# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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April 28, 2022

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

Dear Ms. Smith:

We were engaged to audit 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, 2021, 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, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as 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 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 (Multiple 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 (Erroneous Financial Transactions), Comment Number 3 (Lack of Adequate Subrecipient Monitoring), and Comment Number 4 (Overpayment Mailbox) 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 American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265B.A17, in a separate early communication letter dated August 12, 2021.

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. Any formal responses received have been incorporated into this letter. Such responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on them. 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, 2021.

## 1. Multiple Adjustments to Accruals

The Nebraska Department of Administrative Services (DAS), State Accounting Division (State Accounting), prepares the State of Nebraska's Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report accurate amounts for financial reporting, including various accounts receivable and payable balances. Of 15 accruals tested, 13 had errors that required adjustments or were not supported with adequate documentation and we noted a separate payment that should have been accrued.

In its response to the Summary Schedule of Prior Audit Findings, 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 State Accounting, causing incorrect 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 State Accounting. Due to the implementation of limited or no corrective actions, similar issues have been reported since the 2003 audit, over 18 years.

The errors, totaling $38,340,557, are detailed below:

| Description | Misstatement Amount | Reason |
|---|---|---|
| Disproportionate Share Hospital (DSH) Program Payable | $ 9,090,662 | The DSH program contractor's new contract was not signed until October 2021, which caused payments in the program to lag, but the untimely payments were not considered in the Department's calculation of the payable, causing the understatement of $9 million. The APA proposed an adjustment, which State Accounting made. |
| Intergovernmental Payable | $ 8,030,411 | The Department reported the incorrect amount on its accrual response form, which caused the payable to be understated. The support tested by the APA reflected the proper amount. The APA proposed an adjustment, which State Accounting made. |
| State Rx Benefit Payable | $ 5,027,854 | The Department did not report a payable for June's prescription billing paid in August 2021. The APA proposed an adjustment, which State Accounting made. |
| Supplemental Nutrition Assistance Program (SNAP) Inventory | $ 3,971,743 | The SNAP accrual was overstated, as the calculation used accrual amounts instead of months paid during the fiscal year, per Government Accounting Standards Board Statement No. 24. The APA proposed an adjustment, which State Accounting made. |

| Description | Misstatement Amount | Reason |
|---|---|---|
| COVID-19 Epidemiology & Laboratory Capacity for Infectious Disease Payable | $ 3,100,000 | The Department did not report a payable to State Accounting for a payment made to Nomi Health for services during fiscal year 2021 but paid in August 2021. The APA proposed an adjustment, which State Accounting made. |
| Medicaid Short-Term & State Children's Health Insurance Program (SCHIP) Payables | $ 3,082,601 | The Department used the incorrect Federal Medicaid Assistance Percentage (FMAP) when calculating the short-term Medicaid payable and the SCHIP payable, causing the short-term Medicaid Federal payable to be understated and the State payable to be overstated by $2,994,644. The APA proposed an adjustment, which State Accounting made. For SCHIP, the Federal payable was understated, and the State payable was overstated, by $87,957. |
| Patient & County Billings Receivable | $ 2,970,498 | The Department overstated the receivable, mainly due to incorrect and unsupported allowances for doubtful accounts and various errors in the calculation. Additionally, we tested 25 client balances and determined 23 had a balance due that was not proper. For 9 of the 10 balances that could be collected, the Department was not actively performing collection procedures. The APA proposed an adjustment, which State Accounting made. |
| School Administration Medicaid Payable | $ 1,703,218 | The Department overstated the payable due to a calculation error. Additionally, the three percent kept by the State for administration costs was not reduced from the payable calculation. The APA proposed an adjustment, which State Accounting made. |
| State Ward Education Payable | $ 670,236 | The Department did not have adequate support for the calculation of the payable. During testing, we noted that a payment for $670,236 was made in fiscal year 2022 for fiscal year 2021 services. The Department's calculation did not specifically include this payment and, based on a lack of adequate support for how the payable was calculated, it is unknown if the calculation would have properly accrued the payment. |
| State Funded Vaccine Inventory | $ 327,519 | The Department incorrectly reported $193,095 for the State-funded vaccine as a prepaid expense; however, this was actually the amount used during the year. The $193,095 should have instead been recorded during the previous audit but was not. Due to the error, the current year's balance should have been $520,614, for an understatement of $327,519. |
| Nebraska Families Online Client User System (NFOCUS) Receivable | $ 197,766 | The NFOCUS receivable was understated due to amounts in the calculation not being correctly updated by the Department or not agreeing to the Department's supporting documentation. Additionally, the allowance for doubtful accounts was overstated by $93,761. |
| Indirect Medical Education/Direct Medical Education Long-term Payable | $ 77,025 | The Department used the wrong FMAP rate, which caused the Federal payable to be overstated and the State payable to be understated by $77,025 |
| NFOCUS Payable | $ 45,861 | The Department used a query to calculate the payable that included duplicate amounts in three different programs, causing the payable to be overstated. |
| Program Integrity Receivable | $ 20,598 | Due to several calculation errors, the Department overstated the receivable by the $20,598 and understated its allowance for doubtful accounts by $25,374. During testing of case balances, we noted that one balance was understated due to an inaccurate receipt recorded, and three balances, totaling $1,931,860, had no recent collection efforts performed. |

| Description | Misstatement Amount | Reason |
|---|---|---|
| Immunizations Inventory | $ 20,000 | The Department reported $1,326,932 for immunizations inventory, but its system showed $1,346,932, causing an understatement of $20,000. |
| Medicaid Drug Rebate (MDR) Receivable | $ 4,565 | The MDR accounts receivable calculation had several formula errors that caused the receivable to be overstated by $4,565. Additionally, the allowance for doubtful accounts was understated by $559,702. |
| **Total Misstatement** | **$ 38,340,557** | |

Furthermore, during testing, we noted the following issues:

- The Department did not report an allowance for doubtful accounts for the Third-Party Liability receivable. Using a similar calculation as the previous audit, the APA calculated an allowance of $5,802,105. The Department agreed that an allowance should have been reported but was unable to calculate a reasonable amount. The Department no longer agreed with the previous method to calculate the allowance but provided no alternate calculations. Therefore, State Accounting reported no allowance for the audit.

- 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.

- The Department did not report its construction commitments properly to State Accounting for inclusion in the Capital Assets footnote. The Department overstated the amount by $35,619,441. Furthermore, the remaining construction commitment amount was not split according to future payments at 90% Federal and 10% State. Instead, the Department reported the split as 50/50.

- The Department did not report its grants and contracts contingency amount to State Accounting properly for inclusion in the Contingencies and Commitments footnote. The Department understated the amount by $1,810,603.

Title 2 CFR § 200.511(a) (January 1, 2021) 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 State Accounting. Good internal controls also require policies and procedures to ensure secondary reviews are performed for account changes and outstanding balances are followed up on.

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

> We recommend the Department train staff and implement procedures for properly calculating and reporting accruals for the ACFR, 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 State Accounting and for proper follow up of outstanding balances.

*Department Response: DHHS Financial Services will continue to develop, assess, and improve upon internal procedures. Financial Services staff will continue to collect and review the accrued items. In addition, DHHS Financial Services will meet with staff responsible for the items noted in errors. This meeting will outline and review the internal reporting process, documentation expectations, review of the audit findings and deadlines. DHHS will be meeting with DAS staff to work through any necessary corrections for the next fiscal year.*

## 2. **Erroneous Financial Transactions**

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

- There were $10,682,434 of payments processed in CONNECT (Coordination Options in Nebraska Network Through Effective Communication and Technology) for various programs, which then interfaced with EnterpriseOne, without documentation of a second individual involved in the payment process.

- The Department paid Deloitte Consulting LLP $13,031,583 for software system expenses related to a data management and analytics project during the fiscal year ended June 30, 2021. Of these expenses, $10,501,969 were considered additions for Construction in Progress (CIP); however, the Department recorded these CIP costs to an operating account instead of the account code that is required by the State accounting manual for this type of project.

- The Department deposited various monies received into the Medicaid Holding Fund for several programs, including Medicaid Drug Rebate, Third-Party Liability, Program Integrity, 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 $8,090,720 at June 30, 2021. The APA proposed, and State Accounting posted, an adjustment to correct the error.

- A fiscal year 2021 grant payment made in September 2021 to Alegent Creighton Health for $6,490,800 was not properly recorded as a fiscal year 2021 obligation in EnterpriseOne. The APA proposed, and State Accounting posted, an adjustment to correct the error.

- A payment was made in July 2021 to Nebraska Children and Families Foundation, of which $4,609,233 was for a fiscal year 2021 obligation; however, the payment was not properly recorded as a fiscal year 2021 obligation in EnterpriseOne. The APA proposed, and State Accounting posted, an adjustment to correct the error.

- The Department contracted with ScriptGuideRX to manage the pharmacy benefits program and make payments to pharmacies for the prescriptions, then bill the Department for reimbursement of the prescriptions. These payments, totaling $1,435,845, were incorrectly coded by the Department as "Subrecipient Payments" instead of "Assistance to/for Individuals."

- The Department is coding six percent of Supplemental Medicaid Drug Rebates (MDR) to the Children's Health Insurance Program (CHIP) but does not have support for where this percentage amount comes from or why it is used. During the fiscal year ended June 30, 2021, the Department received $8,132,270 for supplemental MDR, of which $501,339 was coded to CHIP.

Nebraska State Accounting Manual, AM-005, General Policies, Section 28 ("Capital Outlay") (3/2020), provides the following for "Computer Software Capitalization":

> *Computer software that is internally developed, or commercially available software that is modified using more than minimal incremental effort before being put into operation, shall be capitalized as a separate asset if the cost is $100,000 or more and has a life greater than one year.*

Good internal controls require procedures to ensure transactions are recorded accurately in the accounting system, there is adequate review and approval for processing transactions, and documentation is on file to support the transactions.

Without such procedures, there is an increased risk that the financial statements will be materially misstated.

> We recommend the Department implement procedures to ensure accounting entries are timely, adequately supported, reviewed, and recorded accurately, including prior period transactions, so proper identification and adjustments can be made for the ACFR.

*Department Response: DHHS has utilized the DAS State accounting manual and internal control guidance. However, during 2022, 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.*

**3. 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 Payments Tested | Unsupported Amount | Services | Issues |
|---|---|---|---|---|
| Nebraska Children and Families Foundation | $ 828,788 | $ 828,788 | Foster Care | The Department did not perform any monitoring for the fiscal year ended June 30, 2021. Although there was some documentation for two payments, totaling $8,575, it was not adequate to support the expenses. |
| Disability Rights Nebraska | $ 484,750 | $ 114,712 | Developmental Disabilities | The Department did not obtain adequate documentation to support that personnel costs were for actual time spent on the subaward. |
| Right Turn | $ 84,259 | $ 59,609 | Post Adoption and Guardianship | The Department did not obtain adequate documentation for personnel costs and operating expenses. |
| Child Advocacy Center | $ 42,429 | $ 30,006 | Child Advocacy | 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. |
| Bright Horizons | $ 11,013 | $ 6,450 | Domestic Abuse Services | The Department did not obtain adequate documentation for personnel and fringe benefit expenses paid from State funds and did not review any portion of the expenses paid from Federal funds. |
| **Totals** | **$ 1,451,239** | **$ 1,039,565** | | |

We also tested one payment to Region III Behavioral Health Services. The Department performed monitoring of Region III; however, the Department did not obtain documentation that it had reviewed the time study that the allocation of personnel costs was based on or had compared it to personnel costs charged.

Title 45 CFR § 75.352(d) (October 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 45 CFR § 75.403 (October 1, 2020) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

According to the agreement between the Department and providers, "All requests for payments submitted by Contractor, whether for reimbursement or otherwise, shall contain sufficient detail to support payment." The agreement states also, "Contractor 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 requires 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: For most of these issues, the Department's responsibility to address the impact of Covid-19 temporarily affected the completion of monitoring during this State fiscal year. The Department believes these costs to be allowable. The reviews either have been or are in the process of being completed now.*

## 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 2017, the Department converted the Mailbox to a database with an online submission form. Referrals from the Mailbox were transitioned to the new database.

<u>*Date of Discovery*</u>
Prior to September 2014, the Department defined the "date of discovery," as the date a potential overpayment was initially discovered.

However, beginning September 2014, the Department redefined the "date of discovery," and the NAC was revised to state "*Date of Discovery: The date the Department confirms an overpayment occurred.*" With this definition, a referral could sit in the database for years, unworked, and not be considered overdue.

This was a finding noted in the previous six audits.

In fiscal year 2021, the Department defined "date of discovery" in its Supplemental Nutrition Assistance Program (SNAP) claims' plan as follows:

> *The Date of Discovery is defined as the date when a potential overpayment is initially identified and submitted for review. All overpayments are investigated to determine if an Accounts Receivable (A/R) should be established.*

However, the NAC, last updated on July 4, 2020, still had the "date of discovery" defined as "the date the Department confirms the payment occurred," which does not agree with the SNAP claims' plan.

<u>*Beyond Timeframe*</u>
The policy for SNAP, which the Department follows for other programs as well, updated on July 4, 2020, redefined the timeframe for when a claim could be established.

Per 475 NAC 4-007.01(B):

> *An overpayment will be established against any household that received an overpayment due to an Administrative Error within the last 12 months before the month of discovery. Action may be taken on an overpayment for which more than 12 months have elapsed; however, action cannot be taken on overpayments for which more than six years have elapsed between the month an overpayment occurred and the month the overpayment was discovered.*

(Emphasis added.) Per 475 NAC 4-007.01(C):

> *An overpayment will be established against any household that received an overpayment due to an Inadvertent Household Error within the last 12 months before the month of discovery. Action may be taken on an overpayment for which more than 12 months have elapsed; however, action cannot be taken on overpayments for which more than six years have elapsed between the month an overpayment occurred and the month the overpayment was discovered.*

However, the NAC does not coincide with Federal regulations for administrative errors or inadvertent household errors. Federal regulations state that the Department "must" go back at least 12 months; whereas the NAC states overpayments are established within 12 months and "may" be established from 12 months to six years back. Per 7 CFR § 273.18(c)(1)(i), a State agency "must calculate a claim back to at least twelve months prior" to when the agency "become aware of the overpayment." (Emphasis added.) That same regulation prohibits inclusion of "any amounts that occurred more than six years before" the agency "became aware of the overpayment."

We reviewed the Department's database and, as of June 30, 2021, there were 1,353 cases labeled "beyond timeframe," of which 1,292 were dated prior to fiscal year 2021 and were not being reviewed. These cases are broken down by program as follows:

- 252 Aid to the Aged, Blind, or Disabled
- 4 Aid to Dependent Children
- 1 Childcare
- 48 Low-Income Home Energy Assistance Program
- 987 Supplemental Nutrition Assistance Program

We also performed testing of 25 overpayment receivables and noted the following issues:

- One receivable for $61,657 was not established in a timely manner according to Federal regulations.
- Two receivables, for $14,115 and $14,959, did not have documentation that demand notices had been sent.
- Two receivables, for $61,657 and $42,840, were not being actively collected on by the Department.

Title 7 CFR § 273.18(d)(1) requires a State agency "establish a claim before the last day of the quarter following the quarter in which the overpayment or trafficking incident was discovered[.]"

Per 469 NAC 3-007.03B2:

> *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.*

Per DHHS Collection Policy signed April 12, 2017:

> *DHHS shall send an initial letter to the Debtor requesting payment and advising Debtor that, if payment is not received within 30 days, action may be taken to enforce payment on the debt. If no response is received within 30 days of the initial letter, DHHS will send a second letter, requesting payment. The letter will contain an appropriate advisement regarding further action that may be taken.*

Good internal controls require procedures to ensure that policies agree with Federal regulations, overpayments are established timely, and collection policies are followed.

Without such procedures, timeframes set by Federal regulations may not be met. Additionally, overpayments that are not worked timely have a lesser chance of collection, whereas overpayments not worked at all will have no chance of collection.

A similar finding was noted during the previous five audits.

> We recommend the Department work to resolve this repeat finding by implementing procedures for, as well as devoting adequate resources to, investigating, establishing, and pursuing NFOCUS receivables, as well as reducing the number of overpayments. Additionally, we recommend the Department ensure policies agree to Federal regulations.

*Department Response: 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. Referrals that are submitted to the database are addressed timely and never allowed to sit in the database for years, unworked, and not be considered overdue.*

*Effective October 1, 2020, Nebraska has updated the 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 the Nebraska Administrative Code (NAC) is in the process of being updated.*

*The beyond timeframe NAC reference is not worded exactly as the CFR, but the state is applying the policy in the same way. The state will establish overpayments within the last 12 months. Client caused errors may be processed for up to 6 years prior but the farthest we go back for agency caused errors is 12 months.*

## 5. Lack of Internal Controls over Program 262

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 2021, we again performed follow-up on the procedures and noted the following issues still existed:

*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 second review of the radon payments received and comparison to the monthly mitigation reports to ensure that the correct amounts are received and deposited, and all money due to the Department has been received.

*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, Hospice, Adult Day Health, Child Day Health, and Respite. One staff assistant was able to handle a transaction from beginning to end. The staff assistant received the mail after it was opened, reviewed the paperwork submitted along with the check, took the checks to the person responsible for delivering them to Department Accounting for deposit, reviewed the spreadsheet prepared by Department Accounting of receipts deposited, and issued the licenses.

Good internal control and sound business practices require procedures to ensure that a proper segregation of duties is implemented, so no one individual is capable of handling all phases of the receipt process from beginning to end.

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

We recommend the Department implement procedures to ensure no one person can handle all phases of a transaction from beginning to end.

*Department Response: Processes have been changed that ensure proper internal controls exist to where no one person is handling all phases of the transaction.*

## 6. Retroactive Social Security Disability Payments

When an individual applies for Social Security Disability (SSD) payments, 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 to 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. In December 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. However, as of June 30, 2021, the accumulated balance was up to $545,324, and the Department still had not established policies and procedures to reconcile the balance and move the monies to the appropriate welfare programs. Therefore, the APA proposed, and State Accounting made, an adjustment to reflect the fund balance appropriately.

In accordance with the eligibility requirements for the AABD program and the SDP, 469 Nebraska Administrative Code (NAC) 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 that interim assistance reimbursed by the 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 improperly stated for financial statement purposes.

A similar finding has been noted since the 2018 audit.

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

*Department Response: The Department will review its current practices and determine any necessary changes to be made.*

## 7. Professional Research Consultants Contract

The State entered multiple contracts with Professional Research Consultants (PRC) for work surrounding the COVID-19 Pandemic, such as contact tracing and a vaccine hotline. Per the State's accounting system, payments to PRC in fiscal year 2021 totaled $28,988,178. While reviewing the invoices and the underlying contracts, multiple issues were noted.

The APA found that there was a lack of overall transparency in the contract with PRC. The Department had agreed informally to pay PRC based on a specified number of guaranteed hours; however, the contractual language appeared to indicate that payment would be based on actual hours worked. The Department did provide the APA with emails exchanged with PRC, revealing an apparent understanding that payments would be based on guaranteed hours because PRC would have to pay the wages of the workers on hand, regardless of whether they were utilized or not. However, the contract was not amended to ensure this intention was clearly stated, causing an overall lack of transparency to the public. Had the Department paid solely for hours worked, based on the existing contractual language and the invoices provided, payments to PRC would have totaled only $1,566,629, during the four month period reviewed. Instead, the actual amount paid was $6,694,200, based on the informal understanding regarding guaranteed hours, resulting in a difference of $5,127,571.

Contract 94642 O4 states, under Section 3.1, "TOTAL PAYMENT":

> *DHHS shall pay the Contractor in accordance with the fixed rates for services set herein, in a total amount estimated to be $9,250,000.00 (nine million two hundred fifty thousand dollars), which is subject to* <u>*actual utilization*</u>*, for the services provided in the initial term of this Contract.*

(Emphasis added.) Section 3.2.2.1. states further:

> *Each invoice must detail the dates and hours worked by the Contractor, and contain additional information sufficient to support payment. Supporting information may include, but is not limited to, logs of individuals who performed contact tracing services, number of hours of contact tracing services performed, and employee IDs of individuals who performed contact tracing services.*

Section 4.1.4. provides the following:

> *DHHS shall pay Contractor for* <u>*actual hours these individuals spend completing*</u> *DHHS-approved training and* <u>*contact tracing services*</u>*.*

(Emphasis added.) Section 4.1.5. of the contract also states:

> *Billable hours will be based on* <u>*actual utilization*</u> *of hours scheduled consistent with Attachment 1.*

(Emphasis added.) Additionally, according to the Department, "Available Contact Tracing Hours" means "Staffing available for Contact Tracing that day if needed to complete calls." Based on our review of four months of invoices, there was a four-week period (over two invoices) that the "Available Contact Tracing Hours" were less than the "Guaranteed Contact Tracing hours." The State still paid the Guaranteed Contact Tracing hours for these four weeks, even though the available hours noted by PRC were not enough to obtain the guaranteed hours, a potential overpayment of $256,191.

Finally, the APA noted that the contract was not added to the State Contracts Database website. A search of the contract by number brought up the vendor's name and amount, but no actual document was available for the public to view.

Neb. Rev. Stat. § 84-602.04(4)(a)(i) (2020 Cum. Supp) requires the State Treasurer to maintain a web site that contains, among other things, a link to the following:

> *A data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract.*

Sound accounting practices and a good internal control plan require procedures to ensure that State contracts reflect clearly the intentions of the parties thereto, and those governing contractual provisions are observed properly. The same procedures should ensure also that all active State contracts are available through the State Contracts Database website.

Without such procedures, there is an increased risk for a lack of transparency or even ambiguity in contracts, which could prove misleading to the public and give rise to potential liabilities. Furthermore, failure to add contracts to the State Contracts Database website constitutes a violation of State statute.

> We recommend the Department implement procedures to ensure: 1) contracts are written to reflect clearly the intentions of the parties, providing both transparency and protection from potential liability due to ambiguous terms; and 2) all contracts are included on the State Contracts Database, as required by State statute.

*Department Response: The Department responded to this finding as part of Epidemiology & Laboratory Capacity for Infectious Diseases Single Audit, please see responses already provided.*

## 8. NFOCUS Claims

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

- For three supported family living claims for $4,378, $2,383, and $612, the timesheets did not have the descriptions of service and were not signed by the client as required.

- For a fourth personal assistance services claim for $89, the timesheet did not have the descriptions of service and was not signed by the client as required.

- For a fifth disability related childcare services claim, the provider billed for service on July 1, 2020, as one day and one quarter hour (i.e., 9.25 hours). The regulations state that six or more hours are to be paid at the daily rate and do not allow the provider to bill by hours after more than nine hours in a day.

472 NAC 4-002.02 states:

> *[T]he provider shall submit an itemized statement which - 1. Describes the support provided; 2. Includes the dates of service; and 3. Is signed by the client.*

471 NAC 15-006.06 states:

> *To receive payment after personal assistance services are provided, the provider must: 1. Complete Form MC-37 which allows the provider to record the starting and ending times and a description of services provided each day; 2. Complete Form MC-82 for each client receiving personal assistance services, for the same time period as that reflected on Form MC-37; 3. Sign both forms; 4. Obtain the client's signature on Form MC-37; and 5. Submit both forms to the client's Social Services Worker or designee.*

480 NAC 5-005.D4 (June 16, 2014) states:

> *Six or more hours of care provided outside the child's home must be paid at a day rate . . . .*

Sound business practice and good internal controls require procedures to ensure that the Department is complying with its own administrative regulations.

Without such procedures, there is an increased risk of noncompliance.

> We recommend the Department implement procedures to ensure compliance with its own administrative regulations. If the Department's billing practices are not in compliance with such regulations, action should be taken to revise either those practices or the regulations accordingly.

*Department Response: The Department will review its current practices and determine any necessary changes to be made.*

## 9. Lack of Service Organization Control Reports

The Department's Supplemental Nutrition Assistance Program (SNAP) and Woman, Infants, and Children (WIC) Program failed to obtain three Service Organization Control (SOC) reports by the statutory ACFR deadline in December 2021. One SOC report was used by both SNAP and WIC and obtained on January 25, 2022, and the other two were utilized only by WIC and received on March 24, 2022.

These SOC reports 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 402B.

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

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

*Department Response: 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.*

**APA Response: The Department can work to amend their contract with the service organization to ensure the SOC report is completed timely.**

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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 suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

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