NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 13, 2023

Dr. Steven Corsi, Chief Executive Officer
Nebraska Department of Health and Human Services
301 Centennial Mall South
Lincoln, Nebraska 68509

Dear Dr. Corsi:

We have audited 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, 2023, 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 December 13, 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 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 Accounts (AICPA) Auditing Standards AU-C Section 265.17, in a separate early communication letter dated October 10, 2023.

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, 2023.

1. Multiple Financial Statement Adjustments

The Department is responsible for the accurate recording of financial transactions in the State's accounting system. At fiscal year end, the Department also provides additional financial information, including various accounts receivable and payable entries, to the Department of Administrative Services – State Accounting Division (State Accounting) on an accrual response form for preparation of accrual entries for the Annual Comprehensive Financial Report (ACFR). The Auditor of Public Accounts (APA) reviewed these transactions to ensure the proper presentation of the State's financial statements.

Upon our review, the APA proposed $336,287,207 in adjustments to the financial statements, which were recorded in the accounting system by State Accounting, due to errors made by the Department in its year end reporting. The errors are summarized in the table below:

Description of Accrual	**Amount in Error**
Disproportionate Share Hospital (DSH) Accruals	$ 77,182,122
Intergovernmental Accruals	$ 65,386,569
Home and Community Based Services Cash Fund Entries	$ 65,363,007
Medicaid Drug Rebate (MDR) Receivables and Allowance for Doubtful Accounts	$ 44,835,005
Capital Asset Errors	$ 27,893,467
Prior Period Activity (July to September 2023)	$ 24,715,610
Medicaid Estate Recovery Receivable	$ 20,553,616
Medicaid Supplemental Graduate Medical Expenses (GME) Payables	$ 6,562,796
Prior Period Activity (October 2022 to June 2023)	$ 1,983,102
Nonmonetary Accruals	$ 1,053,937
Patient and County Billing Receivable	$ 757,973
Totals	**$ 336,287,207**

In its response to the Summary Schedule of Prior Audit Findings, the Department stated that its corrective action plan was in process regarding 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 20 years. The APA reported over $135 million in errors to the Department in the prior year audit. Therefore, the current year errors are more than double the prior year number – which indicates the Department's corrective actions are seriously deficient.

The following information provides more detail on each of the accrual errors noted in the above table.

Disproportionate Share Hospital (DSH) Accruals

A Disproportionate Share Hospital (DSH) is a hospital with an above-average Medicaid inpatient utilization rate or a low-income utilization rate of 25 percent or more. Essentially, these are hospitals that serve many Medicaid or uninsured patients. Under its rules and regulations, DSH payments are made pursuant to six different distribution methods, called pools. The payment under each pool is generally related to different types of hospitals or services provided, as noted below:

Pool 1: Eligible other urban acute care, rural acute care, and critical access hospitals that are not eligible under Pool 6.

Pool 2: Eligible metro acute care, other urban acute care, and rural acute care hospitals that are also eligible under Pool 6.

Pool 3: Hospitals that both primarily service children under age 20 and have the greatest number of Medicaid days.

Pool 4: State-owned institutions for mental disease and other eligible psychiatric hospitals.

Pool 5: The non-profit acute care teaching hospital, subsequently referred to as the state teaching hospital, that has an affiliation with the University Medical College owned by the State of Nebraska. A hospital eligible for payment under this pool may be eligible for payment under Pool 6. The only eligible hospital is the University of Nebraska Medical Center (UNMC).

Pool 6: Hospitals that provide services to low-income persons covered by a county administered general assistance program; or hospitals that provide services to low-income persons covered by the state administered public behavioral health system. Funding is a mix of Federal and State funds. Entities who receive this type of funding will often return it to the State to be used for purposes of drawing down Federal funds.

The APA found the following errors related to the Department's calculation of DSH accruals:

Program Description	Description of Error	Dollar Error
Disproportionate Share Hospital Accruals	**Pool 5:** Under an agreement, UNMC returns most of its DSH payment to the Department. In June 2023, UNMC returned $19,259,295 for the fiscal year 2022 DSH payment. The Department incorrectly recorded the receipt to one of its cash funds, instead of to the General Fund, and also failed to identify a prior year accrual. Because of the two different errors, the net effect of the error was doubled.	$ 38,518,590
	Pool 5: The Department failed to record an accounts receivable for the fiscal year 2023 DSH payment that, as of June 30, 2023, had not yet been returned by UNMC. The receivable was calculated to be $20,228,161.	$ 20,228,161
	Pool 6: Pool 6 payments are one year behind, so an accounts payable is recorded for obligations not yet paid. The Department incorrectly recorded the State-funded portion of the accrual, or $3,001,555, to the State's General Fund; however, it should have been recorded as a payable in the Health and Human Services Fund, as that is the fund from which payments are made. The entry to correct the General Fund and to record payables properly in a cash fund had an effect of doubling the error amount. Because these amounts are expected to be returned, an accounts receivable for the same amount in the Health and Human Services Fund is also necessary but was not prepared by the Department.	$ 9,004,665

Program Description	Description of Error	Dollar Error
	Pool 6: When the Department received funds back from the mental health regions, the receipts were recorded as negative expenditures instead of revenues. Therefore, an adjustment was necessary to reclassify the amount received in fiscal year 2023.	$ 2,833,863
	Pools 1-4: The Department makes these payments in arrears. The payments made in fiscal year 2023 were for fiscal years 2021 and 2022. The Department failed to report a payable for the Pool 1-4 payments until fiscal year 2023. Therefore, an adjusting entry was needed to reflect properly the prior year payables that were not recorded.	$ 6,596,843
Totals		**$ 77,182,122**

Intergovernmental Accruals

The Intergovernmental accounts receivable and accounts payable amounts represent money due to and from the Federal government at the fiscal year end. If the Department has paid more that it has collected from the Federal government, a receivable is created. Conversely, if the Department has collected more from the Federal government than it has paid, a payable is created.

The following Federal grants are included in the calculation: Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Child Support Enforcement (CSE), Child Care Discretionary Funds (CCDF), Foster Care – Title IV-E, Adoption Assistance, Guardianship Assistance, Children's Health Insurance Premiums (CHIP), Medical Assistance Program (Medicaid), Refugee Cash and Medical.

The APA found the following issues related to the Department's intergovernmental accrual:

Program Description	Description of Error	Dollar Error
Intergovernmental Receivables	The Department incorrectly reported the fiscal year 2022 intergovernmental receivable for CHIP, which required a $59,283,758 adjustment to the fiscal year 2023 financial statements.	$ 59,283,758
	The Department failed to record a receivable for the fiscal year 2023 CSE grant, resulting in $6,102,811 in required adjustments.	$ 6,102,811
Totals		**$ 65,386,569**

Home and Community Based Services (HCBS) Cash Fund Entries

The HCBS Cash Fund was created to account for the additional 10 percent Federal match in expenditures in the State Medicaid Program for Home and Community Based Services, which was granted by the American Rescue Plan Act (Act) of 2021 for the period April 1, 2021, to March 31, 2022. This supplemental funding must be used specifically towards the activities outlined in the State's HCBS Spending Plan approved by the Centers for Medicare and Medicaid Services (CMS).

The APA identified the following errors related to entries in this fund:

Program Description	Description of Error	Dollar Error
HCBS Cash Fund	The Department incorrectly recorded its journal entries related to this additional Federal funding. The entries originally reduced expenditures in the HCBS Cash Fund and increased expenditures in the Federal Fund. However, the original expenses were not recorded in the HCBS Cash Fund, so the expenditures in that fund were not properly stated. This included $47,172,798 in expenditures during fiscal year 2022 and $18,190,209 in expenditures for fiscal year 2023. State Accounting corrected the $18,190,209 error before a formal adjustment was proposed.	$ 65,363,007

Medicaid Drug Rebate (MDR) Receivable and Allowance for Doubtful Accounts
The Medicaid Drug Rebate (MDR) program collects rebates for certain physician-administered drugs to receive Federal matching payments for the drugs. At fiscal year-end, a receivable is required to accrue for funds due to the State. The Department also calculated an allowance for doubtful accounts for amounts it does not expect to collect.

The APA found the following issues related to the MDR receivable and allowance for doubtful accounts calculations:

Program Description	Description of Error	Dollar Error
MDR Allowance for Doubtful Accounts	The Department's calculation of the MDR Allowance for Doubtful Accounts was incorrect because it included $44,835,005 that had already been received by the State. This error required an adjustment to the footnote disclosures in the financial statements.	$ 44,835,005

We also determined that the Department lacks a policy for writing off the uncollectible accounts. Additionally, when testing a receipt of the drug rebates, the APA determined that one check was not deposited within three days, as required by State statute. The receipt was entered into the State accounting system nine days after the funds were received.

Neb. Rev. Stat. § 84-710 (Cum. Supp. 2022) requires the timely deposit of funds received by the State, as follows:

> *It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing and Gaming Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury <u>within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more</u> and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

(Emphasis added.)

Capital Asset Errors
State Accounting requires agencies to report any ongoing capital projects as construction-in-progress (CIP) for inclusion in the financial statements. The APA found the following errors related to the Department's reporting of capital assets, which required adjustment into the financial statements:

Program Description	Description of Error	Dollar Error
EVV Project	The Department failed to report a project related to the development of the Electronic Visit Verification (EVV) system. The project was a two-phase project, with the first phase completed and implemented in January 2021. That phase should have been included previously in CIP and removed during the fiscal year for recording as a capital asset. Phase two of the project was ongoing through the fiscal year, and expenses should have been recorded as CIP. The Department failed to include this project as both CIP and a capital asset, resulting in the following understatements: 1) CIP beginning balance of $6,346,535; 2) CIP additions of $886,255; 3) CIP deletions of $6,762,225; 4) equipment capital assets of $6,762,225; and 5) depreciation expense of $2,062,633.	$ 22,819,873

Program Description	Description of Error	Dollar Error
Equipment Assets	The Department failed to report three capital asset additions accurately in the State accounting system. Furthermore, the date acquired was incorrect for one of the additions. Incorrect asset costs and acquisition dates also cause errors in accumulated depreciation in the system. The asset costs and associated depreciation for the three assets were incorrect, as follows: • DMA (Data Management and Analytics Module) Project cost was overstated by $380,629, and depreciation was overstated by $337,874. • CyncHealth Project cost was understated by $511,796, and depreciation was understated by $298,197. • Interoperability Project cost was overstated by $151,631, and depreciation was overstated by $806,760.	$ 2,486,887
iServe Project	The Department failed to report correctly expenses related to the iServe system. The Department did not appropriately consider certain allocation and payroll journal entries in the amount reported, resulting in the understatement of the CIP beginning balance of $667,310 and CIP additions of $22,428. Furthermore, the Department failed to report payments after June 30, which resulted in the overstatement of CIP additions of $439,160.	$ 1,128,898
Reprocurement Project	The Department failed to report correctly expenses related to the Reprocurement project. The Department failed to report payments after June 30, which resulted in the understatement of CIP additions of $763,044.	$ 763,044
YRTC-Kearney Project	The Department failed to report a project related to improvements to the Youth Rehabilitation Treatment Center in Kearney, NE, which resulted in the understatement of CIP additions of $694,765. This also caused the footnote regarding ongoing construction commitments to be understated by $503,585.	$ 694,765
Totals		**$ 27,893,467**

<u>Prior Period Activity (July to September 2023)</u>

The State accounting system allows users to identify transactions that are prior fiscal year transactions by applying a certain code to the transaction. When transactions processed after the end of the fiscal year are identified as prior year transactions, State Accounting reclassifies them as current fiscal year activity.

The APA found the following issues in our review of the July to September 2023 transactions:

Program Description	Description of Error	Dollar Error
Prior Period Activity (July-September 2023)	On September 22, 2023, the Department processed three journal entries to change the funding source of various prior expenditures. In the accounting system, the Department identified the entries as prior-period transactions. Therefore, the expenses and funding changes were recorded as fiscal year 2023 activity. However, in our review of the entries, much of the activity was determined to be for periods prior to fiscal year 2023 and, therefore, should not have been included in the fiscal year 2023 activity. The Department failed to notify State Accounting of the amount that was for activity prior to fiscal year 2023, which should have been recorded as a beginning balance adjustment. The adjustment required for this improperly recorded activity was $24,715,610.	$ 24,715,610

<u>Medicaid Estate Recovery Receivable</u>

Medicaid Estate Recovery was established by State and Federal law to recover costs of medical assistance paid by the Nebraska Medicaid Program from the estates of certain former Medicaid recipients. Clients determined eligible for Medicaid often have resources that are excluded from their eligibility determination until after their death. At that time, the Department will review available information to determine the amount Medicaid should receive prior to the distribution of the decedent's assets.

The Department prepared a receivable to account for money due back to the State that has yet to be paid at fiscal year-end. The APA found the following issue with the Department's calculation of the receivable:

Program Description	Description of Error	Dollar Error
Medicaid Estate Recovery Receivable	The Department neglected to include unworked cases in its receivable calculation, resulting in $20,553,616 in adjustments to the fiscal year 2022 and 2023 activity. During testing, moreover, the amount requested for one case was determined to be $1,565 less than it should have been. For another case tested, the amount included in the receivable calculation was overstated by $29,878.	$ 20,553,616

Medicaid Supplemental Graduate Medical Expenses (GME) Payables

In January 2022, the Nebraska Medicaid State Plan was amended to include new funding for supplemental graduate medical education (GME) payments. These supplemental payments help offset growing costs and allow for support and investment in future educational and clinical training activities of health professionals. The Department makes payments directly to eligible teaching hospitals. The APA found the following issue related to the Department's calculation of the supplemental GME payable:

Program Description	Description of Error	Dollar Error
Medicaid Supplemental GME Payable	For the fiscal year 2023 payable, the Department made some mathematical errors in its calculation, which has a General Fund and Federal Fund portion, resulting in $6,562,796 in adjustments to the financial statements.	$ 6,562,796

Prior Period Activity (October 2022 to June 2023)

As noted previously, the State accounting system allows users to identify transactions that are prior fiscal year transactions by applying a certain code to the transaction. When transactions processed during the fiscal year are identified as prior year transactions, State Accounting records an adjustment to the beginning fund balance, so those prior year transactions are not included in the current fiscal year activity.

The APA found the following issues in our review of the October 2022 to June 2023 transactions:

Program Description	Description of Error	Dollar Error
Prior Period Activity (October 2022 - June 2023)	On June 13, 2023, the Department processed a journal entry to transfer money between its various funds. It identified the transaction as a prior year transaction. Therefore, State Accounting removed these items from the fiscal year 2023 activity and recorded them as a beginning fund balance adjustment. However, in our review of the entry, it was determined that the activity was, in fact, for fiscal year 2023. The adjustment required for this improperly recorded activity was $1,983,102.	$ 1,983,102

Nonmonetary Accruals

The Emergency Food Assistance Program (TEFAP) is a Federal program that includes the distribution of food donated by the United States Department of Agriculture. The Department includes this food as inventory on its financial statements.

Similarly, the Department's Immunization Program helps protect people against infectious diseases by enhancing the availability of vaccines through partnerships with community providers. The Department maintains an inventory of these vaccines.

Each year, an accounting entry is needed to record distributions of inventory made by the Department's programs. State Accounting then uses the reported distributions to record the reductions of inventory during the fiscal year. These are considered nonmonetary transactions because they do not involve the exchange of money.

The APA found the following error related to the Department's nonmonetary accrual:

Program Description	Description of Error	Dollar Error
Nonmonetary Accruals	The Department reported inaccurate distributions for its Immunization and TEFAP programs. The distribution of the flu vaccine was not included in the Department's calculation, resulting in an error of $1,032,074. The error in the TEFAP distribution was $21,863 – for a total error of $1,053,937, which required an adjustment to the financial statements.	$ 1,053,937

<u>Patient & County Billings Receivable</u>
Throughout the fiscal year, the Department received payments related to care provided and billed to clients at any of the four regional centers or for developmental disability services provided at non-State facilities. A receivable is recorded to estimate the funds due to the State at the fiscal year end. The APA found the following errors related to the Department's patient & county billings receivable accrual:

Program Description	Description of Error	Dollar Error
Patient & County Billings Receivable	The APA identified errors due to mathematical mistakes; old balances that have not been written off; inaccurate patient balances and allowance amounts; corrections from the prior year not being addressed; and several other inaccuracies. The total receivable reported by the Department was overstated by $757,973.	$ 757,973

A proper system of internal controls requires procedures to ensure that accurate and complete financial information is reported in the accounting system and to State Accounting. Good internal controls also require procedures to ensure that secondary reviews are performed for all significant accruals reported and journal entries made.

Without such procedures, there is a greater risk of material misstatements occurring and remaining undetected.

> We recommend the Department prioritize training staff and implementing procedures to ensure its accruals are properly calculated and reported to State Accounting, 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 State Accounting or entry into the State's accounting system.

Department Response: DHHS Financial Services has continued 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. Internal Audit will also test the ACFR accruals included in this finding for next fiscal year. DHHS will also meet with DAS staff to work through any necessary corrections.

2. <u>Other Errors in Financial Reporting</u>

For the fiscal year 2023, the Department made an additional $153,239,662 in other accounting errors that did not require a formal proposed adjustment to the financial statements due to the dollar amount of the error or the Department correcting the error before a formal adjustment was proposed. The details of these errors are contained in the table below:

Description	Reason	Dollar Error
Journal Entry Coding Error	In June 2023, the Department processed a $121,970,667 journal entry using an incorrect object account. Upon receipt of certain Medicaid funds, the Department recorded the monies collected into a holding fund and created a liability account until it had determined the proper funds to which the monies should be moved. When DHHS made the entry to move the $121,970,667, to the correct funds, it did not properly reduce the liability account that was created upon the original receipt. The error did not require a financial statement adjustment for two reasons. First, after the APA communicated the error, the Department recorded a journal entry in July 2023 to fix the coding, identifying it as a prior period transaction that would be included in State Accounting's year-end procedures. Second, in these year-end procedures, State Accounting reviews this holding account and reclassifies the receipts that were recorded as liabilities. Therefore, it is likely the error would have been adjusted by State Accounting had DHHS not made the correcting entry.	$ 121,970,667
CIP Coding Issues	The Department inaccurately recorded CIP expenses, totaling $23,029,386, in the State accounting system related to four projects as operating expenditures instead of the appropriate CIP object accounts. Additionally, the Department failed to include $2,881,426 of payments made after the fiscal year end as fiscal year 2023 expenses. Financial statement adjustments related to other issues with these projects are included in Comment 1 above.	$ 25,910,812
IME/DME Payable	The Indirect Medical Education (IME) and Direct Medical Education (DME) payable represents payments expected to be made to hospitals for medical education. This is also related to the Medicaid Supplemental Graduate Medical Expenses (GME) Payable included in Comment Number 1 above. The annual growth calculation used by the Department was not mathematically accurate. Additionally, the State and Federal share of the payable was calculated incorrectly. Therefore, the IME/DME payable reported by the Department contained errors amounting to $2,763,582. No adjustment was necessary due to the relative insignificance of the amount.	$ 2,763,582
MDR Supplemental Split	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. 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 first asked in fiscal year 2020. During fiscal year 2023, the Department received $22,357,320 in supplemental rebates, of which $1,341,383 was charged to the CHIP program. Due to the relative insignificance of the amount, an adjustment to the financial statements was not made.	$ 1,341,383
Credit Card Clearing Account Balance	In the prior year, the APA determined that the Department had not performed procedures to reconcile the balance in a credit card clearing account. In fiscal year 2022, the balance was $715,657. On June 30, 2023, the balance was $555,543, and the Department had failed to reconcile the balance of the account.	$ 555,543

Description	Reason	Dollar Error
Inaccurate Journal Entries	The APA found issues with the amounts in two additional journal entries. In one journal entry tested, the Department inappropriately included transactions that should not have been included when calculating an increase in the amount paid from the Federal Fund due to COVID. For another journal entry tested, the Department failed to record an adjustment in funding for prior period expenses to the appropriate fiscal year. The total of these two errors amounted to $522,894. Due to the relative insignificance of the amounts, a financial statement adjustment was not needed.	$ 522,894
Program Integrity Accrual Calculation	The Department's Medicaid Program Integrity Unit calculates an accounts receivable that represents the estimated amounts to be received from clients due to fraud or abuse cases. The Department's spreadsheet included a balance of $14,919,048 in total amounts owed, of which $14,654,909 was the allowance for doubtful accounts. In other words, the Department did not expect to collect over 98% of the balance owed. From the Department's list, the APA tested four active and four inactive balances and found the following issues:	
	• The largest amount due was $11,526,025. In this case, the defendant was ordered to pay $100 per month or 3% of gross income, whichever is larger. The Department considered $11,457,215 uncollectible.	N/A
	• The Department failed to collect on another $1,337,339 balance due because the owner moved to Wyoming. The Department considers the entire balance to be uncollectible even though the individual is earning wages and owns property in Wyoming.	N/A
	• One inactive case with a $439,778 balance lacked documentation to support the Department's collection efforts. The client was a limited liability company that went out of business and is the subject of a separate Federal garnishment case. The Department generally does not act on cases subject to Federal garnishment; however, the Department lacked support for its monitoring of the Federal case. The entire balance is deemed uncollectible.	N/A
	• One inactive case with a $173,198 balance had its last collection in May 2020. The client had filed for bankruptcy, and the amount owed the Department was discharged. The Department submitted the balance for write off in October 2022, which was approved. However, the Department failed to remove the balance from its listing, which overstated the allowance for doubtful accounts.	$ 173,198
	• One inactive case with a $7,906 balance had its last collection in June 2012. The APA found that one payment of $700 had not been applied to the balance, so the balance was incorrect. Because the Department has been unable to find the client, the claim has been submitted for write off. There was a lack of documentation to support the Department's collection efforts for this balance.	$ 700
	• One active case had a $62,564 balance on the Department's spreadsheet, but the payment records showed the balance to be $61,681 – for a difference of $883.	$ 883
Total		**$ 153,239,662**

A proper system of internal control requires procedures to ensure: 1) Transactions are recorded accurately in the accounting system; 2) there is adequate review and approval for processing transactions or accruals; and 3) documentation is on file to support the transactions or accruals. Without such procedures, there is an increased risk of material misstatement of financial statements due to errors that go undetected.

We recommend the Department implement procedures to ensure all transactions are not only recorded accurately but also adequately supported and reviewed, so they are properly identified and classified for correct financial statement presentation. We also recommend the Department review its collection procedures to determine whether additional resources are needed to collect on amounts due to the State.

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 performed detailed testing of these payments and 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.

The APA found the following issues related to the calculation of the accrual for the overpayments' receivable and to the overpayments tested, as follows:

Description	Reason
NFOCUS Overpayment Receivable	The Department reported $17,362,916 in overpayments owed on June 30, 2023. The Department estimated its collections after the fiscal year to be $4,297,308, making the remaining amount of $13,065,608 uncollectible. The APA identified errors totaling $253,726 in the Department's calculation of the overpayment receivable and the allowance for doubtful accounts at year end.
NFOCUS Overpayment Balance Testing	The APA tested 25 balances from the NFOCUS overpayment listing and noted the following: • Each case on the list contained a status, such as closed, established, non-pursue, etc. The Department failed to require a secondary review of all account status changes. • For seven of the cases, the Department lacked documentation to support whether the legal department reviewed the case for possible legal action in accordance with Department policy. • Three cases tested lacked a Demand Letter or Notice of Overpayment to the debtor in accordance with its rules and regulations. • For one case tested, the payment collected was identified as cash when it was a recoupment from current funds paid to the client. • Certain collection reports are used to determine the Allowance for Doubtful Accounts. The Department provided a summary report showing the fiscal year 2023 recoupments to be $3,337,674 and the cash collections to be $2,531,000. The Department failed to provide case details for the recoupments amounts, so we were unable to determine if those amounts were accurate. The support provided for the SNAP cash collections did not agree to the Department's calculation worksheet by $5,607.

The APA also found that the Department lacked a consistent definition for "Date of Discovery" as it relates to the establishment of overpayments. In fiscal year 2022, the Department defined "date of discovery" in its

Supplemental Nutrition Assistance Program (SNAP) claims management plan as: "[T]he date when a potential overpayment is initially identified and submitted for review."

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 management plan.

The Department Collection Policy, signed April 12, 2017, also requires that adequate notice be provided to a debtor. 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.*

A proper system of internal control requires procedures to ensure: 1) policies agree with Federal regulations; 2) overpayments are established timely; and 3) collection policies are followed. Those procedures should also ensure that the calculation of any accruals is 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.

<u>NFOCUS Testing</u>

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

Description	Reason
NFOCUS Testing	The APA's NFOCUS testing included two Child Care Development Fund (CCDF) payments. The Department paid a total of $103,323,972 to 1,658 different payees in fiscal year 2023 for this program. Six childcare centers received over $1 million. One individual received nearly $122,000 during the year. The APA identified the following concerns in our testing: The Department no longer requires childcare providers to remit attendance records prior to payment. For one of the CCDF claims tested, for $1,062, the childcare provider took over a month to forward its attendance records. Upon receipt of the records in July 2023, we found that one record included a date of August 2023 – raising questions as to whether the attendance records were being completed timely. For the second CCDF claim tested, for $10,404, the APA noted a few issues with the documentation submitted with the claim. First, the records were not mathematically accurate and did not support the amount paid. The provider appears to have been overpaid nearly $500 for this one claim. The provider appears also to have exceeded the capacity of children in her care. The provider was licensed for up to 8 children at a time; however, during the month of March 2023, the attendance records showed that she cared for more than 8 children on 17 out of 31 days, including up to 13 children at one time.
NFOCUS Signatures	For three of the claims tested, the services were documented using the Department's Electronic Visit Verification (EVV) system, which is an electronic system that documents the service details, dates, times, and other information. The system allows for an approval of the services by the provider and client, but the Department did not require the client to approve the services provided. The total paid for the three claims was $1,895.

A proper system of internal control and sound business practices requires procedures to ensure individuals receiving services have verified that the services took place, and records are on file to support payments made to providers. Without such procedures, there is an increased risk of both regulatory noncompliance and loss of State funds.

A similar finding has been noted in the prior eight audits.

> We recommend the Department continue to work to resolve this finding by implementing procedures for, as well as devoting adequate resources to: 1) investigating, establishing, and pursuing NFOCUS overpayment receivables; and 2) 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 being updated. The updates are currently with the Attorney General for approval. In addition, the team will review the claim practices and Standard Operating Procedures to make any necessary updates to ensure policies are followed.

CCDF will continue to review targeted case reads specific to these findings. The case reads will identify errors to be corrected and help determine additional training needs.

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

During fiscal year 2023, the Department's journal entry to move funding from the Supplemental Security Income (SSI) distributive fund was incorrect. Therefore, the APA proposed, and State Accounting recorded, adjustments, totaling $944,033, to correct the amounts and accounts used in the original journal entry.

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 State payments could be made from the Aid to the Aged, Blind, or Disabled (AABD) program or the State Disability Program (SDP).

After receiving Federal approval, the applicant is awarded retroactive SSD payments back to the date on the application. The Department can recover a portion of these payments to reimburse the State for payments made during this period. The Department intercepts the retroactive SSD payments from the SSA for reimbursement.

When the retroactive payments are intercepted, the Department deposits the monies into the SSI distributive fund. In December 2016, the Department transferred $803,875 to the State's General Fund to be used for future appropriations for the entire State, instead of to the programs from which the original payments were made. Because this error has never been rectified, we continue to report it.

A proper system of internal control requires 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 and correct activity within the fund.

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

5. Lack of Internal Controls over Public Health Administration Program 262

The APA performed an attestation examination of the Department's Public Health Administration for the period July 1, 2017, through December 31, 2018, and had noted a lack of segregation of duties in a number of areas.

During fiscal year 2023, the APA determined that a lack of segregation of duties still existed in the following area:

<u>*Radon*</u>
The Department provides the licensure of radon measurement specialists, radon measurement businesses, radon mitigation specialists, and radon mitigation businesses. The Department failed to perform a secondary review of the radon payments received and failed to compare the receipts to the monthly mitigation reports to ensure the correct amounts were collected and deposited.

A proper system of internal controls requires procedures to ensure that all amounts owed to the State are collected and deposited. Such procedures might include a proper segregation of duties to mitigate the risk of one individual being able to perform all phases of the receipt process from beginning to end. Without such procedures, there is an increased risk for the loss of monies due the Department or the misuse of funds, which could go undetected.

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

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

6. Timeliness of Responses to Audit Requests

The Department failed to provide timely responses to the APA's requests for information and, therefore, failed to comply with Neb. Rev. Stat. § 84-305(2) (Cum. Supp. 2022), which requires a response to the auditor's written requests for audit information within three business days.

The improperly delayed responses not only violated State statute but also hindered the timing and completion of the APA's testing related to the completion of the ACFR.

The following table contains some examples of the Department's failure to respond expeditiously – in clear violation of State law – to the APA's requests for information throughout the audit period:

Initial Request	Department Response	Request Fulfilled	Days Until Response	Days Until Fulfillment	Description
6/15/2023	6/26/2023	8/2/2023	6	32	Payroll Testing
7/19/2023	7/20/2023	8/23/2023	1	25	Revenue Testing *
9/8/2023	9/13/2023	10/12/2023	3	23	Receivables Testing
6/22/2023	6/29/2023	7/18/2023	5	17	NFOCUS #1
6/27/2023	7/11/2023	7/20/2023	9	16	NFOCUS #2
7/12/2023	7/28/2023	8/2/2023	12	15	Analytical Review
5/12/2023	5/24/2023	5/31/2023	8	13	Capital Asset Testing
9/6/2023	9/12/2023	9/18/2023	4	8	Payables Testing
5/25/2023	5/31/2023	5/31/2023	4	4	Journal Entry Testing

* The actual documentation requested was never provided.

It is important to note that the above table is far from comprehensive, containing merely a sample listing of delayed responses. Other examples of untimely responses by the Department could also be included.

Section 84-305 states, in relevant part, the following:

> *(1) The Auditor of Public Accounts shall have access to any and all information and records, confidential or otherwise, of any public entity, in whatever form or mode the records may be, unless the auditor is denied such access by federal law or explicitly named and denied such access by state law. If such a law exists, the public entity shall provide the auditor with a written explanation of its inability to produce such information and records and, after reasonable accommodations are made, shall grant the auditor access to all information and records or portions thereof that can legally be reviewed.*
>
> *(2) Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, <u>the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request</u>, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. <u>No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity.</u> The three business days shall be computed by excluding the day the request is received, after which the designated period of time begins to run. Business day does not include a Saturday, a Sunday, or a day during which the offices of the custodian of the public records are closed.*

(Emphasis added.) Additionally, Neb. Rev. Stat. § 84-305.02 (Cum. Supp. 2022) provides a criminal penalty for failure to comply with the above statutory requirements, as follows:

> *Any person who willfully fails to comply with section 84-305 or 84-305.01, who otherwise willfully obstructs or hinders the conduct of an audit, examination, or related activity by the Auditor of Public Accounts, or who willfully misleads or attempts to mislead any person charged with the duty of conducting such audit, examination, or related activity shall be guilty of a Class II misdemeanor.*

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

Department Response: 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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Nebraska's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purposes.

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