NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

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, 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, 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of 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 audit 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 certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider Comment Number 1 (Multiple 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), Comment Number 3 (NFOCUS Edit Checks and Override of Service Authorizations), Comment Number 4 (User Access), and Comment Number 5 (Lack of MMIS to MDR Reconciliation and Extract Criteria Issue) to be significant deficiencies.

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

Draft copies of this management 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 management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The responses were not subjected to the other auditing procedures applied in the audit of 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, 2024.

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 $165,551,339 in adjustments to the financial statements, which were recorded in the accounting system by State Accounting, due to errors made by the Department throughout the year and in its year-end reporting. The errors are summarized in the table below:

Description of Accrual or Error	Amount in Error
Untimely Implementation of Managed Care Organization (MCO) Rate Adjustments	$ 72,083,960
Prior Year Accrual Error	$ 31,635,230
Medicaid Graduate Medical Education (GME) Receivable Accrual	$ 27,231,321
Department Journal Entry Preparation	$ 12,341,214
Disproportionate Share Hospital (DSH) Activity & Accruals	$ 12,182,690
Patient and County Billing Receivable	$ 3,594,011
MCO Heritage Health Reconciliation Errors	$ 3,432,431
Accrual not Reported for Receivables from UNMC	$ 3,050,482
Total	**$ 165,551,339**

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 State Accounting or when entries were made to the State's accounting system.

Similar issues have been reported since the 2003 audit, for over 20 years.

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

Untimely Implementation of Managed Care Organization Rate Adjustments

The Nebraska Medicaid program has agreements with multiple Managed Care Organizations (MCO) to provide services at rates prepared by the State's actuary and approved by the Centers for Medicaid Services (CMS). After CMS approves amendments to the rates in each MCO's contract, the rates are updated within the State's Medicaid Management Information System (MMIS).

Description	Reason	Dollar Error
Untimely Implementation of MCO Rate Adjustments	In June 2024, the Department began to implement its rate updates approved by CMS in February 2024. The rate update process was not completed until August 2024. As such, a significant portion of these changes were implemented after the fiscal year end. The Department failed to report an accrual for this activity because MMIS lacks the capability to record transactions as a prior period transaction. Therefore, $72,083,960 in adjustments were required to record this subsequent activity in the current reporting period.	$ 72,083,960

Prior Year Accrual Error

The State's accounting system allows users to identify transactions made in the prior fiscal year by applying a certain code. When transactions processed during the fiscal year are identified with this code, State Accounting records an adjustment to the beginning fund balance, so those prior year transactions are reported in the proper fiscal year. The APA found the following issues in our review of the October 2023 to June 2024 transactions containing the prior fiscal year code:

Description	Reason	Dollar Error
Prior Year Accrual Error	Transactions in the amount of $31,635,230 were inappropriately recorded as prior period transactions and were also already accrued for in the prior year, resulting in duplicative activity. An adjustment for $31,635,230 was required to correct these errors.	$ 31,635,230

Medicaid Graduate Medical Education (GME) Accrual

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. As part of this amendment, the University of Nebraska Medical Center (UNMC) is expected to transfer funds to the Department for the State share of these supplemental GME payments. The APA found the following issue related to the Department's calculation of the supplemental GME accrual:

Description	Reason	Dollar Error
Medicaid GME Accrual	The Department failed to record a receivable in fiscal year 2023 for the transfer from UNMC and made an adjustment in fiscal year 2024 to account for that prior year receivable that was not properly accrued. Upon review of this adjustment, the Department understated the prior year's receivable. In addition, the prior year's payable reported by the Department had also been understated. An adjustment, totaling $27,231,321, was required to correct these understatements.	$ 27,231,321

Department Journal Entry Preparation

The Department posted various journal entries to the State's accounting system that were inaccurate and required adjustments to correct. The following issues were noted during testing:

Description	Reason	Dollar Error
Provider Rate Increases	The Department recorded a journal entry to claim Federal funding associated with the American Rescue Plan Act (ARPA) for provider rate increases made to child welfare services. This journal entry was recorded entirely as fiscal year 2024 activity; however, expenditures related to these increases had been recorded in fiscal years 2022 and 2023. As such, adjustments in the amount of $9,914,279 were required to remove this activity from the current year.	$ 9,914,279
Miscellaneous Adjustment Entry	The Department recorded $1,684,281 in deposits as prior period activity, even though the deposits were related to the period July 1, 2023, through December 31, 2023. Therefore, State Accounting reported the activity as prior period activity. As such, an $1,684,281 adjustment was required to eliminate this activity from the accrual and report it in the proper fiscal year.	$ 1,684,281

Description	Reason	Dollar Error
Miscellaneous Adjustment Entry	The Department recorded $371,327 in correcting journal entries as prior period activity, even though the activity related to the current year. Because it was identified as prior period activity, State Accounting included it in its accrual and removed it from the current year activity. As such, a $742,654 adjustment was required to eliminate this activity from the accrual and report it in the proper fiscal year.	$ 742,654
	Total	**$ 12,341,214**

In addition to the adjustments proposed above, the APA noted the following other issues related to the Department's journal entry preparation procedures that did not require adjustments to the financial statements due to their relatively insignificant impact on the financial statements or corrections that were completed before a formal adjustment was proposed by the APA:

- A journal entry was required upon the reconciliation of refunds from providers to specific account subsidiaries for the period July 1, 2023, to September 30, 2023. During preparation of the entry, the Department neglected to account for amounts already posted to these account subsidiaries, causing the reconciliation to be inaccurate. The Department corrected the error prior to the APA's inquiry; however, the reversal to the original entry was recorded using an incorrect code that recorded the activity as a prior period adjustment. Corrections, totaling $12,102,287, were posted by the Department on June 24, 2024, after the APA inquired. The corrections were made between the General and Federal funds.

- In a journal entry to claim Federal funding under the Temporary Assistance for Needy Families (TANF) program, the Department inaccurately included $10,792 in activity from the prior period for services provided prior to the start of the fiscal year.

- The Department performed a quarterly journal entry to move deposits from the Nursing Quality Assurance Fund to the General Fund less an administrative fee that is withheld by the Department. For the quarter ending September 30, 2023, the Department neglected to withhold the $20,504 administrative fee.

- The Department records an annual journal entry as a result of its reconciliation of the Intermediate Care Facility taxes associated with the Beatrice State Development Center (BSDC). When preparing the fiscal year 2024 entry, the Department failed to update preparation documents and utilized figures from the prior year in its calculations, which resulted in a $288,860 variance in amounts recorded to the State's accounting system.

- The Department failed to maintain adequate documentation to support its review of the $2,360,238 interface entry from the Nebraska Families Online Client User System (NFOCUS) system to the State's accounting system.

Disproportionate Share Hospital (DSH) Activity & 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 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:

Description	Reason	Dollar Error
Pools 1-4	Funding related to Pools 1-4 is typically paid to hospitals two years after it is allotted due to the length of time it takes to compile data utilized in the calculations for these payments. However, the Department reported the entirety of this activity in the prior year as short term. An adjustment in the amount of $12,182,690 was made to correct the beginning balances in the General and Federal Funds related to this error.	$ 12,182,690

In addition to the adjustments proposed above, the APA noted the following other issues related to the Department's recording of DSH activity that did not require adjustments to the financial statements due to their relatively insignificant impact on the financial statements or corrections that were completed before a formal adjustment was proposed by the APA:

- An overpayment was made in fiscal year 2020 for Pool 3, and the Department returned the Federal share of this funding to CMS in the current reporting period. However, the Department mistakenly recorded this activity as a current year expense. The error was noted as part of our testing, and a $4,467,005 adjustment was made by State Accounting to correct this activity in both the Federal and General Funds, so a formal adjustment was not proposed by the APA.

  Additionally, the Department did not intend to recoup this funding from the vendor even though it is required to do so in accordance with Title 471 NAC 46-009.04.

- Funding for Pool 6 is typically paid one year after allotment under the program. As such, a short-term liability (due within one year) is reported each year for obligations not yet paid. The APA found multiple errors related to payments made within the pool and their funding. During the year, $2,122,115 in deposits were recorded as negative expenditures rather than revenues. The Department resolved this error after APA inquiry. In addition to this adjustment, there were $442,591 in other issues in our testing of Pool 6 relating to calculation errors and incorrectly recorded transactions.

- The Department inaccurately recorded a payable for the General fund portion of Pool 4 funding allocated to the Lincoln Regional Center (LRC). The Federal portion of this funding should be recorded as a receivable from the Federal government, as LRC is a subsidiary of the Department and not a separate vendor. Consequently, $1,476,394 in short-term liabilities and $1,476,394 in long-term liabilities were recorded incorrectly during the year.

- The Department receives funding each year from UNMC under an Intergovernmental Transfer (IGT) agreement to cover the State portion of some DSH expenditures. However, the current agreement does not adequately support the deposit amount made each year. The deposit made in fiscal year 2024 was $20,334,303.

Patient and County Billing Receivable

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 for these services at the fiscal year end. The APA found the following errors related to the Department's patient and county billings receivable accrual:

Description	Reason	Dollar Error
Patient and County Billings Receivable	The patient and county billings receivable was overstated by $3,594,011 due to a combination of several errors. Most significantly, $3,237,351 of the $5,183,880 Medicaid contract balance for BSDC is uncollectible, but the Department included the full balance in its calculation of the accrual. Additionally, the entire $667,019 Medicaid/Managed Care balance for the LRC was included in the receivable, even though only the $396,343 Federal share should have been included. The remaining $272,144 is the State's responsibility.	$ 3,594,011

MCO Heritage Health Reconciliation Errors

As part of its contracts with the MCOs, the Department receives an annual Program Risk Corridor/Profit Cap and Medical Loss Ratio (MLR) report. The report calculates the necessary settlements for each of the three MCOs as outlined within the respective contractual agreements for administration of the program's services. The MCOs must pay back the payment calculated in the report to the State and Federal governments per the contracts with each organization.

Description	Reason	Dollar Error
MCO Heritage Health Reconciliation Errors	Upon receipt of the calculated amounts due from each of the three MCOs, the Department mistakenly calculated the split between the Federal Fund and State Cash Fund, resulting in an excess of $1,716,215 being recorded as revenue to a Health and Social Services Cash Fund, which should have been recorded to the Federal Fund. Total adjustments of $3,432,431 were required for all affected accounts.	$ 3,432,431

Accrual not Reported for Receivables from University of Nebraska Medical Center

Title 42 CFR § 438.6(c)(2)(iii) (October 1, 2023) states the following:

> *The total payment rate for each State directed payment for which written prior approval is required under paragraph (c)(2)(i) of this section for inpatient hospital services, outpatient hospital services, nursing facility services, or qualified practitioner services at an academic medical center must not exceed the average commercial rate.*

UNMC performs such services for patients under the managed care program and must perform a reconciliation to determine if actual expenditures exceeded this average commercial rate on a regular basis.

Description	Reason	Dollar Error
Accrual not Reported for Receivables from UNMC	UNMC consistently deposits funding with the Department because the reconciliations are typically completed more than one year after the services are performed. From January 1, 2024, to June 30, 2024, no payments from UNMC had been received or recorded, and no receivable had been prepared for such activity. After review, a $3,050,482 receivable was recorded.	$ 3,050,482

A proper system of internal controls requires procedures to ensure that accurate and complete financial information is recorded in the accounting system and reported 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 an increased risk of material misstatements occurring and remaining undetected.

We recommend the Department implement procedures to ensure its accruals are properly calculated and reported to State Accounting, which should include the prioritization of staff training and the correction of 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: The Department has continued to develop, assess, and improve upon internal procedures, which has led to a significant reduction of repeat errors and adjustments needed for the financial statements. Two of the largest adjustments were one-time errors which encompassed roughly 60% of the adjustments reported. The Department has processes in place to ensure errors are not repeated in the future. In addition, the Department will continue to work closely with the Department of Administrative Services – State Accounting Division to ensure accurate reporting.

APA Response: Regardless of whether the errors identified are one-time errors or repeat errors, it is a significant concern that the APA found and proposed corrections for $165 million. Had the APA not identified these errors, the financial statements would have been materially misstated. The Department and State Accounting are responsible for controls to identify the errors prior to the information being provided to the APA.

2. Other Errors in Financial Reporting

The Department made an additional $33,287,384 in other accounting errors that did not require a formal proposed adjustment to the financial statements due to either the dollar amount of the error or the Department's correction of the error before a formal adjustment was proposed. The details of these errors are contained in the table below:

Description	Reason	Dollar Error
CIP Reporting Errors	The Department incorrectly reported Construction in Progress (CIP) expenditures and beginning balances related to its iServe Project in the accounting system. These project costs were not accurately reported for two reasons. First, the Department changed its methodology for determining costs that are included in the capitalized assets. In the prior year, cost allocation entries were excluded; however, they should have been included. The Department failed to recalculate the beginning balance of Phase I to account for this change. Second, for fiscal year 2024 expenses, the Department included expenses that were not CIP expenses. The total amount of these errors was $8,367,528; however, no adjustment was necessary as the net effect of the errors was insignificant. Additionally, the Department failed to record properly CIP expenditures for this project and instead recorded them to operating object accounts. However, the amounts were appropriately reported to State Accounting, so no adjustment was necessary. The total amount of these errors was $13,318,400.	$ 21,685,928
Untimely Movement of WellCare Funds	The Department received settlement funds in fiscal year 2020 from WellCare that were deposited into the Medicaid Holding Fund based on the contractual agreement. At June 30, 2024, there was $7,090,557 in funding still on hand that needed to be moved to the correct fund. However, State Accounting recorded this activity properly, so no adjustment was necessary.	$ 7,090,557
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, the Department has failed to provide documentation to support that percentage since the APA first asked for it in fiscal year 2020. During fiscal year 2024, the Department received $44,795,362 in supplemental rebates, of which $2,687,764 was charged to the CHIP program.	$ 2,687,764

Description	Reason	Dollar Error
Advance Payment to Public Consulting Group	The Department made a $1,000,000 advance payment in April 2024 to Public Consulting Group for technology packages for child care providers. Advance payments are disallowed by not only the terms of its contractual agreements but also by Neb. Rev. Stat. § 81-2403 (Reissue 2024). Amounts unspent were to be returned, of which $434,672 was returned, and $81,012 is still outstanding.	$ 1,000,000
PRTF MCO Settlement Calculation Errors	The settlement amounts for one Psychiatric Residential Treatment Facility (PRTF) Managed Care Organization (MCO) receipt tested were calculated using claims outside the settlement period of July 1, 2021, through June 30, 2022. The APA calculated an overpayment by the MCO of $629,224 using only the claims during the period. The Department failed to inquire or review the calculation for accuracy.	$ 629,224
Credit Card Clearing Account Balance	In the prior year, the APA determined that the Department failed to perform a reconciliation of the balance in a credit card clearing account. At June 30, 2023, the balance was $555,543. On June 30, 2024, the balance was $1,013,504; however, after the fiscal year 2024 transactions posted after the year end were considered, the balance had decreased to $193,911. The balance should still be reconciled in entirety to provide for the proper disposition of the amounts in the account.	$ 193,911
	Total	**$ 33,287,384**

Neb. Rev. Stat. § 81-2403 (Reissue 2024) does not authorize advance payments for goods or services not received:

> *(1) Except as provided in subsection (2) of this section, each agency shall make payment in full for all goods delivered or services rendered on or before the forty-fifth calendar day after (a) the date of receipt by the agency of the goods or services or (b) the date of receipt by the agency of the bill for the goods or services, whichever is later, unless other provisions for payment are agreed to in writing by the creditor and the agency.*
>
> *(2) Any agency making payment for goods or services provided for third parties shall make payment in full for such goods or services on or before the sixtieth calendar day after the date of receipt by the agency of the bill.*
>
> *(3) No goods or services shall be deemed to be received by an agency until all such goods or services are completely delivered and finally accepted by the agency. For purposes of determining whether payment was made in accordance with this section, payment in full by an agency shall be considered to be made on the date the warrant or check for such payment was mailed or otherwise transmitted.*

Similar issues have been noted in prior audits.

A proper system of internal control requires procedures to ensure: 1) transactions are recorded properly and accurately in the accounting system; 2) there is adequate review and approval for processing transactions or accruals; 3) documentation is maintained to support the transactions or accruals; and 4) payments comply with State statute.

Without such procedures, there is an increased risk of material misstatement of financial statements due to errors going 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 implement procedures to ensure that payments are made in accordance with State statute.

Department Response: The Department will continue to develop, assess, and improve upon internal procedures, which has led to a significant reduction of repeat errors. In addition, the Department will continue to work closely with the Department of Administrative Services – State Accounting Division to ensure accurate reporting.

APA Response: Similar to Comment #1, the APA identified over $33 million in additional errors, which points to the need for improved control procedures.

3. NFOCUS Edit Checks and Override of Service Authorizations

The NFOCUS application was used to automate benefit/service delivery and case management for several Department programs. NFOCUS processes included client/case intake, eligibility determination, case management, service authorization, benefit payments, claim processing and payments, provider contract management, interfacing with other State and Federal organizations, and management and government reporting. Due to the volume of claims processed by the NFOCUS application, the Department did not perform a review of each claim paid; rather, the Department relied on edit checks within the system to review claims and deny or suspend claims that did not meet the criteria determined by the Department.

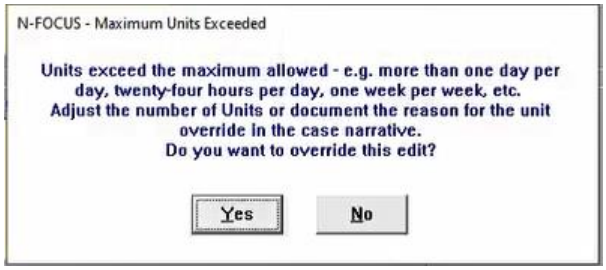
During testing of significant edit checks within the NFOCUS application, it was noted that the "UN" edit check ("Units too high for service dates and frequency") was incorrectly bypassed on claims submitted and interfaced through the Child and Family Services Provider online claims portal. Instead of applying a logical edit check to these claims, such as not exceeding the regular number of days in one month (e.g., 31 days), the system only compared the claim to the service authorization to determine if adequate units were authorized, and a unit balance remained.

Additionally, this issue appears to have affected only claims with a unit frequency of days or partial days. During the fiscal year ended June 30, 2024, the Department paid $1,160,788,826 through the NFOCUS application. Of this amount, $593,965,219 (more than 50% of the total claims paid) was paid for claims with a unit frequency of days or partial days.

Based on a review of these claims, we noted 1,784 claims, totaling $821,543, paid during fiscal year 2024 where the units paid exceeded the amount of days in the period covered by the claim. Of this amount, $448,370 was paid for units in excess of the maximum logical number of days in the period. The following table shows the amount paid in excess of logical number of days by program:

Program	Total Overpaid
Child Care	$ 421,170
Children and Family Services/Med	20,975
Subsidized Adoption/Med	2,693
Aged and Disabled Waiver	1,161
Comprehensive Developmental Disabilities Wavier	984
Personal Assistance Services	638
Subsidized Guardianship	621
Social Services Aged and Disabled	128
Total	**$ 448,370**

NFOCUS IT staff were informed that the "UN" edit check is bypassed if the maximum units on the service authorization is overridden by a Department employee. When a service authorization with a unit frequency of day or partial day is created in the NFOCUS application, the system will automatically calculate a maximum amount of units (based on logic of how many days are in the service period). The Department employee who creates the service authorization must also enter the maximum amount of units that are authorized, as there are cases when the authorized amount of units could be less than the maximum calculated amount. If the case worker enters a maximum amount of units greater than the maximum units calculated by the NFOCUS application, the following message will appear:



The Department employee is allowed to proceed with the overridden maximum amount of units and is not required by the system to "adjust the number of units or document the reason for the unit override." During fiscal year 2024, there were 18,699 instances of service authorizations where the maximum calculated units were overridden (14,588 unique service authorizations affected). The Department paid claims, totaling $102,557,566, associated with overridden service authorizations. It is important to note that this amount includes claims paid where the units paid would not exceed a logical amount.

The APA inquired with four programs (Children and Family Services/Med; Aged and Disabled Waiver; Child Care; and Subsidized Adoption/Med) that had a significant number of service authorizations overridden, and none of these programs indicated that a review is performed to ensure that overridden service authorizations are reasonable.

Additionally, during our testing, we noted that the "RM" edit check ("Submitted rate is more than the authorized rate") was triggered, and the claim was suspended pending resolution; however, the error message displayed was incorrect. The "RM" edit check does not produce the correct error code message of "Submitted rate is more than the authorized rate." When the submitted rate is more than the authorized rate, an incorrect frequency code error message appears instead. When an error is triggered for a claim, only edit checks within the specific "group" are shown. A bug in the system is producing the incorrect error message for the "RM" edit check, and the claim is still unable to process.

Good internal controls require procedures to ensure the following: 1) logical edit checks are implemented and are properly triggering to ensure all claims cannot be paid for more days than in the service period; 2) adequate documentation is maintained to support each service authorization where the maximum amount of units is overridden; 3) a periodic review of overridden service authorizations is performed to ensure they are appropriate and reasonable; 4) edit checks are periodically tested to ensure they are functioning as intended; and 5) automated edit checks are implemented and display the correct error message to prevent data entry errors.

Without such procedures, there is an increased risk for erroneous or fraudulent eligibility determinations and/or claim payments being processed in the application/system.

> We recommend the Department strengthen procedures to ensure the following: 1) logical edit checks are implemented and are properly triggering to ensure all claims cannot be paid for more days than in the service period; 2) adequate documentation is maintained to support each service authorization where the maximum amount of units is overridden; 3) a periodic review of overridden service authorizations is performed to ensure they are appropriate and reasonable; 4) edit checks are periodically tested to ensure they are functioning as intended; and 5) automated edit checks are implemented and display the correct error message to prevent data entry errors.

Department Response: N-FOCUS implemented changes for the UN edit – Units too high for service dates and frequency. The Child Care Duplicate Billing project included work front requests: 950651 (implemented 1-12-2025), 950652 (implemented 12-18-2024, 919900 (implemented 1-15-2025), 1002700 (defect fix implemented 1-30-2025), enhancement request 99171 (planned completion date 4-13-2025). These requests updated claim validation edits in used by the claims portal as well as updates to service authorizations and reports. These only addressed the Child Care program. The issue for the other programs remains. Workfront Request 851100 was written to address the other programs and still Pending and has not been scheduled for implementation.

The RM Edit – "Bug in claim validation code for creating status reason RM" is documented in Workfront # 700854 is in pending status and has not been scheduled for implementation

4. User Access

The Department utilized multiple applications for various purposes, such as processing payments, identifying amounts to be billed to others, determining program eligibility, etc. Access to these applications is based on a user's need to complete his or her job tasks.

During testing of user access of the Department's applications, we noted the following issues:

NFOCUS User Access

The user's supervisor was responsible for completing the NFOCUS Access Request Checklist (Checklist) for new hires, making changes to employee access, and reviewing that access annually. The Checklist was sent to security staff to assign the appropriate level of access to the system. No access should be assigned until a completed, signed Checklist was submitted. For external employees, a Confidentiality Agreement was completed before NFOCUS access was granted.

In our review of employee access to NFOCUS, we noted the following:

- For 8 of 24 users tested, a completed user access Checklist or Confidentiality Agreement was not provided.

- For 11 of 15 internal users tested that have been connected to NFOCUS for over one year, the Department lacked documentation to support that the employee's access was reviewed by his or her supervisor during the fiscal year.

- For 3 of 25 users tested, access assigned in NFOCUS was not appropriate for the user's job function.

- For one employee tested who no longer required NFOCUS access, the IT Help Desk was not notified of the change in job duties in a timely manner. This employee transferred positions on November 12, 2023, but still had NFOCUS access as of testing in April 2024.

A similar comment has been noted since the fiscal year 2014 ACFR audit.

MMIS RACF Access

The Department uses MMIS to support its operations of the Medicaid Program. The objective of MMIS is to improve and expedite claims processing, efficiently control program costs, effectively increase the quality of services, and examine cases of suspected program abuse. To gain access to MMIS, a user's supervisor is responsible for completing an access notification form that is sent to the Security Administrator. For new Medicaid and Long-Term Care (MLTC) staff, a MLTC Security Checklist form should be completed and on file. The forms requesting access are sent to security staff to assign the appropriate level of access to the MMIS system.

In our review of employee access to MMIS, we noted the following:

- For 5 of 25 users tested, user access was not reasonable based on the access request, Security Checklist, or discussion with the user's supervisor.

- For 15 users, the user had multiple IDs that granted access to MMIS when only one ID was required. This was due mainly to a new ID being incorrectly created by the IT Help Desk when a user needed to have access changed or added to their existing MMIS ID.

- For three users, the user IDs were not found by the IT Help Desk at the time the users' employment was terminated. This resulted in the users' IDs not being properly removed upon termination. One user terminated in November 2023 while another user terminated in December 2023. Both of these users still had IDs as of testing in May 2024. The third user terminated in June 2024; however, access was not removed until August 2024 after notification by the APA.

A similar comment has been noted since the fiscal year 2022 ACFR management letter.

Nebraska Information Technology Commission (NITC) Technical Standards and Guidelines, Information Security Policy 8-502(1) (July 2023), "Minimum user account configuration," states the following:

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

NITC Technical Standards and Guideline, Information Security Policy 8-701 (July 2023), "Auditing and compliance; responsibilities; review," states the following, in relevant part:

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

National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5 (December 2020), "Security and Privacy Controls for Information Systems and Organizations," Access Control 6 (AC-6), "Least Privilege," states, in part, the following:

> *Employ the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) that are necessary to accomplish assigned organizational tasks.*

Per the Department's internal review procedures, users with NFOCUS access are supposed to have their access reviewed "at time of hire, annually and when job duties have changed."

A proper system of internal control requires procedures to ensure that user access to Department applications is assigned properly, reviewed periodically to confirm that such access is necessary for the user's job duties, and removed in a timely manner after termination.

Without such procedures, there is an increased risk of users having a level of access that is not only unnecessary for their job duties but also contrary to applicable security guidelines.

> We recommend the Department strengthen procedures for ensuring user access to Department applications is assigned properly, reviewed periodically to confirm that such access is necessary for the user's job function, and removed in a timely manner after termination.

Department Response: The Department is implementing a new process for the annual N-FOCUS user access validation. An existing N-FOCUS user access report will be used to create an electronic list. Supervisors and business sponsors will use this list to review the need for user access and determine if it is at the appropriate level. The supervisor will indicate that the person's access has been reviewed and verified and include the service ticket number if the access is removed or changed. This process is planned to start in February 2025 and replace the need for the supervisor to maintain the original checklist or for the business sponsor to maintain a validation email.

Annual Security Awareness Training will continue to stress the need for supervisors and business sponsors to notify the DHHS Help Desk in a timely manner for terminations or any changes required to user access.

The DHHS Help Desk is conducting a review to identify duplicative mainframe accounts and will more fully evaluate requests for new accounts and terminations to ensure that a new account is required prior to creation of the account and that all accounts associated with individuals are properly removed.

5. Lack of MMIS to MDR Reconciliation and Extract Criteria Issue

The State of Nebraska participates in the Federal Medicaid Drug Rebate (MDR) Program, which helps to offset the Federal and State costs of most outpatient drugs dispensed to Medicaid patients. During the fiscal year ended June 30, 2024, the Department received $327 million in drug rebates that were processed through its MDR application.

The Department utilizes the MDR application to compile Medicaid drug claims and uses that data to invoice drug manufacturers. Paid drug claims are extracted and exported quarterly to MDR. The drug claims originate from either the MMIS application or a vendor supported database, HealthInteractive (HIA). Encounter claims that are sent to the MDR application are sent first to HIA to be filtered prior to being sent to MMIS.

The Department lacked procedures to ensure the data sent to MDR was complete, accurate, and eligible for drug rebates. A similar issue has been noted since the fiscal year 2020 ACFR audit.

Due to this, the APA performed a reconciliation of the March 2024 claims in MDR to the claims that originated from MMIS/HIA and noted no issues within that reconciliation. However, the APA also performed testing of the HIA system extract process to determine if the criteria set in the system was set to extract properly. For 1 of 17 extract criteria tested to ensure negative claims are not received by the MDR system, the HIA extract process did not properly reject certain claims with negative claim amounts. While the HIA system extract failed for that one criterion and improperly sent claim data to the MDR system, it was noted the MDR system, through its own system controls, properly rejected these negative claims preventing improper rebates.

A good internal control plan and sound business practices require procedures to ensure data used to calculate drug rebates is reconciled from MMIS to MDR to ensure completeness and accuracy. Those same procedures should ensure that extract processes are operating as intended in order to ensure rebates are not requested for ineligible claims.

Without such procedures, there is an increased risk of inaccurate amounts being invoiced by the Department.

> We recommend the Department implement procedures to ensure the following: 1) data processed through its applications is complete and accurate; 2) data used to calculate drug rebates is reconciled to ensure completeness and accuracy; and 3) the extract processes are operating as intended in order to ensure rebates are not requested for ineligible claims.

Department Response: The Department acknowledges the importance of ensuring controls are in place to ensure appropriate claims are invoiced to drug labelers and that a secondary reconciliation process exists. The Department has implemented a separate MMIS to MDR reconciliation process, which provides a file output of claims that potentially should or should not be sent to MDR for invoicing. The reports are now available for the DHHS team. These reports are reviewed by the Rates and Reimbursement Administrator in conjunction with various MDR program members to confirm whether errors occurred in sending proper claims to the MDR system. This process is in its early stages and DHHS is committed to ensuring it is an effective control plan in completing a separate reconciliation process. Additionally, the noted negative paid claims were removed by the MDR business rules. The Department will work with IST technical team to put in a system change request to fix this issue with the MMIS to MDR extract. This will ensure negative paid claims are not included in the outbound file to MDR.

6. NFOCUS Overpayments and Claims

The Department used 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 $18,490,002 in overpayments as of June 30, 2024. The Department estimated its collections after the fiscal year to be only $5,451,503, or 29% of the overpayment total, making the remaining amount of $13,038,499 uncollectible. The APA identified errors, totaling $15,035, in the Department's calculation of the overpayment receivable and the allowance for doubtful accounts at year end.

Description	Reason
NFOCUS Overpayment Balance Testing	The APA tested 15 balances from the NFOCUS overpayment listing and noted the following: • The Department failed to require a secondary review of all account status changes. • For two cases, the Department lacked documentation to support whether the legal department reviewed the case for possible legal action in accordance with Department policy. • One case tested lacked a Demand Letter or Notice of Overpayment to the debtor in accordance with Department 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. • For two cases tested, the overpayment was not established in a timely manner. • For one overpayment tested, the item was classified under the wrong program, resulting in the State/Federal funding split being inappropriate. • Certain collection reports are used to determine the Allowance for Doubtful Accounts. The Department provided a summary report showing the fiscal year 2024 recoupments to be $3,514,181 and the cash collections to be $2,582,002. 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 Supplemental Nutrition Assistance Program (SNAP) cash collections did not agree to the Department's calculation worksheet by $13,571. Additionally, a $1,464 variance was noted between the summary and detail listings for another program.

Title 7 CFR § 273.18(d)(1) (January 1, 2024) states the following:

> *As a State agency, you must establish a claim before the last day of the quarter following the quarter in which the overpayment or trafficking incident was discovered.*

The Department Collection Policy, signed April 12, 2024, 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 of 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 may 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.*

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.

NFOCUS Testing

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

Description	Reason
NFOCUS EVV Errors	For 8 of 25 claims tested, services provided 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. For the eight transactions tested, the documentation provided via the EVV system lacked either a client signature, a provider signature, or both. The total paid for the eight claims was $20,828. Additionally, four of the eight providers billing for these services failed to use the appropriate GPS tracking services within the EVV system.
NFOCUS Provider Agreement	For 1 of 19 claims tested, the Department failed to provide a provider agreement that covered the period of payment (July 2023). The Department provided other agreements, such as the provider agreement addendum for November 2021 through October 2022 and January 2024 through present, but was unable to provide the agreement for the period tested.
Provider Calendars	The Department failed to require child care providers to remit attendance forms prior to payment. A similar issue was noted in the prior year. The following issues were noted in two of the payments tested: • One provider cared for two children in December 2023 and received reimbursement of $869 in January 2024 without providing an attendance calendar to document the details of the child care provided. • One provider cared for eight children and received reimbursement of $4,886 in September 2023 without providing an attendance calendar to document the details of the child care provided.

A proper system of internal control and sound business practices require 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 issue has been noted in the prior nine audits.

> We recommend the Department implement procedures for and devote adequate resources to the following: 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.

7. RMTS Report Errors

The Department uses a Random Moment Time Study (RMTS) system to allocate direct and indirect costs for Social Service Workers (EA) and Protection and Safety Workers (PSW) for various programs. The objective is to identify employee efforts directly related to programs administered by the Department. Each quarter, Department employees are randomly selected to complete surveys documenting the activity (e.g., programs/cases, administration, training, lunches, breaks, leave, etc.) in which they are engaged at that specific moment of time. Quarterly reports are generated based on the responses submitted by workers.

The APA performed a reconciliation between the responses submitted by workers and the quarterly reports for two quarters. During testing, we noted the following adjustments to responses that do not appear reasonable:

- For the October 1, 2023, through December 31, 2023, quarter (SFY 24 Q2):
    - 23 responses were "reassigned" and coded to a response activity that was different from the original response activity submitted by the worker. The original responses would have been funded by the State; however, the "reassigned" responses were allocated to various Federal programs. These "reassigned" responses should have been invalidated.

- Four responses were not included in the quarterly reports because these reports were created before all responses for the quarter were submitted by the workers.

- Three required responses were not submitted by the worker; however, these were incorrectly invalidated by a supervisor. This resulted in the responses being improperly included on the quarterly reports as activity funded by the State.

- Two responses were validated by a supervisor; however, the responses were still reassigned to a different activity. The Department was unable to provide an explanation for why these responses were reassigned after being validated. These reassignments removed the responses from the allocation calculation. The table below summarizes the over/(under) allocations.

- One response was not properly included on the quarterly report. The Department was unable to identify which response was not included or why it was not included.

- For the April 1, 2024, through June 30, 2024, quarter (SFY 24 Q4):

    - One response was not included on the quarterly report because the report was created before all responses for the quarter were submitted by the workers.

    - Seven required responses were not submitted by the worker; however, these were incorrectly invalidated by a supervisor. This resulted in the responses being improperly included on the quarterly reports as activity funded by the State.

The APA also recalculated the percentages used to allocate costs to various Federal programs for these two quarters. During testing, we noted the following:

- For 2 of the 83 activities in the October 1, 2023, through December 31, 2023, quarter (SFY 24 Q2), the Department failed to allocate properly responses to Federal programs in accordance with the Department's Public Assistance Cost Allocation Plan (CAP). The table below summarizes the over/(under) allocations.

- For 3 of the 76 activities in the April 1, 2024, through June 30, 2024, quarter (SFY 24 Q4), the Department failed to allocate properly responses to Federal programs in accordance with the Department's CAP. The table below summarizes the over/(under) allocations.

The errors noted above resulted in the incorrect allocation to various Federal programs. The table below summarizes the amounts that were allocated incorrectly:

	Over/(Under) Allocation		
Program	**SFY 24 Q2**	**SFY 24 Q4**	**Total**
Miscellaneous State Funded Programs	$ (150,428)	$ 14,332	$ (136,096)
Adoption Assistance	53,767	(5,427)	48,340
Supplemental Nutrition Assistance Program (SNAP)	35,205	(21,656)	13,549
Foster Care (Title IV-E)	20,879	(16,140)	4,739
Low Income Home Energy Assistance Program (LIHEAP)	13,199	(2,066)	11,133
Social Services Block Grant (SSBG)	10,867	23,179	34,046
Guardianship Assistance	7,188	11,189	18,377
Child Care and Development	4,091	(1,211)	2,880
Temporary Assistance for Needy Families (TANF)	3,628	(2,008)	1,620
Bridges to Independence (B2I)	721	(23)	698
Refugee Program	504	(70)	434
Medicaid	379	(99)	280

The Department's Public Assistance Cost Allocation Plan (effective July 1, 2023; amended February 21, 2024), Appendix C-1, "Random Moment Time Study Methodology," states the following:

> *In addition to the quality control measures performed by DHHS staff, 10% of all moments generated are selected at random to participate in the subsample. The subsample requires participants to provide a narrative description of the activity they were performing at the time of their moment. The contractor and the NE DHHS staff review subsample responses to ensure the activity selected matches the description provided. <u>If the activity and description do not match, the participant is notified, and the moment is considered invalid.</u> This review ensures that a percentage of moments are validated by a third party. The NE DHHS immediately addresses all issues identified as part of this review process. <u>Invalid moments are considered State-funded activities for the purpose of claiming.</u>*

(Emphasis added.) A proper system of internal control requires procedures to ensure that reports contain all responses submitted during the quarter, and all adjustments to responses are made in accordance with the Department's CAP. Additionally, good internal controls require procedures to ensure that responses are allocated to Federal programs as outlined in the Department's CAP.

Without such procedures, there is an increased risk that the Department will not allocate the correct amount to Federal programs or the State.

> We recommend the Department strengthen its procedures to ensure that the reports used in the allocation of costs between State and Federal programs contain all responses submitted during the quarter, and all adjustments to responses are made in accordance with the Department's CAP. Further, we recommend the Department implement procedures to ensure that responses are allocated to Federal programs as outlined in the Department's CAP.

8. <u>NFOCUS External User Access Review</u>

As outlined in its "Risk Analysis and System Security Reviews" document, the Department performs an annual review of external user access to NFOCUS. The Department provided external partners with a listing of staff having access to NFOCUS and required a response identifying any changes and confirming that current users required the access granted.

As of March 2024, the Department had been notified of 16 users who no longer required access to NFOCUS; however, these users still had access as of May 2, 2024. After further inquiry regarding these users, the following was noted:

- For one user, access was noted as no longer being required; however, this user remained on the user listing as of May 2, 2024. After additional inquiry, as of June 5, 2024, the Department was unable to provide an explanation as to why this user still had NFOCUS access.

- For eight users, access was noted to have been system disabled through the Automated Inactive Account process between November 29, 2023, and April 3, 2024. However, these users were noted as no longer requiring NFOCUS access per the validation process and remained on the user listing as of May 2, 2024.

- For two users, access was noted as disabled; however, the users' Local Area Network (LAN) IDs were not deleted upon termination.

- For three users, access was noted as no longer being required during the validation process by the users' sponsors. For each user, a service ticket was submitted to "Modify User": one was requested to remove NFOCUS access, but not fully terminate the user; one was submitted requesting login permissions to another system, but it failed to request the removal of NFOCUS access; and one was requested to add and remove group permissions in NFOCUS. However, these users were still on the active user listing as of May 2, 2024.

- For two users, removal of NFOCUS access was not performed in a timely manner. Both users were noted as no longer requiring NFOCUS access on February 16, 2024, but one access was not terminated until May 30, 2024, and the other was not terminated until June 4, 2024.

Additionally, the APA selected three external agencies to verify that the Department had documentation to support its annual review spreadsheet. One of these selections was for county offices, which was verified through emails to each individual user. The APA noted the following issues:

- For one user, supporting documentation of the validation email was not maintained.

- For six users, validation emails noted that NFOCUS access was no longer needed; however, the users still had NFOCUS access as of May 2, 2024.

Nebraska Information Technology Commission (NITC) Technical Standards and Guidelines, Information Security Policy 8-502(1) (July 2023), "Minimum user account configuration," states the following:

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

NITC Technical Standards and Guideline, Information Security Policy 8-701 (July 2023), "Auditing and compliance; responsibilities; review," states the following, in relevant part:

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

National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5 (December 2020), "Security and Privacy Controls for Information Systems and Organizations," Access Control 6 (AC-6), "Least Privilege," states, in part, the following:

> *Employ the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) that are necessary to accomplish assigned organizational tasks.*

Additionally, a proper system of internal control requires the performance of periodic reviews to ensure that only proper individuals have access to the Department systems, access to applications therein is disabled timely upon termination of a user's employment, and adequate documentation to support such periodic reviews and requests to remove access is maintained for subsequent review.

Without such procedures, there is an increased risk of inappropriate access to State assets and resources, as well as unauthorized processing of transactions and changes. Also, there is an increased risk of noncompliance with NITC or NIST standards.

A similar comment was included in the previous audit report.

> We recommend the Department implement periodic reviews to verify: 1) only proper individuals have access to the Department systems; 2) access to applications therein is disabled timely upon termination of a user's employment; and 3) adequate documentation to support such periodic reviews and requests to remove access is maintained for subsequent review.

Department Response: The Department is implementing a new process for the annual N-FOCUS user access validation. An existing N-FOCUS user access report will be used to create an electronic list. Supervisors and business sponsors will use this list to review the need for user access and determine if it is at the appropriate level. The supervisor will indicate that the person's access has been reviewed and verified and include the service ticket number if the access is removed or changed. This process is planned to start in February 2025 and replace the need for the supervisor to maintain the original checklist or for the business sponsor to maintain a validation email.

Annual Security Awareness Training will continue to stress the need for supervisors and business sponsors to notify the DHHS Help Desk in a timely manner for terminations or any changes required to user access.

The DHHS Help Desk is conducting a review to identify duplicative mainframe accounts and will more fully evaluate requests for new accounts and terminations to ensure that a new account is required prior to creation of the account and that all accounts associated with individuals are properly removed.

9. Lack of Adequate Payroll Reconciliation Procedures

The Department used the Kronos payroll application to track employee hours worked and leave used. The Department's employees entered their hours worked and leave used, and Department supervisors reviewed and approved the hours recorded in Kronos. The Department had an agreement with the Department of Administrative Services – Shared Services (Shared Services) to process the payroll after the Department approved employees' time in Kronos.

Shared Services was responsible for: 1) the interface of Kronos data to EnterpriseOne, the State's accounting system, which was used to process employee paychecks; 2) the review of interface reports to ensure all hours recorded in Kronos were recorded in the accounting system; and 3) processing all payroll adjustments in the accounting system, at the direction of the Department.

The Department paid over $294 million in wages during the period July 1, 2023, through June 30, 2024.

The Department lacked procedures for reconciling the hours from Kronos to the accounting system and the final payroll register to the general ledger to ensure that the correct amount was posted by Shared Services. Consequently, due to the Department's lack of procedures, we noted that Shared Services reviewed interface reports between Kronos and the accounting system to ensure that all transactions interfaced properly; however, this was a high-level review of the total number of records and not a detailed review by pay type.

Shared Services separated the Department's payroll into 14 different areas based on location or service area. For one of these service areas, Kronos reported 6,799 transactions; however, the accounting system reported only 6,797 transactions, a variance of 2 transactions. Shared Services was unable to provide an explanation for this variance.

Additionally, the APA selected one location for one pay period to verify that the hours from Kronos agreed to the accounting system by pay type. No variances were noted during this review.

A proper system of internal control requires procedures for reconciling either hours from Kronos to the accounting system or the final payroll register to the general ledger detail report to ensure that the correct amount was posted by Shared Services, and to ensure that data processed through the Department's applications is complete and accurate. If errors or variances are discovered, procedures should include timely resolution of the errors or investigation into any variances.

Without such procedures, there is an increased risk of the Department's payroll expenses being inaccurate.

A similar issue has been noted since the fiscal year 2020 ACFR audit.

> We recommend the Department implement procedures for reconciling the hours from Kronos to the accounting system and the final payroll register to the general ledger detail report to ensure that the correct amount was posted by Shared Services, and to ensure data interfaced and processed through its applications is complete and accurate. We also recommend the Department implement procedures for investigating any variances or errors identified during the reconciliation.

Department Response: The Department disagrees with the need to adjust reconciliation procedures related to Kronos. Internal controls are intended to mitigate risk, not eliminate risk. We believe the current reconciliation process by DAS is sufficient to mitigate risk in this area.

APA Response: As the Department's $294 million payroll is processed by a different agency, we recommend the Department perform procedures to ensure that payroll is properly recorded, including a periodic reconciliation at the hour level. The risk associated with the payroll process is that pay types from Kronos may not be properly interfaced with the accounting system due to Kronos pay codes not being properly set up, causing errors in employee pay. The recommendation should not be time intensive but rather to periodically ensure that pay is properly set up to interface between Kronos and the accounting system.

10. Lack of Internal Controls over Public Health Administration Program

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

For fiscal year 2024, the APA determined that a lack of segregation of duties still existed in the following area:

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 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 should include, when possible, 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, and a secondary review of receipts is performed.

* * * * *

It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the Department.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 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 State's internal control over financial reporting or compliance.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Department, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

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