensure that there is no unauthorized access to the information resources. Furthermore, a good internal control plan and sound accounting practice include restricting access to information resources based upon job responsibilities to reduce the risk of unauthorized system access and to ensure access is commensurate with user job duties.

When an independent, periodic review of access is not performed, and users are granted inappropriate system access, there is an increased risk that significant information resources may be modified inappropriately, disclosed without authorization, and/or made unavailable when needed. Furthermore, an individual may gain unauthorized access to the KidCare servers without the State Treasurer's knowledge, resulting in an increased risk of loss, theft, or misuse of funds.

We recommend the State Treasurer's Office perform a periodic review to evaluate all individuals, including information security firm employees, with local administrator access to the KidCare servers to ensure their access is appropriate for their job responsibilities.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS

**COMMENTS AND RECOMMENDATIONS**

(Concluded)

**10. Information Technology (IT) Control Issues (Concluded)**

*State Treasurer Response: We have reviewed access to the KidCare servers and the Assistant Director's admin access has been removed. These permissions will be reviewed monthly and logged.*

***Change Management***

While the State Treasurer's Office follows an informal change management process, the APA noted that the Office did not have a written change management policy outlining the standardized procedures to request, evaluate, develop, test, and implement changes to the applications and systems.

During testing of changes made to the KidCare application, the APA noted that two changes made were implemented prior to the IT Manager's approval, and one change did not note such approval.

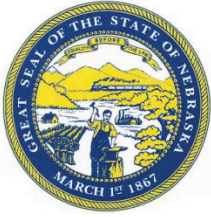
NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.9.11, "Change Control Management," states the following:

*To protect information systems and services, a formal change management system must be established to enforce strict controls over changes to all information processing facilities, systems, software, or procedures. Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained. These change control procedures will apply to agency business applications as well as systems software used to maintain operating systems, network software, hardware changes, etc.*

Additionally, good internal control requires a formal methodology to be in place to guide the development of applications and systems. Changes to existing applications and systems should undergo documented initial request, evaluation, development, authorization, and implementation procedures to ensure that they have met expectations and minimize user disruption. Controls should also ensure that changes are implemented after the appropriate steps, and approvals have been completed.

We recommend the State Treasurer's Office develop and implement a standardized change management process for all application and system changes. The process should include documented change requests, approvals, testing procedures, and approval to implement the change into production after the appropriate steps and approvals are completed.

*State Treasurer Response: We will develop a formal change management process.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
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### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Health and Human Services Child Support Enforcement  
Nebraska State Treasurer State Disbursement Unit  
Lincoln, Nebraska

We have examined the accompanying Schedule of Child Support Trust Activity (Funds 72640 and 72650) of the Nebraska Department of Health and Human Services Child Support Enforcement (Department) and the Nebraska State Treasurer State Disbursement Unit (SDU) for the period January 1, 2016, through December 31, 2016. The Department and SDU's management is responsible for the Schedule of Child Support Trust Activity (Funds 72640 and 72650) based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Child Support Trust Activity (Funds 72640 and 72650) based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Child Support Trust Activity (Funds 72640 and 72650) is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Child Support Trust Activity (Funds 72640 and 72650). The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Child Support Trust Activity (Funds 72640 and 72650), whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Child Support Trust Activity (Funds 72640 and 72650) for the period January 1, 2016, through December 31, 2016, is based on the accounting system and procedures prescribed by the State of Nebraska's Director of the Department of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Child Support Trust Activity (Funds 72640 and 72650) is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Child Support Trust Activity (Funds 72640 and 72650) or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Department or SDU, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'C. J. Janssen', with a long, sweeping horizontal line extending to the right.

Charlie Janssen  
Auditor of Public Accounts  
Lincoln, Nebraska

June 23, 2017

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
**SCHEDULE OF CHILD SUPPORT TRUST ACTIVITY (FUNDS 72640 AND 72650)**  
For the Period January 1, 2016, through December 31, 2016

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
ASSETS				
Cash	\$ -	\$ 330,852,731	\$ 333,018,340	\$ -
Receivables and Other	-	11,179,540	11,208,942	-
TOTAL ASSETS	<u>\$ 4,929,898</u>	<u>\$ 342,032,271</u>	<u>\$ 344,227,282</u>	<u>\$ 2,734,887</u>
 TOTAL LIABILITIES	 <u>\$ 4,929,898</u>	 <u>\$ 337,035,804</u>	 <u>\$ 339,230,815</u>	 <u>\$ 2,734,887</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
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**NOTES TO THE SCHEDULE**

For the Period January 1, 2016, through December 31, 2016

**1. Criteria**

The accounting policies of the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the DAS include the following:

*The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Child Support Trust Activity (Funds 72640 and 72650) was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. Agency funds are used to report resources held in a purely custodial capacity. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As transactions occur, the agencies record the accounts receivable and related additions in the general ledger. State Accounting does not require the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit to record all accounts receivable in EnterpriseOne; as such, the schedule may not include all accounts receivable. In a like manner, reductions and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those reductions and related accounts payable posted in the general ledger as of December 31, 2016, and not yet paid as of that date. The amount recorded on the schedule, as of December 31, 2016, **does not** include amounts received before December 31, 2016, which had not been posted to the general ledger as of December 31, 2016.

Liabilities are recorded in accounts entitled Deposits and Pre-deposits for the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

The fund types established by the State that are used by the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit are:

**70000 – Distributive Funds** – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

- Fund 72640 is used to record the receipt and disbursement of child support monies processed through the Nebraska State Treasurer State Disbursement Unit.
- Fund 72650 is used to record the receipt and disbursement of child support monies processed through the Nebraska Department of Health and Human Services Child Support Enforcement including IRS and State tax intercepts or amounts targeted for a specific purpose by court order.

Other significant accounting classifications and procedures established by State Accounting and used by the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit include:

**Assets** – Child support resources held by a government that have monetary value. Assets include cash and receivable accounts. Accounts receivable are recorded as an increase to fund balance on the schedule. Cash accounts are also included in fund balance and are reported as recorded in the general ledger.

**Liabilities** – Legal obligations arising out of child support transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable and other liability transactions are recorded as a decrease to fund balance. The liability accounts are reported as recorded in the general ledger.

**2. Reporting Entity**

The Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit are both part of State agencies established under and governed by the laws of the State of Nebraska. As such, the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit is exempt from State and Federal income taxes. The schedule includes funds 72640 and 72650 of the Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit included in the general ledger.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS

**NOTES TO THE SCHEDULE**

(Concluded)

**2.     Reporting Entity** (Concluded)

The Nebraska Department of Health and Human Services Child Support Enforcement and the Nebraska State Treasurer State Disbursement Unit are included within State agencies of the primary government for the State of Nebraska.

**3.     General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**4.     Trust Activity**

The related entries for child support trust activity in funds 72640 and 72650 are recorded within the asset and liability accounts of the State accounting system. Due to debit and credit accounting transactions, certain entries are posted to either an asset or liability account only. Therefore, a returned check or recovery of check accounting entry may be increasing the additions and deductions of the asset accounts without having an effect on the liability accounts, or a pre-deposit entry may be increasing the additions and deductions of liability accounts without having an effect on the asset accounts. As a result, the total accumulated additions and reductions within the total assets and total liabilities do not equal. However, the net change in total asset and liability balances, and the beginning and ending balances net to \$0.

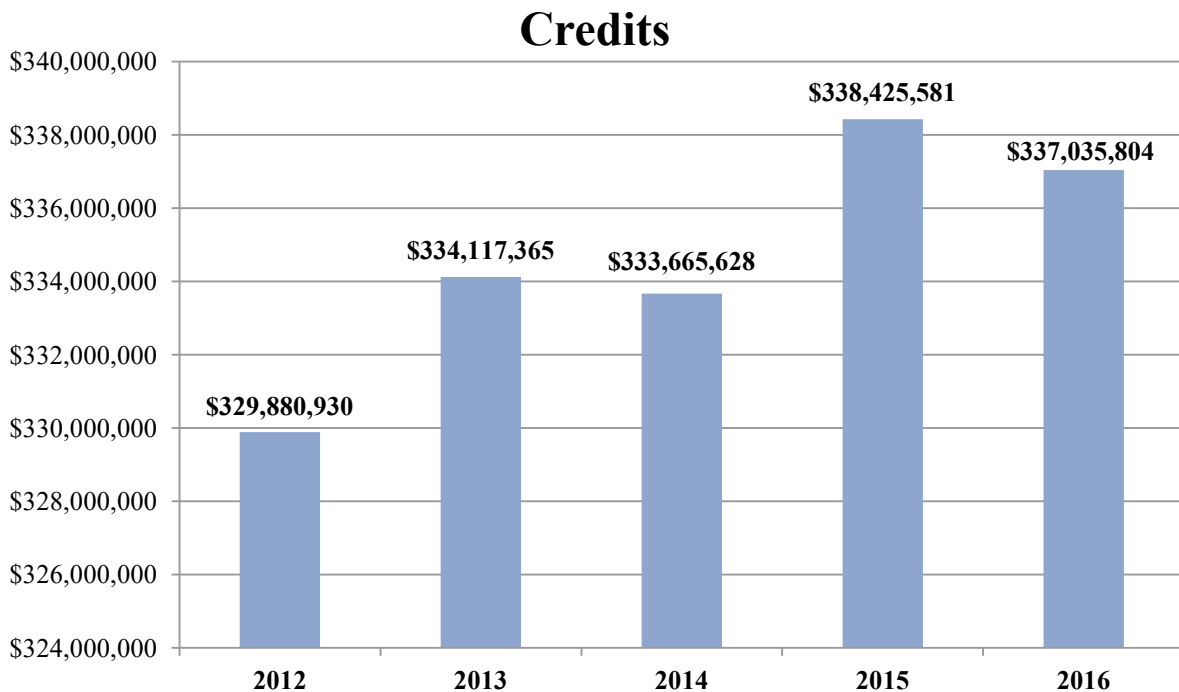
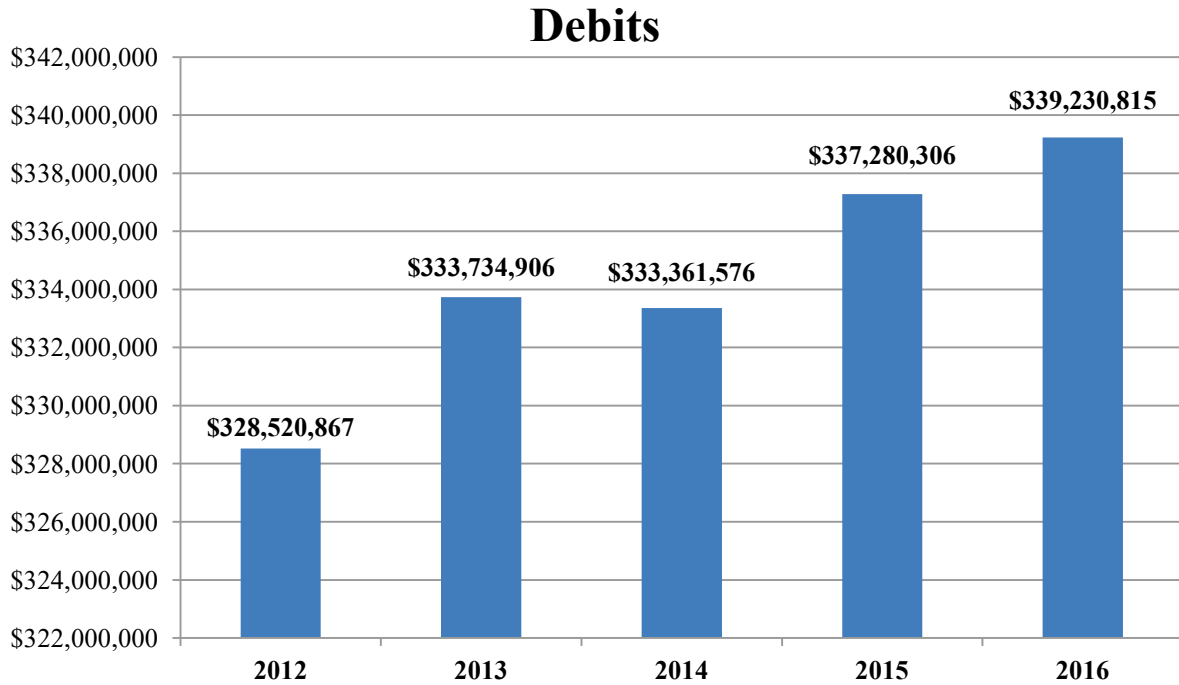


NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
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STATE DISBURSEMENT UNIT AGENCY FUNDS

**SUPPLEMENTARY INFORMATION**

Our examination was conducted for the purpose of forming an opinion on the Schedule of Child Support Trust Activity (Funds 72640 and 72650). Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Child Support Trust Activity (Funds 72640 and 72650), and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CHILD SUPPORT ENFORCEMENT AND THE NEBRASKA STATE TREASURER  
STATE DISBURSEMENT UNIT AGENCY FUNDS  
**FIVE YEAR SUMMARY OF DEBITS AND CREDITS TO CHILD SUPPORT TRUST**  
**LIABILITY ACCOUNTS (FUNDS 72640 AND 72650)**  
For the Calendar Years Ended December 31, 2012, through December 31, 2016



Source: Information obtained from the State of Nebraska Accounting System (EnterpriseOne).