



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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February 17, 2009

Bob Zagozda, Chief Operating Officer  
Nebraska Department of Health and Human Services  
301 Centennial Mall South, 3<sup>rd</sup> Floor  
Lincoln, NE 68509-5026

Dear Mr. Zagozda:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 10, 2009. 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. Except as noted in the Summary Schedule of Prior Audit Findings, all other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Comment Number 1 (Accrual Information) 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.

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. 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, 2008.

## **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 on an accrual response form. Good internal control requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the 2008 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- Estimated accounts receivable accruals for Medicaid Drug Rebates were understated by \$11,663,557. This understatement occurred as a result of the reduction of the Drug Rebate accrual amount by cash receipts due as of June 30, 2008, and collected after June 30, 2008.
- Intergovernmental accounts payable and accounts receivable accruals were understated by \$6 million and overstated by \$12,869 respectively. The understatement of accounts payable was caused by an incorrect amount being reported to State Accounting while the overstatement of accounts receivable was due to the double recording of \$2.5 million in TANF and the exclusion of \$2,487,131 in LIHEAP, SSBG, and adoption assistance receivables.
- The Patient and County billings accounts receivable was overstated by \$2,453,269 due to the inclusion of the State matching portion of the Medicaid/Managed Care billings.
- After submitting their accrual response form to State Accounting, the Agency revised their estimation of the medical student loan receivables that will be collectible. While the Agency reported the change in the net receivable amount, the Agency failed to report the revision in the accounts receivable allowance to State Accounting. As a result, the accounts receivable allowance amount was understated by \$228,758.

- The Agency did not report a payable to a vendor which was estimated at \$6,295,236. An invoice had not been received; however, payment was expected to be made for the period of March through May 2008.
- A \$1.3 million payment made in August 2008 was incorrectly recorded as a fiscal year 2009 obligation when it should have been recorded as a fiscal year 2008 obligation.

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 implement procedures to ensure receivable and payable amounts reported are complete and accurate.

**Management Response:** The Department agrees and has assigned the task of documenting this process. It will be completed by June 30, 2009.

## **2. Information Security – Access Appropriateness**

Good internal control requires an adequate segregation of duties over production datasets to ensure unauthorized changes are not made. If security is not implemented and configured according to business risk, access to data can be modified inappropriately, disclosed without authorization, and/or be unavailable when necessary.

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

- Five application developers had ALTER access to Child Support Enforcement (CSE) production datasets;
- One application developer had ALTER access to MMIS production datasets; and
- Six application developers had ALTER access to the Nebraska Family On-line Client User System (NFOCUS) production datasets.

If security is not properly set up there is an increased risk 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 establish compensating controls for programmer access to production datasets or eliminate such access.

**Management Response:** The Agency agrees with the condition reported and has explained to the auditors the controls and safeguards implemented by the Agency to address this issue.

## **COMMENTS RELATED TO THE SINGLE AUDIT**

### **Finding #08-25-02**

**Program:** CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – Subrecipient Monitoring

**Grant Number & Year:** All open grants

**Federal Grantor Agency:** U.S. Department of Agriculture

**Criteria:** Title 7 C.F.R. § 246.19 (January 1, 2008) requires the State Agency to establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, and on-site reviews. The on-site reviews shall include evaluation of certification. Title 7 C.F.R. § 246.4 (January 1, 2008) requires the State Agency to develop policies and procedures for preventing conflicts of interests at the local agency in a reasonable manner.

**Condition:** We noted for all three Local Agency subrecipients tested, the Agency's on-site monitoring of Local Agencies did not include specific monitoring procedure steps or documentation of monitoring, for the prevention of conflict of interest, or separation of duties in determining certification of eligibility for the program participants.

**Questioned Costs:** Unknown

**Context:** The Agency conducts on-site monitoring of their subrecipients and uses monitoring spreadsheets to document the specific items reviewed during the on-site monitoring. The Agency has developed written policies for Local Agencies regarding prevention of conflict of interests. However the on-site monitoring spreadsheets did not include any specific documentation regarding the process the Local Agencies should be using to ensure they are adhering to the written policies prohibiting certification practices which include: certifying oneself, certifying relatives or close friends, and one employee determining eligibility for all certification criteria and issuing food instruments or supplemental food for the same participant. This finding was also noted during a Federal review conducted in April 2007, by the United States Department of Agriculture.

**Cause:** Unknown

**Effect:** Without documentation by the Agency during their on-site monitoring regarding Local Agency procedures to prevent conflict of interest, or separation of duties, there is an increased risk of inappropriate participant certification occurring.

**Recommendation:** We recommend the Agency develop and document procedures to use during on-site monitoring of Local Agencies to ensure the Local Agencies are adhering to the policies requiring separation of duties in WIC certification. The on-site monitoring spreadsheets used should indicate the names of both individuals involved in the certification process at the Local Agency.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** The WIC Program has a procedure describing action required by WIC local agencies to address separation of duties and conflict of interest. To monitor local agency operations and compliance with procedures, the WIC Program uses standardized monitoring forms. Existing monitoring forms currently include questions regarding provision of benefits to WIC staff members who are also WIC participants. Staff will use the standardized monitoring forms to document adherence to the policies requiring separation of duties. The “*Active Chart Review*” and “*Clinic Observation of Staff & Client Services*” forms have been revised to include the following line:

	Y	N	NA	Comments
A separation of duties exists which ensures that at least two staff are evaluating eligibility criteria (income, nutrition risk, benefit package)				<b>List staff names:</b> INCOME ASSESSMENT _____ RISK CODE ASSESSMENT _____ BENEFIT ISSUANCE _____

**Contact:** Peggy Trouba

**Anticipated Completion Date:** The forms have been updated as of 9/15/08.

**Finding #08-25-03**

**Program:** CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children – Subrecipient Monitoring

**Grant Number & Year:** All open grants

**Federal Grantor Agency:** U.S. Department of Agriculture

**Criteria:** Title 7 C.F.R. § 246.19 (January 1, 2008) requires the State Agency to establish an ongoing management evaluation system which includes the review of Local Agency financial and participation reports. The State shall conduct monitoring reviews at least once every two years. Good internal control requires timely reviews of Local Agency financial information to ensure accurate financial reporting for Local Agency reimbursements.

**Condition:** For one of three Local Agency subrecipients tested, the Agency’s on-site monitoring of the Local Agency’s financial information has not been done within a two-year period. The last fiscal review for this Local Agency was completed in March 2005. The other two Local Agency fiscal reviews tested were completed in August and November 2006.

**Questioned Costs:** Unknown

**Context:** Local Agencies submit monthly reports of expenditures requesting reimbursement; supporting documentation for the monthly reports is not required to be submitted. The State reviews the submitted report and compares to the Local Agencies available budgeted amount. The State previously contracted for the service of fiscal reviews for Local Agencies, where reimbursed expenditures of Local Agencies were reviewed for accuracy. The last fiscal review was conducted in December 2006. The State is currently working on securing a new contract for this service. Fiscal reviews at the Local Agencies were not conducted as part of on-site monitoring during the fiscal year. The total amount of reimbursed costs for fiscal year 2008, to the one Local Agency which did not have a fiscal review completed within two years, was \$575,782. The total amount of reimbursed costs for all subrecipients for fiscal year 2008 was \$6,868,412.

**Cause:** Unknown

**Effect:** Without timely and adequate fiscal review monitoring of Local Agencies, there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency conduct fiscal reviews of Local Agency's financial information as part of on-site monitoring to ensure that amounts being requested for reimbursement from Local Agencies are accurate.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** A contract is currently in place through April 30, 2009, with Pat Wulff to provide financial reviews for seven Agency programs, including the WIC program.

**Contact:** Peggy Trouba

**Anticipated Completion Date:** Financial reviews will be completed for WIC agencies included in the contract schedule, beginning September 10, 2008.

#### **Finding #08-25-04**

**Program:** CFDA 64.015 – Veterans State Nursing Home Care – Eligibility

**Grant Number & Year:** All open grants

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

**Criteria:** CFDA 64.015, 38 U.S.C. § 1710 (January 2, 2006), and 38 U.S.C. § 1741 (January 2, 2006) detail criteria for eligibility and payment of Federal funds, including that a veteran must meet State admission criteria. Per 38 U.S.C. § 1741 (a)(1) the State shall be paid the per diem rate for each veteran receiving care in a State home, if such veteran is eligible for such care. Neb. Rev. Stat. § 80-316 (Supp. 2007) requires veteran's admitted to a Veterans Home to have served in the armed forces of the United States during a period of

war as defined by section 80-401.01. Neb. Rev. Stat. § 80-401-01(6) (Cum. Supp. 2006) states, "Veteran of the Vietnam War means a person (a) who served on active duty in the armed forces of the United States (i) between August 5, 1964, and May 7, 1975, or (ii) in the Republic of Vietnam between February 28, 1961, and May 7, 1975, and (b) who, being a citizen of the United States at the time of his or her entry into such service, served with the military forces of any government allied with the United States in that war."

**Condition:** One of 35 veterans tested was not eligible as they had not served in the armed forces in Vietnam during a time of war as required by Nebraska State Statute.

**Questioned Costs:** \$25,798

**Context:** The individual was on active duty February 1960 to February 1964, but was not in the Republic of Vietnam. Questioned costs are the total per diem payments for one individual for July 1, 2007, through June 30, 2008.

**Cause:** Oversight in reviewing dates of service and where the individual was stationed.

**Effect:** Individual is not eligible and Federal per diem is not allowed.

**Recommendation:** We recommend the Agency strengthen procedures to ensure only eligible veterans are admitted to State Veterans Homes.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** The Grand Island Veterans Home will prepare an adjusting entry to the Form 10-558 Statement of Claim with the next report filed to the V A for reimbursement of Per Diem. The adjustment will include July 2007-September 2007 for 92 days @ \$67.71 (\$6,229.32) and for October 2007-June 2008 for 274 nursing care days @ \$71.42 (\$19,569.08) and will be in the amount of \$25,798.40 on the August 2008 VA Form 10-5588. The form will be submitted to the VA during September 2008. From July 1, 2008, forward, the GIVH will not collect per diem for this Veteran.

Furthermore, an additional check will be performed prior to admission at the Veterans Homes.

Re-educated Nebraska Department of Veterans Affairs staff regarding eligibility emphasizing on war time dates. (80-401-01)

**Contact:** John Hilgert, Director, Division of Veterans' Homes; V. Ginada Hostetler, Administrator and/or Janet M. Warneke, Business Manager.

**Anticipated Completion Date:** September 30, 2008

## **Finding #08-25-05**

**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 Section 400(d)(3) requires that pass-through entities “monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” A-133, Section 200(a) requires entities that spend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. Section 235(c)(1) states, “The audit shall be completed and the reporting required by...nine months after the end of the audit period.” Section 400(d)(1) requires that pass-through entities “identify Federal Awards made by informing each subrecipient of CFDA title and number, award name and number, if the award is R&D, and name of Federal Agency.” Good internal control requires procedures to ensure payments to subrecipients are proper and to ensure A-133 audits are obtained and reviewed as required.

**Condition:** Monitoring procedures were not adequate for 9 of 20 subrecipients tested. For 1 of the 10 subrecipients tested which required an A-133 audit report, the Agency did not obtain the A-133 audit report. For 7 of 12 subrecipients tested, the Agency documented either the incorrect information to the subrecipient or did not document part or all of the information required.

**Questioned Costs:** Unknown

**Context:** Tobacco Prevention had a total of nine subrecipients. The Agency indicated they perform on-site visits for the largest four Tobacco Prevention subrecipients about every three years; however, on-site visits for these four subrecipients have not been conducted since February to December 2004. The total grant award these four subrecipients received for fiscal year 2008 was \$262,274. Additionally, another large Tobacco Prevention subrecipient has not had an on-site visit since they first started receiving grant money in July 2006. The total grant award given to this subrecipient in fiscal year 2008 was \$89,452. Tobacco Prevention does not perform on-site visits for the other four smaller subrecipients, and they do not require these subrecipients to submit detailed invoices when they request reimbursement. The total grant award these four subrecipients received in fiscal year 2008 was \$20,000.

The Agency did not receive or follow up on a required A-133 audit for one Epidemiology and Lab Capacity subrecipient tested. This subrecipient received \$809,481 during fiscal year 2008. A similar finding was noted in our prior audit report.



The Epidemiology and Lab Capacity program did not document the name of the Federal Agency or the CFDA title to two subrecipients tested and did not document the name of the Federal Agency to one subrecipient. Bioterrorism documented the wrong CFDA number and title to three subrecipients tested and did not document any of the required information to one subrecipient.

**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 perform timely on-site reviews and require detailed invoices be submitted by subrecipients that do not have an on-site financial review performed. The Agency should implement procedures to ensure all audits are received within nine months after the end of the audit period. We further recommend the Agency inform all subrecipients of the CFDA number and title, amount of award, award name, and the name of the Federal Agency, as required by A-133.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:**

Tobacco Free Nebraska (TFN) Program: Staff time will be prioritized to assure on-site reviews are conducted in a more timely manner and a site-visit schedule developed for future site-visits. The TFN Program will begin requiring additional detail on invoices from mini-grant recipients in any future announcements of mini-grant funding.

Bioterrorism Preparedness: On October 29, 2008, the Preparedness Office (a.k.a. Bioterrorism) sent letters to the three identified subrecipients, informing them of the correct CFDA number for the amended contracts that expired July, 2008. On October 30, 2008, the Office sent a letter to one subrecipient, informing the recipient of the contract's funding source and CFDA number.

**Anticipated Completion Date:**

Tobacco Free Nebraska (TFN) Program: Site-visits on the sub-grantees have been conducted in the past few months. A site-visit schedule with timelines will be developed for the larger sub-grantees by November 7, 2008.

Bioterrorism Preparedness: October 31, 2008

**Contact Person:** Judy Martin, Tobacco Free NE Program Administrator and Christine Newlon, Bioterrorism Preparedness

**Finding #08-25-06**

**Program:** CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance – Allowability

**Grant Number & Year:** All open grants

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

**Criteria:** OMB Circular A-87 Attachment A – General Principles for Determining Allowable Costs (C)(1) states, “To be allowable under Federal awards, costs must meet the following general criteria...Be necessary and reasonable for proper and efficient performance and administration of Federal award...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 2 of 40 documents tested, there was inadequate supporting documentation attached to the invoices. Additionally, three providers were identified who can enter in their own claim information into the Automated Computer Tracking System (ACTS) and are not required to submit documentation, these providers had not received an on-site review of claim information in over a year.

**Questioned Costs:** Unknown

**Context:** The Every Woman Matters program pays claims received from doctor’s offices, clinics, or hospitals for cancer screenings for women who are eligible for the program. There is an “Amount Paid” section on the claim with the amounts paid by the patient’s insurance, amounts written off by insurance, or amounts the patient has paid. An explanation of benefits (EOB) is required, if the woman has insurance, with the claim before it can be paid to verify the amount the insurance company has paid. One document tested did not have an explanation of benefits or other documentation attached for two claims to support whether insurance or the client had paid any amount of the claim.

Additionally, the claim shows if the patient has insurance and the name of the insurance company. For one document tested, Every Woman Matters did not have an explanation of benefits or any other documentation attached for one claim to show whether the patient had insurance. The Every Woman Matters Finance Coordinator, stated the reason there was no attached explanation of benefits was because Every Woman Matters sends out a letter in June or July of every year stating that the providers can send in their claims without an explanation of benefits so their claims can get paid before the grant year runs out. Every Woman Matters then relies on the clinic, doctor’s office, or hospital to submit a refund payment if they receive payment from an insurance company. Every Woman Matters does not follow up on the claims received without an explanation of benefits during the time covered by the letter. Every Woman Matters paid \$1,580,120 in fiscal year 2008 to providers.

Furthermore, three providers could enter claim information directly into the ACTS system and were not required to submit documentation to Every Woman Matters. The Agency reviews various reports and performs training for these providers; however, the Agency has not performed on-site audits in several years. Two of these providers are no longer entering claim information directly. The Agency paid \$142,222 to these three providers during the fiscal year.

**Cause:** Every Woman Matters sends out a letter in June or July each year that tells their providers that an explanation of benefits is not required on claims even if the patient does have insurance. The Agency then relies on the provider to send in a refund payment if that provider received an insurance payment after Every Woman Matters paid the provider. They do not request that the providers submit the explanation of benefits at a later time to ensure providers are not receiving double payment.

**Effect:** Without adequate controls, there is an increased risk of errors or fraud to occur and not be detected, resulting in overpayments to providers.

**Recommendation:** We recommend the Agency implement procedures to ensure all claims requiring an explanation of benefits, have such before payment. If it is not feasible to have the explanation of benefits before payment, the Agency should require the documentation be submitted within a reasonable timeframe and a post-payment review be conducted of all such payments to ensure the proper amount was paid.

**Management Response:** The Agency agrees with the condition reported.

It is not feasible that the program wait for an EOB for services rendered at the end of the fiscal year. The program must submit a Financial Status Report to CDC within 90 days of the end of the fiscal year. In order for the program to close out the fiscal year and still ensure that services performed under the grant are reimbursed according to contractual agreement, the program sets a claims submission cutoff date. If client has insurance the provider must seek reimbursement from insurance company first. The providers are dependent on the insurance company to be timely in their notification of benefits via the EOB. By waiting for the EOB the provider could submit claims to the program that would exceed the cutoff date thus making the claim unpayable. The program believes that a better option would be to continue current procedures paying for allowable services without an EOB for services rendered during the fiscal year but paid out after the end of the fiscal year. The program would set up a system for post-payment review to obtain EOBs, require refunds as appropriate, and make adjustments to claims data as needed.

**Corrective Action Plan:** New data field will be added to the claims data entry screen that will allow billing representative to enter whether or not claim had EOB attached. A monthly list will be generated to inform providers of need for EOB. Failure to submit either an EOB or insurance update will generate a notification of refund due by provider.

**Contact:** Melissa D. Leypoldt, Program Director Every Woman Matters

**Anticipated Completion Date:** October 31, 2008

**Finding #08-25-07**

**Program:** CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance – Reporting

**Grant Number & Year:** All open grants

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

**Criteria:** Title 45 CFR 92.20 (October 1, 2007) 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.

**Condition:** For all four FSRs tested, there was no supervisory review before the report was submitted to the Federal agency. Two FSRs tested did not correctly report indirect costs and total outlays. A similar finding was noted in the prior audit report.

**Questioned Costs:** \$13,901

**Context:** Epidemiology & Laboratory Capacity Grant U50/CCU723775-02-2 submitted May 14, 2008, reported indirect costs of \$52,028. The correct amount should have been \$38,127, a difference and questioned costs of \$13,901. This also caused total outlays to be over-reported by \$13,901.

Pandemic Flu Grant U90/CCU716975-07-3 submitted December 26, 2007, reported indirect costs of \$15,707, which should have been \$29,571. The payroll base reported was \$39,268 and should have been \$73,927 times the 40% indirect cost rate equaling \$29,571. However, indirect costs were correctly charged on the accounting system. The cumulative expenditures reported were \$802,597 and should have been \$799,792.

**Cause:** Lack of supervisory review and clerical errors.

**Effect:** Increased risk of inaccurate reporting, which could lead to Federal sanctions.

**Recommendation:** We recommend the Agency implement procedures to ensure amounts reported on the FSR agree to the NIS general ledger. We further recommend a documented supervisory review of all FSRs.

**Management Response:** The Agency agrees with the context of the finding.

**Corrective Action Plan:** A final report for the Epidemiology & Laboratory Capacity Grant U50/CCU723775-02-2 was submitted with corrected information on June 14, 2008. A new interim report for the Pandemic Flu Grant U90/CCU716975-07-3 will be submitted to include corrected information.

**Contact:** Larry Morrison

**Anticipated Completion Date:** January 31, 2009

## **Finding #08-25-08**

**Program:** CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Allowability & Eligibility

**Grant Number & Year:** #G0702NETANF, FFY 2007; #G0802NETANF, FFY 2008

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

**Criteria:** Per 42 U.S.C. § 608(a)(4) (2006), “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 42 U.S.C. § 608(a)(5) (2006), 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.

The Nebraska State Plan for TANF effective October 1, 2007, states “Failure of a dependent child age 16, 17, 18 to attend school without participating in any other *Employment First* approved work activity results in removal of the child’s needs from the ADC unit.”

Good internal control and Title 468 Nebraska Administrative Code (NAC) 1-010 requires the worker to redetermine eligibility for grant and medical assistance every six months.

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

**Questioned Costs:** \$175 known

**Context:** For one case tested, the mother was sixteen years old, unmarried, had a nine-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 unit was not eligible to receive TANF benefits. Additionally, the caseworker had not completed a review within six months of the date of the previous application. The review was five months overdue.

For one case tested, the only person in the unit was a seventeen-year-old child. The child was not going to school and was not enrolled in Employment First. Therefore, the unit was not eligible to receive TANF benefits.

In two additional cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews were two and nine months overdue.

Federal payment errors noted were \$175. The total Federal sample tested was \$7,371 and total TANF cash assistance payments for fiscal year 2008 were \$14,861,654. Based on the sample tested, the case error rate was 8.89% (4/45). The dollar error rate for the sample was 2.37% (\$175/\$7,371) which estimates the potential dollars at risk for fiscal year 2008 to be \$352,221 (dollar error rate multiplied by population).

A similar finding was noted in previous audit reports.

**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:** The Agency agrees with TANF audit finding #08-25-08. The Agency 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.

**Corrective Action Plan:** Results were shared with EA Administrators and TANF Supervisors from the Service Areas on 12/2/08 and will be followed-up with a memo to local office staff by 2/28/09 sharing the results of the audit and highlighting areas that need more review from local eligibility staff.

The Agency implemented the Nebraska Economic Assistance Review System (NEARS) effective October 1, 2007. 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. Household composition and case review timeliness were found as error prone eligibility factors in the audit. These criteria are two of many areas reviewed as part of the TANF case read in NEARS. While reviewing a TANF case, the supervisor must review 20 different causal factors that may identify a household composition error and 14 review process causal factors, including specifically a review not being completed timely. To assist Agency staff to target the error prone cases identified in this audit, supervisors will be encouraged to use the following monitoring Crystal Reports to identify cases to review.

1. The Employment First Case Activity Report – developed to assist the workers and supervisors to manage EF case work and identify problem areas.
2. The Monitoring EF Requirements Report – developed to assist the monitoring of Employment First regulations and procedures.
3. The Case Review Report – identifies all ADC cases whose next review dates in NFOCUS are at least two months overdue.

**Contact:** Todd Reckling

**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.**

**Finding #08-25-09**

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

**Grant Number & Year:** All TANF grants open during State fiscal year 2008

**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 5 of 30 cases tested.

**Questioned Costs:** \$533 known

**Context:** We tested 45 Child Support non-cooperation notices to determine if the TANF assistance payment was appropriately sanctioned and reduced in a timely manner. Of the 45 tested, 30 received TANF assistance during the individual's non-cooperation time period. For 3 of the 30 cases, assistance was never reduced for payments ranging from 1 to 4 months. These TANF cases were later closed for other reasons. For 2 of the 30 cases, assistance was not reduced for 3 and 4 months. One of these cases did begin cooperating while the other case was eventually sanctioned. The Agency has a control in place to review cases that are in non-cooperation status but were not sanctioned on a report that is run monthly. However, it appears this report may not be complete and not showing all "sanction not imposed" recipients. Additional procedures are still needed to ensure assistance payments are reduced in a timely manner.

A similar finding was noted in previous audit reports.

**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 Agency feels that substantial improvement has continued since the Agency Corrective compliance plan was implemented. Strong internal controls have been developed and enhancements to the NFOCUS system continue to be 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 through Supervisory Case Reads on the NEARS system. While reviewing a TANF case, the supervisor must review 10 different causal factors that may identify an error pertaining to Child Support. In addition, Central Office staff continue to monitor the monthly CSE Sanction Report. If a case on the listing needs to be acted on, the Central Office Staff member sends an email to the worker, supervisor and administrator and then tracks the completion of the needed action.

To assist supervisors to target error prone cases the following monitoring reports were 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.

As the audit finding indicated there are certain cases that the reports will not pick up. (example: When non-cooperation occurs at a time when the ADC case is not opened and then when the client reapplies the sanction is not imposed.) An enhancement will be added to NFOCUS to assist the workers in remembering to review open CSE Non-cooperation. When the worker selects ADC budgeting in NFOCUS the system will alert them: *“There is an open CSE Non-cooperation on <custodial party name>. Please select the reason the person is being opened in the program case or select Cancel to return to Case Maintenance and close the person from the program case which will impose a sanction.”* This will require the worker to make a decision to either select a reason to not impose a sanction or go back and impose the sanction. Reports can then be run from the selected reason for monitoring purposes.

**Contact:** Todd Reckling



**Anticipated Completion Date:** The corrective compliance plan has been in place since the 2006 State audit. The monitoring reports have already been developed and implemented. The new NFOCUS enhancement is scheduled to be implemented with the July 13, 2009 NFOCUS release. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

**Finding #08-25-10**

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

**Grant Number & Year:** All TANF grants open during State fiscal year 2008

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

**Criteria:** Per Title 45 CFR Section 261.62(a)(4), “to ensure accuracy in the reporting of work activities by work-eligible individuals on the TANF Data Report and, if applicable, the SSP-MOE Data Report, each State must establish and employ internal controls to ensure compliance with the procedures.”

**Condition:** Employment First hours and work participation status were incorrectly reported on the ACF-199 Report for 4 of the 38 cases tested.

**Questioned Costs:** Unknown

**Context:** Each month the Agency reviews 10% of cases that are reported as meeting the required work participation by each of the Employment First contractors. For 2 of the 38 cases tested, the Agency found that the TANF participant was not meeting the required work participation; however, the Employment First hours were not corrected. Because the hours were not corrected, the ACF-199 report showed these cases as meeting Employment First participation when they actually did not meet the required participation. For 2 of the 38 cases tested, the Agency originally found the TANF participant was not meeting the required work participation; however, later determined that they were meeting participation. The Agency did not keep adequate documentation to show that these cases were meeting the required participation. The ACF-199 report showed these cases as meeting Employment First participation when according to the documentation on file, they did not meet the required participation.

**Cause:** The Agency has a process in place to ensure the Employment First participation hours are being reported accurately; however, it appears that the process was not being done in a timely manner. The Agency stated that since this process was not implemented at the beginning of Federal fiscal year 2008, they had to go back to prior months to perform reviews and catch up on current month reviews.

**Effect:** Without adequate controls in place, the Employment First participation rate could be incorrectly reported, which could result in Federal sanctions.

**Recommendation:** We recommend the Agency implement adequate procedures to ensure Employment First participation hours are correct.

**Management Response:** In order to monitor the data received by the Employment First contractors and ultimately the data that is reported to ACF through the ACF-199 report, a review of 10% of the cases reported as meeting participation is completed. Those cases found to not be meeting participation are required to be amended in NFOCUS prior to submission of the quarterly ACF-199 report. This monitoring procedure was developed during the spring of 2008. In order to adequately monitor the contractors for performance, a review of the cases were done retroactively back to October 2007. The sample month picked by the auditors was one of the months that were reviewed retroactively. Entry of participation is “locked down” just prior to running the ACF-199 report in NFOCUS so timeframes have been established for both the Agency staff to review the 10% case reads and for the contractors to have the cases fixed on NFOCUS if appropriate. Since the review month was one of the retro months, the contractors had not timely fixed all the cases. This will not be a problem going forward. We recognize that the first submission of the report did have the incorrect Participation Rate information for the identified cases. The Agency has the ability to correct these cases and amend and resubmit the 2008 ACF-199 report. 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:** The internal controls to ensure compliance have been established and are currently being followed by all staff responsible for monitoring work participation. The reviews are entered on NEARS and the results of this monitoring are used for corrective action and staff training. Each Service Area has both Agency and contractor staff to perform monthly reviews to ensure compliance. In addition, Central Office program staff has completed a second party review in each of the Service Areas to ensure consistency and accuracy. Second party reviews will continue to be completed as needed.

**Contact:** Todd Reckling

**Anticipated Completion Date:** The internal controls are a monthly ongoing process.

**Finding #08-25-11**

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

**Grant Number & Year:** #0G08B1NELIEA, FFY 2008

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

**Criteria:** Per 42 U.S.C § 8624 (2006) 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. Regulations for determining eligibility and calculating the amount of assistance per household are included in the State Plan and Chapter 476 NAC.

Good internal control requires procedures to ensure income guidelines are followed, proper classification of housing unit, and payments are not made in error.

**Condition:** During our testing of 45 payments, we noted three cases had overpayments totaling \$414.

**Questioned Costs:** \$414

**Context:** One payment tested of \$182 for household was canceled as the household had already received energy assistance; however, the other payment to the same household was for \$396 while income guidelines specified household should have only received a payment of \$110, resulting in an overpayment of \$286. For another payment, the individual was paid the single family dwelling rate of \$254; however, per the application lived in a multi-family dwelling with a rate of \$127, and therefore was overpaid \$127. For another payment, the individual was paid a \$1 crisis payment in error. When the caseworker determined the individual had received the maximum allowed crisis payments for the season, the worker noted this in the computer system and entered \$1 in the amount line.

Total known Federal payment errors noted were \$414. However, the \$286 overpayment was not the specific payment tested and therefore was excluded in extrapolation. For the \$127 overpayment, the household was paid in installments and only the \$32 installment payment was selected for testing; therefore, only \$16 was included for extrapolation purposes. Federal payment errors noted for the sample were \$17. The total Federal sample tested was \$7,154 and total Federal assistance payments for fiscal year 2008 were \$18,252,597. Based on the sample tested, the case error rate was 6.67% (3/45). The dollar error rate for the sample was 0.24% ( $\$17/\$7,154$ ) which estimates the potential dollars at risk for fiscal year 2008 to be \$43,806 (dollar error rate multiplied by population). A similar finding was noted in the prior audit.

**Cause:** Caseworker error.

**Effect:** Increased risk for loss or misuse of Federal funds.

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

**Management Response:** First, we 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 Agency agrees with the condition reported.

*Condition One:* The audit error for the household was \$16.

*Condition Two:* This error was \$1 because the Omaha local office energy unit entered a \$1 payment and then showed that the household was not eligible for any additional crisis payments because the maximum crisis amount had been reached. The worker did not close this payment line as is normally done by the worker.

**Corrective Action Plan:** Effective 10-1-2007 the Agency 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);
- 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.

DHHS plans to add LIHEAP to its primary eligibility system called NFOCUS in 2010. This will give the local office staff a source to document actions in the record. The entry of a \$1 payment line and then closing the payment line will not be an option.

**Contact:** Todd Reckling, George Kahlandt and Mike Kelly

**Anticipated Completion Date:** NEARS reviews are being conducted now; LIHEAP to NFOCUS is anticipated for 2010.

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

## **Finding #08-25-12**

**Program:** CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster – Allowability & Eligibility

**Grant Number & Year:** #0G0701NECCDF, FFY 2007; #0G0801NECCDF, FFY 2008

**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. Per Title 392 NAC 3-005.01D individuals whose income exceeds the maximum limit are eligible for child care through the low income sliding fee schedule and must pay a fee as shown in the fee schedule. Title 45 CFR Section §98.20(a) (October 1, 2007) states, “in order to be eligible for services under §98.50, a child shall: reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size”. Good internal control requires procedures be in place to ensure the appropriate copay is charged to the client. Good internal control also requires procedures to ensure amounts are properly billed. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations.

**Condition:** During review of child care payments it was noted 11 of 45 claims tested did not have adequate documentation and/or were not in compliance with State and Federal regulations. Controls were not sufficient to ensure charges were appropriate and in compliance with regulations.

**Questioned Costs:** \$106 known

**Context:** We tested 45 child care claims paid through Nebraska Family Online Client User System (NFOCUS) during the fiscal year. During testing we noted one case had income below the income limit and should not have been responsible for a copay; one case was not charged the appropriate copay amount; two providers were underpaid for services provided; three providers were overpaid for hours/days worked; one case was incorrectly billed to the wrong child; two cases (one client file and one provider file) were unable to be located; and two cases did not have documentation an Agency representative reviewed the application. Our prior audit reports also noted allowability/eligibility findings during case file testing.

Federal payment errors noted in testing were \$106. The total Federal sample tested was \$4,862 and Child Care Federal assistance claims paid through NFOCUS for the fiscal year were \$37,311,276. Based on the sample tested, the case error rate was 24.44% (11/45). The dollar error rate for the sample was 2.18% (\$106/\$4,862) which estimates the potential dollars at risk for fiscal year 2008 to be \$813,386 (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. We also recommend the Agency consider having a separate individual review the billing documents for mathematical accuracy to ensure providers are appropriately paid.

**Management Response:** We 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.

**Corrective Action Plan:** A memo was sent to local office staff sharing the results of the audit and highlighting areas that need more review. This is targeted for September, 2008. In addition, specific findings will be shared with individual workers and supervisors.

Effective 9/8/08, Child Care Subsidy eligibility will be in the NFOCUS Expert System; NFOCUS will now have the ability to calculate income, determine category of assistance, and calculate co-pay. In addition, Child Care Subsidy will be in the same system as other assistance programs, so, for instance, when a worker makes a change to Food Stamps, it will not be necessary to go to a different system to make the corresponding change in Child Care Subsidy (as was the case with one error).

Although the Division has utilized a worker's signature as one part of documentation, a worker's signature on an application is not a Federal requirement. Applications for assistance will not require a worker's signature when the Agency transfers to an electronic assistance application on 9/8/08. The worker begins their process of application review by seeking necessary verifying information on the application and completes the process by making a final determination of eligibility. This full process signifies a worker's acceptance of the application and final determination and has more relevance for verifying that a worker has actually reviewed and processed the application than just a worker's signature on the initial application. In addition to the fact that the signature is not federally required, it was deemed an unnecessary step in setting up the electronic process. We are working to align our electronic and paper procedures at this time. The child care program will continue to comply with any determinations made regarding documentation to indicate worker approval of an application. If a decision is made to continue to require the worker's signature on hard copy applications, this requirement will be reviewed through use of the NEARS system described below.

The child care program recently became part of the Nebraska Economic Assistance Review System (NEARS). This is a process for supervisors to review files for improving accuracy and documentation. This review includes elements of family eligibility such as determining income eligibility and establishing the family co-pay. Additionally, the Provider records are evaluated for complete agreements, accurate billing, etc.

**Contact:** Betty Medinger, Administrator, Child Care and Community Based Services

**Anticipated Completion Date:** January 1, 2009

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

**Finding #08-25-13**

**Program:** CFDA 93.658 – Foster Care Title IV-E – Activities Allowed & Eligibility

**Grant Number & Year:** #0G0701NE1401, FFY 2007; #0G0801NE1401, FFY 2008

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

**Criteria:** Per 42 U.S.C. § 672 (2006) funds may be expended for Foster Care maintenance payments on behalf of eligible children. Per 42 U.S.C. § 671 (a)(10) (2006) and 672(c) (2006) the provider, whether a foster home or child-care institution must be fully licensed by the proper State Foster Care licensing authority. Good internal control requires the Agency ensure Foster Care payments include the correct amount of service days. 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 tested 45 Foster Care payments and noted four payments did not comply with Federal regulations.

**Questioned Costs:** \$281 known.

**Context:** We noted the following during our testing:

- For two child care payments, the child was living with a parent or guardian at the time of service; therefore, child care was not an allowable expense.
- For one child care payment, the child was not in a licensed foster home; therefore, child care was not an allowable expense.
- For one maintenance payment, provider was paid for 30 days of service when provider actually provided 31 days of service.

Federal payment errors noted were \$281. The total Federal sample tested was \$21,986 and total Foster Care Title IV-E assistance payments for fiscal year 2008 were \$6,539,572. Based on the sample tested, the case error rate was 8.89% (4/45). The dollar error rate for the sample was 1.28% (\$281/\$21,986) which estimates the potential dollars at risk for fiscal year 2008 to be \$83,707 (dollar error rate multiplied by population). A similar finding was noted in the prior audit.

**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:** The Agency agrees with the condition reported.

**Corrective Action Plan:** In the three cases involving child care, selected sample payments were made prior to NFOCUS release SCR 4570. That release corrected (fixed) the claiming of IV-E monies, so that child care no longer is claimed from IV-E when a child lives in a non-IV-E facility.

In the single case where the maintenance payment was paid for 30 days rather than 31, the internal controls already are in place, including the following:

- NFOCUS alert #0229 is posted twice to the NFOCUS User (person assigned to put the authorizations on NFOCUS), with notices approximately 30 and 60 days prior to the end date of the authorized payment period;
- At the time the Service Authorization is created, a Service Authorization notice is sent to the receiver of the payments showing the period of payment and the monthly amount; and
- An automated monthly notice called Explanation of Benefit is sent to the receiver of the payment showing the amount paid for the period.

No additional systems corrective action is needed regarding the child care payments. In the three cases involving child care payments, notice has been sent to Finance and Support to unclaim the Federal portion of the child care payments. Regarding the underpayment, the worker and supervisor involved with the specific authorization in question will be made aware of the error and reminded of how NFOCUS works. (Completion date: 12/31/08) In addition, the results of the audit will be shared with all Service Area Administrators and persons supervising staff who do authorizations to remind them of the importance of accuracy. (Completion date: 1/31/09) Lastly, since this error occurred in a foster home payment, an article will be prepared and a request will be made that the NE Foster and Adoptive Parent Association publish it in their newsletter. The article will remind foster parents that their EOB provides them with information on the period of time for which a payment is being made, and will recommend that they check it monthly to avoid either an underpayment or overpayment. (Anticipated date of publication of article: 3/31/09) Corrective action on the specific payment has been done, with the claim being adjusted to pay for the one day.

**Contact:** Ruth Grosse or Margaret Bitz

**Anticipated Completion Date:** The claim was adjusted to pay for the one day underpayment on 11/8/2008. Completion date for the entire corrective action plan is 3/31/09. For completion dates for specific actions, see "Corrective Action Plan."



### **Finding #08-25-14**

**Program:** CFDA 93.658 – Foster Care Title IV-E – Matching

**Grant Number & Year:** #0G0801NE1401, FFY 2008

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

**Criteria:** OMB Circular A-87 requires match to not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period. OMB Circular A-87 also requires that salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards. Good internal control requires the Agency verify third-party match complies with Federal regulations.

**Condition:** The Agency did not adequately verify in-kind match for foster care training.

**Questioned Costs:** Unknown

**Context:** The Agency contracted with a third-party vendor to provide foster care-related training to new Agency employees. The vendor was responsible for providing the required 25% match. However, the Agency did not review the match to ensure it was met and that it was from an allowable source. The total amount paid to the vendor for fiscal year 2008 was \$1,826,700; 25% required match would be \$608,900.

**Cause:** Unknown

**Effect:** Without a proper review of third-party match, it cannot be determined whether the required match was met or if the match was allowable.

**Recommendation:** We recommend the Agency review the in-kind match to determine the match was met and ensure compliance with Federal regulations.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** The Agency will review documentation of the match contribution to insure compliance with the Federal regulations.

**Contact:** Mary Osborne, Staff and Partnership Development Administrator, DHHS Human Resources and Development.

**Anticipated Completion Date:** Method will be established in January 2009, and utilized in the subsequent billing periods.

### **Finding #08-25-15**

**Program:** CFDA 93.659 – Adoption Assistance – Allowability & Matching

**Grant Number & Year:** #OG0801NE1407, FFY 2008; #OG0701NE1407, FFY 2007

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

**Criteria:** Title 42 USC 673(a)(3) (January 2, 2006) 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...” Title 45 CFR 1356.41(f)(1) (October 1, 2007) states, “Funds expended by the State under an adoption assistance agreement, with respect to nonrecurring adoption expenses incurred by or on behalf of parents who adopt a child with special needs, shall be considered an administrative expenditure of the Title IV-E Adoption Assistance Program. Federal reimbursement is available at a 50 percent matching rate, for State expenditures up to \$2,000, for any adoptive placement.” Good internal control requires procedures to ensure payments are in accordance with Federal requirements.

**Condition:** We noted that 6 of 45 claims tested did not comply with Federal regulations.

**Questioned Costs:** \$332 known

**Context:** For three claims tested, the adoption subsidy payment amount exceeded the Adoption Assistance Agreement amount. One agreement was amended without parental consent and the claim was paid at \$52 over the original agreement amount. Another claim was paid at \$100 over the agreement amount, and one claim exceeded the agreement amount by \$10.

For three non-recurring expenses (legal fees) tested, the Federal share paid exceeded the 50% administrative cost match percentage.

Federal payment errors noted were \$332. The total Federal sample tested was \$30,488 and total Federal aid payments for fiscal year 2008 were \$7,361,028. Based on the sample tested the case error rate was 13.33% (6/45). The dollar error rate for the sample was 1.09% ( $\$332/\$30,488$ ) which estimates the potential dollars at risk for fiscal year 2008 to be \$80,235 (dollar error rate multiplied by population). Similar errors were noted in our prior audit report.

**Cause:** Unknown

**Effect:** Lack of compliance with regulations and inadequate internal controls increase the risk that Federal funds will be misused.

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

**Management Response:**

- Management agrees with the findings regarding three payments that exceeded the Subsidized Adoption Agreement amount.

- Management agrees with the finding that an error was made in the match rate for three non-recurring expenses (legal fees). The errors occurred prior to 11/1/07, which is the date that a change was made in NFOCUS to correct the match rate error.

**Corrective Action Plan:**

- On payments that exceeded the Subsidized Adoption Agreement amount: Future payments will be made at the correct rate, that is, the rate specified in the Subsidy Agreement.
- On claims in excess of the allowable Federal match rate: As stated above, the system error was corrected as of 11/1/07. Adjustment for the errors in the three claims noted in this audit already has been made.
- In addition to the above actions, the audit results will be presented, in writing, to Service Area Administrators for discussion with their staff (by 2/28/09). The case-specific information will be reported to the appropriate supervisors and workers, as a reminder of the need for caution and appropriate review (by 2/28/09).

**Contact:** Ruth Grosse, Margaret Bitz, or Mary Dyer.

**Anticipated Completion Date:** All corrective actions will be completed by 2/28/09.

**Finding #08-25-16**

**Program:** CFDA 93.659 – Adoption Assistance – Allowable Costs/Cost Principles & Reporting

**Grant Number & Year:** Various

**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 . . . Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.” Good internal control requires procedures to ensure adjustments on the Financial Status Report (FSR) are proper.

**Condition:** Adjustments reported on the quarter ended March 31, 2008, FSR were not proper.

**Questioned Costs:** \$622 known

**Context:** We tested one of four quarterly FSRs. For the March 31, 2008, FSR, the Agency reported adjustments increasing the Federal share of payments totaling \$757,209. We tested 25 adjusted claims and noted 3 claims tested were for child care and were paid from Federal

Child Care funds. These claims are unallowable for Adoption Assistance as they have been included as costs for the Child Care Cluster. The Federal share of these 3 claims reported on the Adoption Assistance FSR totaled \$622. In review of the adjustments detail for the FSR tested, the auditor noted \$124,314 (Federal share) of claims were for child care and were likely to have been paid with Federal Child Care funds.

**Cause:** Staff did not verify the original funding for the claims adjusted.

**Effect:** Double-reported claims under Child Care and Adoption Assistance.

**Recommendation:** We recommend the Agency implement procedures to ensure adjustments reported are proper. In addition, the Agency should review the adjustments reported and make corrections as necessary.

**Management Response:** The Agency partially agrees with the condition reported. Because SSBG is a block grant, Federal funds are not "matched" with General Funds. NFOCUS payments are paid at a percentage that approximates the estimated funding mix for the year.

**Corrective Action Plan:** When cases are changed from State Subsidized Adoption to Federal Subsidized Adoption, and include child care expenditures, a correcting journal entry will be made to transfer child care payments to 100% General Funds. Another journal entry then will be made to transfer the expenditures to IV-E. These corrective actions will occur on a monthly basis.

**Contact:** Ruth Grosse

**Anticipated Completion Date:** 1/31/09 for the payments found in error. The action will occur monthly for cases in which a change in eligibility was made during that month.

### **Finding #08-25-17**

**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 (October 1, 2007) requires “Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) 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.” OMB Circular A-87 states, “to be allowable under Federal awards, costs must . . . not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award.”

**Condition:** We noted the Agency did not have adequate procedures to permit the tracing of Federal funds to the detail level of expenditures. Claims originally paid with both State and Federal funds were transferred out as paid solely with State funds.

**Questioned Costs:** Unknown

**Context:** The Agency sets up the NIS general ledger to pay NFOCUS SSBG claims at an approximate rate, based on Federal funds at the beginning of the fiscal year. In fiscal year 2008, the rate used was 15% SSBG Federal funds and 85% General funds.

Monthly, medical transportation claims that were paid for SSBG clients who are Medicaid eligible are transferred out of SSBG to claim on the Medicaid side. This transfer is made entirely from General funds and not at the original 15% Federal/85% General rate. Therefore, there is no way to determine how the Federal funds initially used for these claims were expended.

During the fiscal year, the Agency transferred \$6,333,351 from the General fund to Medicaid for medical transportation. From this amount, \$950,002 should have been credited to SSBG Federal funds.

	As Recorded		Should Be	
	State Funds	Federal Funds	State Funds	Federal Funds
Initial Claim	\$ 5,383,349	\$ 950,002	\$ 5,383,349	\$ 950,002
Transfer to Medicaid	(6,333,351)		(5,383,349)	(950,002)
Medicaid Payment	2,660,168	3,673,183	2,660,168	3,673,183
Total Funds Expended	\$ 1,710,166	\$ 4,623,185	\$ 2,660,168	\$ 3,673,183

**Cause:** Per Agency staff “There is no way to discern which portion of each individual claim is “paid” with Federal funds, as this would occur on the Nebraska Information System (NIS) side.”

**Effect:** The Agency is charging Federal Medicaid funds for claims partially paid with Federal SSBG funds. There is an increased risk for errors to occur and not be detected.

**Recommendation:** We recommend the Agency implement procedures to permit the tracing of Federal funds to the detail level of expenditures. We further recommend expenditures transferred to other programs should be coded in the same manner as the original documents.

**Management Response:** The Agency partially disagrees with the condition reported. Because SSBG is a block grant, Federal funds are not “matched” with General Funds. NFOCUS payments are paid at a percentage that approximates the estimated funding mix for the year.

**Corrective Action Plan:** Each month, a correcting journal entry will be made to transfer medical transportation payments with the funding mix of 85% General Funds and 15% Federal Funds to 100% General Funds. Another journal entry will be made to transfer the expenditures to Medicaid.

**Contact:** Kim Collins

**Anticipated Completion Date:** Change implemented November, 2008.

## **Finding #08-25-18**

**Program:** CFDA 93.667 – Social Services Block Grant – 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." 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 3-002.02 Provider Standards states, "Before furnishing any service, each provider shall sign Form DSS-9 agreeing to... 3. Submit Form DSS-5B, 'Social Services Billing Document', after service is provided and within 90 days." Title 473 NAC 2-005.04B Client Relatives as Providers states, "The Department discourages authorization of providers who are related to the clients they serve. Before considering a relative provider, the worker shall determine that the provider would not donate his/her service to the client at no cost." Title 473 NAC 5-001.02 Defined Chore Services identifies obtaining food, clothing, housing or personal care items as essential shopping (Service Code 0102). Title 473 NAC 5-001.06 Maximum Rates and Allowable Units states that each chore task (0102) should be charged at a rate of \$5.00/job and each chore housekeeper should be charged hourly at the Federal minimum wage. Title 473 NAC 5-010.05 Maximum Rates and Allowable Units states that each congregate meal should be charged at a rate of \$1.50/meal and that each home-delivered meal should be charged at a rate of \$1.75/meal. Title 473 NAC 5-002.06 Maximum Rates and Allowable Units states that day services at a center should be charged at \$7.50/day. Title 473 NAC 5-018.06B1 Common Carriers states, "Neb. Rev. Stat. 75-303.02 limits the distance rates for common carriers at a rate no greater than three times the state employee mileage rate." Title 473 NAC 5-018.06B4 Escort Providers states, "The mileage rate for escort providers must not exceed the state employee mileage rate ... The hourly rate is set by DHHS Central office." Sound business practice requires that supporting documents submitted for payment from the provider are signed by the client as evidence of services received.

**Condition:** We noted that 37 of 45 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations.

**Questioned Costs:** \$145 known

**Context:** For two claims tested, the billing document provided was not signed as approved by Agency staff.

For 13 claims tested, there was not adequate supporting documentation for the services provided. Four of the claims had a relative of the client as the service provider. The Agency was unable to produce documentation that the provider would not donate his/her service to

the client at no cost. Seven of the claims were for transportation and there was no signature by the client as evidence of services received. Two of the claims were supported only by the billing document with no client signature and no log or other documentation to justify the expenditure.

Twenty-nine claims tested did not comply with the rates and procedures listed in 473 NAC. Of these, nineteen claims were paid at rates which exceeded the Federal minimum wage, contrary to NAC regulations. Additionally, four of the nineteen claims tested were charging essential shopping at an hourly rate. Per 473 NAC, essential shopping should be charged on an occurrence basis. We also noted one medical escort claim tested was not paid, per 473 NAC, at the rate established by DHHS Central office and another medical escort claim was not paid according to actual miles traveled. Seven other claims tested were paid at rates which exceeded 473 NAC; however, these were flat rates established in 1983 and 1992. As the costs for these claims appeared reasonable and the NAC rate was clearly outdated, no questioned costs were accumulated for the flat rate exceptions; however, the Agency needs to have the NAC manual updated and approved as soon as possible. The Agency was unable to provide a signed HHS-2A Exception Form to approve an exceeding rate for these claims. We also noted one claim tested included a charge for an after hour's transportation fee. Per 473 NAC, there are no regulations that govern the payment of fees for services that are not performed during normal business hours.

Total Federal questioned costs noted during testing were \$145. The total Federal sample tested was \$603 and total SSBG Federal assistance payments for fiscal year 2008 were \$2,064,422. Based on the sample tested, the case error rate was 82.22% (37/45). The dollar error rate for the sample was 24.05% (\$145/\$603) which estimates the potential dollars at risk for fiscal year 2008 to be \$496,493 (dollar error rate multiplied by aid amount). Similar errors were noted in our prior audit report.

**Cause:** Unknown

**Effect:** Without adequate compliance with the NAC manual and supporting documentation of services received, there is an increased risk of loss and/or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure expenditures are made in compliance with State and Federal regulations and are supported by adequate documentation. We further recommend the Agency implement procedures to update NAC regulations as needed.

**Management Response:** The Agency agrees that current NAC regulation does not support actual policy regarding service rates. NAC Title 473 is being revised to outline the process for establishing rates and the methodology for future rate adjustments, but will no longer identify specific rate amounts. This information will be moved to the appendix.

The Agency disagrees with Chore, Respite, and Homemaker rates because R.R.S., 1943 Section 68-1204 provides DHHS authority to establish rates. A statewide memo dated September 1, 1998 to local offices addressed the Chore, Respite and Homemaker hourly rate increase to \$6.50 per hour.

The Agency disagrees with the need for written documentation of relative refusal to donate time when family members provide a service, written documentation is not required. However, the aforementioned NAC regulation revision will treat relative providers on the same basis as non-relative providers.

The Agency agrees that current NAC regulation does not support actual policy regarding the requirement for transportation providers to obtain client signatures.

The Agency disagrees with exceptions for medical escort because NAC does not require an exception form HHS-2A when rates are established by Central Office. However, DHHS agrees that NAC rate chart needs to be revised in order to accurately pay claims based on a fee schedule of actual miles traveled.

The Agency disagrees with exceptions for billing document approval because NAC does not require a signature by the caseworker. However, the aforementioned NAC regulation revision will address the exceptions by outlining the caseworker requirements regarding approval of billing documents.

The Agency agrees 2 claims were not adequately supported. These claims were misplaced and could not be located for the audit. Local offices will keep a copy in their files when information is sent to Central Office.

**Corrective Action Plan:**

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

The Safety and Independence Supports (SIS) Unit will complete the revisions to NAC 473, and submit for promulgation and implementation by 7/01/09.

Regulations will be revised and rates and services codes for all SSBG services will be moved to an appendix. 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.

SIS Program Specialist will implement quality assurance/improvement random reviews of files for required documentation by July 1, 2009.

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

Behavioral Health Pharmacy & Ancillary Services Unit will develop a fee schedule for transportation services which will be placed in NAC 473 appendix. A provider bulletin will be issued to all transportation providers that will outline the importance of client signatures on all trip claims. The fee schedule and provider bulletin will be housed on the Agency website. Implementation date is July 1, 2009.



**Contact:** Joni Thomas, Unit Manager, Safety & Independence Supports Unit, Division of Medicaid & Long-Term Care and Roxie Cillessen, Unit Manager, Behavioral Health Pharmacy & Ancillary Services Unit, Division of Medicaid & Long-Term Care.

**Anticipated Completion Date:** The draft NAC manual changes are currently being reviewed internally. The target date for Public Hearing is March 2009. Once the regulations are promulgated rate related findings will be addressed.

The Transportation Program Specialist will develop a Provider bulletin and Fee schedule. The targeted completion date is July 1, 2009.

**Auditor's Response:** Regarding Chore, Respite, and Homemaker rates, the State Statutes provide the Agency with the authority to establish rates. These rates are established in NAC Rules and Regulations. NAC Rules and Regulations have the same effect as State Statutes. A memo does not have the same force as NAC Rules and Regulations. Therefore, the Agency must comply with NAC 473.

#### **Finding #08-25-19**

**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 (October 1, 2007) 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 procedures to reconcile the accounting system to the reports required to be submitted.

**Condition:** We noted the Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

**Questioned Costs:** Unknown

**Context:** During testing we noted the amount of expenditures recorded in the NIS general ledger was \$12,378,438 and the amount of expenditures reported in the CMS-64 report was \$11,803,484 for a variance of \$574,954. The Agency was able to explain \$476,432 of the variance noted; however, \$98,522 of the variance was not explained. A similar finding was noted in the prior audit.

**Cause:** There was turnover in the staff who prepared the reconciliation.

**Effect:** Without adequate procedures to reconcile the official accounting system to the required periodic reports there is a risk of misuse of funds and/or inaccurate reporting. In addition, the State could be subject to Federal sanctions.

**Recommendation:** We recommend the Agency develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts from the State accounting system and explain any variances.

**Management Response:** The Agency disagrees in part with the finding that the amounts recorded in NIS do not reconcile to the CMS-64 report for March 31, 2008. The amounts reported on the CMS-64 were correct.

**Corrective Action Plan:** The Agency 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 SCHIP statement of expenditures.

**Contact:** Kim Collins

**Anticipated Completion Date:** April 30, 2009. (The January – March, 2009 quarterly report.)

### **Finding #08-25-20**

**Program:** CFDA 93.767 – State Children’s Insurance Program – Eligibility

**Grant Number & Year:** #050705NE5021, FFY 2007; #050805NE5021, FFY 2008

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

**Criteria:** Title 42 USC 1397bb (January 2, 2006) requires the State Plan to include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Title 477 NAC 6-001 Eligibility Requirements states, “Medical assistance is available to a child age 18 or younger if the family’s income is at or below 185 percent of the Federal Poverty Level ...” 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 477 NAC 1-012.02C states, “Once an unborn has been determined eligible, the eligibility continues through the month the child turns age one, without regard to changes in the household income ...” Good internal control requires procedures to ensure compliance with eligibility requirements.

**Condition:** We noted that 5 of 45 claims tested were not adequately supported by documentation from case files and/or did not comply with State and Federal regulations.

**Questioned Costs:** \$111 known

**Context:** For two claims tested, the individual receiving assistance did not have eligibility redeterminations every six months. One individual was reviewed in October 2007 with no other redetermination until discontinuation from SCHIP program in October 2008 and another individual was determined eligible in November 2007 and no other reviews were performed through November 2008.

For two claims tested, the individual receiving assistance was not eligible per requirements in 477 NAC and did not have eligibility redeterminations every six months. One individual remained eligible for 12 months after the newborn's first birthday even though income was over eligibility limits and no review was done during these 12 months to redetermine eligibility. Another individual had eligibility redeterminations 12 months apart in August 2007 and August 2008 and were allowed to remain eligible through August 2008 after turning age 19 on November 9, 2007.

For one claim tested, the individual receiving assistance was not eligible per requirements in 477 NAC and their total adjusted income recorded in NFOCUS did not agree to support in the case file. We noted that the same paystub was used in the earned income calculation for both the mother and the father. Total adjusted income calculated by the auditor was \$4,328 which exceeded the eligibility limit (\$4,257) by \$71. In addition, total adjusted income in NFOCUS was understated by \$423. The budget tested was created on August 24, 2007, which occurred after the claim date of July 30, 2007; but was retroactively placed into effect starting July 1, 2007.

Total Federal questioned costs noted during testing were \$111. The total Federal sample tested was \$3,139 and total SCHIP Federal assistance payments for fiscal year 2008 were \$31,276,700. Based on the sample tested, the case error rate was 11.11% (5/45). The dollar error rate for the sample was 3.54% (\$111/\$3,139) which estimates the potential dollars at risk for fiscal year 2008 to be \$1,107,195 (dollar error rate multiplied by population). Similar errors were noted in our prior audit report.

**Cause:** Unknown

**Effect:** Lack of compliance with NAC regulations and inadequate reviews increase the risk that ineligible individuals will receive services and that Federal funds would be misused.

**Recommendation:** We recommend the Agency strengthen procedures to ensure NAC regulations are followed, eligibility criteria are met, and eligibility is reviewed on a timely basis.

**Management Response:** The Auditors found four of the 45 Kids Connection claims did not have eligibility reviews performed six months after the prior determination. These six-month reviews should have been completed. Two of the cases, were eligible the month of the claim and were eligible in future months but a review was not completed within the six month time frame. Two cases were eligible the month of the claim but not eligible in future months. The future ineligibility would have been detected had the six month review been completed. No claims were identified for one of the two cases and a total of \$111 in claims was identified for the other case.

One case was found in error because the caseworker used a paystub twice in determining eligibility, but no claims were paid because the case was ineligible. The case was ineligible because the paystub that was used twice overstated the income available. Staff should not have used the same paystub for calculations for the mother and father.

**Corrective Action Plan:** As stated in last year's Corrective Action Plan, effective 10/01/07 (three months into this audit period) the Agency began supervisory reviews of Kids Connection case files utilizing a new quality assurance system, the Nebraska Economic Review System (NEARS). As part of the new quality control measures, supervisory staff are required to review and monitor a targeted number of cases each month. The review information is captured on the NEARS system for use in targeting corrective action and staff training. This monitoring and feedback is beginning to improve performance as evidenced by the reduction in error cases from seven cases cited in the last audit to five errors in this audit. We expect continued improvement and further reduction in errors in the next audit when the NEARS system will have been in place for the entire audit review period. The elements of Medicaid eligibility that are included in our NEARS review are as follows: applications, review processing, citizenship, earned income, deductions, and self-employment, unearned income, etc.

NFOCUS Reports have Case Activity Summary Reports and Case Review Reports available online to assist the Social Service Workers in managing their caseloads for overdue Eligibility Reviews. NFOCUS also creates Alerts which are posted to each Eligibility Worker's position when Reviews are due to assist the worker. In anticipation of ACCESSNebraska, all redeterminations as of January 01, 2009 have been extended to a 12-month period which will reduce the number of reviews a worker must complete and give workers more time to work their alerts and listings to prevent these errors from occurring.

**Contact:** George C. Kahlandt, Administrator I, Economic Assistance Unit

**Anticipated Completion Date:** The corrective action plan activities mentioned above are fully implemented. Notification of audit findings will be shared with Administrative and Supervisory staff so they can meet with their staff and discuss these errors and findings. A memo to Administrative Staff will be released no later than January 31, 2009 reminding staff how to reduce and avoid errors related to the Kids Connection program.

**Finding #08-25-21**

**Program:** CFDA 93.778 – Medical Assistance Program – Matching & Reporting

**Grant Number & Year:** All open grants

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

**Criteria:** Title 45 CFR § 92.20 (October 1, 2007) 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. Title 42 CFR § 433.10 (October 1, 2007) provides for payments to states, on the basis of a Federal medical assistance percentage. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires procedures to reconcile the accounting system to the submitted reports.

**Condition:** We noted the Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

**Questioned Costs:** Unknown

**Context:** The Agency utilized amounts from the NIS General Ledger, Medicaid Management Information System (MMIS), NFOCUS, and other sources to prepare the quarterly CMS-64 report. The Agency prepared a reconciliation to compare the CMS-64 reported amount to the NIS General Ledger; however, the procedures were not adequate. We noted the following:

- The reconciliation was prepared utilizing sources other than the NIS General Ledger. While it is necessary for the Agency to use MMIS and NIS to prepare the report, all payments must be processed through the NIS General Ledger, and using other sources such as MMIS and NFOCUS in the reconciliation increases the risk for double-reporting or other errors to occur and not be detected. In addition, MMIS and NFOCUS only record the total expenditure, not the breakdown of Federal funds versus State match. Only the NIS General Ledger records the Federal/State funding source. The Agency also prepared monthly reconciliations between NIS and MMIS; we reviewed the March 2008 reconciliation and noted a \$130,340 variance.
- The Agency reconciled amount did not agree to the current quarter expenditures reported on the CMS-64 report. The period ended March 2008 reported quarterly expenditures were \$385,756,937 and the reconciliation only showed expenditures of \$380,974,987; the variance of \$4,781,950 was not explained and indicates expenditures may have been over-reported.
- The Agency reconciliation procedures utilized total Medicaid expenditures only, not separated by Federal funding and State match. Therefore, the reconciliation does not substantiate whether the Federal share reported agrees to Federal funds actually spent, or if State match requirements were met.

A similar finding was noted in our 2006 and 2007 audit reports.

**Cause:** The methodology to reconcile reports to the NIS General Ledger was developed in fiscal year 2006 and first implemented in fiscal year 2007. The individual responsible for performing the reconciliation and addressing the issues noted in previous audits, left the Agency in February 2008.

**Effect:** Without adequate reconciliation procedures 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 develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the NIS General Ledger. This reconciliation should include a separate determination for Federal funds and State match.

**Management Response:** The Agency 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.

The Agency also disagrees with the Context section. NIS does not provide the service level of detail required for reporting on the CMS-64. This is why other sources such as MMIS and NFOCUS must be used. Because reconciliation is done at the total funds level, there is no risk for double-reporting as suggested in the Context. The variance of \$4,781,950 identified in the Context section, second bullet point, is calculated by summing up the totals found on the 64.9 pages of the report and then comparing that sum to the NIS total. This is not a valid comparison because certain refunds and recoveries are not reported on the 64.9 pages. Examples of amounts not included on the 64.9 are child support collections and refunds posted outside of MMIS, the inclusion of which puts the variance within a more acceptable range. While the third bullet point is true, that the Department reconciles to the total Medicaid expenditures, a full reconciliation of the federal share is performed at the end of each federal fiscal year by CMS. After this reconciliation is completed by CMS, they will award additional federal funds or will issue a negative grant award, so that the amount of federal Medicaid funds spent by Nebraska will match the amount reported on the CMS-64 for the federal fiscal year under review.

**Corrective Action Plan:** The Agency 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, 2009. (The January – March, 2009 quarterly report)

**Auditor's Response:** We disagree with the Agency that NIS amounts reconcile in total. We also disagree that there is no risk for double-reporting.

**Finding #08-25-22**

**Program:** CFDA 93.778 – Medical Assistance Program – Allowability & Subrecipient Monitoring

**Grant Number & Year:** #050705NE5048, FFY 2007; #050805NE5048, FFY 2008

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

**Criteria:** OMB Circular A-87 states that to be allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-133 §.400(d) states, “A pass-through entity shall perform the following for the Federal awards it makes: ...(3) Monitor the

activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved... (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year... (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

**Condition:** We noted the Agency did not have procedures to adequately monitor two subrecipients who received Medical Assistance Program Funds, and did not have adequate documentation to support the payments were for the correct amount.

**Questioned Costs:** Unknown

**Context:** The Medicaid School-Based Administrative Claiming Guide provided by the Centers for Medicare and Medicaid Services states, "The school setting provides a unique opportunity to enroll eligible children in the Medicaid program, and to assist children who are already enrolled in Medicaid to access the benefits available to them. Medicaid, a joint state-federal program, offers reimbursement for both the provision of covered medical services and for the costs of administrative activities, such as outreach, which support the Medicaid program." The Agency has agreements with two consortiums which distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by the school to enroll and assist children in Medicaid. The Agency reviews the claims to ensure the correct indirect cost rates and Medicaid Eligibility Rates are utilized; however, does not perform procedures to ensure total expenditure amounts claimed are correct. The Agency paid \$2,861,832 to the NE Medicaid School Consortium and \$26,901,112 to the NE Association of School Boards during the year, who distributed the funds to the schools. The Agency receives three percent of the total claim back from the consortiums for administration.

There were not adequate procedures for monitoring the subrecipients to ensure the amounts paid were correct and the subrecipients did not submit A-133 audits to the Agency.

We used the guidance in OMB Circular A-133 to determine whether the consortiums were vendors or subrecipients. In our judgment the consortiums meet the definition for subrecipients as they are responsible for adherence to Federal requirements and help to carry out the program. The consortiums are not vendors as they do not operate in a competitive environment, and do not provide similar services to many different purchasers. However, whether considered vendors or subrecipients, there was not adequate documentation to support the payments were proper.

**Cause:** The Agency did not request A-133 audits and did not utilize the three percent administration funds to perform on-site monitoring of the consortiums or the schools.

**Effect:** Without adequate procedures there is an increased risk for fraud or errors to occur.

**Recommendation:** We recommend the Agency implement procedures to ensure payments for school claims are accurate. The Agency should obtain and review A-133 audit reports. The Agency should also consider the need to perform on-site reviews on a sample basis, or obtain sufficient documentation from the consortiums to determine consortium procedures are adequate to ensure claims are proper.

**Management Response:** The Department is still reviewing this comment.

**Corrective Action Plan:** Legal staff are reviewing the need for A-133 audits and program staff are reviewing methods to ensure claims are proper.

**Contact:** Willard Bouwens, Jon Sterns

**Anticipated Completion Date:** April 30, 2009

**Finding #08-25-23**

**Program:** CFDA 93.778 – Medical Assistance Program – Allowability & Matching

**Grant Number & Year:** #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. 42 CFR § 433.10 (October 1, 2006) provides for payments to States, on the basis of a Federal medical assistance percentage. Title 42 CFR § 433.51 (October 1, 2006) 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 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 did not pay developmental disability services for July 2007 at the proper Federal medical assistance percentage. As a result, Federal funds were overcharged \$594,258.

**Questioned Costs:** \$594,258

**Context:** The Agency paid providers of developmental disability services at 90% of Agency determined rates, and included the 10% not paid in the calculation of 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.

**Cause:** This was a prior finding and the Agency did not make corrections to the accounting system until August 2007.



**Effect:** Noncompliance with Federal regulations and misuse of Federal funds.

**Recommendation:** We recommend the Agency make the proper adjustments as needed to the accounting system and the quarterly report for the July 2007 services.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** As reported the Agency has corrected this practice in August 2007. The questioned costs will be resolved in the cost settlement performed for the Fiscal Year 2008.

**Contact:** Willard Bouwens

**Anticipated Completion Date:** August 2007 and March 1, 2009.

**Finding #08-25-24**

**Program:** CFDA 93.778 – Medical Assistance Program – Eligibility

**Grant Number & Year:** #050805NE5028, FFY 2008; #050705NE5028, FFY 2007

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

**Criteria:** Title 45 CFR § 92.20 (October 1, 2007) 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. Title 480 NAC 2-006 states, “To be eligible for waiver services, the client must...Have documentation of a physical exam current within one year.” Good internal control requires documentation of each client’s yearly physical be maintained in the case file.

**Condition:** For 1 of 45 Adult Developmental Disabilities Waiver cases tested, physical exams occurred greater than one year apart. For 1 other of the 45 cases tested, physical exams could not be located.

**Questioned Costs:** \$617 known.

**Context:** For one client physical exams occurred in October 2005 and January 2008 (15 months overdue). On the annual redetermination, the caseworker indicated there was a physical exam completed in January 2007, however per further investigation, it was determined this did not occur. For another client, physical exams could not be located. Per caseworker notes exams occurred annually; however, this could not be verified.

Federal payment errors noted were \$617. The total Federal sample tested was \$53,748 and total Adult Developmental Disabilities Waiver aid payments for fiscal year 2008 were \$77,872,805. The case error rate for the sample was 4.44% (2/45). The dollar error rate for the sample was 1.15% (\$617/\$53,748) which estimates the potential dollars at risk for fiscal year 2008 to be \$895,537 (dollar error rate multiplied by population).

**Cause:** Unknown

**Effect:** If a physical exam is not completed annually, clients could lose eligibility and payments for those clients would be improper.

**Recommendation:** We recommend the Agency implement procedures to ensure all Medicaid Developmental Disabilities Waiver clients receive an annual physical, and documentation is maintained in the case file.

**Management Response:** The Agency agrees with the findings and has implemented the following plan of correction.

**Corrective Action Plan:** By 11/10/08 copies of physicals examinations for the three cited cases will be secured and forwarded to the Disabilities Service Specialist.

By 12/31/08, all waiver files will contain a current physical exam as required for waiver eligibility.

Action steps:

1. Service Coordinators (SC) will ensure all individuals have a current physical exam as recommended by the individual's physician.
2. Current physical exam documentation for all persons will be forwarded to the Disability Services Specialist if not previously received.

If there is no current exam, the individual's waiver authorization will be terminated until such time a current exam can be completed.

By 01/01/09 Service Coordination will implement a shared system of tracking for annual physical examinations. The tracking system will be shared by the Service Coordinator, Disability Services Specialist and Service Coordination Supervisor.

Action steps:

1. An excel spreadsheet will be developed to be used for tracking annual physical dates by 11/24/08.
2. SCs will enter each person on the spreadsheet that will then be forwarded to the SC Supervisors by 12/15/08.
3. SC Supervisor will combine the input and forward to appropriate DSS by 12/31/08.
4. Beginning 01/01/09, a monthly review of annual physical exams will be completed by the SC, SC Supervisor, and Disability Services Specialist.
  - a. At the end of each month, dates of physical exams for the upcoming month will be identified.
  - b. Annual physical exams, or as recommended by the individual's physician, will be reviewed at the time the Annual Plan is developed and responsibility will be assigned.
  - c. Contact will be made with the responsible party when the physical exam report has not been received within the month following the month it is due.

Continued effort by the service coordinator is necessary to ensure all persons receive an annual physical exam, or as recommended by the individual's physician.

**Contact:** Tricia Mason, Community Based Administrator, DDD

**Anticipated Completion Date:** January 1, 2009

**Finding #08-25-25**

**Program:** Various – Reporting

**Grant Number & Year:** Various

**Federal Grantor Agency:** U.S. Department of Health and Human Services, U.S. Department of Veterans Affairs

**Criteria:** OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State shall prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with § 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

**Condition:** The Agency did not accurately report Federal expenditures by CFDA. We informed Administrative Services and the Agency of the errors and the SEFA was subsequently adjusted.

**Questioned Costs:** None

**Context:** The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amounts reported were as follows:

CFDA #	Program	Amount Initially Reported	Corrected SEFA Amount	Variance
93.659	Adoption Assistance	\$ 8,185,875	\$ 10,322,482	\$ 2,136,607
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	\$ 14,788,995	\$ 13,790,624	\$ (998,371)
93.069	Public Health Emergency Preparedness	\$ 0	\$ 998,371	\$ 998,371
93.774	Medicare Supplementary Medical Insurance	\$ 4,783,822	\$ 0	\$ (4,783,822)
93.268	Immunization Grants	\$ 12,816,773	\$ 12,274,311	\$ (542,462)
93.003	Public Health and Social Services Emergency Fund	\$ 890,543	\$ 0	\$ (890,543)
93.889	National Bioterrorism Hospital Preparedness Program	\$ 1,784,397	\$ 2,674,940	\$ 890,543
64.015	Veterans State Nursing Home Care	\$ 4,978,813	\$ 8,629,122	\$ 3,650,309

**Cause:** Inadequate review.

**Effect:** Noncompliance with Federal regulations which could result in sanctions.

**Recommendation:** We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

**Management Response:** The Agency agrees with this response.

**Corrective Action Plan:** The Agency will add an additional review to the schedule of expenditures before reporting FY 2009 amounts.

**Contact:** Larry Morrison

**Anticipated Completion Date:** September 30, 2009

**Finding #08-25-26**

**Program:** CFDA 93.044 & 93.045 – Aging Cluster; CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster – 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 employees worked solely on that program for the period covered by the certification. These 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 time was charged to a single Federal program. This was also noted in our prior report.

**Questioned Costs:** Unknown

**Context:** We tested one pay check date from the fiscal year for 25 different employees and noted three employees who worked on a single Federal program did not have periodic payroll certifications. The total amount of payroll expenditures tested was \$61,993, and of this amount one biweekly employee directly charged \$1,588 to CFDA 93.045 and two monthly employees directly charged \$7,640 to CFDA 93.596.

**Cause:** The Agency has not completed development of a new time-keeping system which will address this issue.

**Effect:** The Agency was not in compliance with OMB Circular A-87. There is an increased risk employee hours were charged to the incorrect Federal program.

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

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** All Agency employees will be required to use a new time reporting system by the end of the current State fiscal year. The time reporting will cover all individuals who otherwise would need to provide the certification. The corrective action plan presented for the prior year finding is unchanged except that the anticipated completion has been adjusted from December, 2008 to June, 2009.

**Contact:** Linda Gerner and Larry Morrison

**Anticipated Completion Date:** June, 2009

**Finding #08-25-27**

**Program:** CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster; CFDA 93.658 – Foster Care Title IV-E; CFDA 93.667 – Social Services Block Grant; and CFDA 93.777 & 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 DHHS Resource Developers in the cost center.”

**Condition:** The time and effort reports utilized to allocate costs of the Service Area – Resource Development cost center for the quarter ended March 31, 2008, were not correctly accumulated to arrive at the allocation percentage. One employee tested did not submit time and effort reports for all weeks in the quarter. Five employees did not sign their weekly time reports. Two employees’ hours were correctly not included in the calculation of the allocation percentage; however, their pay was incorrectly charged to the cost center. A similar finding was noted in the prior year report.

**Questioned Costs:** \$12,857 known

**Context:** There were 70 employees whose hours were included in the calculation of the Resource Development allocation. We tested 20 employees’ time and effort reports for the quarter ended March 31, 2008, and noted:

- The Agency incorrectly recorded hours reported by 4 of 20 Resource Developers on the time and effort summary. The time and effort summary is utilized to calculate the allocation percentage for Resource Developers pay.
- One of 20 Resource Developers did not submit weekly time and effort reports for 4 weeks during the quarter.
- Five of 20 Resource Developers did not sign the weekly time and effort reports submitted to the Agency.

During our testing we also noted two individuals who were not Resource Developers and whose time was appropriately not included in the Resource Development allocation calculation, but were being paid from a Resource Development business unit. Although the employees' time did not affect the calculation of the allocation percentages, their payroll was being allocated according to the percentages.

**Cause:** Hours reported by the Resource Developers in the time and effort reports are not being recorded correctly in the time and effort summary.

**Effect:** Failure to correctly record time and effort reported by employees increases the risk the allocation to the benefiting programs is incorrect. Coding of payroll costs to incorrect business units could result in the incorrect allocation of costs.

**Recommendation:** We recommend the Agency develop procedures to ensure time and effort reported by employees is correctly summarized and the summary is reviewed. We further recommend Resource Developers submit all weekly time and effort reports to the Agency and that all reports are signed by employees. We recommend the Agency review employees' payroll business units periodically to ensure appropriateness.

**Management Response:** The Agency agrees with the condition reported.

**Corrective Action Plan:** We now maintain a copy of the email document with the time report as the electronic signature. We will begin periodic reviews of employee payroll assignments to ensure staff costs are assigned to the correct cost centers. We will incorporate the time and effort reporting into the agency's new electronic time reporting system which will ensure that all reports are signed and submitted and will electronically capture the hours as recorded by the staff.

**Contact:** Larry Morrison

**Anticipated Completion Date:** Signatures – Completed. Review payroll assignments – February, 2009. Electronic time reporting – June, 2009.

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.

Signed Original on File

Pat Reding  
Assistant Deputy Auditor

Signed Original on File

Don Dunlap  
Assistant Deputy Auditor