



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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January 30, 2023

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

Dear Ms. Smith:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund (except the Enterprise Fund – Unemployment Insurance), and the aggregate remaining fund information of the State of Nebraska (State), and we were engaged to audit the business-type activities and the Enterprise Fund – Unemployment Insurance, as of and for the year ended June 30, 2022, 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 January 30, 2023. 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 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 another deficiency that we consider to be a significant deficiency.

*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 Financial Statement Adjustments”) 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 (“Other Errors in Financial Reporting”) to be a significant deficiency.

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 265.A17, in a separate early communication letter dated November 17, 2022.

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. The responses were not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, 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, 2022.

**1. Multiple Financial Statement Adjustments**

The Auditor of Public Accounts (APA) proposed \$135,324,736 in adjustments to ensure the accuracy of the Department’s financial reporting for the fiscal year 2022 Annual Comprehensive Financial Report (ACFR).

The Nebraska Department of Administrative Services (DAS), State Accounting Division, prepares the State of Nebraska’s ACFR and requires all State agencies to determine and report accurate amounts for financial reporting, including various accounts receivable and payable balances at fiscal year end. Additionally, DAS relies on agencies to report activity accurately throughout the year in the State’s accounting system.

The Department made two different types of errors, as summarized in the table below:

Description of Error	Amount
Accruals Not Reported to DAS	\$59,336,064
Accruals with Errors Reported to DAS	\$75,988,672
<b>Total</b>	<b>\$135,324,736</b>

Accruals Not Reported to DAS

The following table contains a listing of transactions that the Department failed to report to DAS for financial reporting purposes at fiscal year end 2022:

Description	Reason	Dollar Error
Disproportionate Share Hospital (DSH) Revenue Entry	Hospitals in Nebraska are deemed to be disproportionate share hospitals (DSH) if the Medicaid inpatient utilization rate is above average or if they have a low-income utilization rate of 25 percent or more. Essentially, these are hospitals that serve numerous Medicaid or uninsured patients. The Department makes payments to these hospitals throughout the year.  One part of the DSH payment is made to the State’s Acute Care Teaching Hospital affiliated with the University of Nebraska Medical College on an annual basis. Because the payment is to another State entity, the receipt of these funds is also recorded in the State’s accounting system into fund 25160. The receipt of \$17,846,430 was recorded on July 13, 2022, which is after the fiscal year end. However, the receipt represented the annual amount for fiscal year 2022, so it should have been accrued in that year.	\$17,846,430

Description	Reason	Dollar Error
Medical Loss Ratio (MLR) Entry	<p>As part of its contracts with the Managed Care Organizations (MCO), the Department receives an annual Medical Loss Ratio (MLR) report. The MLR is generally the percentage of premiums spent on medical care. If the MLR is less than 85%, the MCOs must refund the difference to the Department.</p> <p>When the Department receives the annual report with an amount due back to it, a receivable should be recorded at that time. However, the Department had not been reporting accruals for the dental MLR amounts. The following amounts were not included as an accrual by the Department on its accrual response form:</p> <ul style="list-style-type: none"> <li>FY 21 Dental MLR Accrual (Adj beginning balance)</li> <li>FY 22 Dental MLR Accrual (Receivable)</li> </ul>	<p>\$9,013,755</p> <p>\$7,235,102</p>
Late Material Journal Entry	<p>The Department posted a \$13,721,710 journal entry in October 2022 to move expenses from the General Fund to the Health and Social Services Fund. The Department correctly recorded the transaction as a prior-period entry, knowing it should be attributed to fiscal year 2022. However, it was not picked up by DAS for inclusion in the current ACFR because DAS looks only at activity through September 30. Therefore, because the Department did not prepare the journal entry timely or notify DAS of the material entry, it was not recorded in the proper fiscal year or to the proper fund. The APA proposed an adjustment to correct the fund and fiscal year, which was posted by DAS.</p>	<p>\$13,721,710</p>
Health Insurance Provider Fee (HIPF) Entry	<p>Each of the Managed Care Organizations (MCOs) periodically determine their health insurance provider fee (HIPF) liability, which is compared to the capitation payments received from the State. Capitation payments are set amounts paid to providers for a specific patient for a specific time. In its January 25, 2022, actuarial certification for the period October to December 2020, the actuary calculated that each MCO's HIPF capitation payments exceeded their HIPF liability. The excess payments were due back to the State and should have been recorded as a receivable because they were not received until October and November 2022. The amounts per insurer are as follows:</p> <ul style="list-style-type: none"> <li>United Healthcare</li> <li>Wellcare</li> <li>Nebraska Total Care</li> </ul>	<p>\$2,858,570</p> <p>\$1,941,345</p> <p>\$1,719,609</p>
Ryan White Program Negligence	<p>The Department oversees the State's AIDS Drug Assistance Program (ADAP), which is included in the Ryan White Program. ScriptGuideRx, a third-party contractor, manages rebates from pharmaceutical manufacturers and passes them on to the Department. The APA found the following issues related to the recording of rebates and program income received:</p> <ul style="list-style-type: none"> <li>The Department recorded rebates in fiscal year 2023 that were for fiscal year 2022. Therefore, a receivable should have been recorded but was not.</li> <li>The Department recorded program income in fiscal year 2022 that was for fiscal year 2019. Therefore, a beginning fund balance adjustment was required that was not made.</li> <li>The Department recorded rebates in fiscal year 2022 that were for fiscal year 2021. Therefore, a beginning fund balance adjustment was required that was not made.</li> </ul> <p>In addition to the inaccurate recording of amounts received, as noted above, the Department lacked an overall understanding of, as well as had insufficient controls over, this program. The Department failed to verify the accuracy of the rebates each quarter, lacked adequate documentation to support the amounts received, and performed no tracking of the rebates owed in accordance with the terms of the grant.</p> <p>Out of six rebates received in fiscal year 2022, three had only the ACH/EFT transaction document rather than actual documentation from the source.</p> <p>Because of the lack of documentation in the program and untimely Department responses, it took until January 10, 2023, for the Department to provide adequate documentation. The APA's first questions regarding the rebates were dated October 18, 2022.</p>	<p>\$2,276,908</p> <p>\$1,860,219</p> <p>\$862,416</p>
<b>Total</b>		<b>\$59,336,064</b>

Accruals with Errors Reported to DAS

The following table contains a listing of transactions that the Department reported incorrectly to DAS for financial reporting purposes at fiscal year end 2022:

Description	Reason	Dollar Error
Construction In Progress (CIP) and Construction Commitment Errors on Accrual Response Form	<p>The Department's accrual response form did not accurately report asset values for three Construction In Progress (CIP) projects tested and one Construction Commitment tested. A similar issue was noted in the prior year. The errors by project are included below:</p> <ul style="list-style-type: none"> <li>CyncHealth IT Project Construction Commitment Overstated</li> <li>DMA IT Project CIP Overstated</li> <li>iServe IT Project CIP Understated</li> <li>CyncHealth IT Project CIP Understated</li> </ul>	<p>\$32,290,691 \$445,022 \$3,372,201 \$511,796</p>
Department Cost Allocation Process Entries	<p>The Department has a cost allocation process to allocate certain costs to the benefitting programs based on a methodology deemed to be the most equitable and appropriate. The costs are usually recorded in the General fund, and the cost allocation process charges the costs to the appropriate Federal funds. These cost allocation entries are included as part of the intergovernmental payable and receivable at fiscal year end. The APA found the following errors related to the cost allocation plan:</p> <p><b>July 1, 2021, through September 30, 2021:</b> The Department inappropriately recorded \$3,174,220 as prior-period expenses for fiscal year 2021. The expenses were already included on the Department's accrual response form, so these expenses were duplicated in fiscal year 2021. The APA proposed an adjustment to the beginning fund balance to correct the issue.</p> <p><b>October 1, 2021, through June 30, 2022:</b> The Department also inappropriately recorded \$2,401,531 as prior-period expenses for fiscal year 2021. The expenses were already included on the Department's accrual response form. However, because of the error, DAS recorded an adjustment to beginning fund balance, which was not needed. The APA proposed an adjustment to reverse the beginning fund balance entry made by DAS.</p> <p><b>July 1, 2022, through September 30, 2022:</b> The Department inappropriately recorded \$9,609,623 as fiscal year 2022 expenses. However, the expenses were already included on the Department's accrual response form, so the expenses were duplicated in fiscal year 2022. The APA proposed an adjustment, which was posted by DAS, to reduce the Federal fund expenses.</p>	<p>\$3,174,220  \$2,401,531  \$9,609,623</p>
DSH Payable Calculation	<p>Hospitals in Nebraska are deemed to be disproportionate share hospitals if the Medicaid inpatient utilization rate is above average or if they have a low-income utilization rate of 25 percent or more. Essentially, these are hospitals that serve numerous Medicaid or uninsured patients. The Department makes payments to these hospitals throughout the year.</p> <p>The DSH payable is an annual estimate using historic payment data from the previous three years. The Department utilized incomplete data during the fiscal year 2022 annual estimation, causing an understatement of \$10,384,991, which is broken down to \$6,882,484 for short-term Federal share and \$3,502,507 for long-term Federal share. A similar finding was noted in the prior year.</p>	<p>\$10,384,991</p>
Intergovernmental Accounts Receivable/Accounts Payable Calculation	<p>The Department calculated the intergovernmental accounts receivable amount and accounts payable for money due to and from the Federal government at year end. Several different Federal grants are included in the calculation. If the Department has paid more than it has drawn, a receivable is created. Conversely, if the Department has drawn more than it has paid, a payable is created.</p> <p>The Department inaccurately reported the Federal Fiscal Year 2022 Adoption Assistance amount drawn as \$27,763,620 in its accrual calculation, instead of the actual amount of \$19,302,036, for a total variance of \$8,461,584. The original calculation resulted in an intergovernmental payable for the Adoption Assistance grant of \$8,215,151, but it should have been an intergovernmental receivable for \$246,433. A similar issue was noted in the prior year.</p>	<p>\$8,461,584</p>

Description	Reason	Dollar Error
Patient and County Prior Year Calculation Error	<p>The Department bills for services provided to patients at State facilities, such as the Lincoln Regional Center, or for community based developmental disability services provided at non-State facilities. Initially, charges are recorded at full cost, but are later reduced significantly to match the patient's ability to pay. If costs are not billed within 30 days of care, the county in which the patient resides must pay a fee. The Department calculates a receivable amount at year end that represents its estimation of funds owed to the State as of fiscal year end.</p> <p>The APA found a \$5.3 million error in the prior year patient and county receivable amount. Therefore, a beginning fund balance adjustment was needed but was not made until the APA identified the error in the calculation.</p>	\$5,337,013
<b>Total</b>		<b>\$75,988,672</b>

In its response to the Summary Schedule of Prior Audit Findings, the Department stated that its corrective action plan was in process with regards to errors in accrual information. However, many of the current year accruals were inaccurate and 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 or when entries were made to the State's accounting system. Due to the implementation of limited or no corrective actions, similar issues have been reported since the 2003 audit, for over 19 years.

A good internal control plan requires procedures to ensure that accurate and complete financial information is reported to DAS. Good internal controls also require procedures to ensure secondary reviews are performed for accruals reported and journal entries made.

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 to calculate and report accruals properly for the ACFR, including fixing repeated errors. Furthermore, we recommend the Department implement procedures to ensure a secondary review is performed for all accruals by a knowledgeable individual prior to submission to DAS or entry into the State's accounting system.

*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 also meet with DAS staff to work through any necessary corrections for the next fiscal year.*

## 2. Other Errors in Financial Reporting

For the fiscal year 2022 ACFR, the Department made \$57,142,009 in other accounting errors for items not requiring a formal proposed adjustment to the financial statements. The details of these errors is contained in the table below:

Description	Reason	Dollar Error
Incorrect IT Development Coding	<p>The Department recorded \$54,462,092 of software development costs for three information technology (IT) projects as operating expenditures when they should have been recorded as capitalized expenditures. Additionally, some of those projects were reported incorrectly on the accrual response form noted in Comment Number 1 ("Multiple Financial Statement Adjustments") herein, but most of the errors were made by using the wrong object account in the accounting system. A similar issue was noted in the prior year. The detail of the costs by projects is as follows:</p> <p>CyncHealth Project</p> <p>iServe Project</p> <p>DMA Project</p>	<p>\$29,273,584</p> <p>\$20,492,472</p> <p>\$4,696,036</p>

Description	Reason	Dollar Error
Incorrect SNAP Accrual	The Supplementary Nutrition Assistance Program (SNAP) accrual is prepared to record non-monetary transactions at the fiscal year end. The Department reported \$371,096,122 for food stamp activity for fiscal year 2022. However, an adjustment of \$631,978 was not included in the Department's figures, and the actual amount reported should have been \$370,464,144. A similar issue was noted in the prior year. No adjustment was made because the amount was not above the adjustment threshold.	\$631,978
Medical Drug Rebate (MDR) Supplemental Rebate Coding	<p>The Medical Drug Rebate (MDR) program collects Medicaid rebates for certain physician-administered drugs from drug labelers to be able to receive Federal matching payments for the drugs. In addition, the State has negotiated a supplemental rebate program with drug manufacturers to generate additional revenues and further reduce expenditures.</p> <p>The Department has recorded 6% of supplemental MDR rebate income to the Children's Health Insurance Program (CHIP) since at least 2014. However, it has been unable to provide documentation to support that percentage since the APA asked in fiscal year 2020. During fiscal year 2022, the Department received \$10,283,343 in supplemental rebates, of which \$617,000 was charged to the CHIP program.</p>	\$617,000
Indirect Medical Education (IME)/Direct Medical Education (DME) Payable Calculation	<p>Federal regulations provide for payments to hospitals for the costs of approved graduate medical education, also known as Direct Medical Education (DME). Indirect Medical Education (IME) payments are also authorized for the costs that are associated with maintaining an approved medical education program, but they are not reimbursed as part of the DME payments. The Department calculates annual DME and IME payments for services provided by capitated plans from discharge data provided by the plans. The amount of the payable represents payments owed to hospitals within the State at the end of the fiscal year.</p> <p>The IME/DME payable includes a short-term and long-term calculation that is calculated using historic payment data from the previous two years. The Department failed to include fiscal year 2022 expenses in its projected fiscal year 2023 calculation of payments, and instead used fiscal year 2021 expenses. This error caused an overstatement of \$299,007 in the Federal share and \$190,756 in the State share of the liability. A similar issue was noted in the prior year.</p>	\$489,763
Program Integrity Accrual Calculation	<p>The Medicaid Program Integrity Unit's purpose is to guard against fraud, abuse, and waste of Medicaid program benefits. The Unit is responsible for reporting the total refunds that are expected to be collected in the next fiscal year from referred cases.</p> <p>The Department's calculation of the receivable and allowance for doubtful accounts contained a couple of different issues, including the use of an incorrect Federal Medical Assistance Percentage (FMAP) and incorrect balances. Because of the errors noted, the total receivable was overstated by \$19,643, and the allowance for doubtful accounts was overstated by \$445,139 because of the errors. A similar issue was noted in the prior year.</p>	\$464,782
Medical Drug Rebate (MDR) Accounts Receivable Calculation	<p>The Medical Drug Rebate (MDR) program is described above. A receivable is prepared to record funds due to the State from drug labelers as of fiscal year end. The APA noted the following concerns with the receivable calculation:</p> <p>First, the Department used the previous 10 years of collection data in determining the receivable and corresponding allowance for doubtful accounts for various claim types. During 2017, however, much of the claims' data was moved from being processed by the Department's internal system to the Managed Care Organizations (MCOs), so data used prior to that time is not representative of the current claims process. By removing the older claims data from the calculation, the APA calculated the receivable to be \$258,924 higher than the Department's calculation.</p> <p>Next, in its calculation for the Supplemental MDR claims, data from 2012 was used. However, in the calculation of the receivable for the other claim types, data back to only 2013 was used. Once the 2012 data was removed from the calculation, the receivable balance was \$45,534 less than the original calculation.</p> <p>Finally, the Department used percentages for its estimation of the collectability of the rebates that ranged from 0% collectible for claims five years or older to 100% of claims less than two years old. There is no documentation or historical data to support the percentages.</p> <p>Similar issues were noted in the prior year.</p>	\$213,390

Description	Reason	Dollar Error
Disproportionate Share Hospital (DSH) Payable Calculation	<p>DSH payables have been described already in Comment #1 (“Multiple Financial Statement Adjustments”) herein. As mentioned, a portion of the Disproportionate Share Hospital (DSH) payable is payments to non-profit acute care teaching hospitals affiliated with a State-owned University Medical College.</p> <p>The Department’s calculation for this part of the payable was incorrect because the Department used the prior year payments to the University of Nebraska Medical Center of \$17.2 million rather than the current year payment of \$17.8 million. This error resulted in a difference of \$213,004 for this part of the calculation.</p>	\$213,004
Medicaid Short Term Payable Calculation	<p>Medicaid and Children's Health Insurance Program (CHIP) claims are paid primarily within one year of the claim filing. The Department calculates a payable for the claims that will be paid within the next year.</p> <p>A portion of the payable is an estimate of payments to critical access hospitals within the State. The Department included a three-year cost average of \$230,284 that was rounded up to \$300,000; however, it appears to be more reasonable to round the cost average to only \$250,000. A similar issue was noted in the prior year.</p>	\$50,000
<b>Total</b>		<b>\$57,142,009</b>

Nebraska State Accounting Manual, AM-005, General Policies, Section 28 (“Capital Outlay”) (3/2020), provides the following process 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 that transactions are recorded accurately in the accounting system, there is adequate review and approval for processing transactions or accruals, and documentation is on file to support the transactions or accruals.

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, including prior period transactions, are timely, adequately supported, reviewed, and recorded accurately, so proper identification and adjustments can be made for the ACFR.

*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 also meet with DAS staff to work through any necessary corrections for the next fiscal year.*

### **3. NFOCUS Overpayments and Claims**

The Department used the Nebraska Families Online Client User System (NFOCUS) to record detailed information regarding clients and services provided, as well as to process payments for its various programs. The APA identified the following issues related to NFOCUS Overpayments and Claims:

#### NFOCUS Overpayments

Overpayments can be established against households that received an overpayment due to an administrative error, inadvertent household error, or intentional program violations.

In November 2011, the Department set up an Overpayment Mailbox for eligibility overpayments. These overpayments are referred, via email, to this mailbox, which was to be worked on by a member of the Overpayment Unit team.

In April 2017, the mailbox was converted to a database with an online submission form. Referrals from the mailbox were transitioned to the new database. The APA found the following issues related to the overpayments tested and the calculation of the accrual for the overpayments' receivable, as follows:

Description	Reason	Dollar Error
NFOCUS Overpayments	<p>During our detailed testing of 25 overpayment balances, totaling \$828,630, issues were found with all 25 balances, as noted below:</p> <p>7 of 25 receivable balances tested were not established in accordance with 7 CFR 273.18(d)(1), which requires the establishment of a claim before the last day of the quarter following the quarter in which the overpayment was discovered. The claims were established from 125 to 683 days after the referral date.</p> <p>6 of 25 balances tested lacked a demand letter, which is required by the Department's Collection Policy from April 2017.</p> <p>2 of 25 balances tested were not being recouped, even though the provider was currently receiving benefits.</p> <p>16 of 25 balances tested lacked documentation to support their review by the Department's legal department, in accordance with the Department's Collection Policy from April 2017.</p> <p>NFOCUS did not allow for the documentation of a secondary review of account status changes. Although the Department has implemented outside procedures and documentation, NFOCUS did not provide an audit trail of changes made to the account status. Collection procedures were completed only on active accounts. Staff can change an account status to suspended without review by a second individual, which causes the collections process to cease on those accounts.</p>	\$828,630
NFOCUS Receivable Calculation	<p>The Department is also responsible for calculating an annual receivable amount related to the NFOCUS overpayments. The APA noted the following issues with the Department's calculation:</p> <p>The Department's accounts receivable balances from the detailed reports provided did not agree to the balances used in the receivable calculation. The detailed reports were \$105,783 less than the amount used in the calculation.</p> <p>The Department provided an initial list of receivable write-offs that failed to include the reason for the write-off. Upon receipt of the revised list, the balances had changes causing an understatement of \$7,167 in the State share of the receivable and an understatement of \$8,203 in the Federal share.</p> <p>The Department failed to report an allowance for doubtful accounts for the subsidized adoption program or the adult developmental disabilities comprehensive program, which caused an overstatement of \$6,843 for the Federal share and \$4,335 for the State share of the receivable.</p>	\$132,331
<b>Total</b>		<b>\$960,961</b>

Related to the establishment of overpayments, the Department lacked a consistent definition for "Date of Discovery." 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, in Title 475 NAC 1-002.15, last updated on July 4, 2020, the "date of discovery" was still defined as "the date the Department confirms an overpayment occurred," which does not agree with the definition contained in the SNAP claims' plan.

The Department is also required to provide adequate notice to a debtor, as provided in the Department Collection Policy, signed April 12, 2017. Section 3 of that document states the following:



The following procedure will be followed for accounts which are 90 days overdue, unless suitable arrangements have been made for payment:

- a. 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.
- b. If no response is received within 30 days of the initial letter, DHHS will send the Debtor a second letter, requesting payment. The letter will contain an appropriate advisement regarding further action that may be taken.
- c. If no response is received within 30 days of the second letter and the debt exceeds \$10,000.00, the account will be referred to DHHS Legal Services for a decision on further collection efforts. Legal Services will initiate legal action or refer back to Financial Services for continued collection efforts.

Finally, per Title 475 NAC 4-007.02(C), the Department is required to recoup overpayments to households currently receiving benefits, as follows:

*For households currently receiving benefits, recoupment occurs automatically through a monthly benefit reduction beginning the first month possible considering ten day notice of adverse action. Benefits are not recouped from any prorated month.*

Good internal controls require procedures to ensure that policies agree with Federal regulations, overpayments are established timely, and collection policies are followed. Those procedures should also ensure that the calculation of any accruals are accurate and supported by adequate documentation.

Without such procedures, there is an increased risk of both regulatory noncompliance and material misstatement to the financial statements.

#### NFOCUS Claims

The APA also tested 25 claims paid from NFOCUS and found the following issues:

Description	Reason	Dollar Error
Inadequate Documentation	For 4 of 25 NFOCUS claims tested, the timesheets offered as support for the services provided did not have descriptions of services, as required by the Department's regulations and good internal controls. The following claim types and amounts were included: Personal Assistance Service (PAS) for \$111, \$112, \$167, and \$1,462 for PAS and Personal Care.	\$1,852
Ineligible Claims	For 1 of 25 claims tested, payment was made to an ineligible individual whose primary residence was not within the State. The claim was for Assistance to the Aged, Blind, and Disabled for \$51. In total, an overpayment \$1,814 was assessed to the client for benefits received when she was not a resident of Nebraska.	\$51
<b>Total</b>		<b>\$1,903</b>

For most of the fiscal year 2022, the Department required the provider to include a description of the services provided in the documentation submitted for payment. Title 471 NAC 15-006.06 ("Provider Payment Process"), dated June 2, 2004, was in effect for most of the fiscal year, until the regulation was updated on June 6, 2022. The prior regulation stated the following:

*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.

Per Title 469 NAC 2-001, Nebraska residency is also an eligibility requirement for the Assistance to the Aged, Blind, and Disabled Program, as follows:

*In order to be eligible to receive assistance under the Aged, Blind, or Disabled Program the individual must:*

\* \* \* \*

*(C) Be a Nebraska resident[.]*

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 both regulatory noncompliance and material misstatement to the financial statements.

A similar finding has been noted in the prior audits.

We recommend the Department continue to work to resolve this finding by implementing procedures for, as well as devoting adequate resources to, investigating, establishing, and pursuing NFOCUS overpayment receivables, as well as reducing the number of overpayments. Additionally, we recommend the Department ensure policies agree to Federal regulations. The Department should also 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: 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. In addition, the Department will review its current claim practices and determine any necessary changes to be made.*

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

When an individual applies for Social Security Disability (SSD) payments, the Department or the applicant's county of residence makes payments to him or her while the application is pending approval by the Federal Social Security Administration (SSA). The individual could receive State 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 can recover a portion of the SSD payments to apply to the State 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, at that time, the reimbursement to the appropriate State programs ceased. Instead, the Department deposited the monies into a Supplemental Security Income (SSI) distributive fund, where the balance grew. In December 2016, the Department transferred most of the balance, or \$803,875, to the State's General Fund to be used for future appropriations for the entire State, instead of to the appropriate programs from which the payments were made.

As of June 30, 2022, the accumulated balance had grown to \$558,228, and the Department still lacked policies and procedures to reconcile the balance and move the monies to the appropriate fund and programs. Therefore, the APA proposed, and DAS recorded, an adjustment to move the balances to the proper fund.

Until June 6, 2022, Title 469 NAC 2-007.01 used to say 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.*

The above regulatory language was eliminated with the 2022 revision. Nevertheless, 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.*

## 5. Old Inventory Balances

Inventory balances, totaling \$102,776, shown in the State’s accounting system had not changed since at least 2018. The APA notified the Department and DAS of this concern in both November 2020 and August 2021; however, no action has been taken.

The inventory balance detail is set out in the following table:

ACFR Fund	Fund	Object Acct	Object Description	Balance	Location
8	42541	141100	OFFICE SUPPLIES INVENTORY	\$ 17,545.76	Norfolk Veteran Home Federal
8	42541	141200	CONSTRUCTION SUPPLIES INVENTORY	\$ 1,654.17	Norfolk Veteran Home Federal
8	42541	141300	MEDICAL SUPPLIES INVENTORY	\$ 43,200.49	Norfolk Veteran Home Federal
8	42541	141500	FOOD SUPPLIES INVENTORY	\$ 843.80	Norfolk Veteran Home Federal
8	42541	141600	HOUSEHOLD & INSTITUTIONAL	\$ 36,209.76	Norfolk Veteran Home Federal
8	42541	141800	ED & RECREATIONAL SUPPLIES	\$ 484.33	Norfolk Veteran Home Federal
8	42541	141900	ENG TECH & COMM SUPPLIES	\$ 3.57	Norfolk Veteran Home Federal
8	42541	142000	CLOTHING & APPAREL	\$ 2,466.70	Norfolk Veteran Home Federal
8	42541	142100	LABORATORY SUPPLIES	\$ 539.49	Norfolk Veteran Home Federal
8	42541	142900	MISCELLANEOUS SUPPLIES	\$ 74.78	Norfolk Veteran Home Federal
8	48121	141600	HOUSEHOLD & INSTITUTIONAL	\$ 647.53	Medicaid/Hastings Reg CTR
8	48125	141300	MEDICAL SUPPLIES INVENTORY	\$ 1,031.30	Medicaid/Lincoln Reg CTR
8	48125	141500	FOOD SUPPLIES INVENTORY	\$ (3,502.31)	Medicaid/Lincoln Reg CTR
8	48125	141600	HOUSEHOLD & INSTITUTIONAL	\$ (1.05)	Medicaid/Lincoln Reg CTR
8	48125	141800	ED & RECREATIONAL SUPPLIES	\$ (0.02)	Medicaid/Lincoln Reg CTR
8	48125	142000	CLOTHING & APPAREL	\$ (382.07)	Medicaid/Lincoln Reg CTR
8	48125	142100	LABORATORY SUPPLIES	\$ (0.05)	Medicaid/Lincoln Reg CTR
8	48125	142900	MISCELLANEOUS SUPPLIES	\$ (101.47)	Medicaid/Lincoln Reg CTR
<b>Fund 8 Total</b>				<b>\$ 100,714.71</b>	
9	22523	141500	FOOD SUPPLIES INVENTORY	\$ 1,914.96	Grand Island Veteran Home Cash
9	22523	141600	HOUSEHOLD & INSTITUTIONAL	\$ 146.62	Grand Island Veteran Home Cash
<b>Fund 9 Total</b>				<b>\$ 2,061.58</b>	

The Department should update these obsolete balances through appropriate accounting adjustments.

Good internal controls and sound business practices require procedures to ensure that inventory balances reported in the State’s accounting system are accurate and reflect actual inventory.

Without such procedures, there is an increased risk of the accounting system not reflecting accurately current inventory balances.

We recommend the Department and DAS work together to update the inventory balances, ensuring that inventory is being reported accurately.

*Department Response: The Department will review the balances and work with Nebraska Department of Veterans’ Affairs to make needed corrections.*

**6. Lack of Adequate Subrecipient Monitoring**

The Department administers various Federal programs that involve granting subawards to other entities to carry out the activities of the program. As a result of prior audit findings, the APA performed procedures to follow-up on the Department’s subrecipient monitoring procedures and noted the following:

Provider	Payments Tested	Unsupported Amount	Services	Issues
Nebraska Children Families Foundation	\$74,111	\$224	Foster Care	<p>The Department reimbursed Nebraska Children and Families Foundation \$74,111 in September 2021. That reimbursement contained payment for regular wages, fringe benefits, contractual services, and indirect costs. The APA identified the following errors in the allocation of its payroll costs:</p> <p>First, an adjustment was made to an employee's payroll, causing \$43 of non-grant related wages to be charged to the grant.</p> <p>Additionally, the provider used 28.48% of wages for its fringe benefit calculation. However, the provider’s calculation includes all employees in its calculation, rather than only the employees who charged actual time worked to the grant. Therefore, the amount for fringe benefits appears to be overstated by approximately \$161. Additionally, \$20 in indirect costs were overcharged because of the issues previously noted.</p>
Bright Horizons	\$20,382	\$3,391	Domestic Abuse Services	<p>The APA reviewed the November 2021 payment to Bright Horizons for \$20,382, which was subject to the Department’s monitoring procedures. The payment contained payment for personnel costs, fringe benefits, travel, supplies and operating expenses, consultants and contract expenses, and other expenses. The APA identified the following errors:</p> <p>The Department lacked documentation for \$288 in on-call hours, \$4 for unemployment insurance, \$95 for travel, \$2,004 for supplies and operating expenses, and \$1,000 for other expenses. In general, the expenses either lacked adequate support or the amount allocated between the Federal and State programs was not adequately documented.</p>
<b>Total</b>	<b>\$94,493</b>	<b>\$3,615</b>		

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 that 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 continue to improve procedures for monitoring subrecipients. Such monitoring should ensure that monthly reports are accurate and agree to support, and expenditures are in accordance with State and Federal requirements.

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

## **7. 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. During the fiscal year 2022 ACFR, we performed follow-up procedures and noted a lack of segregation of duties in the following areas:

### Radon

The Department provides for the licensure of radon measurement specialists, radon measurement businesses, radon mitigation specialists, and radon mitigation businesses. The Department failed to perform a supervisory or secondary review of the radon payments received and a 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

A lack of adequate segregation of duties was noted for the following areas: 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 any accompanying checks, took the checks to the person responsible for delivering them to Accounting for deposit, reviewed the spreadsheet prepared by Department Accounting of receipts deposited, and issued the licenses.

### 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 presentation of satisfactory proof of identity and proper purpose, Vital Records can issue certified copies of these records or amend original records.

All employees in this area can waive fees (\$0 fee) and process the application using the fee type as “other.” When this fee type is used, the fee is noted as \$0. The certified copy could be printed without collecting or depositing a fee. A report is generated daily for all \$0 applications processed, and it is reviewed by supervisors and matched to the applications. However, this review is not documented.

Good internal control and sound business practices require procedures to ensure that a proper segregation of duties is implemented, so no one individual can handle 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. The Department will review its current practices and determine any additional changes to be made.*

\* \* \* \* \*

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.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive, flowing style.

Kris Kucera, CPA, CFE  
Assistant Deputy Auditor