AUDIT REPORT
OF THE
NEBRASKA HEALTH AND
HUMAN SERVICES SYSTEM - PROGRAM 30
TOBACCO PREVENTION AND CONTROL

JULY 1, 2001 THROUGH JUNE 30, 2002

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BACKGROUND

The Tobacco Prevention and Control Program (Program) was established during the 2000 legislative session. Funding is provided from revenue from the Tobacco Settlement. The Program received $21 million over a three-year period beginning in 2000. Future funding is expected from State general funds, however, there are currently no plans for additional tobacco settlement funds to be used by the Program.

The purpose of the program is to provide a comprehensive statewide tobacco-related public health program, including, but not limited to:

- Programs to reduce tobacco use,
- Chronic disease programs,
- Community and school programs,
- Enforcement,
- Counter-marketing cessation programs, and
- Surveillance and evaluation.

The Program also administers the Teen Tobacco Education and Prevention Project. This project was created to fund educational proposals developed and designed by high school students, provide money for scholarships for students who develop the projects and provide award money to project proposal sponsors. Four projects are to be selected for funding of up to $100,000 each per year. Scholarships of $5,000 per student are awarded to the designers of projects and project sponsors are eligible for $5,000 awards.

MISSION STATEMENT

“We help people live better lives through effective health and human services.”
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control (Program), as of and for the year ended June 30, 2002, which collectively comprise the Program’s basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Program’s management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and each major fund of the State that is attributable to the transactions of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control. They do not purport to, and do not, present fairly the cash balances of the governmental activities and each major fund of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended 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 respective cash balances of the governmental activities and the major fund of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2003, on our consideration of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control’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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program’s basic financial statements. The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

April 14, 2003

Assistant Deputy Auditor
GOVERNMENTAL ACTIVITIES
TOTAL
(Memorandum Only)

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th>$10,432,360</th>
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</thead>
<tbody>
<tr>
<td>Cash in State Treasury</td>
<td></td>
<td>$10,432,360</td>
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<tr>
<td>Total Assets</td>
<td></td>
<td>$10,432,360</td>
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<table>
<thead>
<tr>
<th>Net Assets</th>
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<th>$10,432,360</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Assets</td>
<td></td>
<td>$10,432,360</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>TOTAL (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursements:</td>
<td></td>
</tr>
<tr>
<td>Health &amp; Social Services Function:</td>
<td></td>
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<tr>
<td>Operating</td>
<td>$3,144,307</td>
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<tr>
<td>Travel</td>
<td>6,210</td>
</tr>
<tr>
<td>Capital Asset Purchases</td>
<td>11,009</td>
</tr>
<tr>
<td>Government Aid</td>
<td>2,873,167</td>
</tr>
<tr>
<td>Total Disbursements</td>
<td>6,034,693</td>
</tr>
</tbody>
</table>

Program Receipts

| Net Program Receipts (Disbursements) | (6,034,693) |

General Receipts and Other Financing Sources & Uses:

| Unrestricted Investment Interest    | 641,717     |
| Revenue from Tobacco Settlement    | 7,000,000   |
| Other Financing Sources & Uses     | (5,000,000) |
| Total General Receipts and Other Financing Sources & Uses | 2,641,717 |

Change in Net Assets

| Change in Net Assets | (3,392,976) |

Net Assets July 1, 2001

| Net Assets July 1, 2001 | 13,825,336 |

Net Assets June 30, 2002

| Net Assets June 30, 2002 | $10,432,360 |

The accompanying notes are an integral part of the financial statements.
**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM**
**PROGRAM 30 - TOBACCO PREVENTION AND CONTROL**

**STATEMENT OF ASSETS AND FUND BALANCE**
**ARISING FROM CASH TRANSACTIONS**
**GOVERNMENTAL FUND**

June 30, 2002

<table>
<thead>
<tr>
<th>Major Fund</th>
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</thead>
<tbody>
<tr>
<td>Tobacco</td>
</tr>
<tr>
<td>Prevention</td>
</tr>
<tr>
<td>&amp; Control</td>
</tr>
<tr>
<td>Fund 2256</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in State Treasury</td>
</tr>
<tr>
<td>Total Assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund Balance</th>
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</thead>
<tbody>
<tr>
<td>Unreserved</td>
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<tr>
<td>Total Fund Balance</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL

STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUND

For the Fiscal Year Ended June 30, 2002

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### Major Fund

Tobacco
Prevention
& Control
Fund 2256

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**RECEIPTS:**

- Miscellaneous:
  - Investment Interest $641,717
  - Revenue from Tobacco Settlement $7,000,000
- **TOTAL RECEIPTS** $7,641,717

---

**DISBURSEMENTS BY FUNCTION:**

- Health and Social Services $6,034,693
- **TOTAL DISBURSEMENTS** $6,034,693

---

- Excess (Deficiency) of Receipts Over
  (Under) Disbursements $1,607,024

---

**OTHER FINANCING SOURCES (USES):**

- Operating Transfers Out $(5,000,000)
- **TOTAL OTHER FINANCING SOURCES (USES)** $(5,000,000)

---

- Net Change in Fund Balance $(3,392,976)

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**FUND BALANCE, JULY 1, 2001** $13,825,336

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**FUND BALANCE, JUNE 30, 2002** $10,432,360

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The accompanying notes are an integral part of the financial statements.
1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control are on the basis of accounting as described in the Nebraska Accounting System Manual.

**A. Reporting Entity**

The Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control (Program) is a program within the Nebraska Health and Human Services System. The Nebraska Health and Human Services System is a State agency established under and governed by the laws of the State of Nebraska. As such, the Program is exempt from State and Federal income taxes. The financial statements include all funds of the Program.

The Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control is part of the primary government for the State of Nebraska’s reporting entity.

**B. Basis of Presentation**

**Program-wide Financial Statements.** The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Program, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Program. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Program reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts reduce the net cost of the function to be financed by general receipts. Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control receipts include general receipts. Receipts identified as program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital
1. **Summary of Significant Accounting Policies (Continued)**

requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Program reported the following general receipts: Revenues from the Tobacco Settlement.

**Fund Financial Statements.** The fund financial statements provide information about the Program’s funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Program uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Program reports the following major governmental fund:

**Tobacco Prevention and Control Cash Fund.** This is the only fund of the Program, which accounts for all of the financial resources of the Program.

**C. Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Program are maintained and the Program-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Program. This differs from governmental generally accepted accounting principles (GAAP), which requires the Program-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized
1. **Summary of Significant Accounting Policies (Concluded)**

   as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

   **D. Assets and Net Assets**

   **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 Program were designated for investment during fiscal year 2002.

   **Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

   **Capital Assets.** Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

   Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

   **E. 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 postage.
2. Contingencies and Commitments

**Risk Management.** The Program 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 Program, 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.

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 Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control’s financial statements.
2. **Contingencies and Commitments (Concluded)**

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

3. **Transfers**


4. **Revenue from Tobacco Settlement**


5. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Program implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Program’s financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Program were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Program.
### Fund 2256 - Tobacco Prevention & Control

<table>
<thead>
<tr>
<th>PROGRAM:</th>
<th>BUDGETED AMOUNTS</th>
<th>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</th>
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</thead>
<tbody>
<tr>
<td>Tobacco Prevention &amp; Control</td>
<td>$ 7,000,000</td>
<td>$ 6,034,693 $ 965,307</td>
</tr>
<tr>
<td>TOTAL DISBURSEMENTS</td>
<td>$ 7,000,000</td>
<td>$ 6,034,693 $ 965,307</td>
</tr>
</tbody>
</table>

See Notes to Supplementary Information
GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Program’s legally adopted annual budget amount. The Program’s budgetary comparison schedule includes the Tobacco Prevention and Control Cash Fund.

GAAP also requires the budgetary comparison schedule to include the original budget and final budget amounts. The original budget is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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 Program 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 presents the 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 approved appropriations 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. As a result, the budgetary comparison schedule only reports total disbursements by program.

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 Program’s Tobacco Prevention and Control Cash Fund 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 objects 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 cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL

SCHEDULE OF AMOUNTS AWARDED
GRANT YEARS 2001 THROUGH 2003
UNAUDITED

Note: Schedule includes grants awarded for various periods, beginning in February 2001 and continuing through December 2003.
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL
SCHEDULE OF DISBURSEMENTS BY PROGRAM COMPONENTS
For the Fiscal Year Ended June 30, 2002
UNAUDITED

Family Health
>1% - $3,055

High Risk Youth
1% - $44,527

Administration
1% - $65,473

School Programs
14% - $851,353

Diverse Populations
16% - $987,558

Enforcement
2% - $102,860

Statewide Programs
5% - $322,539

Media
14% - $836,172

Surveillance & Evaluation
11% - $681,252

Cessation
3% - $197,831

Teen Tobacco Projects
9% - $546,968

Community Programs
20% - $1,180,617

Enforcement - Youth Access
4% - $214,488

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL

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 - Program 30 - Tobacco Prevention and Control as of and for the year ended June 30, 2002, and have issued our report thereon dated April 14, 2003. 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 - Program 30 - Tobacco Prevention and Control. 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 Health and Human Services System - Program 30 - Tobacco Prevention and Control’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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control’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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Program, 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.

April 14, 2003                        Assistant Deputy Auditor

Pat Reding, CPA