



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2025

Dr. Steven Corsi, Chief Executive Officer  
Nebraska Department of Health and Human Services  
301 Centennial Mall South  
Lincoln, Nebraska 68508

Dear Dr. Corsi:

We have audited, in accordance with the 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, 2025, 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 17, 2025. 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 described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Health and Human Services (Department) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Department's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 Numbers 1 (Multiple Financial Statement Adjustments), 2 (Capital Asset Errors), and 3 (Other Errors in Financial Reporting) to be significant deficiencies.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265.A18, in a separate early communication letter dated June 30, 2025.

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, 2025.

# **1. Multiple Financial Statement Adjustments**

The Department is responsible for the accurate recording of financial transactions in the State's accounting system and providing additional financial information, including various accounts receivable and payable entries, to the Department of Administrative Services – State Accounting Division (State Accounting) for proper financial statement and footnote presentation.

The Department failed to record or report accurately values related to four financial transactions, resulting in over \$78 million in errors that, after our inquiry, were proposed and adjusted by State Accounting to ensure the State's financial statements were materially correct. The errors are summarized in the table below:

Description of Accrual or Error	Amount in Error
Prior Period Activity Error	\$ 54,476,127
Patient and County Billing Receivable	\$ 10,578,946
Medicaid Graduate Medical Education (GME) Accrual	\$ 8,070,209
Non-Monetary Inventory Accruals	\$ 4,930,583
<b>Total</b>	<b>\$ 78,055,865</b>

Many of the current year accruals were inaccurate and not prepared in accordance with governmental accounting standards.

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.

## **Prior Period Activity Error**

The State's accounting system allows users to identify transactions made in the prior fiscal year by applying certain codes. When transactions are processed using this code, State Accounting records an adjustment to report the activity in the prior fiscal year. The following error was noted during our review of the July to September 2025 transactions containing the prior fiscal year code:

Reason	Dollar Error
Transactions in the amount of \$18,158,709 were inappropriately recorded as prior period transactions; however, the transactions were already included in a separate reported payable, resulting in the duplication of such activity. As these transactions were related to the movement of expenditures from the General Fund to the Federal Fund, this error caused overstatements in General Fund receivables and both the Federal Fund payables and receivables.	\$ 54,476,127

#### 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 following error was noted related to the Department's patient and county billings receivable accrual:

Reason	Dollar Error
The patient and county billings receivable was overstated by \$10,578,946 due to a combination of errors noted for 20 billing categories. Most significantly, the Department failed to adjust the receivable for several billing categories that will be paid from State sources and, therefore, would not be a third-party receivable, including \$7,304,021 for 11 different billing categories at the Lincoln Regional Center and Beatrice State Development Center.	\$ 10,578,946

In addition to the adjustment proposed above, we noted the following other issues related to the Department's patient and county billing receivable:

- Due to the error noted above, the related allowance for doubtful accounts presented in the financial statement footnotes was understated by \$1,082,920, and an adjustment to the footnote was required.
- The balance of one billing category for the Norfolk Regional Center had decreased by \$2,639,056 from June 30, 2024, despite payments received, totaling only \$409,625, in that billing category during fiscal year 2025. The Department explained that a large portion of the balances had been found to be uncollectible; however, documentation was not available to support this reduction.
- For 10 of 25 individual patient balances tested, certain portions of their balances, totaling \$152,781, were incorrectly included in the receivable calculation. Additionally, for 3 of the 25 balances, the Department failed to take timely follow-up action to collect or otherwise write off such balances, totaling \$963,320.

#### Medicaid Graduate Medical Education (GME) Accrual

In January 2022, the Nebraska Medicaid State Plan was amended to include new funding for supplemental 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 required to transfer funds to the Department for the State share of these supplemental GME payments. Typically, these payments are on a one-year lag and, therefore, the Department reports both a payable to the eligible teaching hospitals and a receivable for the return of the State portion. The following error was noted related to the Department's calculation of the supplemental GME accrual:

Reason	Dollar Error
The receivable and payable accrual reported by the Department in fiscal year 2024 was overstated by \$8,070,209, and the Department appropriately reported the payable overstatement to State Accounting. However, the Department failed to report properly the associated receivable overstatement to State Accounting. As this entry occurred in the prior year and only the payable portion was corrected by State Accounting, this error resulted in the beginning fund balance being overstated by \$8,070,209 for the receivable portion.	\$ 8,070,209

As previously noted, the supplemental GME payments are on a one-year lag and, therefore, the Department estimates the payment amounts that will go out in the next fiscal year by calculating a percentage change between the last two years of payments. In the estimation of the payments to be made in fiscal year 2026, the Department used an incorrect formula to calculate the amount of the percentage change, which resulted in an understatement of the reported payable of \$643,387 and receivable of \$283,473. Due to the size of these errors, a formal adjustment was not proposed.

### Non-Monetary Inventory Accruals

The Department reported non-monetary transactions, such as food and immunization distributions, to State Accounting so that the activity could be included in the financial statements. Because they are physical goods, the distribution of such items has no financial activity recorded in the State's accounting system and, therefore, are required to be manually reported each year. The following issues were noted in our review of the non-monetary transactions reported by the Department:

Reason	Dollar Error
The Department failed to use the correct reports and include all transactions for the amounts related to the National School Lunch Program, resulting in an understatement of \$4,840,014.	\$ 4,840,014
The Department failed to use the correct column when accumulating activity related to the Immunization Program, resulting in an understatement of \$112,654.	\$ 112,654
The Department failed to use the correct reports for the amounts related to the Child and Adult Care Food Program, resulting in an overstatement of \$22,085.	\$ (22,085)
<b>Total</b>	<b>\$ 4,930,583</b>

A proper system of internal controls requires procedures to ensure that complete and accurate financial information is recorded in the State's accounting system and reported to State Accounting at year-end for proper financial statement presentation.

Without such procedures, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Department implement procedures to ensure the accuracy of financial information entered into the State's accounting system and reported to State Accounting, which should include the prioritization of staff training and the correction of repeated errors.

*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. In addition, the Department will continue to work closely with the Department of Administrative Services – State Accounting Division to ensure accurate reporting.*

## **2. Capital Asset Errors**

The Department is responsible for recording information regarding capital assets into the State's accounting system as well as reporting other capital asset-related information to the Department of Administrative Services – State Accounting Division (State Accounting) for proper financial statement and footnote presentation.

The Department failed to record or report accurately values related to 16 capital asset transactions, resulting in over \$7.7 million in errors. These errors did not require a formal proposed adjustment to the financial statements due to either the Department's correction of the error before a formal adjustment was proposed or the dollar amount of the error. The details of these errors are provided in the table below:

Description	Department Errors	Total Errors
Software Asset Capitalization	<p>The Department lacked procedures to ensure internally developed software was capitalized appropriately. We noted the Department failed to capitalize four software assets, as follows:</p> <ul style="list-style-type: none"><li>• myLicense system: This software was developed and went live in February 2025, resulting in an understatement of equipment of \$1,579,476 and associated depreciation of \$219,372.</li><li>• Enrollment Broker: This software was developed and went live in June 2017, resulting in an understatement of equipment of \$728,322 and associated depreciation of the same amount.</li><li>• Quality Information Data System: This software was developed and went live in August 2021, resulting in an understatement of equipment assets of \$428,581 and associated depreciation of the same amount.</li></ul>	\$ 4,539,198

Description	Department Errors	Total Errors
	<ul style="list-style-type: none"> <li>Radon: This software was developed and went live in January 2025, resulting in an understatement of equipment of \$365,609 and associated depreciation of \$60,935.</li> </ul> <p>Due to the timing of when these errors were communicated, the Department made corrections prior to the calculation of the capital asset schedules and, therefore, no formal adjustment to the financial statements was proposed.</p>	
Software CIP Reporting Error	One of the software assets noted above, myLicense system, also should have been reported to State Accounting as construction-in-progress (CIP) as it was a multiple-year development project. The failure to report this asset as CIP resulted in the understatement of CIP beginning balance of \$892,844, additions of \$686,632, and deletions of \$1,579,476.	\$ 1,579,476
CIP Reporting Errors	<p>The Department failed to report accurately CIP activity for two assets tested, resulting in an overstatement of CIP beginning balance of \$598,648 and CIP additions of \$767,789. This error was made, in part, due to the Department's failure to use the appropriate object account in the State's accounting system related to CIP and instead recorded the payments to a current expense account. The details of these two assets are as follows:</p> <ul style="list-style-type: none"> <li>iServe Phase III: The Department failed to exclude planning costs from the activity reported, resulting in an overstatement of CIP beginning balance of \$598,648 and CIP additions of \$748,037.</li> <li>Med DMS: This software asset was overstated by \$19,752 due to certain expenditures being duplicated.</li> </ul>	\$ 1,366,437
Prior Year Fixed Asset Errors	<p>The Department failed to correct asset cost errors noted in the prior year, as follows:</p> <ul style="list-style-type: none"> <li>Two software assets, iServe Phase I and Phase II, were not capitalized at the correct costs and continued to be reported at the incorrect cost. iServe Phase I was overstated by \$1,297,595, while iServe Phase II was understated by \$1,163,591, resulting in a net overstatement to equipment beginning balance of \$134,004.</li> <li>One equipment asset's value was overstated, resulting in an overstatement to equipment beginning balance of \$8,850.</li> <li>One equipment asset inaccurately had new costs added to it that should have been added to a new asset in the accounting system, resulting in an overstatement to equipment beginning balance of \$4,867.</li> </ul>	\$ 147,721
Equipment Cost Attachment	<p>The Department failed to attach costs to six equipment assets in the State's accounting system timely, resulting in an understatement of equipment beginning balance of \$91,155 and additions of \$8,200. Such asset costs were not added until after inquiry during fieldwork in October 2025, as follows:</p> <ul style="list-style-type: none"> <li>Convection Oven with an acquisition date in March 2019 with costs of \$8,159.</li> <li>Pressure Steamer, IPack, and Ice Dispenser with acquisition dates in January 2024 and costs of \$33,987, \$34,897, and \$8,137, respectively.</li> <li>Scanner with an acquisition date in October 2015 with costs of \$5,975.</li> <li>2011 Ford E350 with an acquisition date in September 2024 with costs of \$8,200.</li> </ul> <p>Such failure to add costs properly to assets causes the State's accounting system to contain the incorrect asset values and calculate depreciation at the incorrect amount, which then causes errors in the financial reporting process.</p>	\$ 99,355
<b>Total</b>		<b>\$ 7,732,187</b>

A proper system of internal controls and sound accounting practices require procedures to ensure that capital asset activity is recorded accurately, assets are properly capitalized in the accounting system, and costs are added to assets in a timely manner.

Without such procedures, there is an increased risk of material misstatement to the financial statements, which might remain undetected.

We recommend the Department implement procedures to ensure that the capital asset amounts reported in the financial statements are complete and accurate, and changes to an asset's costs are added in a timely manner.

*Department Response: The Department will continue to develop, assess, and improve upon internal procedures for capital assets. In addition, the Department will continue to work closely with the Department of Administrative Services – State Accounting Division to ensure accurate reporting.*

### 3. **Other Errors in Financial Reporting**

The Department made an additional \$7.3 million in other accounting errors that did not require a formal proposed adjustment to the financial statements due to the dollar amount of the error. These errors are detailed in the table below:

Description	Department Errors	Dollar Error
Physician and Dental Directed Payment Receivable	The Department makes payments to cover additional costs for physician and dental services provided by the University of Nebraska Medical Center (UNMC). UNMC will then return the State share of such payments back to the Department.	\$ 1,879,989
	For the physician-directed payment, a formal adjustment was corrected by State Accounting in the prior year because the Department failed to report this receivable; however, for the current year, the Department failed to consider this adjustment in the amounts reported to State Accounting, resulting in an overstatement of beginning balance of \$1,943,518.	
	For the dental directed payment, the Department improperly calculated the beginning balance adjustment, resulting in an understatement of beginning balance of \$63,529.	
Inappropriate Financial Coding	The Department directed the creation of a journal entry moving funds from Nebraska Medicine to the General Fund for managed care rates charged above the average commercial rate, totaling \$1,541,084. The entry in the State's accounting system recorded this transaction as a reduction in revenue, while the University's accounting system recorded it as an expense. Further, the Department could not provide documentation to support the recording of such transaction as a reduction of revenue.	\$ 1,541,084
	Two providers returned to the Department a total of \$1,026,762 in unspent funds that were provided to them in prior fiscal years. Upon receipt of these funds, the Department incorrectly reduced the current fiscal year expenditures; however, these transactions should have been recorded as a prior period adjustment.	\$ 1,026,762
	In October 2024, the Department received notice from the United States Department of Health and Human Services of disallowed expenditures from the fiscal year 2019 and fiscal year 2021 audits. These expenditures, totaling \$782,938, were incorrectly recorded as a prior period adjustment, when they should have been adjusted when the notification was received as a current expense.	\$ 782,938
	The Federal fiscal year 2024 Poison Control payment to the University of Nebraska Medical Center, totaling \$250,000, was improperly recorded as a reduction of revenue, instead of an expense.	\$ 250,000



Description	Department Errors	Dollar Error
Medicaid Third Party Liability Receivable	<p>The Medicaid Third Party Liability (TPL) receivable calculates the expected collections to be received from third parties (individuals, entities, insurers, or programs) to pay part or all the expenditures for medical assistance furnished under a Medicaid state plan. The following concerns related to the underlying data used to calculate the receivable were noted:</p> <ul style="list-style-type: none"> <li>The Department utilized the change in balances from year-to-year to determine collectability, rather than the actual collections.</li> <li>Although receipts are tracked by case number, the Department has been unable to produce a report that can show collections by case or by the year the case began in order to review actual collections.</li> </ul> <p>Additionally, to calculate the receivable, the Department multiplied a calculated collection rate for one year to the outstanding balance for the following year. This did not appear reasonable due to the concerns with the underlying date noted above, and it could result in large increases in the amount expected to be collected due to unexpected collections of older balances. We used a more reasonable average collection rate of the prior two years for health claims and four years for casualty claims, resulting in a \$454,879 understatement of the receivable.</p>	\$ 454,879
Nursing Facility Receivable Error	Nursing Facility Quality Assurance Assessment (NFQAA) fees are based on total patient days in each quarter and are generally paid in the next quarter. The Department did not include all NFQAA fees collected in July – September 2025 in their receivable balance as of June 30, 2025, resulting in an understatement of \$312,846.	\$ 312,846
Medicaid Drug Rebate Receivable Error	The Department estimated the amount of Medicaid Drug Rebate receivable by using billed and collected amounts history to calculate average collection rates, which was then used to estimate the expected collections and related allowance for doubtful accounts. The Department made two errors in the calculation of this receivable. First, the calculation completed by the Department used the incorrect amount collected for claims from 2018 due to a formula error. Second, the Department reduced the calculated receivable for amounts held in the Medicaid Holding Account; however, the amount of the reduction did not agree to the balance of that account in the State's accounting system. These two errors resulted in a \$1,078,154 understatement of the receivable.	\$ 1,078,154
<b>Total</b>		<b>\$ 7,326,652</b>

In addition to the errors noted above, we noted the following errors to the receivable footnote for the allowance for doubtful accounts:

- \$454,879 overstatement related to the error for the Medicaid Third Party Liability Receivable, and
- \$1,107,821 overstatement related to the error for the Medicaid Drug Rebate Receivable.

Additionally, we noted that the Department lacked procedures for ensuring adequate reconciliations and documentation were on file to support three financial transactions tested, totaling over \$5.3 million, as follows:

Description	Department Errors	Transaction Amount
Medicaid Managed Care Excess Profit Fund Costs	The Department moved \$3,163,666 in expenditures from the General Fund to the Medicaid Managed Care Excess Profit Fund to reimburse costs incurred for three newly established programs in accordance with State statute. The costs were based on estimates and not actual costs incurred. The Department lacked documentation to support the actual costs incurred by each program and, therefore, it also failed to review the costs to ensure the amounts moved were for actual costs incurred, in accordance with State statute.	\$ 3,163,666

Description	Department Errors	Transaction Amount
PRTF Settlement Calculation	In the prior year, we noted errors in the calculation of the Psychiatric Residential Treatment Facility (PRTF) Managed Care Organization settlement, including the use of claims outside of the settlement period. In fiscal year 2025, we tested one receipt from United HealthCare, totaling \$2,143,720, to ensure this error was corrected; however, the Department failed to obtain any documentation related to this receipt and could not provide documentation to verify its accuracy.	\$ 2,143,720
Credit Card Clearing Account Balance	As noted in the two prior audits, the Department failed to perform a reconciliation of the balance in the credit card clearing account. At June 30, 2024, the balance was (\$1,013,504). On June 30, 2025, the balance was (\$205,279); however, after considering prior period adjustments, the balance had increased to \$91,330. While progress has been made on the reconciliation of this account, the Department continues to lack procedures for routinely monitoring and reconciling this account.	\$ 91,330
<b>Total</b>		<b>\$ 5,398,716</b>

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; and 3) documentation is maintained to support the transactions or accruals.

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.

#### **4. NFOCUS Overpayments and Claims**

The Department used the Nebraska Family Online Client User System (NFOCUS) application to record detailed information regarding clients and services provided, as well as to process payments for its various programs. Detailed testing was performed of these payments, and the following issues related to NFOCUS overpayments and claims were noted:

##### NFOCUS Overpayments

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

As of June 30, 2025, the Department reported \$21,548,565 in overpayments to households that were required to be returned to the State due to errors or program violations. The Department estimated its collections after the fiscal year to be **only \$6,244,052**, or 29% of the overpayment total, making the remaining amount of \$15,304,513 uncollectible.

The following issues were noted related to the calculation of the accrual for the overpayments receivable and to the overpayments tested:



Description	Reason
Overpayment Receivable	For 13 programs included in the calculation of the overpayment receivable, the incorrect Federal rate was used, resulting in an overstatement of State receivable and understatement of Federal receivable, totaling \$13,795. It was also noted that the Department could not provide supporting documentation for all amounts used in its calculation of the NFOCUS overpayment receivable and related allowance for doubtful accounts.
Overpayment Balances	<p>During testing of 15 balances from the NFOCUS overpayment listing, we noted the following:</p> <ul style="list-style-type: none"> <li>• The Department failed to require a secondary review of all account status changes, such as changing a case status to close, which would affect whether the case was reviewed.</li> <li>• NFOCUS does not have an audit trail of account status changes.</li> <li>• Overpayments to one child care provider tested, Kylee Ettleman, totaling \$478,178, were not established in a timely manner. The overpayment was not established until June 2025, more than four years after the child care provider was referred for investigation in March 2021 and almost two years after payments to the provider ended in July 2023. Eighty-six percent (86%) or \$409,578 of the overpayments were paid to the child care provider after the case was referred for investigation.</li> <li>• One individual was noted as the owner of two child care providers, both using the name Kidventure Enterprises, within NFOCUS. One child care provider was closed with \$100,263 in overpayments established in 2023, yet the Department failed to recoup the overpayments from subsequent payments made to the second child care provider, which is still active and receiving payments.</li> <li>• For three cases tested, the Department lacked documentation to support the reasons the cases were not referred to the legal Department in accordance with the Department’s collection policy for debts exceeding \$10,000. The three cases had balances of \$100,263, \$47,806, and \$18,484. Limited collection actions can be taken without a referral to the legal department.</li> </ul>

Title 7 CFR § 273-18(d)(1) (January 1, 2025) 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[.]*

Title 392 NAC 4.008.03 (September 15, 2020) states, in relevant part, the following:

*If the provider does not appeal or appeals unsuccessfully, the overpayment will be recouped from future billings for the same or different children, or from another service at a rate of no less than 50 percent per billing.*

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:

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

*3.3.1 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.*

*3.3.2 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.*

*3.4 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 the following: 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 Claims

During testing of 25 claims paid through NFOCUS, we selected five payments made from the General Fund for eligible child care costs.

The Department does not require daycare providers to submit attendance forms prior to payment; therefore, for all five payments tested, the Department had to request the attendance records selected for testing from the providers. A similar issue was noted in the prior two audits.

Upon review of the attendance records, we noted overpayments associated with four of the five payments tested, totaling \$2,549, as detailed in the table below:

Provider	Pay Dates	Overpayment	Description
Nebraska Children's Home Society	6/1/2024 – 6/30/2024	\$ 1,436	Attendance records did not agree to the amount billed and paid for 12 clients.
St. James Warm Hearts Childcare	9/1/2024 – 9/30/2024	\$ 465	Attendance records did not agree to the amount billed and paid for three clients.
Smiling Faces Academy	10/16/2024 – 10/31/2024	\$ 463	Provider received payment for one client who was not listed on the attendance records.
Elexis Powell	8/1/2024 – 8/31/2024	\$ 185	Attendance records did not agree to the amount billed and paid for one client.
<b>Total</b>		<b>\$ 2,549</b>	

Additionally, for the remaining child care payment tested, we noted that the attendance record provided by Katwen Enterprises also did not agree to the amounts billed for two clients; however, we were unable to determine the amount of the error due to incomplete attendance records.

A similar issue has been noted in the prior 10 audits.

Lastly, the Department failed to provide requested records to the Auditor of Public Accounts (APA) in the timeframe specified by Neb. Rev. Stat. § 84-305.01(2) (Reissue 2024). That statute requires an information request by the APA to be fulfilled “as soon as is practicable and without delay, but not more than three business days after receipt of such request . . .” Upon receipt of a “written explanation, including the earliest practicable date for fulfilling the request . . .” the APA may authorize an extension; however any such extension must be provided, at latest, no later than “three calendar weeks after receipt of the written request from the Auditor of Public Accounts.” Two provider attendance records were provided 23 days after being requested.

A proper system of internal control and sound business practices require procedures to ensure that all services have taken place, and records are on file to support payments made to providers. Such procedures should include the requirement that attendance records are submitted and reviewed on, at least, a test basis as part of the monthly payment procedures. Additionally, such procedures should ensure that all documentation is readily available, allowing for timely compliance, per applicable statutory requirements, with any record request by the APA.

Without such procedures, there is an increased risk for not only noncompliance with Federal regulations and State statutes but also loss of State funds.

We recommend the Department implement procedures for, as well as devote adequate resources to, the following: 1) investigating, establishing, pursuing, and collecting NFOCUS overpayments in a timely manner and reducing the number of overpayments; 2) ensuring adequate supporting documentation, such as attendance records, is on file prior to payment of child care claims; 3) verifying that policies agree to Federal regulations; and 4) complying with applicable administrative rules and regulations, internal policies, and State statutes.

## 5. NFOCUS Edit Check Testing

The Nebraska Family Online Client User System (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.

In the prior year, we 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, which appears to have been corrected in January 2025. However, during our review of the fiscal year 2025 NFOCUS claims listing, we identified other NFOCUS claims that did not appear to have triggered the “UN” edit, resulting in a possible overpayment of \$34,734.

- 68 NFOCUS claims were entered manually into the system with daily billed units that exceeded reasonable and allowable amounts, totaling \$19,948. As part of resolving the prior year issue, a system change ticket was created and still in process as of July 29, 2025, with an expected implementation in December 2025.
- 144 NFOCUS claims interfaced from the Netsmart Electronic Visit Verification system with hourly billed units that exceeded reasonable and allowable amounts, totaling \$14,786. Most of these claims were in May and June 2025. On July 29, 2025, we inquired with the Department regarding these questionable claims, and on August 7, 2025, the Deputy Director of Finance and Program Integrity of the Division of Medicaid and Long-Term Care replied as follows:

*DHHS continues to research your inquiry, but would agree that these claims appear to be in excess of what is reasonable and allowable. DHHS is following up with the vendor, Netsmart, regarding controls that DHHS expects to be in place to prevent visits/claims resulting in more than 24 hours in a day for a client through overlapping visits and/or duplicate visits/claims. Concurrently, the NFOCUS claims team is reviewing all the claims to begin issuing overpayment letters and adjustments.*

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 did not produce the correct error code message of “Submitted rate is more than the authorized rate,” displaying instead an incorrect frequency code error message. A bug in the system produced the incorrect error message for the “RM” edit check, and the claim is still unable to process.

A proper system of internal control requires procedures to ensure the following: 1) logical edit checks are implemented and are properly triggered to ensure all claims cannot be paid for more days or hours than in the service period; 2) edit checks are tested periodically to ensure they are functioning as intended; and 3) automated edit checks are implemented and display the correct error message to prevent data entry errors.

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

A similar issue was noted in the prior year.

We recommend the Department strengthen procedures to ensure the following: 1) logical edit checks, containing the proper trigger mechanisms, are implemented to prevent claims from being paid for more days or hours than in the service period; 2) edit checks are periodically tested to ensure they are functioning as intended; and 3) automated edit checks are implemented and display the correct error message to prevent data entry errors.

## 6. RMTS Report Errors

The Department uses a Random Moment Time Study (RMTS) system to allocate direct and indirect costs between the State and the various Federal programs for Social Service Workers and Protection and Safety Workers. 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 and provide responses documenting the activity (e.g., programs/cases, administration, training, lunches, breaks, leave, etc.) in which they are engaged at that specific moment. If the employee responds with multiple activities or programs, that response is broken into fractions to equal one response.

The system automatically selects a sample of these responses for review by supervisors. Supervisors have the option to validate a response, meaning the employee answered the survey accurately, or invalidate a response, meaning the employee did not select the best answer to the survey. Any responses that are invalidated are reclassified to an activity that is fully funded with State funds; as a result, invalidations change the cost allocation between State and Federal program funding. Once the supervisor review is completed, quarterly reports are generated based on the responses submitted by workers, which are then used to calculate the cost allocation percentages.

We performed a reconciliation between the responses submitted by workers and the quarterly reports for two quarters. In doing so, we noted the following regarding the supervisors' reviews of the employees' responses and subsequent adjustments to responses that appear unreasonable:

- For the July 1, 2024, through September 30, 2024, quarter: (State Fiscal Year (SFY) 25 Q1):
  - For 204 responses that were selected for supervisor review, there was no evidence of the review. By failing to complete this review, the Department was unable to verify the accuracy of responses. A completed review could have impacted the cost allocation percentages used by the Department for State and Federal program funding.
  - For 93 responses that were selected for supervisor review, the review was started but not fully completed and, therefore, was not marked as either valid or invalid. By failing to complete this review, the Department was unable to verify the accuracy of responses. A completed review could have impacted the cost allocation percentages used by the Department for State and Federal program funding.
  - For two responses that were not originally selected in the sample for supervisor review, the supervisor performed a review and invalidated the responses. As these were outside of the sample selected for supervisor review, this invalidation resulted in two additional responses being created and recorded as activities funded by the State. The original responses remained under their original funding source, double counting these responses.
- For the January 1, 2025, through March 31, 2025, quarter (SFY 25 Q3):
  - For 257 responses that were selected for supervisor review, there was no evidence of the review. By failing to complete this review, the Department was unable to verify the accuracy of responses. A completed review could have impacted the cost allocation percentages used by the Department for State and Federal program funding.
  - For 131 responses that we selected for supervisor review, the review was started but not fully completed and, therefore, was not marked as either valid or invalid. By failing to complete this review, the Department was unable to verify the accuracy of responses. A completed review could have impacted the cost allocation percentages used by the Department for State and Federal program funding.

- One response originally recorded the Federally funded Supplemental Nutrition Assistance Program (SNAP) as an activity; however, this response was invalidated by the supervisor upon review. This should have resulted in the response being moved to an activity funded by the State; however, a system error occurred, resulting in this response not changing the funding allocation after being invalidated. This resulted in an overallocation to the Federal program and an underallocation to the State.
- Four blank employee responses were invalidated by supervisors. By invalidating a blank response, State-funded activities were created, which possibly overstated the cost allocation for State funds.

We also recalculated the percentages used to allocate costs to various Federal programs based on the responses for these two quarters and noted the following:

- For 7 of the 81 activities in SFY 25 Q1, the Department failed to allocate properly responses to the correct Federal programs specified in the Department's Public Assistance Cost Allocation Plan (CAP). The over/(under) allocations are explained below.
  - Five of these activities included Child Protection Initial Assessment, which is funded by three different Federal programs. The Department failed to update the formula used to calculate this allocation between these Federal programs, and instead incorrectly used the previous quarter's allocation. This resulted in the Title IV-E Adoption and Title IV-E Guardianship Assistance programs being overcharged and the Title IV-E Foster Care program being undercharged.
  - One of these activities should have been allocated evenly between the Federally funded SNAP and the State; however, this activity was incorrectly allocated three ways: to the Federally funded SNAP, the State, and the Federally funded Social Services Block Grant Program (SSBG). This resulted in an overcharge to SSBG and an undercharge to SNAP and the State.
  - One of these activities should have been allocated with two-thirds being funded by the Temporary Assistance for Needy Families Program (TANF) and one-third being funded by SNAP; however, this activity was incorrectly allocated evenly between TANF and SNAP. This resulted in an overcharge to SNAP and an undercharge to TANF.
- For 2 of the 75 activities in SFY 25 Q3, the Department failed to allocate properly responses to the correct Federal programs specified in the Department's CAP. The over/(under) allocations are explained below.
  - One of these activities was for Child Protection Initial Assessment, which is funded by three different Federal programs. The Department failed to update the formula used to calculate this allocation between these Federal programs, and instead incorrectly used a previous quarter's allocation. This resulted in the Title IV-E Adoption and Title IV-E Guardianship Assistance programs being overcharged and the Title IV-E Foster Care program being undercharged.
  - One of these activities should have been allocated evenly between the Federally funded SNAP and the State; however, this activity was incorrectly allocated three ways: to SNAP, the State, and SSBG. This resulted in an overcharge to SSBG and an undercharge to SNAP and the State.

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

Program	Over/(Under) Charges		
	SFY 25 Q1	SFY 25 Q3	Total
Miscellaneous State-Funded Programs	\$ (4,194)	\$ 5,914	\$ 1,720
Adoption Assistance	\$ 8,940	\$ 33,942	\$ 42,882
Guardianship Assistance	\$ 16,502	\$ 14,055	\$ 30,557
Foster Care (Title IV-E)	\$ (25,456)	\$ (47,970)	\$ (73,426)

Program	Over/(Under) Charges		
	SFY 25 Q1	SFY 25 Q3	Total
Social Services Block Grant (SSBG)	\$ 30,222	\$ 21,155	\$ 51,377
Temporary Assistance for Needy Families (TANF)	\$ (3,514)	\$ (1,195)	\$ (4,709)
Child Care and Development	\$ (897)	\$ (1,556)	\$ (2,453)
Supplemental Nutrition Assistance Program (SNAP)	\$ (19,999)	\$ (20,158)	\$ (40,157)
Low Income Home Energy Assistance Program (LIHEAP)	\$ (1,304)	\$ (3,659)	\$ (4,963)
Refugee Program	\$ (117)	\$ (124)	\$ (241)
Medicaid	\$ (183)	\$ (404)	\$ (587)

Further, the Department amended its CAP in 2025, resulting in two previous State-funded activities changing to Federally funded by the Title IV-E Foster Care program. The Department then created a journal entry to reallocate these costs for the first two quarters of the fiscal year. During testing of the journal entry for SFY 25 Q1, the following was noted:

- The journal entry failed to reallocate a total of 3.1 responses related to a State-funded activity to the Federally funded activity, which resulted in an additional \$7,446 being funded by the State that could have been charged to the Federal government.
- The changes to the CAP affected two cost centers; however, the journal entry accounted for only the larger of these cost centers. As a result, an additional \$96,657 was funded by the State but could have been funded by the Federal government.

The Department’s Public Assistance Cost Allocation Plan (effective September 30, 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. If the activity and description do not match, the participant is notified, and the moment is considered invalid. 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. Invalid moments are considered State-funded activities for the purpose of claiming.*

(Emphasis added.) A proper system of internal control requires procedures to ensure that supervisor review of the sample of responses is fully completed, and all adjustments to responses are made in accordance with the Department’s CAP. Such system of internal control should also require procedures to ensure that responses are allocated to Federal programs as outlined in the Department’s CAP, and any journal entries made are proper and include all responses and cost centers.

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

A similar issue was noted in the fiscal year 2024 ACFR audit.

We recommend the Department strengthen its procedures to ensure that supervisor review of the sample is fully completed, 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, and any journal entries made are proper and include all responses and cost centers.



## 7. MMIS RACF Access

The Department uses the Medicaid Management Information System (MMIS) to support its operations of the Medicaid Program. The objective of MMIS is to improve and expedite claims processing, efficiently control program costs, increase service quality, 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, an 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.

While the Department has procedures in place for periodically reviewing MMIS user access, we noted the following issues during our review of employee access to MMIS:

- For 4 of 25 users tested, user access was not reasonable based on discussion with the user's supervisor.
- There were 11 users with multiple IDs that granted access to MMIS; however, only one ID was required to perform job duties.
- There were 42 instances (for 41 different users) of the user accounts having access to perform specific functions within MMIS; however, these users could not actually perform those functions because they could not view the screens within MMIS to do so. Because users are unable to use the access granted, such access appears unnecessary to perform job duties.

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 Guidelines, 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.*

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 job duties, and is removed in a timely manner after termination.

Without such procedures, there is an increased risk of users having a level of access that is unnecessary for their job duties, contrary to applicable security guidelines.

A similar issue has been noted since fiscal year 2022.

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.

## 8. Contract Monitoring

The Department's monitoring of three contracts tested was insufficient to support reimbursement, as follows:

One contract with Father Flanagan's Boys Home (Home) failed to provide for a review of actual hours worked by employees. Additionally, there was an inadequate review of the billed services because the Department reviewed only two small, non-payroll expenditures for the billing tested.

- This agreement reimburses costs incurred by the Home related to the maintenance of the Nebraska Behavioral Health Crisis Line. The Department's Division of Behavioral Health performs a desk review each year to ensure that costs reimbursed were allowable and actually incurred. The Department failed to review the timesheets and compare them to the payroll reports provided to ensure actual time worked agreed to the amounts paid. For the month tested, the amount reimbursed was \$418,682, and payroll costs were \$269,882, over 64% of the total.
- The Department's monitoring of the contract included a review of only two miscellaneous expenditures, totaling \$285. This is only .19% of the \$148,800 in non-personnel expenses reimbursed.

A second contract with the Winnebago Tribe of Nebraska (Tribe) also failed to provide for reviewing actual hours worked by employees. Furthermore, one additional payment reviewed lacked adequate supporting documentation.

- The agreement reimbursed costs incurred by the Tribe related to child protective and safety services. Similar to the item included above, the Department failed to review the timesheets and compare them to the payroll reports provided to ensure actual time worked agreed to the amounts paid. For the month tested, the amount reimbursed was \$338,732, and payroll costs were \$146,112, over 43% of the total.
- The Department reimbursed the Tribe for \$1,812 of telephone expenses for the month tested; however, supporting documentation was not on file to verify \$23 of such amount.

The third contract with the Community Action Partnership of Lincoln failed to provide for an adequate review of building expenses for the month tested.

- The Department reimbursed this subrecipient \$75,207 in building costs for January 2025; however, the amount reimbursed was not verified to payment documentation, such as a mortgage and interest statement or rental agreement. When the Department last reviewed the building expense in July 2023, the documentation to support the building expenses was a spreadsheet showing the total amount of principal and interest of \$13,888 per month. For fiscal year 2025, we determined that building costs had not been reimbursed for the months of November and December 2024. However, the reimbursement for three months of building costs for \$75,207 was still nearly two times more each month than the last available documented amount of \$13,888.

A proper system of internal control requires procedures for adequately and sufficiently monitoring all payments made to subrecipients. Such procedures should include the requirement that: 1) adequate supporting documentation, such as timesheets, are provided and reviewed; and 2) review procedures include verification of a sufficient amount of expenses from all expense categories.

We recommend the Department implement procedures for strengthening its subrecipient monitoring procedures, such as a comparison of timesheets to payroll costs. We also recommend the Department implement procedures to ensure: 1) its review of documentation to support expenses for the period tested provides sufficient coverage; and 2) supporting documentation is on file for all expenses reimbursed.

## **9. 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, 2025, the Department received over \$270 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 Department's Medicaid Management Information System (MMIS) application or a vendor supported database, HealthInteractive (HIA). Managed Care claims that are sent to the MDR application are sent to HIA to be filtered prior to being sent to the MMIS application.

In February 2025, the Department implemented procedures for ensuring the quarter ended December 31, 2024, data sent to MDR was complete, accurate, and eligible for drug rebates; however, adequate documentation to support that these procedures were performed was not maintained. Due to this, the Auditor of Public Accounts (APA) performed a reconciliation of the December 2024 claims in MMIS to the claims sent to MDR, noting no issues therein.

The APA also performed testing of the HIA extract process that filters the claims to determine which ones should be sent to the MDR application. For 1 of 16 extract criteria tested, the HIA extract process did not properly reject certain claims with negative amounts, which is the Department's process. Further review by the APA revealed that, while the HIA extract failed for that one criterion, the MDR system, through its own system controls, properly rejected these negative claims, preventing improper rebates.

A proper system of internal control and sound business practices require procedures to ensure that data used to calculate drug rebates is reconciled from MMIS to MDR to verify completeness and accuracy. Those same procedures should ensure that extract processes are operating as intended in order to prevent rebates from being requested for ineligible claims.

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

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

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; 3) adequate documentation is maintained for any reconciliations or reviews performed; and 4) extract processes are operating as intended in order to ensure rebates are not requested for ineligible claims.

## **10. Lack of Internal Control over Public Health Administration Program**

In 2019, an attestation examination of the Department's Public Health Administration was performed for the period July 1, 2017, through December 31, 2018. In that attestation, a lack of segregation of duties was noted in a number of areas.

For fiscal year 2025, a lack of segregation of duties still existed over radon activity. 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 control 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 to the Department or the misuse of funds, which could go undetected.

We recommend the Department implement procedures to ensure that 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 results of that testing, and not to provide an opinion on the effectiveness of the 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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