



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 11, 2011

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

Dear Mr. Winterer:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2010, and have issued our report thereon dated December 28, 2010. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and not to provide assurance on internal control. We have not considered internal control since the date of our report.

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

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

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

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

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2010.

1. Accrual Information

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the Comprehensive Annual Financial Report (CAFR), State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the 2010 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Agency's estimated Medicaid Drug Rebates accounts receivable accruals were understated by \$11,182,527. The understatement was primarily due to the receivable not properly reflecting the current year collections of calendar year 2010 billed amounts.
- The Agency reported \$3,860,610 in Medicare Part B Supplementary Medical Insurance Billings payables that were not prior year obligations, as the June 2010 billing was for July premiums.
- The Agency over-reported NFOCUS payables due to the inclusion of rejected and cancelled claims and the use of incorrect match percentages. The payable was overstated by \$2,757,638.
- The Agency's calculation of Third Party Liability (TPL) accounts receivable did not include \$2,640,512 in off-line balances and included an account for \$129,154 that had been settled and was no longer collectible. The net effect was an understatement of the receivable by \$2,511,358.
- The Agency reported \$932,850 in Disproportionate Share Hospitals (DSH) payables that were not prior year obligations. Additionally, the Agency reported the State's share of the DSH payable of \$370,282 under the incorrect CAFR fund.
- The Agency under-reported NFOCUS receivables due to not including Medicaid receivable balances of \$299,032, and including an account for \$44,543 twice. The net effect was the receivable was understated by \$254,489.

- The Agency's calculation of Medicaid Estate Recovery receivable did not include amounts for four cases with Payment Plan balances or outstanding Probate balances, resulting in a combined understatement of the receivable of \$161,490.
- Also, other issues were noted for allowance for uncollectable amounts calculations for the Agency's receivables as follows:
 - The assumptions used by the Agency to calculate the allowance for uncollectable amounts for the Patient and County Billings' receivable was not adequately documented.
 - The calculation of the allowance for uncollectible amounts for NFOCUS receivables did not appear reasonable as the Agency used the amounts to be written off in fiscal year 2011 and did not consider the collectability of other NFOCUS receivables based on aging of amounts due.
 - The calculation of the allowance for uncollectible amounts for Medicaid Drug Rebate receivables was not based on sampling of actual receivables and was not supported by historical information.
 - There was no historical data or documentation available to support allowance for uncollectible amounts for 2 of 3 percentages used for the Medicaid Estate Recovery receivable.

State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). Similar findings have been noted in our previous audits.

Without proper controls to ensure amounts reported to State Accounting are accurate, there is an increased risk of financial statements misstatements not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure receivable and payable amounts reported are complete and accurate. This would include ensuring allowances for uncollectable amounts for the Agency's receivables are reasonable and adequately documented.

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

2. **Information Security – Access Appropriateness**

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

A good internal control plan requires individuals who develop changes for systems to not have access to production datasets. Typically, entities restrict access to information resources (e.g., programs, data, networks) to enforce desired segregation of duties, facilitate on-line approvals, and help achieve business cycle control objectives. Logical security tools and techniques are used to define such access restrictions, including how and to whom the entity will limit the ability to view, use, or modify significant information resources.

- One developer had alter access to the production datasets for the Agency's CHARTS application. In addition, there was one shared on call user ID with alter access to the CHARTS production datasets.
- Four developers had alter access to the production datasets of the Agency's Medicaid Management Information System (MMIS) application.
- Twelve developers had alter access to the Agency's NFOCUS production datasets.
- Three developers had alter access to the production datasets of the Agency's Home Energy Assistance (HEA) application.

A similar comment has been noted in prior audits.

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

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

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

We continue to perform our bi-annual review for all access assigned to production support and developers with access to CHARTS, MMIS, N-FOCUS and HEA data files. The 2010 reviews were completed on January 5, 2010 for CHARTS and MMIS applications, January 12, 2010 for HEA application, and February 3, 2010 for N-FOCUS application. The 2010 mid-year reviews were completed on July 13, 2010 for CHARTS and MMIS, and August 10, 2010 for the N-FOCUS and HEA applications. The January 2011 reviews have been completed for all four applications. The reviews are conducted by the Agency HIPAA Security officer working with the managers for each application.

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and recommendations that we hope will be useful to the Agency.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.

Signed Original on File

Pat Reding, CPA, CFE
Assistant Deputy Auditor