



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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February 28, 2008

Ms. Christine Peterson, Chief Executive Officer
Nebraska Department of Health and Human Services
301 Centennial Mall South, 3rd Floor
Lincoln, Nebraska 68509-5026

Dear Ms. Peterson:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. 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.

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 (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 the Agency's management, are intended to improve internal control or result in other operating efficiencies.

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.

Comment Number 1 (Accrual Information) relating to the audit of the basic financial statements, is considered a significant deficiency. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

A separate evaluation of the State's significant Information Technology (IT) systems was completed. Some findings, as noted below, were reported as a part of the audit of the Comprehensive Annual Financial Report (CAFR). Additional findings and recommendations were reported to management in a separately issued confidential summary of findings and recommendations.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Where no response has been included, the Agency declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2007.

COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Accrual Information

As part of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State Agencies to determine and report payable and receivable amounts at the end of the fiscal year. Good internal control requires procedures to accurately report payables and receivables to State Accounting. Good internal control also requires procedures to ensure proper supporting documentation of the reported payables and receivables is maintained.

During our audit of the 2007 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- Estimated accounts receivable accruals for Third Party Liability (TPL) and Governmental Accounting Standards Board (GASB) 33 were overstated by \$9,516,035 and \$466,639, respectively. The original amounts reported included items that were not actual receivables at June 30, 2007.
- Estimated accounts receivable accruals for Medicaid Drug Rebates, Pending Refunds, and Patient and County Billings were understated by \$188,525, \$244,835, and \$4,291,083, respectively. The majority of the understatement of the Patient and County Billings Receivable was due to the exclusion of \$3.4 million in open accounts receivable from counties and third parties for the Beatrice State Development Center.

- Accounts payable accruals for NFOCUS and State Rx Drug Benefit Contributions were understated by \$1,086,706 and \$3,308,424, respectively. Amounts were incorrectly subtracted from the NFOCUS payable and the Drug Benefit Payable did not include amounts due for June 2007.
- Documentation was not on file to support various percentages, estimates, and adjustments used by the Agency to reduce their NFOCUS, TPL, Medicaid Drug Rebate, and Intergovernmental Accounts Receivables.

State accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). Similar findings have been noted in our previous audits.

Without proper controls to ensure amounts reported to State Accounting are accurate there is an increased risk the financial statements are misstated.

We recommend the Agency work with State Accounting to ensure receivables and payables reported are accurate and supported by adequate documentation.

Agency's Response: The Department agrees with the condition reported. For the first item, it was discovered that the report used to report TPL receivables has been historically incorrect. DHHS will work with the appropriate IS&T resources to develop a suitable report to accumulate the correct account balances. Items two and three were errors made by staff in compiling the balances to report, disciplinary action has already been taken. The last item is in regards to our documentation, and a procedure to more-fully document allowances and estimates is being implemented in time for the FY08 report.

2. Information Security – Access Appropriateness

Good internal control requires general and application controls of computer systems supporting financial data to be in place and working effectively to reduce the risk of financial data being misstated due to error or fraudulent acts. Good internal control also requires a proper segregation of duties so no one individual has the ability to administer application security, prepare and approve applications changes, and promote those changes to production.

During our review of the Agency's information systems in May 2007, we noted the following information security concerns:

- Two users had access to Child Support Enforcement (CSE) datasets; 17 users had access to NFOCUS datasets which was not required for their job responsibilities.
- Three application developers had ALTER access to CSE production datasets; one application developer had ALTER access to MMIS production datasets; and seven application developers had ALTER access to NFOCUS production datasets.

If security is not properly set up and enforced there is an increased risk critical system settings and data can be modified without authorization and for those changes to go unnoticed. In addition, application developers can circumvent the change control process and modify the production environment without testing or management approval if there is not a proper segregation of duties in place.

We recommend the Agency ensure only users who require system access to complete their job responsibilities have this access and for this access to be reviewed on a periodic basis. In addition, the Agency should establish compensating controls or eliminate programmer access to production datasets.

Agency's Response: The Department agrees with the condition reported.

COMMENTS RELATED TO THE SINGLE AUDIT

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Finding #07-26-02

Program: CFDA 64.005 - Grants to States for Construction of State Home Facilities - Davis-Bacon Act

Grant Number & Year: #FAI31014NEVH, FFY 2004

Federal Grantor Agency: U.S. Department of Veterans Affairs

Criteria: Per the Davis-Bacon Act and Title 29 CFR Part 5, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141-3144, 3146, and 3147). Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). This reporting is often done using the Optional Form WH-347, which includes the required statement of compliance.

Condition: The Agency did not obtain certified payrolls from the contractor or subcontractor(s).

Questioned Costs: Unknown

Context: The project started in 2005 and the only certified payrolls obtained were in February 2007 for two subcontractors. These certified payrolls were obtained from the construction company upon request of the project manager.

Cause: The Agency decided the construction company would maintain all certified payroll.

Effect: When the Agency fails to obtain certified payrolls they are in noncompliance with the Davis-Bacon Act and there is an increased risk of possible loss of Federal funding.

Recommendation: We recommend the Agency implement procedures to ensure all certified payroll is received and maintained by the Agency for all contractors and subcontractors. Certified payroll should be kept on file for future review and to support compliance with the Davis-Bacon Act.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: DAS has contacted Sampson Construction Company to have the payroll records transferred to our office as soon as possible. As of November 1, 2007, Sampson Construction Company has completed transferring the payroll records to our office.

Contact: Floyd H. Ladegard or Dan Albrecht

Anticipated Completion Date: Complete

Finding #07-26-03

Program: CFDA 93.044, 93.045, & 93.053 - Aging Cluster - Subrecipient Monitoring

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 Subpart B .200(a) requires entities that expend \$500,000 or more in a year in Federal awards to have a Single audit conducted for that year. OMB Circular A-133 Subpart B .235(c)(1) states, "The audit shall be completed and the reporting required by ... nine months after the end of the audit period."

OMB Circular A-133 Subpart D .400(d) states, "A pass-through entity shall perform the following for the Federal awards it makes: ... (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

Good internal control requires procedures to ensure all subrecipients submit a Single audit report as required. Good internal control also requires procedures to ensure management responds to all subrecipient corrective action plans.

Condition: Two of eight subrecipients did not have A-133 audits on file at the time of request. Three did not have management responses to audit findings or ensure the subrecipient took appropriate and timely corrective action.

Questioned Costs: None

Context: We tested all eight subrecipients of the Aging Cluster. Two subrecipient audits were not on file with the Agency when requested; the subrecipients received \$597,521 and \$1,033,991 of funding during the fiscal year, respectively. Both audits were obtained by the Agency after our request; however, the date received was after the limit set by OMB Circular A-133.

Three of eight subrecipient A-133 audits tested contained reportable conditions. The reportable condition in all three audit reports was segregation of duties. The Agency did not send a management response within six months to the subrecipient's corrective action for the finding. The Agency did not ensure appropriate action was taken to mitigate the control deficiency. These subrecipients received Federal funding of \$678,643, \$607,004, and \$567,014 respectively during the fiscal year.

Cause: Unknown

Effect: Noncompliance with OMB A-133 requirements increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency develop procedures to receive, review, and retain all Single audits from subrecipients. We also recommend the Agency respond to all subrecipient corrective action plans.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Agency has modified the process for Agency's centralized audit review team to get notified that an audit is expected and has a process to identify when audits are due and to follow up when audits are not received. The Agency will obtain the corrective action plan developed by the subrecipient and issue a management decision for all findings that relate to awards the agency made to the subrecipient.

Contact: Larry Morrison

Anticipated Completion Date: Complete

Finding #07-26-04

Program: CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance - Subrecipient Monitoring

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 Subpart B .200 (a) requires entities that expend \$500,000 or more in a year in Federal awards to have a Single audit conducted for that year. Subpart B .235 (c) (1) states, “the audit shall be completed and the reporting required by ... nine months after the end of the audit period.” Good internal control requires timely follow up to ensure receipt of the A-133 audit when required.

Condition: For one of three subrecipients that required an A-133 audit, the Agency did not receive their A-133 audit report.

Questioned Costs: Unknown

Context: The Federal Aid Administrator did not receive or follow up on the A-133 audit report for one subrecipient. The subrecipient received \$680,394 during fiscal year 2007.

Cause: Unknown

Effect: Without adequate monitoring of subrecipients there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to review all subrecipient audits and to ensure all audits are received within nine months after the end of the audit period.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Agency has modified the process for Agency’s centralized audit review team to get notified that an audit is expected and has a process to identify when audits are due and to follow up when audits are not received.

Contact: Larry Morrison

Anticipated Completion Date: Completed

Finding #07-26-05

Program: CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance - Reporting/Matching

Grant Number & Year: All open grants

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. Good internal control requires reports be reconciled to the State’s accounting system, the Nebraska Information System (NIS). Good internal control requires individuals preparing

the Financial Status Reports (FSRs) ensure amounts are accurate. Good internal control also requires a supervisory review of all FSRs to ensure accuracy of the information reported on the FSRs.

Condition: For all five FSRs tested, there was no supervisory review before the report was submitted to the Federal agency. For one FSR tested, an incorrect amount of State match was reported. Amount reported on the FSR was \$3,402,444, while amount reported on NIS was \$2,393,182, resulting in an overstatement of State match on the FSR of \$1,009,262. For another FSR tested, the total amount of expenditures reported on the FSR did not agree to NIS. Amount reported on the FSR was \$178,229, while amount reported on NIS was \$195,965 resulting in an understatement of \$17,736. Two FSRs tested included in-kind contributions; however, the amount of in-kind contributions were not verified by the individual preparing the FSR.

Questioned Costs: None

Context: The Federal Aid Administrator transfers NIS numbers to spreadsheets before reporting them on the FSR. The FSR containing the State match error was for grant 090CCU722780, for the period June 30, 2004, through June 30, 2005, filed on October 13, 2006. Auditor observed \$1,009,262 was reported twice on the FSR. The other FSR containing an error was for grant 090CCU721962, for the period June 30, 2005, through June 30, 2006, also filed on October 13, 2006. Auditor observed amounts reported on the FSR did not agree with the amounts recorded on NIS. Auditor also noted the Federal Aid Administrator relied on program managers and program administrators for in-kind contribution amounts not on NIS and did not obtain support for the numbers to verify the accuracy of amounts reported.

Cause: Lack of supervisory review and clerical errors.

Effect: Without procedures in place to ensure amounts reported on the FSRs are verified and reviewed there is an increased risk of inaccurate reporting.

Recommendation: We recommend the Agency review all FSRs, and document this review on the FSR. We also recommend the Agency implement procedures to ensure amounts reported on the FSR agree to NIS. We further recommend the Agency implement procedures to ensure in-kind contributions are verified and accurate.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The supervisor will review Financial Status Reports. A notice will be posted to program managers to define their responsibility to obtain and store documentation of the in-kind contributions.

Contact: Larry Morrison

Anticipated Completion Date: June 30, 2008

Finding #07-26-06

Program: CFDA 93.558 - Temporary Assistance for Needy Families (TANF) - Allowability/ Eligibility

Grant Number & Year: #G0602NETANF, FFY 2006; #G0702NETANF, FFY 2007

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

Criteria: Per Title 42 U.S.C. 608(a)(1), a State which is receiving grant money under section 603 may not use the grant to provide assistance to a family unless that family has a minor child. Per Title 42 U.S.C. 608(a)(4) a State “shall not use any part of the grant to provide assistance to an individual who has not attained 18 years of age, is not married, has a minor child at least 12 weeks of age in his or her care, and has not successfully completed a high-school education (or its equivalent), if the individual does not participate in educational activities directed toward the attainment of a high school diploma or its equivalent; or an alternative educational or training program that has been approved by the State.” Per Title 42 U.S.C. 608(a)(5) a State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative.

Title 468 NAC 2-006.05 states, “If a relative payee(s) or a guardian conservator requests assistance for more than one child in the household, all children for whom assistance is requested must be included in a single grant unit. Since the household is living as a single family, it must be budgeted accordingly.”

Per Title 42 U.S.C. 608(a)(10) a State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days unless the State grants a good cause exception. The Nebraska State Plan for TANF states “Allowable absences include a child out of the home for a visit not to exceed three months.” Title 468 NAC 2-006.01C states “A child is still considered part of the household while s/he is out of the home for a visit not to exceed three months.” Per the State Plan, an individual may be exempt from Employment First for three months following the birth of a child.

Title 468 NAC 2-006 states the worker shall determine the ability of the parent to support each dependent child in whose behalf TANF is applied for or received. The 64 FR 17825 states a family may not receive assistance under the State’s TANF program unless the family is needy, the term needy for TANF purposes means financial deprivation, i.e., lacking adequate income and resources. Good internal control requires an independent verification of income to determine if the family is needy.

The State Plan states the Separate State Program for Exempt Families will be funded with State dollars only and allows qualifying participants to be exempted from Employment First. Qualifying participants include “a parent ... of a child under the age of 12 weeks,” and “a pregnant woman beginning with the third trimester.”

Title 468 NAC 1-010 states, “The worker must redetermine eligibility for grant and medical assistance every six months.”

Condition: Nine of 45 TANF payments tested were not in compliance with Federal and State requirements.

Questioned Costs: \$751 known

Context: For one case tested, we noted the mother was the only person in the unit size of the household. Her child was not placed into the unit size because verification of the child’s date of birth had not been received. In addition, the mother was fifteen years old, unmarried, had a thirteen-month-old child, had not completed high school and was not going to school. Also, the mother was not living with a parent, legal guardian, or other adult relative. Therefore, the mother was not eligible to receive TANF benefits.

For one case tested, we noted the household consisted of the payee, payee’s daughter, and payee’s two grandchildren. The household was receiving TANF assistance for a unit size of one for the daughter, and was receiving additional TANF assistance for a unit size of two for the two grandchildren. This resulted in a monthly overpayment of \$151 to the household. The household should have been receiving one payment for a unit size of three.

For one case tested, the only minor child in the unit was out of the household for more than three months. In addition, the mother was exempt from Employment First for seven months following the birth of her child. An individual may only be exempt from Employment First for three months following the birth of a child.

For one case tested the mother was exempt from Employment First due to being in the third trimester of pregnancy and giving birth. The State Plan allows individuals exempt from Employment First to continue to receive assistance; however, this assistance must come from State-only funds. This payment was made from Federal and State funds.

One case tested did not have verification of the custodial parents’ income. The parents were ineligible immigrants per caseworker notes on NFOCUS and documentation in the case file. The mother had an interim social security number and the father had no social security number, so the State could not verify wage information using standard procedures. The mother self-reported no income, and the father self-reported construction income which was included in the budget for the grant. Since there was no verification of the parents’ income, it could not be confirmed whether the family was “needy.” The parents were not included in the unit size and no assistance was received for them. 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.”

In four cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews ranged from three and seven months overdue.

Federal payment errors noted were \$751. The total Federal sample tested was \$7,420 and total TANF Federal cash assistance payments for the fiscal year 2007 were \$19,501,943. Based on the sample tested, the case error rate was 20% (9/45). The dollar error rate for the sample was 10.12% (\$751/\$7,420) which estimates the potential dollars at risk for fiscal year 2007 to be \$1,973,597 (dollar error rate multiplied by population).

Cause: Inadequate procedures.

Effect: Increased risk for misuse of Federal funds.

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

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department partially agrees with the condition reported.

1. On one case the Auditors cited that DHHS cannot match the parents on the Income Eligibility and Verification System (IEVS) because neither parent has a Social Security Number, and thus cannot "verify" the parental income in order to determine whether the children can be considered "needy." This same issue has been cited in previous audits for similar households. The DHHS response to this issue on previous audits is that DHHS cannot require non-applicants to furnish to the Department either a Social Security Number or proof of their alien status. DHHS clearly recognizes that parental income & resources must be verified, and the Department believes that the self-employment ledgers completed met the requirement that the state develop an "alternative source" for verification of income. DHHS utilizes ledgers for verification of self-employment income for many households, including those where the wage earner does have a Social Security Number.

The basis for the DHHS position is directive from the U.S. Department of Health and Human Services, Office of Civil Rights. These directives clearly indicate that states cannot require non-applicants to furnish to the Department proof of either their immigration status or their Social Security Numbers. Written information to this effect from OCR has been furnished to the Auditor's staff. One portion of the information from OCR was a Question & Answer section. Included in this Q & A was the following:

“Question: Will these policies restrict states’ abilities to verify income and combat fraud?”

Answer: No. We understand the importance of using available tools, such as data matches, to verify income, eliminate eligibility errors and combat fraud, and we support state efforts to use these tools and others to achieve these goals appropriately.

In pursuing these goals, however, we want to ensure that states do not violate existing laws or regulations, especially if these violations inappropriately discourage eligible individuals in immigrant families, such as children, from seeking needed assistance.

(DHHS Emphasis) States will not be out of compliance with the Income and Eligibility Verification System in the Medicaid and TANF programs if they do not obtain the SSN of non-applicants or, in the case of TANF, persons who are not applicants because they have been excluded from the family (e.g., because their immigration status makes them ineligible for TANF benefits). States may use alternatives to the SSN to verify non-applicant income and resources when determining eligibility and benefit levels.”

DHHS believes that it is not appropriate for the Auditor’s staff to cite inability to furnish “an independent verification to determine if the family is needy” due to lack of a parental SSN as proof that the children in the family are not “needy.” The procedures used by DHHS to determine the father’s income in the questioned case, i.e., self-employment income & expense ledgers, are no different than what would be used for any other similar case in like circumstances, even if the custodial parent did have an SSN. DHHS cannot obtain verification of self-employment earnings from any “standard procedures” such as computer matches, so unless the self-employment earnings are reported on a Federal Income Tax return, income & expense ledgers would be utilized for any household.

Corrective Action Plan: A memo will be sent to local office staff sharing the results of the audit and highlighting areas that need more review from local eligibility staff.

The Department implemented a new supervisory case review system effective October 1, 2007. The system is called the Nebraska Economic Assistance Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The supervisory reviews are captured in the NEARS system and the results of this monitoring are used for corrective action and staff training. We anticipate that this monitoring will improve controls for TANF payments.

To assist DHHS staff to target error prone cases the TANF program has developed numerous monitoring reports.

1. An Employment First (EF) Case Activity Report was developed to assist the workers and supervisors to manage EF case work and identify problem areas.

2. A Monitoring EF Requirements Report was developed to assist the monitoring of Employment First regulations and procedures.
3. A Multiple Active Participation report was developed to identify individuals active in more than one ADC program case.
4. A listing of all assistance cases with an overridden budget—monitored by supervisors, administrators and Production Support Staff.
5. Case Review Report that identifies all ADC cases whose next review dates in NFOCUS are at least two months overdue.

ADC/Med Fund Code Reconciliation Report is a quarterly report used by FAPA to reconcile ADC/MED funding codes, based on the expenditure fund code and the ADC/MED fund code.

Contact: Trish Bergman

Anticipated Completion Date: The monitoring reports have already been developed and implemented. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

Auditor's Response: The extrapolation method is in accordance with auditing standards. We request a management decision from the Federal agency which indicates whether DHHS procedures solely utilizing self-employment ledgers without independent verification or alternate sources are acceptable in those cases where a Social Security number is not provided.

Finding #07-26-07

Program: CFDA 93.558 - Temporary Assistance for Needy Families - Allowable Costs/Cost Principles

Grant Number & Year: #G0602NETANF, FFY 2006

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

Criteria: OMB Circular A-87 states, "To be allowable under Federal awards, costs must ... Be necessary and reasonable for proper and efficient performance and administration of Federal awards ... Be adequately documented." Good internal control requires adequate documentation and procedures to ensure costs are reasonable for proper and efficient administration of Federal awards.

Condition: For one payment tested, the Agency did not require receipts or other supporting documentation to ensure funds were used for allowable costs.

Questioned Costs: \$24,730 known

Context: The Agency contracted with a vendor to provide employment-related supportive services for eligible TANF recipients. Services include payments for gas, bus rides, and taxi rides. The vendor gave checks to recipients who then used them to purchase the services. When the checks were given to the recipients, they were already signed, dated, and had the payee, amount, and the memo filled out. To document the checks written to the recipients, the vendor completed a ledger. On a monthly basis, the vendor totaled the ledger and remitted it to the Agency with an invoice for the total amount expended. The Agency then reimbursed the vendor. To ensure recipients used the checks for the intended activity, the vendor put the allowed activity in the memo of the check. The memo stated what the payment was for (for example, the memo for a gas purchase stated, "Gas Only for Recipient's Name.") The vendor also educated the payees (for example, gas stations) that the checks should only be used for the activity stated in the memo. Without detailed receipts/invoices from the check payees, there is a significant risk the funds may be misused.

Federal payment error noted was \$24,730. Dollars at risk for all similar payments made to this vendor during fiscal year 2007 were \$402,352.

Cause: Unknown

Effect: Without adequate controls in place, recipients receiving checks could use the checks for unallowable costs.

Recommendation: We recommend the Agency implement adequate procedures to ensure vendor checks written to recipients are used for allowable costs.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

Corrective Action Plan: Detailed receipts/invoices will be required for all payments whether vendor checks or NFOCUS service authorizations are utilized for supportive services. Each Service Area administrator will provide to the TANF Program Administrator written procedures to outline the processes for service approval, payment approval, and receipt/invoice handling.

Contact: Trish Bergman

Anticipated Completion Date: Procedures are to be in place no later than 3/1/2008.

Auditor's Response: The dollars at risk is not based on an extrapolation, the dollars at risk represents similar payments to the vendor.

Finding #07-26-08

Program: CFDA 93.558 - Temporary Assistance for Needy Families - Special Tests and Provisions

Grant Number & Year: All TANF grants open during State fiscal year 2007

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

Criteria: Good internal control requires adequate procedures to ensure the recipient's assistance payments are properly reduced in a timely manner when notice of non-cooperation is received. Per Title 42 U.S.C. Section 608(a)(2)(A), "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."

Condition: The TANF assistance was not properly reduced for Child Support non-cooperation for 4 of 34 cases tested.

Questioned Costs: \$326 known

Context: We tested 45 Child Support non-cooperation notices to determine if the TANF assistance payment was appropriately sanctioned and reduced and in a timely manner. Of the 45 tested, 34 received TANF assistance during the individual's non-cooperation time period. For 4 of the 34 cases, assistance was not reduced by at least 25%. The reduction in assistance for 3 of 4 cases was eventually completed, but not in a timely manner. The sanction amount was imposed ranging from one to seven months after the appropriate assistance payment was to be reduced. The Agency did implement a control during fiscal year 2007 to review cases monthly that were in non-cooperation status but were not sanctioned. However, it appears additional procedures are still needed to ensure assistance payments are reduced in a timely manner.

Cause: Unknown

Effect: Without proper effective procedures in place to ensure assistance payments are reduced in a timely manner, there is an increased risk for the loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all referrals are properly reduced or terminated in a timely manner.

Management Response: The Department agrees with the condition reported and feels that substantial improvement has occurred since the DHHS Corrective compliance plan was implemented. Strong internal controls have been developed and enhancements to the NFOCUS system have been made to further strengthen the procedures to ensure the assistance cases are properly reduced in a timely manner when CSE non-cooperation notices are received.

Corrective Action Plan: Compliance will continue to be monitored both through Supervisory Case Reads on the NEARS system as well as by Central Office staff monitoring the monthly CSE Sanction Report. If a case on the listing needs to be acted on, the Central Office Staff member will send an email to the worker, supervisor and administrator and track the completion of the needed action.

To assist supervisors to target error prone cases the following monitoring reports have been developed:

1. CSE Sanction Not Imposed Listing - The report identifies on a monthly basis those cases where an alert was created due to a non-cooperation begin date interfacing from CHARTS and no sanction has occurred.
2. Lifted Sanction with an Open Non-Cooperation Listing—This report identifies those cases where a non-cooperation row was received from CHARTS, the worker has lifted the sanction, but the non-cooperation row remains high-dated.

Contact: Trish Bergman

Anticipated Completion Date: The corrective compliance plan has been in place since the last state audit. The additional monitoring reports have already been developed and implemented and the NFOCUS enhancements completed. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

Finding #07-26-09

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

Grant Number & Year: All TANF grants open during State fiscal year 2007

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

Criteria: Per Title 45 CFR Section 264.1(a)(1), “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).” Neb. Rev. Stat. Section 68-1724 R.R.S. 2003 requires for those families receiving assistance for two years at a monthly payment level shall not receive further cash assistance for at least two years after the assistance period ends. Title 468 NAC 2-020.09B1 states, “Families subject to a time limit may receive or be eligible to receive a grant for a total of 24 months within a continuous 48-month period. The 48 months begin with the month a signed application is received in the local office. The 24 months begin on the first of the month following the month the Self-Sufficiency Contract is signed.” Title 468 NAC 2-010 states, “If a client does not cooperate in developing and completing a Self-Sufficiency Contract or Non-Time-Limited Assistance Agreement within 90 days, the unit is ineligible for an ADC grant and the adult(s) is ineligible for medical

assistance.” OMB Circular A-87 requires allowable Federal costs to be authorized or not prohibited under State laws or regulations and to be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Condition: We tested 45 cases and noted one case received greater than 60 months of Federal TANF payments. This case had also exceeded the State’s requirement of receiving more than 24 months of assistance in a continuous 48 month period of time.

Questioned Costs: Unknown

Context: Prior to June 2003, the Agency had entered into Waiver Certifications approved by the Federal Government. The waiver certification sent to the U.S. Department of Health & Human Services by the Governor of Nebraska stated “the 24-month period begins with the month following the completion of a self-sufficiency contract or 90 days after a signed application is received in a Local Nebraska Department of Health and Human Services Local Office.” The waiver certification also stated the Federal 60 month time limit would be consistent in counting the applicable months as was stated in the State time limit regulation. The waiver certifications no longer applied after June 30, 2003.

For the case tested that received more than 60 months of Federal TANF payments, it could not be determined if the self-sufficiency contract was signed within 90 days of application. The application could not be found in the case file and there was no mention of the application in the case file or NFOCUS narratives. The case had been receiving assistance payments since February 2001 for a total of 63 payments. If a self-sufficiency contract had not been signed within 90 days of application, TANF assistance should have been closed. For calendar years 2003-2006, the case received 41 monthly payments in a continuous 48 month period.

Cause: The Agency did not count TANF payments towards the 60 month time limit unless there was a self-sufficiency contract signed by the recipient.

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency obtain specific guidance from the Federal regulatory agency regarding whether the 60 month time limit is applicable in these situations. In the absence of written approval, the Agency should refrain from using Federal funds for individuals who have received five years of assistance.

Management Response: The Department partially agrees with the condition reported and with the passage of Legislative Bill 351 during the 2007 regular session of the Legislature, DHHS was mandated to eliminate the previous 24/48 Time Limit and adopt a 60-month lifetime Time Limit. Before the passage of LB351, DHHS had no authority in State Statute to impose a 60-month Time Limit. Change from the former 24/48 Time Limit to the current 60-month lifetime limit became effective with certification of regulations for October, 2007.

DHHS does wish to point out that Federal TANF regulations allow states to have up to 20% of their TANF caseload exceeding the 60-month Time Limit. One case which exceeded 60 months from a sample of 45 cases tested is slightly over two per cent of the sample.

Corrective Action Plan: Statewide training of Service Area TANF Eligibility Workers & Supervisors on the change to the 60-month Time Limit occurred during September, 2007. All ADC cases which are subject to the 60-month Time Limit must be reviewed once they have received 50 months of TANF. Cases which have received 50 or more months of TANF appear on a monthly EF Case Activity Report and are referred in to Central Office for review. The reviews are completed by Central Office TANF program staff and the results are returned to the Local Office Eligibility Worker. Appropriate action, including a Hardship Review as required by Federal Law and closure as appropriate must then occur. These Central Office reviews began in October, 2007 and continue.

Contact: Trish Bergman

Anticipated Completion Date: Because TANF cases will continue to approach 60 months, the review process described above is an ongoing process.

Finding #07-26-10

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

Grant Number & Year: All TANF grants open during State fiscal year 2007

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

Criteria: Administration for Children and Families (ACF) instructions requires the ACF-199 report to correctly account for the countable months for which the head-of-household or the spouse of the head-of-household receives assistance and is not exempt from the Federal five year limit.

Good internal control requires review procedures or automated controls to verify data is being reported accurately and errors are corrected in a timely manner.

Condition: For an individual tested, NFOCUS data indicated three countable months of assistance, however, the data reported on the quarter ended March 2007 ACF-199 was 30 months of assistance. The Federal government had notified the Agency of an error on the 2006 ACF-199 report for the countable months for each recipient receiving assistance.

Questioned Costs: None

Context: The Agency formats TANF recipient case data from their NFOCUS system and transfers the data to a Federal government reporting system. During State fiscal year 2007 the data for countable months for each recipient receiving assistance was incorrectly formatted. When the Federal government received the data, the countable months reported

included an additional zero for the actual months. The Agency received back text files of data that contained warning flags after each quarterly report was sent but did not always document their review. The Agency submitted a revised quarter ended March 2007 ACF-199 report in January 2008.

Cause: Unknown

Effect: Increased risk of significant information for the ACF-199 report being reported incorrectly which could result in Federal sanctions.

Recommendation: We recommend the Agency document the review of warning flags for possible errors and follow up on errors in a timely manner. We further recommend the Agency review the submitted report to individual case information on a sample basis to ensure the accuracy of the ACF-199 report.

Management Response: The Department only partially agrees with the condition reported. We recognize that the first submission of the sampled report did have the formatting problem. The formatting error was discovered by ACF and reported to the state. The error was identified and fixed within hours. Because of the file format and volume of data, direct review of formatted data is virtually impossible. We will continue to rely on reviews of the ACF flags along with using samples of data for testing and verification. DHHS has to amend and resubmit the 2007 ACF-199 report due to the Deficit Reduction Act and policy changes that have occurred and had to be reflected in the data. These amendments and resubmissions are not only permitted by the final TANF regulations, but are encouraged as the federal government recognizes that “states often receive data from a variety of sources that require correction of submitted quarterly data and they want states to provide them with complete and accurate data.”

Corrective Action Plan: ACF-199 error flag warnings will be reviewed and corrected as appropriate and necessary.

DHHS will begin a random quarterly pull of 10 sample cases and compare data on the ACF-199 to NFOCUS data for the same cases to assure both that the data has been formatted correctly and that it is correct in content.

DHHS will continue to work with the ACF Region VII Office to resolve any ACF-199 or ACF-209 errors or issues as they occur.

Contact: Trish Bergman

Anticipated Completion Date: The ACF-199 report is submitted quarterly and with each submission error flag warnings are received. These will be reviewed and corrected on an ongoing basis.

Finding #07-26-11

Program: CFDA 93.568 - Low-Income Home Energy Assistance Program (LIHEAP) - Activities Allowed & Eligibility

Grant Number & Year: #0G07B1NELIEA, FFY 07

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

Criteria: Per 42 USC 8624 States shall use funds to provide assistance to low income households in meeting their home energy costs, particularly those with the lowest incomes that pay a high proportion of household income for home energy and to intervene in energy crisis situations.

Per 45 CFR 96.30 a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant. Regulations for LIHEAP are included in the State Plan and Chapter 476 NAC. Per 476 NAC 1-011, "Case records must be retained for three years from the date of application and are subject to state and federal audit."

Good internal control requires procedures to ensure adequate records are maintained to support payments were for the proper amount and for eligible individuals.

Condition: During our testing of 45 payments, we noted one payment did not have adequate documentation and one individual was overpaid \$198.

Questioned Costs: \$396 known

Context: For one payment of \$198 the case file could not be located. For another payment the individual was paid the single family dwelling rate; however, per the application lived in a multi-family dwelling and therefore was overpaid \$198.

Federal payment errors noted were \$396. The total Federal sample tested was \$7,304 and total Federal assistance payments for fiscal year 2007 were \$15,339,368. Based on the sample tested, the case error rate was 4.44% (2/45). The dollar error rate for the sample was 5.42% (\$396/\$7,304) which estimates the potential dollars at risk for fiscal year 2007 to be \$831,394 (dollar error rate multiplied by population).

Cause: Unknown

Effect: Increased risk for loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to maintain adequate supporting documentation and ensure all payments are in accordance with State and Federal regulations.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the conditions reported.

Corrective Action Plan: There were two different conditions that resulted in the total error.

Condition One: The error was \$198 as the household should have received a payment of \$198 instead of a payment of \$396.

Effective October 1, 2007, DHHS has started to do a review of LIHEAP case files through the Nebraska Economic Assistance Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The information from the supervisory reviews are captured in the NEARS system and the results of this monitoring are to be used for corrective action and staff training. We anticipate that this monitoring will provide adequate controls to ensure that payments are allowable and adequately supported. The factors that are reviewed during a NEARS review are:

- A. Current application;
- B. vulnerability is properly determined;
- C. appropriate household members are included;
- D. households containing ineligible aliens have been identified as a “mixed household;”
- E. resources, income and PA or NA status identified;
- F. living arrangement (single or multiple); and
- G. IM-7 completed on NA case, payment designated to household or provider, crisis need is documented, payment amount is correct, LIHEAP C1 fields are correctly entered, copy of IM-8 in file if action is “other;” LIHEAP approved, and SUA is allowed in FS.

Condition Two: This error was \$198 because the Omaha local office energy unit cannot find this file. This person and SSN do not appear on NFOCUS so energy was the only type of assistance received by the individual.

- A. Omaha started a tracking process of all Energy Assistance or Emergency Assistance requests in July 2007. This process tracks the date of application, the staff member that is handling the request (ongoing worker, intake worker, or energy worker), and a narrative is entered into the NFOCUS cases. A flow chart is included in attachments. This tracking process will provide adequate controls to ensure that the households are receiving assistance, who acted on the request, what actions were taken by the Omaha staff, and what worker will have the case in their record files.

DHHS plans to add the LIHEAP program to its primary eligibility system called NFOCUS in 2010. This addition will enhance case trace and benefit accuracy.

Contact: Mike Harris, George Kahlandt, Mike Kelly

Anticipated Completion Date: Completion dates are identified in the above corrective action.

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-12

Program: CFDA 93.575 and 93.596 Child Care and Development Fund Cluster - Allowability and Eligibility

Grant Number & Year: #OG0601NECCDF, FFY2006; #OG0701NECCDF, FFY 2007

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

Criteria: Title 392 NAC 5-001.01 states, "Before furnishing any service, each provider must sign Form CC-9B agreeing: (2) To provide service only as authorized, in accordance with the Department's standards." Good internal control requires procedures be in place to ensure every provider agreement indicates what type of child care services are being provided in order to ensure standards are being followed. Title 392 NAC 3-005.01D states that individuals whose income exceeds the maximum limit to be considered a low income family are eligible for child care through the low income sliding fee schedule and must pay a fee as shown in the fee schedule. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations. Per 42 USC 9858k no financial assistance shall be expended for any services provided to students during the regular school day. Good internal control requires procedures be in place to ensure billings are accurately calculated and charged to the client.

Condition: During review of child care payments we noted 11 of 45 claims tested did not have adequate documentation and/or were not in compliance with State and Federal regulations.

Questioned Costs: \$558 known

Context: During testing we noted four cases had parent income above the income limit and should have been responsible to pay a copay; one case was not charged the appropriate copay amount; one provider was underpaid for services provided; one provider was paid for 18 days of services during regular school days; and five providers were overpaid for hours/days worked. These providers had numerous clerical errors on the billing documents which were not detected, including one provider that over-charged 11 days on the monthly attendance sheet.

Federal payment errors noted were \$558. The total Federal sample tested was \$3,303 and total Child Care Federal assistance payments for fiscal year 2007 were \$29,262,752. Based on the sample tested, the case error rate was 24.44% (11/45). The dollar error rate for the sample was 16.89% (\$558/\$3,303) which estimates the potential dollars at risk for fiscal year 2007 to be \$4,942,479 (dollar error rate multiplied by population).

Cause: Ineffective review.

Effect: Without adequate controls and supporting documentation, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

Corrective Action Plan: A memo will be sent to local office staff sharing the results of the audit and highlighting areas that need more review. This will be targeted for February, 2008.

The Department included Child Care Subsidy cases in a supervisory review system effective October 1, 2007. The system is called the Nebraska Economic Assistance Review System (NEARS). Supervisory staff are required to review and monitor a targeted number of cases each month. The supervisory reviews are captured in the NEARS system and the results of this monitoring are used for corrective action and staff training. We anticipate that this monitoring will improve controls for child care payments.

To assist supervisors to target error prone cases:

1. We will design a report that will list cases where there is a child care case and a related Food Stamp, Aid to Dependent Children, or Medical case with income. This will be targeted for April, 2008. This will be used by workers and supervisors in case reviews.
2. We will design a report that will list cases where the income is at or above 100% of the Federal Poverty Level and the Customer Obligation checkbox is not checked on the Service Authorization screen. This will be targeted for April, 2008. This will be used by workers and supervisors in case reviews to target copay errors for current cases and then make corrections.

We will pursue a change to NFOCUS to default to a check in the customer obligation box; this will apply to new authorizations and is intended to address the issue of providers and child care clients not being notified of a child care copay. This will be targeted for March, 2008.

We will plan to convert Child Care Subsidy into the expert system in NFOCUS. This change would improve income calculation and consideration of income across assistance programs. This will be targeted for July, 2008.

A training module is being developed by the Department Training Unit that will be a self-directed training piece on Service Authorizations that will be available to workers and supervisors. This will be targeted for June, 2008.

We will make a revision to the Child Care Provider Agreement to redefine a daily unit to reflect rounding practices. This will be targeted for September, 2008.

Contact: Betty Medinger

Anticipated Completion Date: Dates are included above.

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-13

Program: CFDA 93.658 - Foster Care Title IV-E - Allowability & Eligibility

Grant Number & Year: #OG0601NE1401, FFY 2006; #OG0701NE1401, FFY 2007

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

Criteria: Per 42 USC 672 funds may be expended for Foster Care maintenance payments on behalf of eligible children. Foster Care maintenance payments are allowable only if the foster child was removed from the home of a relative specified in section 406(a) of the Social Security Act, and placed in foster care by means of a judicial determination that indicates continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child, as defined in 42 USC 672(a)(2), or pursuant to a voluntary placement agreement. Per 42 USC 671(a)(10) and 672(c) the provider, whether a foster home or a child-care institution must be fully licensed by the proper State Foster Care licensing authority. Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

Condition: We noted 7 of 45 Foster Care payments tested were not allowable as not all eligibility requirements were met.

Questioned Costs: \$976 known

Context: We noted the following during our testing:

- For five daycare payments tested, the child was not in a licensed foster home; therefore, child care was not an allowable expense.
- For one daycare payment, the child was living with parents at the time of service; therefore, child care was not an allowable expense.
- One payment noted foster care maintenance was paid for the month of September 2006; however, the child was adopted July 31, 2006, per review of court order.

Federal payment errors noted were \$976. The total Federal sample tested was \$20,064 and total Foster Care Title IV-E assistance payments for fiscal year 2007 were \$5,096,978. Based on the sample tested, the case error rate was 15.56% (7/45). The dollar error rate for the sample was 4.86% (\$976/\$20,064) which estimates the potential dollars at risk for fiscal year 2007 to be \$247,713 (error rate multiplied by population).

Cause: Inadequate controls over processing claims.

Effect: Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are an allowable expense, on behalf of eligible children, and in accordance with Federal regulations.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

Corrective Action Plan: Related to the first five errors noted: Corrective action at the systems level was initiated 10-31-2006 to change NFOCUS coding so that child care would be claimed as a IV-E expenditure only when the foster home in which the child was placed was licensed. This change was released into NFOCUS on 11-12-2007. Corrective action related to the specific payments on these five cases: Notice was sent by Child Welfare to Finance and Support on 11/21/07 to unclaim the federal share of these payments. Finance and Support will include this request to unclaim in its next federal quarterly report. Corrective action at the systems level: Results of the audit will be shared with appropriate administrative staff of all service areas, including Service Area Administrators, with a reminder as to the importance of timely reporting of information on NFOCUS and then timely action by the Income Maintenance-Foster Care Worker. Also, a system of Quality Assurance Review will be put in place by January 1, 2009, to include performance accountability standards for Income Maintenance staff.

Corrective action at the case level: Notice will be sent by Child Welfare to Finance and Support to unclaim the federal share of these payments. This notice will be sent prior to January 31, 2008. Finance and Support will include the request to unclaim in the next federal quarterly report.

Contact: Ruth Grosse, Margaret Bitz, or Larry Morrison

Anticipated Completion Date: December 2008

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-14

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

Grant Number & Year: All open grants

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 assets. Good internal control also requires adequate review of adjustments made to the quarterly report to ensure accuracy and allowability.

Condition: Adjustments reported on the quarterly FSR for September 30, 2006, in the amount of \$7,765 (Federal share) were found to be previously reported. Nine of fifteen individuals tested were found to be previously claimed as IV-E. The total Federal share of adjustments reported on the September 30, 2006, FSR was \$1,391,047.

Questioned Costs: \$7,765 known

Context: The adjustment reviewed during fiscal year 2007 was claiming expenses that were previously thought by the Agency to not be an allowable expense. During our review of this adjustment, we found nine of the fifteen individuals tested were previously claimed; therefore, resulting in double reporting of \$7,765 (Federal share).

Cause: Inadequate review of adjustments.

Effect: Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are an allowable expense and in accordance with Federal regulations.

Management Response: The Department agrees with the condition reported. DHHS also wishes to state that the circumstances surrounding the claiming for these payments were extremely unusual and very unlikely to occur in the future. Prior to the Federal Title IV-E review in 2006, DHHS was given an interpretation by the Region VII Department of Health and Human Services Office regarding non-acceptability of certain court order language for purposes of IV-E eligibility. Using that interpretation, DHHS submitted a request to unclaim IV-E payments for hundreds of children. As a result of discussions during the Federal Title IV-E review, DHHS was given the interpretation from Department of Health and Human Services Central Office in Washington, D.C., that the language indeed was acceptable to establish IV-E eligibility. DHHS then reviewed all cases that had been unclaimed due to the interpretation and submitted a claim to retrieve the federal funds for the previously unclaimed payments when appropriate and when resubmission was allowable due to the parameters of claiming within 8 federal quarters. Claiming for payments for other children also was included in this resubmission. As a result, errors were made in time frames related to unclaiming and then reclaiming.

Corrective Action Plan: Corrective Action Plan at the Systems Level: Prior to June 30, 2008 Child Welfare and Finance and Support will collaborate and develop procedures to assure that claims for payment of federal funds are not duplicated. Corrective Action at the Case Level: Before January 31, 2008, Child Welfare will review all payments reclaimed on the 9 cases and report any errors to Finance and Support. Finance and Support will include the corrections on the next federal quarterly report. The corrections will include both underclaiming and overclaiming.

In the future, Finance and Support will notify Child Welfare when the actual Title IV-E claims have been submitted to the Region VII Federal Office in Kansas City.

Contact: Ruth Grosse, Margaret Bitz, or Larry Morrison

Anticipated Completion Date: April, 2008

Finding #07-26-15

Program: CFDA 93.659 - Adoption Assistance - Allowability & Eligibility

Grant Number & Year: #0G0601NE1407, FFY 2006; #0G0701NE1407, FFY 2007

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

Criteria: 42 USC 673(a)(3) states, "The amount of the payments to be made in any case ... shall be determined through agreement between the adoptive parents and the State or local agency administering the program ... and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement) ... However, in no case may the amount of the adoption assistance payment ... exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home."

Title 45 CFR 1356.41(a) states, “The amount of the payment made for nonrecurring expenses of adoption shall be determined through agreement between the adopting parent(s) and the State agency administering the program. The agreement must indicate the nature and amount of the nonrecurring expenses to be paid.” Title 45 CFR 1356.41 (i) states, “The term ‘nonrecurring adoption expenses’ means reasonable and necessary adoption fees, court costs, attorney fees and other expenses which are directly related to the legal adoption of a child with special needs, which are not incurred in violation of State or Federal law, and which have not been reimbursed from other sources or other funds.”

Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

Title 479 NAC 8-001.02B5 states, “The application and agreement for subsidy, specifying type, amount, purpose, and duration of subsidy must be completed and approved before the date of adoption finalization.” Good internal control requires adoption agreements be maintained and properly signed and dated.

Condition: We noted 7 of 45 Adoption Assistance payments tested were not in accordance with State and Federal requirements.

Questioned Costs: \$571 known

Context: We noted the following:

- Four payments tested did not agree with the amount specified on the adoption agreement. One payment was for legal fees. The other three payments were for adoption subsidy.
- For two payments tested, the adoption subsidy exceeded the foster care maintenance amount.
- For one case tested, the Agency was unable to provide the adoption agreement.

Federal payment errors noted were \$571. The total Federal sample tested was \$13,496 and total Adoption Assistance payments for fiscal year 2007 were \$6,997,779. Based on the sample tested, the case error rate was 15.56% (7/45). The dollar error rate for the sample was 4.23% (\$571/\$13,496) which estimates the potential dollars at risk for fiscal year 2007 to be \$296,006 (error rate multiplied by population).

Cause: Inadequate controls over processing claims.

Effect: Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are an allowable expense, on behalf of eligible children, and in accordance with Federal regulations.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

Corrective Action Plan: In all cases with an error, the worker(s), supervisor(s), and administrator(s) involved will receive specific information regarding the error, including a reminder of specific policies that were not followed and what those policies would have allowed for or required, and any action that must or can be taken in the field to correct the error.

Information regarding all errors found will be shared in writing with appropriate administrators statewide, including Service Area Administrators. This information will include policy references. Discussion will be held regarding actions to be taken statewide or within service areas to assure that the errors are not made in the future.

By February 15, 2008, Child Welfare Unit will provide information to Finance & Support to unclaim whatever funds were inappropriately claimed. Finance & Support will include these corrections in the next quarterly federal report.

By February 28, 2008, policy will be reviewed to determine if changes will more clearly provide direction to field staff. Resulting changes will be drafted and presented for public hearing or issued as guidebook material, whichever is appropriate.

Findings from the Audit were presented to field staff on the Bi-Monthly Adoption Call on January 29, 2008. Discussion included citing policies that are applicable, and the opportunity for field staff to receive clarifications, if any are needed. (This corrective action was completed on 1/29. Participants on the call included Resource Development, Income Maintenance-Foster Care, and Protection and Safety staff.)

By March 31, 2008, Child Welfare Unit will review relevant portions of the New Worker and Specialized Adoption curricula to determine if changes are needed.

By December 31, 2008, a Quality Assurance process will be in place to reduce the risk of errors, and, if they are made, to correct them quickly.

Contact: Mary Dyer or Margaret Bitz

Anticipated Completion Date: See individual dates for specific actions. Total corrective action plan is anticipated to be completed by December 31, 2008.

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-16

Program: CFDA 93.667 - Social Services Block Grant (SSBG) - Allowability

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 96.30 (a) states, "... a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds." Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. Title 473 NAC 3-001.06 Service Provider Agreements states, "Each provider must have a service provider agreement in effect before service can be authorized for purchase." Title 473 NAC 3-002.02 states, "Before furnishing any service, each provider shall sign Form DSS-9, agreeing to ... Submit Form DSS-5B, 'Social Services Billing Document,' after service is provided and within 90 days." Title 473 NAC 2-007.03B Resource Development states, "When the worker assigned resource development responsibilities and a provider negotiate a rate that exceeds the maximum unit rate the worker shall - 2. Initiate Form DSS-2A requesting a specific unit rate exceeding the maximum." Title 473 NAC 3-001.10 Rate Negotiation states, "The worker shall negotiate all terms in Section I of Forms DSS-8 and DSS-9. The rates negotiated must - 3. Not exceed the service's maximums without prior Central Office approval." Good internal control requires paying the rate negotiated and stated per the Provider Agreement. Good internal control also requires adequate supporting documentation be retained for services provided. Good internal control further requires adequate policies and procedures to ensure the claims submitted by the providers are accurate and valid.

Condition: We noted 41 of 44 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations.

We also noted the Agency did not have policies or procedures to ensure the provider submitted billings for payment were adequately supported or accurate. For example, transportation providers were not required to submit detailed logs and did not require client signatures. Chore providers were not required to submit detailed timesheets with client signatures.

Questioned Costs: \$3,062 known

Context: For one claim the Agency was unable to provide a signed Provider Agreement. The Agency was unable to provide the Billing Document for four claims related to transportation services.

For three claims tested, the rate paid did not agree with the rate negotiated and stated per the Provider Agreement. These three claims related to transportation services. The Provider Agreement for one claim stated the rate was 95% of published rate. The Agency was unable to provide information on how they calculated the rate; therefore, we were unable to determine if the rate was 95% of the published rate. For the second claim, the rate negotiated per the Provider Agreement was \$13.20 per one-way trip; however, the rate paid was \$14.52 per one-way trip, a difference of \$1.32 per one-way trip. The claim was for 39 one-way trips, resulting in an overpayment of \$51.48. For the third claim tested, the rate paid was not included in the Provider Agreement. The Provider Agreement referenced to an attachment; however, the Agency was unable to provide the attachment.

For 14 claims tested there was not adequate supporting documentation for the services provided. Seven of the claims were for transportation related services. Information was not provided as to what the transportation was for or destination of the travel. Three of the claims were related to chore services. The Agency was unable to provide timesheets for the chore services provided. Four of the claims were for meals; logs or other documentation to support which days meals were provided were not on file.

Thirty-six claims tested did not comply with the rates and procedures per 473 NAC. Per 473 NAC, rates may be negotiated that exceed what is referenced; however, approval must be given from the Central Office. For these 36 claims, the Agency was unable to provide documentation which showed the Central Office approved the rate. Nineteen of the claims related to transportation services. Five claims tested were for In-Home Day Services or Day Services. Seven claims tested were for meals, either congregate or home delivered. Five claims tested related to chore services. For chore services 473 NAC states the maximum hour unit rate to be used is the Federal minimum wage. The Federal minimum wage at the time of service for the claims tested was \$5.15 per hour; however, all five claims tested were paid at \$6.50 per hour.

Federal payment errors noted, excluding rates not in accordance with NAC, were \$3,062. The total Federal sample tested was \$11,941 and total SSBG Federal assistance payments for fiscal year 2007 were \$3,367,833. Based on the sample tested the case error rate was 93.18% (41/44). The dollar error rate for the sample, excluding rates not in accordance with NAC, was 25.64% (\$3,062/\$11,941) which estimates the potential dollars at risk for fiscal year 2007 to be \$863,512 (dollar error rate multiplied by population). Total claims tested with errors, including NAC rates, was \$10,480 of the \$11,941 sample.

Cause: Unknown

Effect: Without adequate controls and supporting documentation, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the conditions reported.

Corrective Action Plan:

Adult Day Care, Chore, and Meals (Home Delivered and Congregate):

Regulations will be revised and rates and services codes for all SSBG services will be removed from 473 NAC. Revised regulations will specify that all Chore timesheets include provider and consumer signatures and dates and time of service provided, and that all required documentation be maintained by provider for six years. Revised regulations will specify that agencies providing Meal services document consumer name when the meal is delivered, and that provider and consumer signatures are recorded to verify meal delivery.

Worker training will be provided when regulations have been revised and promulgated. Central Office will review a sampling of files from each Service Area to ensure required documentation is present.

Transportation:

Transportation regulations were revised and became effective August 20, 2007. Rates and service codes were removed from the regulations at that time.

A memorandum will be provided to staff to clarify protocols on Provider Agreements, rate exceptions, documentation of transportation claims and the DHHS retention schedule.

A Provider Bulletin will be issued reminding providers of the requirement that they have an active, current and accurate provider agreement and their obligation to retain claims documentation in their files and provide it the Department upon request.

A post-pay review of Department and Provider files will be conducted within six months of issuance of the memorandum and Provider Bulletin, to insure the audit findings have been corrected

Contact: Joni Thomas & Roxie Cillessen

Anticipated Completion Date: Adult Day Care, Chore, Meals: June 30, 2008;
Transportation: March 1, 2008

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-17

Program: CFDA 93.767 - State Children's Insurance Program (SCHIP) - Reporting

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 92.20(a) requires fiscal control and accounting procedures to permit preparation of required reports and to permit tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires reconciliation of amounts reported to amounts recorded in the State accounting system.

Condition: Expenditures reported in the quarter ended June 30, 2007, CMS-64 report could not be traced to NIS, the official accounting system of the State.

Questioned Costs: \$29,129

Context: During the testing of the CMS-64 for the quarter ended June 30, 2007, we noted expenditures reported were \$11,656,681; however, the expenditures recorded on NIS were only \$11,615,391 resulting in a variance of \$41,289 of which \$29,129 was Federal funding.

Cause: Unknown

Effect: Noncompliance with Federal regulations increases the risk for errors to occur and the loss or misuse of State funds. Without adequate reconciliation of amounts reported to the accounting system there is risk expenditures are not reported accurately.

Recommendation: We recommend the Agency implement procedures to ensure amounts reported reconcile to the State accounting system.

Management Response: The Department partially disagrees with the condition reported. The amounts reported on the CMS-64 were correct.

Corrective Action Plan: The Department will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the CMS-64 reports.

Contact: Kim Collins

Anticipated Completion Date: April 30, 2008. (The January – March, 2008 quarterly report)

Finding #07-26-18

Program: CFDA 93.767 - State Children's Insurance Program (SCHIP) - Eligibility

Grant Number & Year: All open grants

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

Criteria: Title 477 NAC 4-001.04 states, "The worker must redetermine eligibility every six months. Eligibility may be redetermined in less than six months to coordinate review dates for more than one program." Title 45 CFR 92.20(a) states, "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds." Good internal control requires redeterminations be performed periodically to ensure recipients remain eligible for assistance.

Condition: For 7 of 45 SCHIP claims tested, eligibility redeterminations were not performed every six months.

Questioned Costs: None

Context: For 7 of 45 claims tested, redeterminations were not performed every six months. The determinations were performed from 10 to 17 months after the prior determination.

Cause: Unknown

Effect: The Agency is not in compliance with State Rules and Regulations. Failure to complete required redeterminations every six months increases the risk ineligible recipients may receive assistance.

Recommendation: We recommend the Agency ensure required SCHIP redeterminations are performed to ensure only eligible recipients receive assistance.

Management Response: DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

Corrective Action Plan: Effective 10-01-07 DHHS has started to do reviews of State Children's Insurance Program (SCHIP) case files through the Nebraska Economic Review System (NEARS). Supervisory staffs are required to review and monitor a targeted number of cases each month. The information from the supervisory reviews are captured in the NEARS system and the results of the monitoring are to be used for corrective action and staff training. We anticipate that this monitoring will provide adequate controls to ensure that payments are allowable and adequately supported. The factors that are reviewed during a NEARS review are:

- A. Application
- B. Citizenship
- C. Non-Financial
- D. Earned Income
- E. Self- Employment
- F. Unearned Income
- G. Deductions
- H. Miscellaneous

NFOCUS Reports (InfoView) have Case Activity Summary Reports and Case Review Reports to assist eligibility workers in managing their caseloads for reviews that are due and overdue. Supervisors have reports available to monitor staff completion of reviews that are still due and overdue. These reports are adequate controls to monitor caseloads.

NFOCUS creates alerts which are posted to each eligibility workers position of Reviews Due, to assist in managing required action.

Contact: Mike Harris, George Kahlandt

Anticipated Completion Date: Completion dates are identified in the above corrective action.

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #07-26-19

Program: CFDA 93.778 - Medicaid - Allowability/Matching/Reporting

Grant Number & Year: #050605NE5028, FFY 2006; #050705NE5028, FFY 2007

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

Criteria: To be allowable, Medicaid costs for medical services must be paid to eligible providers, and paid at the rate allowed by the State plan. Per OMB Circular A-87, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized under State laws or regulations. Title 45 CFR 92.22 requires the State expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and

prohibitions of applicable statutes. NIS is the official accounting system of the State of Nebraska. Title 42 CFR 433.10 provides for payments to states, on the basis of a Federal medical assistance percentage. Title 42 CFR 433.51 allows public funds to be considered as the State's share in claiming Federal participation if the public funds are appropriated directly to the local Medicaid agency, or certified by the contributing public agency as representing expenditures eligible for federal participation; and the public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

Condition: The Agency reported \$3,031,549 on the September and December 2006 quarterly CMS reports for Developmental Disability provider match; these costs were never paid to providers and were not recorded on NIS. The Agency did not have documentation to support these were allowable costs; or if allowable, that the costs were provided by public funds in accordance with Federal requirements. For January through June 2007, the Agency did not include the provider match in the total reported for Developmental Disabilities; however, NIS was not changed to reflect the correct Federal/State split. Therefore Federal funds were overcharged \$4,913,973.

Questioned Costs: \$4,913,973

Context: The Agency paid providers of developmental disability services at 90% of Agency determined rates. For July through December 2006, the Agency then reported the 10% not paid as match. The Agency did not have adequate documentation to support the amount paid was 90% of costs or that 10% was provided by public funds. Further, the public funds were not appropriated directly to the local provider, and were not certified as representing expenditures eligible for Federal participation. For January through June 2007, the Agency did not report the provider match in the total reported; however, the Federal/State share paid was not corrected, and Federal funds were overcharged.

	7/1/06-9/30/06		10/1/06-6/30/07		Total
Actual Paid Per NIS					
State	\$ 12,049,218	35.31%	\$ 39,580,857	37.19%	\$ 51,666,221
Federal	22,071,015	64.69%	66,857,960	62.81%	88,981,830
Total NIS	<u>\$ 34,120,233</u>		<u>\$ 106,438,817</u>		<u>\$ 140,648,051</u>
Claimed Per Report					
State*	\$ 14,494,327	40.32%	\$ 45,471,498	42.07%	\$ 59,965,825
Federal	21,454,027	59.68%	62,613,830	57.93%	84,067,857
Total Report	<u>\$ 35,948,354</u>		<u>\$ 108,085,328</u>		<u>\$ 144,033,682</u>
Variance					
State (under matched)					\$ (8,299,604)
Federal (over charged)					\$ 4,913,973

*Reported amount includes \$3,031,549 uncertified provider match July through December 2006.

Cause: This was a prior finding and the Agency did not make corrections to the accounting system during fiscal year 2007. The Agency indicated changes would be made starting August 2007.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure matching funds are from an allowable source, costs are charged at the proper Federal medical assistance percentage, and amounts reported reconcile to NIS.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: Beginning August 2007 the Department no longer claims or reports the 10% of funds planned on from Public Providers. The Department is in the process of reconciling these amounts with the CMS Regional office in Kansas City.

Contact: Willard Bouwens

Anticipated Completion Date: February 29, 2008

Finding #07-26-20

Program: CFDA 93.778 - Medicaid - Allowability & Period of Availability

Grant Number & Year: #050705NE5028, FFY 2007

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

Criteria: Per 45 CFR 92.23 “a grantee may charge to the award only costs resulting from obligations of the funding period.” Good internal control requires timely, periodic reviews of State disability recipients to determine if they qualify for Medicaid.

Title 471 NAC 3-002.01B states, “The Department shall pay claims within 12 months of the date of receipt of the claim. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations.

Good internal control requires claims to be charged in a timely manner.

Condition: Fiscal year 2007 grant funds were used to pay for fiscal year 2006 and 2005 expenditures. Also, the Agency charged Medicaid for claims paid more than 12 months after the claim was received.

Questioned Costs: \$1,725,051

Context: Recipients of State Disability may become qualified for Medicaid if they are expected to be or are disabled for more than 12 months. When it is determined by the Agency that recipients of State Disability qualified for Medicaid in a prior period, the Agency creates a journal entry to charge the costs to Medicaid. The Agency made an adjustment in April 2007 to transfer eligible expenditures from State Disability to Medicaid. The Agency charged all the expenditures to the 2007 grant, even though some of the

obligations originated during July through September 2006, which falls under the 2006 Federal fiscal year. In addition, the Agency applied the FFY 2006 Federal Medical Assistance Percentage (FMAP) for the expenditures occurring in FFY 2006 even though they charged all expenditures to the FFY 2007 grant. The Federal share of July through September expenditures charged to the 2007 grant was \$708,366.

Targeted case management involves cases where services are provided to Medicaid eligible clients by Agency caseworkers. Services were for assessing and coordinating a client's case by the caseworker from the office, community, or recipient's home. The claims for the services were sent monthly to the central office. On June 19, 2007, the Agency created a journal entry that charged Medicaid \$1,285,605 for services provided. Included in the amount charged was \$776,311 and \$240,374 of services provided for FFY 2006 and FFY 2005 respectfully, but were charged to a FFY 2007 grant. Also, \$801,241 of these claims were received more than 12 months before the payment.

Cause: The Agency considers the expenditure not incurred by Medicaid until the State disabled client is identified as Medicaid eligible. However, after 12 months of disability the Agency has all of the information needed to identify the client as Medicaid eligible. The auditors believe the expenditure is incurred at that time. Otherwise the Agency would have the ability to manipulate which grant was charged. The Agency did not have procedures to ensure case management services were charged in a timely manner.

Effect: Untimely charges increase the risk of ineligible claims.

Recommendation: We recommend the Agency implement procedures to process journal entries in a timely manner and comply with Federal and State regulations.

Management Response: The Department partially agrees with the condition reported.

Corrective Action Plan: The Department agrees to submit journal entries in a timely manner. The Department does not agree with the condition that grant finals were charged to the incorrect year. DHHS follows protocols established by CMS, the federal agency charged with administering the Medicaid program in partnership with the States. According to this protocol, adjustments from prior periods are to be reported on the current quarterly CMS-64 claim and identified as such. Reconciliation to the correct federal fiscal year match rate is accomplished on an annual basis.

Contact: Kim Collins, Ginger Goomis

Anticipated Completion Date: On-going

Finding #07-26-21

Program: CFDA 93.778 - Medicaid - Allowable Costs/Cost Principles

Grant Number & Year: All open Medicaid grants

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

Criteria: OMB Circular A-87 requires Federal costs to be authorized or not prohibited under State or local laws or regulations; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; and be the net of all applicable credits. When individuals receive services at the Regional Centers, Beatrice State Developmental Center (BSDC), or receive community-based developmental disability (DD) services, the patient and his or her relatives shall be liable for the cost of services, as prescribed by Neb. Rev. Stat. Sections 83-227.01, 83-363 through 83-379, and 83-1211. In situations where the ability-to-pay assessment for a Medicaid eligible child is applied to the parent's income (or responsible relative), the parent's ability-to-pay is considered a third party liability for Medicaid.

States must have a system to identify medical services that are the legal obligation of third parties. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR Sections 433.135 through 433.154).

Per 42 CFR 433.140 (c) if the State receives Federal participation in Medicaid payments for which it receives third party reimbursement, the State must pay the Federal government a portion of the reimbursement determined in accordance with the Federal matching participation for the State.

Good internal control requires procedures to ensure third party liabilities are collected and the Federal share is properly remitted.

Condition: During the fiscal year the Agency did not credit Medicaid for parental liability amounts collected for Medicaid clients.

Questioned Costs: Unknown

Context: For the fiscal year ended June 30, 2007, the Agency reported total client accounts receivables for the CAFR of \$21,239,564 and net receivables after allowances of \$9,639,902 at June 30, 2007. We were unable to determine the amount of accounts receivables and collections related specifically to parental liability for Medicaid clients. We also noted collection procedures should be improved.

Cause: Misinterpretation of requirements.

Effect: The Federal government may not be receiving all the funds due from parental liability.

Recommendation: We recommend the Agency implement procedures to ensure accounts receivable are collected and that collections from parents for Medicaid children are properly credited to the Federal government for their share of the reimbursement.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: DHHS has begun to credit the Federal Government for all payments from parents on behalf of Medicaid clients.

Contact: Willard Bouwens

Anticipated Completion Date: September 30, 2007

Finding #07-26-22

Program: CFDA 93.775, 93.777 & 93.778 - Medicaid Cluster - Reporting

Grant # & Year: All open Medicaid grants

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

Criteria: Title 45 CFR 92.20 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 regulations. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires accurate reconciliations between required reports and the accounting system. Good internal control also requires supervisory review of work performed.

Condition: The Agency utilized the Medicaid Management Information System (MMIS), NFOCUS, and NIS to prepare the Quarterly Medicaid Statement of Expenditures Report. A quarterly reconciliation between the report and the NIS application was performed; however, we noted many discrepancies in the reconciliation. We also noted there was no supervisory review of the reconciliation.

Questioned Costs: Unknown

Context: During the testing of the reconciliation it was noted: 1) amounts recorded in the NIS portion of the reconciliation could not be traced to NIS, 2) some amounts recorded in the NIS portion of the reconciliation were not obtained from NIS, and 3) amounts from NIS for expenditures of State and/or Federal funds only were split utilizing the match rate in the reconciliation. Of the 15 items tested from one quarterly reconciliation, we noted variances in 13 of the items ranging from (\$6,275,153) to \$7,857,459.

Cause: The methodology to reconcile reports to NIS was developed in fiscal year 2006 and was first implemented in fiscal year 2007.

Effect: Without adequate controls there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency ensure quarterly reconciliations of Federal reports to the State accounting system are accurately performed with explanations of all discrepancies.

Management Response: The Department disagrees in part with the condition reported that the amounts recorded in NIS do not reconcile to the Quarterly Medicaid Statement of Expenditures Report. The NIS amounts reconcile in total, the only difference is in the State and Federal fund split.

Corrective Action Plan: The Department will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the Quarterly Medicaid Statement of Expenditures.

Contact: Kim Collins

Anticipated Completion Date: April 30, 2008. (The January – March, 2008 quarterly report)

Auditor’s Response: We disagree with the Agency that “NIS amounts reconcile in total, the only difference is in the State and Federal fund split.” Our procedures also noted amounts recorded in the NIS portion of the reconciliation did not agree to NIS, and some amounts were not obtained from NIS.

Finding #07-26-23

Program: CFDA 93.775, 93.777 & 93.778 - Medicaid Cluster - Special Tests and Provisions

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 95.621(f)(2)(iii) states, “State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur.”

Per Title 45 CFR 95.621(f)(3) State agencies shall review the Automated Data Processing (ADP) system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Title 45 CFR 95.621(f)(5) states, “The security requirements of this section apply to all ADP systems used by State and local governments to administer programs covered under 45 CFR part 95, subpart F.”

Title 45 CFR 95.621(f)(6) states, “The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review.”

Good internal control requires reviews for access to computerized systems be completed timely. Further, good internal control requires security reviews be adequately documented.

Condition: The required biennial risk analysis review for the Medicaid payment processing application (NIS) was not completed. The required biennial review for access to the Medicaid eligibility determination application (NFOCUS), Medicaid claims processing application (MMIS), and payment processing application (NIS) were not completed.

Questioned Costs: None

Context: The Agency did not complete a risk analysis or system security review for NIS within the past two years. NIS is the official accounting system of the State, as prescribed by Administrative Services. The Medicaid claims processing application (MMIS) interfaces with NIS for the payment of claims.

The Agency did not complete a role based access review for the Medicaid claims processing application (MMIS). The position responsible for completing the review was vacant during the time the review is normally completed. The last biennial role based access review was completed for the MMIS security report dated December 31, 2004.

The Agency did not complete a role based access review for the Medicaid eligibility determination system (NFOCUS). The Agency did not have procedures in place to complete the review; however, was developing procedures for a detailed review at the time of the audit.

Cause: The risk analysis and security review for the NIS application was not completed as NIS is a statewide system which the Agency felt was the responsibility of Administrative Services. The role based access reviews for the MMIS and NFOCUS applications were not completed due to reorganization within the Agency.

Effect: The Agency is not in compliance with Federal regulations. Failure to complete biennial risk assessments and security reviews on all systems involved in the administration of the Medicaid program increases the risk unauthorized access to systems will go undetected.

Recommendation: We recommend the Agency ensure all the required risk assessments, system security reviews, and role based access reviews are completed for all required ADP systems.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Department has requested confirmation that the Nebraska Information System (NIS) has had an appropriate audit and all risks related to Medicaid claims processing, interfaces, financial fund code and payment processing have been addressed satisfactorily for Fiscal Year 2007; and requests that all future reviews be confirmed and validated with check lists provided by the Department.

Contact: Allan Albers

Anticipated Completion Date: February 15, 2008

Finding #07-26-24

Program: CFDA 93.778 - Medicaid - Special Tests and Provisions

Grant Number & Year: All open Medicaid grants

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

Criteria: Title 42 CFR 456.4 states, “The agency must - 1) Monitor the statewide utilization control program ... 3) Establish methods and procedures to implement this section ... 4) Keep copies of these methods and procedures on file and 5) Give copies of these methods and procedures to all staff involved in carrying out the utilization control program.”

Title 42 CFR 456.22 – 456.23 further states, “To promote the most effective and appropriate use of available services and facilities the Medicaid agency must have procedures for the ongoing evaluation on a sample basis, of the need for and the quality and timeliness of Medicaid services. The agency must have a post payment review process that – (a) Allows State personnel to develop and review – (1) Recipient utilization profiles; (2) Provider service profiles; and (3) Exceptions criteria; and (b) Identifies exceptions so that the agency can correct misutilization practices of recipients and providers.”

Good internal control requires written procedures and documentation of sampling and profiling methods.

Condition: The Agency did not have adequate written procedures regarding the methods and procedures used to perform the profiling and evaluating of misutilization practices. The review process did not include recipient utilization profiles or exceptions criteria. Sampling was not completed using exception reports.

Questioned Costs: None

Context: In response to our prior audit finding, the Agency developed the following written procedures:

“Each quarter the Survey and Utilization Review Services (SURS) reports, as indicated on the schedule that follows, will be run by Medstat. These comprise roughly one quarter of the providers for review each quarter. In this fashion, a provider has a higher probability of being reviewed over the span of a year. These profile reports are available on the Custom SURS tab and will also be sent on CD to us. The CD version is much faster to pull up and it is suggested that it be used over the on-line version. Any of the reports can be run at any time (and will run on the most current months’ data).

Each quarter, the sample of reports run is to be reviewed for high ranking providers and clients and may be the basis for starting a review. Additionally, when working a review started from another source, or from another Medstat report, the ranking summary profiles can be reviewed to supplement the information already obtained.

The ‘Service Rendering Provider Template,’ the ‘Summary Profile – Provider Template,’ and the ‘Summary Profile – Recipient Template’ are also available to run for a quick snapshot of the entity’s Medicaid and Medicare activity.

While there is no requirement to pick a certain number of reviews from these Ranking reports, they do make great supplemental information and the sample reports can be reviewed each quarter.”

As noted, these procedures do not address recipient utilization or exception criteria. In addition, the provider Ranking Reports used did not define exception criteria and were rarely used to sample payments for utilization review. The Program Integrity unit relies on referrals and uses the Ranking reports as a comparison tool to compare a questionable provider to the normal activity of similar providers.

Cause: The Agency feels it is more efficient to rely on referrals for review.

Effect: Increased risk of undetected errors or fraud related to Medicaid provider payments.

Recommendation: We recommend the Agency develop adequate written procedures to sample payments for review considering recipient utilization profiles, provider service profiles, and the use of exception criteria.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Medicaid Program Integrity/SURS written Methods and Procedures used for sampling of provider utilization review profiles will be revised to include sampling of recipient profiles. The sampling plan will specify a number of cases to be sampled each quarter, the exception criterion required for a provider or recipient to be selected, the method of uniquely identifying cases and the documentation required for the sample reviews. The sample criteria will be reviewed periodically and adjusted, as necessary.

For clarification, there are other methods of on-going sampling. One is the Payment Error Rate Measurement (PERM) a federally required sampling of both clients and claims. Over the federal fiscal year 2007, approximately 1000 claims are reviewed and approximately 1400 clients. The reviews of claims include data review (did the claim pay in accordance with MMIS and policy) and medical record review obtained from providers reviewed for medical necessity and correct coding. To date, one provider case has been opened based on a PERM finding. The client review involves review by our contractor of eligibility files to determine appropriate eligibility determinations and, therefore, payments. In addition to PERM, there are monthly reports that sample high volume claims and high volume prescription/pharmacy/physician users for potential lock-in.

Contact: Kris Azimi or Karen Cheloha

Anticipated Completion Date: The Written Methods and Procedures have been revised and include the criteria for sample selection. A sample of providers and recipients will be selected for the quarter January through March 2008, after March 31, 2008.

Finding #07-26-25

Program: 93.778 - Medicaid - Allowable Costs/Cost Principles

Grant Number & Year: All open Medicaid grants

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

Criteria: 42 U.S.C. 1396r-8(b)(2) states: "Each State agency under this subchapter shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form and strength and package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, and shall promptly transmit a copy of such report to the Secretary." 42 U.S.C. 1396r-8(a)(7)(A) states, "In order for payment to be available under section 1903(a) for a covered outpatient drug that is a single source drug that is physician administered under this title (as determined by the Secretary), and that is administered on or after January 1, 2006, the State shall provide for the collection and submission of such utilization data and coding (such as J-codes and National Drug Code numbers) for each such drug as the Secretary may specify as necessary to identify the manufacturer of the drug in order to secure rebates under this section for drugs administered for which payment is made under this title." Good internal control requires that all drugs which are paid for by Medicaid and eligible for manufacturer rebate are submitted to the manufacturer for rebate.

Condition: Practitioner claims for injections Medicaid recipients receive by a physician are being reviewed, but have not yet been submitted to the drug manufacturers for rebate.

Questioned Costs: Unknown

Context: Rebates for injectable drugs administered by a physician are reported to Medicaid on a Practitioner Claim instead of a Drug Claim. Drug Claims are monitored by Affiliated Computing Services (ACS) and the total of each drug is compiled for Nebraska Medicaid to submit to the appropriate manufacturer for rebate. A crosswalk was developed for high-dollar injectable drugs to allow the injectable drugs into the ACS system so they could be processed for rebate. This crosswalk is retroactive to January 1, 2005, but will not be billed until November 2007. If the billing goes smoothly, the Nebraska Medicaid unit plans on adding more injectable drugs to the rebate list to be billed in subsequent quarters.

Cause: Practitioner claims were not previously monitored for injectable drugs administered by a physician.

Effect: Possible loss of funds.

Recommendation: We recommend the Agency continue with its plan to bill drug manufacturers for injectable drugs administered by a physician.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The corrective action is complete.

During November of 2007, the Department invoiced drug manufacturers for rebates for physician administered drugs with dates of service beginning in 2004. The Department will add additional drugs and continue to use this as an ongoing process.

Contact: Gary Cheloha

Anticipated Completion Date: Completed November 2007

Finding #07-26-26

Program: CFDA 93.674 - Chafee Foster Care Independence Program; CFDA 93.778 - Medicaid; CFDA 93.959 - Prevention and Treatment of Substance Abuse - Allowable Costs/ Cost Principles

Grant Number & Year: Various

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

Criteria: OMB Circular A-87 states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. There certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

Condition: The Agency did not have procedures for the certification of payroll for individuals whose hours were charged to a single Federal program.

Questioned Costs: Unknown

Context: During the prior audit, it was noted there were no procedures for the certification of payroll for employees whose hours were charged to a single Federal program. We reviewed three employees with hours directly charged to a single program and noted the Agency still did not have procedures for payroll certification. Agency staff indicated the certification was going to be imbedded into a new timekeeping system which was being developed; however, the system was not complete. The monthly salary and program charged for the three employees were as follows: \$3,990, CFDA 93.674; \$2,631, CFDA 93.778; and \$3,501, CFDA 93.959.

Cause: The Agency's timekeeping system had not been developed.

Effect: The Agency was not in compliance with OMB Circular A-87. Also, there is an increased risk employees could charge hours to the wrong Federal program.

Recommendation: We recommend procedures be developed to periodically certify the time of employees whose hours are directly charged to a single Federal program.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: All DHHS employees will be required to use a new time reporting system by the end of the year. The certification will be incorporated into the new time reporting system.

Contact: Linda Gerner and Larry Morrison

Anticipated Completion Date: December 31, 2008

Finding #07-26-27

Program: All programs administered by the Agency - Allowable Costs/Cost Principles

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 requires the auditee maintain internal control over Federal programs. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

Condition: During our review of batch management for the Agency, we noted 24 people who could prepare and approve their own documents.

Questioned Costs: Unknown

Context: NIS is the official accounting system of the State and all transactions are processed through NIS. NIS utilizes batch management to allow documents to be prepared and approved. A relationship between two users must be established for batch management to work correctly. If a relationship is established properly, batch management can segregate duties prior to a document being processed.

Cause: The Agency gave employees the ability to prepare and approve their own documents.

Effect: There is an increased risk of loss or misappropriation of State assets when employees are able to prepare, approve, and post their own documents on NIS.

Recommendation: We recommend the Agency implement procedures to ensure employees are not able to prepare and approve their own documents on NIS.

Management Response: The Department agrees with the condition as presented with the exception of two individuals who manage department fixed assets.

Corrective Action Plan: Of the 24 individuals identified as having batch management authority, 22 are corrected to have preparation or approval authority only. The remaining two are under review at this time because of their fixed asset duties required at fiscal year end.

Contact: Dick Kohel

Anticipated Completion Date: Completed January 2008

Finding #07-26-28

Program: Various, CFDA 93.575 and 93.596 - Child Care Cluster, CFDA 93.658 - Foster Care, CFDA 93.667 - Social Services Block Grant, and CFDA 93.777 and 93.778 - Medicaid Cluster - Allowable Costs/Cost Principles

Grant Number & Year: Various

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

Criteria: The approved Cost Allocation Plan states, "The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the HHSS Resource Developers in the cost center."

Condition: We tested the SM – Resource Development cost pool for the quarter ended June 30, 2007. Eight of twenty Resource Developers tested did not turn in time and effort reports for part or all of the quarter, or hours used for the allocation were not supported by time and effort reports. One of twenty Resource Developers tested had incorrect hours used in the allocation calculation.

Questioned Costs: Unknown

Context: The SM – Resource Development cost pool was allocated to benefiting programs based on hours reported by Resource Developers from weekly time and effort reports for the quarter. The cost pool allocated \$1,786,626 of costs to benefiting programs for the quarter. We tested 20 of 68 Resource Developers in the quarter and noted the following:

- Six Resource Developers did not turn in all weekly time and effort reports for the quarter. There were from one to thirteen reports missing.
- One Resource Developer did not turn in one weekly time and effort report and an additional week's hours used in the allocation calculation for the quarter were not supported by a time and effort report.
- One Resource Developer's hours used in the allocation calculation were not supported by a time and effort report.
- One Resource Developer had 20 hours coded to vacation/sick/etc. on their time and effort report, but the hours were incorrectly included with Foster Care hours for the allocation calculation.

Cause: Unknown

Effect: Increased risk of inaccurate allocations of costs to Federal programs.

Recommendation: We recommend the Agency implement procedures to ensure all Resource Developers time and effort reports are submitted and maintained to support the cost pool allocation.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Cost Accounting Office will complete follow-up process including contacts with supervisors to ensure all Resource Developers complete time reports.

Contact: Larry Morrison

Anticipated Completion Date: January 31, 2008

Finding #07-26-29

Program: Various - Allowable Costs/Cost Principles

Grant Number & Year: Various

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

Criteria: OMB Circular A-87 states, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The Agency uses a Cost Allocation Plan (CAP) to distribute expenditures to the appropriate programs. Good internal control requires procedures to ensure the expenditures are correctly charged to the appropriate programs.

Condition: We tested 25 administrative expenditures. For 4 of 25 tested the coding was incorrect, causing cost pools to be misstated.

Questioned Costs: Unknown

Context: The Agency received a billing each month for records management services. For two expenditures tested the entire amount was charged to the MS – Claims Process cost pool, which is for costs associated with Medicaid. The Agency did this because the majority of the records management service costs were for Medicaid; however, the costs should have been allocated to all benefiting programs. Total records management services charged to the cost pool for May 2007 was \$23,810.

One expenditure tested for \$91 was for a classified advertisement regarding TANF Caseload Reduction Credit. The cost was charged to a Food Stamps cost pool instead of a TANF cost pool.

The CAP allocates expenditures, not receipts. One receipt for \$10 was erroneously coded as expenditure, and therefore, was improperly included in the CAP.

Cause: Unknown

Effect: Incorrect coding can result in Federal programs being charged incorrect amounts.

Recommendation: We recommend the Agency implement procedures to ensure costs are coded correctly.

Management Response: The Department agrees with the condition reported.

Corrective Action Plan: The Medicaid and Food Stamp financial reports for the next quarter will be adjusted for the items reported by the auditors.

Contact: Larry Morrison

Anticipated Completion Date: April 30, 2008

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 letter is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this letter 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.



Pat Reding
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor