



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2014

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

Dear Mr. Winterer:

We have audited the basic financial statements of the State of Nebraska (State) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and have issued our report thereon dated December 16, 2014. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the basic financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Health and Human Services (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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (Accrual Information), Comment Number 5 (External MMIS User Access), and Comment Number 6 (NFOCUS User Access) to be significant deficiencies.

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

Draft copies of this letter were furnished to the Agency to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this 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, 2014.

1. Accrual Information

The Department of Administrative Services State Accounting Division (State Accounting) prepares the Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. State Accounting required all State agencies to report their accruals by August 6, 2014. A good internal control plan requires agencies to have procedures for the reporting of accurate financial information to State Accounting in a timely manner.

The Agency did not submit its accrual response form to State Accounting until September 23, 2014. Furthermore, the form was not complete; the intergovernmental receivable and payable accruals were not submitted until October 7, 2014. The nonmonetary transaction form was also revised twice after the first version was provided. One revision was submitted on October 7, 2014; the second was submitted on October 8, 2014.

Throughout the audit, several items were not accurately reported to State Accounting. According to the Agency's accrual response forms, three individuals were involved in the reporting of the accruals, including a review performed by the Agency's internal audit staff. Substantial audit adjustments were still needed to ensure the financial statements were materially correct. The Agency has had significant issues with its accrual calculations in the past and, as noted below, those issues were not resolved.

We noted the following concerning receivables and payables reported by the Agency to State Accounting:

Description	Accrual Type	Dollar Error
Medicaid Drug Rebate	Receivable	\$ 7,951,784
Intergovernmental	Receivable	\$ 3,936,887
NFOCUS	Payable	\$ 3,430,203
Intergovernmental	Payable	\$ 1,114,875
State Ward Education	Payable	\$ 905,785
Patient and County Billings	Receivable	\$ 860,781
Nonmonetary Transactions	Inventory	\$ 855,710
Women, Infants, & Children	Receivable	\$ 653,674
NFOCUS General Fund	Receivable	\$ 270,911
NFOCUS Federal Fund	Receivable	\$ 264,453
Medicaid Estate Recovery	Receivable	\$ 63,361

Additional information is as follows:

- The Medicaid drug rebate receivable was understated by \$7,951,784. Medicaid drug rebates were established by law to require drug manufacturers to provide rebates for their drug products paid for by Medicaid. The receivable was understated because the Agency used a report with balances as of July 31, 2014, instead of June 30, 2014. The Agency also did not properly allocate the receivable between the Federal and General funds. The Agency used the prior year's allocation percentages.
- The Agency determined amounts due to and from the Federal government and reported these to State Accounting as payables and/or receivables for each Federal program. In order to calculate the amounts, the Agency used Federal Financial Status Reports (FSR) for each program. Due to an error in the reporting of the Child Care program FSR, the receivable was understated by \$3,936,887, and the payable was overstated by \$1,114,875.
- The Agency did not properly allocate the NFOCUS payable between the Federal and General funds. The Federal fund was understated and the General fund was overstated by \$3,430,203. The improper allocation was specifically identified in the Child Care program. The Agency allocated the entire payable to the General fund due to a restricted draw down established by the Federal government. The Agency was required to receive Federal approval of all expenditures prior to the Agency drawing down funds; therefore, the Agency estimated the entire payable to individuals to be a State liability. However, once the expenditures are approved the Federal government would reimburse for the agreed upon grant terms. Therefore, the Agency should have calculated an estimated Federal allocation and did so upon the Auditor of Public Account's (APA) request.
- The State Ward Education payable was overstated by \$905,785 due to doubling of payables already recorded in the State accounting system and a lack of documentation to support the amounts used in the calculation. The Agency submitted a revised calculation to State Accounting on October 8, 2014.

- The patient and county billings receivable was overstated by \$860,781. The receivable was calculated for the Lincoln, Norfolk, and Hastings Regional Centers, the Beatrice State Developmental Center (BSDC), and the Developmental Disabilities program. The overstatement was caused by the following:
 - The Lincoln Regional Center (LRC) and BSDC both contained receivable balances that should not have been reported, causing an overstatement of \$851,749. A portion of the LRC balance that was overstated was for Medicare Part D. According to the Agency, it had not pursued reimbursement from the Federal government due to an issue with the vendor's system that tracked the pharmacy claims. The issue started in November 2013 and is not expected to be resolved until March 2015. Reimbursement of Medicare Part D claims can only be obtained within 60 days of the service. As of June 30, 2014, the amount outstanding was \$454,737. The Agency indicated it was going to pursue other avenues to recover the lost funds through the vendor. However, this had not been resolved as of the audit fieldwork. If the Agency does not resolve the issue until March 2015, there are further claims that are at risk of not being recovered.
 - Ten of 25 patient balances tested were not pursued by the Agency for collection or write-off in a timely manner. Six of the 10 balances tested were determined by the Agency to be inaccurately reported as receivables. One account was outstanding since 2003, the case closed in January 2007 due to bankruptcy, the individual then passed away in 2008, but the Agency had not written-off the balance. Another individual's balance had been approved for write-off but not removed from the system. The Agency had not adjusted the individual's balances or decreased the calculated receivable to account for these, causing an overstatement of \$31,810.
 - The Hastings Regional Center allowance was improper, causing an understatement of \$22,778.
- The nonmonetary transaction accrual form used to report inventories to State Accounting was overstated by \$855,710 for revenues and disbursements. Transfers between programs were erroneously included, causing the activity to be overstated.
- The Agency reported a payable to individuals from the Women, Infants, and Children (WIC) program for \$1,020,328. State Accounting then recorded a corresponding receivable from the Federal government for the same amount. However, \$653,674 was already on hand to pay claims and, therefore, would not be necessary from the Federal government, causing the receivable to be overstated.
- The NFOCUS receivable was not properly reported, causing the General fund to be understated by \$270,911 and the Federal fund to be overstated by \$264,453. The inaccurate reporting was due to an improper allocation between the General and Federal funds, clerical errors, and a lack of documentation.

- The Medicaid estate recovery receivable was overstated by \$63,361. The receivable is based upon claims filed against the estates of deceased persons who received Medicaid assistance. For 4 of 10 account balances tested, the balance was not properly recorded. Furthermore, there was a lack of adequate documentation for one land contract tested.

A similar finding has been noted since the June 30, 2004, audit.

State Accounting did make correcting entries for all material amounts, as recommended by the APA.

Without adequate processes and procedures in place to ensure the accuracy and timeliness of the CAFR accruals, there is a greater risk material misstatements may occur and remain undetected.

We recommend the Agency implement procedures to ensure information is complete, accurate, and submitted timely. The Agency should also have adequate procedures in place for a secondary review to verify the information is supported, reasonable, and accurate. We also recommend the Agency work to resolve issues with the LRC Medicare Part D claims to ensure recovery of funds.

Agency Response: The Agency is continuing to review and enhance its process for reporting timely and accurate accrual information. This includes establishing procedures that outline a review process and documentation standards for all accrual items. The Agency will continue to work in cooperation with the Department of Administrative Services, Accounting Section as well as the Nebraska Auditor of Public Accounts Office on the accrual reporting process.

The Agency's Information Systems and Technology Section will continue to work with the software vendor for a resolution to the Lincoln Regional Center Medicare Part D billing issue. In addition, Financial Responsibility will formulate a plan for an interim process until a system change is implemented.

2. Intergovernmental Receivables and Payables

A good internal control plan requires procedures to ensure Federal reimbursement requests are performed timely and that all Federal funds due to the State are received. According to 31 USC § 1552(a), Federal funds can be requested up to five years after the grant's period of availability.

We noted the Agency wrote off \$542,387 in receivables due from the Federal government as of June 30, 2014. The Agency had not requested and drawn the funds within the five years allowed by 31 USC § 1552(a). The Agency indicated there was a lack of documentation to determine that the amounts were due from the Federal government; therefore, it wrote off the balances.

The following Federal funds were written off during fiscal year 2014:

Grant Year	Grant Program	Amount
2008	Foster Care Title IV-E	\$ 522,953
2008	Child Care	7,556
2008	State Survey and Certification of Health Care Providers	5,195
2008	Child Support Enforcement	4,695
2009	Child Support Enforcement	1,988
Total Federal Receivables Written Off		\$ 542,387

Furthermore, the Agency wrote off \$202,562 in payables due to the Federal government. The Agency indicated there was a lack of documentation to determine the payable was accurate, and the Federal government had not attempted to recover the funds; therefore, the Agency did not believe they were payables. The following amounts due to the Federal government were written off:

Grant Year	Grant Program	Amount
1997	Child Support Enforcement	\$ 149,421
2005	Adoption Assistance	6,363
2001	State Survey and Certification of Health Care Providers	242
2002	State Survey and Certification of Health Care Providers	42,835
2004	State Survey and Certification of Health Care Providers	1,653
2006	State Survey and Certification of Health Care Providers	2,048
Total Federal Payables Written Off		\$ 202,562

When Federal reimbursements are not requested and drawn timely, or there is a lack of supporting documentation to determine if funds are due to or from the Federal government, there is an increased risk the State will lose Federal funding, which would require State taxpayer dollars to fund the program expenditures.

We recommend the Agency implement policies and procedures to ensure Federal reimbursements are performed timely, in accordance with Federal regulations, and adequate documentation is on file to support balances outstanding.

Agency Response: The Agency has drafted and implemented procedures specific to each grant to ensure work papers include but are not limited to: grant specific terms and conditions, period of availability, obligated and unobligated funds, Payment Management System (PMS) reconciliation, sufficient supporting documentation for all expenditures and state match, reconciliation of Grant Project Status (GPS), review and approval of reporting from Program Manager and Manager of Grants, grant record tracking, journal entries are completed and tracked for Financial Services Managers review, and a closeout checklist has been completed. Additionally, financial reports and work papers will be scanned and attached to EnterpriseOne (E1) with any supporting documentation and the Report Filing checklist.

Monthly meetings with Program and research of specific grant terms and conditions will be ongoing and procedures related to grants will be continued to be updated.

3. Quality Assurance Assessment Tax

Neb. Rev. Stat. § 68-1917 (Cum. Supp. 2012) states, in relevant part:

[E]ach nursing facility or skilled nursing facility licensed under the Health Care Facility Licensure Act shall pay a quality assurance assessment based on total resident days, including bed-hold days, less medicare days, for the purpose of improving the quality of nursing facility or skilled nursing facility care in this state. The assessment shall be three dollars and fifty cents for each resident day for the preceding calendar quarter.

To ensure the correct tax amount is remitted to the Agency, a good internal control plan requires procedures be in place to ascertain the reasonableness of the number of resident days reported.

The Agency did not have adequate policies and procedures in place to verify that the quality assurance assessment tax was paid in accordance with State statute.

Nursing facilities submitted quarterly reports of Medicaid patient days, which were used to determine the quality assurance assessment tax. The Agency reviewed those quarterly reports and compared the days reported to each facility's annual cost report, which showed total patient days for Medicaid and Medicare recipients. Typically, the cost report would be greater for patient days due to the Medicare recipients who are not included in the quarterly reports for the tax assessment.

Aside from identifying the variances between the quarterly and annual cost reports, the Agency performed no additional research to ensure the reasonableness of the number of Medicaid days reported. During the prior audit, the APA noted a 30,632 day difference between the quarterly reports and the cost report, which the Agency chose not to investigate. During the current audit, the APA contacted the Agency to determine if procedures had changed. The Agency indicated no further procedures had been performed to ensure the tax was paid in accordance with State statute. Total tax revenue deposited during fiscal year 2014 was \$13,252,814. A similar finding was noted during the prior audit.

Without procedures to ensure the number of patient Medicaid days is correct, there is an increased risk the quality assurance assessment tax received by the Agency will not be paid properly in accordance with State statute.

We recommend the Agency implement policies and procedures to ensure the number of resident days is correct and, therefore, the tax assessment is paid in accordance with State statute.

Agency Response: The Agency agrees that a written internal control plan should be in place to ascertain the reasonableness of the number of resident days reported. The Institutional Services Unit Audit Manager has reviewed the Quality Assurance Assessment (QAA) data with cost report data, Nebraska Case Mix Data and Licensure Data for the year ended June 30, 2013. Based on our review 52.83% of the providers QAA days were within 5 days of the cost report or case mix data and 86.79% were within 50 days. For the total 212 reporting providers the

number of days varied by only 255. The largest variance was 415 days. The Agency would point out that if the 415 day difference was all taxable days the maximum variance would have been \$1,592.50 which would be twelve one thousands of one percent of the \$13,366,853.00 in tax paid for the year ended June 30, 2013.

The Agency will develop and implement policies and procedures for additional research to ensure the reasonableness of the number of Medicaid days reported, thus increasing the sureness of the quality assurance assessment tax received by the Agency is being paid properly.

4. Child Support Error

Good internal control requires procedures to ensure child support amounts owed are properly collected and recorded and that customer inquiries and concerns regarding child support balances are properly resolved.

Dating back to July 2010, a custodial parent consistently contacted the Agency regarding her child support case and amounts she felt were owed to her. Having no luck, the custodial parent contacted the APA in August 2014 for assistance. The APA met with the Agency CSE staff and requested a recalculation of the specific child support case. The Agency determined that \$5,746 was owed by the noncustodial parent and that those amounts had not been properly recorded in the Agency computer system.

It took more than four years and the intervention of the APA for the Agency CSE to determine that the custodial parent was correct and was owed additional monies from the noncustodial parent. The event logs from the Agency computer system disclosed that both the custodial and noncustodial parents were advised that the balance owed was incorrect; however, the Agency took no action to resolve the matter. It appears that the Agency call center, the case workers, Clerk of the District Courts in two counties, and others were all unable to provide a proper resolution until the APA became involved.

Without proper procedures to ensure child support balances, collections, and payments are accurate, there is an increased risk that amounts owed pursuant to court orders will not be properly disbursed to custodial parents. Without adequate procedures and training to ensure client inquiries are addressed appropriately and timely, there is also an increased risk that amounts owed will not be properly disbursed.

We recommend that the Agency implement procedures to ensure balances, collections, and disbursements are accurate. Further, we recommend that the Agency ensure staff handling phone calls from clients are appropriately trained and informed on how to handle client inquiries, referrals, and requests more accurately and timely.

Agency Response: The Agency has appropriate policies and procedures in place to ensure balances, collections, and disbursements are accurate. However, due to the extenuating circumstances of this case which involves an out of state order, the transfer of jurisdiction from one county to another within state, and custodial parent retaining private counsel, this has delayed the processing of this case. Tennessee is the official record keeper in this case. Neither the Agency nor the custodial parent's attorney had success in obtaining cooperation from that State in a timely manner. The Agency remains committed to providing good customer service and receives periodic training in working with our customers.

5. External MMIS User Access

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states:

A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities

Agencies or data owner (s) should perform annual user reviews of access and appropriate privileges.

A good internal control plan requires terminated users' access to be removed timely.

The Medicaid Management Information System (MMIS) supports the operation of the Medicaid program. The objective of MMIS is to improve and expedite claims processing, efficiently control program costs, effectively increase the quality of services, and examine cases of suspected program abuse.

For 123 of 245 external MMIS users tested, from 2 of 1,136 provider entities, the users were no longer active employees of the external entity. The Agency tracked user access through a single Excel workbook, with a separate spreadsheet for each provider entity. An adequate monitoring process was not in place to identify users who had terminated from those external entities.

A similar finding was noted during the prior audit.

When access to MMIS is not terminated timely, it creates the opportunity for unwarranted access to protected information.

We recommend the Agency implement policies and procedures to periodically review external users' MMIS access in order to ensure access is removed in a timely manner. We also recommend the Agency notify external users of the importance of notifying the Agency to remove access upon termination.

Agency Response: The EDI Help Desk has begun to take corrective actions toward improvement of the documentation, maintenance, and control of external MMIS access. Work hours have been delegated to the project, and employees are taking steps to improve our external MMIS access control overall. Our focus involves updating the External MMIS User spreadsheet, reaching out to providers to update contact information and user status and/or remove access for non-responsive parties, reviewing and implementing processes for renewing and enrolling external MMIS users, and implementing disciplinary procedures for access abuse and misuse. The Agency anticipates improvement over the course of the coming months as well as next year.

6. NFOCUS User Access

NITC Standards & Guidelines, Information Security Policy 8-101, Section 4.3.2.3, Separation of Duties, states:

To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical.

NITC Standards & Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states:

A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities

Agencies or data owner (s) should perform annual user reviews of access and appropriate privileges.

The Supervisors Guide – N-FOCUS Role Based Access Profile Assignment for Internal Staff, states, in part:

Access to N-FOCUS is based on the job tasks performed by the individual. The direct supervisor must complete, sign, and submit the N-FOCUS Access Request Checklist before appropriate access will be assigned. Use of the checklist is required for new hires as well as when there is a change in assigned duties.

Each job activity corresponds to a defined access role in the N-FOCUS system. By checking the appropriate job activity or activities, the individual will be assigned the appropriate N-FOCUS access role(s).

To meet state and federal security safeguard requirements, each individual with access to N-FOCUS must have their access level reviewed on an annual basis.

A good internal control plan requires only limited individuals with supervisory duties have the access to override or force pay claims.

The Nebraska Family Online Client User System (NFOCUS) application is used to automate benefit/service delivery and case management for several Agency programs. NFOCUS processes include client/case intake, eligibility determination, case management, service authorization, benefit payments, claims processing and payments, provider contract management, interfacing with other State and Federal organizations, and management and government reporting.

Eight NFOCUS profiles allowed users to create an organization, a service approval, and a service authorization, and also enter a claim for payment. Additionally, six of those profiles also allowed users to create a master case (client). Finally, one of the eight NFOCUS profiles had the ability to preprint and adjust claims; that group had 88 users connected to it.

For 5 of 25 NFOCUS users tested, access was not appropriate for the user's job responsibilities per the NFOCUS employee checklist and discussion with the user's supervisor. Additionally, for 3 of 21 users tested, the NFOCUS Access Request Checklist was not properly completed.

Furthermore, the ability to force pay claims that had been suspended due to an edit check was granted to 53 individuals, some with non-supervisory duties such as data entry operators and case aides.

A similar finding was noted during the prior audit.

When one person has the ability to create an organization, the service approval, service authorization, and then enter the claim, there is an increased risk for unauthorized payments of claims and increased risk of fraud. When users have access to applications that are unnecessary and unreasonable for the performance of their job duties, there is an increased risk for fraud and misuse of funds. Without the proper completion of the NFOCUS Access Request Checklist, the Agency is unable to ensure that the user is assigned only to the access that is reasonable and necessary for the performance of the user's job duties. When the ability to force pay claims is not limited to a few individuals with supervisory duties, there is an increased risk claims will be erroneously paid, resulting in loss of funds.

We recommend the Agency remove user access that is not required for employee job responsibilities or that cause a lack of segregation of duties. We also recommend the Agency establish procedures to ensure the NFOCUS Access Checklist is properly completed, maintained, and reviewed annually or when there is a change of assigned duties. The procedures should include ensuring any access not requested on a checklist, including small groups and internet groups, be removed from the user's access. Finally, we recommend the Agency assign the ability to force pay claims only to supervisors who are able to review claims and determine the appropriateness of overriding an edit check.

Agency Response: The Agency has initiated a project to review all NFOCUS profile functionality and access assignments. The DHHS Internal Audit (IA) section is taking the lead in planning, coordinating, and management of the project. The IA section will observe the work and job duties performed by Division Business Units who utilize the NFOCUS data system. Based upon the documented work flow and job duties the IA will work with the NFOCUS support staff to update, modify, and add appropriate access profiles to address minimum necessary access requirements. The project has already been initiated with two CFS Division business units with a project plan starting date of January 2015.

The DHHS Human Resources and Development Section has initiated a project to incorporate an annual review of workers IT access into the annual worker HR Performance Review process. The annual review will be included in the EDC Performance process documented and tracked in the EDC LINK tracking tool. The HR Section has begun work with the NFOCUS staff to identify worker access assignments to be incorporated into the review process. The targeted date for implementation is January 2015.

The NFOCUS security team removed the Force Pay (FP) functionality from the base access profile removing FP from all 53 previously assigned individuals on November 9, 2014. A new special Force Pay (FP) group profile was created for better management of FP functionality. The new FP group profile functionality is not inherited from any other access profile and must be assigned specifically to individuals and requires approval from a granting authority before being assigned. The FP profile was put into production on November 9, 2014.

* * * * *

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 the Agency.

This communication 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 communication is a matter of public record, and its distribution is not limited.



Pat Reding, CPA, CFE
Assistant Deputy Auditor