

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF HEALTH
AND HUMAN SERVICES
REGULATION AND LICENSURE
JULY 1, 2000 THROUGH JUNE 30, 2001**

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

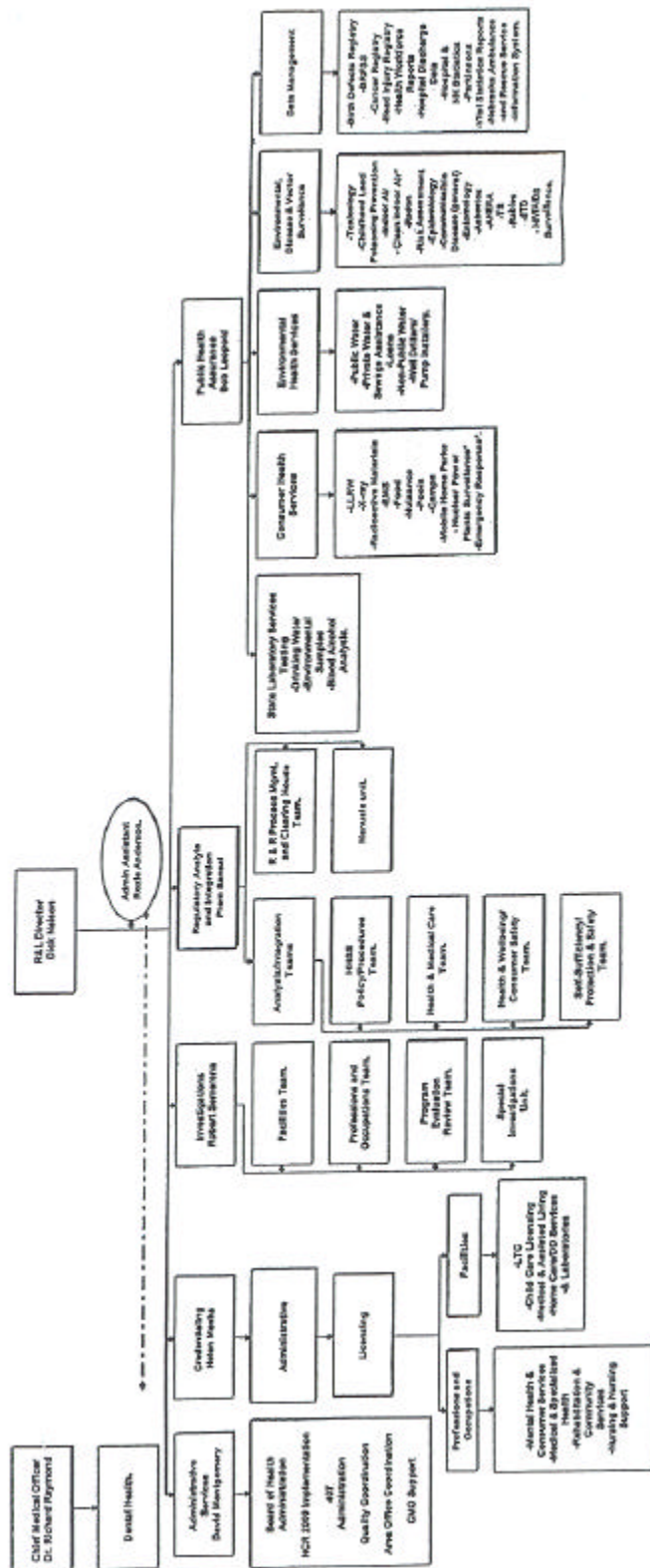
BACKGROUND

The Department of Health and Human Services Regulation and Licensure is responsible for providing several key public health functions, including certifying and licensing facilities and professionals; evaluating services or programs to determine compliance with State, Federal, or other contractual requirements; developing, reviewing, and revising regulations in accordance with established system-wide policies and objectives; assessing the environment to guard against toxic substances, contamination, and diseases that impose hazards to the community; and collecting and analyzing data that are used to design intervention strategies to protect the health of the public. The key functions of the Department are divided among the Credentialing Division, Public Health Assurance Division, Regulatory Analysis and Integration Division, Investigation Division, and the Administrative Services Division.

MISSION STATEMENT

We help people live better lives through effective health and human services.

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

SUMMARY OF COMMENTS

During our audit of the Department of Health and Human Services Regulation and Licensure, 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. **Cash Funds:** Individual board balances were either not sufficient or were excessive as of June 30, 2001. As of June 30, 2001 we noted three boards had negative balances ranging from \$19,000 to \$26,000. The remaining boards had fund balances as of June 30, 2001 ranging from .82 years of fiscal year 2001 expenditures to 41.5 years of fiscal year 2001 expenditures. A breakdown of the boards' fiscal year ending June 30, 2001, balances and the number of years the fund balances would support fiscal year 2001 expenditures is as follows:

- Two boards - less than two years
- Seven boards - between two and five years
- Seven boards - between six and ten years
- Four boards - more than ten years

The total fund balance of the boards as of June 30, 2001 was \$7,343,430, while the total expenditures for the fiscal year ending June 30, 2001 was \$3,370,597.

2. **Lack of Segregation of Duties Over Laboratory Receipts:** One employee at the State Laboratory had access to cash receipts, recorded transactions to the laboratory's accounts receivable records, prepared documents to deposit receipts to the State Treasurer, and recorded receipt transactions to the State's accounting system. This lack of segregation of duties increased the risk of loss and misuse of State funds. The State laboratory collected and recorded in excess of \$2.4 million in receipts for the fiscal year ending June 30, 2001.

3. **Receipt System:** The credentialing division had a computerized License Information System (LIS) that did not have a good audit trail between the applications, renewals, certifications, exams, penalties, etc. they processed, and the recording of the receipts in the Nebraska Accounting System (NAS).

The Department processed significant receipts through the LIS. The total number of receipts processed was 70,969, and total receipts recorded on the NAS amounted to \$4,620,340 for the fiscal year ending June 30, 2001.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

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 Department of Health and Human Services Regulation and Licensure 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. 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 DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

COMMENTS AND RECOMMENDATIONS

1. Cash Funds

The Department of Health and Human Services Regulation and Licensure licenses, certifies, or registers individuals to provide direct health care services or services that relate to or impact health. This encompasses many professions and occupations. Individual boards regulate these professions and occupations.

Neb. Rev. Stat. Section 71-162 (1) (l) R.S. Supp., 2000 states, "All money paid as credentialing and renewal fees shall be kept in a separate fund to be used for the benefit of the profession so paying such fees." Section 71-162 (2) states, "The department, upon the recommendation of the appropriate professional board, shall adopt and promulgate rules and regulations to specify the fee to be charged for the cost of the licensure or certification examination, for licensure or certification, and for licensure or certification renewal in each profession enumerated in subsection (1) of this section. The fee for the licensure or certification examination shall not exceed the cost of such examination." These sections of the statutes indicate each board is responsible for setting fees sufficient to cover the costs of services provided, and to ensure the board is self-supporting.

Our fiscal year ending June 30, 1997 audit report of the Department noted, among other things, the following: (1) five boards had negative cash balances at June 30, 1997, (2) three boards had cash balances which were increasing and had June 30 balances in excess of twice their 1997 disbursements, (3) three boards had increasing cash balances, and the June 30 balances were more than four times their 1997 disbursements, and (4) fee rates were not always appropriate, fee rates were insufficient to cover board costs as evidenced by the negative cash balances noted, or fee rates were excessive as evidenced by increasing cash balances.

In that audit we recommended, in part, the Examining Boards Bureau establish procedures to ensure each board was self-supporting, and fees be analyzed every biennium and be set at an appropriate rate to cover the costs of services provided without excessive charges.

During our current audit, we again noted similar problems as were noted in our 1997 audit. As of June 30, 2001, we noted three boards had negative balances ranging from \$19,000 to \$26,000. The remaining boards had fund balances as of June 30, 2001, ranging from .82 years of fiscal year 2001 expenditures to 41.5 years of fiscal year 2001 expenditures. A breakdown of the boards' fiscal year ending June 30, 2001, balances and the number of years the fund balances would support fiscal year 2001 expenditures is as follows:

- Two boards - less than two years
- Seven boards - between two and five years
- Seven boards - between six and ten years
- Four boards - more than ten years

The total fund balance of the boards as of June 30, 2001, was \$7,343,430, while the total expenditures for the fiscal year ending June 30, 2001, was \$3,370,597.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

COMMENTS AND RECOMMENDATIONS

1. Cash Funds (Continued)

All cash balances of the boards are maintained in one fund. As a result, boards (and those fee paying professionals) with positive balances are supplementing boards (and those fee paying professionals) with negative cash balances. In addition, those boards with very large cash balances (and those fee paying professionals) are collecting/paying more than it is costing the agency to collect and regulate those professionals, and are in violation of State Statutes.

Subsequent to the end of the fiscal year ending June 30, 2001, (July 5, 2001) the agency prepared a Cash Fund Balance Management Plan. The plan covers all boards and recommends balances (through adjustment of fees) be adjusted considering the following formula: biennial operating expense + 15% of biennial expense = needed fee revenue. This is basically 2.15 years of annual expenditures.

The plan also outlines an overall reduction of the fund balance for the entire fund (all balances of the individual boards are in one fund) from the June 30, 2001 balance of \$7,343,430 to \$1,000,000 over the next 10 years.

We were told the Director of Health and Human Services R&L verbally approved the Plan, and the individual professional boards, and the Board of Health (which oversees all the professional Boards) is in the process of implementing the plan.

We recommend the Director formally approve a plan, and ensure the plan meets the above statutory requirements. In addition, we recommend the Director work with the individual boards, and the Board of Health to ensure the plan is implemented.

Department's Response: All changes in the fee structure of the various professions require the collaboration of the respective board and the agency. The Department acts upon the recommendation of the board. The Department has been following a process to eliminate deficits in board accounts with negative balances and to reduce unnecessary balances in board accounts with excess funds. Historically, there were fourteen boards that had negative cash balances at the end of Fiscal Year 1991-92. By July 1998, a Deficit Elimination Plan established by the agency in 1992 had reduced the number of boards with negative cash balances to five. By June 30, 2001, that number had been reduced to three, and those three accounts had smaller deficits. During the same period from July 1998 through June 30, 2001, five boards recommended and the Department implemented fee reductions to lower the balances in those funds. During Fiscal Year 2000-01, the Department began preparation of a comprehensive cash management plan for all Program 178 cash funds. The management plan was completed on July 5, 2001, and was implemented in the fall of 2001 with presentations to the various boards. Fee reductions for four boards are currently in the administrative process.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

COMMENTS AND RECOMMENDATIONS

1. Cash Funds (Concluded)

Public hearings have been held on the proposed regulations for two boards, one hearing is scheduled for March 21, 2002, and the fourth hearing will be scheduled in the near future. The Department has now formally adopted the Cash Fund Balance Management Plan.

2. Lack of Segregation of Duties of Laboratory Receipts

The Department of Health and Human Services Regulation and Licensure operates the State laboratory, and charges fees to customers for its services. During testing of laboratory receipts, we noted one employee opened the mail and made a listing of all receipts. The receipts and listing, however, were then given to a second employee who recorded the transactions into the accounting records. This second employee, thus, had access to cash receipts and handled the complete recording of the transactions in the accounting records, which include\d preparing documentation to deposit cash receipts to the State Treasurer and recording cash receipts in the State accounting system. The second employee also maintained the accounts receivable records for customers, which included sending out invoice billings to customers, posting receivables to customers accounts, and when payments were made, recording the payments to the customers accounts.

The total receipts collected and recorded by the laboratory for the fiscal year ending June 30, 2001 were in excess of \$2.4 million.

Good internal control requires a proper segregation of duties so there is no one person responsible for all phases of the accounting process.

There is an increased risk of State funds being lost or misused when the same employee prepares lab fee billings, records billings to the accounts receivable system, has access to receipts received, and records receipts in the accounting records.

We recommend a segregation of duties be implemented at the laboratory so the same individual does not handle the receipts collected and the recording of those receipts to the accounting system and the agency's internal accounts receivable records. There are several internal control procedures the agency may consider, but one way to accomplish this might be to have the mail opener give the receipts and initial listing of receipts to a third employee, who would reconcile this listing to amounts recorded to the accounting records.

Department's Response: It is our accepted practice to segregate receipting duties. The duties had been segregated and assigned to three employees until December 2000 when one of those staff resigned. Corrective action will be taken to ensure adequate segregation of receipting duties.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

COMMENTS AND RECOMMENDATIONS

3. Receipt System

The credentialing division of the Department of Health and Human Services Regulation and Licensure has a computerize License Information System (LIS), which maintains the records on the applications, renewals, certifications, exams, penalties, etc. they process. The system maintains a record of all pertinent information and a record of the fees paid. However, the LIS does not maintain a record of the number of the receipt on which the receipt of monies was originally recorded. The receipts are actually processed by a separate receipt system under the direction of the Department of Health and Human Services Finance and Support.

The Department processes significant receipts through the LIS. The total number of receipts processed was 70,969, and total receipts recorded on the NAS amount to \$4,620,340 for the fiscal year ending June 30, 2001.

The effect of not having an audit trail between the two systems is: 1) it is not possible to trace receipts to the actual documentation (applications, renewals, certifications, exams, penalties, etc.) into the License Information System; 2) This situation may also result in the possible loss or misuse of State Funds; and 3) the current system does not provide an audit trail to allow a reconciliation between the amount recorded on the LIS for fees collected (applications, renewals, certifications, exams, penalties, etc. they process) and the amount recorded on the Nebraska Accounting System (NAS).

A sound accounting system requires a clear audit trail between fees collected and the documents the agency processes.

To ensure an audit trail between receipts collected and applications, renewals, certifications, exams, penalties, etc. processed through the LIS, we recommend the receipt number be recorded into the LIS system. We also recommend a reconciliation between amounts recorded on the LIS and NAS be conducted on a regular basis.

Department's Response: The revenues from initial and renewal license applications that are maintained on the Licensing Information System are reconciled with the receipting system to protect against loss of state funds. The receipt of the fee from a particular applicant can be traced manually, although the process is time consuming. The planned upgrade of the Licensing Information System will include a field to record the receipt number.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES REGULATION AND LICENSURE

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Health and Human Services Regulation and Licensure as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Nebraska Department of Health and Human Services Regulation and Licensure's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Department of Health and Human Services Regulation and Licensure, and are not intended to present fairly the fund balances and 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 Department of Health and Human Services Regulation and Licensure as of June 30, 2001, 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 January 25, 2002, on our consideration of the Nebraska Department of Health and Human Services Regulation and Licensure's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedules 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.

January 25, 2002

 c p A
Manager

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
COMBINED STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES

June 30, 2001

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets</u>			
Cash in State Treasury	\$ -	\$ 9,774,922	\$ 9,774,922
Deposit with Vendors	51,510	10,338	61,848
Petty Cash	-	1,025	1,025
Total Assets	<u>\$ 51,510</u>	<u>\$ 9,786,285</u>	<u>\$ 9,837,795</u>
<u>Fund Balances</u>			
Fund Balances:			
Reserved For Postage	\$ 51,510	\$ 10,338	\$ 61,848
Unreserved, Undesignated	<u>-</u>	<u>9,775,947</u>	<u>9,775,947</u>
Total Fund Balances	<u>\$ 51,510</u>	<u>\$ 9,786,285</u>	<u>\$ 9,837,795</u>

The accompanying notes are an integral part of the financial statements

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		Fiduciary Fund type	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	
RECEIPTS:				
Appropriations	\$ 6,499,710	\$ -	\$ -	\$ 6,499,710
Intergovernmental	-	8,777,023	-	8,777,023
Sales and Charges	93,702	9,762,411	-	9,856,113
Miscellaneous	23,065	1,782,003	79,200	1,884,268
TOTAL RECEIPTS	<u>6,616,477</u>	<u>20,321,437</u>	<u>79,200</u>	<u>27,017,114</u>
DISBURSEMENTS:				
Personal Services	4,836,136	9,890,577	-	14,726,713
Operating	1,329,336	6,826,005	-	8,155,341
Travel	251,598	654,992	-	906,590
Capital Outlay	82,640	438,008	-	520,648
Government Aid	-	70,844	-	70,844
TOTAL DISBURSEMENTS	<u>6,499,710</u>	<u>17,880,426</u>	<u>-</u>	<u>24,380,136</u>
Excess of Receipts Over (Under) Disbursements	<u>116,767</u>	<u>2,441,011</u>	<u>79,200</u>	<u>2,636,978</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	4,562	-	-	4,562
Operating Transfers In	-	697,915	-	697,915
Operating Transfers Out	-	(697,915)	-	(697,915)
Deposits to State General Fund	(121,329)	-	-	(121,329)
Deposits to Trust Fund	-	-	(79,200)	(79,200)
Distributive Activity:				
Ins	-	30,970	-	30,970
Outs	-	(26,390)	-	(26,390)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(116,767)</u>	<u>4,580</u>	<u>(79,200)</u>	<u>(191,387)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	2,445,591	-	2,445,591
FUND BALANCE, JULY 1, 2000	<u>51,510</u>	<u>7,340,694</u>	<u>-</u>	<u>7,392,204</u>
FUND BALANCE, JUNE 30, 2001	<u>\$ 51,510</u>	<u>\$ 9,786,285</u>	<u>\$ -</u>	<u>\$ 9,837,795</u>

The accompanying notes are an integral part of the financial statements

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General, Cash, and Federal Funds
For the Fiscal Year Ended June 30, 2001

	GENERAL FUND			CASH FUND		
	ACTUAL	VARIANCE		ACTUAL	VARIANCE	
	(BUDGETARY	FAVORABLE		(BUDGETARY	FAVORABLE	
	BUDGET	UNFAVORABLE)	BUDGET	BASIS)	UNFAVORABLE)	
RECEIPTS:						
Appropriations	\$ 6,499,710			\$ -		
Intergovernmental	-			43,318		
Sales and Charges	93,702			9,719,695		
Miscellaneous	23,065			1,773,733		
TOTAL RECEIPTS	6,616,477			11,536,746		
DISBURSEMENTS:						
Personal Services	4,836,136			4,948,558		
Operating	1,329,336			3,302,562		
Travel	251,598			333,500		
Capital Outlay	82,640			346,720		
Government Aid	-			68,096		
TOTAL DISBURSEMENTS	7,046,011	546,301	11,234,919	8,999,436	2,235,483	
Excess of Receipts Over (Under) Disbursements	116,767			2,537,310		
OTHER FINANCING SOURCES (USES):						
Sale of Assets	4,562			-		
Operating Transfers In	-			697,915		
Operating Transfers Out	-			(697,915)		
Deposit to State General Fund	(121,329)			-		
Distributive Activity:						
Ins	-			30,970		
Outs	-			(26,390)		
TOTAL OTHER FINANCING SOURCES (USES)	(116,767)			4,580		
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-			2,541,890		
FUND BALANCES, JULY 1, 2000	51,510			7,805,115		
FUND BALANCES, JUNE 30, 2001	\$ 51,510			\$ 10,347,005		

The accompanying notes are an integral part of the financial statements

(Continued)

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
General, Cash, and Federal Funds
For the Fiscal Year Ended June 30, 2001

	FEDERAL FUND			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ -			\$ 6,499,710	
Intergovernmental		8,733,705			8,777,023	
Sales and Charges		42,716			9,856,113	
Miscellaneous		8,270			1,805,068	
TOTAL RECEIPTS		<u>8,784,691</u>			<u>\$ 26,937,914</u>	
DISBURSEMENTS:						
Personal Services		4,942,019		\$ 15,486,678	14,726,713	\$ 759,965
Operating		3,523,443		11,108,374	8,155,341	2,953,033
Travel		321,492		538,112	906,590	(368,478)
Capital Outlay		91,288		382,551	520,648	(138,097)
Government Aid		2,748		189	70,844	(70,655)
TOTAL DISBURSEMENTS	<u>9,234,973</u>	<u>8,880,990</u>	<u>353,983</u>	<u>27,515,904</u>	<u>24,380,136</u>	<u>3,135,768</u>
Excess of Receipts Over (Under) Disbursements		<u>(96,299)</u>			<u>2,557,778</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			4,562	
Operating Transfers In		-			697,915	
Operating Transfers Out		-			(697,915)	
Deposit to State General Fund		-			(121,329)	
Distributive Activity:						
Ins		-			30,970	
Outs		-			(26,390)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>(112,187)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		<u>(96,299)</u>			<u>2,445,591</u>	
FUND BALANCES, JULY 1, 2000		<u>(464,421)</u>			<u>7,392,204</u>	
FUND BALANCES, JUNE 30, 2001		<u><u>\$ (560,720)</u></u>			<u><u>\$ 9,837,795</u></u>	

The accompanying notes are an integral part of the financial statements

(Concluded)

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Health and Human Services Regulation and Licensure are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Health and Human Services Regulation and Licensure is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department 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 Department 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 Department.

These financial statements present the Nebraska Department of Health and Human Services Regulation and Licensure. No component units were identified. The Department is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Department are maintained and the Department financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Under the cash receipts and disbursement basis of accounting, 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, 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 Department 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 accounts which records 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 and 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 or as an agent for individuals, private organizations, other governments, and/or other funds.

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 Department 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.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

- 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 Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. 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 appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations 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 vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this 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 fund types are made pursuant to the appropriations which 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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

The Department 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 Department'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 Department'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, 2001, 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.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There are not annual budgets prepared for Trust Funds, and, as a result, no budgetary comparisons are presented.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The Cash and Federal funds on the Budgetary Statement are appropriately classified as Special Revenue funds for Financial Statement purposes.

- 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. Under GAAP the related assets would be reported in the general fixed assets account group.
- 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 total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except for funds 4000, 4202, 4205, and 4207, were designated for investment during fiscal year 2001.
- G. Distributive Activity.** Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.
- 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 Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board 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 otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

J. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Nebraska Department of Health and Human Services Regulation and Licensure 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. The majority of the intergovernmental receipts in the special revenue funds for Department were grants from the federal government.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. This is the main receipt source for Department. Department is responsible for providing several key public health functions, including certifying and licensing facilities and professionals from which they collect fees.

Miscellaneous. Receipts from sources not covered by other major categories. The majority of the fees recorded in this account for Department are interest earnings on investments for the Special Revenue funds, and the collection of fines for the Trust fund. These fines are deposited directly into the permanent school trust fund, fund 6334, in accordance with Neb. Rev. Stat. Section 71-155.03 R.R.S. 1996.

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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

Government Aid. Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

- L. Fund Balance Reservations.** Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as a postage account.

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 Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The NHHSS-R-L, 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 generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

- A. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or 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 Department's financial statements.

Litigation. Entergy Arkansas, Inc. and other interested parties have filed a suit against the State of Nebraska, State agencies (including the Department) and other defendants for \$98 million, alleging improper actions in the license review for the low-level radioactive waste facility for the Central Interstate Compact. The State is vigorously defending this lawsuit. It is not possible at this time to estimate the outcome or the ultimate liability, if any, of the State or the Department.

4. State Employees Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. State Employees Retirement Plan (Plan) (Concluded)

work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the 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 Department 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, 2001, employees contributed \$733,234 and the Department contributed \$470,022.

5. Distributive Activity

The Department's distributive activity for the audit period consists primarily of fees collected from childcare facilities for fire safety inspections performed by State and local fire officials.

6. 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 schedule reflect appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 2000	\$ 238,641
New Appropriations	6,807,370
Total Appropriations	<u>7,046,011</u>
Disbursements	(6,499,711)
Lapse of Appropriations	(250,287)
Ending (Appropriations) Balance June 30, 2001	<u>\$ 296,013</u>

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Transfers

The transfers In and Out in the Special Revenue fund is transfers in fund 2800. These transfers are investigation costs transferred from the Investigations Division to the individual professional boards.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 2001

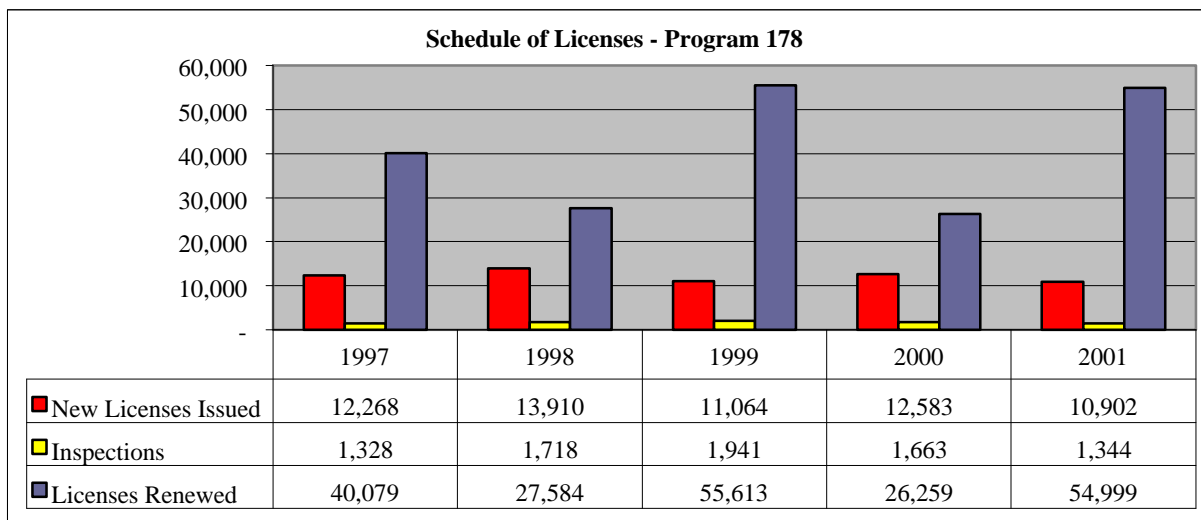
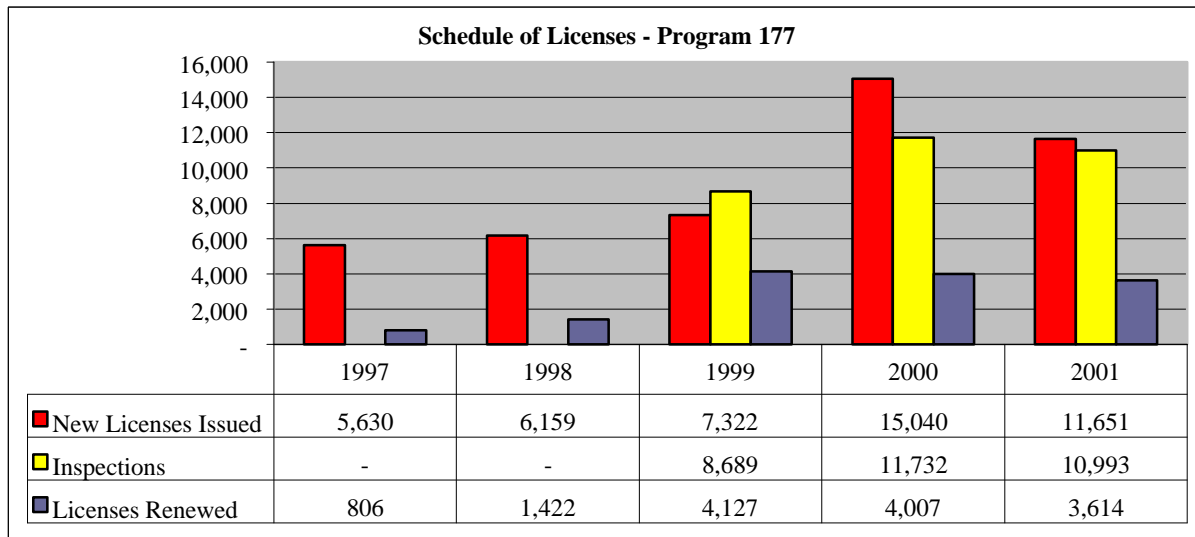
	HHS Reg. and Licensure Reimbursement Fund 2206	HHS Regulation and Licensure Cash Fund 2208	Childhood Care Fund 2263	Bureau of Exam Boards Fund 2800	Federal Cash Fund 4202	USDA WIC and CSFP Fund 4205	EPA Water Supply Prog. Fund 4207	Total Special Revenue Funds
<u>Assets</u>								
Cash in State Treasury	\$ 145,061	\$ 3,217,572	\$ 300,734	\$ 6,672,275	\$ (898,678)	\$ 11,802	\$ 326,156	\$ 9,774,922
Deposit with Vendors	-	1,431	-	8,907	-	-	-	10,338
Petty Cash	-	625	-	400	-	-	-	1,025
Total Assets	<u>\$ 145,061</u>	<u>\$ 3,219,628</u>	<u>\$ 300,734</u>	<u>\$ 6,681,582</u>	<u>\$ (898,678)</u>	<u>\$ 11,802</u>	<u>\$ 326,156</u>	<u>\$ 9,786,285</u>
<u>Fund Balances</u>								
Fund Balances:								
Reserved For Postage	\$ -	\$ 1,431	\$ -	\$ 8,907	\$ -	\$ -	\$ -	10,338
Unreserved, Undesignated	<u>145,061</u>	<u>3,218,197</u>	<u>300,734</u>	<u>6,672,675</u>	<u>(898,678)</u>	<u>11,802</u>	<u>326,156</u>	<u>9,775,947</u>
Total Fund Balances	<u>\$ 145,061</u>	<u>\$ 3,219,628</u>	<u>\$ 300,734</u>	<u>\$ 6,681,582</u>	<u>\$ (898,678)</u>	<u>\$ 11,802</u>	<u>\$ 326,156</u>	<u>\$ 9,786,285</u>

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2001

	HHS Reg. and Licensure Reimbursement Fund 2206	HHS Reg. and Licensure Cash Fund 2208	Childhood Care Fund 2263	Bureau of Exam Boards Fund 2800
RECEIPTS:				
Intergovernmental	\$ -	\$ 43,318	\$ -	\$ -
Sales and Charges	1,374,507	3,981,359	132,976	4,230,853
Miscellaneous	9,938	1,055,396	5,203	703,196
TOTAL RECEIPTS	1,384,445	5,080,073	138,179	4,934,049
DISBURSEMENTS:				
Personal Services	1,183,368	1,772,534	-	1,992,656
Operating	104,760	2,079,914	641	1,117,247
Travel	80,247	76,458	-	176,795
Capital Outlay	13,777	312,799	-	20,144
Government Aid		4,341	-	63,755
TOTAL DISBURSEMENTS	1,382,152	4,246,046	641	3,370,597
Excess of Receipts Over (Under) Disbursements	2,293	834,027	137,538	1,563,452
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	697,915
Operating Transfers Out	-	-	-	(697,915)
Distributive Activity:				
Ins	-	-	30,970	-
Outs	-	-	(26,390)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	4,580	-
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	2,293	834,027	142,118	1,563,452
FUND BALANCE, JULY 1, 2000	142,768	2,385,601	158,616	5,118,130
FUND BALANCE, JUNE 30, 2001	\$ 145,061	\$ 3,219,628	\$ 300,734	\$ 6,681,582

Federal Letter of Credit Fund 4000	Federal Cash Fund 4202	USDA WIC and CSFP Fund 4205	EPA Water Supply Prog. Fund 4207	Total Special Revenue Funds
\$ 6,684,421	\$ 717,892	\$ -	\$ 1,331,392	\$ 8,777,023
-	42,496	-	220	9,762,411
7,903	45	-	322	1,782,003
<u>6,692,324</u>	<u>760,433</u>	<u>-</u>	<u>1,331,934</u>	<u>20,321,437</u>
4,096,092	115,153	-	730,774	9,890,577
2,319,429	707,588	-	496,426	6,826,005
223,922	45,571	-	51,999	654,992
50,133	15,260	-	25,895	438,008
2,748	-	-	-	70,844
<u>6,692,324</u>	<u>883,572</u>	<u>-</u>	<u>1,305,094</u>	<u>17,880,426</u>
<u>-</u>	<u>(123,139)</u>	<u>-</u>	<u>26,840</u>	<u>2,441,011</u>
-	-	-	-	697,915
-	-	-	-	(697,915)
-	-	-	-	30,970
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,390)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,580</u>
-	(123,139)	-	26,840	2,445,591
<u>-</u>	<u>(775,539)</u>	<u>11,802</u>	<u>299,316</u>	<u>7,340,694</u>
<u>\$ -</u>	<u>\$ (898,678)</u>	<u>\$ 11,802</u>	<u>\$ 326,156</u>	<u>\$ 9,786,285</u>

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION & LICENSURE - CREDENTIALING DIVISION
SCHEDULE OF LICENSES ISSUED, INSPECTED & RENEWED
Fiscal Years ended June 30, 1997, 1998, 1999, 2000 and 2001
UNAUDITED

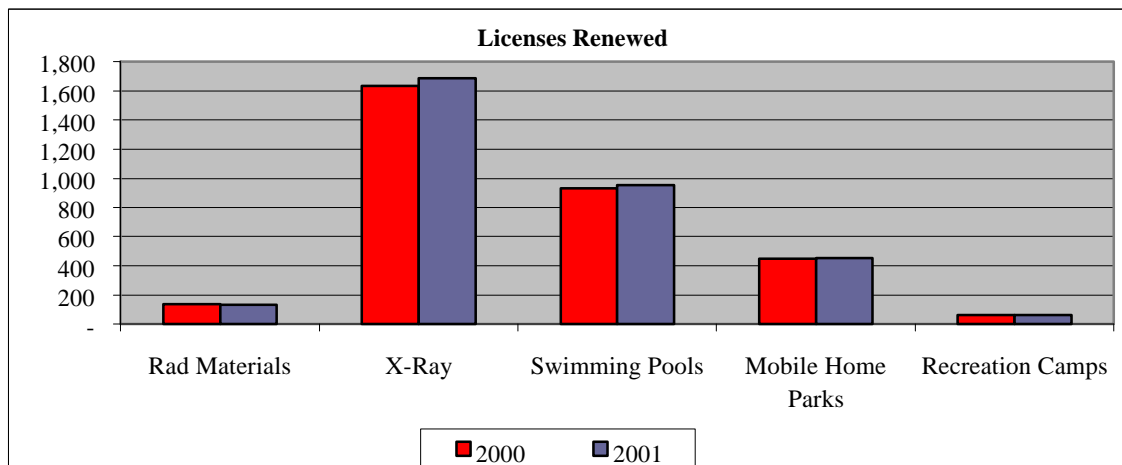
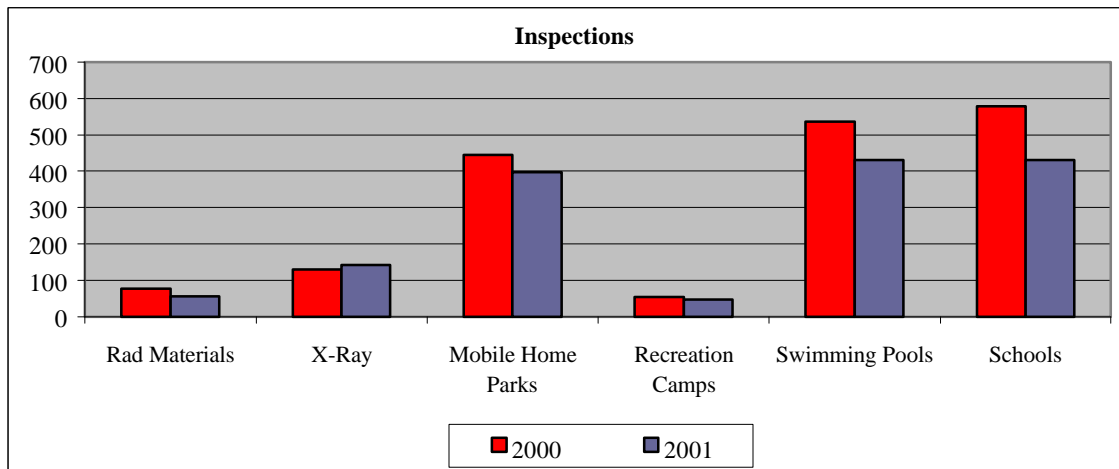
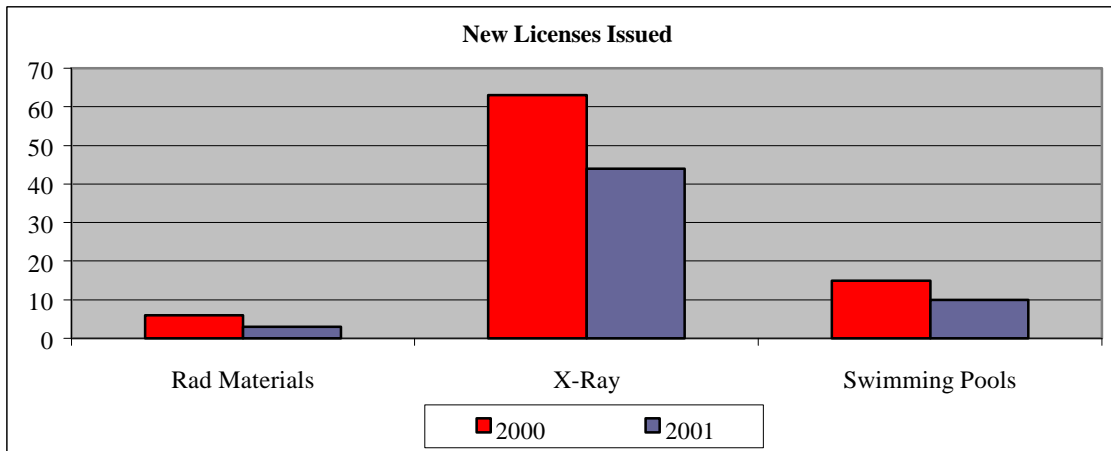


Notes: Aggregate Child Care Licensing information is not available for FY 97-FY 00. Aggregate Health Facilities licensing information is not available for FY 97-FY 98, except for new licenses issued and licenses renewed.

Program 177 - The broad areas covered under this program are facility licensure and inspections, investigations, consumer safety, quality assurance, environmental surveillance, professional occupational licensure, epidemiology and risk assessment, and program evaluation. The specific functions are licensure of nursing facilities, hospitals, assisted living facilities, and day care centers; vital statistics record keeping and retrieval; the State health laboratory, currently under contract with the University of Nebraska Medical Center; licensure of ambulance services, certification of emergency medical personnel and volunteers, hospice, home health agencies, mental health center, substance abuse treatment center, health clinics, center for develop disability, and intermediate care for the mentally retarded.

Program 178 - This division works in conjunction with separate boards professional boards to administer licensure in the following areas: Athletic Training, Audiology and Speech-Language Pathology, Chiropractic, Cosmetology, Dentistry and Dental Hygiene, Funeral Directing, Hearing Aid Instrument Dispensing and Fitting, Massage Therapy, Medicine and Surgery, Nail Technicians, Nursing, Nursing Home Administration, Administration, Occupational Therapy, Optometry, Pharmacy, Physical Therapy, Podiatry, Psychology, Respiratory Care, Veterinary Medicine and Surgery, Medical Nutrition Therapy, and Mental Health Practice.

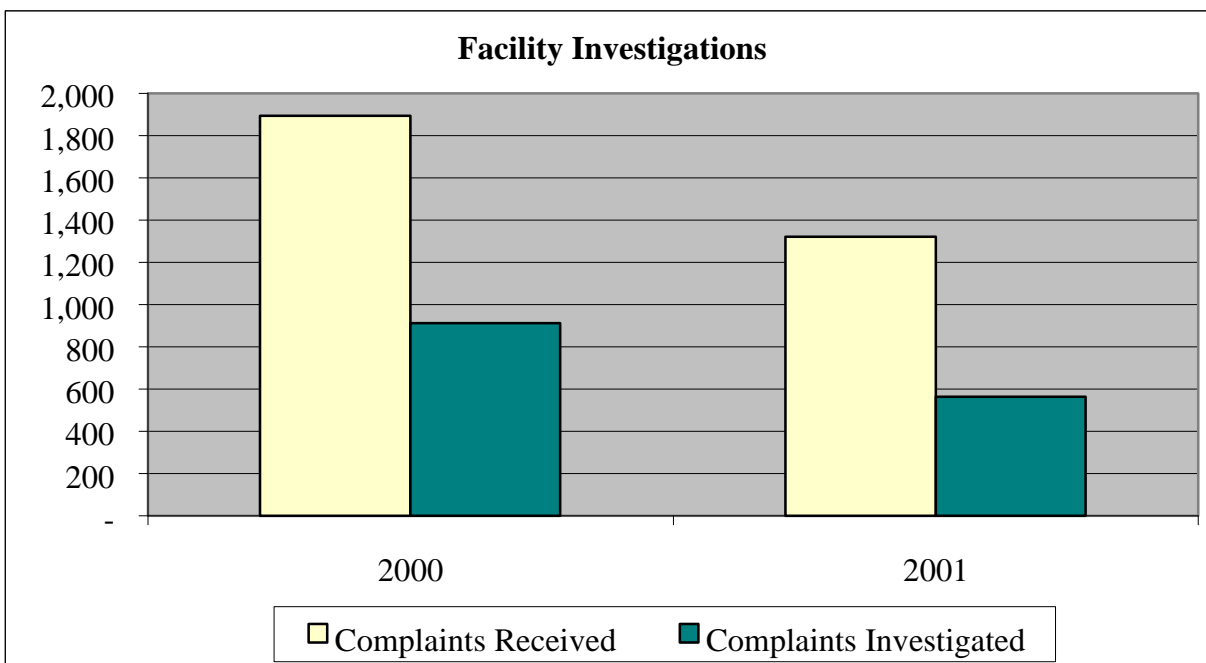
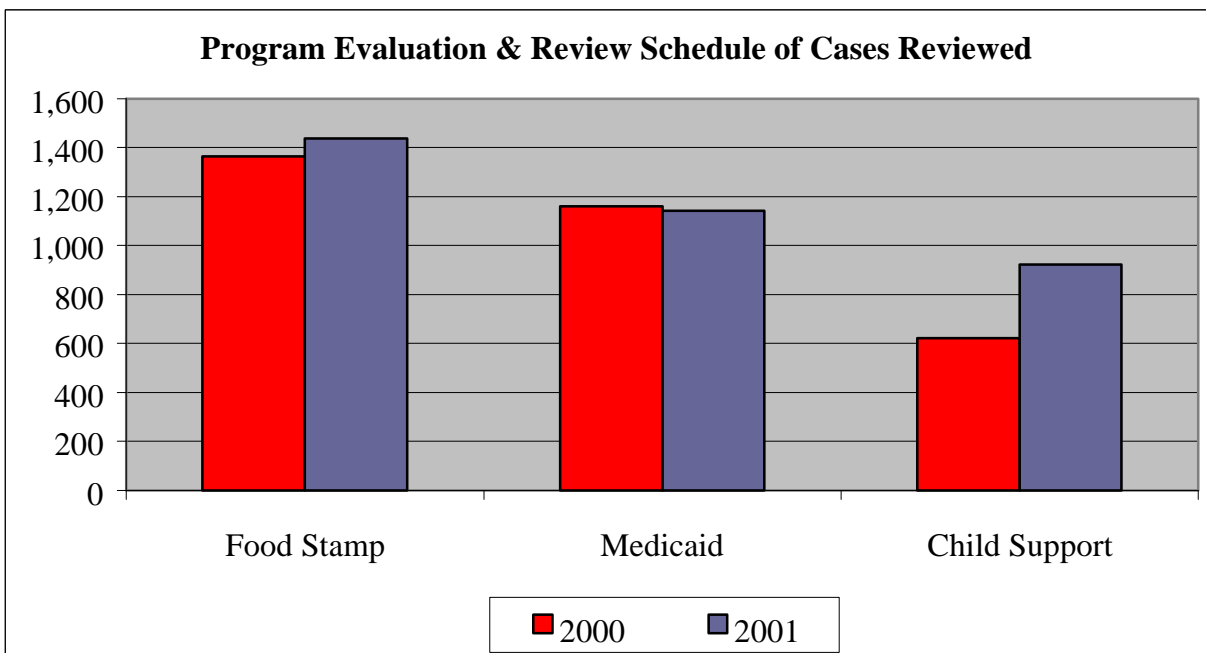
NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION & LICENSURE - PUBLIC HEALTH ASSURANCE DIVISION
SCHEDULE OF LICENSES ISSUED, INSPECTED AND RENEWED
Fiscal Years Ended June 30, 2000 and 2001
UNAUDITED



NOTE 1: Schools are not licensed through Public Health Assurance (PHA). PHA performs inspections of School Food Programs only.

NOTE 2: Inspections for Radioactive Materials & Xray licenses are not performed annually. Inspections are scheduled based on type of license.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
 REGULATION & LICENSURE - INVESTIGATIONS DIVISION
SCHEDULE OF CASES REVIEWED AND FACILITY INVESTIGATIONS
 Fiscal Years Ended June 30, 2000 and 2001
 UNAUDITED



STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGULATION AND LICENSURE
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Health and Human Services Regulation and Licensure as of and for the year ended June 30, 2001, and have issued our report thereon dated January 25, 2002. 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 Department of Health and Human Services Regulation and Licensure. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Health and Human Services Regulation and Licensure'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 no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Health and Human Services Regulation and Licensure in the Comments Section of this report as Comment Number 1 (Cash Funds).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Health and Human Services Regulation and Licensure'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 Department of Health and Human Services Regulation and Licensure'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 2 (Lack of Segregation of Duties Over Laboratory Receipts).

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, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Health and Human Services Regulation and Licensure in the Comments Section of the report as Comment Number 3 (Receipt System).

This report is intended solely for the information and use of the Nebraska Health and Human Services, 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.

January 25, 2002



Manager