



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 7, 2016

Courtney Phillips, Chief Executive Officer
Department of Health and Human Services
301 Centennial Mall South
Lincoln, NE 68509

Dear Ms. Phillips:

This letter is provided pursuant to AICPA Auditing Standards AU-C Section 265, which permits the early communication of audit findings due to their significance and the need for corrective action. The audit work addressed herein was performed as part of the fiscal year ended June 30, 2016 Comprehensive Annual Financial Report (CAFR) and Statewide Single (Single) audits. This communication is based on our audit procedures and related activity through March 2016. Because we have not completed our audits of the fiscal year 2016 CAFR or Single, additional matters may be identified and communicated in our final reports.

In planning and performing our audits of the financial statements and Federal compliance, we considered the State's internal control over financial reporting and compliance with the applicable types of compliance requirements described in the *OMB Compliance Supplement* (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the 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.

We noted certain internal control or compliance matters related to the activities of the Nebraska Department of Health and Human Services (DHHS) or other operational matters that are presented below for your consideration. The following comments and recommendations, which have been discussed with the appropriate members of DHHS and its management, are intended to improve internal control or result in other operating efficiencies.

Comments required to be reported per Title 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, will 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 DHHS 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 they will be verified in the next audit.

Overall Summary

Our office received concerns regarding the benefits provided to a specific client, alleging the client’s income and resources were well over the limitations for any public assistance programs. After reviewing the client’s income from July 2015 through March 2016, the APA found the concerns to be valid, specifically the client’s Child Care and Supplemental Nutrition Assistance Program (SNAP) benefits. A summary of the questionable benefit payments for this client is included below.

Program	Description of Issue	Questioned Payments	Comment Reference
Child Care	Over Resource Limit	\$6,746	Comment 1
SNAP	Over Income Limit	\$1,682	Comment 2
Total		\$8,428	

While these questioned payments may appear insignificant at first glance, it is important to consider that this is only one client out of thousands who participate in these programs.

On January 7, 2016, the APA first presented DHHS staff with our concerns about this client’s eligibility for SNAP assistance, which resulted from the June 30, 2015, Statewide Single Audit.

Background Information

DHHS administers multiple Federal and State public assistance programs. These programs are administered through the Nebraska Family Online Client User System (NFOCUS) computer application, which is used to automate benefits and case management. The concerns in this letter relate specifically to the Child Care Program and the SNAP Program.

Title 392 of the Nebraska Administrative Code (NAC) contains the rules and regulations that govern the Child Care Subsidy Program. According to Title 392 NAC 1-002, “The purpose of the Child Care Subsidy Program is to assist low income families with child care.” In order to adhere to that purpose, specific income and resource limits were established identifying those families who would qualify as “low income” for the purpose of this program. More details on the resource limits, as they apply to the case reviewed, are provided in Comment Number 1.

Title 475 of the NAC contains the rules and regulations that govern the SNAP Program, which was formerly referred to as the Food Stamp Program. Title 475 NAC 1-001.01 provides the following:

- The purpose of the Supplemental Nutrition Assistance Program is to:*
- 1. Safeguard the health of the nation’s low income families through better nutrition;*
 - 2. Increase the food purchasing power of low income families; and*
 - 3. Increase the flow of foods from the nation’s farms through the normal trade channels.*

Similar to the Child Care Program, specific income and resource limits were established in order to identify the families who would qualify as “low income” for the purpose of this program. More details on those income limits, as they apply to the case reviewed, are provided in Comment Number 2.

1. Child Care Program Eligibility

One of the elements of eligibility for the Child Care Program involves a determination of whether the family’s resources are within the allowable limits. To be eligible, the value of a family’s countable resources must not exceed \$6,000. The APA determined that this client’s resources exceeded \$6,000, based on the fair market value of one of the client’s vehicles. As a result, \$6,746 of ineligible child care subsidies was paid to the client from July 2015 through March 2016, as follows:

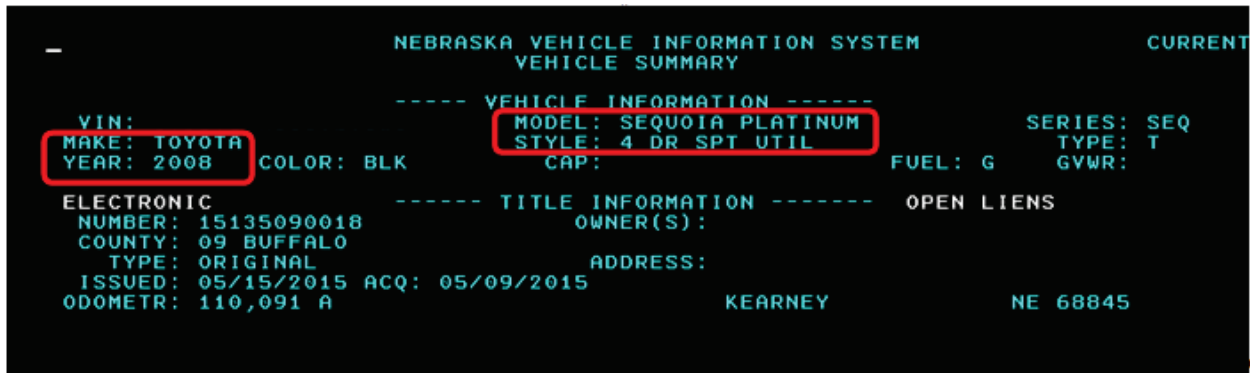
Service Month	Child	Hours/ Days	Rate	Total CC	Family Fee	Total CC Paid	Total Federal Share	Date Paid
June 2015	Child 1	153 Hrs	\$8.00	\$1,224.00	(\$90.00)	\$1,134.00	\$0.00	7/22/2015
July 2015	Child 1	37.75 Hrs	\$8.00	\$302.00	\$0.00	\$302.00	\$0.00	7/22/2015
Aug 2015	Child 1	2 Days	\$30.00	\$60.00	\$0.00	\$60.00	\$0.00	8/19/2015
Aug 2015	Child 1	3.25 Hrs	\$4.35	\$14.14	\$0.00	\$14.14	\$0.00	9/1/2015
Aug 2015	Child 1	8 Days	\$30.00	\$240.00	\$0.00	\$240.00	\$0.00	9/1/2015
Sept 2015	Child 1	2.25 Hrs	\$4.35	\$9.79	\$0.00	\$9.79	\$0.00	9/21/2015
Sept 2015	Child 1	8 Days	\$30.00	\$240.00	\$0.00	\$240.00	\$0.00	9/21/2015
Sept 2015	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$0.00	10/1/2015
Oct 2015	Child 1	1 Hr	\$4.35	\$4.35	\$0.00	\$4.35	\$4.35	10/15/2015
Oct 2015	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$270.00	10/15/2015
Oct 2015	Child 1	2 Hrs	\$4.35	\$8.70	\$0.00	\$8.70	\$0.00	11/5/2015
Oct 2015	Child 1	11 Days	\$30.00	\$330.00	\$0.00	\$330.00	\$0.00	11/5/2015
Nov 2015	Child 1	0.25 Hr	\$4.35	\$1.09	\$0.00	\$1.09	\$0.00	11/18/2015
Nov 2015	Child 1	10 Days	\$30.00	\$300.00	\$0.00	\$300.00	\$0.00	11/18/2015
Nov 2015	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$0.00	12/7/2015
Nov 2015	Child 1	0.5 Hr	\$4.35	\$2.18	\$0.00	\$2.18	\$0.00	12/7/2015
Nov 2015	Child 2	18.75 Hrs	\$3.85	\$72.19	\$0.00	\$72.19	\$0.00	12/15/2015
Nov 2015	Child 2	2 Days	\$26.00	\$52.00	\$0.00	\$52.00	\$0.00	12/15/2015
Dec 2015	Child 1	3 Hrs	\$4.35	\$13.05	\$0.00	\$13.05	\$0.00	12/15/2015
Dec 2015	Child 1	11 Days	\$30.00	\$330.00	\$0.00	\$330.00	\$0.00	12/15/2015
Dec 2015	Child 2	32.75 Hrs	\$3.85	\$126.09	\$0.00	\$126.09	\$0.00	12/15/2015
Dec 2015	Child 1	0.75 Hr	\$4.35	\$3.26	\$0.00	\$3.26	\$1.67	1/6/2016
Dec 2015	Child 1	11 Days	\$30.00	\$330.00	\$0.00	\$330.00	\$168.83	1/6/2016
Dec 2015	Child 2	4.5 Hrs	\$3.85	\$17.33	\$0.00	\$17.33	\$8.87	1/6/2016
Dec 2015	Child 2	9 Days	\$26.00	\$234.00	\$0.00	\$234.00	\$119.71	1/6/2016
Jan 2016	Child 1	1 Hr	\$4.35	\$4.35	\$0.00	\$4.35	\$2.23	1/18/2016
Jan 2016	Child 1	10 Days	\$30.00	\$300.00	\$0.00	\$300.00	\$153.48	1/18/2016
Jan 2016	Child 2	15.75 Hrs	\$3.85	\$60.64	\$0.00	\$60.64	\$31.02	1/18/2016
Jan 2016	Child 2	2 Days	\$26.00	\$52.00	\$0.00	\$52.00	\$26.60	1/18/2016
Jan 2016	Child 1	2.75 Hrs	\$4.35	\$11.96	\$0.00	\$11.96	\$6.12	2/3/2016
Jan 2016	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$138.13	2/3/2016
Jan 2016	Child 2	12.75 Hrs	\$3.85	\$49.09	\$0.00	\$49.09	\$25.11	2/3/2016
Feb 2016	Child 1	4.75 Hrs	\$4.35	\$20.66	\$0.00	\$20.66	\$20.66	2/18/2016
Feb 2016	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$270.00	2/18/2016
Feb 2016	Child 2	16.25 Hrs	\$3.85	\$62.56	\$0.00	\$62.56	\$62.56	2/18/2016
Feb 2016	Child 2	6 Days	\$26.00	\$156.00	\$0.00	\$156.00	\$156.00	2/18/2016

Service Month	Child	Hours/ Days	Rate	Total CC	Family Fee	Total CC Paid	Total Federal Share	Date Paid
Feb 2016	Child 1	3.25 Hrs	\$4.35	\$14.14	\$0.00	\$14.14	\$14.14	3/7/2016
Feb 2016	Child 1	9 Days	\$30.00	\$270.00	\$0.00	\$270.00	\$270.00	3/7/2016
Feb 2016	Child 2	3 Days	\$26.00	\$78.00	\$0.00	\$78.00	\$78.00	3/7/2016
Mar 2016	Child 1	5.25 Hrs	\$4.35	\$22.84	\$0.00	\$22.84	\$22.84	3/17/2016
Mar 2016	Child 1	11 Days	\$30.00	\$330.00	\$0.00	\$330.00	\$330.00	3/17/2016
Mar 2016	Child 2	22.75 Hrs	\$3.85	\$87.59	\$0.00	\$87.59	\$87.59	3/17/2016
Mar 2016	Child 2	2 Days	\$26.00	\$52.00	\$0.00	\$52.00	\$52.00	3/17/2016
				\$6,836.00	(\$90.00)	\$6,746.00	\$2,319.91	

Client resource limits are outlined in Title 392 NAC Chapter 3, Section 6. Specifically, the section related to vehicles, at Title 392 NAC 3-006.06, states the following:

There is a \$12,000 market value limit for the family's first motor vehicle. The family's vehicle market value in excess of \$12,000 is applied to the \$6,000 resource limit. If the family has more than one motor vehicle, the worker must apply the limit to the vehicle with the greatest fair market value. Any other motor vehicles are treated as nonliquid resources and the equity is counted in the resource limit.

According to the Department of Motor Vehicles (DMV) Vehicle Title and Registration (VTR) system, two vehicles are titled to the client – a 1996 Dodge Avenger and a 2008 Toyota Sequoia with 110,091 miles, as of May 2015. Both vehicles are insured by the client. The following print screen from the DMV VTR system includes details on the Sequoia:



According to the Kelly Blue Book (KBB), at www.kbb.com, the trade-in value for a 2008 Toyota Sequoia *Platinum* in fair condition was \$20,181, in December 2015. This was the most conservative value available.

Originally, DHHS staff included this vehicle as a resource valued at \$12,000 for the Child Care Program from May 2015 through October 2015; however, the APA was unable to verify how that amount was determined. The value reported on the client's application for assistance in May 2015 was \$23,000, and the NFOCUS case narrative on the interview date of June 11, 2015, indicated resources were "As Declared on the Application."

In September 2015, the November 2015 eligibility determination was updated by DHHS staff using a KBB value of \$17,037. However, this updated value appears to be the value if the "limited" version of the vehicle were used. Using the "platinum" version, as noted on the DMV VTR system, the KBB value is higher.

In November 2015, the December 2015 eligibility determination was updated by DHHS staff and included a narrative that updated the KBB value used in the original budgeting process to \$15,043. Again, that value still appears to be a low estimate of the value.

Because the 2008 Toyota Sequoia had a greater value than the 1996 Dodge Avenger, DHHS was required to apply the limit to this vehicle. The value in excess of \$12,000 should have been applied to the \$6,000 resource limit, as follows:

Description	Value
Value of 2008 Sequoia	\$20,181
Motor Vehicle Limit	\$12,000
Excess Value Counted Toward Resource Limit	\$8,181

Because the value of the vehicle exceeded the motor vehicle limit by \$8,181, that entire amount should have been considered a resource, making the client ineligible for services under the Child Care Program. The APA confirmed this understanding of the Child Care Regulations with a DHHS Child Care and Development Program Manager.

DHHS was not in compliance with its own rules and regulations when determining eligibility for this client. Furthermore, when DHHS makes the error in the eligibility determination, current regulations do not allow for the collection of ineligible child care amounts paid. Such a lack of proper controls could result in the possible loss or misuse of State and Federal funds, as noted in this specific situation in which \$6,746 in ineligible child care payments is not able to be recovered.

Because there is no mechanism to collect overpayments resulting from errors made by DHHS, it is imperative that procedures exist to prevent errors. Therefore, we recommend DHHS implement additional procedures to ensure resources are accurately verified and included in the calculations when determining eligibility for all public assistance programs.

DHHS Response: The Agency has reviewed this case and is in agreement that the household is over the resource limit to receive assistance. The Child Care Subsidy Program does not pursue overpayments that were caused by agency error (392 NAC 3-012 and 5-005). No action can be taken to recoup the amount that this household received erroneously in assistance. The case has been corrected to reflect the appropriate amount of resources, however, the case was already set to close effective 09/01/16 as the client is now over the income limit. The client must be allowed timely notice (392 NAC 4-002.03B).

All Social Service Workers (SSWs) who will be working on the Child Care Subsidy Program must undergo a formal training on the program. In addition to the training, staff have been provided with numerous tips, memos, and assistance from the Policy Team in regards to how to appropriately handle cases. SSWs can also rely on their Social Service Supervisor or Social Service Lead Worker to assist them with any questions they may have. It is an expectation of the Child Care Subsidy Program that these cases are handled correctly. If any errors are identified, the Policy Team will work closely with the Supervisor and SSW to ensure the case is corrected and the understanding of the particular policy has been provided.

2. SNAP Program Eligibility

DHHS has a gross income limitation for SNAP Program clients in the determination of a family's eligibility for the Program. The gross income limitation for a family of five is \$3,024.

This client's gross income appears to have been over the limit for SNAP for several months between July 2015 and March 2016, as follows:

Month	Gross Income per Budget	APA Calculated Gross Income	Gross Income Limit	Ineligible Benefit
July 2015	\$1,195.93	\$3,093.91	\$3,024.00	\$643.00
August 2015	\$1,195.93	\$3,093.91	\$3,024.00	\$643.00
November 2015	\$2,307.34	\$3,081.79	\$3,024.00	\$396.00
Total				\$1,682.00

Note: The APA's calculation of gross income was based on amounts verified by the employer. DHHS makes a determination on whether the wages reported are stable or fluctuating. If income was considered stable, the past 30 days of actual income was used. If the income was considered fluctuating, a 30-, 60-, or 90-day average wages was used. The APA used the same calculation method used by DHHS in our calculation of gross income.

Because the client appeared to be over the gross income limitation during these months, the client was not eligible to receive the SNAP benefit and overpayments should be calculated.

Additionally, during the initial application process, DHHS determined the client was over the gross income limit in May 2015, so the family first received SNAP benefits beginning in June 2015. However, according to the APA's calculations, the client was also over the gross income limit for June 2015 and should not have received assistance that month.

In January 2016, the APA discussed the June 2015 calculation of the client's gross income with the DHHS SNAP Program Manager. At that time, it was our understanding that the Program Manager agreed with our eligibility determination for June 2015 and that the client was also over the limit for that month. The APA discussed the overpayment of \$380 for the June 2015 SNAP benefits with DHHS management during the fiscal year 2015 Statewide Single audit.

See **Exhibit A** for a more detailed explanation of the months with overpayments.

At that same meeting, the DHHS SNAP Program Manager indicated that, because the client was over the income limit for two consecutive months, benefits for this program should have been denied until the client reapplied for the program. The client submitted another application on November 7, 2015; therefore, all payments from June to October 2015 could have been disallowed by DHHS.

However, if DHHS had properly denied the benefit payments in May and June 2015, the client likely would have reapplied sooner than November 2015. Therefore, the APA reviewed the gross income amounts between July 2015 and March 2016.

In addition to the ineligible benefits for the three months noted above, the APA also determined the gross income amounts were not accurate for other months during the period, as follows:

Month	Gross Income per Budget	APA Calculated Gross Income
September 2015	\$1,340.47	\$1,723.13
October 2015	\$1,340.47	\$2,023.52
December 2015	\$1,248.72	\$2,685.00
January 2016	\$1,248.72	\$2,685.00
February 2016	\$1,248.72	\$2,685.00
March 2016	\$1,248.72	\$2,685.00

Although the gross income for these months was not over the \$3,024 limit, overpayments of the SNAP benefits are still possible. The SNAP benefit amount is calculated based on the net countable income, and the benefit amount will fluctuate depending upon the income used in the calculation. After certain deductions for household expenses, the net income limit for a family of five is \$2,326. Therefore, DHHS needs to determine whether there are overpayments associated with these months.

Title 475 NAC 3-002.03B states, in part, “[A]ny portion of the income that can be anticipated with reasonable certainty and verified must be counted.” Additionally, Title 475 NAC 3-002.03B3a states, “Income from the 30 days before the interview date is used as an indicator to project income for future months unless changes have occurred or are anticipated.” The regulations go on to explain how to project income if changes are expected. Lastly, good internal control requires procedures to ensure income calculations are accurate when determining eligibility of clients. In addition to being out of compliance with its own rules and regulations when determining eligibility for this client, DHHS’ lack of proper controls could result in possible loss or misuse of Federal funds.

We recommend DHHS implement procedures to ensure income amounts reported are accurately verified and included in the calculations when determining eligibility for all public assistance programs. Additionally, we recommend DHHS take the necessary action to recover any overpayments to this client.

DHHS Response: DHHS agrees with the determination of the household being over income for both May 2015 and June 2015. At the time of eligibility determination, the household exceeded income eligibility for application and subsequent month. This would require the household to submit a new application for SNAP consideration for the third month. There appears to be discrepancies between the DHHS and APA calculations used per month in determining the extent of potential over payment. DHHS will make corrections to this case in accordance with federal and state regulations on timeframes and claims calculation requirements.

APA Response: While general discussions were held regarding the determination of eligibility versus the calculation of overpayments, the APA was never provided with an official overpayment calculation from DHHS regarding this case. The APA agrees the overpayment amount should be calculated in accordance with regulations.

* * * * *

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 DHHS 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 DHHS.

This interim communication is intended solely for the information and use of DHHS, its management, the Governor and the State Legislature, and others within these State agencies. It is not intended to be, and should not be, used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Sincerely,



Pat Reding, CPA, CFE
Assistant Deputy Auditor



Philip J. Olsen, CPA, CISA
Audit Manager

Statewide Single – DHHS
Eligibility Determination Details
 FYE 6/30/2016

Exhibit A

**July 2015 Eligibility Determination (completed by DHHS on June 26, 2015)
 and August 2015 Eligibility Determination (completed by DHHS on July 2, 2015)**
(same income calculation used for both months)

Income Source	Amount per DHHS	Amount per APA	Variance
<i>Earned Income</i>			
Employer 1	\$0.00	\$318.72	(\$318.72)
Employer 2	\$439.94	\$471.37	(\$31.43)
Employer 3	\$0.00	\$1,305.82	(\$1,305.82)
Total Earned Income	\$439.94	\$2,095.91	(\$1,655.97)
<i>Unearned Income</i>			
Source 1	\$0.00	\$350.00	(\$350.00)
Source 2	\$756.00	\$648.00	\$108.00
Total Unearned Income	\$756.00	\$998.00	(\$242.00)
Total Gross Income	\$1,195.94	\$3,093.91	(\$1,897.97)

November 2015 Eligibility Determination (completed by DHHS on September 29, 2015)

Income Source	Amount per DHHS	Amount per APA	Variance
<i>Earned Income</i>			
Employer 1	\$92.45	\$92.45	\$0.00
Employer 2	\$1,698.89	\$1,972.67	(\$273.78)
Total Earned Income	\$1,791.34	\$2,065.12	(\$273.78)
<i>Unearned Income</i>			
Source 1	\$300.00	\$350.00	(\$50.00)
Source 2	\$216.00	\$666.67	(\$450.67)
Total Unearned Income	\$516.00	\$1,016.67	(\$500.67)
Total Gross Income	\$2,307.34	\$3,081.79	(\$774.45)