



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 2, 2012

Kerry Winterer, Chief Executive Officer  
Nebraska Department of Health and Human Services  
301 Centennial Mall South, 3<sup>rd</sup> Floor  
Lincoln, Nebraska 68509-5026

Dear Mr. Winterer:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. 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 not to provide assurance on internal control. We have not considered internal control since the date of our report.

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (Accrual Information) to be a significant deficiency.

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

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

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. 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, 2011.

**1. Accrual Information**

As part of the Department 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. A good internal control plan requires procedures to accurately report financial information to State Accounting.

During our audit of the 2011 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Medicaid Estate Recovery receivable was overstated by \$691,070, as 10 of 15 accounts tested did not have a proper receivable balance recorded. Agency staff responsible for the proper record keeping of the receivable balances stated assumptions were made to determine account balances instead of detailed reviews of the case files. Several causes for the errors were: not properly reducing receivables when cases were closed, closing cases when a receivable still existed, not following policies for determining when to recognize a receivable, and lack of case file review to ensure receivables were accurate. Furthermore, the Agency did not document their consideration of allowance for doubtful accounts.
- The Third Party Liability receivable was overstated by \$121,525, as 2 of 15 claim submittals tested had inaccurate receivable balances recorded, due to the lack of proper updating of duplicate submittals recorded in the system. The Agency may send multiple claim submittals for one case, for instance when multiple insurance companies or attorneys are associated with one case. When an adjustment is made to a claim submittal, all claim submittals must be adjusted in the system.

- The NFOCUS receivable was understated by \$129,951, because the Agency did not include amounts for four programs in the calculation. The Agency also did not calculate the proper State and Federal shares, the General Fund was overstated and the Federal Fund was understated by \$207,144. Furthermore, the Agency did not document their consideration of allowance for doubtful accounts; the Agency only reduced the receivable for known write-offs.
- The Patient and County Billings receivable was overstated by \$1,606,134, because the Agency did not reduce write-offs and other uncollectible amounts from the calculation. Additionally, the Agency did not have documentation to support the reasonableness of the percentage used to calculate the allowance for doubtful accounts.
- The State Ward Education payable was overstated by \$53,201, primarily due to the Agency not updating a figure in the supporting documentation from the prior year.
- The Intergovernmental payable was overstated by \$1,572,079, because the Agency used a summary for an improper time period when it was reported to State Accounting.
- The State Disability payable was overstated by \$412,566, due to an incorrect calculation of the average amounts paid during April, May, and June.
- The funding for the Medicaid Disproportionate Share payable was incorrectly reported to State Accounting. The Agency reported \$346,689 in General Fund payables when the payable should have been reported in the Health and Social Services Fund.
- The Agency did not calculate the proper State and Federal shares for the NFOCUS payable, the General Fund was understated and the Federal Fund was overstated by \$466,305.

One additional finding was noted during testing of the Agency's trust fund bank activity reported to State Accounting. The Agency did not properly report receipt and disbursement activity causing the activity to be understated by \$494,280.

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 of financial statement misstatements not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure amounts reported are complete and accurate, including properly recording allowances for doubtful accounts.

***Management Response:*** *The Agency has instructions for the completion of all accrual times to be reported. The Agency will implement any additional procedures necessary to address the current years identified misstatements.*

## 2. Information Security – Access Appropriateness

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control states, in part, “The issuance and use of privileged accounts will be restricted and controlled. Processes must be developed to ensure that users of privileged accounts are monitored, and any suspected misuse is promptly investigated.”

A good internal control plan includes limiting application developers to non-production datasets. Logical security tools and techniques should be used to define such access restrictions, including how and to whom the entity will limit the ability to view, use, or modify significant information resources.

The following was noted regarding access to production datasets for the Agency’s applications:

- One developer had alter access to production datasets for the CHARTS application. In addition, there was one shared on call user ID with alter access to the CHARTS production datasets.
- Four developers had alter access to production datasets for the MMIS application.
- Fifteen developers had alter access to production datasets for the NFOCUS application.
- Four developers had alter access to production datasets for the HEA application.

A similar finding has been noted in prior audits.

Without a proper segregation of duties, application developers could circumvent the change control process and modify the production environment without testing or obtaining management approval for changes. The resulting changes may lead to difficulties in maintaining system functions, processing errors, or inaccurate and misleading financial information.

We recommend the Agency evaluate potential options to restrict application developers’ access to the production environment. In the event access restrictions are not feasible, monitoring controls should be implemented to ensure all modifications to the production environment are appropriately approved and tested.

**Management Response:** *DHHS IS&T Application Services uses a rotating on-call process for developers when the applications experience a break/fix situation during off hours. The Agency has weighed the costs for 24 x 7 technical staff with the correct skill sets and training against the risks of the access to production data. We have in place a number of review processes and supervisory controls that minimize the risks of allowing this access. These include reviews of high risk and sensitive datasets, team procedures using the help desk ticket system to document, authorize and manage any changes to production data sets. All applications reviewed have a “date/time stamp” that identifies who, what and when each specific data or table was altered.*

*The Agency continues to perform bi-annual reviews for all access assigned to production support and developers with access to CHARTS, MMIS, N-FOCUS, and HEA data files. The 2011 reviews were completed on January 5, 2011 for the CHARTS application, January 14, 2011 for the MMIS application, and January 18, 2011 for the N-FOCUS and HEA applications. The 2011 mid-year reviews were completed on August 17, 2011 for the CHARTS application, August 12, 2011 for the MMIS application, and June 13, 2011 for the N-FOCUS and HEA applications. The January 2012 reviews have been completed for all four applications. The reviews are conducted by the Agency HIPAA Security officer working with the managers for each application.*

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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 recommendations that we hope will be useful to the Agency.

This report 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 and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Pat Reding, CPA, CFE  
Assistant Deputy Auditor