

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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March 8, 2006

Kate Witek
State Auditor
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Richard P. Nelson, Director
Finance and Support
Nebraska Health and Human Services System
301 Centennial Mall South
Lincoln, Nebraska 68509

Deann Haeffner, CPA
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Dear Mr. Nelson:

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 2, 2006. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the Federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit); and not to provide assurance on internal control. We have not considered internal control since the date of our report.

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In connection with our audit described above, we noted certain internal control matters related to the activities of the Health and Human Services System (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency's management, are intended to improve internal control or result in other operating efficiencies.

Dennis Meyer, CGFM
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Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Perry Pirsch, JD, MPA
Legal Counsel
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Our comments and recommendations for the year ended June 30, 2005, are shown on the following pages.

COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Medicaid Short-Term Liability

Good internal control requires estimates are reasonable and are reviewed periodically to ensure accurate recording of the liability.

The estimate developed to determine the year-end Medicaid short-term liability included an estimated \$6 million in adjustments related to Federally Qualified and Rural Health Centers and Critical Access Hospitals. These adjustments are based on old historical data and may be outdated.

The actual costs for fiscal year 2004 and 2005 were \$1,838,933 and \$2,309,451, respectively. The Auditor of Public Accounts recalculated the liability by using an average of actual costs for fiscal year 2004 and fiscal year 2005 or \$2,074,192. The difference between the \$6 million estimate used and the average of actual costs resulted in an overstatement of the liability by \$3,925,808. The Federal's share was overstated by \$2,341,352 and State's share was overstated by \$1,584,456.

When estimates are not reviewed there is an increased risk of inaccurate reporting of the liability.

We recommend the Agency review current trends in these adjustments and update the estimate accordingly to ensure they are reasonable. This may involve using an average over two year's actual costs rather than using an old historical amount that does not identify the actual costs.

2. Medicaid CHIP Short-Term Liability

Good internal control requires using correct rates when identifying the Federal and State portion of the liability to ensure they are properly recorded.

The percentage used for the Federal portion for Children's Health Insurance Program (CHIP) was 59.64% and the State was 40.36%; however, CHIP is paid out using an enhanced Federal rate of 71.75% and State 28.25%. This resulted in understating the amount of the Federal portion to be paid by \$514,141 and overstating the State's portion by \$514,141.

When incorrect rates are used for Federal and State portions of the liability, there is an increased risk of inaccurate reporting of the liability.

We recommend the Agency review the rates as they apply to CHIP and apply them accordingly.

3. Patient and County Billings Receivable

Good internal control requires accruals be reviewed to ensure accurate recording of the receivable.

The number of patients was miscounted for each of the four regional centers, which resulted in understating the net accounts receivable. The reported accounts receivable was \$5,675,670, the actual accounts receivable was \$5,565,551, which resulted in a variance of \$110,119.

When a review is not done, there is an increased risk of inaccurate reporting of the receivable.

We recommend the Agency implement procedures to allow for a review of the receivables to ensure accurate reporting of the accounts receivable.

4. Management Review of Accruals

Good internal control requires management review of the calculation of the accrual prior to sending the accrual to DAS.

The following accruals were tested and no management review was noted:

- Intergovernmental Receivables
- Patient and County Billings Receivable
- Medicare Tax Equity Fiscal Responsibility Act (TEFRA) and End of Year Settlement Receivables
- NFOCUS Receivable

Without proper review of the calculation of the accrual there is increased risk of errors and inaccurate reporting.

We recommend the Agency implement procedures to allow for management review of the accruals prior to being sent to DAS to ensure accurate reporting of the accruals.

COMMENTS RELATED TO THE SINGLE AUDIT

- 1. Programs: Various CFDA's 93.575 and 93.596 Child Care Cluster, 93.658 Foster Care, 93.558 Temporary Assistance for Needy Families, 93.777, and 93.778 Medicaid Cluster - Allowable Costs/Cost Principles**

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The State of Nebraska – Nebraska Health and Human Services System - Cost Allocation Plan for cost pool Service Management – Resource Development states “The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the Resource Development Staff.”

Condition: The Resource and Development Pool allocated \$2,491,700 administrative costs for the quarter ended December 31, 2004. Included in these costs were salaries for 135 employees. We tested the quarter ended December 31, 2004, time and effort reports related to the Resource Development cost pool and noted the following:

- Of the 135 employee salaries charged to the Pool, only 60 were identified by the Agency to complete time and effort reports. Of the 60 on the Resource Development employee listing, there were 31 employees that did not maintain any time and effort reports and 15 maintained some reports, but did not maintain all time and effort reports. There were 75 employee salaries charged to the Pool that were not included on the listing and no time and effort reports were completed.
- Seven Resource and Development employees completed time and effort reports; however, their salaries were not charged to the Resource and Development Pool.
- Total hours allocated to each program did not agree with the time and effort reports total hours for each program. As a result, costs were not accurately charged. Variances ranged from \$34,934 over-allocated to \$47,562 under-allocated.

Questioned Costs: Unknown

Context: The Resource and Development Pool allocated \$2,491,700 administrative costs for the quarter ended December 31, 2004.

Cause: The Agency intended the Resource and Development Pool to be allocated based on time reports from Resource and Development Workers, but not Resource and Development support staff. The Agency intended support staff to be allocated based on the Resource and Development Workers’ time.

Effect: Increased risk for incorrect allocation of costs and improper charges to federal programs.

Recommendation: We recommend the Agency obtain and maintain time and effort reports for all Resource Development staff or obtain approval to amend the cost allocation plan.

Management Response: We agree with the finding and recommendation. Although we do recognize that the auditors finding is based on the actual narrative from the Public Assistance Cost Allocation Plan, we intended that the allocation of the cost center would be based on a ‘proxy’ statistic developed based on time and effort reports from the Resource Development Workers. The positions and the responses were not reconciled to ensure that all expected time reports were obtained.

Corrective Action Plan: A proposal will be submitted to clarify the Public Assistance Cost Allocation Plan that the proxy allocation statistic for the cost center will be based on time and effort of the Resource Development Workers assigned in the cost center. All Resource Development Workers have been contacted and reminded of the reporting requirement. We will generate list of individuals holding the class title Resource Developer to confirm that all Resource Development Workers are appropriately assigned to the cost center and that reports are received.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: March 31, 2006

2. **Program: CFDA 93.659 Adoption Assistance Title IV-E - Reporting**

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets.

Condition: One quarterly report over-reported maintenance assistance payments by \$836,059.

Questioned Costs: None

Context: For the quarter ended September 30, 2004 the Agency reported total adoption assistance payments of \$4,086,357 but should have reported \$2,690,366. The federal share reported was \$2,447,319 but should have been \$1,611,260.

Cause: Inadequate review of report to accounting system.

Effect: Inaccurate reporting and noncompliance with federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure federal reports are accurate and make the proper adjustments for the error noted.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: The adjustment was included on the report for the quarter ended December 31, 2005. Beginning with the report for the quarter ended December 31, 2005 a new procedure was established for report documentation that includes more specific identification of the source of each amount reported. As part of the new Federal Reporting System, preparation and submission of the report will not be completed by the same individual. The report and documentation will be reviewed when the report is submitted.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: April 30, 2006

3. Program: CFDA 93.575 and 93.596 Child Care Cluster - Allowable Costs/Cost Principles and Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per 45 CFR Section 98.20 (a), eligible children must be under age 13 (or up to age 19, if incapable of self-care or under court supervision). Good internal control requires verification of eligible children be properly documented. Per Agency policy, parent or guardian signatures on the attendance sheets are required for in-home daycare providers. Good internal control requires proper supporting documentation in the case files to determine allowability of payments to appropriate parties.

Condition: One of twenty in-home provider payments tested did not have attendance sheet signed by the parent or guardian. One of forty-five payments tested was missing birth certificate verification.

Questioned Costs: \$378 known

Context: One payment for \$336 did not have the parent or guardian sign the attendance sheets. Total sample tested was \$6,703 and total Child Care assistance payments for fiscal year 2005 were \$22,945,566. Based on this information, an extrapolated error of \$1,150,188 was calculated (5.01268% error rate times total expenditures of \$22,945,566). One payment for \$42 did not have verification of a birth certificate. Based on this information, an extrapolated error of \$143,774 was calculated (.626585% error rate times total expenditures of \$22,945,566).

Cause: Agency's review process did not identify errors.

Effect: Inability to determine if payment to provider was allowable and participant was eligible to participate in Child Care Services without proper supporting documentation.

Recommendation: We recommend the Agency review its policies and procedures to ensure that proper supporting documentation is on file regarding attendance sheets and the verification of birth certificates.

Management Response:

Corrective Action Plan: Unsigned attendance sheet for in-home provider: Attendance calendars for family and in-home providers will have language added to them, stressing the importance of proper signatures. Additionally, we will share results of the audit with local office staff, reminding them to check for signatures on the attendance calendars.

Verification by Birth Certificate: We will revise Child Care Subsidy regulations to require that the child's age be verified with a birth certificate or a match on N-FOCUS through the SVES interface.

Contact: Betty Medinger

Anticipated Completion Date: Approximately July, 2006

4. Program: CFDA 93.658 Foster Care Title IV-E - Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. The Agency performs yearly reviews of case files to ensure only eligible recipients continue to receive IV-E funding.

Condition: The yearly review of case files to review eligibility is not completed in a timely manner.

Questioned Costs: None

Context: Three of forty-five cases selected for testing were not reviewed annually. These reviews were one to seven months late. A similar finding was noted in the prior audit.

Cause: Although the caseworker received an alert from NFOCUS that a review was due, action was not taken in a timely manner.

Effect: Caseworkers are not in compliance with the Agency's internal control policies. This increases the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency enforce the review policies and procedures in place by monitoring that action is taken on alerts by caseworkers and cases are reviewed annually.

Management Response: The following information was verified in a face-to-face discussion with Nebraska's Region VII ACYF Representative, Mary McKee. Redetermination of Title IV-E eligibility is not a child-specific eligibility issue. That is, there is no federal requirement that an annual review of eligibility occur in order for a child to remain IV-E eligible. When ACYF does an IV-E review with a state, the auditors check eligibility on each child whose case is reviewed to determine if the child was eligible at the time of the review. If documentation is not available during the federal review to substantiate the child's eligibility, the state is allowed to reconstruct documentation regarding the child's eligibility. If the documentation can be provided, the case is found eligible, even if the state did not complete an eligibility review at a previous time. Therefore, if an annual eligibility review is not done by the state within 12 months, but is done later and shows that the child was eligible during the time payments were

made, there is no eligibility error. Such was the situation with two of the cases read in this state audit. In both cases, the review done later than 12 months did show the child to be eligible for IV-E at the time the payment was made. Source Information: ACYF-CB-PIQ-85-06 Social Security Act sections 471 and 471; 45 CFR 206.10(a)(9)(iii) Title IV-E Foster Care Eligibility On-site Review Instrument and Instructions page 13 of 19.

Corrective Action Plan: HHS will continue to stress the importance of 12 month reviews to avoid having to resubmit information to ACYF to "unclaim" payments. In preparation for the federal Title IV-E Review that will be held the first week of August, 2006, all IV-E eligible cases are being reviewed to assure that eligibility has been correctly determined and that FFP was claimed appropriately.

Contact: Ruth Grosse or Margaret Bitz

Anticipated Completion Date: August 2006.

5. Program: CFDA 93.658 Foster Care Title IV-E - Allowable Costs/Cost Principles

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Allowable costs for Foster Care maintenance payments are outlined in 42 USC 675 and include food, clothing, shelter, daily supervision, personal incidentals, and reasonable travel to the child's home for visitation.

Condition: Unallowable costs for travel and respite care were charged to the Foster Care grant.

Questioned Costs: \$903,986

Context: We reviewed journal entries prepared for July 2004 through June 2005 which transferred these costs from State funds to Federal funds. The Federal share of unallowable activities charged to Foster Care for the fiscal year was \$903,986.

Cause: Agency staff preparing the accounting entries indicated they were unaware of a regulation change.

Effect: Unallowable charges to Federal program.

Recommendation: We recommend the Agency correct the unallowable charges and implement procedures to ensure costs charged to Federal programs are for allowable activities.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: The adjustment was included on the report for the quarter ended September 30, 2005. The unallowable items have been removed from calculations used for adjustments made after June 30, 2005.

Contact: Jim Boshart and Kim Collins

Anticipated Completion Date: Completed

6. Program: CFDA 93.658 Foster Care Title IV-E - Reporting

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets.

Condition: We noted maintenance assistance payments were over-reported by \$139,337 for one of four quarterly reports tested. We also noted costs for Integrated Care Coordination (ICC) were reported but were not charged to the Foster Care Program.

Questioned Costs: None

Context: We reviewed one adjustment for ICC and noted the expenditures were paid with State General Funds. A detailed list of ICC expenditures to claim for Foster Care is prepared and submitted to the Finance Division to report; however, no entry was made on the Nebraska Information System, the State accounting system, to transfer the costs paid from the General Fund to the Foster Care Program. We reviewed all quarterly reports prepared fiscal year ended June 2005 and noted ICC costs of \$1,278,533 were claimed. The total federal share of these costs was \$763,007.

Cause: Over-reporting of maintenance assistance appeared to be a clerical error. ICC claimed on the report but not properly recorded on the accounting system appeared to be due to communication issues within the Agency.

Effect: Federal reports are not accurate and claims are not properly recorded on the State accounting system.

Recommendation: We recommend the Agency implement procedures to ensure federal reports are accurate and agree to the Nebraska Information System.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: A Journal Entry will be prepared each quarter to transfer eligible Federal expenses from the State General Fund to the Federal Grant based on the amount claimed for the ICCs. An adjustment to correct the reported amount was included on the report for the quarter ended December 31, 2005. Beginning with the report for the quarter ended December 31, 2005 a new procedure was established for report documentation that includes

more specific identification of the source of each amount reported. As part of a new Federal Reporting System, preparation and submission of the report will not be completed by the same individual. The report and documentation will be reviewed when the report is submitted.

Contact: Larry Morrison and Jim Boshart

Anticipated Completion Date: February 28, 2006

7. Program: CFDA 93.563 Child Support Enforcement - Subrecipient Monitoring

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 requires the pass-through entity to inform each subrecipient of the CFDA title and number, award name and number, and name of the Federal agency; ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements; issue a management decision on audit findings and ensure the subrecipient takes timely and appropriate corrective action.

Condition: The Agency did not properly identify Federal awards to subrecipients. CFDA number, award name and number, and name of the Federal agency were not identified in the Cooperative Agreements with the counties. We also noted the Agency did not adequately review subrecipient audits.

Questioned Costs: None

Context: The Agency has developed centralized procedures related to reviewing single audit reports received; however, they did not have adequate procedures to ensure all required reports were received. The Agency reviewed Single Audit reports from three counties during the fiscal year, we noted an additional county that received over \$500,000 for which the Agency had not obtained or reviewed the Single Audit.

Cause: Unknown

Effect: The Agency is not in compliance with subrecipient monitoring requirements and is unable to provide assurance that subrecipients are in compliance with Federal requirements.

Recommendation: We recommend the Agency properly identify required federal award information subrecipients. We further recommend the Agency implement procedures to ensure all required Single Audit reports are received, reviewed, and appropriate action taken on any findings noted.

Management Response: We agree with the finding and recommendation.

Corrective Action Plan: Child Support Enforcement will include a statement in future cooperative agreements with subrecipients informing those subrecipients of the CFDA title and number, award name and number, and name of the federal agency. Child Support subrecipients are County offices that are covered by audits required to be filed at the State Auditor's Office. Procedures for review of the CSE subrecipient audits by HHSS staff are in place.

Contact: John Kwiatek and Larry Morrison

Anticipated Completion Date: June 2006

8. Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse - Subrecipient Monitoring

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, Subpart D, requires a pass-through entity to monitor the subrecipient's use of federal awards to provide reasonable assurance that the subrecipient administers the federal award in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved.

Condition: Subrecipient monitoring procedures should be improved. Our review of 3 of the 6 regional governing boards and 9 of 62 providers noted the following:

- Regional governing boards and providers were required to file three audits for each contract period; a financial audit, a program fidelity audit, and services purchased audit. These audits were reviewed by the Program's field representatives; however, there was no documentation on file to document the review process was performed and what corrective action was taken, if any.
- Two providers tested did not have a financial audit report on file or a financial audit report could not be located for review.
- Seven of twelve regional governing boards and providers tested did not have a program fidelity audit performed for the fiscal year ending June 30, 2004. These providers stated the next program fidelity audit would be for the fiscal year ending 2006.
- Five of twelve regional governing boards and providers tested did not have an audit of services purchased on file. If a regional governing board was a provider, a neutral entity was to perform the audit. The regional governing board's financial audits were performed by an independent CPA, but the audits did not include a statement verifying units of service purchased were received. Of the 12 audits of services purchased selected for testing, three were regional governing boards who were also providers and all three regional governing boards did not complete the requirements for the services purchased audit.

- One regional governing board and three providers' financial audits tested did not report mental health and substance abuse block grant funds received separately.
- Two regional governing boards' and seven providers' financial audits tested did not include a statement that no block grant funds were used for inpatient services.
- Three of three regional governing boards' and five of seven providers' financial audits tested were not received by the Agency within 120 days after the end of the provider's fiscal year.

Questioned Costs: None

Context: The Program operates under six regional governing boards which administer or contract with local community health facilities to provide services. The Agency has centralized monitoring procedures related to subrecipient audits, but did not receive all necessary reports and did not properly document the review of reports. The Agency passed through \$7,117,818 to the regions in fiscal year ended June 30, 2005.

Cause: Unknown

Effect: When audits are not performed or adequately reviewed, there is an increased risk of loss or misuse of funds.

Recommendations: We recommend the Agency review their procedures to ensure compliance with contracts and regulations relating to audits of regions and other providers.

Management Response: We agree to improve subrecipient monitoring and audit review procedures as recommended.

Corrective Action Plan: The state-region contract language will be revised to be consistent with the timelines that we require for a program fidelity audit. The timeframe has been changed to require a program fidelity audit every three years. We will require an additional staff person or contractor to complete audits of services purchased for the regional governing boards who are also providers. No region or provider receives block grant funds for inpatient services and only one provider during the audited year received any funds (state general) for inpatient services; therefore, it was felt that the provider wasn't required to address the issue – they didn't use any federal funds for inpatient services. State-region contract language has been changed to require the financial audit be received within nine months after the end of the provider's fiscal year.

Contact: Barbara Thomas

Anticipated Completion Date: July 1, 2006

9. Program: CFDA 10.550 Food Distribution - Subrecipient Monitoring

Federal Grantor Agency: United States Department of Agriculture

Criteria: OMB Circular A-133, Subpart D, requires the pass-through entity to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Title 7 CFR 250.19 requires that each distributing agency shall establish a review system in order to assess the effectiveness of its food distribution program in meeting the requirements of the regulations. The Nebraska Health and Human Services Food Distribution Handbook of Instructions states the staff will conduct reviews on a minimum of twenty-five percent of the participating recipient agencies each fiscal year. A reasonable assumption is that each recipient agency would receive a review at a minimum approximately every four years. Good internal control requires timely reviews of subrecipients by pass through entities. Title 7 CFR 250.19 and the Nebraska Health and Human Services Food Distribution Handbook require that when deficiencies are noted for a participating recipient a corrective action plan shall be prepared.

Condition: 12 of 37 recipient agencies tested did not have an on-site review conducted within the last 4 years. 1 of 11 recipient agencies tested which were required to have a corrective action plan filed as a result of the on-site review, did not have this corrective action plan.

Questioned Costs: None.

Context: 48% of the recipient agencies did have an on-site review conducted in the current fiscal year. Of the 520 recipient agencies, 12 have not been reviewed within the last four years. For the twelve recipient agencies tested which have not had an on-site review conducted in the last four years; two recipients have not been reviewed for approximately six years; four recipients have not been reviewed for approximately five years; and six recipients have not been reviewed within the last four years.

Cause: Unknown.

Effect: Failure to provide reasonable assurance that subrecipients are in compliance with regulations.

Recommendation: We recommend the Agency review procedures in place for monitoring to ensure reviews are conducted on a timely basis.

Management Response: FDP's internal policy documented in its handbook provides that 25 percent of the recipient agencies should be reviewed annually. The intent of this policy is not to visit each recipient agency once every four years – only that a minimum of 25 percent be reviewed annually. During the statewide single audit, a condition was cited because 12 of 520 recipient agencies had not been reviewed within the last four years. The single state condition cited expands recipient agency review criteria stating that each recipient agency should be

reviewed once every four years. FDP staff have exceeded the internal requirement by reviewing 44 percent of recipient agencies in SFY 2004, and 48 percent in SFY 2005. Food and Nutrition Service, the federal oversight agency has reviewed the internal recipient review policy, citing that it exceeds federal requirements. We respectfully disagree with the single state audit finding.

Corrective Action Plan: See Management Response

Contact: Mike Harris

Anticipated Completion Date:

Auditor's Response: Although greater than 25 percent of the subrecipients did receive an onsite review in the fiscal year, 12 of the current subrecipients have not received an onsite review for an extended period of time and therefore the subrecipient monitoring is not in accordance with OMB Circular A-133.

10. Program: CFDA 10.550 Food Distribution - Reporting

Federal Grantor Agency: United States Department of Agriculture

Criteria: Title 7 CFR 250.14 and 250.17 require completion of a semi-annual FNS-155 reported to be filed in January for the reporting period of July 1st to December 31st of the prior year and in July for the reporting period of January 1st to June 30th of the current year. The FNS-155 report requires that each inventory product of the Food Distribution Program that exceeds a 6 month supply be reported to the USDA. The FNS-155 form requires the name of the commodity that exceeds the 6 month supply, the order number, date product was received, amount received, amount on hand (at end of reporting period), calculated amount over 6 month supply, and plans for usage or disposition of the excess product. Good internal control requires reports to be complete, accurate, and supporting documentation to be maintained.

Condition: One of one reports tested for the filing period of January 2005 did not have supporting documentation for the amounts reported on the semi-annual FNS-155 report. Amounts reported in FNS-155 report could not be verified as complete and accurate.

Questioned Costs: None.

Context: The commodity amounts reported on the January 2005 FNS-155 were recalculated based on product inventory balances obtained from the Food Distribution Computer System for the end of the reporting period (December 31, 2004) and calculation procedures received from the Food Distribution Program Supervisor. The inventory balances did not agree to the amounts reported on the FNS-155. Subsequent testing of the December 31, 2004, inventory balances found that one of five commodities tested had an inventory balance that exceeded a 6 month supply which should have been reported on the January 2005 FNS-155 report. Recalculation of this commodity revealed that based on the inventory balance at the end of the reporting period

and the calculated average monthly use, the Food Distribution Program has approximately a 46 month supply of this product and did not report it on the FNS-155 report. Additional testing of the June 30, 2005, inventory balances found that two of five commodities tested had an inventory balance that exceeded a 6 month supply which should have been reported on the July 2005 FNS-155 report. Recalculations of these commodities revealed that based on the inventory balance at the end of the reporting period and the calculated average monthly use, the Food Distribution Program had approximately a 7 month supply of the two products and did not report it on the FNS-155 report.

Cause: Unknown.

Effect: Possible inaccurate reporting of excessive inventory balances to the USDA.

Recommendation: We recommend that the Food Distribution program develop and implement policies and procedures detailing the procedures to be followed for recalculating the excessive inventory balances on the semi-annual basis. We also recommend that supporting documentation be retained for information reported on each FNS-155.

Management Response: We agree with the final version received from the single state auditors.

Corrective Action Plan: Corrective action has been taken. A FNS-155 report is being sent to Denver FNS regional office to report excess inventories.

Contact: Mike Harris

Anticipated Completion Date: The corrective action is continuous and ongoing.

11. **Program: CFDA 93.777 and 93.778 Medicaid Cluster - Eligibility**

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with federal requirements through the use of sound internal controls. The Agency performs yearly reviews of case files to ensure only eligible recipients receive Medicaid funding. Title 480 NAC 2—006.02 states, “On an ongoing basis, the Disability Services Specialist will review all applicable information to determine continued eligibility. This will include an annual re-determination based on a review of the IPP, current DSS-2MR, and any other requested information.”

Condition: Medicaid reviews for Adult Development Disability were not timely.

Questioned Costs: None

Context: We tested 45 adult developmental disability Medicaid claims and noted 3 of 45 cases tested were not reviewed in a timely manner. The cases did not have an annual review during fiscal year ended June 30, 2005. Two of the cases were reviewed for eligibility in February 2004 and the subsequent review was completed in July 2005, or 5 months late. One case was reviewed by the Agency in September 2003 and the subsequent review was completed in July 2005, or 10 months late.

Cause: Unknown

Effect: Increased risk for ineligible recipients will receive Medicaid funding.

Recommendation: We recommend the Agency implement procedures to ensure eligibility reviews are completed on an annual basis.

Management Response: Management agrees that 3 files were out of compliance. The Eastern Service Area, Disability Services Specialists, Disability Services Specialists' Supervisor, and DDS Central Office have worked together to implement the following:

Corrective Action Plan:

1. An additional Disability Services Specialist has been hired in the Eastern Service Area.
2. A computer tracking system for annual waiver eligibility reviews and completion dates has been implemented.
3. A supervisory review of 100% of the Disability Services Specialists' files has been implemented.

Contact: Cindy Brinker and Pam Hovis

Anticipated Completion Date: This is an ongoing plan of improvement. Above steps were implemented by September 30, 2005.

12. Program: CFDA 93.777 and 93.778 Medicaid Cluster - Reporting

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Thirty days after the end of the quarter, States electronically submit the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. The CMS-64 presents expenditures and recoveries and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled, and is available immediately at the time the claim is filed. Good internal control requires that adjustments be made in a timely manner.

Condition: Adjustments to correct prior years' reporting errors were not made in a timely manner.

Questioned Costs: NA

Context: The Agency determined in fiscal year 2005 that quarterly Medicaid expenditures had been overstated from October 1, 1997 through June 30, 2004. The expenditures related to Women with Cancer and the State Children's Insurance Program (CHIP) had been double reported. The expenditures for the quarter ended September 30, 2004 were properly reported; however, the adjustment to correct prior quarters was not reported until the quarter ended June 30, 2005. The total Women with Cancer over-reported was \$2,814,839 and total CHIP over-reported was \$106,117,397. The total federal share for these expenditures was \$66,858,662.

Cause: The Agency needed to review several past reports to make the proper adjustment.

Effect: Untimely reporting of adjustments.

Recommendation: We recommend the Agency improve procedures to ensure adjustments are reported in a timely manner.

Management Response: It is always the Agency's intent to report expenditures properly and when found and confirmed report any corrections in a timely manner. When this problem was first detected the agency immediately changed the current quarter claiming even-though all reconciliations were not completed to verify double claiming was occurring. Once all reconciliation was completed and the double reporting was verified, they were reported.

Corrective Action Plan: The Agency will continue to report expenditures and adjustments in a timely manner. Upon discovery of any errors/omissions the agency will report the amount in the current open quarter of the 64. If the agency is unsure of any error or omission they will contact the CMS representative for guidance.

Contact: Willard Bouwens, Jim Piazza, Syed Hassan, Dale Shallenberger, Mary Steiner, Kim Collins

Anticipated Completion Date: Current

13. Program: CFDA 93.994 Maternal and Child Health Services Block Grant - Earmarking

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The earmarking for the State is as follows: Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment amounts for preventive and primary care services for children (42 USC 705(a)(3)(A)). Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment amounts for services for children with special health care needs (42 USC 705(a)(3)(B)). A State may not use more than 10% of allotted funds for administrative expenses (42 USC 704(d)).

Condition: The State does not have documentation to support earmarking requirements were met.

Questioned Costs: Unknown

Context: The Agency indicated expenditures for earmarking requirements were tracked based on the Federal fiscal year and not by the allotment/grant period. As expenditures from one Federal fiscal year could include funds from up to two allotments/grants, the program was not able to identify what types of expenditures were specifically spent for each allotment.

Cause: The Agency tracks expenditures by the fiscal year because that is the format required in the maternal and Child Health Services Title V Block Grant Program “Guidance and Forms for Title V Application/Annual Report”. Nebraska maintains the allotment/grant (with 2-year period of availability) is the unit to be tested for earmarking compliance. The Financial Status Report captures expenditures of the 2-year period, yet it does not allow for those expenditures to be reported by the earmarked categories. The burden of the annual report (by fiscal year) required by the federal agency is significant, so keeping a separate accounting based on 2-year allotment/grant would greatly add to the burden.

Effect: Without recording expenditures for each allotment/grant, we are unable to determine if the Agency is in compliance with the earmarking requirements.

Recommendation: We recommend the Agency continue to work with the federal agency to resolve this finding.

Management Response: Earmarking documentation is available by federal fiscal year, which is the reporting period of the annual report requirement, rather than by allotment. NHHSS believes that a correct interpretation of the applicable requirements is that the earmarking requirement may be met over the two year period of availability of funds and need not be met in each year. Agency staff have been diligent in their efforts to clear this finding, which includes submitting recommendations to the OMB A-133 Compliance Supplement. Our recommendations to the OMB Office of Federal Financial Management (OFFM), if incorporated, would assist auditors in the correct interpretation of the earmarking requirement.

In addition, the Agency has submitted formal recommendations to the federal Health Resources and Services Administration (HRSA) and the OMB Office of Information and Regulatory Affairs (OIRA). Our recommendations have been submitted on the information collection activities established in the MCH Grant Guidance and Forms OMB No. 0915-0172, which is a process created under the Paperwork Reduction Act. NHHSS’ recommendations include combining the requirement for fiscal data in the annual report with the requirement and timing for submission called for under 45 CFR 96.30, i.e. Standard Form 269(a) Financial Status Report (short form). This would permit report of earmarked expenditures by allotment rather than fiscal year.

Corrective Action Plan: Agency staff will continue to follow-up on submissions made to federal agency officials.

Contact: Rayma Delaney

Anticipated Completion Date: June 30, 2006

14. Program: CFDA 93.558 Temporary Assistance for Needy Families - Allowability/Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 42 U.S.C. Section 608(a)(1) provides no State that receives a grant under Section 603 may provide assistance to a family unless that family includes a minor child.

Title 8 U.S.C. Section 1611(a) states, individuals receiving assistance must be a “qualified alien” or a U.S. citizen.

Title 45 CFR Section 261.14(a) states, “if an individual refuses to engage in work required under Section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.”

Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes.

Good internal control requires income to be verified to external sources.

Per Title 45 CFR Section 205.56(a)(1), the State agency will use the information obtained under Section 205.55, in conjunction with other information, for determining individuals’ eligibility for assistance under the State plan and determining the amount of assistance. The State agency shall review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the applicant’s or the recipient’s eligibility or the amount of assistance.

Title 45 CFR Section 233.10(a)(2) states, “the State agency will establish methods for identifying the expenditures for assistance for any groups included in the plan for which Federal financial participation in assistance may not be claimed.”

Title 468 NAC 1-010 requires the worker to redetermine eligibility for grant and medical assistance every six months.

Per Title 45 CFR Section 263.11(a) a State may use Federal TANF funds for expenditures that are reasonably calculated to accomplish the purposes of TANF.

Condition: We tested 94 payments with 71 cases paid from Federal/State TANF dollars and 23 cases paid from the Separate State Program. Of the 71 Federal/State cases tested, 26 contained errors. Of the 23 Separate State Program cases tested, 6 contained errors. The Separate State Program payments with errors are noted below but are not included in the questioned costs.

Questioned Costs: \$2,175 Known, \$4,706,027 Extrapolated

Context: Five cases (one was Separate State Program) tested did not have documentation verifying the child's date of birth to ensure the child was a minor. In addition, two cases tested the child was 18 years of age and was not attending school or participating in Employment First as required to be included in the unit size.

Two cases (one was Separate State Program) tested did not have documentation to ensure the custodial parent receiving assistance was a U.S. citizen or qualified alien. The Agency did obtain documentation subsequent to fieldwork, for one case; therefore, we did not question costs for this case. In addition, one of the cases tested, the individual was not engaged in required work and the Agency did not reduce or deny assistance to the individual. The custodial parent wanted to spend time with their child, so participation in Employment First was not required by the caseworker (per the notes in NFOCUS) for an additional four months; however, the custodial parent should have been Employment First mandatory during the four months.

One case tested paid into the State twice for an overpayment. For a period of five months \$21 was included in unearned income which reduced the individual's monthly assistance payment. During the same time period the Agency included a recoupment amount of \$29 in the budget which also reduced the assistance payment. Therefore, the recipient reimbursed the Agency twice for the overpayment.

We noted six cases tested where income was not verified for the parents. (See Finding #15 – Determination of “Needy” for detailed information regarding the additional six attribute exceptions.)

Four cases (one was Separate State Program) tested had earned income which was not verified.

In nine cases (four were Separate State Program) tested, the Agency verified the recipient's income, but did not include the income on the budget to determine the assistance payment.

Six cases were paid with Federal and State funds but should have been paid with only State funds because five of the cases were Employment First exempt and one case was a two-parent family. In addition, one of the individuals was not engaged in required work and the Agency did not reduce or deny assistance. The individual was Employment First exempt for a period of six months due to a knee surgery. A doctor's note was not in the case file and no review was completed by the State Review Board after three months of incapacity as required.

In five cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews ranged between 6 and 23 months overdue.

In one case tested, there was no documentation to verify a supportive service payment made for motor vehicle gas under the Employment First program.

Total Federal payment errors noted during testing was \$2,175. Total Federal sample tested was \$8,850 and total TANF Federal assistance payments for fiscal year 2005 were \$19,148,660. The extrapolated error for fiscal year 2005 was \$4,706,027, (error rate multiplied by the total expenditures).

Cause: Unknown

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal regulations.

Management Response: HHS agrees that the state auditor identified some practices that could put program funds at risk.

Corrective Action Plan: The HHS corrective action plan for Finding #14 is divided into three sections.

Section I

Auditors categorized six like cases with possible at risk dollar errors. In each of these cases, the TANF payment amount made to the family was not questioned. The auditors determined however that the computer did not code the payment into the proper state/federal funding stream.

HHS has immediately identified the computer deficiency. A short-term solution is in place that meets Federal requirements, effective January 2006. HHS will identify payments made in the aggregate and make necessary adjustments related to the state/federal funding. Appropriate adjustments will be made in NIS and captured on the ACF-196. An automated solution is planned for November 2006.

Section II

HHS will undertake an aggressive case review initiative to reduce and minimize the possible at risk TANF payments found during the auditors' desk reviews of 94 cases. HHS will conduct 2,411 case record reviews to better measure TANF at risk payments in all areas of the state. An example of this is the administrative service area near the Panhandle that has approximately 1,100 TANF cases. The auditors reviewed six TANF cases from this area. The HHS initiative will review 240 TANF cases from this area. The reviews will ensure immediate, accurate, and correct administration of cases through the identification of errors.

HHS successfully used this review model in year 2000 to improve Food Stamp Program payment accuracy. (Nebraska currently ranks #2 and #11 in the nation in the two Food Stamp accuracy categories). The review model has been successfully used in other states including Kansas, Missouri, New York and Connecticut.

Statewide, HHS will:

- Conduct 2,411 (or 20% of the monthly caseload) intensive case record reviews with immediate correction of TANF program errors.
- Conduct onsite one-on-one training with front line staff and supervisors when errors are identified (elbow training).
- Inform workers of actions needed to correct errors and the deadline for making the corrections.
- Follow up with worker's supervisor on needed correction.
- Provide group training sessions throughout the state.
- Assess worker job duties and caseloads.
- Identify worker time savers.

The case review initiative will be conducted in two phases.

Phase one provides eligibility staff with the appropriate steps to correct cited errors and prevent the identified error from recurring in the future. Phase one will also provide baseline performance metrics for comparison of findings in phase two. Upon completion of phase one case reviews, training will be conducted to address the major process and knowledge issues discovered.

Phase two reviews will be conducted and more formal training sessions will be provided in order to assess and confirm the actual level of improvement. Upon completion of phase two, supervisory staff will begin reviewing TANF cases monthly to ensure that improvements will be sustained.

The primary goals and objectives for this task are:

- Ensure immediate, accurate, and correct administration of cases through identification of errors.
- Development of training, and best practices that are specifically targeted at the causal factors for errors.
- Identification of policy and procedures that require clarification.
- Prevent future errors through analysis.

Eligibility Elements: Case record reviewers will review the following information:

A. Family Composition

- Is there proper documentation to determine family membership correctly?
- Is the standard filing unit correct?
- Is the family cap applied correctly.
- Is the case narrative adequate?
- Is N-Focus coded correctly?

B. Citizenship/Alien Status

- Is there proof qualifying alien status?
- Is there questionable information about citizenship?
- Is verification acceptable?
- Is the case narrative adequate?
- Is N-Focus coded correctly?

C. Earned Income

- Correct determination - did worker count or exclude properly?
- Computation correct - did worker prospect correctly, use correct pay date, amounts?
- Data matches - were available wage matches used such as State Employment wage or New Hire data?
- Verification - is it acceptable?
- Narrative is it adequate to describe worker actions?
- N-Focus - is data entry correct?

D. Unearned Income -

- Correct determination - did worker count or exclude properly?
- Computation correct - did worker prospect correctly, use correct pay dates, amounts?
- Data matches - was available income used/verified and budgeted timely?
- Verification - is it acceptable?
- Narrative - is it adequate to describe worker actions?
- N-Focus - is data entry correct?

E. Reviews/Participation

- Are semi-annual case reviews being timely conducted?
- Is the application completed properly?
- Was case ever closed due to lack of adequate child care?

F. Child Support:

- Are Child Support referrals being made on all non-custodial parents?
- Is the opportunity to claim Good Cause being explained to custodial parents?
- Are Sanctions for non-cooperation being imposed promptly upon receipt of the Notice of Non-Cooperation by the TANF worker?
- Are Child Support Sanctions being lifted promptly when the TANF client's cooperation has been restored?

G. Employment First:

- Is there an Employment First case on N-Focus for each adult in the TANF payment?
- Is there a self-sufficiency contract in the record? Was it completed timely?
- Has the client refused to cooperate in contract development or failed to participate? Was TANF case closed or sanctioned correctly and timely?
- Has the participant received supportive services?
- Have appropriate time limits (24/48/60) been tracked correctly and reflected in the case record or N-FOCUS?
- Has the participant received more than 60 months of Federal TANF benefits? Was case reviewed for hardship?
- Is the narrative adequate to describe worker and/or contractor actions?

Section III

Cases identified by auditors with questionable costs during the TANF audit project have been identified and reviewed by HHS policy staff. Corrective action plans for each individual case have been developed and sent to local office TANF workers for resolution. Central office policy staff will follow up to ensure that these cases are properly resolved.

Contact: Mike Harris

Anticipated Completion Dates:

Section I – Complete.

Section II – Phase one of review initiative will be completed in October 2006. Phase II will be completed in February 2007. After February 2007, ongoing monitoring will be performed and recorded by front line supervisors conducting monthly TANF case reviews.

Section III – February 17, 2006

15. Program: CFDA 93.558 Temporary Assistance for Needy Families - Allowability/Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 468 NAC 2-006 states “the worker shall determine the ability of the parent to support each dependent child in whose behalf ADC/MA is applied for or received.” Title 45 CFR Section 233.20(a)(3)(vi)(A) states, “In family groups living together, income of the spouse is considered available for his spouse and income of a parent is considered available for children under 21 . . .” Title 64 F.R. 17825 states a family may not receive assistance under the TANF program unless the family is needy. The term “needy” for TANF and MOE purposes means financial deprivation, i.e., lacking adequate income and resources. Title 45 CFR Section 205.55(d) states, “The Secretary may, based upon application from a State, permit a State to obtain and use income and eligibility information from an alternate source or sources . . . The State agency must demonstrate to the Secretary that the alternate source or sources is as timely, complete and useful for verifying eligibility and benefit amounts.”

Condition: The Agency did not have adequate procedures to verify income of parents who did not provide social security numbers. Without adequate income verification the Agency is unable to determine if the family was needy.

Questioned Costs: See Finding #14 – of Comments Related to the Single Audit

Context: We noted 6 out of 94 cases tested where the income of the custodial parents of the minor child was not verified. The parents appeared to be illegal aliens per the caseworker notes on NFOCUS. Their earnings were not adequately verified because of their status. Therefore, it could not be confirmed they were a “needy” family. In all six cases, the parents were not included in the unit size nor did they receive assistance for themselves. Per Title 468 NAC 1-

004, the term “needy individual” means “one whose income and other resources for maintenance are found under assistance standards to be insufficient for meeting the basic requirements, and to be within the resource limits allowed an individual.”

The Income Eligibility and Verification System (IEVS) interfaces with various sources, such as, the Internal Revenue Service and State Employer Wages, the interface then alerts the Agency to income sources. The system can only be used when the parent provides a valid social security number.

- Two cases noted were two-parent families and it was stated in the case narrative in NFOCUS that the parents were illegal aliens. Neither parent’s income was verified through IEVS because a social security number was not provided. No other verification procedures were noted in the file.
- One case was a single-parent family and it was stated in the case narrative in NFOCUS the parent was an illegal alien. In the case file there were pay stubs for the parent with a social security number (SSN) on them. We checked the validity of the SSN and the number was not valid. The parent’s income was not verified through IEVS because a valid SSN was not provided. The parent signed a document verifying she was not working. We do not consider this adequate verification of income.
- One of the cases tested was a single-parent family, and it stated in the case narrative in NFOCUS the parent was an illegal alien. There was a pay stub in the case file with the parent’s SSN. The SSN was not used to interface with IEVS because the caseworker stated the SSN did not belong to the parent. We checked the validity of the SSN and the number was valid; however, the number was issued approximately 28 years before the individual was born.
- One case was a single-parent family and it stated in the case narrative in NFOCUS the parent was an illegal alien. The case file contained income computation forms with the most recent date being December 2004. This form did not contain the parent’s name, but was signed by the employer. The employer did not complete the section of the wage verification form indicating whether the wages were going to be reported on a W-2 or a 1099 form. The case file had a self-employment ledger signed by the caseworker in December 2004, which stated the parent was being paid in cash. The parent’s income was not verified with IEVS because a social security number was not provided.
- One case was a single-parent family. It stated in the case narrative in NFOCUS the parent was an illegal alien. The parent signed a form indicating they had no income, we do not consider this adequate verification of the parent’s income. The parent’s income was not verified with IEVS because a social security number was not provided.

The Agency did not have adequate procedures to determine if a family was needy when the parents did not provide a valid SSN.

Cause: The Agency stated that when they have a non-citizen parent who is applying on behalf of U.S. citizen children, the parent is not requesting assistance on their own behalf. The Agency has directive from the U.S. Department of Health and Human Services, Office of Civil Rights, that they cannot require non-applicants to furnish either Immigration documents or Social Security Numbers. The Agency did not have adequate procedures to determine if a family was needy when the parents did not provide a valid SSN.

Effect: There is an increased risk that assistance is being provided to applicants who are not “needy.”

Recommendation: We recommend the Agency implement procedures to verify the income of the parents who do not provide social security numbers.

Management Response: HHS comment: It is the understanding of HHS that in all of the reviewed cases in Finding #15, there were no findings of benefits paid incorrectly to non-citizen parents and that the non-citizen parents were correctly excluded when benefits were determined for citizen children. It should be also be noted that HHS has not been cited as being out of compliance with Federal or State laws.

HHS understands the importance of using available tools to verify income to reduce eligibility errors.

HHS must ensure however that it does not violate existing laws and regulations, especially if these violations inappropriately discourage eligible individuals in immigrant families, such as children, from seeking needed assistance.

HHS has written verification, documentation and client responsibility guidelines. These guidelines include both primary and secondary sources of verification. Primary sources include pay stubs, employer wage records, or statements from employers. Secondary sources include employee W-2 forms, Job Service records, income tax records, unemployment records, and mortgage loan information. These guidelines can be located at 468 NAC 1-006, NAC 1-008, and NAC-000-300.

HHS has reviewed the records and has the following comments:

HHS has reviewed the N-FOCUS case narratives for these cases. While the term “illegal alien” is used in the report, HHS is bound by federal law when determining the immigration status of TANF program applicants. The finding or conclusion of unlawful presence in the United States must be supported by a determination of the INS of the Executive Office of Immigration Review, such as a Final Order of Deportation. The determination of immigrant status for the purposes of the Immigration and Nationality Act is the responsibility of the Department of Justice, not any other agency.

The auditors also state that “earnings were not adequately verified because of their status.” HHS review of the cases finds that income from tax forms, self-employment, regular employment was addressed and documented in three cases. Collateral contacts were also made with local service agencies, landlords, and with persons familiar with family circumstances in three of the cases.

Corrective Action Plan: The HHS corrective action plan for Finding #15 is divided into two sections.

Section I

Health and Human Service contacted the proper federal authorities on February 10, 2006 to determine if other states have made application to use income and eligibility information from an alternate source or sources for non-citizen families described in this finding.

Section II

Health and Human Services, during the case review initiative described in Finding #14, anticipates reviewing 150 randomly selected case records in which the custodial parent(s) will not be a legal citizen. Caseworker adherence to HHSS written guidelines (see above) for case income verification and documentation will be a key review element during these reviews. The income verification and other eligibility data errors contained in these cases will be analyzed in relation to errors found in all reviewed cases.

After completion of phase two in Finding #14, HHS will use error analysis data to determine if an application should be made to the federal government to use income and eligibility information from an alternate source or sources for families described in this finding.

Contact: Mike Harris

Anticipated Completion Date:

Section I – Letter was sent to the Office of Family Assistance on February 10, 2006.

Section II – February 2007 after Phase II of the case review initiative described in Finding #14.

16. Program: CFDA 93.558 Temporary Assistance for Needy Families - Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 requires agencies to maintain internal control to ensure compliance with Federal requirements. Title 45 CFR Section 233.10(a)(1)(iv) states, “Eligibility conditions must be applied on a consistent and equitable basis throughout the State.”

Furthermore, Title 45 CFR Section 233.20(a)(2) requires the State to, “(i) Specify a statewide standard, expressed in money amounts, to be used in determining (a) the need of applicants and recipients and (b) the amount of the assistance payment . . . (iii) Provide that the standard will be uniformly applied throughout the State . . .”

Condition: Supervisory reviews of eligibility and benefit amounts are not documented and no exception reports are generated when caseworkers override the standard benefit amount.

Questioned Costs: None

Context: The NFOCUS system is used to input eligibility information and to calculate the benefit based on the financial need of the family, caseworkers verify the information and approve the budget. Caseworkers have the ability to override the budget calculated by NFOCUS, the budget will note the override, but does not alert supervisors or generate an exception report. The Agency indicated supervisors perform periodic reviews of cases; however, there is no documentation.

Cause: Unknown

Effect: Increased risk of excessive benefit payments or ineligible individuals receiving assistance.

Recommendation: We recommend the Agency implement and document procedures to ensure assistance is provided to eligible families and at the proper amount.

Management Response: On January 23, 2006, HHS identified 65 budgets out of approximately 11,500 computer budgets as worker override budgets (0.56%).

Corrective Action Plan: HHS has immediately implemented a procedure that controls the process when workers override TANF budgets in the N-FOCUS computer system.

A directive was sent to all Local Office staff on January 24, 2006 to implement a procedure to require prior approval from Central Office staff before a TANF budget is overridden.

A monthly reconciliation of the listing of overridden budgets with approvals given will be done by Central Office staff and a contact made with the Supervisor if there is an override which was not given prior approval.

This process will remain in place for approximately 3 to 6 months while N-FOCUS Production Support and OEFS Management determine the appropriate long-term approach, i.e. a monthly report to Supervisors of overridden budgets, or implementing security on overrides in the automated system.

Contact: Mike Harris

Anticipated Completion Date: Initial review started in January 2006; Secondary review by August 1, 2006. Long-term Approach decided by December 2006.

17. Program: CFDA 93.558 Temporary Assistance for Needy Families - Eligibility

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 264.1(a)(1) states, "subject to the exceptions in this section, no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received Federal

assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive).” Good internal control requires there to be adequate documentation to support all assistance payments made to a recipient.

Condition: Two of the ninety-four cases tested had received more than 60 months of Federal TANF assistance payments.

Questioned Costs: \$1,466 known

Context: The assistance payments made in excess of 60 months ranged from 8 to 23 additional payments. We noted the March 2005 payment for the individuals tested was correctly paid from only State funds; however, the Agency does not keep a separate log for payments made to each recipient from the date of the first application, so we were unable to verify which payments from inception of the State Plan, October 1997, were paid from Federal TANF funds. The Agency had a report showing those case files which have received assistance for longer than 60 months. This report is generated from NFOCUS based on the caseworker inputting monthly payments into the Employment First tracking screen. During testing it was noted the caseworkers do not consistently input the monthly assistance payment information into the tracking screen. We noted the recipients who had received over 60 months of assistance payments did not appear on this report. Therefore, this report is not reliable. The State of Nebraska changed the accounting system being used from NAS to NIS. We were only able to determine if the assistance payments were paid from Federal TANF funds since the inception of NIS in 2003. The Agency is permitted to provide Federal TANF assistance longer than 60 months for up to 20 percent of the average number of families receiving assistance if the family has a hardship. The two cases tested did not have a documented hardship which would have included them in the 20 percent.

Cause: Unknown

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures and monitor the five-year requirement to ensure funds are properly expended in accordance with Federal regulations.

Management Response: HHS agrees that cases exceeding 60-months should have a documented hardship.

Corrective Action Plan: Starting in January 2006, HHS has completed an enhancement to the N-FOCUS automated eligibility system. The system will automatically on the 10th of each month create an entry on the tracking screen for those appropriate persons who are participants in a TANF case that is paid by federal/state funds. This enhancement will address worker inconsistency in inputting monthly assistance payment information in the Employment First 60 Month Time Limited Tracking screen. Length of TANF program participation will continue to be monitored in the case review initiative as outlined in Finding #14. Central Office Employment First staff will continue to utilize the report generated by N-FOCUS listing all participants that have received assistance for longer than 60 months to monitor that the state does not exceed the Federal 20% limit of hardship cases.

Contact: Mike Harris

Anticipated Completion Date: The automated system enhancement became effective in January 2006. Length of TANF participation will be monitored in Phases I and II of the case initiative described in Finding #14.

18. Program: CFDA 93.558 Temporary Assistance for Needy Families - Reporting

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires periodic reconciliations between computerized information systems used.

Condition: The Agency does not use separate business units (BU) on NIS for Separate State Program benefit payments and State MOE benefit payments. The Agency uses the NFOCUS system to enter eligibility information and determine benefit amounts. After the benefit has been approved for payment, the NFOCUS system interfaces with the Nebraska Information System (NIS), the official State accounting system, for payment. The Agency also utilizes a shadow database of NFOCUS information to report the Separate State Program expenditures on the TANF ACF-196.

Questioned Costs: None

Context: Although NIS and NFOCUS batches are reconciled daily, there are additional adjustments on NIS that are not reflected on the shadow database used to report the Separate State Program.

Cause: Unknown

Effect: Increased risk for misuse of funds and inaccurate reporting.

Recommendation: We recommend the Agency perform periodic reconciliations of NFOCUS to NIS. We also recommend the Agency use a separate BU for payments made from the Separate State Program.

Management Response: HHS agrees that a separate business unit is needed for the Separate State Program.

Corrective Action Plan: NIS is used to report federal expenditures on the ACF-196. Therefore, all adjustments made outside of N-FOCUS are reflected in the ACF-196 and federal funds are appropriately reported. Cash assistance for Separate State Program is reported from N-FOCUS. The ACF-196 does not require that all state expenditures for the Separate State Program be reported. This information is only used to determine if Nebraska has met the

Maintenance of Effort. The purpose of the “shadow” N-FOCUS database is to enhance reporting capabilities without compromising the response time of the “live” N-FOCUS database. It is used for many purposes in addition to ACF-196 reporting.

Because NIS and N-FOCUS batches are electronically reconciled daily, there is no need to perform the periodic reconciliation of N-FOCUS to NIS recommended by the audit.

Currently, two business units are used for Subprogram 43 – TANF. Effective January 29, 2006, a distinct business unit will be added for “state only” payments. State only payments include payments under the Separate State Program and transitional grant assistance. Beginning with the July 2006 NFOCUS release, an additional BU will be added so that payments under the Separate State Program can be separated from transitional grant cases. With this coding, the portion of the ACF-196 related to cash assistance could be completed using NIS data only.

Contact: Willard Bouwens

Anticipated Completion Date: July 1, 2006

19. Program: CFDA 93.558 Temporary Assistance for Needy Families - Activities Allowed or Unallowed

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires compliance with contractual requirements; in addition good internal control requires the Agency to ensure requirements reported are accurate. The contract states, “The provider is expected to show that at least 51% of the individuals who participate in job search instruction will be employed within three (3) months.”

Condition: One of three contractors tested did not ensure at least 51% of the individuals who participate in job search instruction were employed within three months. In addition, one of five individuals tested from the monthly report did not have verification of reported employment.

Questioned Costs: None

Context: The Agency contracts with private vendors to provide educational and employment support services for TANF recipients. The December 2004 monthly report for one of the contractors tested reported 27 individuals were employed within three months; there were a total of 269 individuals in job search for the month. This is approximately 10% of the total. In addition, one individual tested was noted as starting employment in December 2004; however, the employment was not verified and per the IEVS there was no reported income during this period. The contractor was paid \$1,100,890 during State fiscal year 2005.

Cause: Unknown

Effect: Noncompliance with contractual requirements increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency ensure compliance and monitoring of contractual requirements.

Management Response: HHS agrees that contracts must be monitored.

Corrective Action Plan: The Service Area contract managers will meet with designated contractor staff on a bimonthly schedule to review the reports and address any issues.

All Employment First Contractors and all Eastern Service Area internal Employment First staff are required to submit a Contractor's Statistical Comparison Report. This report provides the State of Nebraska with a consistent reporting tool for all Employment First contracts across the state. This report requirement was implemented on January 2005 with a 12 month pilot period. Revisions and enhancements were made following the pilot period and the contractors were required to submit the improved report beginning with the January 2006 reporting period.

This report will assist monitoring in referral statistics, initial referral contact, caseload size, component activity, participation rate statistics, employment statistics, average wage statistics, employment retention statistics, case management as well as cost.

In regards to the job search component, this report will identify the number of individuals in job search as well as the number of individuals in job search over 3 months so that the Service Area contract managers will be able to monitor the 51% requirement.

Central Office consolidates all the individual contractor reports into one report for overall monitoring and comparison. This consolidated report is then shared with all contractors.

Contact: Mike Harris

Anticipated Completion Date: Completed January, 2006

20. Program: CFDA 93.558 Temporary Assistance for Needy Families - Special Tests

Federal Grantor Agency: United States Department of Health and Human Services

Criteria: Title 42 U.S.C. Section 608(a)(2)(A) states, "... the State shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance."

Good internal control requires adequate procedures to ensure the recipient's benefits are reduced and reduced timely when a CSE-10 form is received from Child Support Enforcement (CSE).

Condition: The TANF assistance payment was not properly reduced or was not reduced timely for 3 of 14 cases tested.

Questioned Costs: \$128 known

Context: There were a total of 53 cases tested to determine if the TANF assistance payment was reduced properly and if the reduction was done timely. Of these, 14 cases had CSE sanctions during Fiscal Year 2005. A non-cooperating individual's assistance was not properly reduced by at least 25%, terminated, or, if not reduced the reason was documented and allowable, for two of the fourteen applicable cases tested. The TANF caseworker removed the custodial parent from the unit size instead of reducing the assistance by at least 25% for one of these cases. The caseworker never imposed the sanction for the TANF assistance for the other case. Within the fourteen cases with CSE sanctions, there were eight cases where there was a reduction in the TANF assistance payment. The reduction in assistance was not completed timely in one of these cases, but was imposed one month later.

Cause: The Agency does not have a procedure in place to determine when a CSE-10 form has been sent to the TANF caseworker from Child Support Enforcement or to determine the total number of CSE sanctions at a given time.

Effect: Without having proper procedures in place to ensure assistance payments are reduced and reduced timely there is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the program implement controls to ensure all CSE referrals are properly reduced or terminated.

Management Response: HHS agrees that appropriate TANF case actions should be taken upon receipt of a CSE referral.

Corrective Action Plan: The Child Support Enforcement System will send an Alert to the TANF worker when a TANF Custodial Parent is to be sanctioned for non-cooperation. This Alert will go into production with the November 2006 CHARTS release. In the interim, Child Support Enforcement Staff were instructed on February 17, 2006 that any CSE-10 recommending either a Sanction or the lifting of a Sanction is to be routed to the TANF worker and Supervisor. The Supervisor will be responsible for seeing that the TANF worker takes the appropriate action. Monitoring of this activity is included in the Finding #14 Review elements.

Contact: Mike Harris

Anticipated Completion Date: Interim solution completed by February 17, 2006. Automated alert from the Child Support Enforcement System to TANF worker completed by November 2006.

21. Program: CFDA 93.558 Temporary Assistance for Needy Families - Special Tests

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 42 U.S.C. Section 607(e)(2) states, “A State may not reduce or terminate assistance under the State program funded under this part based on a refusal of an individual to engage in work required in accordance with this section if the individual is a single custodial parent caring for a child who has not attained 6 years of age and the individual proves that the individual has a demonstrated inability (as determined by the State) to obtain needed child care ...” Good internal control requires adequate controls to ensure cases are not closed due to lack of child care.

Condition: There was a lack of controls to ensure TANF cases were not closed due to lack of obtaining child care.

Questioned Costs: None

Context: Supervisors do not perform consistent reviews of closed cases to ensure cases were not closed due to lack of obtaining child care. We noted as of September 2005 closed cases were being reviewed by the Payment Accuracy Specialist and any discrepancies were noted and passed on to the appropriate supervisor for review. In the Agency’s rules and regulations it states a TANF assistance case may not be closed due to lack of obtaining child care. We did not note any TANF assistance cases closed due to lack of obtaining child care.

Cause: Supervisors did not consistently review closed cases.

Effect: Without having an adequate control in place to ensure cases were not closed due to lack of obtaining child care there is increased risk of an individual not receiving proper benefits in accordance with federal requirements.

Recommendation: We recommend the program implement controls to ensure cases are not closed due to lack of obtaining child care.

Management Response: HHS agrees to review a sampling of closed cases.

Corrective Action Plan: Health and Human Services will review a representative sampling of TANF case closures within the framework of the case review initiative described in Finding #14 to implement controls to ensure cases are not closed due to the lack of obtaining child care.

Contact: Mike Harris

Anticipated Completion Date: Initial Review completed at the end of Phase one in October 2006.

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency 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 you.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, Federal awarding agencies, pass-through entities, and management of the State of Nebraska; however, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.

Sincerely,

Pat Reding, CPA

Pat Reding
Assistant Deputy Auditor

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor