NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2020

Dannette Smith, Chief Executive Officer
Nebraska Department of Health and Human Services
301 Centennial Mall South
Lincoln, Nebraska 68509

Dear Ms. Smith:

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, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated December 17, 2020. 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 Department management, are intended to improve internal control or result in other operating efficiencies.

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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies 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 consider Comment Number 1 (Material Adjustments to Accruals) to be a material weakness.

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 Comment Number 2 (Lack of Adequate Subrecipient Monitoring), Comment Number 3 (Erroneous Financial Transactions), Comment Number 4 (Overpayment Mailbox), Comment Number 5 (University of Nebraska Medical Center Medical Education Revolving Fund), Comment Number 6 (Lack of Timely Response for Audit Requests), and Comment Number 7 (Lack of Service Organization Control Reports) to be significant deficiencies.

These 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 265B.A17, in a separate early communication letter dated September 11, 2020.

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. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2020.

1. Material Adjustments to Accruals

The Nebraska 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, including various accounts receivable and payable balances. Agency responses were due to DAS by August 14, 2020; however, the Department of Health and Human Services (Department) was given an extension to September 15, 2020. Even with the extension, the Department did not provide all of its accrual response forms until October 8, 2020, and never provided its construction in progress accrual response form. Of 14 accruals tested, 11 had errors that required adjustment or were not supported with adequate documentation even though an extension was granted.

In its response to the Summary Schedule of Prior Audit Finding(s), the Department stated that its corrective action plan was complete with regards to errors in accrual information. Throughout testing, we noted several items that were not reported accurately to DAS, causing faulty journal entries, which required adjustments to be proposed by the Auditor of Public Accounts (APA) to ensure that financial reporting was accurate. The accruals were not accurate and were not prepared in accordance with governmental accounting standards. Additionally, there was not an adequate secondary review to ensure that the accruals were proper prior to being submitted to DAS. Due to the implementation of limited or no corrective actions, similar issues have been reported since the 2003 audit, over 17 years.

For the errors detailed below, totaling $100,381,737, the APA proposed adjustments to ensure the financial statements would be reflected properly. All proposed adjustments were posted by DAS.

Description	Misstatement Amount	Reason
Disproportionate Share Hospital (DSH) Payable	$ 53,789,443	The Department provided two incorrect versions of the payable prior to the APA determining the final proposed adjustment. The first calculation included only $851,431, materially understating the payable.
Medicaid Drug Rebate (MDR) Receivable	$ 18,717,003	The Department provided two incorrect versions of the receivable prior to the APA determining the final proposed adjustment. The first version significantly understated the payable due, in part, to the reporting being as of July 31, 2020, instead of June 30, 2020.
Patient & County Billings Payable	$ 8,738,172	The Department overstated the receivable, mainly due to incorrect and unsupported allowances for doubtful accounts and incorrect Federal match percentages used. We also tested 25 client balances and determined 18 balances were not proper, causing reductions of $1.6 million.

Description	Misstatement Amount	Reason
State Rx Payable	$ 5,809,508	The Department reported the payable on its accrual response form, but the payable was already recorded in the accounting system. This doubled the payable.
NFOCUS Receivable	$ 5,336,634	The Department overstated the receivable due, in part, to not including an allowance for doubtful accounts for Supplemental Nutrition Assistance Program (SNAP) overpayments.
Third Party Liability (TPL) Receivable	$ 5,028,526	The Department overstated the receivable due to miscalculating the estimate over 12 months, instead of 45 days. Furthermore, the Department did not report an allowance for doubtful accounts to DAS for $6.4 million.
Program Integrity (PI) Receivable	$ 1,535,016	The Department provided three incorrect versions of the receivable prior to the APA determining the final proposed adjustment. We also tested five client balances and determined three balances were not proper.
NFOCUS Payable	$ 736,463	The Department used incorrect Federal matching percentages, causing the misstatement.
Indirect & Direct Medical Education (IME/DME) Payable	$ 690,972	The Department used incorrect Federal matching percentages, causing the misstatement.
Total Misstatement	**$ 100,381,737**	

Furthermore, during testing, we noted the following issues:

- The School Administration Medicaid Payable and State Ward Education Payable lacked adequate documentation to support the assumptions used in the estimates. The APA recalculated the payables and determined the amounts reported by the Department were reasonable; however, due to a lack of documentation, using the same methods in future years may result in significant and/or material errors. The Department should ensure it has a reasonable and supported basis for each estimate calculated.

- The Department failed to include $582,878 in interest due on overdue accounts in its MDR receivable calculation. Additionally, there were several large credit balances that had not been refunded or used to reduce future balances due to labelers in a timely manner. The 2016 MMIS POS balance had a $1.3 million credit balance still outstanding as of June 30, 2020.

- During testing of the NFOCUS receivable, we noted that the Department did not require a secondary review of changes made in the system to ensure the changes made to account statuses were reasonable and proper. For instance, a clerk could suspend an account for various reasons, such as an appeal, bankruptcy, death, etc., but there was no review to ensure that the suspended status was proper and necessary based on supporting documentation. An inaccurate suspension could lead to balances due not being recovered.

Title 2 CFR § 200.511(a) (January 1, 2020) 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. Good internal controls also require policies and procedures to ensure secondary reviews are performed for account changes.

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

We recommend the Department work with DAS to train staff and implement procedures for properly calculating and reporting accruals for the CAFR, including fixing repeated errors. Furthermore, we recommend the Department implement procedures for a secondary review of all accruals by a knowledgeable individual prior to submission to DAS.

Department Response: Agree

DHHS Financial Services will continue to develop, assess, and improve upon internal procedures. Financial Services staff hosts an annual CAFR kick-off meeting with all staff involved in the reporting process and includes DAS Accounting in these meetings. This meeting outlines the internal reporting process, documentation expectations, prior year audit findings and deadlines. Documentation for each accrual item is then collected and reviewed by responsible parties. DHHS will be meeting with DAS staff to work through any necessary corrections for the next fiscal year.

2. Lack of Adequate Subrecipient Monitoring

The Department administers various programs, paid with Federal and/or State funds, which involves granting subawards to other entities to carry out the activities of the program. During our testing of reimbursements made to subrecipients, we noted that the Department lacked adequate procedures to ensure the expenses being reimbursed were reasonable and proper. The following issues were noted:

Provider	Total Payment Tested	Unsupported Amount	Services	Issues
Region 4	$ 147,759	$ 147,759	Behavioral Health	No monitoring performed
Region V	$ 113,387	$ 113,387	Behavioral Health	No monitoring performed
Region VI	$ 57,657	$ 57,657	Behavioral Health	No monitoring performed
Disability Rights Nebraska	$ 487,488	$ 487,488	Developmental Disabilities	No monitoring performed
Omaha Tribe	$ 199,480	$ 80,748	Foster Care	No support on file for payroll, indirect costs, and travel
Nebraska Children and Families Foundation	$ 60,956	$ 36,320	Foster Care	No monitoring performed but the APA reviewed support on file and noted unsupported amounts
Right Turn	$ 104,767	$ 101,841	Post Adoption and Guardianship	No support on file for payroll, and indirect costs, etc.
Community Action Partnership	$ 57,693	$ 57,693	Women, Infants, and Children	No monitoring performed for the year. Provider received $446,044 during the year.
Child Advocacy Center	$ 38,104	$ 23,349	Child Advocacy	No monitoring of payroll charges
Bright Horizon	$ 12,633	$ 576	Domestic Abuse	No review of payroll but the APA reviewed support on file and noted unsupported amounts
Totals	**$ 1,279,924**	**$ 1,106,818**		

The Regional Behavioral Health Authorities (Regions) performed monitoring according to the Department. However, the Department did not obtain those reviews to ensure the monitoring was appropriate. Furthermore, no other monitoring procedures were performed by the Department of expenditures incurred by the Regions for the year. The amount awarded to the three Regions tested totaled $35,391,482.

Title 2 CFR § 200.331(d) (January 1, 2020) requires pass through entities to "Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward[.]"

Title 2 CFR § 200.303(a) (January 1, 2020) directs the agency to ensure compliance with Federal requirements through the use of sound internal controls.

A good internal control plan includes the establishment of controls to ensure subrecipients use Federal awards in accordance with Federal compliance requirements, including procedures for the monitoring of subrecipients' fiscal activities related to Federal expenditures.

Title 2 CFR § 200.403 (January 1, 2020) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

According to the agreement between the Department and providers, "As consistent with all applicable federal statutes, regulations, and policies, DHHS shall reimburse Subrecipient for its costs to perform the project . . . ." The agreement states also, "Subrecipient must be able to provide source documentation or other verification of all claimed costs, either provided with its request for payment, or available to DHHS."

A similar finding was noted during the previous audit.

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

Without such procedures, there is an increased risk for unallowable costs and misuse of funds.

> We recommend the Department improve procedures for monitoring subrecipients. Such monitoring should ensure monthly reports are accurate and agree to support, and expenditures are in accordance with State and Federal requirements.

Department Response: Partially Agree

The Department's responsibility to address the impact of Covid-19 temporarily affected the completion of monitoring during this State fiscal year. The federal funds noted by the auditor largely follow the federal fiscal year so as of 6/30/2020; the monitoring was not due to be completed. The necessary reviews either have been or are in the process of being completed now.

3. <u>Erroneous Financial Transactions</u>

During testing of transactions that the Department entered in the State's accounting system, we noted the following issues:

- The Department deposited various monies received into the Medicaid Holding Fund for several programs, including MDR, TPL, PI, and Estate Recovery. When received, monies are recorded to a liability account that is presented as deposits on the financial statements. These balances are held in this fund only until they are researched by staff and moved to the appropriate funding source; therefore, the balance should have been recorded as due to other funds, such as the General fund or Federal fund associated with the respective program. The Department did not research the monies held in the fund in a timely manner, leaving a balance of $7,534,720 at June 30, 2020. The APA proposed, and DAS posted, an adjustment to correct the error.

- The Department recorded a duplicate entry for Child Support, resulting in assets and liabilities being overstated by $2,972,580. The APA proposed, and DAS posted, an adjustment to correct the error.

- Two of seven negative expenditures were not recorded properly. The Department received monies from two Medicaid Managed Care Organizations for activities that occurred before July 1, 2019, totaling $8,719,438. The Department reduced current year expenditures rather than reducing the beginning balance, resulting in current year expenditures being understated. The APA proposed, and DAS posted, an adjustment to correct the error.

- During testing of journal entries, one entry tested was not recorded properly as a prior period adjustment. An initial entry was done incorrectly in April 2019, resulting in General Fund expenditures being understated and Federal Fund expenditures overstated by $1,130,553. To correct this error, the Department made an entry in April 2020; however, this entry was not recorded as a prior period miscellaneous adjustment.

- The Department did not record the final entry from the Child Support Enforcement incentives for the fiscal year 2017 until August 13, 2020, even though they were able to perform the entry in September 10, 2019. This resulted in revenues being understated by $2,163,098. The APA proposed, and DAS posted, an adjustment to correct the error.

- One $1,270,772 receipt tested for the Medicaid Drug Rebate (MDR) program for supplemental drug rebates was recorded as 6% to the Children's Health Insurance Program (CHIP) and 94% to regular Medicaid. The Department had no support for the percentages used.

Good internal controls require procedures to ensure transactions are accurately recorded in the accounting system and documentation is on file to support the transactions.

When financial transactions are not recorded in the proper period or are recorded incorrectly, there is an increased risk the financial statements will be materially misstated.

> We recommend the Department implement procedures to ensure accounting entries are made in a timely manner and recorded properly. We further recommend the Department implement procedures for the proper review of prior period activity to ensure that the account coding represents properly prior period transactions for identification and adjustment on the CAFR.

Department Response: Agree

DHHS has utilized the DAS State accounting manual and internal control guidance. However, during 2021, DHHS will be creating a department-wide internal control policy, specific to our agency. This policy will address the issues in this finding and contribute toward future finding prevention.

4. <u>Overpayment Mailbox</u>

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.

In its response to the Summary Schedule of Prior Audit Finding(s), the Department stated that its corrective action plan was complete with regards to the overpayment mailbox. However, we reviewed the database and, as of June 30, 2020, there were 11,481 referrals closed without the OP team working them; this included 107 referrals closed during fiscal year 2020. Of the closed referrals, 11,182 were related to SNAP. According to the Department, the referrals were not pursuable because they were over 12 months old.

A similar finding was noted during the previous five audits.

Per Title 475 Nebraska Administrative Code (NAC) 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 CFR § 273.18(c)(1)(i) (January 1, 2020), which requires the Department to calculate a claim "back to at least twelve months prior to when you became aware of the overpayment[.]" Currently, the Department's definition of the date of discovery is the date the Department confirms that an overpayment occurred. This definition allows referrals to be unworked for an extended period 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 timeframes.

Title 2 CFR § 200.511(a) (January 1, 2020) 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."

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 before closing them.

We also performed testing of 22 overpayment receivables and noted the following issues:

- Ten accounts were removed from the database improperly due to staff error.

- Two accounts had no demand letter included in NFOCUS in accordance with the Department's collection policy and State regulations Title 469 NAC 3-007.03B2 and Title 475 NAC 4-007.04(A). One account was for an overpayment to the Aid for the Aged, Blind and Disabled (AABD) program, and the other account was for an overpayment to the Temporary Assistance for Needy Families (ADC) program.

- Two accounts were not following the Department's collection policy by providing timely monthly billing statements or a notification letter, as required. The overpayments were for the SNAP program.

- One account with an overpayment to the SNAP program was not included in the database and, therefore, was not set up in the quarter following the date of discovery as required by Title 7 CFR § 273.18(d) (January 1, 2020).

Per the Department's regulations for the ADC program at Title 468 NAC 3-008.07B:

> *The agency must take all reasonable steps necessary to promptly correct all 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.*

For the AABD program, Title 469 NAC 3-007.03B2 states, in part, the following:

> *If a state supplement payment is made for an amount greater than the amount the client was entitled to receive the overpayment is recouped by reducing current state supplement payments by at least ten percent.*
>
> *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 that 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 that are not worked timely have a lesser chance of collection, whereas 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 work to resolve this repeat finding by doing the following:

- Implementing procedures and devoting adequate resources to investigating and establishing NFOCUS receivables.
- Defining the date of discovery as the date the regular SSW first becomes aware of a potential overpayment.
- Working with the Federal agency to resolve the potential SNAP overpayments and comply with Federal regulations.
- Implementing procedures to reduce the number of SNAP AE overpayments.

Department Response: Agree

The Department implemented standard operating procedures for the pursuit of overpayments in 2017. The Department has processed all overpayments received since October 1, 2016 timely. During the last state fiscal year, the team established $3,036,697.90 overpayments for SNAP on 5,366 referrals. Each month, 300-500 new referrals of potential overpayments are received, reviewed and processed within 30 days of the referral. Last year, 3% overpayment referrals were determined as non-pursuable. The reasons a referral is categorized as non-pursuable include: by regulation, no overpayment occurred; not enough information to determine if overpayment occurred; amount of overpayment is under the dollar threshold for collection and overpayment is outside the state statute timeframe to collect. In many circumstances, client cooperation is required to determine the amount of an overpayment; last year 481 SNAP benefit cases were closed due to client not cooperating with agency to determine amount of overpayment.

In December 2019, with approval and guidance from the USDA Food and Nutrition Service, the agency began reviewing the suspended overpayment referrals and were able to find that 7,653 were considered beyond the pursuable timeframe to be established per 273.18(c)(i). In addition, 2,206 were considered unresolved due to not enough information received to establish a claim, four referrals were determined as non-overpayments, and one was considered non-pursuable due to death of the client. This left the agency with 381 additional cases to review. Of those cases, 123 were found to have active SNAP benefits to allow claims to be established. All referrals from the overpayment backlog have been reviewed and claims established where appropriate.

Effective October 1, 2020, Nebraska has updated their definition of date of discovery as the date when a potential overpayment is initially identified and submitted for review. This change has been completed in the State plan, and Nebraska Administrative Code (NAC) is in the process of being updated. This allows for closer alignment to the federal regulations. In addition, the department is working to make corrections to the spreadsheets and database to ensure that data is stored accurately.

5. University of Nebraska Medical Center Medical Education Revolving Fund

The APA has questioned the disproportionate share hospital (DSH) expenditures made from the University of Nebraska Medical Center Medical Education Revolving Fund (Revolving Fund) since fiscal year 2015; however, the Department has taken no additional steps to alleviate the concerns.

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

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

The Department acknowledged that legislation had not been introduced to allow DSH expenditures from the Revolving Fund. Regardless of this fact, the Department expended a total of $17,027,167 from the Revolving Fund for fiscal year 2020, including expenditures for DSH.

Good internal controls require procedures to ensure compliance with State laws. 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 in the previous five audits.

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

Department Response: Agree

DHHS Financial Services will work with DHHS Medicaid staff to ensure transactions in the UNMC Medical Education revolving fund comply with 85-134.

6. Lack of Timely Response for Audit Requests

Delays in timely responses to audit information requests occurred again during this audit, even though the issue was noted in the previous audit. There were several instances of the Department not complying with Neb. Rev. Stat. § 84-305 (Cum. Supp. 2018), which requires a timely response to the APA's request for audit information. The Department did not respond to audit requests within the required three business days and/or did not provide the information requested within the required three weeks after the initial request. The following are a few such incidents noted throughout the audit period; however, the untimely responses were not limited to these examples:

- Initial documentation for the disproportionate share hospital payable was requested on September 21, 2020, and further documentation was requested on September 28, 2020. However, after numerous requests, the Department did not provide the information until November 5, 2020, over a month from the original request. Additionally, the payable was still not proper and required further adjustments by the APA.

- Documentation for software capitalization was requested on July 30, 2020. Part of the requested documentation was received on August 24, 2020, but the final documentation was not obtained until October 5, 2020, over two months from the original request.

- Documentation of the Department's user controls for the Women Infant and Children (WIC) Program Service Organization Control reports was requested on October 9, 2020. However, after numerous requests, the Department did not provide the requested report until December 10, 2020, over two months from the original request.

Section 84-305(1) states the following:

> *The Auditor of Public Accounts shall have access to any and all information and records, confidential or otherwise, of any public entity, in whatever form or mode the records may be, unless the auditor is denied such access by federal law or explicitly named and denied such access by state law. If such a law exists, the public entity shall provide the auditor with a written explanation of its inability to produce such information and records and, after reasonable accommodations are made, shall grant the auditor access to all information and records or portions thereof that can legally be reviewed.*

Subsection (2) of that same statute adds, as is relevant, the following:

> *Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of*

this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity.

Finally, Neb. Rev. Stat. § 84-305.01 (Cum. Supp. 2018) reads as follows:

> *Any person who willfully fails to comply with the provisions of section 84-305 or who otherwise willfully obstructs or hinders the conduct of an audit, examination, or related activity by the Auditor of Public Accounts or who willfully misleads or attempts to mislead any person charged with the duty of conducting such audit, examination, or related activity shall be guilty of a Class II misdemeanor.*

The Department's failure to respond promptly to audit information requests not only constitutes a violation of § 84-305 but also hinders the APA's testing and completion of the CAFR in a timely manner.

> We recommend the Department implement procedures to ensure compliance with § 84-305.

Department Response: Agree

The Department will establish procedures to ensure compliance with 84-305.

7. <u>Lack of Service Organization Control Reports</u>

The Department's Supplemental Nutrition Assistance Program (SNAP) and Woman, Infants, and Children (WIC) Program failed to obtain three Service Organization Control (SOC) reports. One SOC report was used by both SNAP and WIC, and the other two were utilized only by WIC. Without these SOC reports, the Department was unable to provide audit evidence for the suitability of the design and operating effectiveness of the organizations' internal controls in accordance with American Institute of Certified Public Accountants (AICPA) audit standards AU-C 402.

For the fiscal year ended June 30, 2020, SNAP and WIC aid payments totaled $240,785,561 and $15,492,965, respectively.

Good internal controls require procedures to ensure adequate documentation is obtained in a timely manner for use in financial audits.

> We recommend the Department work with the service organization to ensure the SOC reports can be completed and submitted for review prior to the completion of the State's CAFR audit.

Department Response: Agree

The Department will work with the service organizations to impress upon them our need of timely receipt of the applicable SOC reports. However, the Department would note that this issue is largely outside of our control.

8. <u>Lack of Internal Controls over Program 262</u>

The APA performed an attestation examination of the Department's Program 262 – Public Health Administration for the period July 1, 2017, through December 31, 2018. For fiscal year 2020, we performed follow-up again on the procedures and noted the following issues still existed:

Vital Records
Vital Records maintains records, such as birth, death, marriage, and dissolution of marriage certificates, for events that occur in the State of Nebraska. Upon payment of the required statutory fee, and satisfactory proof of identity and proper purpose, Vital Records can issue certified copies of these records or amend original records.

There was a lack of segregation of duties, as several employees were able to open mail or receive payments, process the payment in the Netsmart VRS (Vital Record System), and complete the application process. The individuals who complete the balancing and prepare the deposits are also able to open mail, receive payments, process the payment, and complete the application process. There was no documented review by a separate individual to verify that all money was deposited for all applications issued. All employees are also able to waive fees and process the application using the fee type as "other". When this fee type is used, the fee type noted is $0. The certified copy could be printed without collecting or depositing a fee.

No money is deposited until the application is reviewed to ensure there is a proper purpose, proof of identity, and the correct fee amount was received. If the application is denied, Vital Records will send back the application and fee whether it is a check or cash. No log is kept of the applications and fees received that have been returned.

Environmental Health
During review of the procedures over monies received and deposited for Environmental Health programs administered jointly by the Department and the Department of Environment and Energy, we noted that there was a lack of adequate segregation of duties over money received and deposited into Funds 22002 and 22053. These funds are sub-funds of the Health and Human Services Cash Fund 22550.

- Plan Review Fund 22002: One individual (Staff Assistant) received the mail after it was opened, entered the checks received into the database that generates the receipts acknowledging receipt of funds, and issued the receipt of the plan review. A secondary person did not ensure that all receipts issued for the day were deposited.

- Consumer Health Sanitation Fund 22053: One individual received the mail after it had been opened, entered the checks received into the database, and generated the permit from the database. A secondary person did not ensure that all money was receipted for all permits issued.

Licensure Unit
There was a lack of adequate segregation of duties over financial processes for the Outpatient and In-Home Services program area, including Home Health, Adult Day Health, Child Day Health, and Respite. One individual was able to handle a transaction from beginning to end. This individual received mail after it was opened, reviewed the paperwork submitted along with the check, took the checks to the person responsible for delivering the checks to Department Accounting for deposit, reviewed the spreadsheet prepared by Department Accounting of receipts deposited, and issued the licenses.

Radon
The Radon unit lacked an adequate segregation of duties over its financial processes. The Department provides for the licensure of radon measurement specialists, radon measurement businesses, radon mitigation specialists, and radon mitigation businesses. There is no supervisory or secondary review of the radon payments received and comparison to the monthly mitigation report to ensure that the correct amounts are received and deposited and all money due to the Department has been received.

A similar finding was noted during the previous audit.

A good internal control plan and sound business practices require procedures to ensure that a proper segregation of duties is implemented, so no one individual is capable of processing a transaction from beginning to end.

Without such procedures, there is an increased risk of fraud or misuse of funds.

> We recommend the Department work to resolve the repeat findings by implementing procedures to ensure no one individual is able to handle all phases of a transaction from beginning to end.

9. <u>Retroactive Social Security Disability Payments</u>

When an individual applies for Social Security Disability (SSD) payments, the Department or the applicant's county of residence makes eligible welfare payments to him or her while the application is pending approval by the Federal Social Security Administration (SSA). The individual would receive State welfare payments from the Aid to 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 record a portion of the SSD payments to apply to the welfare payments made during this period. The Department intercepts the retroactive SSD payments from the SSA reimbursement.

Prior to October 17, 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 through the fiscal year end June 30, 2020, the Department continued to intercept the payments from SSA; however, it stopped reimbursing the appropriate State welfare programs and deposited the monies into a Supplemental Security Income (SSI) distributive fund. 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. Additionally, since 2016, the balance has continued to grow and, as of June 30, 2020, it totaled $518,323.

Nevertheless, even though the APA has been reporting this issue to the Department since the 2018 audit, the Department has yet to implement procedures for reconciling the balance and moving the monies to the appropriate welfare programs or performing a detailed reconciliation.

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

Without such procedures, there is an increased risk of Department expenditures being stated improperly for financial statement purposes.

> We recommend the Department work to resolve the repeat finding by implementing procedures for reconciling the SSI distributive fund balance and moving the balance to the appropriate funding sources.

10. <u>NFOCUS Payment Errors</u>

The Department used the Nebraska Families Online Client User System (NFOCUS) to record detailed information regarding clients and services provided for various programs. We selected 25 expenditures made through NFOCUS and noted the following issues:

- One provider was paid $1,320 for 120 hours of chore services, but there was no support for the $11/hour rate.
- One provider was paid $216 for 37 hours of overtime, but there was no support for the $5.83/hour rate.
- One provider was paid $241 for 74 quarter hours of respite or $3.25/quarter hour when the rate in effect at the time was $2.75/quarter hour, and there was no support for the rate exception.
- The Department made a one-time payment of $286 to individuals with an active Assistance to the Aged, Blind, or Disabled (AABD) case in December 2019; however, the Department was unable to support how the $286 was calculated.

- A child care provider billed a daily rate and an hourly rate for two children; however, only a daily rate should have been billed, resulting in an overpayment of $56. Subsequently, the provider also under-billed one day for $42, for a net overpayment of $14.

- A child care provider double billed a daily rate and an hourly rate for one child. In addition to the duplicated hours, the hourly rate should not have been charged, resulting in an overpayment of $135.

- A transportation provider billed for three days of transportation that did not occur, for an overpayment of $37.

- One service provider was paid $112 for an assessment; however, the provider agreement did not list a start date authorizing the service.

- One child care provider billed 60% or 31 of 52 line items in error. Eighteen lines were overbilled, totaling $683, and 13 lines were under-billed, totaling $349, for a net overpayment of $334. These errors resulted in hourly rates billed instead of daily rates, incorrect hours billed, and incorrect rates charged.

Additionally, during testing of four cases from Program 354 (Child Welfare) claims, we noted that three workers did not have the necessary qualifications, as required by the provider contracts. These workers had degrees in Liberal Arts, Latin American and Latino Studies, and Recreation Administration, not the required degree in Human Services, as specified in the contracts between the Department and the contracted service organizations. Those contracts state, Staff Credentials: "The Family Support Worker must have a Bachelor's Degree in human services . . . ."

Per Title 392 NAC 1-003, a full day of care is at least 5 hours and 46 minutes through 9 hours.

A good internal control plan and sound business practices require procedures to ensure that payments are made in accordance with approved, documented rates and for the correct amounts. Those procedures should ensure also that payments are supported adequately, and workers meet contract qualifications.

Without such procedures, there is an increased risk for not only loss or misuse of State or Federal funds but also noncompliance with the terms of provider contracts.

> We recommend the Department implement procedures to ensure: 1) all rates paid for claims are approved and documented, and documentation is maintained for payment amounts; 2) claims paid are accurate, and all services provided are documented as authorized for the provider; and 3) contract workers have the necessary qualifications.

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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 management, 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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