

**ADVISORY LETTER OF THE  
NEBRASKA HEALTH AND HUMAN  
SERVICES SYSTEM  
TOBACCO SETTLEMENT FUNDS**

**JULY 1, 2001 THROUGH JUNE 30, 2002**

**APRIL 14, 2003**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
TOBACCO SETTLEMENT FUNDS

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# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Steve Curtiss, Director  
Finance and Support  
Nebraska Health and Human Services System  
301 Centennial Mall South  
Lincoln, Nebraska 68509-5026

Dear Mr. Curtiss:

In accordance with Neb. Rev. Stat. Section 84-304 R.S.Supp., 2002, we have performed certain procedures enumerated below for the Nebraska Health and Human Services System (HHSS) - Tobacco Settlement Funds. We conducted the procedures in accordance with *Government Auditing Standards*.

The scope of the procedures was the fiscal year ended June 30, 2002. The objectives of the procedures were to determine the tobacco settlement funds received were properly recorded, accounted for, and utilized in accordance with State regulations.

### Summary of Results

We performed certain procedures we considered necessary to meet the objectives enumerated above. Those procedures consisted primarily of reviewing accounting records, obtaining an understanding of internal control procedures and accounting systems, inquiry of management, and tests of transactions. For more information see the Testing and Procedures Section of this letter.

We compiled the accompanying financial data on the schedules and charts on pages 4 through 8 from the records of the Nebraska Health and Human Services System. We have not audited, examined, or reviewed the accompanying data and, accordingly, do not express an opinion or any other form of assurance on this data.

This advisory letter is intended for the information of the Nebraska Health and Human Services System; however, this advisory letter is a matter of public record and its distribution is not limited.

*Pat Reding, CPA*

Assistant Deputy Auditor

April 14, 2003

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
TOBACCO SETTLEMENT FUNDS

**BACKGROUND**

Nebraska was among a group of 46 states that agreed to a \$246 billion settlement with the tobacco industry. The 1998 settlement was a result of the states' efforts to recoup money spent to care for ill smokers. Nebraska's share of the settlement is estimated at approximately \$1.2 billion over a 25-year period.

In 1998, the State Legislature approved a plan distributing Nebraska's tobacco settlement funds to health care needs through a competitive grant process. The Legislature amended its plans for distributing the funds in 2000 by allocating \$21 million over three years for tobacco use prevention and cessation efforts. In 2001, the Governor and Legislature approved LB 692, which authorized the distribution of \$50 million annually to designated health care needs. The \$50 million would be a combination of principal and interest from Nebraska's share of the tobacco settlement. Under LB 692, the tobacco settlement proceeds are allocated to behavioral health services, mental health and substance abuse treatment, juvenile services, minority health, developmental disabilities, emergency protective care, respite care, and biomedical research. LB 692 also provides for competitive health care grants and public health grants awarded by the Nebraska Health Care Council.

Tobacco settlement funds are deposited to the Tobacco Settlement Trust Fund, which is invested by the State Investment Officer. Annually, the State Treasurer shall transfer a total of \$50 million from the Nebraska Medicaid Intergovernmental Trust Fund and the Tobacco Settlement Trust Fund to the Nebraska Health Care Cash Fund. The State Investment Officer shall advise the State Treasurer on the amounts to be transferred from each fund.

**MISSION STATEMENT**

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
TOBACCO SETTLEMENT FUNDS

**TESTING AND PROCEDURES**

Our procedures were as follows:

1. We determined tobacco settlement funds received were properly recorded and accounted for. The settlement agreement requires an independent auditor to calculate and determine settlement payments. We verified all amounts received during fiscal year ended June 30, 2002, agreed with documentation provided by the independent auditor. No exceptions were noted.
2. We verified all fiscal year 2002 transfers related to the Tobacco Settlement Trust Fund were properly recorded and in accordance with Neb. Rev. Stat. Sections 71-7608 and 71-7611 R.S.Supp., 2002. No exceptions were noted.
3. We reviewed HHSS procedures to ensure funds were distributed to programs in accordance with 2001 Neb. Laws 692A. We noted HHSS utilized identifiers to track authorizations and expenditures. We verified the authorized amounts for each identifier for LB 692 agreed with the appropriated amount per LB 692A. We further verified the expenditures for each of these identifiers were charged to the proper program for fiscal year 2002. No exceptions were noted. However, we did not test any transactions to determine whether the expenditures were in accordance with LB 692 and legislative intent.
4. We determined whether an annual report to the Legislature and the Governor regarding the use of funds appropriated under the Health Care Funding Act and the outcomes achieved from such use had been prepared per Neb. Rev. Stat. Section 71-7606(4) R.S. Supp., 2002. Reports were provided for the various uses of funds appropriated.
5. We compiled the accompanying schedules as described in the Table of Contents.

Draft copies of this report were furnished to HHSS to provide them an opportunity to review the advisory letter.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
 TOBACCO SETTLEMENT TRUST FUND  
**SCHEDULE OF ACTIVITY**  
 Fiscal Year Ended June 30, 2002  
 UNAUDITED

	Fund 6263
Receipts:	
Revenues from Settlement	\$ 36,534,088
Net Investment Income	2,732,200
Total Receipts	39,266,288
Operating Transfers Out	
To Nebraska Health Care Cash Fund	(20,000,000)
Net Change in Fund Balance	19,266,288
Fund Balance July 1, 2001	72,393,671
Fund Balance June 30, 2002	\$ 91,659,959

*Source: Nebraska Accounting System*

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
 TOBACCO SETTLEMENT FUNDS  
**SCHEDULES OF ACTIVITY**  
 July 1, 1998 through June 30, 2002  
 UNAUDITED

**SETTLEMENT FUNDS RECEIVED JULY 1, 1998 THROUGH JUNE 30, 2002**

Received by Fiscal Year:	
1998-1999	\$ 50,000
1999-2000	48,691,904
2000-2001	37,484,169
2001-2002	43,534,088
	\$ 129,760,161
Deposited to:	
Tobacco Settlement Trust Fund	\$ 108,760,161
Tobacco Prevention and Control Cash Fund	21,000,000
	\$ 129,760,161

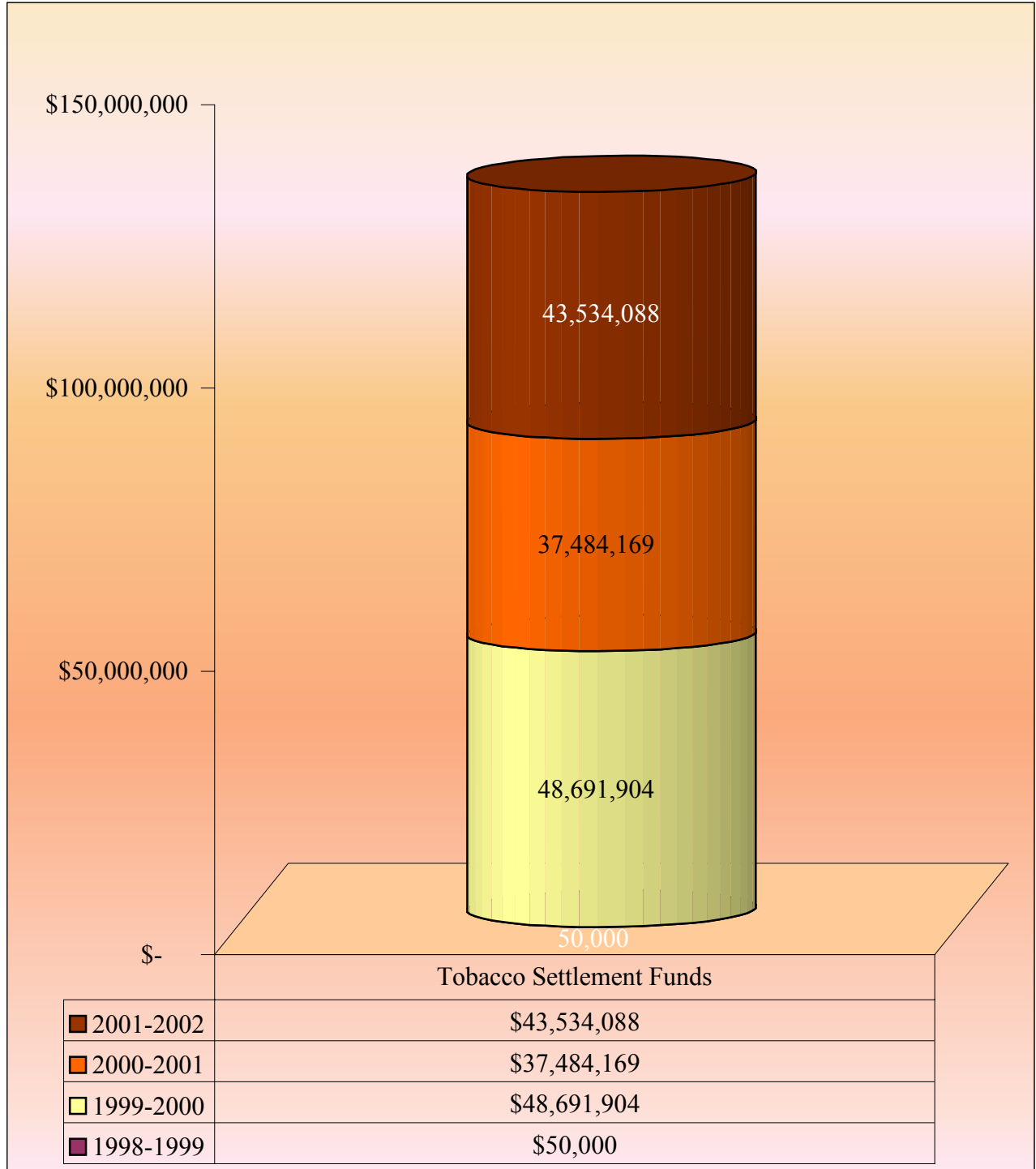
**NEBRASKA TOBACCO SETTLEMENT TRUST FUND**  
 Cumulative Activity Through June 30, 2002

	Fund 6263
Tobacco Settlement Funds Received	\$ 108,760,161
Net Investment Income	5,561,296
Total Available	\$ 114,321,457
Transfers Out to Nebraska Health Care Cash Fund*	(22,661,498)
Ending Balance June 30, 2002	\$ 91,659,959

\* Prior to May 17, 2001 investment income earned was transferred to the Nebraska Health Care Cash Fund. After May 17, 2001 interest earned remained in the Tobacco Settlement Trust Fund and an annual transfer was made to the Nebraska Health Care Cash Fund. The transfer for fiscal year ended June 30, 2002 was \$20 million.

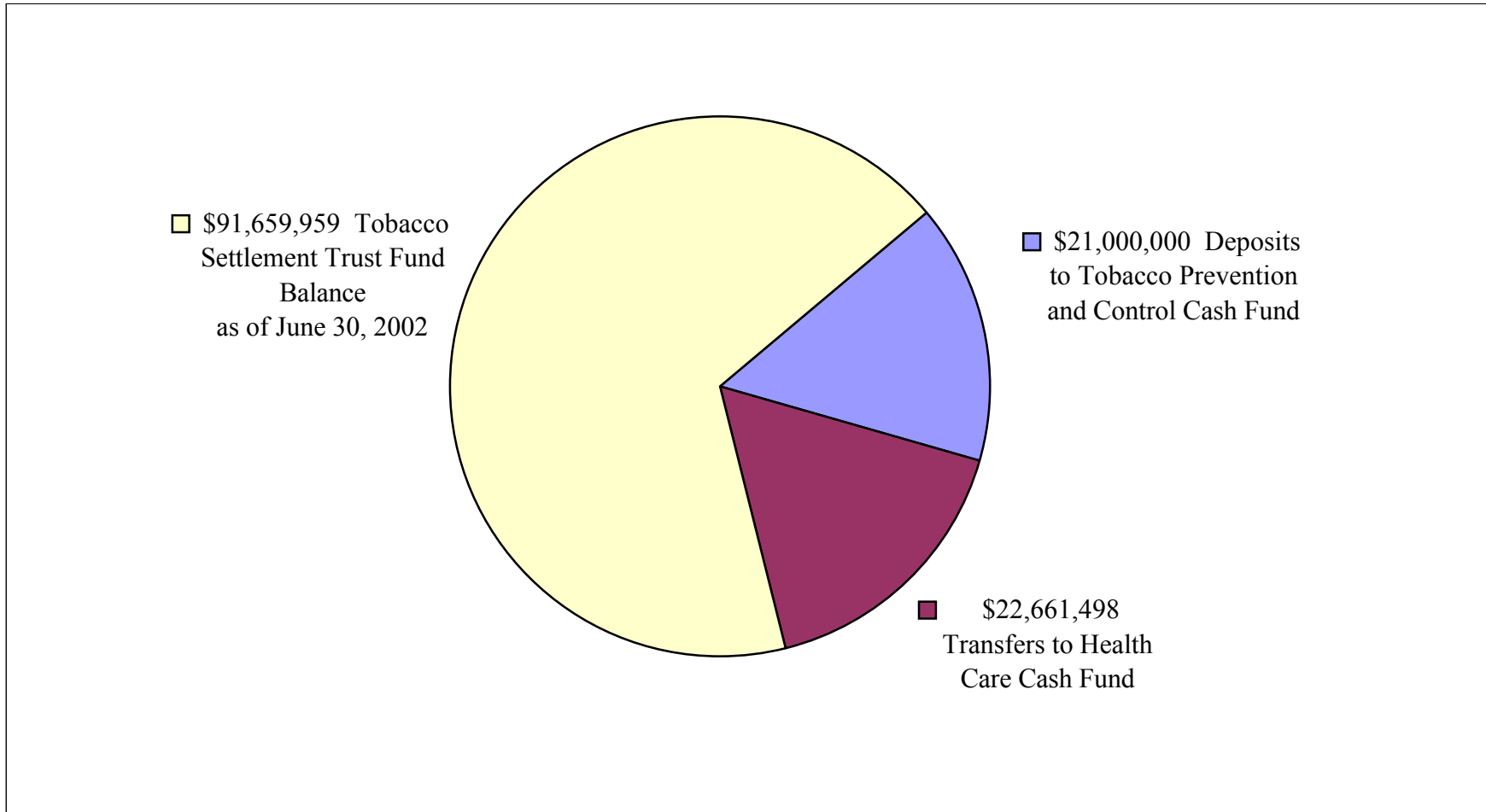
*Source: Nebraska Accounting System*

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
 TOBACCO SETTLEMENT FUNDS  
**SETTLEMENT FUNDS RECEIVED**  
 July 1, 1998 through June 30, 2002



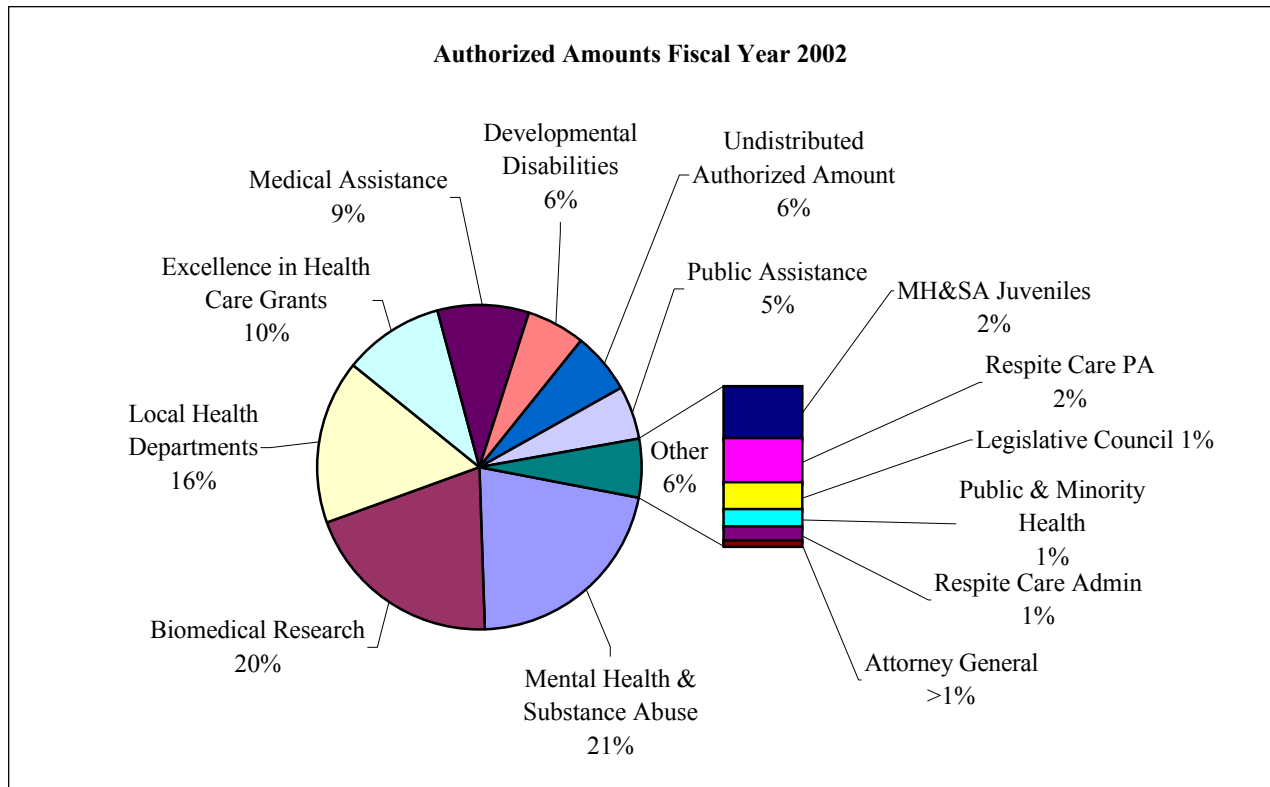


NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
TOBACCO SETTLEMENT FUNDS  
**DISPOSITION OF AVAILABLE FUNDS**  
July 1, 1998 through June 30, 2002



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
 TOBACCO SETTLEMENT FUNDS  
**AUTHORIZED DISTRIBUTION OF TOBACCO SETTLEMENT AND  
 IGT FUNDS TRANSFERRED TO HEALTH CARE CASH FUND**  
 Fiscal Year Ended June 30, 2002  
 UNAUDITED

	<u>Authorized Amount</u>	<u>Expenditures through June 30, 2002</u>	<u>Unexpended Balance at June 30, 2002</u>
Mental Health & Substance Abuse	\$ 10,684,062	\$ 5,002,403	\$ 5,681,659
Biomedical Research	10,000,000	10,000,000	-
Local Health Departments	8,180,000	6,263,286	1,916,714
Excellence in Health Care Grants	5,000,000	3,501,467	1,498,533
Medical Assistance	4,552,521	4,552,521	-
Developmental Disabilities	3,000,000	2,534,414	465,586
Undistributed Authorized Amount	2,965,000	-	2,965,000
Public Assistance	2,663,417	2,663,417	-
Mental Health & Substance Abuse to Juveniles	1,000,000	288,986	711,014
Respite Care Public Assistance	810,000	8,972	801,028
Legislative Council	500,000	8,895	491,105
Public & Minority Health	320,000	101,883	218,117
Respite Care Administration	250,000	177,316	72,684
Attorney General	75,000	75,000	-
Total	<u>\$ 50,000,000</u>	<u>\$ 35,178,560</u>	<u>\$ 14,821,440</u>



Note: The Health Care Funding Act authorizes a total of \$50 million to be transferred to the Health Care Cash Fund annually from the Tobacco Settlement Trust Fund and the Medicaid Intergovernmental Trust Fund. The Act further states the intended use of the \$50 million.