



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 24, 2018

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

Dear Ms. Phillips:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2017, 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, we have issued our report thereon dated December 14, 2017. 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 that are appropriate in the circumstances 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.

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 (Department) 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 Department'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 a 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 Comments Number 1 (Material Adjustments) and Number 2 (Overpayment Mailbox) to be significant deficiencies.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in separate early communication letters dated August 22, 2017, and November 27, 2017.

Draft copies of this letter were furnished to the Department 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.

The following are our comments and recommendations for the year ended June 30, 2017.

## **1. Material Adjustments**

The Department of Administrative Services, State Accounting Division (DAS), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report accurate amounts for financial reporting.

The Department indicated in its response to the Summary Schedule of Prior Audit Finding that its corrective action plan was complete regarding errors in accrual information. However, throughout testing, we noted the following items were not accurately reported to DAS:

- The Department overstated the Medicaid estate recovery receivable by \$5,394,119 due to an error made during the calculation. The receivable was based upon claims filed against the estates of deceased persons who received Medicaid assistance. A similar error was identified as having occurred in the prior fiscal year in which the receivable was overstated by \$3,452,876. The Auditor of Public Account's (APA's) proposed adjustment was made by DAS to correct the errors.

- Revenues and expenditures were overstated by \$3,611,420 within the Health and Social Services fund due to incorrect coding of two transactions to transfer funds. The APA's proposed adjustment was made by DAS to correct the error.
- The Medicaid refund receivable was overstated by \$8,708,028, as an amount related to a fraud case was also recorded as a Program Integrity receivable. The APA's proposed adjustment was made by DAS to correct the error.
- The Program Integrity receivable was overstated by \$14,825,383, as an allowance was not calculated for doubtful accounts. The Program Integrity receivable was based on fraudulent claims paid. In one case noted, the Department estimated that one individual would repay \$11,650,665. The individual was incarcerated, and the individual's assets had already been liquidated; it did not appear reasonable that the Department would collect on the entire balance. The APA's proposed adjustment was made by DAS to correct the error. Additionally, the State paid back all Federal funds initially used for fraudulent claims associated with the above case. However, when the individual's assets were liquidated and the State recovered some of those funds, the amount received was applied to both General and Federal funds, essentially paying the Federal funds back twice. The amount paid back to the Federal government in error totaled \$1,418,175.
- Two journal entries for \$7,750,721 and \$1,203,894 were made in fiscal year 2017 to correct expenditures recorded in previous fiscal years to the Federal fund, which should have been originally recorded in the General fund. These entries were not properly recorded as prior period adjustments, resulting in an overstatement of current year General fund expenditures and an understatement of current year Federal fund expenditures. The APA's proposed adjustment was made by DAS to correct the error.
- The Intergovernmental receivable amount due from the Federal government was overstated by \$2,758,274, as several incorrect figures from Federal reports were used when calculating the balance, an allowance for doubtful accounts was not considered, and an error within the Department's cost allocation plan overcharged expenditures to several Federal grants.
- The patient and county billings receivable was overstated by \$123,102 due to various errors. The patient and county billings are receivables based on services provided by the Beatrice State Development Center as well as the Department's three operated Regional Centers in Lincoln, Hastings, and Norfolk. For 3 of 25 account balances tested, the balances were inaccurately reported as receivable on June 30, 2017. In addition, it was noted that outstanding accounts were not being actively followed up on in a timely manner. No adjustments were proposed or made for these immaterial amounts.
- The Nebraska Family Online Client User System (NFOCUS) receivable was overstated by \$11,647, due to the incorrect reports being used when calculating the receivable balance. The receivable was based upon service providers that were overpaid for providing various support services to eligible Nebraskans. No adjustments were proposed or made for these immaterial amounts.

A similar finding was noted during the previous audit.

Title 2 CFR part 200.511(a) (January 1, 2017), requires the auditee to prepare a summary schedule of prior audit findings. Per subsection (b)(2) of that same regulation, “When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding’s recurrence and planned corrective action, and any partial corrective action taken.”

A good internal control plan requires agencies to have procedures for the reporting of accurate and complete financial information to DAS.

Without such procedures, there is a greater risk that material misstatements may occur and remain undetected.

We recommend the Department implement procedures to ensure information is complete and accurate. The Department should also have adequate procedures in place for a secondary review to verify the information is supported, reasonable, and accurate.

*Department Response: DHHS Financial Services will continue to develop, assess, and improve upon internal procedures. Since the issuance of the 2013 Single Audit, the Agency has implemented several improvements to the CAFR accrual reporting process that has resulted in fewer errors in recent Single Audits. Financial Services staff in cooperation with Internal Audit hosts an annual CAFR kick-off meeting with all staff involved in the reporting process and includes DAS Accounting in these meetings. This meeting outlines the internal reporting process, documentation expectations, prior year audit findings and deadlines. Documentation for each accrual item is then collected and compiled by Financial Services based on a pre-defined and communicated deadline for an initial review and then is subsequently reviewed by Internal Audit staff.*

## **2. Overpayment Mailbox**

On November 30, 2011, the Department set up the Overpayment Mailbox for eligibility overpayments. Previously, Social Service Workers (SSWs) would set up overpayments and underpayments in NFOCUS as they discovered them. Eligibility overpayments were referred via email to the Mailbox to be worked by an Overpayment (OP) Unit team. In April of 2017, the Department converted the Mailbox to a database with an online submission form. Referrals from the Mailbox were transitioned to the new database.

In our review of the new database, we noted 10,614 Supplemental Nutrition Assistance Program (SNAP) overpayment referrals were closed without the OP team working them. The Department indicated the referrals were not pursuable because they were over 12 months old.

A similar finding was noted during the previous two audits.

Per Title 475 Nebraska Administrative Code (NAC) Chapter 4-007.01A, “Overpayments must be established against households who were issued benefits they were not entitled to receive due to an AE [Administrative Error] for no more than 12 months before the month of initial discovery.” However, this State regulation appears to conflict with Title 7 Code of Federal

Regulations (CFR) § 273.18(c)(1), which requires the Department to “calculate a claim back to at least twelve months prior to when you became aware of the overpayment.” (Emphasis added.) Currently, the Department’s definition of the date of discovery is the date the Department confirms an overpayment occurred. This definition allows referrals to be unworked for an extended period of time and allows the Department to create an overpayment at any point in time, effectively circumventing regulations requiring referrals to be established as receivables within specific time frames.

Even if the Federal regulations did not exist, common sense and good internal control would suggest the original intent of the State regulation was not to allow the Department to sit on overpayment referrals until they are over 12 months old, and then close them.

We also performed testing of nine overpayment receivables and noted that two of the referrals were not timely established as receivables within State and Federal requirements. In addition, we noted one individual with an outstanding receivable balance was currently receiving benefits through other programs, and the Department was not recouping funds from those payments. Finally, documentation related to the Department’s collection efforts for one receivable was not included in NFOCUS.

SNAP regulation Title 7 CFR § 273.18(d)(1) (January 1, 2017) requires the State to “establish a claim before last day of the quarter following the quarter in which the overpayment or trafficking incident was discovered.” The Department follows this timeframe for all programs. A good internal control plan requires procedures to be in place to ensure overpayments are established in NFOCUS in a timely manner.

Per the Department’s regulations at Title 392 NAC Chapter 5-005, “The Department must take all reasonable steps necessary to promptly correct overpayments.”

Per the Department’s regulations at Title 475 NAC Chapter 4-007.02A, “Collection on Accounts receivable will be done through recoupment from the household’s benefit or by other collection actions. “

Without adequate controls and resources to work suspected overpayments, timeframes set by Federal regulations may not be met. Overpayments not worked timely have a lesser chance of collection. Overpayments not worked at all will have no chance of collection. There is less incentive for the Department to pursue collection on SNAP AE overpayments, as the Federal government requires all of those collections to be returned in their entirety to the Federal government. However, those overpayments increase the taxpayer burden at the Federal level, and the Department should actively pursue those receivables. Considering the number of referrals not worked, there are potentially millions of dollars in overpayments that the Department has not attempted to recover.

We recommend the Department implement procedures and devote adequate resources to investigating and establishing NFOCUS receivables. We recommend the Department define the date of discovery as the date the regular SSW first becomes aware of a potential overpayment. The Department should comply with Federal regulations. We also recommend the Department implement procedures to reduce the number of SNAP AE overpayments.

*Department Response: The Agency is processing all new overpayment referrals timely. New referrals are worked within 30 days of receipt. We have timely processed new potential overpayment referrals since October 2016. The Agency does not dispute that the best course of action is to process potential overpayment referrals quickly and timely. As of June 30, 10,743 Economic Assistance potential Overpayment Backlog referrals remained to be processed, the team was working on referrals received in December 2015. As the agency, focused on referrals from 2015 and prior, we began to have issues in determining if an overpayment exists. The issues include: ability to locate household, clients did not have income and expense information from the time period, employers also did not have easy access to wage information, and appeals were being lost due to state statute regarding the time limit in pursuing overpayments that are caused by the agency. These factors make the cost to process this backlog to be not efficient in terms of amount of overpayments that would be determined and collectible. A decision was made to suspend processing 10,614 SNAP referrals, and contact USDA Food and Nutrition Service for advice. We are looking for a cost efficient method to process referrals, calculate the overpayment if it is determined we have one and the ability to close agency caused overpayments that are over 3 years old. The Regional FNS office is consulting with the National office regarding the Nebraska situation. The state has continued to process the other Economic Assistance Programs such as ADC, AABD, LIHEAP, Child Care because these programs do not have the issue with the agency caused overpayments which exist in SNAP Program. The projected date is February 28, 2018 to complete processing of the Economic Assistance potential Overpayment Referral Backlog, which on February 1, 2017 had 18,432 referrals.*

*The monthly new referrals range from 300 – 500 referrals which are processed within 30 days of referral. In the past year staff has received information and training regarding the Agency Caused Overpayments. ACCESSNebraska is also efficient at case processing and staying current with workload. Together these things have helped reduce the number of Agency Caused Overpayments.*

### **3. Family Support Service Rates**

The Department contracts with Family Support workers (providers) to assist foster care children and their families. These providers were paid \$47 per hour, with a one-hour minimum charge, for time spent assisting the child and family. The Department also paid the \$47 minimum charge if the family was not home when the provider arrived at the house for a visit.

During review of one provider payment, the APA noted a significant number of unscheduled visits by the provider when the family was not home. The provider billed 56.25 hours and was paid \$2,644. However, only seven of the total 56.25 hours billed to the Department were for time spent with the child and family. The remaining 49.25 hours billed were for instances when the provider went to the family's home and no one was there. This was often a five-minute stop to determine that the family was not home, in which case the provider still billed the Department for a full hour at \$47.

While the APA acknowledges that it may be necessary to have unscheduled visits, the providers appear to have been trying sometimes to arrive at the home when the family was absent. For example, one narrative documented by the provider stated, "FSW [Family Support Worker] arrived at 5:35pm to ensure [Mother] was at work. [Mother] was not at home and was still at work." However, stopping at the family home did not ensure that the mother was at work; it

verified only that she was not at home. Another narrative stated, “FSW arrived at 4:10pm to ensure [Mother] had left town as she had said. [Mother] was not at home.” Again, this did not verify the whereabouts of the family.

During our review of the provider payment, the APA noted also that one instance was billed based upon a start time of 11:30 a.m., but the provider’s own narrative documents that the provider did not arrive until 7:40 p.m. Additionally, of the 56.25 hours billed, only one face-to-face contact was over one hour. Another 13 face-to-face contacts with families ranged from 15 to 30 minutes, but the Department was charged a full hour for each.

The Family Support services contract with providers contains the following:

- *For the service of Family support, DHHS shall pay the Contractor \$47 per full hour of direct, face to face contact time assisting the child and/ or family.*
- *In those unplanned situation where the Family Support Worker spends less than one hour of direct, face to face contact time with the youth and family, DHHS will pay the contractor for one full hour of service at \$47.00 per hour.*
- *In those situations where the Family Support work travels to meet the family, and the family is not present (a no-show) for the session at the designated time and location, or the session is cancelled while en-route to the location (a no-show), DHHS will pay the Contractor for one full hour of services at \$47.00 per hour. The contractor must provide written documentation of each no-show. The documentation must include the client’s name, the date and time of the no-show and the circumstances surrounding the no-show.*

Good internal control and sound business practice require procedures to ensure that rates paid for services are reasonable, and authorized services are necessary.

When a minimum charge is allowed by a contract provider, there is an increased risk of the system being abused and charges being made for family support services when no face-to-face contact has occurred.

We recommend the Department review Family Support service rates and consider discontinuing the practice of paying one full hour of service when a full hour of service is not provided.

*Department Response: The Agency will review the Family Support service rates, and will consider revising the practice of paying one full hour of service when less than a full hour of service is provided.*

#### **4. Federal Fund Balance Classification**

Department Federal fund balances, totaling \$5,235,780, were classified as due to other funds. The APA requested support and reasoning of why these fund balances should have been classified in this manner; however, despite repeated such requests, the Department did not respond to explain or support the classification of the fund balances.

Regarding information requested by the APA during the course of an audit, Neb. Rev. Stat. § 84-305(2) (Supp. 2017) states, in relevant part, the following:

*No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity.*

Additionally, in Op. Att’y Gen. No. 02030 (Dec. 2, 2002), the Nebraska Attorney General has opined that agencies are required to answer questions posed by the APA pertaining to a financial audit:

*As noted in our discussion of your Question No. 2, § 84-304 (9) provides that the APA must conduct all audits and examinations in accordance with the standards for audits of governmental organizations, programs, activities, and functions set out the Yellow Book. Based upon that statute, it appears to us that an agency of state government is required to respond to questions in a financial audit apart from simply providing documents to the Auditor if such questions are contemplated and authorized by the Yellow Book standards for financial audits. After reviewing those standards, we believe that they do require agencies to answer proper inquiries from the Auditor in the context of a financial audit.*

Non-compliance with State statute increases the risk of material misstatement or error when an agency cannot, or will not, provide support for its classification of fund balances.

In order to allow for proper compliance with § 84-305(2), we recommend the Department ensure that its staff are knowledgeable about, as well as able and willing to explain, where or to whom fund balances are due.

*Department Response: The Agency agrees with the condition reported and will implement a process to ensure timely responses are given.*

## **5. Software Capitalization**

The Department incorrectly capitalized costs, totaling \$1,860,047, for an annual software subscription licensing fee.

The Department of Administrative Services’ (DAS) State Accounting Manual, General Policies Section 28, Capital Outlay, states, in relevant part, the following:

*[C]omputer software that is internally developed or substantially modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year.*

Sound accounting practices and a good internal control plan require the Department to implement policies and procedures to ensure purchases are properly expensed or capitalized, as prescribed in the State Accounting Manual.

When software purchases are not recorded as prescribed in the State Accounting Manual, there is an increased risk the financial statements will be materially misstated.

We recommend the Department implement policies and procedures to ensure software purchases are properly expensed or capitalized in accordance with the State Accounting Manual.

*Department Response: The Agency agrees with the condition reported. Staying consistent with the prior year coding and DAS policies, the annual maintenance costs should have been coded to a non-capitalized object code. This miscoding does not affect Federal funding, but results in a misrepresentation of financial statements. With FuzioN implementation approaching, DHHS*

*will recommend the new accounting system warn users that use of 58xxxx series object codes needs to be verified by DHHS Support Services. Support Services tracks and maintains lists of capitalized assets. Implementation of a systematic warning will prompt action of users to check coding accuracy.*

## **6. Nebraska Families Collaborative Payable**

The Department overstated the amount due to Nebraska Families Collaborative (NFC) at June 30, 2017, by \$2,195,004. In addition, the amount was incorrectly recorded as payable from the Federal fund when it should have been payable from the General fund.

Furthermore, the Department did not have procedures in place to ensure the expenditures used in the payable calculation were reasonable and in accordance with the agreement in place with NFC.

A good internal control plan requires the Department to have procedures in place for the reporting of accurate and completed financial information. Additionally, a good internal control plan requires procedures to ensure expenses are reasonable and in accordance with the agreement on file.

According to Amendment One, October 2016, of the subaward agreement between the Department and NFC, Article II, Section C, states the following:

*At the end of each month, if DHHS determines that Subrecipient's reasonable expenses have exceeded payments under Article II, Section B (1), (2), and (3) of this subaward for the month, DHHS will reimburse Subrecipient 80% of the amount by which the reasonable expenses exceed payments for the month. Subrecipient will be responsible for the other 20% up to a total of \$400,000 for the term of this subaward.*

Without adequate processes and procedures in place to ensure the accuracy of financial reporting, there is a greater risk material misstatements may occur and remain undetected. Additionally, without procedures in place to ensure expenses were reasonable, there is an increased risk the State funds will be used inappropriately.

We recommend the Department implement procedures to ensure information is complete and accurate. The Department should also have adequate procedures in place for a periodic review of NFC expenditures to ensure they are supported, reasonable, and accurate. Furthermore, we recommend the Department implement procedures to ensure NFC expenses are reviewed for reasonableness prior to reimbursement.

*Department Response: The Agency will review procedures, to ensure that information that is received is complete and accurate, and that periodic reviews of Nebraska Families Collaborative expenditures are reviewed for support, reasonableness, and accuracy prior to reimbursement.*

**7. University of Nebraska Medical Center Medical Education Revolving Fund**

In fiscal year 2015, the APA questioned disproportionate share hospital expenditures made from the University of Nebraska Medical Center Medical Education Revolving Fund (Revolving Fund). In establishing the Revolving Fund, Neb. Rev. Stat. § 85-134 (Reissue 2014) states, “The fund shall be used to fund medical education.” Per discussion with the Department, legislation had not been introduced to allow the inclusion of disproportionate share hospital expenditures. During the year, the Department expended a total of \$15,993,851 from the Revolving Fund, including expenditures for disproportionate share hospital expenditures.

Neb. Rev. Stat. § 85-134 (Reissue 2014) provides the following, in relevant part:

*The University of Nebraska Medical Center Medical Education Revolving Fund is hereby established to be administered by the Department of Health and Human Services. The fund shall be used to fund medical education.*

When the Department processes expenditures from the Revolving Fund, other than those allowed by the unambiguous statutory language above, it is not in compliance with State law.

A similar finding was noted during the previous audit.

We recommend the Department comply with § 85-134 and, if necessary, propose legislation that would allow disproportionate share hospital expenditures from the Revolving Fund.

*Department Response: The Agency believes we are in compliance with the statute. However, due to the ambiguous nature of the statute we will be reviewing in further detail with the University of Nebraska Medical Center.*

**8. External MMIS USER Access**

The Medicaid Management Information System (MMIS) supports the operations 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.

In our review of access to MMIS, we noted that 87 of 642 external users tested from 10 external entities were no longer current and active employees of the external entity or no longer needed access to MMIS.

The APA requested contact information for 10 of 632 external entities with user access to MMIS to determine if users were still active employees and needed access to perform their job duties. The entities selected and the results of this inquiry are set out in the following table:

<b>MMIS External Entities</b>			
<b>Entity</b>	<b>Exceptions</b>	<b>Total Users</b>	<b>% Not Needing Access</b>
Alegent Creighton Clinic CHI Health Clinic – Omaha	6	43	14%

<b>MMIS External Entities</b>			
<b>Entity</b>	<b>Exceptions</b>	<b>Total Users</b>	<b>% Not Needing Access</b>
Beatrice Community Hospital	2	40	5%
BryanLGH Physicians Network	0	24	0%
Children's Hospital & Medical Center	19	73	26%
Douglas County	1	14	7%
Great Plains Regional Medical Center	2	27	7%
Mary Lanning Memorial Hospital	4	104	4%
NHS Patient Financial Services	4	106	4%
The Physicians Network	13	83	16%
WellCare of Nebraska	36	128	28%
<b>Total</b>	<b>87</b>	<b>642</b>	<b>14%</b>

A similar finding was noted during the previous audit.

The Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101 (December 2013), Section 4.7.2, User Account Management, states the following, in relevant part:

*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 external entities did not inform the Department timely when employees were terminated. The Department performs a review of external users' access once a year.

Failure to terminate former user access to networks and applications creates the opportunity for unauthorized access to federally protected State data.

A similar finding was noted during the previous audit.

We recommend the Department improve procedures by performing more routine reviews of external users' access to MMIS in order to ensure unauthorized access is removed in a timely manner. We also recommend the Department periodically inform external entities of the importance of notifying the Department to remove employee access to MMIS upon termination.

*Department Response: Although a similar finding was noted during the previous audit, the MLTC EDI Help Desk has made significant progress in 2017 to address concerns with MMIS External User Access. This is reflected in the finding decrease from 43.7% in 2016 to the 13.6%*

*determined from the MMIS External Access User population provided to auditors in March of 2017. The EDI Help Desk has reviewed and removed access for all 87 users identified in the audit finding. During May, 2017, the sponsoring entities were contacted via email to notify them of the removal of access for the specific external users identified and also notified of the importance of providing immediate updates to the EDI Help Desk when access is no longer needed for any of their external users. Failure to do so will put their participation at risk.*

*Since January 2017, the EDI Help Desk has verified 100% of the total user population. The current goal is to verify each individual user within the population twice per year. Included in each verification request sent to users, the external agency is reminded of both the responsibility to immediately notify the EDI Help Desk of any change that would affect MMIS External User Access needs, as well as a reminder that misuse or sharing of enrollment credentials may be cause for individual or group disenrollment.*

## **9. Terminated Users**

The Department had 1,171 employee terminations from July 1, 2016, through March 30, 2017. For 3 of 25 terminations selected for testing, we noted user accounts granting access to various Department applications and systems were not disabled or removed in a timely manner (within three business days). The delay in disabling the user IDs for the three terminated employees was 6, 21, and 51 days respectively.

For two of two terminated Medicaid Drug Rebate (MDR) users tested, access was not removed timely. The delay in disabling the ID for the two terminated employees was 8 and 123 business days, respectively. For two additional MDR users reviewed, user access was not appropriate. The two additional users were consultants who no longer required system access.

The Department did not have an adequate process in place to ensure access to the Supreme Court's Judicial User System To Improve Court Efficiency (JUSTICE) system was removed in a timely manner upon user termination. We noted five Department users still had access to JUSTICE after their termination dates. As of the date of testing, users retained access from 31 to 189 business days past their termination dates.

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101 (December 2013), Section 4.7.2, User Account Management, states the following, in relevant part:

*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 includes a process to ensure terminated users' access is removed timely.

When access to networks and applications is not terminated timely, it creates the opportunity for inappropriate access to State resources, as well as unauthorized processing of transactions. Additionally, such access may violate Federal privacy laws.

A similar finding was noted during the previous audit.

We recommend the Department ensure user access is disabled immediately upon termination.

*Department Response: The Agency's Human Resources Section will implement a process to ensure timely notification to the Helpdesk of an employee separation.*

*MDR System – A monthly review of MDR users was implemented June 2017 to ensure all current users still require access and that changes occur timely.*

*JUSTICE System – The JUSTICE System is managed by the Nebraska Supreme Court. The IS&T CHARTS Production Support team coordinates the activation and termination of users in the Justice Supreme Court System for Child Support state, county, and contract staff if required by a supervisor. The Agency will revise procedures that upon termination, to check the Justice System and remove the user immediately when they are notified.*

#### **10. CCF/MMF Tool User Access**

The Department uses the Change Control Facility/Migration Management Facility (CCF/MMF) tool for tracking changes made to the Children Have A Right To Support (CHARTS), Medicaid Management Information System (MMIS), and Nebraska Family Online Client User System (NFOCUS) systems. The CCF/MMF tool is a mainframe application that maintains prior code versions in order to revert back to previous code. During a review of access to the CCF/MMF tool, eight users were identified who had access to check out code, develop a change, promote the change, and move the change into production.

NITC Standards & Guidelines, Information Security Policy 8-101 (December 2013), Section 4.9.11, Change Control Management, states the following:

*To protect information systems and services, a formal change management system must be established to enforce strict controls over changes to all information processing facilities, systems, software, or procedures. Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained. These change control procedures will apply to agency business applications as well as systems software used to maintain operating systems, network software, hardware changes, etc.*

NITC Standards & Guidelines, Information Security Policy 8-101 (December 2013), Section 4.3.2.3, Separation of Duties, states the following:

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

*Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, audit trails and management supervision must be implemented. At a minimum, the audit of security must remain independent and segregated from the security function.*

A good internal control plan and sound accounting practice require application change approval to be completed by someone independent from the person who developed the change.

There is an increased risk that a change could be developed and moved into production by a single individual when an adequate segregation of duties does not exist. There is also an increased risk of malicious coding being introduced into the production environment.

A similar finding was noted during the previous audit.

We recommend the Department implement procedures to ensure an adequate segregation of duties to prevent a user from developing a change and moving the change into production.

*Department Response: A change was implemented by the OCIO Change Control Facility, Migration Management Facility staff on July 10, 2017, to the CCF/MMF tool and security. Any staff able to authorize source code to be migrated to production no longer has the capability to edit any of the program source code. This has eliminated the ability/access for staff to make a program change and approve/promote the change to production.*

## **11. NFOCUS User Access**

The NFOCUS application is used to automate benefit/service delivery and case management for several Department 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. In our review of employee access to NFOCUS, we noted the following:

- For 3 of 25 NFOCUS users tested, the level of user access was inappropriate for the user's job responsibilities, per the NFOCUS employee checklist or Department support ticket.
- For 3 of 21 NFOCUS users tested, the NFOCUS Access Request Checklist or Department support ticket was not properly completed or reviewed annually.

NITC Standards & Guidelines, Information Security Policy 8-101 (December 2013), Section 4.7.2, User Account Management, provides the following, in relevant part:

*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 DHHS NFOCUS Access Request Checklist and Site Security Request Form, states the following, in relevant part:

*Instructions: Complete and sign the DHHS Internal Staff N-Focus Access Request Checklist and give to your local Security Administrator. Security Administrators are not permitted to complete the form for you and are instructed to return any incomplete or unassigned requests back to the requesting supervisor . . . .*

*Once the checklist is signed and dated, the supervisor should make a copy to submit to the Security Administrator and retain the original for the employee's records.*

*On an Annual basis the supervisors should review their copies of checklists for accuracy:*

- *Is the current access still applicable?*
- *If the access is still accurate, the supervisor should indicate the date review was completed on the original checklist.*
- *If a change is needed, the supervisor should resubmit a new checklist with the accurate access needed.*

Without the proper completion of the NFOCUS Access Request Checklist, the Department 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 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 State funds.

A similar finding was noted during the previous audit.

We recommend the Department establish procedures to ensure the NFOCUS Access Checklist is properly completed, maintained, and reviewed annually or when there is a change of assigned duties. For those who are granted access to NFOCUS without completing the NFOCUS Access Checklist, we recommend the Department establish a formal policy and procedure to request, approve, and grant such access and perform an annual review of it. We also recommend the Department establish policies and procedures to ensure changes in access are made based on modifications to annual checklists.

*Department Response: New checklists and documented reviews will be completed for all users identified in the finding. Additionally, the Agency is currently working on an automated system whereby supervisors will receive an email reminder that it is time to complete an annual review of system access for any of their direct reports. The system will require acknowledgement from the supervisor attesting that the review has been completed. This control will automatically record the date the review was completed.*

## **12. AB21 User Access**

For four of seven user IDs selected for testing, the user's access to the Address Book 21 (AB21) role in EnterpriseOne was not reasonable and appropriate. Users with this role were authorized to maintain and update search types PH, XH, PM, XM, PW, XW (Public Assistance, Medicaid, and Welfare). This role also allowed access to bank account information in these areas.

NITC Standards and Guidelines, Information Security Policy 8-101 (December 2013), Section 4.7.2, User Account Management, states the following, in relevant part:

*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.*

Failure to review or remove access to networks and applications when users no longer require such access creates the opportunity for unauthorized access and changes to data.

A similar finding was noted during the previous audit.

We recommend the Department establish procedures to review AB21 user access to determine if it is still reasonable and necessary for the employee's job duties.

*Department Response: The Agency worked with the Department of Administrative Services (DAS) EnterpriseOne team to modify the security for AB21 and removed the ability for users with this profile to view bank account information. This change was implemented July 17, 2017. Additionally, DHHS worked with DAS to remove the ability to modify any address book information in EnterpriseOne for users with AB21. This change was implemented August 18, 2017.*

### **13. Journal Entry Coding**

The Department performed an entry to move \$46,631 of expenses between Federal Fiscal Year (FFY) 2015 and FFY 2016 Child Nutrition Grants. The entry was improperly coded, resulting in the amount being incorrectly recorded in the current year as other revenue and Health and Social Services expenditures in the Federal fund.

A good internal control plan and sound accounting practices include procedures to ensure that proper account coding is used.

When journal entries are not coded to the correct accounts, there is an increased risk the financial statements will be misstated.

We recommend the Department ensure that proper account coding is used when performing journal entries.

*Department Response: The Agency will review and revise the existing journal entry procedure. Special attention will be given to coding that spans Federal Fiscal years as that is not part of the current procedure.*

### **14. Exempt Employee Timesheet Certification**

The Department's overtime-exempt employees were not required to maintain documentation of actual time worked or certify that they worked at least 40 hours each week. Employees were required only to record leave used. As a result, there was nothing to support that staff rendered at least 40 hours of labor each week, as required by State statute.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states the following:

*All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.*

In addition, a good internal control plan requires that hours worked be adequately documented and approved, via timesheets or time logs, etc., and that such documentation be kept on file to provide evidence of compliance with § 84-1001(1).

Without adequate controls over payroll, there is an increased risk for payroll and leave balance errors, not to mention failure to comply with § 84-1001(1).

A similar finding was noted during the previous audit.

We recommend the Department implement procedures to document adequately employee hours worked or have the employee certify that the hours worked or leave used, or a combination thereof, totaled at least 40 hours each week.

*Department Response: The findings in CAFR finding #14 reports failure to comply with State Statute 84-1001 (1). Department of Health and Human Services over-time exempt employees are required to certify 40 hours rendered in any week. This certification is the approval at a supervisor level to document 40 hours rendered on each employee's time card. Supervisors also approve leave to supplement an employee's FTE in the event the employee did not render 40 hours in a work week. These approvals can be ran in Kronos via audit trails to provide evidence of compliance with 84-1001 (1). In the event that an employee or supervisor has not approved a time card and payroll must approve timecards; the payroll team will have email correspondence to the employee and supervisor to verify 40 hours rendered and keep documentation of such confirmation in their payroll files.*

Furthermore, 48-1230 (2) states:

*(2) On each regular payday, the employer shall deliver or make available to each employee, by mail or electronically, or shall provide at the employee's normal place of employment during employment hours for all shifts a wage statement showing, at a minimum, the identity of the employer, the hours for which the employee was paid, the wages earned by the employee, and deductions made for the employee. However, the employer need not provide information on hours worked for employees who are exempt from overtime under the federal Fair Labor Standards Act of 1938, under 29 C.F.R. part 541, unless the employer has established a policy or practice of paying to or on behalf of exempt employees overtime, or bonus or a payment based on hours worked, whereupon the employer shall send or otherwise provide a statement to the exempt employees showing the hours the employee worked or the payments made to the employee by the employer, as applicable.*

*Employees who are an hour's method employees do report actual hours worked as their hours must be allocated based off of actual hours worked. This is a policy and mandated compliance for federal grant funding to record proper allocation of funds. These are documented as such to also comply with 48-1230 (2). All other percentage method employees need not provide information on hours worked as stated in 48-1230 (2).*

*It is DAS Payroll's final determination that we are in full compliance with all referenced statutes.*

**APA Response:** The Department has referenced Neb. Rev. Stat. § 48-1230(2) (Cum. Supp. 2016), which requires an employer to provide an employee certain information each regular payday. That statute has no bearing upon § 84-1001(1), which pertains to the requirements of State employees when rendering full-time service. Furthermore, the finding does not report failure on the part of the Department to comply with § 84-1001(1), as indicated by the Department's response. Rather, it is unknown if employees complied with § 84-1001(1) because the Department did not require overtime-exempt employees to maintain documentation of actual time worked or to certify that they had worked at least 40 hours each week. In order to ensure compliance with § 84-1001(1), we have recommended that the Department implement procedures to document adequately employee hours worked or have the employee certify that the hours worked or leave used, or a combination thereof, totaled at least 40 hours each week. We have also pointed out that, without adequate controls over payroll, there is an increased risk for payroll and leave balance errors.

#### **15. Stale Checks**

We noted that the Department had several checks on hand from September 2013 through November 2015 that had not been cashed or disposed of appropriately. A majority of the checks had not been cashed, as they were either duplicates or recoupments from the individual had already been made through other means, etc. However, there was \$37,660 in checks that still needed further review to determine if they should be cashed or discarded.

Neb. Rev. Stat. § 84-710 (Reissue 2014) states the following, in a relevant part:

*It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

A good internal control plan requires procedures to ensure that all monies received are deposited to the State Treasury timely.

Without such procedures, there is an increased risk for not only the loss or theft of funds but also non-compliance with State statute.

A similar finding was noted in the previous audit.

We recommend the Department implement procedures to ensure that all monies received are deposited to the State Treasury timely.

*Department Response: Management has reviewed all of the checks and has requested replacement checks where appropriate or destroyed checks where replacement checks were already received.*

\* \* \* \* \*

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 Department 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 Department.

This communication is intended solely for the information and use of the Department, the Governor and State Legislature, others within the Department, 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.



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