



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2019

Bo Botelho, Interim Chief Executive Officer  
Nebraska Department of Health and Human Services  
301 Centennial Mall South, 3<sup>rd</sup> Floor  
Lincoln, Nebraska 68509

Dear Mr. Botelho:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated January 4, 2019. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination

of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comments Number 1 (Material Adjustments), Number 2 (Overpayment Mailbox), Number 3 (NFOCUS User Access), and Number 4 (Program 354 – Child Welfare Aid) to be significant deficiencies.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated September 27, 2018.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. The Department declined to respond.

The following are our comments and recommendations for the year ended June 30, 2018.

## **1. Material Adjustments**

The Department of Administrative Services, State Accounting Division (DAS), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report accurate amounts for financial reporting.

The Department indicated in its response to the Summary Schedule of Prior Audit Finding that its corrective action plan was complete regarding errors in accrual information. However, throughout testing, we noted that the following items were not accurately reported to DAS:

- The Medicaid drug rebate receivable was understated by \$22,549,624, mainly due to the Department not calculating an estimated amount for the managed care organizations point-of-service plan for the last quarter of the fiscal year. Included in this amount was interest due for \$67,158, which the Department excluded from the calculation. The APA's proposed adjustment was made by DAS to correct the error.
- The Department had a holding fund used to deposit refunds for overpayments made to providers, clients, etc., while staff researched the proper accounts receivable to apply the payments. At June 30, 2018, the fund balance was classified as a due to vendor for financial statement presentation, which was not accurate. The balance should have reduced outstanding receivables or been classified as due to/from other funds. The Department did not have adequate policies and procedures to research the amounts in the holding fund at year-end to ensure the balances were proper for financial statement presentation. For the balance at June 30, 2018, we noted the following:

- The holding account had \$19,646,806 in Medicaid receipts. Of this amount, \$18,256,843 was a receipt from Magellan for a contractual agreement related to excess profits. The amount had been deposited in April 2018, and the Department was still working to apply the receipt to the proper funding sources at year-end. The remaining balance was refunds for third-party liability, program integrity, and estate recovery programs. The APA's proposed adjustment was made by DAS to correct the error.
- The holding account included \$3,077,659 from refunds for drug rebates. If the Department had researched the balance timely, the refunds would have been applied to the proper outstanding accounts receivable and reduced the initial expenditure for the prescription costs. The APA's proposed adjustment was made by DAS to correct the error.
- The Medicaid refund receivable was overstated by \$8,660,414, as an amount related to a fraud case deemed to be uncollectable was improperly included. The APA's proposed adjustment was made by DAS to correct the error.
- The Nebraska Family Online Client User System (NFOCUS) receivable was understated by \$5,420,387, due to several errors in the calculation for the allowance. The APA's proposed adjustment was made by DAS to correct the error.
- The intergovernmental receivable amount due from the Federal government was overstated by \$2,710,339, as several incorrect figures from Federal reports were used when calculating the balance. Furthermore, the intergovernmental payable amount due to the Federal government was overstated by \$5,229,153, due to expenditure adjustments not included when calculating the balance. The Department made a correcting entry in the State's accounting system to expenditures in March 2018; however, the correction was not included in the Federal reports until September 2018. The APA's proposed adjustment was not made by DAS to correct the error.
- The third-party liability receivable was overstated by \$4,256,729, due to the Department using an inconsistent and unreasonable annual estimate instead of a 45-day estimate for the accrual. The APA's proposed adjustment was not made by DAS to correct the error.
- The patient and county billings receivable was overstated by \$3,248,416, due to various errors. The patient and county billings are receivables based on services provided by the Beatrice State Development Center as well as the Department's three operated Regional Centers in Lincoln, Hastings, and Norfolk. For 10 of 25 account balances tested, the balances were inaccurately reported as receivables, or the Department was not actively following up on outstanding accounts timely. The APA's proposed adjustment was made by DAS to correct the error.
- The state ward education payable was understated by \$461,924, due to several expenditures excluded from the calculation.
- The Department did not report a payable to the Nebraska Families Collaborative, for child welfare expenditures, at year-end. This caused payables to be understated by \$330,898.
- The indirect and direct medical education payable was understated by \$240,972, due to the Department using estimated amounts for the short-term payable instead of actual amounts known at the time of the calculation.
- Four of eight program integrity receivable balances tested were not calculated properly. An additional incorrect calculation was also identified; in total, the receivable was understated by \$59,105. The Department also did not calculate an allowance for doubtful accounts.

- The NFOCUS payable was overstated by \$14,932, due to one payable being excluded from the calculation and for one of four calculations tested, the State and Federal funding splits were not updated from the previous fiscal year.

A similar finding was noted during the previous audit.

Title 2 CFR part 200.511(a) (January 1, 2018) requires the auditee to prepare a summary schedule of prior audit findings. Per subsection (b)(2) of that same regulation, “When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding’s recurrence and planned corrective action, and any partial corrective action taken.”

A good internal control plan requires agencies to have procedures for the reporting of accurate and complete financial information to DAS.

Without such procedures, there is a greater risk that material misstatements may occur and remain undetected.

We recommend the Department implement procedures to ensure information is complete and accurate. The Department should also have adequate procedures in place for a secondary review to verify the information is supported, reasonable, and accurate.

## **2. Overpayment Mailbox**

On November 30, 2011, the Department set up the Overpayment Mailbox for eligibility overpayments. Previously, Social Service Workers (SSWs) would set up overpayments and underpayments in NFOCUS as they discovered them. Eligibility overpayments were referred via email to the Mailbox to be worked by an Overpayment (OP) Unit team. In April of 2017, the Department converted the Mailbox to a database with an online submission form. Referrals from the Mailbox were transitioned to the new database.

During the previous audit, we reviewed the new database and noted that 10,614 Supplemental Nutrition Assistance Program (SNAP) overpayment referrals were closed without the OP team working them. According to the Department, the referrals were not pursuable because they were over 12 months old. For the fiscal year ended June 30, 2018, an additional 322 SNAP overpayment referrals were closed without the OP team working them, due to the Department’s determination that they were not pursuable.

A similar finding was noted during the previous three audits.

Per Title 475 Nebraska Administrative Code (NAC) Chapter 4-007.01A, “Overpayments must be established against households who were issued benefits they were not entitled to receive due to an AE [Administrative Error] for no more than 12 months before the month of initial discovery.” However, this State regulation appears to conflict with Title 7 Code of Federal Regulations (CFR) § 273.18(c)(1), which requires the Department to “calculate a claim back to at least twelve months prior to when you became aware of the overpayment.” (Emphasis added.) Currently, the Department’s definition of the date of discovery is the date the Department confirms an overpayment occurred. This definition allows referrals to be unworked for an extended period of time and allows the Department to create an overpayment at any point in time, effectively circumventing regulations requiring referrals to be established as receivables within specific time frames.

Even if the Federal regulations did not exist, good internal control would suggest the original intent of the State regulation was not to allow the Department to sit on overpayment referrals until they are over 12 months old, and then close them.

We also performed testing of nine overpayment receivables and noted that one account with an overpayment to the Aid to Dependent Children program had no demand letter included in NFOCUS in accordance with the Department's collection policy and State regulations. During testing of the NFOCUS receivable accrual, we noted there were no policies and procedures requiring a supervisory review of changes to client accounts. Department accounting clerks were able to suspend an account for various reasons, such as unknown address, client's appeal of an overpayment, bankruptcy, etc., but there was no supervisor review of the account status changes to ensure it was proper.

Per the Department's regulations at Title 468 NAC Chapter 3-008.07B:

*The agency must take all reasonable steps necessary to promptly correct overpayments regardless of cause. The worker must record in the case record all steps taken to recoup any overpayments.*

*The worker must first send a demand letter, giving the client the choice of reimbursing all or part of the overpayment or having future assistance reduced.*

Good internal controls require policies and procedures to ensure all steps taken to correct overpayments are kept on file for subsequent inspection, and changes to client accounts are reviewed and approved by a supervisor.

Without adequate controls and resources to work suspected overpayments, timeframes set by Federal regulations may not be met. Overpayments not worked timely have a lesser chance of collection. Overpayments not worked at all will have no chance of collection. There is less incentive for the Department to pursue collection on SNAP AE overpayments, as the Federal government requires all of those collections to be returned in their entirety to the Federal government. However, those overpayments increase the taxpayer burden at the Federal level, and the Department should actively pursue those receivables. Considering the number of referrals not worked, there are potentially millions of dollars in overpayments that the Department has not attempted to recover.

We recommend the Department:

- Implement procedures and devote adequate resources to investigating and establishing NFOCUS receivables.
- Define the date of discovery as the date the regular SSW first becomes aware of a potential overpayment.
- Work with the Federal agency to resolve the potential SNAP overpayments and comply with Federal regulations.
- Implement procedures to reduce the number of SNAP AE overpayments.
- Establish policies and procedures for a supervisory review of changes to client account statuses.

### **3. External NFOCUS User Access**

The NFOCUS application is used to automate benefit/service delivery and case management for several Department programs. NFOCUS processes include client/case intake, eligibility determination, case management, service authorization, benefit payments, claims processing and payments, provider contract management, interfacing with other State and Federal organizations, and management and government reporting.

There are seven Child Advocacy Centers (Centers) across the State of Nebraska providing Child and Family Services (CFS) for the Department. Each county in the State is assigned to a Center. The Center is to provide a child-focused location for conducting forensic interviews and medical evaluations for alleged child victims of abuse and neglect.

A Department review of case files accessed by the Centers from March 22, 2018, through April 22, 2018, revealed users accessed master case files in NFOCUS for which they had no business purpose to access. In total, 584 cases were identified with inappropriate access by the Centers. The inappropriate access included the following:

- Records with no active CFS case or the CFS case was closed.
- Cases not related to CFS.
- Active court cases with no recent intakes.
- Cases outside of the Centers' jurisdiction.
- Non-court cases.
- Cases where the Center employee was previously employed.
- Adult Protection Service cases.
- Intakes that were placement concerns.

Users at the Centers had broad access to cases on the NFOCUS system not restricted by case type (e.g., CFS, Medicaid, SNAP, etc.) or geographical area. Other non-State entities the Department works with access NFOCUS data through a separate portal, which contains only specific records necessary for the entities' review. Full access to NFOCUS is not granted to the majority of non-State entities.

Furthermore, during our testing of external NFOCUS user access, we noted 2 of 77 external users tested from 6 external entities no longer required access due to a role change or termination of employment. A similar finding was noted during the previous audit.

Nebraska Information Technology Commission (NITC) Standards & Guidelines, Information Security Policy 8-701 (July 2017), Auditing and compliance; responsibilities; review, provides the following, in relevant part, the following:

*An agency review to ensure compliance with this policy and applicable NIST SP 800-53 security guidelines must be conducted at least annually.*

National Institute of Standards and Technology (NIST) Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states, in part, the following:

*The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

Furthermore, a good internal control plan requires a periodic review of user access and requires terminated users' access to be disabled in a timely manner.

When external users have access to review all cases in NFOCUS, there is an increased risk that users will access confidential information restricted by State and Federal laws. Furthermore, when terminated users retain access to the system, there is an increased risk for inappropriate access to data, which may violate Federal laws.

We recommend the Department remove external entity access to the NFOCUS application and instead provide limited access to data through the separate portal, so only necessary data required by the entity can be accessed. We also recommend the Department establish processes with external entities to ensure they report timely all instances of roll changes or terminations affecting user access requirements. Lastly, we recommend the Department periodically inform external entities of the importance of notifying the Department to remove employee access to information resources upon termination.

**4. Program 354 – Child Welfare Aid**

The APA performed an attestation examination of the Nebraska Department of Health and Human Services Program 354 – Child Welfare Aid for the period July 1, 2016, through December 31, 2017. The following issues were determined to be significant to the audit of the State of Nebraska CAFR for fiscal year ended June 30, 2018.

**NFOCUS Claim Overpayments and Errors**

Department expenditures for the period July 1, 2016, through December 31, 2017, included \$177,724,786 in aid assistance paid through NFOCUS with 416,067 lines of claims. NFOCUS is a subsystem of the State’s accounting system used to record detailed information regarding clients and services. Claims paid through NFOCUS are for the regional service areas managed by the Department, which do not include the eastern service area managed by the Nebraska Families Collaborative (NFC).

We performed a statistical random sample of NFOCUS claims, excluding adoption subsidies paid with Federal IV-E funds. The adoption subsidies were subject to testing as a major program for the fiscal year 2017 Single Audit. We used statistical software to stratify our sample, selecting 21 claim lines of \$2,000 or over and 92 claim lines of less than \$2,000. Our sample was based on a 90% confidence level with a sample precision of 15.44%. Based on our testing, the projected errors for the population totaled \$25,771,153.

	Under \$2,000	\$2,000 and over	Total
\$ Population	\$110,632,414	\$28,501,070	\$139,133,484
# lines of claims tested	92	21	113
Dollars tested	\$28,470.92	\$98,435.66	\$126,906.58
\$ errors in sample	\$3,580.93	\$40,943.83	\$44,524.76
\$ error rate	12.58%	41.59%	
Projection to population	\$13,917,558	\$11,853,595	\$25,771,153

Our NFOCUS random sample testing noted 45 of 113 claim lines tested with errors, a 40% error rate. We questioned costs, totaling \$44,524.76, for the claim lines tested. We also noted additional questioned costs totaling \$1,639,951.33. Several issues were noted, including: State wards were placed in unsafe homes; adequate documentation was not available to support payments for services; the Department did not have adequate policies and procedures to ensure services billed were actually received; payments did not agree to contract terms; payments exceeded service authorizations and referrals; staff providing services did not meet qualifications specified in contracts; State funds were paid for services provided to children eligible for Federal programs; Federal funds paid for services provided to children ineligible for Federal programs; services were provided before contracts were signed; and services were paid for eastern area cases that were the responsibility of NFC.

We selected 10 additional individuals to review based on high dollars or unusual rates. For 8 of 10 individuals tested, payments were incorrect or unreasonable, with questioned costs totaling \$679,081.58. Issues included: one adoptive parent was overpaid by \$226,378.80; Kansas Medicaid eligibility was not applied for timely; child welfare funds were used to pay for home modifications for a case under NFC management; the rate for lower level of care was significantly higher than previous placement; a Department employee was paid as a private consultant; authorized transportation was unreasonable; travel and mileage were not reasonable; and student fees and tuition paid for one client were not reasonable.

Detailed descriptions for each of the issues noted above for the random sample and additional test of 10 individuals can be found in the Nebraska Department of Health and Human Services Program 354 – Child Welfare Aid Report, for the period July 1, 2016, through December 31, 2017, which is available on the Nebraska Auditor of Public Accounts’ website, at [www.auditors.nebraska.gov](http://www.auditors.nebraska.gov).

We noted the Department lacked adequate policies and procedures to ensure services billed were actually received, and the Department did not require contractors to have families sign documentation to evidence that services billed were performed. Department workers determine the type and level of services needed by families. The caseworkers determined which contractor to use, and sent service referrals detailing the services to be performed. A service authorization was approved by a supervisor, stating the maximum number of hours and length of time for services. However, there were not adequate controls to ensure that authorizations were reasonable or that services billed were in accordance with the referral, authorization, and contract provisions.

Lastly, we noted that contract provisions allowed providers to round time up to the nearest 15-minute interval for services and round up to the nearest 15-minute interval each way for travel time. No-shows were allowed a full hour, and planned drop-ins allowed rounding from 30 to 60 minutes. As a result, there was little incentive for a provider to spend as much time as billed. There was also a high risk for abuse to occur. For example, if a provider spent 29 minutes at a drop-in visit, he or she would have received \$23.50; however, for spending 31 minutes, the provider would have received \$47.00. There was no incentive to spend the full 60 minutes, as the provider would still receive \$47.00. We also noted situations in which a worker traveled less than one mile – for a total of two minutes – each way; however, that charge was for 15 minutes each way. Consequently, the contractor was paid 30 minutes for 4 minutes of actual time traveled.

A good internal control plan and sound accounting practices require procedures to ensure the following:

- Payments and services provided are reasonable, adequately supported, and agree to service authorization and referrals.
- Contracts are signed before services are provided, and all contract provisions are followed.
- Adequate supporting documentation is maintained for services provided.
- Staff providing services meet required qualifications.
- Payments are properly charged to Federal or State programs, as appropriate.
- Federal and State regulations are observed.
- Rates paid for services are reasonable.

We recommend the Department implement procedures to ensure payments are accurate, that only services provided are paid for, and payments are in accordance with contract provisions and State and Federal regulations.



### **Federal Funds Not Fully Utilized for Adoption Assistance**

For the period July 1, 2016, through December 31, 2017, the Department failed to charge Federal funds for respite care costs arising from adoption assistance (AA) agreements signed prior to July 1, 2014. Consequently, at least \$962,485 in such costs were paid for with State funds when Federal funds were available to cover those expenses.

The subsidized adoption program provides assistance to ensure that financial barriers or costs associated with a child's special needs do not prevent adoption. Department rules and regulations, as set out at 479 NAC 8-001.02A, permit subsidized adoption payments, including respite care, to be made with either State or Federal funds.

Before a State ward is adopted, the Department determines both the need for a subsidy and the child's eligibility for it. A written AA agreement signed by the Department and the prospective adoptive parents specifies the nature, duration, and amount of assistance to be given to those who adopt eligible special needs children. These monthly payments, which often include money for respite care, generally continue until the child's 18<sup>th</sup> birthday.

During testing of the NFOCUS random sample, we noted AA claims that were being split between the "adoption subsidy" for maintenance costs and the "respite care for adoption subsidy" for respite costs. For 10 claims tested, the "adoption subsidy" was charged to IV-E Federal funds, and the "respite care for adoption subsidy" was charged only to State funds.

On March 13, 2018, we asked the Department to explain why respite care for IV-E eligible children was charged only to State funds. Staff stated that it was the understanding of the Department that respite care was not a IV-E claimable service. The Department then contacted the Federal grantor, Administration for Children and Families (ACF), for clarification. On June 13, 2018, the Department received a response from ACF, which stated the following:

*Please see below the response we received to your recent question concerning title IV-E adoption assistance and respite payments:*

*In attempting to answer the question posed, central office staff noted that it appears Nebraska is indicating that it seeks to now claim federal financial participation (FFP) for respite payments as part of title IV-E adoption assistance (AA) assistance payments.*

*If so, the answer seems to be that the total amount of a title IV-E AA assistance payment is the amount as specified in an adoption assistance agreement, but for title IV-E claiming purposes that amount may not exceed the amount that would be payable as title IV-E foster care maintenance payments for that child if he/she were in a foster family home. Unlike in foster care, adoption assistance payments may not be required to be used for specified purposes.*

*So, even though respite care is not, per se, allowable as a title IV-E foster care maintenance payment, if the total adoption subsidy payment that NE is making does not exceed the amount that would be title IV-E allowable as foster care maintenance payments, it may claim such payments (including respite payments) for title IV-E AA FFP regardless of how classified in the adoption assistance agreement.*

*With respect to payments made by NE for earlier periods, title IV-E claimed for allowable costs may be claimed as prior quarter adjustments subject to the filing time limits specified at 45 CFR Part 95.7.*

(Emphasis added.) AA agreements signed prior to July 1, 2014, often included separate amounts for maintenance and respite costs. Those agreements were generally drafted so that AA costs totaled \$1 less than the foster care reimbursement rate, ensuring compliance with the Federal requirement that the amount of the former does not exceed that of the latter.

Due to subsequent changes in foster care reimbursement rates, AA agreements drafted after July 1, 2014, do not differentiate between maintenance and respite costs. The present issue pertains, therefore, to AA agreements signed before that date. Nevertheless, those earlier agreements continue until the adopted child turns 18 years old, so the Department should review payments being made pursuant thereto to determine if Federal funding could still be used to pay for future respite care costs.

To calculate the total respite care amount that could have been charged to Federal funds, we determined which IV-E eligible children had respite care paid only with State funds. We then compared the total AA payment (“adoption subsidy” plus “respite care for adoption subsidy”) to the amount that would be allowable as foster care maintenance for the period. If less than the allowable foster care payment, we multiplied the amount of the total AA payment by the Federal financial participation (FFP) rate. To be conservative, our calculations used the “foster care essential rate” for determining if the AA payment was less than the foster care rate. The foster care “essential rate” is smaller than either the foster care “enhanced” or foster care “intensive” rates. Based on our calculations, at least \$962,485 in such costs were paid for with State funds when Federal funds were available to cover those expenses. Additional respite care payments were also charged exclusively to State funds on behalf of IV-E eligible children. These amounts totaled \$857,627 and may have also been eligible for Federal funding if the “foster care enhanced” or “foster care intensive” rates were appropriate.

As also referenced in the above-quoted ACF response, 45 CFR § 95.7 allows the Department two years to make claims for service provided, as follows:

*Under the programs listed in § 95.1 [which includes “Title IV-E - Foster Care and Adoption Assistance.”], we will pay a State for a State agency expenditure made after September 30, 1979, only if the State files a claim with us for that expenditure within 2 years after the calendar quarter in which the State agency made the expenditure. Section 95.19 lists the exceptions to this rule.*

(Emphasis added.) Thus, in addition to ensuring that Federal money is obtained, when possible, to pay for any future respite care costs arising from pre-July 1, 2014, AA contracts still in effect, the Department should review past respite care expenditures made within the last two years for potential Federal funding eligibility.

Good internal control and sound business practices require procedures to ensure that AA expenditures are charged to the proper funding source, and Federal funding is utilized for all allowable costs.

Without such procedures, State money will be expended in place of available Federal funds, increasing unnecessarily the burden to Nebraska taxpayers.

We recommend the Department implement procedures to ensure all allowable AA expenditures are charged to Federal funds.

### **Contractual Aid Payments Not Adequately Monitored**

Program 354 – Child Welfare Aid expenditures for the period July 1, 2016, through December 31, 2017, included \$18,959,135 for contractual aid payments to contractors other than NFC. We noted that 7 of 10 payments tested were not adequately monitored to ensure costs were allowable and contract provisions were met. Furthermore, the Department stated that Program 354 did not conduct site reviews of contractors and subrecipients.

- We tested two payments, totaling \$83,561, for child advocacy services. The Department did not obtain adequate documentation to support that personnel costs charged were for actual time spent on the subaward or documentation to support how the amounts were allocated between funding sources. Also, the Department did not ensure that the subrecipients were accredited, as required by statute. The cost of child advocacy services paid with State General Funds for the period July 1, 2016, through December 31, 2017, totaled \$3,558,975.
- None of the three payments tested for domestic abuse and family violence prevention services were adequately monitored. The Department did not have adequate documentation to support amounts charged were proper. Domestic abuse expenditures for the period totaled \$4,096,509.
- We tested one payment for post adoption and guardianship services. The payment totaled \$129,967, which was charged to State General Funds. Total payments for the period totaled \$1,996,084. The following was noted:
  - The payment support was not detailed, and there was a lack of monitoring procedures to ensure the expenditures were reasonable and necessary. The Department claimed to have performed monitoring of the contractor in 2016; however, there was no documentation of the monitoring being performed.
  - Furthermore, an indirect cost rate of 16.6% was charged – which, according to the Request for Proposal, was a federally approved rate. However, that rate was found not to be federally approved, and no further supporting documentation was available. The Department had not performed any follow-up to ensure that the indirect cost rate was reasonable and supported.

A good internal control plan requires procedures to ensure adequate supporting documentation is reviewed for all expenses paid, and contracts and subawards are adequately monitored.

Without adequate monitoring, there is an increased risk for misuse of funds. Additionally, such noncompliance with Federal requirements increases the risk for unallowable costs and resultant Federal sanctions.

We recommend the Department implement procedures to ensure contractors and subrecipients are monitored, and adequate documentation is maintained to support that expenditures are allowable and in accordance with State and Federal requirements.

## **5. Internally Generated Computer Software**

The Department incorrectly expensed costs, totaling \$11,406,732, for an internally generated computer system that should have been capitalized in accordance with Governmental Accounting Standards Board (GASB), Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The costs were incurred from July 1, 2016, through June 30, 2018. The Department did not have policies and procedures for the review of internally generated software to determine which costs were appropriate to be expensed versus capitalized in accordance with GASB and DAS policies. The APA's proposed adjustment was made by DAS to correct the error.

In accordance with GASB Statement 51:

*7. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.*

\* \* \* \*

*9. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement.*

*10. The activities involved in developing and installing internally generated computer software can be grouped into the following states:*

- a. Preliminary Project Stage. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.*
- b. Application Development Stage. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.*
- c. Post-Implementation/Operation Stage. Activities in this stage include application training and software maintenance.*

Activities in the application development stage should be capitalized, while the other two stages are expensed.

The DAS State Accounting Manual, General Policies Section 28, Capital Outlay, states, in relevant part, the following:

*[C]omputer software that is internally developed or substantively modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year.*

Good internal controls require the Department to implement policies and procedures to ensure internally generated software is properly categorized in accordance with GASB and DAS policies.

When software is not properly recorded, there is an increased risk the financial statements will be materially misstated.

We recommend the Department implement policies and procedures to ensure internally generated software is properly expensed or capitalized in accordance with GASB and the State Accounting Manual.

## **6. University of Nebraska Medical Center Medical Education Revolving Fund**

In fiscal year 2015, the APA questioned disproportionate share hospital expenditures made from the University of Nebraska Medical Center Medical Education Revolving Fund (Revolving Fund).

Neb. Rev. Stat. § 85-134 (Reissue 2014) provides, in relevant part, the following:

*The University of Nebraska Medical Center Medical Education Revolving Fund is hereby established to be administered by the Department of Health and Human Services. The fund shall be used to fund medical education.*

The Department acknowledged that legislation had not been introduced to allow disproportionate share hospital expenditures from the Revolving Fund. During the year, however, the Department expended a total of \$16,321,964 from the Revolving Fund, including expenditures for disproportionate share hospital expenditures.

When processing expenditures from the Revolving Fund other than those allowed by the statutory language above, the Department is not acting within the parameters of existing State law.

A similar finding was noted during the previous audit.

We recommend the Department comply with § 85-134 or, if necessary, propose legislation that would allow disproportionate share hospital expenditures from the Revolving Fund.

## **7. External MMIS User Access**

The Medicaid Management Information System (MMIS) supports the operations of the Medicaid Program. The objective of MMIS is to improve and expedite claims processing, efficiently control program costs, effectively increase the quality of services, and examine cases of suspected program abuse.

In our review of access to MMIS, we noted that 47 of 552 external users tested from 10 external entities were no longer current and active employees of the external entity or no longer needed access to MMIS. Furthermore, the external entities did not track users no longer needing access to MMIS. The Department's procedures to track external user access was insufficient to allow for timely detection and removal of MMIS access.

NITC Standards & Guidelines, Information Security Policy 8-701 (July 2017), Auditing and compliance; responsibilities; review, provides the following, in relevant part, the following:

*An agency review to ensure compliance with this policy and applicable NIST SP 800-53 security guidelines must be conducted at least annually.*

NIST Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states the following, in relevant part:

*The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

Furthermore, a good internal control plan requires user access to be reviewed and, when necessary, terminated in a timely manner.

Failure to terminate former user access to networks and applications creates the opportunity for unauthorized access to federally protected data.

A similar finding was noted during the previous audit.

We recommend the Department improve procedures by performing more routine reviews of external users' access to MMIS in order to ensure unauthorized access is removed in a timely manner. We also recommend the Department periodically inform external entities of the importance of notifying the Department to remove employee access to MMIS upon termination.

## **8. Terminated Users**

The Department had 981 employee terminations from July 1, 2017, through June 30, 2018. For 5 of 25 terminations selected for testing, we noted user accounts granting access to various Department applications and systems not being disabled or removed in a timely manner (within three business days). The delay in disabling the user IDs for the five terminated employees was 6, 7, 10, 13, and 65 days, respectively.

For three of six user IDs selected for testing, the user's access to the Address Book 21 (AB21) role in EnterpriseOne was not reasonable and appropriate. Users with this role were authorized to maintain and update search types PH, XH, PM, XM, PW, and XW (Public Assistance, Medicaid, and Welfare).

For one of two terminated Medicaid Drug Rebate (MDR) users tested, access was not removed timely. The delay in disabling the ID for the terminated employee was 26 days.

For 1 of 26 terminated MMIS users tested, access was not removed timely. The employee terminated in early December 2017; however, as of June 30, 2018, the access had not been removed.

NITC Standards and Guidelines, Information Security Policy 8-502 (July 2017), Minimum User Account Configuration, states the following, in relevant part:

*(1) User accounts must be provisioned with the minimum necessary access required to perform duties. Accounts must not be shared, and users must guard their credentials.*

NIST Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states, in part, the following:

*The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

A good internal control plan includes a process to ensure terminated users' access is removed timely.

When access to networks and applications is not terminated timely, it creates the opportunity for inappropriate access to State resources, as well as unauthorized processing of transactions. Additionally, such access may violate Federal privacy laws.

A similar finding was noted during the previous audit.

We recommend the Department ensure user access is disabled immediately upon termination. We also recommend the Department establish procedures to review AB 21 user access to determine if it is still reasonable and necessary for the employee's job duties.

## **9. NFOCUS User Access Checklist**

Access to NFOCUS is based on a user's need to complete his or her job tasks. The user's supervisor is responsible for completing the NFOCUS Access Request Checklist (Checklist) for new hires and changes in employee assigned duties and reviewing that access annually. The Checklist is sent to security staff to assign the appropriate level of access to the system. No access is to be assigned until a completed, signed Checklist is submitted. In our review of employee access to NFOCUS, we noted that, for 10 of 25 NFOCUS users tested, the Checklist was not properly completed or reviewed annually.

NITC Standards and Guidelines, Information Security Policy 8-502 (July 2017), Minimum User Account Configuration, states the following, in relevant part:

*(1) User accounts must be provisioned with the minimum necessary access required to perform duties. Accounts must not be shared, and users must guard their credentials.*

NIST Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states, in part, the following:

*The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

Good internal controls require procedures to ensure user access assigned is documented and reviewed annually.

Without the proper completion of the NFOCUS Access Request Checklist, the Department is unable to ensure that the user is assigned only to access that is reasonable and necessary for the performance of his or her job duties.

A similar finding was noted during the previous audit.

We recommend the Department establish procedures to ensure the NFOCUS Access Checklist is properly completed, maintained, and reviewed annually or when there is a change of assigned duties. For those who are granted access to NFOCUS without completing the NFOCUS Access Checklist, we recommend the Department establish a formal policy and procedure to request, approve, and grant such access and perform an annual review of it.

## **10. Retroactive Social Security Disability Payments**

When an individual applies for Social Security Disability (SSD), the Department or the applicant's county of residence make eligible welfare payments to him or her while the application is pending approval by the Federal Social Security Administration (SSA). The individual could receive State welfare payments from the Aid to the Aged, Blind, or Disabled (AABD) program or the State Disability Program (SDP). After being approved, the applicant receives SSD payments retroactive to the date of his or her application. The Department or the county is able to recover a portion of the SSD payments to apply towards the welfare payments made during this period. The Department intercepts the retroactive SSD payments from the SSA for reimbursement.

Prior to October 2013, the Department reimbursed the appropriate AABD or SDP programs when the intercepts were received, reducing the appropriate program's corresponding expenditures. Starting in October 2013, the Department continued to intercept payments from SSA; however, it stopped reimbursing the appropriate State welfare programs. The State deposited the monies instead into a Supplemental Security Income (SSI) distributive fund where the balance grew. On December 9, 2016, the Department transferred the majority of the balance, \$803,875, to the State's General Fund to be used for future appropriations for the entire State instead of to the appropriate programs where the payments were made. As of June 30, 2018, the accumulated balance was up to \$395,887, but the Department had not established policies and procedures to reconcile the balance and move the monies to the appropriate welfare programs. The APA's proposed adjustment was not made by DAS to reflect appropriately the SSI distributive fund balance.

In accordance with the eligibility requirements for the AABD program and the SDP, Title 469 Nebraska Administrative Code (NAC) Chapter 2-007.01, states the following:

*If the client has a pending SSI/RSDI [Retirement, Survivors, and Disability Insurance] decision, the client must sign a DHHS designated form (e.g. IM-17) to allow DHHS to be reimbursed from SSA for interim assistance in order to be considered for AABD payment or SDP eligibility.*

Good internal controls require procedures to ensure interim assistance provided by SSA is reconciled and moved to the appropriate funding sources in a timely manner.

Without such procedures, there is an increased risk of Department expenditures being overstated for financial statement presentation.

We recommend the Department implement procedures to reconcile the SSI distributive fund balance and move the balance to the appropriate funding sources.

**11. MMIS & NFOCUS Reconciliations**

The MMIS and NFOCUS systems interface periodically with the State’s accounting system, EnterpriseOne. Benefits are processed through the systems and paid from EnterpriseOne weekly. We requested all activity from the MMIS and NFOCUS systems for two months in order to reconcile the activity to EnterpriseOne. After several meetings and frequent email correspondence, the Department was able to provide the detailed reports from the systems, four months after our initial request.

We were unable to reconcile the systems to EnterpriseOne without variances, as noted below. The reconciliations should have resulted in no variances. The Department was not performing a similar reconciliation of MMIS and was unable to identify and explain the variances. The Department performed a reconciliation between NFOCUS and EnterpriseOne monthly; however, variances under \$5,000 were not resolved.

System	Frequency of Interface	Month Tested	Activity from the System	Activity from EnterpriseOne	Variance
MMIS	Every 2 days	July 2017	\$ 152,696,173	\$ 152,698,699	\$ (2,526)
NFOCUS	Daily	January 2018	\$ 54,909,349	\$ 54,905,003	\$ 4,346

The Department said small variances could occur with MMIS when a claim is adjusted twice in the same week. MMIS would only reflect the last adjustment; however, the activity in EnterpriseOne would reflect all activity.

Good internal controls and sound business practice require procedures to ensure activity within separate benefit systems reconcile with the payment information in EnterpriseOne.

Without such procedures, there is an increased risk of datasets within the systems being incomplete, which could cause misstatement of the financial statements.

We recommend the Department implement procedures to reconcile MMIS and NFOCUS detail to EnterpriseOne periodically and determine the cause for any variances noted.



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

This communication is intended solely for the information and use of the Department, the Governor and State Legislature, others within the Department, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



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