

**AUDIT REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
JULY 1, 1998 THROUGH JUNE 30, 1999**

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission and Vision Statements	1
Organizational Chart	2
Comments Section	
Summary of Comments	3 - 4
Comments and Recommendations	5 - 15
Financial Section	
Independent Auditors' Report	16 - 17
Financial Statements:	
Combined Statement of Assets, Fund Balances and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	18
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	19
Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual – General, Cash, and Federal Funds	20 - 21
Notes to Financial Statements	22 - 33
Combining Statements and Schedules:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	34
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	35
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Expendable Trust Funds	36
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Expendable Trust Funds	37
Schedule of Performance Measures	38 - 40
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	41 - 42

**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER**

BACKGROUND

The Beatrice State Developmental Center (BSDC) provides 24 hour on-campus residential, rehabilitative, and medical services to Nebraskans with mental retardation in the least restrictive manner, consistent with each resident's habilitation objectives, and which best promotes the resident's community placement or reintegration with family. BSDC provides technical assistance and training to staff of community-based provider programs. In addition, BSDC provides access to short-term community or inpatient behavioral intervention and allied health evaluations and therapies to persons receiving support in community-based programs.

MISSION AND VISION STATEMENTS

Mission Statement

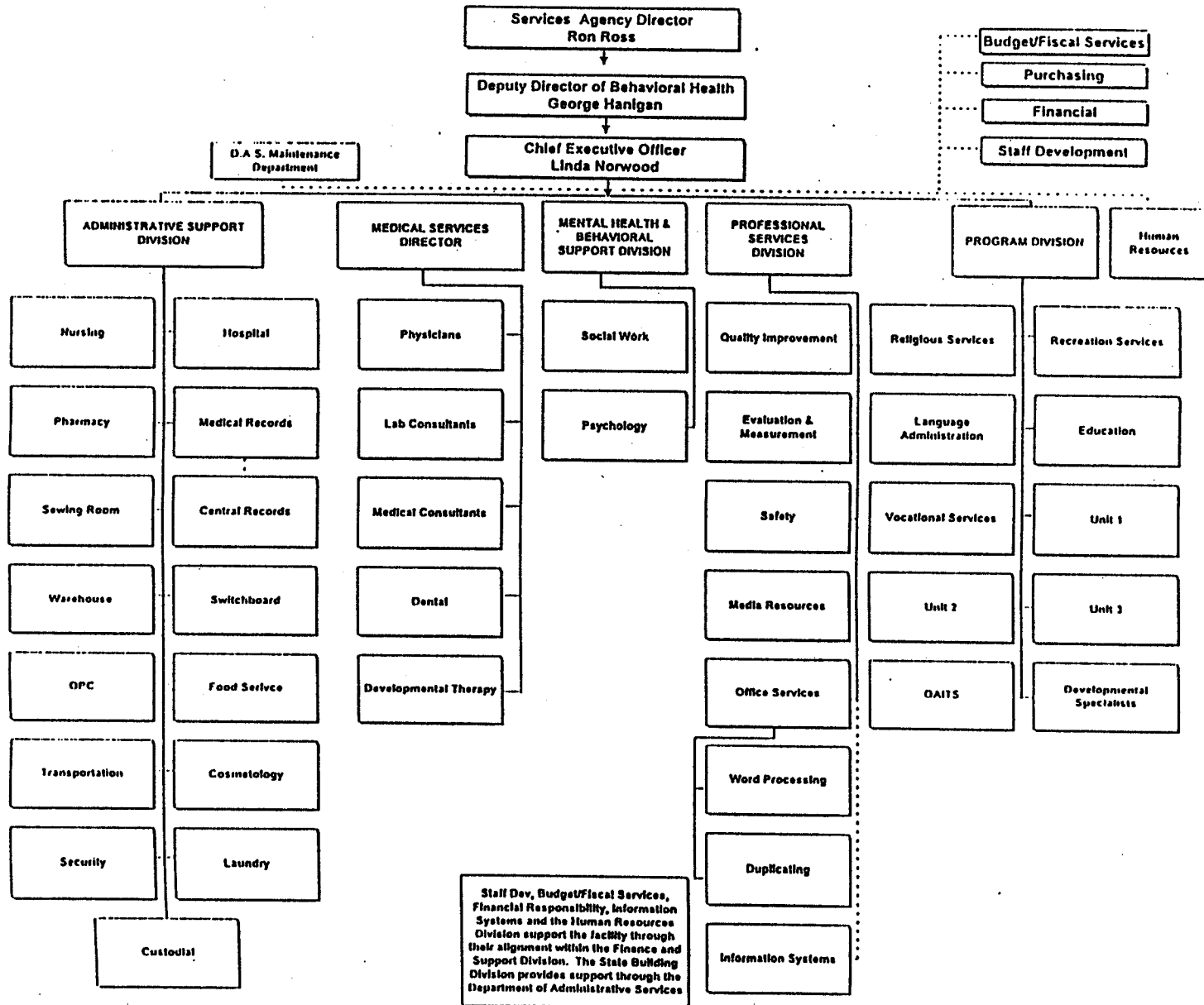
Beatrice State Developmental Center (BSDC) provides 24 hour residential, medical, habilitative, and consultative services for Nebraskans with mental retardation or related conditions.

Vision Statement

Each person served by BSDC is challenged to achieve independence, realize personal goals, develop meaningful relationships, and is safe, healthy, happy, and respected.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM BEATRICE STATE DEVELOPMENTAL CENTER

ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

SUMMARY OF COMMENTS

During our audit of the Nebraska Health and Human Services System - Beatrice State Developmental Center, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates:*** Certain Medicaid billings were not accurate, timely, and in accordance with Regulations. Billings for bedhold days were improperly made. For the fiscal year ending June 30, 1999, an estimated \$111,000 in excess was received. Additional excess payments were received for at least two prior fiscal years. Certain forms were not filed in accordance with regulations. These forms are to be filed to ensure continued Medicaid funding. Certain costs to be billed for Medicaid have not been made for at least 18 months. Medicaid rates used to pay BSDC have not been updated for several years.
2. ***“Observation Days”:*** For census purposes, BSDC was inappropriately counting “Observation Days.” When taking a daily census, BSDC staff recorded clients who were in the hospital for observation as if they were in their living unit. This was inaccurate and directly affected Medicaid billings.
3. ***Utilization and Annual Review Procedures:*** During our audit, we noted one client review was not done in accordance with State regulations. Utilization and Annual reviews are required in order to maintain Medicaid funding for clients.
4. ***Patient Trust Accounts:*** BSDC maintains and is responsible for client funds. BSDC received and expended for the benefit of their clients over \$2,000,000, and had a balance of funds in excess of \$360,000 as June 30, 1999. Our audit revealed accounting and controls over these funds should be strengthened.
5. ***Purchasing of Pharmaceutical Products:*** BSDC purchased in excess of \$953,207 in pharmaceutical products during the fiscal year, and did not have procedures in place to ensure all goods ordered were received and the price to be paid was correct.
6. ***Reported Costs:*** BSDC reported total facility costs of \$35,482,969 for the fiscal year ended June 30, 1999, while the actual costs were \$35,722,252. As a result, costs were under reported by \$239,283, resulting in BSDC not receiving all of the Medicaid reimbursements they were otherwise entitled to receive.
7. ***Segregation of Duties over Fixed Assets:*** During our audit, we noted controls over fixed asset should be improved. The BSDC has recorded fixed assets of furniture and equipment in excess of \$2.9 million.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

SUMMARY OF COMMENTS
(Concluded)

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Nebraska Health and Human Services System to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Nebraska Health and Human Services System declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

1. Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates

Bedholding: Bedholding is defined in 471 NAC 12-001.04 as “full per diem reimbursement made to a facility to hold a bed when a client is hospitalized and return is anticipated or on therapeutic leave.” 471 NAC 12-011.06B states that bedholding is allowed for 15 days per hospitalization and for up to 18 days of therapeutic home visits per calendar year.

BSDC billings for bedhold days are sent electronically on the Advanced Institutional Management Software (AIMS) Information and Billing System based on information entered from the census count. The information is received in the office of the Social Services Medical Services Unit, which then reimburses BSDC for bedhold days based on the information submitted. The AIMS System transfers the total number of days the client has been in the hospital. It does not distinguish between the different levels of care (acute, skilled nursing, or swingbed) or whether there has been more than one hospitalization during the month. Medicaid will only pay for bedhold days while a client is in acute care.

During our testing of bedhold days, we noted for ten out of ten clients tested the bedhold days reported did not agree to the bedhold days allowed. It was also noted that for nine of the ten clients tested the bedhold days paid did not agree to the bedhold days allowed.

The BSDC Financial Responsibility Trust Officer went back over the 1999 fiscal year and reviewed each client who entered the hospital. Based upon these calculations we estimate BSDC received an overpayment for bedhold days for fiscal year 1999 of \$111,814.

We recommend the following:

- Consideration should be given to changing the AIMS system program to properly account for bedhold days; however, until this is accomplished, BSDC should not rely on the AIMS system to submit bedhold days. Instead, a monthly review of client census should be done, following NAC guidelines for reporting bedhold days, and bedhold days should be submitted based on this review.
- Since there is no limit for submitting reimbursements to Medicaid for overbillings, BSDC should calculate the amount which should be reimbursed for the time period beginning March 1997 (when the AIMS system became operable), and make restitution for all overbillings.

Agency's Response – See Page 8.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

1. Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates
(Continued)

Level of Care: 471 NAC 12-009.08C requires that when a change in the level of care is requested for a client, a MC-9NF, a DM-5, and a DM-5LTC (medical information) must be filled out and forwarded to the local office (Financial Responsibility, at BSDC). The local office is to forward the copies to Medical Review in Lincoln, for approval (see 471 NAC 12-006.02A). When approved by the Lincoln office a MC-10 should be filed (see 471 NAC 31-004.05). The MC-10 stops the ICF-MR authorization when a client enters skilled nursing care or swingbed care. When a client is dismissed from the hospital an MC-10 needs to be filed to begin the ICF-MR authorization. Once approved by the Lincoln office, the forms are to be returned to the local office for distribution.

We selected two different months for testing of the MC-9NF and MC-10 forms. Out of 27 clients chosen for testing, only one had an MC-10 for the correct period, and that MC-10 was filed by a HHS-Lincoln Program Specialist. None of the 27 clients tested had the proper MC-9NF filed.

Without proper authorization, Medicaid funds are put at risk. Since the dollar amount would vary from month to month, no estimate for funds at risk can be made.

We recommend MC-9NF's and MC-10's be processed as required by NAC regulations. In addition, see our overall recommendation below.

Medicaid Hand Billings: Billings for clients who have entered the hospital during the month are first submitted to Medicare for payment of any services which might be covered, then rolled over to Medicaid for payment of the deductible and co-insurance, if any. Once these payments have been received, Medicaid is then “hand billed” by the Financial Responsibility Office for any remaining balance. 471 NAC 3-001.01 generally states that payment for medical care will be made provided that no more than 12 months have elapsed from the date of service when the claim is received by the Department (certain exceptions apply).

During our testing, we could not trace Medicaid “hand billings.” In discussions with the Financial Responsibility Office it was acknowledged that payments for hand billings were approximately 18 months in arrears.

It could not be determined how much money was involved because BSDC has not completed these billings, as the Medicare payments would need to be subtracted from the Medicaid amount on the billing system. However, the longer the delay in billings occurs the more Medicaid funds are lost.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

1. Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates
(Continued)

We understand a part of the reason billings were not done in a timely manner was due to staffing issues.

We recommend staffing issues be addressed by management, and other appropriate steps be taken immediately to bring “hand billings” up-to-date. In addition, see our overall recommendation below.

Agency’s Response – See Page 8.

Medicaid rates: As noted above, billings for clients who have entered the hospital during the month are first submitted to Medicare for payment and then rolled over to Medicaid for payment of the deductible and co-insurance, if any. Once these payments have been received, Medicaid is then “hand billed.” As also noted above, these billings are significantly in arrears. However, if these billings would have been made, our review revealed they would have been billed at an estimated rate, and paid at rates on the AIMS system in which one rate has not been updated since 1995 and another rate was not updated in a timely manner. The rates billed, and paid, are to be at rates that will reasonably cover the hospital’s costs. (471 NAC 31-008.07D1 and 471 NAC 31-008.07D2)

Our review of these rates revealed the following:

- The applicable rates for fiscal year ending June 30, 1999 are as follows:
 - a. \$464 - Estimated hospital cost. Rate was based on budgeted data for fiscal year ending June 30, 1999. (This is the rate BSDC would have used to bill Medicaid for costs not covered by Medicare).
 - b. \$281.52 - This is the acute care rate that is in the AIMS system. This rate has not been updated in the system since 1995. (This is the rate HHSS Medicaid would have used to pay BSDC for costs not covered by Medicare for this level of service).
 - c. \$99.63 - This is the skilled nursing rate that is in the AIMS system. This rate was not updated in a timely manner. (This is the rate HHSS Medicaid would have used to pay BSDC for costs not covered by Medicare for this level of Service).
- The effect of using these old rates was BSDC did not receive all the Medicaid dollars it should have received, if in fact they were doing the billings in a timely manner, and if they billed and received payments based on Medicaid rates in the system. Management acknowledges that the rates may not be current, as the difference between the amount paid, and the actual cost is adjusted after the fiscal year end when actual costs are known.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

1. Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates
(Continued)

Thus, the actual costs allowed would eventually be received. As noted above, the rates Medicaid pays should reasonably cover the cost of service at the time of payment. In addition, an adjustment was not made for fiscal year 1999, nor could management provide us with information to verify when the last time such an adjustment had been made.

- Again, as noted above, payments for medical care are made provided no more than 12 months have elapsed from the date of service. Certainly, time has elapsed for services provided by BSDC for many clients.
- In addition, it does not make good business sense to receive payments on old rates when costs continue to rise.
- We were unable to determine why old rates were in the system, and not changed. We were also unable to determine why year end adjustments had not been made. However, it was clear the controls and procedures to monitor and detect these problems were not in place.

We recommend both BSDC and HHSS review the billings and determine appropriate action to be taken to correct the rates and billings. In addition, see our overall recommendation below.

Overall Recommendation

In addition to the specific recommendations noted above, we recommend monitoring and control procedures be reviewed, and changes implemented, to ensure the problems noted above do not occur in the future.

AGENCY’S RESPONSE: WE AGREE, AS ACKNOWLEDGED IN OUR RESPONSE TO THE ADVISORY REPORT OF THE MEDICAID PROGRAM, THAT BEDHOLD DAYS WERE PAID INCORRECTLY. A MONITORING PROCESS HAS BEEN PUT IN PLACE AT BSDC AND A REVIEW OF ALL PAST BILLINGS FROM MARCH 1997 IS BEING DONE AND PROPER CORRECTIONS WILL BE MADE.

WE AGREE THAT HOSPITAL BILLINGS WERE 18 MONTHS IN ARREARS. THE DEPARTMENT HAS ADDRESSED THIS ISSUE AND BILLINGS WERE UP TO DATE AS OF JULY 24, 2000.

WE AGREE THAT THE MEDICAID RATE FOR HOSPITAL SERVICES AT BSDC HAD NOT BEEN UPDATED SINCE 1995. HOWEVER, THE DEPARTMENT DOES NOT AGREE WITH THE COMMENT THAT BSDC DID NOT RECEIVE ALL THE MEDICAID DOLLARS IT SHOULD HAVE RECEIVED. THIS SERVICE IS A COST REIMBURSED SERVICE, WHICH MEANS THE MEDICAID RATE PAID IS AN INTERIM RATE AND THE ACTUAL COST WOULD BE PAID AT THE END OF EACH YEAR. COST

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

1. Medicaid Billings – Bedholding, “Hand Billing,” Level of Care, and Medicare Rates
(Concluded)

SETTLEMENTS HAVE BEEN ADJUSTED FOR ALL YEARS THROUGH JUNE 30, 1997. THE DEPARTMENT DOES AGREE THE RATE SHOULD BE ADJUSTED EACH YEAR BASED ON PREVIOUS YEARS COSTS AND HAS IMPLEMENTED A PROCESS TO ENSURE THIS IS ACCOMPLISHED. THE HOSPITAL RATE WAS UPDATED ON JULY 13, 2000.

2. “Observation Days”

During our testing of Medicaid, we noted those clients who entered the hospital for overnight observation were recorded in the census records as being in the living units.

The census should show accurately the location of clients at a given time. If a client under observation is physically located in the hospital the census records should show the client as being in the hospital.

Medicaid regulations do not cover this particular situation. We understand BSDC has considered this situation, and they felt it was appropriate to record on the census the client was in the living unit because the client was not at the same level of care as other patients in the hospital.

It is important to accurately record where the client is receiving medical services on a particular day since different Medicaid rates are billed for different levels of care.

We recommend overnight observation be counted as a hospital stay. In addition, we recommend the Financial Responsibility Office work with the Medicare and Medicaid offices, and with HHS-Regulation and Licensure, to determine how observation days should be billed.

AGENCY’S RESPONSE: BSDC CENSUS RECORDS WILL ACCURATELY LIST EACH CLIENT’S LOCATION ON A DAILY BASIS. THE HOSPITAL DAILY CENSUS ACCURATELY REFLECTS WHEN PERSONS ARE HOSPITALIZED FOR ACUTE STAY, SWING BED, AND OBSERVATION. WE ARE WORKING WITH OUR INFORMATION SYSTEMS & TECHNOLOGY STAFF TO HAVE OBSERVATION STAYS CODED IN OUR COMPUTERIZED RECORDS. BSDC WILL WORK WITH THE MEDICAID AND MEDICARE OFFICE TO DETERMINE HOW OBSERVATIONS DAYS SHOULD BE BILLED.

3. Utilization and Annual Review Procedures

471 NAC 31-005.08J requires a utilization review be completed every six months for clients residing in Intermediate Care Facilities for the Mentally Retarded (ICF/MR). 471 NAC 31-006.01 requires an annual review of all Medicaid-eligible individuals residing in ICF/MR’s for a

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

3. Utilization and Annual Review Procedures (Concluded)

“redetermination of appropriate care level and necessity for services.” These reviews are done by the Nebraska Health and Human Services System (HHS)-Department of Regulation and Licensure.

In our review of BSDC’s compliance with these regulations, we noted one individual did not have a utilization review or an annual review done in accordance with the above regulations for calendar year 1999. Per discussion with HHS staff reviewers, and with BSDC staff, the reason this one individual did not have a review seems to be because of the following reasons:

1. The individual was in the hospital at the time of the annual review. Review of individual clients at BSDC is done by living unit. Since the individual was in the hospital, and not in his living unit, at the time the client’s living unit was reviewed, a review was not conducted. (The fact that the individual was in the hospital was noted in the annual review report).
2. When the client was returned to the living unit, there should have been a clear notification the client was now in the living unit (residing in ICF/MR). This notification was not communicated to HHS-Department of Regulation and Licensure. This communication should have been done on HHS form MC-10. We were unable to determine why this communication was not done.

Thus, procedures do not seem to be in place at BSDC and HHS-Department of Regulation and Licensure to ensure all clients at BSDC are reviewed in accordance with the above regulations.

We recommend the BSDC and HHS-Department of Regulation and Licensure work together to develop procedures to ensure review procedures are conducted in accordance with 471 NAC 31-005.08J and 471 NAC 31.006.01.

AGENCY’S RESPONSE: WE AGREE THIS ONE INDIVIDUAL WAS NOT REVIEWED. PROCEDURES ARE BEING REVIEWED TO ENSURE COMPLIANCE WITH REGULATIONS.

4. Patient Trust Accounts

BSDC maintains and is responsible for client funds. The client funds are held in trust by BSDC in a fund identified as “Patient Trust Accounts.” During fiscal 1999, the fiscal year of our audit, BSDC received and expended for the benefit of their clients over \$2,000,000, and had a balance of funds in excess of \$360,000 as of June 30, 1999. Considering this level of activity and the responsibility BSDC plays as a trustee over these funds, accounting and control procedures must be strong. During our audit of the Patient Trust Accounts, we noted the following:

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

4. Patient Trust Accounts (Continued)

- The Financial Responsibility Office (the accounting area responsible for the Patient Trust Accounts) on a routine basis obtained requests from staff for cash from the Patient Trust Accounts to be used for the benefit of the clients. Standard request forms (Trip and Cash Request Forms) were used. BSDC's policies require these request forms be returned to Financial Responsibility for all disbursements of \$10 or more along with the receipts. According to information provided to us by the Office of Financial Responsibility, the request form and the receipts were not always being returned.

We recommend all documentation supporting disbursements from the client's accounts be returned to the Office of Financial Responsibility in accordance with BSDC's policies.

- The request forms noted above require two signatures to get the cash from a client's account. However, BSDC does not have any procedure in place to document the money is actually spent in accordance with the request. We believe control procedures would be improved, and would provide more assurances client funds were being spent only as intended, if the request form, along with the receipts, were reviewed and approved by administrative supervisory staff before this information is returned to the Office of Financial Responsibility to be filed.

We recommend all requests be reviewed and approved by administrative supervisory staff before they are returned to the Office of Financial Responsibility.

- BSDC clients are required to pay for their care based on their "Ability to Pay." The Office of Financial Responsibility is required to at least annually complete an Ability to Pay redetermination (per 202 NAC 1 007.04) to provide information to support the amount taken from each client's account to pay for care. In order to complete an ability to pay redetermination, the client's assets and income must be verified. During our audit, four of five clients tested did not have assets and income verification forms on file later than 1997. Also, BSDC had not sent any verification forms between 1997 and 2000. It is our understanding the reason these forms are not always on file is many of the clients are long term, and the Office of Financial Responsibility would have knowledge of any change (decrease or increase in assets) in the clients' Ability to Pay.

We recommend a review and verification of each client's Ability to Pay be documented annually as required by regulation 202 NAC 1 007.04.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

4. Patient Trust Accounts (Concluded)

- The Office of Financial Responsibility annually processes more than 2,400 checks from the Patient Trust Account. Currently all checks are hand written. This takes a considerable amount of time, and the potential for posting errors is greater than if a computer were used to prepare the checks.

We recommend BSDC review the possibility of obtaining software for a personal computer to write and print the Patient Trust Account checks. Consideration should, of course, be given to the cost of such a system.

AGENCY'S RESPONSE: THE DEPARTMENT ACKNOWLEDGES THAT ALL REDETERMINATIONS OF ABILITY TO PAY WERE NOT ON FILE. AS INDICATED BY THE AUDIT THE CLIENTS ARE LONG TERM AT THE FACILITY, AND WE HAVE KNOWLEDGE OF EACH CLIENT'S FINANCIAL SITUATION, AS WE ARE REPRESENTATIVE PAYEE FOR SOCIAL SECURITY AND ARE INVOLVED IN THEIR OTHER FINANCIAL SITUATIONS. HOWEVER, THE DEPARTMENT WILL ENSURE THAT ALL ANNUAL REDETERMINATION FORMS ARE ON FILE.

THE DEPARTMENT HAS CHECK WRITE SOFTWARE AND HAS IMPLEMENTED IT IN HIGH VOLUME SITUATIONS. A REVIEW FOR USE AT BSDC WILL BE MADE.

A PROCEDURE IS NOW IN PLACE TO ENSURE THAT ALL TRIP/CASH REQUEST FORMS WITH RECEIPTS ARE RETURNED TO FINANCIAL RESPONSIBILITY FOR FILING.

TRIP/CASH REQUEST FORMS/RECEIPTS WILL BE REVIEWED AND APPROVED BY THE UNIT MANAGER TO SIGNIFY THAT CLIENT FUNDS WERE SPENT AS INTENDED, THEN RETURNED TO FINANCIAL RESPONSIBILITY FOR FILING.

5. Control Over Purchasing of Pharmaceutical Products

BSDC purchased in excess of \$953,207 in pharmaceutical products during fiscal year ending June 30, 1999. Our understanding of the purchasing procedures, based on discussion with staff, is as follows: BSDC's pharmacy has four Pharmacists, and all four are authorized to order supplies. Pharmacy supplies are purchased on-line. Orders are kept on a manual sheet, (no purchase orders are maintained), and may not always include all of the orders. All orders are not necessarily compared to a price list to make sure the amounts are correct.

A good system of controls would have one person prepare the purchase order, another person review and approve purchases, and a third person receive the supplies, and check to make sure the order is complete (quantity, and amount paid is correct) before it is paid. The on-line system is the pharmaceutical company's software system. The system has the capability of preparing a printed purchase order. Staff were aware of this capability; however, they were not utilizing this function.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

COMMENTS AND RECOMMENDATIONS

5. Control Over Purchasing of Pharmaceutical Products (Concluded)

Without proper segregation of duties, and procedures in place to ensure all goods ordered were received and the price to be paid is correct, there is more risk of errors and that improper purchases will occur.

We recommend the purchase orders be printed and approved before they are submitted on-line by someone other than the person preparing the order. When supplies are received, and before payment is made, someone other than the person who prepared the order and approved the purchase should ensure supplies ordered are correct as to amount and quantity.

AGENCY'S RESPONSE: PHARMACY PURCHASE ORDERS WILL BE PRINTED AND APPROVED BEFORE SUBMISSION BY A DIFFERENT PHARMACIST THAN THE ONE INITIATING THE ORDER. WHEN SUPPLIES ARE RECEIVED, A PHARMACY TECHNICIAN OR PHARMACIST (PREFERABLY NOT SAME PHARMACIST WHO SENT THE ORDER) WILL VERIFY THAT THE ORDER IS CORRECT. DRUG PRICES WILL BE VERIFIED BY THE PHARMACY TECHNICIAN BEFORE INVOICE IS SENT FOR PAYMENT.

6. Reported Costs

Annually, BSDC reports their total costs to operate the facility to the federal Health Care Finance Administration. This information is used to calculate the rate Medicaid reimburses BSDC for ICF/MR services provided.

For the fiscal year ended June 30, 1999, BSDC reported total costs of \$35,482,969. During our review of this cost report, we noted BSDC's costs were under reported by \$239,283. The under reporting was the result of BSDC using incorrect indirect cost allocation amounts. HHS's indirect cost allocation plan was being changed during the audit period, and updated quarterly allocation amounts were generated. However, these updated cost amounts were not used in the submitted cost report.

As a result of under reporting the facility's costs, BSDC did not receive all of the Medicaid reimbursements they were otherwise entitled to receive.

We recommend BSDC file an amended cost report for the year ended June 30, 1999. We further recommend BSDC develop controls to ensure the correct indirect costs are reported in future periods.

AGENCY'S RESPONSE: THE COST ALLOCATION REPORT FOR FY99 WAS RE-RUN AFTER THE MEDICARE COST REPORT WAS SUBMITTED. THE DEPARTMENT WILL SUBMIT A REVISED REPORT.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

7. Segregation of Duties over Fixed Assets

During our testing, we noted there was a lack of segregation of duties over inventory as the same person was able to perform all the tasks capable of being done at the center's location. The same person performed the physical inventory, was able to add items to the Statewide Inventory System (SWIS), requested their deletion from inventory from the Lincoln central office, and reviewed the 4800 expenditures not on inventory lists and history reports (which records all transactions processed on SWIS). We noted that although this individual is not the only person involved in the procedures for deletion of items from inventory, the participation of other individuals was not well documented.

Good internal control requires a proper segregation of duties so there is no one individual authorized to handle all phases of every procedure.

Good internal control also requires that an additional person review the 4800 expenditures not on the inventory list and the history report to ensure that all inventory items were properly added or disposed of.

There is an increased risk of undetected errors and irregularities when there is little or no segregation of duties. There is also a risk of loss or theft of inventory items when the same individual inputs data and also reviews it.

We recommend BSDC have someone not directly involved with fixed assets/inventory also review the 4800 expenditures not on the inventory list and the history report. This person should have enough knowledge of procedures and transactions to recognize problems if they occur.

We further recommend the participation of an additional person in the procedures for deleting an item from inventory be recorded by initialing and dating the appropriate documents.

AGENCY'S RESPONSE: HHSS HAS ELECTED TO CENTRALIZE THE CHECKS AND BALANCES OVER INVENTORY SO THAT THERE IS NOT NEED FOR ADDING STAFF TIME AT EACH FACILITY. IT IS MORE ECONOMICAL TO HAVE CENTRAL OFFICE PROVIDE CHECKS AND BALANCES. THE TRANSACTIONS MUST BE PROCESSED THROUGH THE CENTRAL DAS STATE SURPLUS PROPERTY OFFICE SO THE CENTRAL HHSS OFFICE HAD PROVEN TO BE AN EFFICIENT AND EFFECTIVE METHOD FOR REVIEW OF TRANSACTIONS BEFORE THEY ARE FORWARDED TO STATE SURPLUS PROPERTY AND ASSURES ADEQUATE INTERNAL ACCOUNTING CONTROL. THE HHSS CENTRAL OFFICE ASSURES THAT ADD FORMS INITIATED BY EACH FACILITY ARE COMPLETE AND MEET SYSTEM-WIDE STANDARDS BEFORE THE DATA ENTRY IS PERFORMED FOR ADDS. THE HHSS CENTRAL OFFICE STAFF RECEIVE THE MONTHLY REPORTS OF PURCHASES THAT HAVE NOT BEEN ADDED TO INVENTORY, REVIEW THEM AND FORWARD THEM TO FACILITIES. THE HHSS CENTRAL OFFICE STAFF SEND OUT THE INITIAL YEAR-END REPORT OF PURCHASES NOT YET ADDED TO INVENTORY WITH A COVER LETTER TO EACH FACILITY WITH INSTRUCTIONS FOR

**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER**

COMMENTS AND RECOMMENDATIONS

7. Segregation of Duties Over Fixed Assets (Concluded)

TAKING ACTION ON EXCEPTIONS BEFORE THE CLOSEOUT REPORT IS RUN IN AUGUST. IN THE SAME WAY, CENTRAL OFFICE STAFF RECEIVE HISTORY REPORTS AND REVIEW AND FORWARD THEM TO THE FACILITIES INCLUDING BSDC.

THE PROCEDURE FOR DELETION OF ITEMS FROM INVENTORY HAS REMAINED UNCHANGED FOR MANY YEARS. THE DOCUMENTATION OF PRIOR APPROVAL OF EACH TRANSACTION IS AVAILABLE IN THE HHSS CENTRAL OFFICE SHOWING THE APPROVAL OF BSDC STAFF, THE HHSS CENTRAL OFFICE AND THE DAS SURPLUS PROPERTY OFFICE. FINAL DISPOSITION FOLLOWING THE APPROVED METHOD IS DOCUMENTED SEPARATELY FROM THE BSDC BY MEANS OF THE CENTRAL OFFICE LOG SHOWING THE OUTCOME OF EACH SURPLUS PROPERTY NOTIFICATION FORM AND FILES DOCUMENTING SALES RECORDS, SIGNED AND WITNESSED CERTIFICATES OF DESTRUCTION, DOCUMENTS OF TRADE-IN OR OTHER APPROPRIATE TRANSACTIONS. FINALLY, THE STAFF AT BSDC DOES NOT HAVE AUTHORITY TO ENTER DELETE TRANSACTIONS ON THE COMPUTERIZED PERPETUAL INVENTORY RECORDS. DELETE TRANSACTIONS ARE INITIATED BY THE HHSS CENTRAL OFFICE ANOTHER LEVEL OF CONTROL RESIDES IN THE DAS OFFICE OF STATE SURPLUS PROPERTY WHICH EXECUTES EACH DELETION ON THE COMPUTER SYSTEM ONLY WHEN ALL REQUIRED DOCUMENTS ARE COMPLETED AND ON FILE.

WITH THE PROCEDURES ABOVE AND THE LACK OF SPECIFIC INACCURACY OR EXCEPTION IN THE AUDIT REPORTS ON INVENTORY AT BSDC, WE BELIEVE ANOTHER LAYER OF ACCOUNTING CONTROL OVER INVENTORY WITHIN THE BSDC WOULD BE AN UNNECESSARY EXPENSE WHICH WE WOULD PREFER TO AVOID AT THIS TIME.

AUDITORS' RESPONSE: YOU NOTE IN YOUR RESPONSE THE FOLLOWING: "THE HHSS CENTRAL OFFICE STAFF RECEIVE THE MONTHLY REPORTS OF PURCHASES THAT HAVE NOT BEEN ADDED TO INVENTORY, REVIEW THEM AND FORWARD THEM TO FACILITIES. THE HHSS CENTRAL OFFICE STAFF SEND OUT THE INITIAL YEAR-END REPORT OF PURCHASES NOT YET ADDED TO INVENTORY WITH A COVER LETTER TO EACH FACILITY WITH INSTRUCTIONS FOR TAKING ACTION ON EXCEPTIONS BEFORE THE CLOSEOUT REPORT IS RUN IN AUGUST. IN THE SAME WAY, CENTRAL OFFICE STAFF RECEIVE HISTORY REPORTS AND REVIEW AND FORWARD THEM TO THE FACILITIES INCLUDING BSDC."

IF THE PROCEDURES DESCRIBED ABOVE ARE IN PLACE, WE ACKNOWLEDGE THE CENTRAL OFFICE COULD PROVIDE THE APPROPRIATE LEVEL OF REVIEW. HOWEVER, THAT PERSON'S REVIEW OF THE REPORT OF PURCHASES OF INVENTORY ITEMS NOT ADDED TO THE INVENTORY (4800 EXCEPTION REPORT) SHOULD INCLUDE A REVIEW TO ENSURE APPROPRIATE ACTION HAS BEEN TAKEN TO RESOLVE THE EXCEPTIONS NOTED. THIS WOULD REQUIRE A REVIEW OF THE REPORT AFTER BSDC HAS TAKEN ACTION TO RESOLVE THE EXCEPTIONS. IN THE SAME MANNER, THE CENTRAL OFFICE'S REVIEW OF THE HISTORY REPORT COULD PROVIDE THE APPROPRIATE SEGREGATION OF DUTIES, IF THE REVIEW PERFORMED BY THE PERSON IN THE CENTRAL OFFICE IS SUCH THAT THEY COULD VERIFY ALL TRANSACTIONS THROUGH THE SYSTEM WERE APPROPRIATE. WE RECOMMEND THIS REVIEW BE DOCUMENTED. THIS COULD BE ACCOMPLISHED BY INITIALING THE REPORTS.

OUR COMMENT AND RECOMMENDATION REGARDING DELETING ITEMS FOCUSED ON DOCUMENTATION, (PRIMARILY THE APPROVAL OF THE SURPLUS DOCUMENT FORM), BY SOMEONE OTHER THAN THE PERSON HANDLING THE INVENTORY RECORDS, TO SHOW APPROVAL THAT THE ITEM SHOULD BE DISPOSED OF.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Health and Human Services System - Beatrice State Developmental Center as of and for the fiscal year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the Nebraska Health and Human Services System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Health and Human Services System - Beatrice State Developmental Center, and are not intended to present fairly the fund balances or the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Health and Human Services System - Beatrice State Developmental Center as of June 30, 1999, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report, dated June 29, 2000, on our consideration of the Nebraska Health and Human Services System - Beatrice State Developmental Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying combining statements and Schedule of Performance Measures and related graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "**unaudited**", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

June 29, 2000

A handwritten signature in black ink, appearing to read "Don Bumbay", written in a cursive style.

Manager

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 BEATRICE STATE DEVELOPMENTAL CENTER
**COMBINED STATEMENT OF ASSETS, FUND BALANCES
 AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS**
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 1999

	Governmental Fund Type	Fiduciary Fund Type	Account Group	Totals
	Special Revenue	Trust and Agency	General Fixed Assets	(Memorandum Only)
Assets				
Cash in State Treasury	\$ 458,058	\$ 1,113,691	\$ -	\$ 1,571,749
Cash in Bank-Patient Trust	-	77,663	-	77,663
Bonds-Patient Trust	-	200	-	200
Petty Cash	3,000	-	-	3,000
Equipment	-	-	2,944,339	2,944,339
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 461,058	\$ 1,191,554	\$ 2,944,339	\$ 4,596,951
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balances and Other Credits				
Other Credits,				
Investment in Fixed Assets	\$ -	\$ -	\$ 2,944,339	\$ 2,944,339
Fund Balances,				
Unreserved, Undesignated	461,058	1,191,554	-	1,652,612
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances and Other Credits	\$ 461,058	\$ 1,191,554	\$ 2,944,339	\$ 4,596,951
	<hr/>	<hr/>	<hr/>	<hr/>

See Notes to Financial Statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 1999

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	
RECEIPTS:				
Appropriations	\$ 17,500,700	\$ -	\$ -	\$ 17,500,700
Intergovernmental(Note 1.J.)	-	17,820,451	-	17,820,451
Patient Accounts	-	-	2,189,703	2,189,703
Sales and Charges	653	2,619,988	273,632	2,894,273
Miscellaneous	6,100	12,882	107,017	125,999
TOTAL RECEIPTS	17,507,453	20,453,321	2,570,352	40,531,126
DISBURSEMENTS:				
Personal Services	12,747,485	12,821,320	127,023	25,695,828
Operating	4,203,180	2,414,353	200,176	6,817,709
Travel	69,543	85,183	114	154,840
Capital Outlay	480,492	135,853	4,745	621,090
Patient Accounts	-	-	2,162,620	2,162,620
TOTAL DISBURSEMENTS	17,500,700	15,456,709	2,494,678	35,452,087
Excess of Receipts Over Disbursements	6,753	4,996,612	75,674	5,079,039
OTHER FINANCING SOURCES (USES):				
Sales of Assets	3,651	-	-	3,651
Deposits to State General Fund	(10,404)	-	-	(10,404)
Distributive Activity:				
Ins (Note 5)	-	1,001,164	10,715	1,011,879
Outs (Note 5)	-	(1,001,150)	(10,755)	(1,011,905)
TOTAL OTHER FINANCING SOURCES (USES)	(6,753)	14	(40)	(6,779)
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	-	4,996,626	75,634	5,072,260
FUND BALANCE, JULY 1, 1998	-	3,270,500	1,115,920	4,386,420
Reallocation of Fund Balance (Note 1.L.)		(7,806,068)		(7,806,068)
FUND BALANCE, JUNE 30, 1999	\$ -	\$ 461,058	\$ 1,191,554	\$ 1,652,612

See Notes to Financial Statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 1999

	GENERAL FUND			CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations	\$ -	\$ 17,500,700	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	85	-
Sales and Charges	-	653	-	-	2,525,203	-
Miscellaneous	-	6,100	-	-	18,529	-
TOTAL RECEIPTS	17,500,700	17,507,453	6,753	2,514,089	2,543,817	29,728
DISBURSEMENTS:						
Personal Services	-	12,747,485	-	-	2,094,841	-
Operating	-	4,203,180	-	-	673,481	-
Travel	-	69,543	-	-	12,190	-
Capital Outlay	-	480,492	-	-	23,667	-
TOTAL DISBURSEMENTS	17,798,758	17,500,700	298,058	2,879,857	2,804,179	75,678
Excess of Receipts Over (Under) Disbursements		6,753			(260,362)	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		3,651			-	
Deposit to State General Fund		(10,404)			-	
Distributive Activity:						
Ins		-			1,164	
Outs		-			(1,150)	
TOTAL OTHER FINANCING SOURCES (USES)		(6,753)			14	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			(260,348)	
FUND BALANCES, JULY 1, 1998		-			1,171,358	
Reallocation of Fund Balance (Note 1.L.)		-			-	
FUND BALANCES, JUNE 30, 1999	\$	-		\$	911,010	

See Notes to Financial Statements.

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 1999

	FEDERAL FUND			TOTAL ALL FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations	\$ -	\$ -	\$ -	\$ 17,500,700	17,500,700	-
Intergovernmental	-	17,820,366	-	17,261,323	17,820,451	559,128
Sales and Charges	-	94,785	-	2,705,780	2,620,641	(85,139)
Miscellaneous	-	(5,647)	-	2,000	18,982	16,982
TOTAL RECEIPTS	17,455,014	17,909,504	454,490	37,469,803	37,960,774	490,971
DISBURSEMENTS:						
Personal Services	-	10,726,479	-	26,130,833	25,568,805	562,028
Operating	-	1,740,872	-	6,814,543	6,617,533	197,010
Travel	-	72,993	-	117,537	154,726	(37,189)
Capital Outlay	-	112,186	-	899,622	616,345	283,277
TOTAL DISBURSEMENTS	13,283,920	12,652,530	631,390	33,962,535	32,957,409	1,005,126
Excess of Receipts Over (Under) Disbursements		5,256,974			5,003,365	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			3,651	
Deposit to State General Fund		-			(10,404)	
Distributive Activity:						
Ins		1,000,000			1,001,164	
Outs		(1,000,000)			(1,001,150)	
TOTAL OTHER FINANCING SOURCES (USES)		-			(6,739)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		5,256,974			4,996,626	
FUND BALANCES, JULY 1, 1998		2,099,142			3,270,500	
Reallocation of Fund Balance (Note 1.L.)		(7,806,068)			(7,806,068)	
FUND BALANCES, JUNE 30, 1999	\$	(449,952)		\$	461,058	

See Notes to Financial Statements.

(Concluded)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 1999

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Beatrice State Developmental Center are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska Health and Human Services System - Beatrice State Developmental Center (the BSDC) is a State agency established under and governed by the laws of the State of Nebraska. As such, the BSDC is exempt from State and Federal income taxes. The financial statements include all funds of the BSDC. The BSDC has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the BSDC, or the significance of their relationship with the BSDC are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the BSDC to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the BSDC.

These financial statements present the Nebraska Health and Human Services System - Beatrice State Developmental Center. No component units were identified. The Nebraska Health and Human Services System - Beatrice State Developmental Center is part of the primary government for the State of Nebraska's reporting entity.

- B. Basis of Accounting.** The accounting records of the BSDC are maintained, and the BSDC's financial statements were prepared, on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental, and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.
- C. Fund Accounting.** The accounts and records of the BSDC are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

accounts which record receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity.

General Fixed Assets Account Group. Used to account for general fixed assets of the BSDC.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the BSDC are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the BSDC and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the Department of Administrative Services Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, and federal are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general, and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

The Center utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the BSDC's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the BSDC's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 1999, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

There are no annual budgets prepared for Trust Fund and, as a result, no budgetary comparisons are presented.

(Continued on Next Page)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 1999, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES	
	Total	Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:			
Classifications of budgetary fund balances into Financial Statement fund structure:			
Cash	\$ 911,010	\$ 911,010	\$ -
Federal	(449,952)	(449,952)	-
Budgetary fund balances classified into Financial Statement fund structure	<u>\$ 461,058</u>	461,058	-
Entity Difference:			
Record funds not budgeted		-	\$ 1,191,554
Financial Statement Fund Balances, June 30, 1999		<u>\$ 461,058</u>	<u>\$ 1,191,554</u>

E. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 1999, have been recorded at cost or estimated cost by the BSDC. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

F. Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. All of the funds of the BSDC were designated for investment during fiscal year 1999.

- G. **Distributive Activity.** Distributive Activity transactions would be those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the BSDC which are owed to some individual, organization, or other government agency or are deposits which will be returned on completion of some specified requirement. See footnote 5 for explanation of the significant Distributive Activity of the BSDC.
- H. **Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- I. **Compensated Absences.** All permanent employees working for the BSDC earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the 'receipts and disbursements basis of accounting' the balances which would be reported in the Long Term Debt Account Group are not reported as they do not represent balances arising from Cash Transactions.
- J. **Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the BSDC are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. For the BSDC \$17,746,947 of the total of \$17,820,451 reported as intergovernmental receipts is Medicaid money billed to and

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

received from Health and Human Services System (HHSS). The State (HHSS) considers the BSDC, for Medicaid funding, to be an outside provider of services.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous. Receipts from sources not covered by other major categories.

Patient Account. Receipt of patient funds from various sources.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the BSDC are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character owned or held by the government.

Patient Accounts. Disbursements by the patient or reimbursement of disbursements to the BSDC to help pay for the patient's care. (Patients pay for their care based on their ability to pay, which is determined annually by the BSDC).

L. Reallocation of Funds. The Health and Human Services System (HHS) uses fund 4812 (Title XIX Medicaid Fund) for the entire system. HHS maintains internal records to track the fund balance of this fund between programs. During fiscal year ending June 30, 1999 \$7,806,068 was allocated from program 421 (BSDC program) as follows:

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

To the Hastings, Norfolk, and Lincoln Regional Centers – Programs 361, 362, and 363	\$ 4,426,068
To DDD Service Coordination – Program 422	3,069,629
Correction of an error (disbursement recorded on the Nebraska Accounting System (NAS) but not on HHS's internal tracking system	<u>310,371</u>
Total	<u>\$ 7,806,068</u>

2. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Center, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Health and Human Services System - Beatrice State Developmental Center's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the BSDC, if any, could not be determined at this time. However, it is the BSDC's opinion that final settlement of those matters should not have an adverse effect on the BSDC's ability to administer current programs. Any judgement against the BSDC would have to be processed through the State Claims Board and be approved by the Legislature.

4. Retirement Systems

State Employees' Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Center in accordance with the provisions of the State Employees Retirement Act and may be amended through legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Retirement Systems (Concluded)

State Employees' Retirement Plan (Plan)

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Center matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 1999, employees contributed \$701,756 and the BSDC contributed \$1,094,740.

School Employees' Retirement Plan

The School Employees' Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. As of June 30, 1999, there were four employees at the BSDC who belong to this plan. The benefits are based on both service and salary.

The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to .7 percent of the compensation of all members. The employees' contribution is equal to the greater of: 1) 49.75 percent of the overall rate necessary to fund the liability attributable to benefits in excess of service annuities, or 2) 7.25 percent of their compensation. The Center (employer) contribution is 101 percent of the employees' contribution.

For the Fiscal Year Ended June 30, 1999, the four employees in the plan contributed \$12,701 and the BSDC contributed \$12,828.

5. Distributive Activity

The Center's distributive activity for the audit period consist primarily of a \$1,000,000 loan from fund 4810 to fund 4812. As of the date of this report this loan has not been repaid.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1998	Additions	Retirements	Balance June 30, 1999
Equipment	\$ 3,887,737	\$ 162,605	\$ 1,106,002	\$ 2,944,339
Total General Fixed Assets	\$ 3,887,737	\$ 162,605	\$ 1,106,002	\$ 2,944,339

During fiscal year ending June 30, 1999 BSDC had two significant transactions related to fixed asset retirements. First, there was a policy change within the HHS System to transfer all computer equipment to the Information Technology (IT) Division of the System. This resulted in computer equipment with a cost of \$597,637 being transferred from the records of BSDC to the IT Division of the System. Second, the legislature passed legislation requiring ownership of all State buildings be transferred to the Department of Administrative Services, (See note below) Building Division. Certain equipment was also to be transferred. This transfer took place during the fiscal year ending June 30, 1999 and resulted in \$416,680 in equipment being transferred.

For fiscal years ending June 30, 1999, BSDC reported \$621,090 in capital outlay, of this amount \$459,546 was for computer equipment. This equipment is inventoried by the IT division of HHS, and thus this equipment is not recorded on the inventory records of BSDC.

Maintenance and Operating Agreement

In the First Session of the 94th Legislative Session in 1995 the Nebraska State Legislature passed LB 530. The Legislature's intent in LB530 was to centralize the responsibility for the maintenance and operations of all state facilities within the Department of Administrative Services (DAS) State Building Division. All land and buildings of BSDC was transferred to DAS Building Division.

DAS Building Division charges a monthly rental for the operations and maintenance of the BSDC facilities as reflected by the budget development of the operating and maintenance costs of the campus facilities. During fiscal ending June 30, 1999, BSDC paid DAS Building Division \$3,053,225 in rental payments.

7. Full Accountability of the General Fund

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Full Accountability of the General Fund (Concluded)

General Fund

Beginning (Reappropriated) Balance July 1, 1998	\$ 242,649
New Appropriations	<u>17,556,109</u>
Total Appropriations	<u>17,798,758</u>
Disbursements	<u>(17,500,700)</u>
Ending (Appropriations) Balance June 30, 1999	<u>\$ 298,058</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 BEATRICE STATE DEVELOPMENTAL CENTER
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
 June 30, 1999

	Institution Cash Fund 2252	School Dist. Reimbursement Cash Fund 2253	Federal Award Cash Federal Fund 4810	Title XIX Medicaid Federal Fund 4812	Total Special Revenue Funds
Assets					
Cash in State Treasury	\$ 896,445	\$ 11,565	\$ 576,537	\$ (1,026,489)	\$ 458,058
Petty Cash	3,000	-	-	-	3,000
Total Assets	<u>\$ 899,445</u>	<u>\$ 11,565</u>	<u>\$ 576,537</u>	<u>\$ (1,026,489)</u>	<u>\$ 461,058</u>
Fund Balances					
Fund Balances, Unreserved, Undesignated	\$ 899,445	\$ 11,565	\$ 576,537	\$ (1,026,489)	\$ 461,058
Total Fund Balances	<u>\$ 899,445</u>	<u>\$ 11,565</u>	<u>\$ 576,537</u>	<u>\$ (1,026,489)</u>	<u>\$ 461,058</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 1999

	Institution Cash Fund 2252	School Dist. Reimbursement Cash Fund 2253	Federal Award Cash Federal Fund 4810	Title XIX Medicaid Federal Fund 4812	Total Special Revenue Fund
RECEIPTS:					
Intergovernmental	\$ 85	\$ -	\$ 73,419	\$ 17,746,947	\$ 17,820,451
Sales and Charges	2,412,693	112,510	94,785		2,619,988
Miscellaneous	18,529	-	(7,519)	1,872	12,882
TOTAL RECEIPTS	2,431,307	112,510	160,685	17,748,819	20,453,321
DISBURSEMENT:					
Personal Services	2,015,771	79,070	-	10,726,479	12,821,320
Operating	673,481	-	3,805	1,737,067	2,414,353
Travel	12,190	-	-	72,993	85,183
Capital Outlay	23,667	-	-	112,186	135,853
TOTAL DISBURSEMENTS	2,725,109	79,070	3,805	12,648,725	15,456,709
Excess of Revenues Over (Under) Disbursements	(293,802)	33,440	156,880	5,100,094	4,996,612
OTHER FINANCING SOURCES (USES)					
Distributive Activity:					
Ins	1,164	-	1,000,000	-	1,001,164
Outs	(1,150)	-	-	(1,000,000)	(1,001,150)
TOTAL OTHER FINANCING SOURCES (USES)	14	-	1,000,000	(1,000,000)	14
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(293,788)	33,440	1,156,880	4,100,094	4,996,626
Fund Balance, July 1, 1998	1,193,233	(21,875)	(580,343)	2,679,485	3,270,500
Reallocation of Fund Balance	-	-	-	(7,806,068)	(7,806,068)
Fund Balance, June 30, 1999	\$ 899,445	\$ 11,565	\$ 576,537	\$ (1,026,489)	\$ 461,058

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL EXPENDABLE TRUST FUNDS

June 30, 1999

	Trust Fund 6820	Patient Trust Fund 6841	Total Expendable Trust Funds
Assets			
Cash in State Treasury	\$ 828,960	\$ 284,731	\$ 1,113,691
Cash in Bank-Patient Trust	-	77,663	77,663
Bonds-Patient Trust	-	200	200
Total Assets	<u>\$ 828,960</u>	<u>\$ 362,594</u>	<u>\$ 1,191,554</u>
Fund Balances			
Fund Balances, Unreserved, Undesignated	<u>\$ 828,960</u>	<u>\$ 362,594</u>	<u>\$ 1,191,554</u>
Total Fund Balances	<u>\$ 828,960</u>	<u>\$ 362,594</u>	<u>\$ 1,191,554</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 BEATRICE STATE DEVELOPMENTAL CENTER
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN FUND BALANCES**
ALL EXPENDABLE TRUST FUNDS
 For the Fiscal Year Ended June 30, 1999

	Trust Fund 6820	Patient Trust Fund	Total Expendable Trust Funds
RECEIPTS:			
Patient Accounts	\$ -	\$ 2,189,703	\$ 2,189,703
Sales and Charges	273,632		273,632
Miscellaneous	88,062	18,955	107,017
TOTAL RECEIPTS	<u>361,694</u>	<u>2,208,658</u>	<u>2,570,352</u>
DISBURSEMENT:			
Personal Services	127,023		127,023
Operating	200,176		200,176
Travel	114		114
Capital Outlay	4,745		4,745
Patient Accounts		2,162,620	2,162,620
TOTAL DISBURSEMENTS	<u>332,058</u>	<u>2,162,620</u>	<u>2,494,678</u>
Excess of Revenues Over Disbursements	<u>29,636</u>	<u>46,038</u>	<u>75,674</u>
OTHER FINANCING (USES)			
Distributive Activity:			
Ins	10,715		10,715
Outs	(10,755)		(10,755)
TOTAL OTHER FINANCING (USES)	<u>(40)</u>	<u>-</u>	<u>(40)</u>
Excess of Receipts Over Disbursements and Other Financing Uses	<u>29,596</u>	<u>46,038</u>	<u>75,634</u>
Fund Balance, July 1, 1998	<u>799,364</u>	<u>316,556</u>	<u>1,115,920</u>
Fund Balance, June 30, 1999	<u>\$ 828,960</u>	<u>\$ 362,594</u>	<u>\$ 1,191,554</u>

**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
SCHEDULE OF PERFORMANCE MEASURES**

	FY 1999	(Unaudited) FY 1998	(Unaudited) FY 1997
Total Client Days	146,489	147,293	146,008
Average Daily Census	403	405	402
Deaths	7	9	11
Admissions	21	45	32
Discharges	18	34	25
Number of Employees at June 30	853	868	831
Average Number of Employees per Client	2.12	2.14	2.07
Total Payroll Costs (Program 421)	25,568,805	23,420,415	25,490,558
Average Payroll Costs per Client	63,446	57,828	63,409
Indirect Administrative Costs	2,848,125	4,154,068	1,293,400
Other Adjustments	(322,565)	(802,655)	(849,929)
Total Other Operating Costs	7,388,604	7,761,763	6,135,245
Total Program 421 Costs	32,957,409	31,182,178	31,625,803
Total Costs	35,482,969	34,533,591	32,069,274
Total Costs per Client-Annual	88,047	85,268	79,774
Total Costs per Client-Daily Rate	241	234	219

Notes to Schedule

- * Program 421 is the Direct Charges for BSDC. It does not include some support staff which are included in the Indirect Administrative charges.
- * Indirect Administrative Charges. Includes Cost related to some staff at BSDC and related cost as well as Administrative staff and related cost for staff in Lincoln. These costs are developed through HHSS cost allocation plan.
- * See related graphs on page 38.
- * Sources. Financial and Census Records HHSS.

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
SCHEDULE OF PERFORMANCE MEASURES
SELECTED COMPARISON DATA FOR THE FISCAL YEAR ENDING JUNE 30, 1998
UNAUDITED

	States in the Midwest Region			
	Iowa	Missouri	Kansas	Nebraska
Average Daily Census	644	1,510	494	405
Ratio of All Staff to Residents	2.16	2.41	2.88	2.14
Total Costs per Resident-Daily Rate	\$ 279	\$ 232	\$ 275	\$ 234

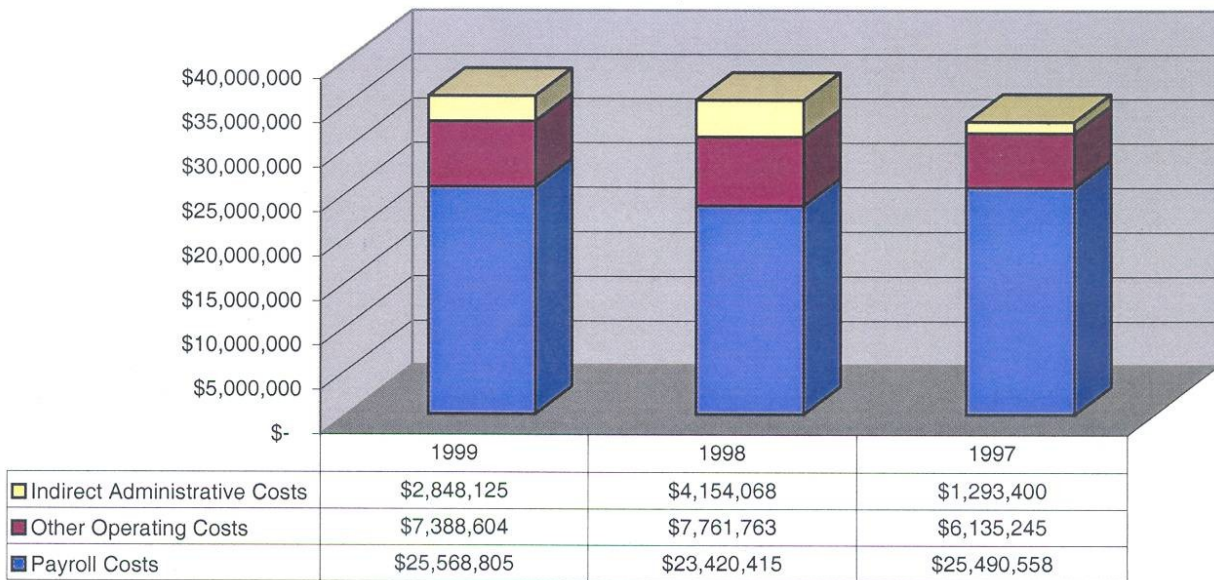
- * This is not a measure of quality - all of these facilities are minimally certified by HCFA (Health Care Financing Administration) and corresponding state specific surveyors to meet 1988 ICF-MR regulations in order to receive Medicaid funding. However, this is not an overall measure of quality of services.
- * Nebraska data reflects only BSDC, but Kansas data is a compilation of 2 facilities, Iowa - 2 and Missouri - 6.
- * Type of delivery system may vary considerably, e.g. support services such as food service, transportation, housekeeping may be centralized or provided in each living area. Person-centered planning as a model of care is implemented differently at each facility.
- * Services included by some facilities in their Operating Budget may at other facilities, be paid by other agencies and thus not included in the Operating Budget (e.g., Vocational Rehabilitation may in some cases pay for day services, medical care may be included in varying degrees).
- * The level of functioning and special needs of persons living in the facilities may be greatly variable, and thus reflect different costs.
- * BSDC costs include an Outreach program and an Acute Care Hospital - other facilities may not provide these services.
- * Source and type of funding in different states may vary.
- * In Nebraska, the creation of the Health and Human Service System (HHSS) removed the costs for Finance and Support Services staff from the BSDC budget (i.e., Accounting, Human Resources, Information and Technology), as of 1997.
- * At BSDC, LB 530 (beginning of F.Y. 1997-1998) put Maintenance services and staff under the authority of the Department of Administrative Services. Even though Maintenance services are included in the BSDC budget, there have been significant funding changes associated with this move.

Source for Data - (Iowa, Missouri, Kansas.) "Residential Services for persons with Developmental Disabilities: Status and Trends Through 1998" --The College of Education & Human Development, University of Minnesota. Dated May 1999.

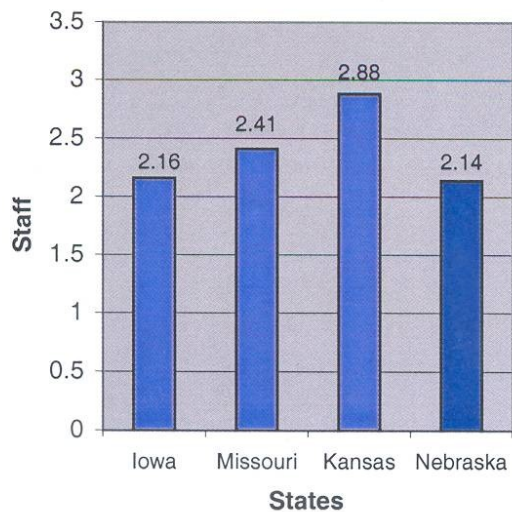
Source for Data - (Nebraska) See page 36 of this report

Source of Narrative - Linda Busby Norwood - CEO, BSDC.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
SCHEDULE OF PERFORMANCE MEASURES
SELECTED COMPARISON DATA FOR THE FISCAL YEAR ENDING JUNE 30
UNAUDITED

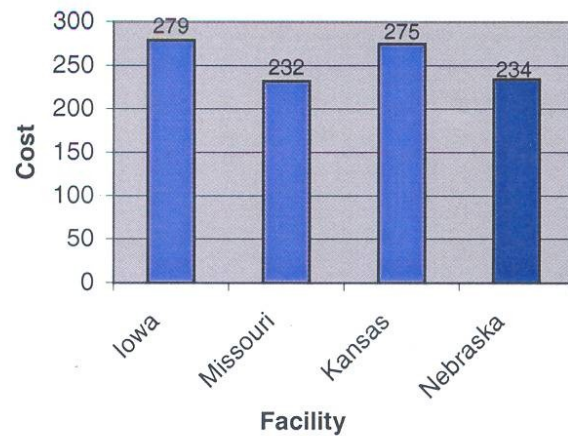


Ratio of All Staff to Residents



For Fiscal Year Ending June 30, 1998

Total Costs per Resident-Daily Rate



For Fiscal Year Ending June 30, 1998

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
BEATRICE STATE DEVELOPMENTAL CENTER
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Health and Human Services System - Beatrice State Developmental Center as of and for the year ended June 30, 1999, and have issued our report thereon dated June 29, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements, and was modified to emphasize that the financial statements present only the funds of the Nebraska Health and Human Services System - Beatrice State Developmental Center. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Beatrice State Development Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the Comments Section of our report as Comment Number 1 (Medicaid Billings - Bedholding, "Hand Billing," Level of Care, and Medicare Rates). We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Beatrice State Developmental Center in the Comments Section of this report as Comment Number 2 ("Observation Days"), Comment Number 3 (Utilization and Annual Review Procedures), Comment Number 4 (Patient Trust Accounts), and Comment Number 6 (Reported Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Beatrice State Developmental Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Beatrice State Development Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A Reportable condition is described in the Comments Section of the report as Comment Number 1 (Medicaid Billings - Bedholding, "Hand Billing," Level of Care, and Medicare Rates).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, is considered to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Health and Human Services System - Beatrice State Developmental Center in the Comments Section of the report as Comment Number 3 (Utilization and Annual Review Procedures), Comment Number 4 (Patient Trust Accounts), Comment Number 5 (Purchasing of Pharmaceutical Products), and Comment Number 7 (Segregation of Duties over Fixed Assets).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.



Manager

June 29, 2000