NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 19, 2019

Dannette Smith, Chief Executive Officer
Nebraska Department of Health and Human Services
301 Centennial Mall South, 3rd Floor
Lincoln, Nebraska 68509

Dear Ms. Smith:

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, 2019, in accordance with auditing standards generally accepted in the United States of America and the 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 19, 2019. 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 Department 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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies 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 consider Comment Number 1 (Material Adjustments) to be a material weakness.

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 Comment Number 2 (Lack of Adequate Subrecipient Monitoring), Number 3 (Capital Asset Issues), Number 4 (Program 354 – Child Welfare Aid), Number 5 (Medicaid Holding Fund), Number 6 (NFOCUS User Access), Number 7 (Overpayment Mailbox), Number 8 (Lack of Internal Controls Over Program 262), Number 9 (University of Nebraska Medical Center Medical Education Revolving Fund), and Number 10 (NFOCUS External Access – Child Advocacy Centers) 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 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, 2019.

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, including various accounts receivable and payable balances.

In its response to the Summary Schedule of Prior Audit Finding(s), the Department stated that its corrective action plan was complete with regard to errors in accrual information. Throughout testing, however, we noted that several items were not accurately reported to DAS. A similar finding was noted during the previous audit. The errors below, totaling $114,787,193, in over/understatements, were corrected, where necessary, by DAS to ensure the financial statements were materially accurate, as proposed by the Auditor of Public Accounts (APA).

Receivable & Payable Description	Over/(Understated)	Reason
Disproportionate Share Hospital (DSH) Payable	$ (54,241,902)	The DSH payable is for amounts due to hospitals that disproportionately serve low-income patients. The Department did not properly calculate the liability. For the current fiscal year, it only reported $106,306. The Department did not consider that payments to hospitals are two years behind and, therefore, there should be both a long-term payable of $26,138,914, and a short-term payable of $28,102,988. The Department also did not report a proper payable for fiscal year 2018, understating the beginning balance by $30,564,534.

Receivable & Payable Description	Over/(Understated)	Reason
Indirect and Direct Medical Education (IME/DME) Payable	$ (25,923,435)	The IME/DME payable is for payments to hospitals approved for medical education programs. The Department did not report all hospitals on its accrual response form submitted to DAS, and its calculation was not proper for all managed care organizations, causing an understatement of $25,923,435. Furthermore, the Department did not use the proper Federal and State funding percentages for proper presentation in the financial statements.
Patient & County Billing Receivable	$ 9,600,184	The receivable is for balances due for services provided to clients at the Department's Beatrice State Development Center and three Regional Centers in Lincoln, Hastings, and Norfolk. The Department included balances that were not collectible, intra-agency receivables, and allowances that were not supported. Errors noted caused an overall overstatement of $9,600,184.
Medicaid Drug Rebate (MDR) Receivable	$ (7,841,110)	The MDR receivable is for Medicaid drug rebates due from drug labelers. The Department used the July 31, 2019, report, instead of the June 30, 2019, report of balances due, to calculate the receivable, causing an understatement in the amount reported totaling $7,841,110.
State Rx Benefit Payable	$ 5,720,393	The Department reported a payable for the State's prescription benefit payable; however, the payment made in July 2019 was already recorded in the accounting system as a payable as of June 30, 2019. This caused an overstatement of $5,720,393, as recording it in the accounting system and reporting it to DAS would cause a duplicate of the payable.
Third Party Liability (TPL) Receivable	$ 3,821,112	The TPL receivable is amounts attempting to be collected from third parties, such as insurance companies, for services provided to individuals. The Department incorrectly calculated the receivable for an annual estimated amount, versus the determined 45-day outstanding balance, causing the overstatement of $3,821,112. Furthermore, the Department had not considered an allowance for doubtful accounts, which was determined by the APA to be $5,691,655 at June 30, 2019.

Receivable & Payable Description	Over/(Understated)	Reason
Nebraska Family Online Client User System (NFOCUS) Receivable	$ 4,651,343	The NFOCUS receivable consists of amounts due from individuals for overpayments made from various assistance programs, such as SNAP (Supplemental Nutrition Assistance Program), TANF (Temporary Assistance for Needy Families), etc. The Department had not considered an allowance for doubtful accounts for the SNAP program, causing an overstatement of $4,651,343.
Program Integrity Receivable	$ 2,099,287	Program integrity receivable consists of amounts owed from Medicaid recipients for overpayments, fraudulent claims, etc. The Department included balances, totaling $1,732,892, for closed cases where the Department was not expecting to receive future collections; two account balances were not reduced properly for amounts received, totaling $1,251, and one account balance for $365,144 was included in the receivable in error.
Intergovernmental Receivable	$ (568,258)	The intergovernmental receivable consists of amounts due from the Federal government for various programs. The Department compiled improper business units for its calculation, causing the understatement of $568,258.
NFOCUS Payable	$ 320,169	The NFOCUS payable consists of amounts due to providers for services from various assistance programs. The Department did not use the proper Federal and State funding percentages for three of four programs tested, causing the General fund liability to be overstated by $320,169 and the Federal fund liability to be understated by $320,169.

Furthermore, during testing, we noted the following issues:

- We selected 25 account balances from the Patient and County Billing receivable and noted 16 of 25 client accounts were not proper, for a total overstatement of $1,623,399. The overstatement was included in the adjusted noted above. Furthermore, seven of the accounts had no active collection procedures performed by the Department.

- The Department did not include interest due on overdue accounts in the MDR receivable. Since first identified by the APA in fiscal year 2015, interest due totaled $209,686.

- During testing of the NFOCUS receivable, we noted that the Department did not require a secondary review of changes made in the system to ensure changes made to account statuses were reasonable and proper. For instance, a clerk could suspend an account for various reasons, such as an appeal, bankruptcy, death, etc., but there is no secondary review to ensure the suspended status is proper and necessary based on supporting documentation. An inaccurate suspension

could lead to balances due not being recovered. Furthermore, during testing of 18 client balances, we noted that one client had deceased in November 2013. In October 2015, the Department became aware of the change in the status, but the account status was not submitted for write-off until September 2019. The account balance totaled $10,618 as of June 30, 2019, and should not have been included as a receivable for fiscal year 2019.

- During the prior audit, the Department failed to report a payable related to a Medicaid fraud case. One drug labeler had paid rebates to the Department for amounts that had not been paid due to fraudulent claims. Therefore, the Department owed the labeler a refund of $6,321,342 as of June 30, 2018, for which a beginning balance adjustment was necessary for the current audit. The Department still owed $2,302,396; therefore, the APA proposed an adjustment to record a payable as of June 30, 2019. Lastly, during the year, the Department recorded Federal refunds of $1,905,784 as General fund expenditures; therefore, the APA proposed an adjustment to correct the funding sources. DAS posted all proposed adjustments.

Title 2 CFR § 200.511(a) (January 1, 2019) 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. Good internal controls also require policies and procedures to ensure collection procedures are performed on a timely basis, and secondary reviews are performed for account changes.

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 have procedures in place for a secondary review to verify the information is supported, reasonable, and accurate.

Department Response: DHHS Agrees. DHHS Financial Services will continue to develop, assess, and improve upon internal procedures. Financial Services staff 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 responsible parties based on a pre-defined and communicated deadline for an initial review and then is subsequently reviewed by Financial Services.

2. Lack of Adequate Subrecipient Monitoring

During testing of 25 expenditures, we noted that three payments to subrecipients were not adequately supported with detailed documentation for the payment tested, and monitoring was not adequate to ensure claims submitted and paid were reasonable, necessary, and in compliance with the terms of their agreement and Federal regulations for services provided.

- We tested two Regional Behavioral Health Authority (Region) payments, Region III and Region V, for $1,151,502 and $1,584,629, respectively. The Regions submit requests for payment, which are processed through the Division's Behavioral Health Electronic Billing System (EBS). Each Region contract is set up to designate both the services and approved providers of services within EBS. Total payments made during the fiscal year ended June 30, 2019, to Region III and Region V were $33.6 million, of which $2.2 million had no supporting documentation submitted by the Regions and the Department confirmed no other monitoring procedures were performed for the fiscal year 2019.

  45 CFR § 75.352(d) (October 1, 2018) requires a pass through entity to do the following:

  > *Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward[.]*

  45 CFR § 96.30(a) (October 1, 2018) provides the following:

  > *Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to . . . permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.*

- The third payment was to Community Action Partnership of Mid-Nebraska (CAPMN) for $67,292 for the Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC) Federal program. The CAPMN did not submit supporting documentation with the request for reimbursements, and the Department did not perform adequate monitoring procedures for fiscal year 2019. Payments to the CAPMN for the fiscal year ended June 30, 2019 totaled $938,500.

  2 CFR § 200.331(d) (January 1, 2019) requires a pass through entity to do the following:

  > *Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward[.]*

  2 CFR § 200.403 (January 1, 2019) also requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

Additionally, the Department received $2,102,758 during the fiscal year ended June 30, 2019, for Intermediate Care Facility (ICF) provider taxes in accordance with the ICF/MR Reimbursement Protection Act outlined in Title 405 NAC 1-003. The tax is remitted monthly and calculated from the provider's revenues during the period, which are reported by the provider. The Department relied on the reported revenues without conducting a sampling of the underlying support to ensure the accuracy of the amount reported. Therefore, it is unknown if the Department received the proper taxes during the fiscal year.

Good internal controls include the establishment of controls to ensure subrecipients use Federal awards in accordance with Federal compliance requirements, including procedures for the monitoring of subrecipients' fiscal activities related to Federal expenditures.

Without adequate supporting documentation, there is an increased risk of misuse of State and Federal funds.

We recommend the Department implement policies and procedures to monitor subrecipients. Monitoring should include procedures to ensure monthly reports are accurate, agree to support, and reimbursements are in accordance with State and Federal requirements.

Department Response: DHHS acknowledges the finding. Expense reviews for the $2.2 million in question are being conducted in FY20.

3. Capital Asset Issues

During testing, we noted that the Department lacked adequate procedures concerning capital asset additions, including building improvements and computer software capitalization, as follows:

- The Department incorrectly expensed costs, totaling $11,297,286, for two internally generated computer software that should have been capitalized in accordance with Governmental Accounting Standards Board (GASB) Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The first project started in March 2018, and should have had $1,801,110 capitalized prior to fiscal year 2019 and $4,481,957 during the fiscal year. The second project started in July 2016 and was completed in June 2018; therefore, the entire project, totaling $5,014,219, should have been capitalized prior to fiscal year 2019.

- A third computer software project was reported to DAS for capitalization in the CAFR; however, the project costs did not meet the requirements of GASB Statement 51. The costs reported totaled $4,735,158.

- During fiscal year 2017, the Department incorrectly capitalized a payment for an annual software subscription, totaling $1,860,047. The Department was informed of the error in previous audits but had not yet corrected the improper capitalization in the accounting system. DAS did not include the error in capital assets for the CAFR.

- During testing of maintenance and repair expenditures recorded in the State's accounting system, we identified one building improvement that the Department expensed for $220,584, which should have been capitalized. The payments were for new security features to the Kearney Youth Rehabilitation and Treatment Center.

A similar finding was noted during the previous audit. The APA's proposed adjustments were made by DAS to correct the errors in the CAFR.

GASB Statement 51 states, in relevant part, the following:

> *7. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.*
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> *9. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement.*

10. The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

a. Preliminary Project Stage. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

b. Application Development Stage. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

c. Post-Implementation/Operation Stage. Activities in this stage include application training and software maintenance.

Activities in the application development stage should be capitalized, while the other two stages are expensed.

The DAS State Accounting Manual, General Policies Section 28, Capital Outlay, states, in relevant part, the following:

Building improvements are capitalized when the project enhances the functionality of the building either by effectiveness or efficiency, or extends the life of the building and the accumulated costs are $100,000 or greater.

* * * *

[C]omputer software that is internally developed or substantively 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.

Good internal controls require adequate policies and procedures to ensure expenditures are properly recorded in the State's accounting system for proper financial reporting.

When expenses are not properly recorded, there is an increased risk of material misstatement of the State's financial statements.

> We recommend the Department implement policies and procedures to ensure internally generated software and other expenditures are properly expensed or capitalized in accordance with GASB and State policies. We also recommend the Department work with DAS to remove the improper capital asset from the State's accounting system.

Department Response: DHHS Agrees. DHHS Financial Services will develop procedures to ensure the capitalization of assets is properly accounted for. DHHS Financial Services will also create an internal memo to be sent out to DHHS all to inform our department of the capitalization requirements and how to notify Financial Services that capitalization may be necessary.

4. Program 354 – Child Welfare Aid

NFOCUS Payment Errors

Department expenditures for the period of July 1, 2018, through June 30, 2019, included $109,684,042 in aid assistance paid through NFOCUS with 250,256 lines of claims, for the Program 354 – Child Welfare Aid. NFOCUS is a subsystem of the State's accounting system used to record detailed information regarding clients and services. We tested 18 child welfare claims from eight cases and noted the following errors for four of the cases:

- One provider billed eight hours for services provided between 9 A.M. and 4 P.M. Only seven hours of services were provided, resulting in an overpayment of $47.

- One provider billed 46.5 hours for supervised visitation, but only 35.5 hours were provided, for an overpayment of 11 hours, or $517. In another instance, the provider billed for both supervised visitation and travel time for one hour, resulting in an overpayment of $47.

- For one case, a child required a hospital visit. The hospital billed the Department's Division of Children and Family Services. The child was on Medicaid Managed Care, and the claim should have been submitted to the Managed Care provider and not paid by the State. The overpayment totaled $8,637.

- The Department used a "letter of agreement" instead of a contract to document family support services to be provided for one case. The letter was not signed until three months after services started. The letter did not specify educational requirements for the family support workers. Providers signing contracts must show the workers have either a bachelor's degree in human services, or a combination of human services education and experience. Provider contracts state, "Family Support Service is defined as the provision of face-to-face assistance, coaching, teaching and role modeling by a ***trained professional*** in the family home or community based setting." (Emphasis added). The letter of agreement had no such language, yet the service was still called "family support," and the provider received the same rate, $47 per hour, as providers who are required to ensure their workers are prepared to provide services to this vulnerable population. At our request, the Department asked the provider for documentation to support the education and/or experience levels of the provider's four family support workers who billed time to the case. However, the provider did not provide the requested information.

  Additionally, we noted that the documentation to support hours billed was not adequate. Times in and out were noted, but there were no narratives to describe the family support provided or which worker provided the service. Due to these deficiencies, the entire payment tested for $14,785 was questioned. During the fiscal year ended June 30, 2019, the provider received payments for four cases, totaling $154,959.

A similar finding was noted during the previous audit.

A good internal control plan and sound accounting practices require procedures to ensure the following:

- Adequate supporting documentation is maintained for services provided.

- Contracts are signed before services are provided.

- Staff providing services meet required qualifications, which are consistent across providers who provide the same service types.

- Payments are properly charged to State or Federal programs, as appropriate.

Without such procedures, there is an increased risk for loss or misuse of funds.

We recommend the Department implement procedures to ensure adequate supporting documentation is maintained for services provided, contracts are signed before services are provided, staff providing services meet required qualifications, and payments are charged to the proper Federal or State program.

Contractual Aid Payments Not Adequately Monitored

We selected three contractual aid payments and noted that there was not adequate monitoring to ensure costs were allowable and contract provisions were met, as follows:

- The Department utilized one provider for post adoption and guardianship services. Total payments for the fiscal year ended June 30, 2019, totaled $1,270,116. We tested one payment for $113,770 and noted that the Department did not obtain detailed support for the reimbursement. Furthermore, there was a lack of monitoring procedures to ensure expenditures were allowable. The payment did not appear to be in compliance with the provider contract, which stated, "Monthly itemized invoices for payments must be submitted by the contractor to the agency requesting the services with sufficient detail to support the payment." Additionally, an indirect cost rate of 15.9% was charged, but it was not Federally approved.

- The Department made $2,725,702 in domestic abuse expenditures for the fiscal year ended June 30, 2019. We tested one payment, totaling $8,754, for services to victims of domestic violence and sexual assault. The Department did not review the payment tested in detail. For the payment reviewed by the Department, the payroll calculations and operating expenses were allocated based on unsupported percentages. According to the provider contract, "DHHS shall reimburse the Subrecipient for its actual allowable, and reasonable expenditures by the Subrecipient upon the submittal of the DHHS approved invoice and an expense detail report."

- The Department made $2,021,149 in aid payments to contractors for child advocacy. We tested one payment for $39,861, which consisted of $28,844 in personnel costs. The Department did not obtain documentation to support that costs were charged for actual time spent on the subaward or documentation to support how the amounts were allocated between funding sources in accordance with the provider subaward, which stated, "As consistent with all applicable federal statutes, regulations, and policies, DHHS shall reimburse subrecipient for its actual, allowable, reasonable, and allocable costs." The subrecipient allocated personnel time based on predetermined budgetary percentages.

A similar finding was noted during the previous audit.

A good internal control plan requires procedures to ensure adequate supporting documentation is reviewed for all expenses paid, and contracts and subawards are adequately monitored.

Without such procedures, there is an increased risk for unallowable costs and misuse of funds.

We recommend the Department implement procedures to ensure contractors and subrecipients are monitored, and adequate documentation is maintained to support that expenditures are allowable and in accordance with State requirements.

Department Response: DHHS Agrees.

NFOCUS Payment Errors: The agency has implemented an ongoing Supervisor case review process to monthly review NFOCUS claims in addition to a reporting system to flag and check unusually high monthly authorizations outside of set parameters. The Program Manger receives the report, which is created on authorizations issued and is able to make sure the errors are corrected before a service begins. The staff have been trained on calculating overpayments and making referrals for investigation. A member of the billing team currently performs a billing audit on a sample of claims billed via the provider claims portal on a monthly basis. Due to the number of claims billed, some claims do not go through the initial audit.

Contractual Aid Payments Not Adequately Monitored: A complete review of current procedures is taking place. Those procedures will be enhanced to ensure that adequate supporting documentation is reviewed, contract provisions are being reviewed and met, site visits are established, and that personnel costs will be reviewed to support that the actual time spent on the subawards and contracts is in accordance with Federal cost principles. The enhanced procedures will ensure that expenditures are reasonable and necessary. As of May 2019, the Department created a new internal auditor position for monitoring of CFS subawards and contracts to assure additional compliance.

5. Medicaid Holding Fund

The Department had a holding fund used to deposit refunds for overpayments made to providers, clients, etc., while staff researched the proper accounts receivable to apply the payments. At June 30, 2019, the fund balance, totaling $12,956,953, was classified as a due to vendor for financial statement presentation, which was not accurate. The balance should have reduced outstanding receivables or been classified as due to/from other funds. The Department did not have adequate policies and procedures to research the amounts in the holding fund at year-end to ensure the balances were proper for financial statement presentation.

The holding account had $8,409,174 in receipts from Magellan for a contractual agreement related to excess profits. The amount was deposited in April 2018 and needed to be moved to a State fund. There were also similar profit reimbursements from Wellcare and United Healthcare, totaling $2,248,291, which were deposited in April 2019 and needed to be moved to the appropriate program funding for the Federal and State programs. The remaining balance was refunds for third-party liability, program integrity, and estate recovery programs.

The APA's proposed adjustment was made by DAS to correct the error. A similar finding was noted during the previous audit.

Good internal controls and sound accounting practice require policies and procedures to ensure financial statements are properly presented.

Without such policies and procedures, there is an increased risk of material misstatement of the financial statements.

> We recommend the Agency implement policies and procedures to review activity in the holding fund to ensure balances are properly reflected at year-end. If balances are unable to be cleared by year-end, accruals should be reported to DAS to reflect properly the activity in the financial statements.

Department Response: DHHS Agrees. DHHS Financial Services will develop procedures to ensure fund balances are correct at the State fiscal year end. If balances cannot be adjusted prior to State fiscal year end, adjustments will be communicated to State Accounting to reflect the proper accrual on the financial statements.

6. NFOCUS User Access

Access to NFOCUS is based on a user's need to complete his or her job tasks. The user's supervisor is responsible for completing the NFOCUS Access Request Checklist (Checklist) for new hires and changes in employee assigned duties and reviewing that access annually. The checklist is sent to security staff to assign the appropriate level of access to the system. No access is to be assigned until a completed, signed Checklist is submitted. In our review of employee access to NFOCUS, we noted the following:

- For 8 of 25 NFOCUS users tested, the Checklist was not properly completed.
- For 15 of 25 NFOCUS users tested, the Checklist was not reviewed by the employee's supervisor during the fiscal year.
- For 11 of 19 NFOCUS users tested, the access assigned in NFOCUS did not agree to the Checklist.

Additionally, during testing, we noted that the Department did not complete a review of user access during the fiscal year for six of eight external entities tested. We also noted that external users who were terminated did not have their access removed, as there was no procedure to review periodically external user access.

A similar finding was noted during the previous audit.

Nebraska Information Technology Commission (NITC) Technical Standards and Guidelines, Information Security Policy 8-502 (July 2017), "Minimum user account configuration," states the following, in relevant part:

> *(1) User accounts must be provisioned with the minimum necessary access required to perform duties. Accounts must not be shared, and users must guard their credentials.*

NITC Technical Standards and Guideline, Information Security Policy 8-701 (July 2017), "Auditing and compliance; responsibilities; review," states the following, in relevant part:

> *An agency review to ensure compliance with this policy and applicable NIST SP 800-53 security guidelines must be conducted at least annually.*

National Institute of Standards and Technology (NIST) Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states, in part, the following:

> *The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

Good internal controls require procedures to ensure user access assigned is documented and reviewed annually.

Without the proper completion of the NFOCUS Access Request Checklist, the Department is unable to ensure that the user is assigned only to access that is reasonable and necessary for the performance of his or her job duties. When user access is not reviewed, there is a risk of unauthorized access. Additionally, when user access is not removed in a timely manner, there is an increased risk for unauthorized changes.

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 perform a review and make a contract with external entities to ensure all current users need access to NFOCUS and all terminated employees have their access removed in a timely manner.

Department Response: DHHS Agrees. The Department will work to establish procedures to ensure the NFOCUS Access Request Checklist are properly completed and maintained. The Department will also work to establish a central location for this work to be completed.

7. 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.

We reviewed the database and, as of June 30, 2019, there were 11,374 referrals closed without the OP team working them, this included 341 referrals closed during fiscal year 2019. Of the closed referrals, 11,068 were SNAP. According to the Department, the referrals were not pursuable because they were over 12 months old.

A similar finding was noted during the previous four 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 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, 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 18 overpayment receivables and noted the following issues:

- Five accounts had no demand letter included in NFOCUS in accordance with the Department's collection policy and State regulations Title 469 NAC 3-007.03B2 and Title 475 NAC 4-007.04A. Two accounts were for overpayments to the Aid for the Aged, Blind and Disabled (AABD) program and three accounts were overpayments to the SNAP program.

- Two accounts were not following the Department's collection policy by providing timely monthly billing statements or a notification letter as required. The overpayments were to the AABD and SNAP programs.

- One account with an overpayment to the SNAP program was set up six months after the overpayment was discovered, which was three months later than required by 7 CFR 273.18(d) (January 1, 2019).

Per the Department's regulations at Title 468 NAC Chapter 3-008.07B:

> *The agency must take all reasonable steps necessary to promptly correct all overpayments regardless of cause. The worker must record in the case record all steps taken to recoup any overpayments.*
>
> *The worker must first send a demand letter, giving the client the choice of reimbursing all or part of the overpayment or having future assistance reduced.*

Good internal controls require policies and procedures to ensure all steps taken to correct overpayments are kept on file for subsequent inspection, and changes to client accounts are reviewed and approved by a supervisor.

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.
- Define the date of discovery as the date the regular SSW first becomes aware of a potential overpayment.
- Work with the Federal agency to resolve the potential SNAP overpayments and comply with Federal regulations.
- Implement procedures to reduce the number of SNAP AE overpayments.

Department Response: DHHS Agrees. The Department implemented standard operating procedures for the pursuit of overpayments in 2017. The Department has processed all overpayments received since October 1, 2016 timely. The agency has completed the corrective action plan and disputes the finding. During the last state fiscal year, the team established $2,073,116 .85 overpayments for SNAP on 4,273 referrals. Each month, 300-500 new referrals of potential overpayments are received, reviewed and processed within 30 days of the referral. Last year, 2% overpayment referrals were determined as non-pursuable. The reasons a referral is categorized as non-pursuable include: by regulation, no overpayment occurred; not enough information to determine if overpayment occurred; amount of overpayment is under the dollar threshold for collection and overpayment is outside the state statute timeframe to collect. In many circumstances, client cooperation is required to determine the amount of an overpayment; last year 435 SNAP benefit cases were closed due to client not cooperating with agency to determine amount of overpayment.

In December 2019, with approval and guidance from the USDA Food and Nutrition Service, the agency began reviewing the suspended overpayment referrals and were able to find that 7,653 were considered beyond the pursuable timeframe to be established per 273.18(c)(i). In addition, 2,206 were considered unresolved due to not enough information received to establish a claim, four referrals were determined as non-overpayments, and one was considered non-pursuable due to death of the client. This left the agency with 381 additional cases to review. Of those cases, 123 were found to have active SNAP benefits to allow claims to be established. Currently those final 123 cases are being reviewed further to determine what actions need to be taken. The agency estimates a review of these cases to be completed by the end of March 2020.

8. Lack of Internal Controls Over Program 262

The APA performed an attestation examination of the Department's Program 262 – Public Health Administration for the period July 1, 2017, through December 31, 2018. The following issues, totaling $4.3 million, were determined to be significant to the audit of the State of Nebraska CAFR for the fiscal year ended June 30, 2019.

Vital Records

Vital Records maintains records, such as birth, death, marriage, and dissolution of marriage certificates, for events that occur in the State of Nebraska. Upon payment of the required statutory fee, and satisfactory proof of identity and proper purpose, Vital Records can issue certified copies of these records or amend original records.

There was a lack of segregation of duties, as several employees were able to open mail or receive payments, process the payment in Netsmart VRS (Vital Records System), and complete the application process. The individuals who complete the balancing and prepare the deposits are also able to open mail, receive payments, process the payment, and complete the application process. In addition, we noted that all Vital Records employees are able to make changes in Netsmart VRS, such as date of birth or spelling of a name, as there are no security roles assigned. All employees are also able to waive fees and process the application using the fee type as "other." When this fee type is used, the fee is noted as $0. The certified copy could be printed without collecting or depositing a fee.

No money is deposited until the application is reviewed to ensure there is a proper purpose, proof of identity, and the correct fee amount was received. If the application is denied, Vital Records will send back the application and the fee whether it is a check or cash. No log is kept of the applications and fees received that have been returned.

The Netsmart VRS Payment Report shows the payment types for each register, including credit card, internet, cash, and checks. The Netsmart VRS Reconciliation Summary Report breaks out the different certificate types and amounts collected. Per discussion with staff, the system does not allow the Reconciliation Summary Report to remove items that have changed. For 1 of 15 deposits tested, the two reports did not agree, and the Department did not maintain documentation to support that the change was appropriate. The Payment Report total was $8,177, which is the amount deposited. The Reconciliation Summary Report total was $8,211, a $34 variance. Two birth certificate copies were not included, and no support was maintained to show why the change was made and $34 was removed.

Environmental Health

During review of the procedures over monies received and deposited for Environmental Health programs administered jointly by the Department and the Department of Environmental Quality, we noted that there was a lack of adequate segregation of duties over money received and deposited into Funds 22002, 22003, and 22053. These funds are sub-funds of the Health and Human Services Cash Fund 22550.

- Plan Review Fund 22002: One individual (Staff Assistant) received the mail after it was opened, entered the checks received into the database that generates the receipts acknowledging receipt of funds, and also reviewed the spreadsheet of receipts deposited prepared by Department Accounting. A secondary person should review the spreadsheet of receipts deposited from Department Accounting to ensure the fee received was actually deposited before the letter acknowledging receipt of the plan review fee is sent.

- Public Water Supply Fund 22003: The Department issues licenses to individuals who meet the requirements to make process control or system integrity decisions about water quality or quantity in public water systems. We noted that one person was able to handle a transaction from beginning to end. The Environmental Quality Program Specialist received applications, received monies at water operator training courses, recorded cash receipts in the log, issued applications for a water operator license, and prepared invoices. The duties of handling cash receipts and recording the receipts in the log should be separated from the issuance of the application to obtain a water operator license.

- Consumer Health Sanitation Fund 22053: One individual received the mail after it had been opened, entered the checks received into the database, generated the license or permit from the database, took the checks to the person responsible for delivering them to Department Accounting for deposit, and reviewed the spreadsheet prepared by Department Accounting of receipts deposited. The duties of handling cash receipts and recording the receipts in the database should be separated from the issuance of the license or permit.

Licensure Unit

There was a lack of adequate segregation of duties over financial processes for the Outpatient and In-Home Services program area, including Home Health, Hospice, Adult Day Health, Child Day Health, and Respite. One individual was able to handle a transaction from beginning to end. The Staff Assistant received the mail after it was opened, reviewed the paperwork submitted along with the check, took the checks to the person responsible for delivering the checks to Department Accounting for deposit, reviewed the spreadsheet prepared by Department Accounting of receipts deposited, and issued the licenses.

Radon

The Radon unit lacked an adequate segregation of duties over its financial processes. The Department provides for the licensure of radon measurement specialists, radon measurement businesses, radon mitigation specialists, and radon mitigation businesses. The monthly mitigation fees received for Radon are received and recorded by the Staff Assistant. The Staff Assistant also takes the fee received to Department Accounting to process and deposit. Currently, there is no supervisory or second review of the radon payments received and a comparison to the monthly mitigation reports to ensure the correct amounts are received and deposited.

When there is a lack of adequate segregation of duties, there is an increased risk of fraud or misuse of funds.

> We recommend the Department implement procedures to ensure no one person is able to handle all phases of a transaction from beginning to end.

Department Response: DHHS Agrees. The Department is working to implement several corrective actions per the Program 262 report previously issued. Updates to the corrective action plans were submitted to the APA in December 2019.

9. University of Nebraska Medical Center Medical Education Revolving Fund

Beginning in fiscal year 2015, the APA questioned the disproportionate share hospital (DSH) expenditures made from the University of Nebraska Medical Center Medical Education Revolving Fund (Revolving Fund).

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

> *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.*

The Department acknowledged that legislation had not yet been introduced to allow disproportionate share hospital expenditures from the Revolving Fund. During the year, however, the Department expended a total of $16,717,388 from the Revolving Fund, including expenditures for disproportionate share hospital expenditures.

Good internal controls require procedures to ensure compliance with State laws. When processing expenditures from the Revolving Fund other than those allowed by the statutory language above, the Department is not acting within the parameters of existing State law.

A similar finding was noted in the previous audit.

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

Department Response: DHHS Agrees. Going forward, the Department will comply with Neb Stat 85-134.

10. NFOCUS External Access – Child Advocacy Centers

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, claim processing and payments, provider contract management, interfacing with other State and Federal organizations, and management and government reporting.

NFOCUS users at Child Advocacy Centers (Centers) are able to access information outside the scope of their work. A review of case files accessed by the seven Centers from March 22, 2018, through April 22, 2018, revealed that employees of those entities accessed Master Cases (Cases) they had no business purpose for accessing. While the Department stated they are working on addressing this concern, the Centers continued to have the ability to access information outside the scope of their work during fiscal year 2019.

Six of the seven Centers were considered non-State external entities for the Department. The largest Center in the Omaha area, Project Harmony, consisted of both State and non-State employees using computers supported by the Department on the State's network. Regardless, users at all seven Centers had broad access to cases on the NFOCUS system not restricted by case type (e.g., CFS, Medicaid, SNAP – food stamps, etc.) or geographical area. The majority of entities with a need to access NFOCUS data do so through a separate portal in which only specific records placed on the portal by the Department can be viewed.

Neb. Rev. Stat. § 28-728(2) (Reissue 2016) states the following:

> *Each county or contiguous group of counties will be assigned by the Department of Health and Human Services to a child advocacy center. The purpose of a child advocacy center is to provide a child-focused location for conducting forensic interviews and medical evaluations for alleged child victims of abuse and neglect and for coordinating a multidisciplinary team response that supports the physical, emotional, and psychological needs of children who are alleged victims of abuse or neglect. Each child advocacy center shall meet accreditation criteria set forth by the National Children's Alliance. Nothing in this section shall prevent a child from receiving treatment or other services at a child advocacy center which has received or is in the process of receiving accreditation.*

Neb. Rev. Stat. § 43-4407(2) (Reissue 2016) provides the following:

> *Each service area administrator and any lead agency or the pilot project shall provide monthly reports to the child advocacy center that corresponds with the geographic location of the child regarding the services provided through the department or a lead agency or the pilot project when the child is identified as a voluntary or non-court-involved child welfare case. The monthly report shall include the plan implemented by the department, the lead agency, or the pilot project for the child and family and the status of compliance by the family with the plan. The child advocacy center shall report electronically to the Health and Human Services Committee of the Legislature on September 15, 2012, and every September 15 thereafter, or more frequently if requested by the committee.*

Neb. Rev. Stat. § 28-712.01(5) (Cum. Supp. 2018) states, in part, the following:

> *The department shall make available to the appropriate investigating law enforcement agency, child advocacy center, and county attorney a copy of all reports relative to a case of suspected child abuse or neglect.*

Neb. Rev. Stat. § 28-730(1) (Reissue 2016) states, in part the following:

> *Only a team which has accepted the child's case for investigation or treatment shall be entitled to access to such information.*

NITC Technical Standards and Guidelines, Information Security Policy 8-701 (July 2017), "Auditing and compliance; responsibilities; review," states, in part, the following:

> *An agency review to ensure compliance with this policy and applicable NIST SP 800-53 security guidelines must be conducted at least annually.*

NIST Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 Least Privilege, states, in part, the following:

> *The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.*

When external users have access to view any Case in NFOCUS, there is an increased risk that users may access confidential information that cannot be viewed per State statute. When terminated external users retain access to the NFOCUS system, there is an increased risk for inappropriate access of data. Inappropriately accessing NFOCUS data may violate Federal privacy laws.

> We recommend the Department remove external entity access to the NFOCUS application. We recommend instead, providing limited access to data through a separate portal where Department staff can deliver only the data necessary for an external entity to complete its mission.

Department Response: DHHS Agrees. Addressing the access of the Child Advocacy Centers (CACs) will occur as part of a CFS-wide reassessment of access to NFOCUS and will not be limited to only the CACs. Below is the access review and access establishment process created by the IT Manager - Information Systems & Technology - DHHS, which will be used to address NFOCUS access issues.

Evaluation: All external entities with access to N-FOCUS will have access levels and reasoning for said access levels re-examined. This evaluation will focus on the need of the Department and each external agency and will involve the business areas more fully into the process, which is essential since the data belongs to the business areas. The access review will be conducted by staff from CFS, MLTC, Legal Services, and IS&T with coordination with Internal Audit. IS&T expects this process to take several months to complete.

Yearly Re-evaluation: After completion of the evaluation and access modification phase, the effort will expand to tracking external contracts more fully including a re-evaluation of access on an annual basis. This re-evaluation will also grow to a more formal evaluation of the individuals covered by each entity.

11. Lack of Timely Response for Audit Requests

During the audit, there were several instances of the Department not complying with Neb. Rev. Stat. § 84-305 (Cum. Supp. 2018), which requires a timely response to the APA's request for audit information. The Department either did not respond to audit requests within the required three business days and/or did not provide the information requested within the required three weeks after the initial request. The following are a few such incidents noted throughout the audit period; however, the untimely responses were not limited to these examples:

- During testing of Program 354 – Child Welfare claims, we requested one contractor's documentation for employee education credentials on October 11, 2019. After numerous requests, the Department still had not provided the information by December 9, 2019. The APA had a finding for any remaining unanswered questions since it had been nearly two months since the initial request was made.

- On September 24, 2019, the APA first requested documentation to perform testing of the Patient and County Billings accounts receivable. The Department did not provide all of the requested information until November 8, 2019, nearly seven weeks after the initial request.

- On April 17, 2019, the APA requested documentation for NFOCUS overpayments made to clients during October 2018 and March 2019. The Department did not provide all of the requested information until June 13, 2019, nearly two months after the initial request.

- On September 3, 2019, the APA requested supporting documentation for software capitalization projects. The Department did not provide the information requested until November 5, 2019, nearly two months after the initial request.

Section 84-305(1) (Cum. Supp. 2018) states the following:

> *The Auditor of Public Accounts shall have access to any and all information and records, confidential or otherwise, of any public entity, in whatever form or mode the records may be, unless the auditor is denied such access by federal law or explicitly named and denied such access by state law. If such a law exists, the public entity shall provide the auditor with a written explanation of its inability to produce such information and records and, after reasonable accommodations are made, shall grant the auditor access to all information and records or portions thereof that can legally be reviewed.*

Subsection (2) of that same statute adds, as is relevant, the following:

> *Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. 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.*

Finally, Neb. Rev. Stat. § 84-305.01 (Cum. Supp. 2018) reads as follows:

> *Any person who willfully fails to comply with the provisions of section 84-305 or who otherwise willfully obstructs or hinders the conduct of an audit, examination, or related activity by the Auditor of Public Accounts or who willfully misleads or attempts to mislead any person charged with the duty of conducting such audit, examination, or related activity shall be guilty of a Class II misdemeanor.*

When the Department does not respond to auditor requests in a timely fashion, there is an increased risk of noncompliance with § 84-305.

> We recommend the Department implement procedures to ensure compliance with § 84-305.

12. Retroactive Social Security Disability Payments

When an individual applies for Social Security Disability (SSD), the Department or the applicant's county of residence make eligible welfare payments to him or her while the application is pending approval by the Federal Social Security Administration (SSA). The individual could receive State welfare payments from the Aid to the Aged, Blind, or Disabled (AABD) program or the State Disability Program (SDP). After being approved, the applicant receives SSD payments retroactive to the date of his or her application. The Department or the county is able to recover a portion of the SSD payments to apply towards the welfare payments made during this period. The Department intercepts the retroactive SSD payments from the SSA for reimbursement.

Prior to October 2013, the Department reimbursed the appropriate AABD or SDP programs when the intercepts were received, reducing the appropriate program's corresponding expenditures. Starting in October 2013, the Department continued to intercept payments from the SSA; however, it stopped reimbursing the appropriate State welfare programs. The State deposited the monies instead into a Supplemental Security Income (SSI) distributive fund where the balances grew. On December 9, 2016, the Department transferred the majority of the balance, $803,875, to the State's General Fund to be used for future appropriations for the entire State, instead of to the appropriate programs where the payments were made. As of June 30, 2019, the accumulated balance was up to $474,522, but the Department had not established policies and procedures to reconcile the balance and move the monies to the appropriate welfare programs. The APA proposed an adjustment to DAS to reflect appropriately the SSI distributive fund balance.

In accordance with the eligibility requirements for the AABD program and the SDP, Title 469 Nebraska Administrative Code (NAC) Chapter 2-007.01 states the following:

If the client has a pending SSI/RSDI [Retirement, Survivors, and Disability Insurance] decision, the client must sign a DHHS designated form (e.g. IM-17) to allow DHHS to be reimbursed from SSA for interim assistance in order to be considered for AABD payment or SDP eligibility.

Good internal controls require procedures to ensure interim assistance provided by the SSA is reconciled and moved to the appropriate funding sources in a timely manner.

Without such procedures, there is an increased risk of Department expenditures being improperly stated for financial statement purposes.

We recommend the Department implement procedures to reconcile the SSI distributive fund balance and move the balance to the appropriate funding sources.

13. Improper Financial Transactions

During testing of various entries performed by the Department, we noted several instances of untimely or inaccurate procedures, as follows:

- The Department deposited monies received from Child Support Enforcement (CSE) incentives for fiscal year 2015 during fiscal year 2019, totaling $2,045,353. The APA noted that the final award for the CSE incentive was received in May 2017; however, the Department did not request the incentives until the end of 2019, nearly two years after the award. This caused revenues in the prior fiscal year to be understated and 2019 to be inflated due to the lack of timely draw.

- The Department did not record the allocation journal entries, totaling $1,917,565, for the Federal fiscal year 2017 and 2018 grants to the Child Care and Development Fund (CCDF) and Low Income Home Energy Assistance Program (LIHEAP) as prior year obligations for the fiscal year ended June 30, 2019. The entries were to allocate expenditures from the General and State Cash funds to the appropriate Federal funding source. DAS posted the adjustment proposed by the APA.

- The Federal share of the Disproportionate Share Hospital payment for $480,867 to the Lincoln Regional Center was charged to the General Fund instead of Federal Medicaid funds. An APA proposed adjustment was not posted by DAS.

Good internal controls require adequate policies and procedures to ensure entries are made timely and appropriately in the accounting system for financial statement presentation.

Without adequate policies and procedures to ensure entries are made timely and properly recorded, there is an increased risk of material misstatement of the financial statements.

We recommend the Department implement procedures to ensure accounting entries are made in a timely manner and properly recorded in the State's accounting system.

14. Lack of Timely Review of Service Organization Control Report

The Department received a Service Organization Control (SOC) report for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), for their service provider, Solutran. A SOC report is intended to meet the needs of a broad range of users that need detailed information and assurance about the controls at a service organization relevant to security, availability, and processing integrity of the systems the service organization uses to process users' data and the confidentiality and privacy of the information processed by these systems.

A SOC report was completed for the period October 1, 2017, through September 30, 2018, for the WIC Program, but it was not obtained by the Department until October 2019, when the APA requested to review it. The Department should receive the SOC annually, after completion and review for any internal control issues related to the processes performed by the organization for State benefits. The total amount paid to Solutran for the fiscal year ended June 30, 2019, was $5,042,166.

Good internal controls require the Department to obtain SOC reports for their service organizations timely and document the Department's review for any significant issues noted.

When SOC reports are not received and reviewed timely, there is an increased risk of a material control issue not being identified and addressed related to the Department's services.

We recommend the Department work with Solutran, as well as other service organizations, to ensure SOC reports are provided on a timely basis. We also recommend the Department perform a documented review of the SOC reports timely and follow up on significant issues noted with the reports.

15. Accounting System Access

The AB 21 role in EnterpriseOne, the State's accounting system, allows users to maintain and update address book information for public assistance recipients. Two of six user IDs selected for testing had access to the AB 21 role that was unreasonable and inappropriate, as it was not necessary as part of their job functions.

A similar finding was noted during the previous audit.

NITC Technical Standards and Guidelines, Information Security Policy 8-502 (July 2017), "Minimum user account configuration," states the following, in relevant part:

(1) User accounts must be provisioned with the minimum necessary access required to perform duties. Accounts must not be shared, and users must guard their credentials.

A good internal control plan requires procedures to ensure that individuals only have access privileges that are needed to perform their job duties.

The lack of such procedures increases the risk for unauthorized changes to data.

We recommend the Department establish procedures for reviewing user access periodically to determine if those roles are still necessary.

16. Electronic Billing System Change Management

The Department Division of Behavioral Health (DBH) utilizes the Electronic Billing System (EBS) to automate the process of generating invoices from information received from DBH's Centralized Data System (CDS). For 4 of 10 changes to the EBS application tested, the APA noted that management did not approve the changes prior to implementation.

NITC Technical Standards and Guidelines, Information Security Policy 8-202 (July 2017), "Change control management," states the following, in relevant part:

Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained.

When changes are not approved by management prior to implementation, there is an increased risk of unauthorized changes to applications.

> We recommend the Department implement procedures to ensure that changes are approved by management prior to implementation.

17. CDS Change Management

The CDS application is maintained by a third-party vendor, and changes to the application can be done three different ways: 1) The Department requests a change; 2) the third-party vendor finds bugs internally; and 3) any end-user with access to CDS can submit a ticket.

During testing of CDS changes that were implemented during the fiscal year we noted the following:

- For three of seven changes tested, testing results were not approved by management prior to implementation.

- For three of six changes tested, management did not notify the third-party vendor after implementation indicating approval was met.

- For one of one change tested that was found internally by the third-party vendor, there was no documentation on file showing management was aware of the change.

- For one of one change tested that was reported by an end-user, there was no documentation on file showing management was aware of the change.

NITC Technical Standards and Guidelines, Information Security Policy 8-202, "Change control management," states the following, in relevant part:

> *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.*

A good internal control plan and sound business practices require that supporting documentation of changes be kept on file.

When changes to the application are not approved by management and there is no supporting documentation on file, there is an increased risk of unauthorized changes.

> We recommend the Department work with the third-party vendor to ensure the Department is aware of all changes to CDS and to keep documentation on file.

* * * * *

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 management, 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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