AUDIT REPORT
OF THE NEBRASKA
HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
(HASTINGS, NORFOLK, LINCOLN)

JULY 1, 2001 THROUGH JUNE 30, 2002

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

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BACKGROUND

The Health and Human Services System (HHSS) operates three Regional Centers as part of the State's public health system. The three Regional Centers are located in Lincoln (LRC), Hastings (HRC), and Norfolk (NRC). The Regional Centers provide diagnostic, treatment, rehabilitation, and maintenance services for persons requiring acute or long-term inpatient psychiatric services on a regional statewide basis.

The primary purpose of the Regional Centers is to provide acute care and secure residential and transitional services to persons with mental disorders. The Regional Centers provide specialized treatment programs. The Adolescent and Family Service at LRC is a secure residential, community resident, and court evaluation services program for youth ages 12 to 19. This unit serves the entire State and has a level II educational program operating under the auspices of the State Department of Education. The LRC Community Transition Program provides psycho-social rehabilitation to persons with severe and persistent mental illness. The Forensic Mental Health Service at LRC serves adult males from the entire State who are in need of maximum supervision and treatment. This unit provides outpatient evaluation for competency and sanity and inpatient services for those found not responsible by reason of insanity, convicted sex offenders, transfers from correctional institutions, court evaluations, and those deemed to be of danger to themselves or others who cannot be treated in a less restrictive environment. All Regional Centers provide diagnostic and treatment services for acute and long-term patients.

Medicaid funds and payments by parents, patients, schools, counties, and insurance companies are the primary sources of federal and cash funds received by the Regional Centers.

MISSION STATEMENT

The mission of the Nebraska Health and Human Services System is to create and sustain a unified, accessible, caring, and competent health and human service system for each Nebraskan that maximizes local determination to achieve measurable outcomes. To this end, the State will work in partnership with local communities and their public and private sector entities.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

ORGANIZATIONAL CHART

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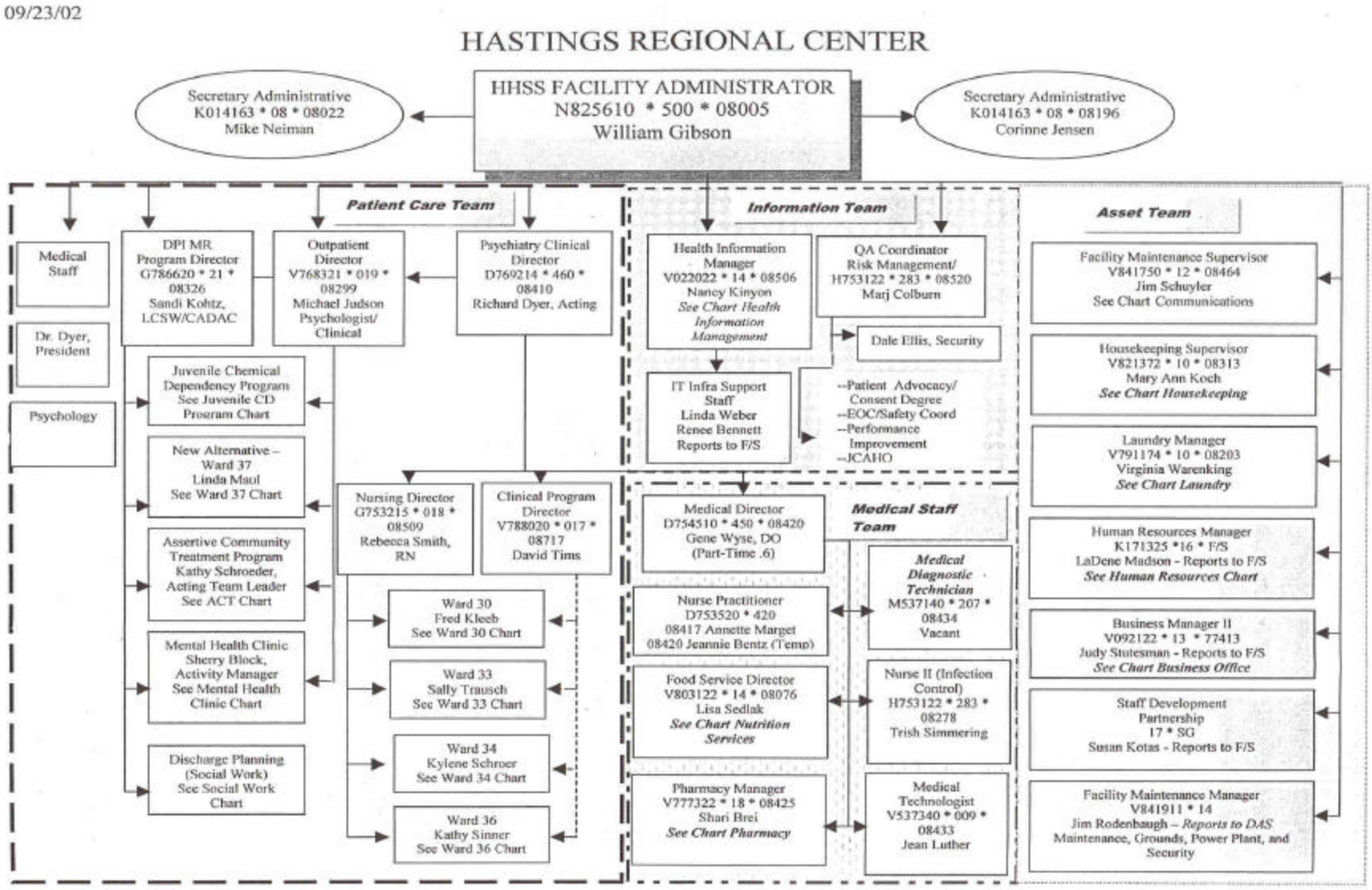
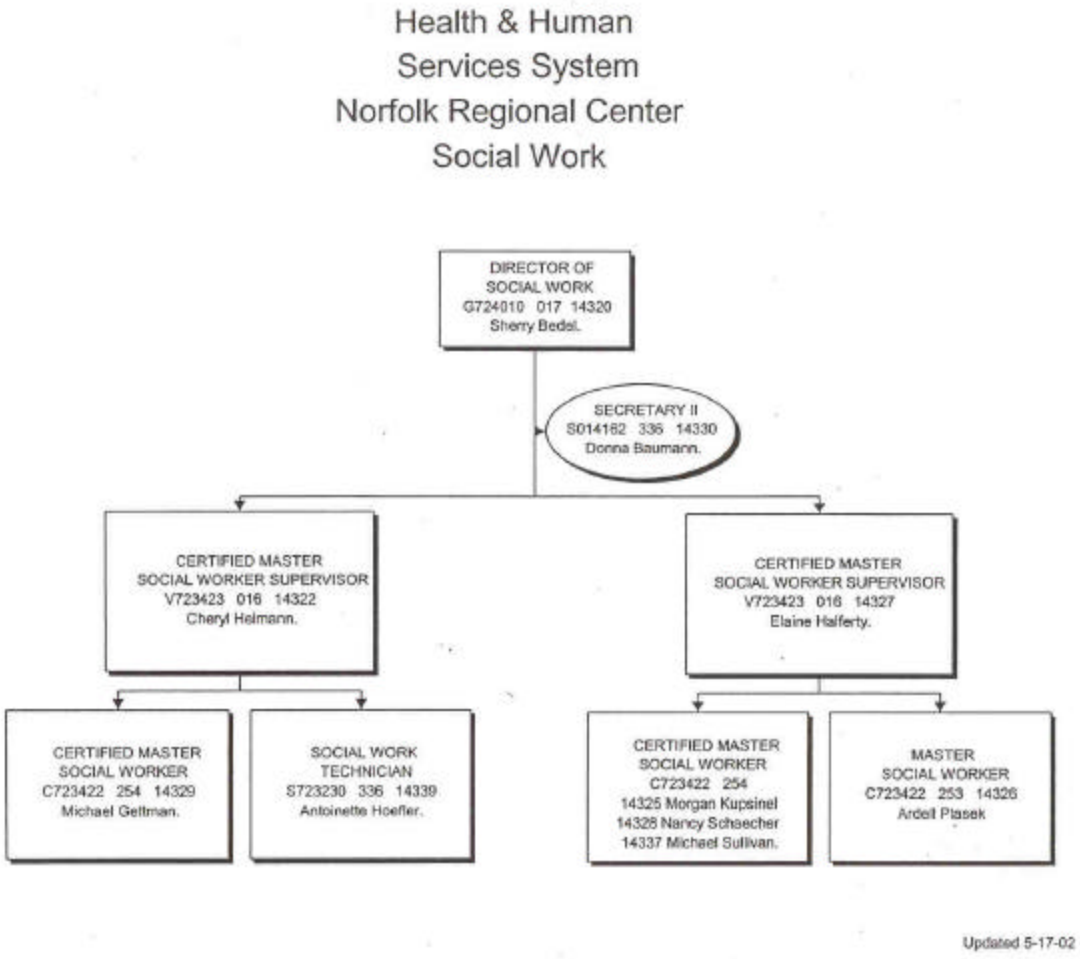


NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

ORGANIZATIONAL CHART

NORFOLK REGIONAL CENTER

ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

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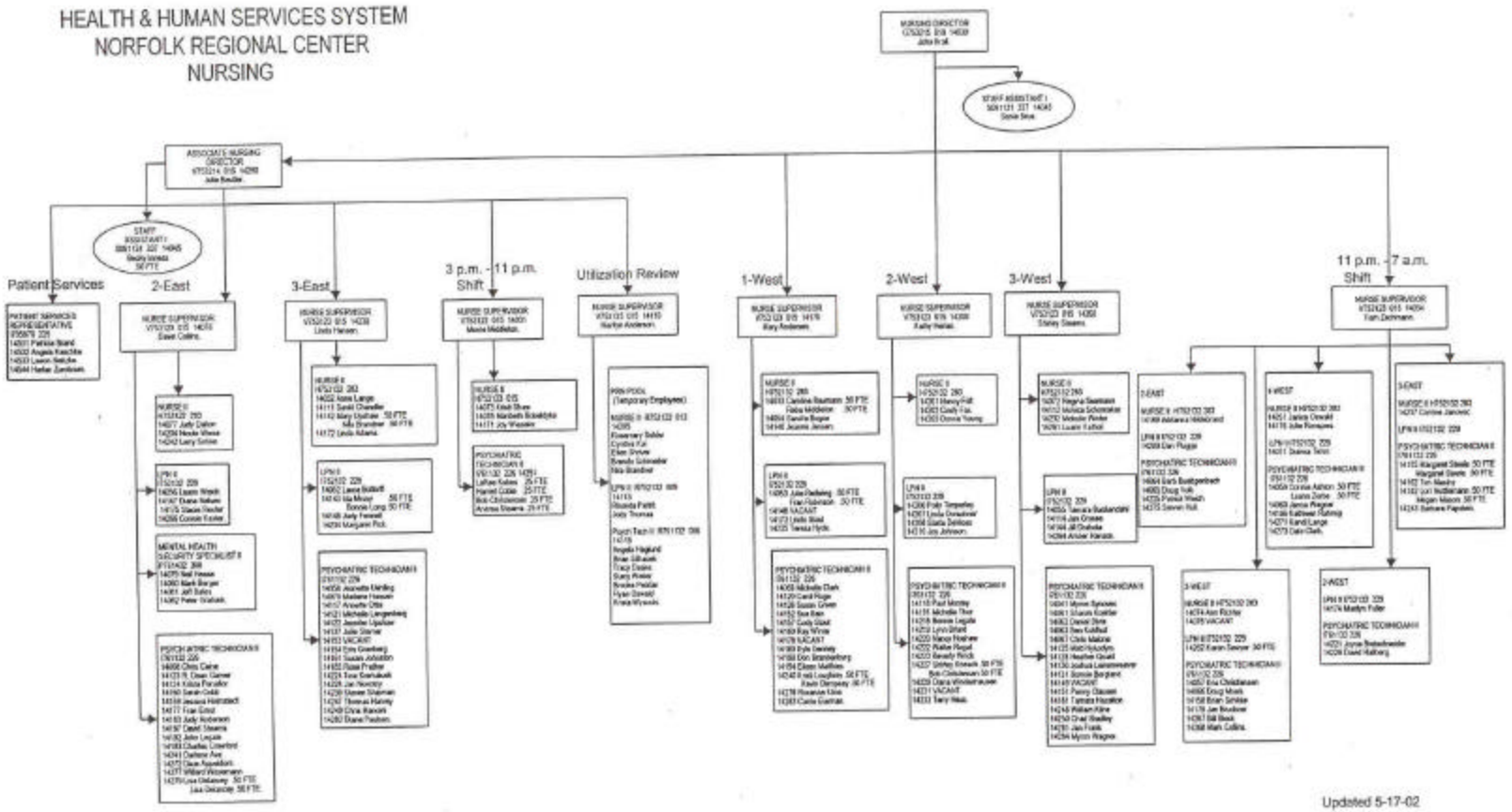

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

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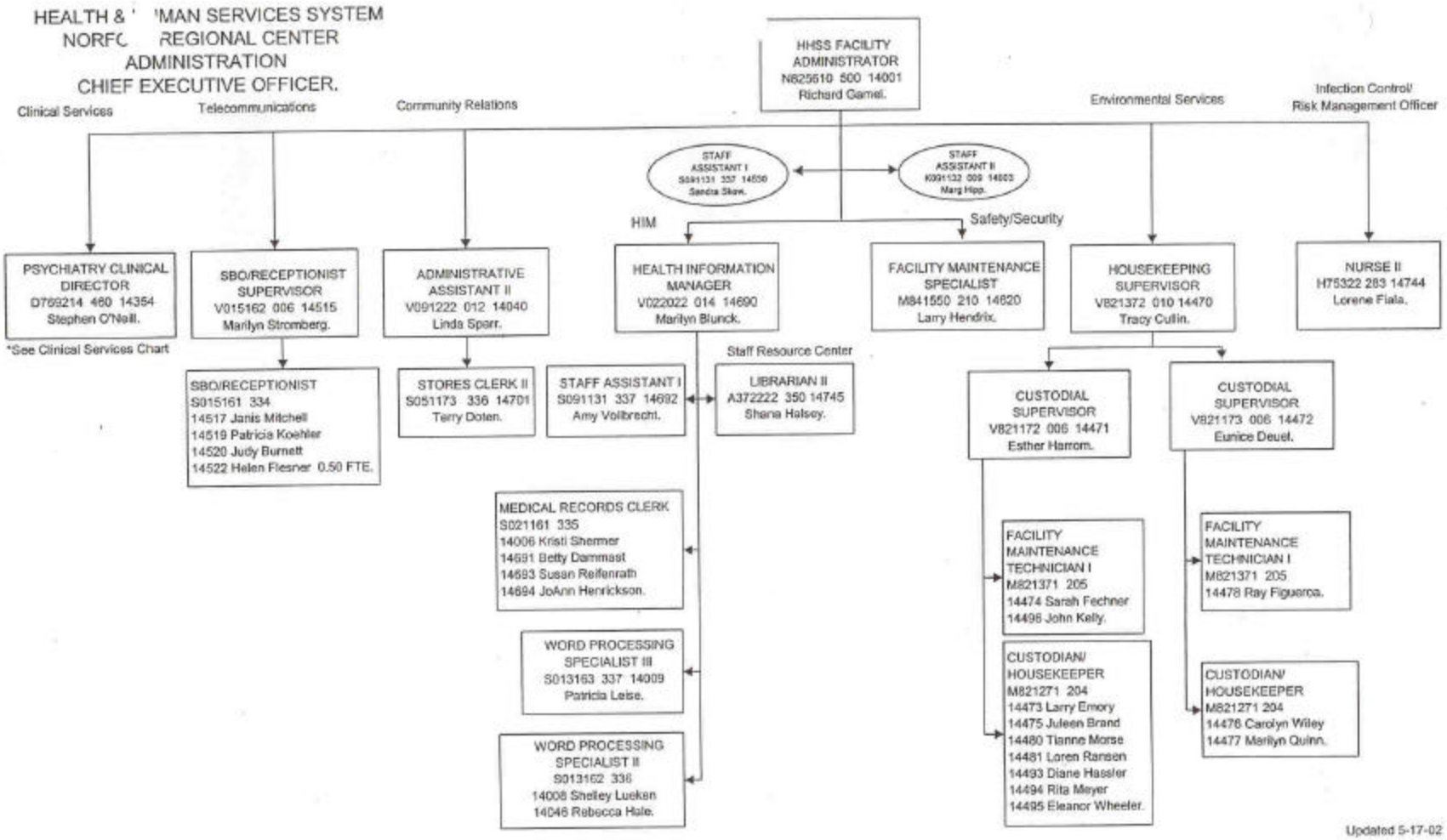

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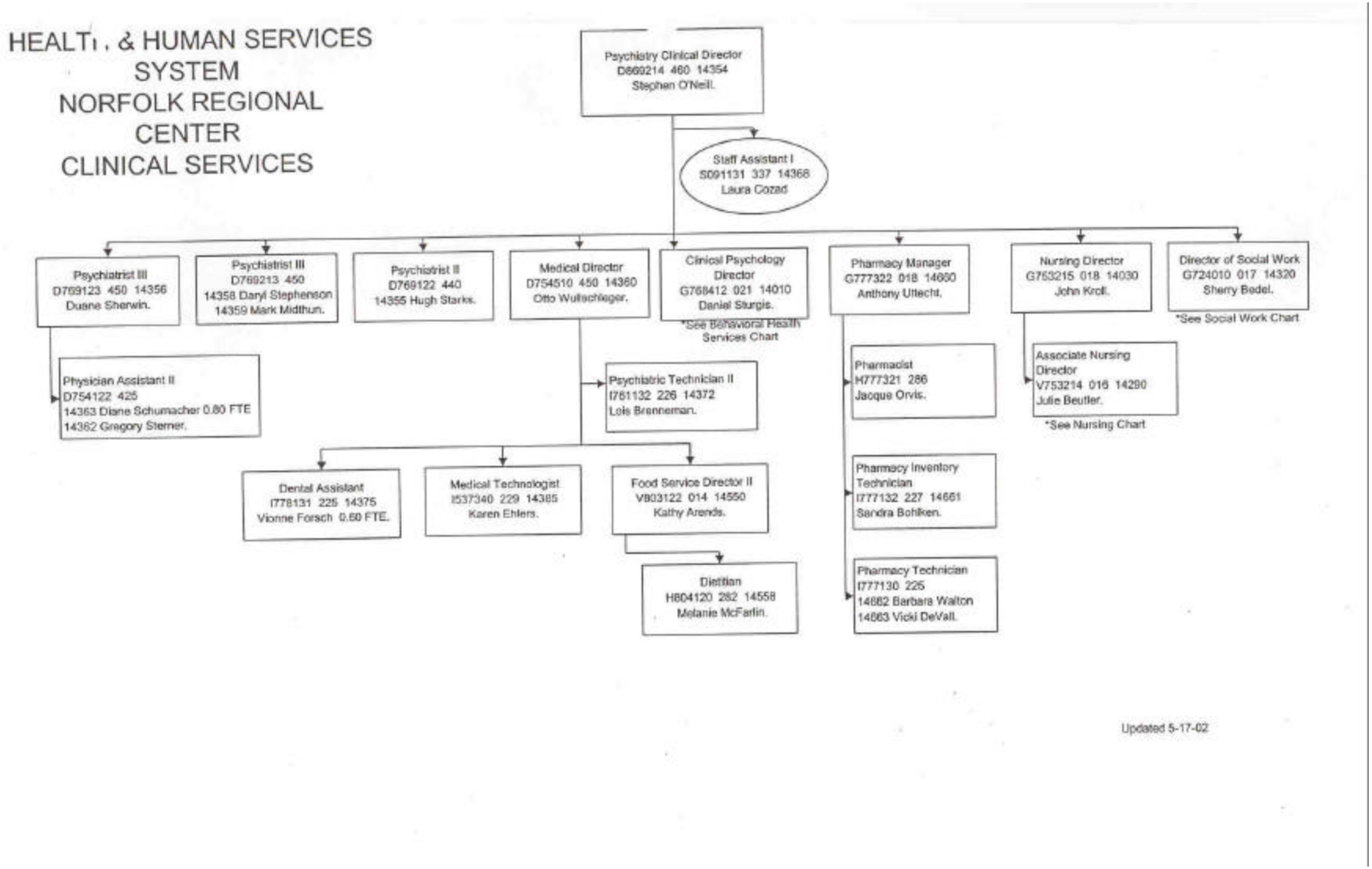

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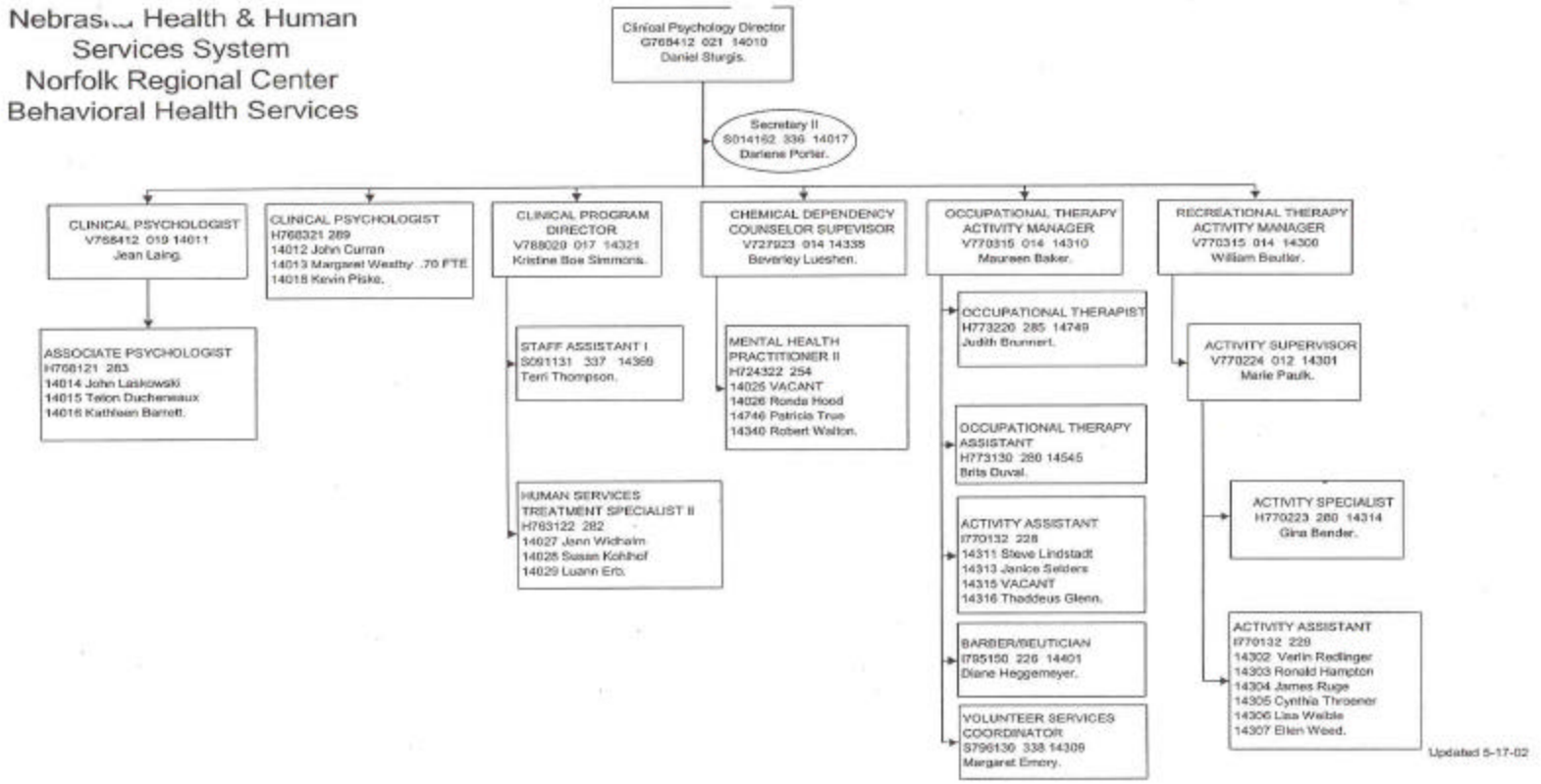

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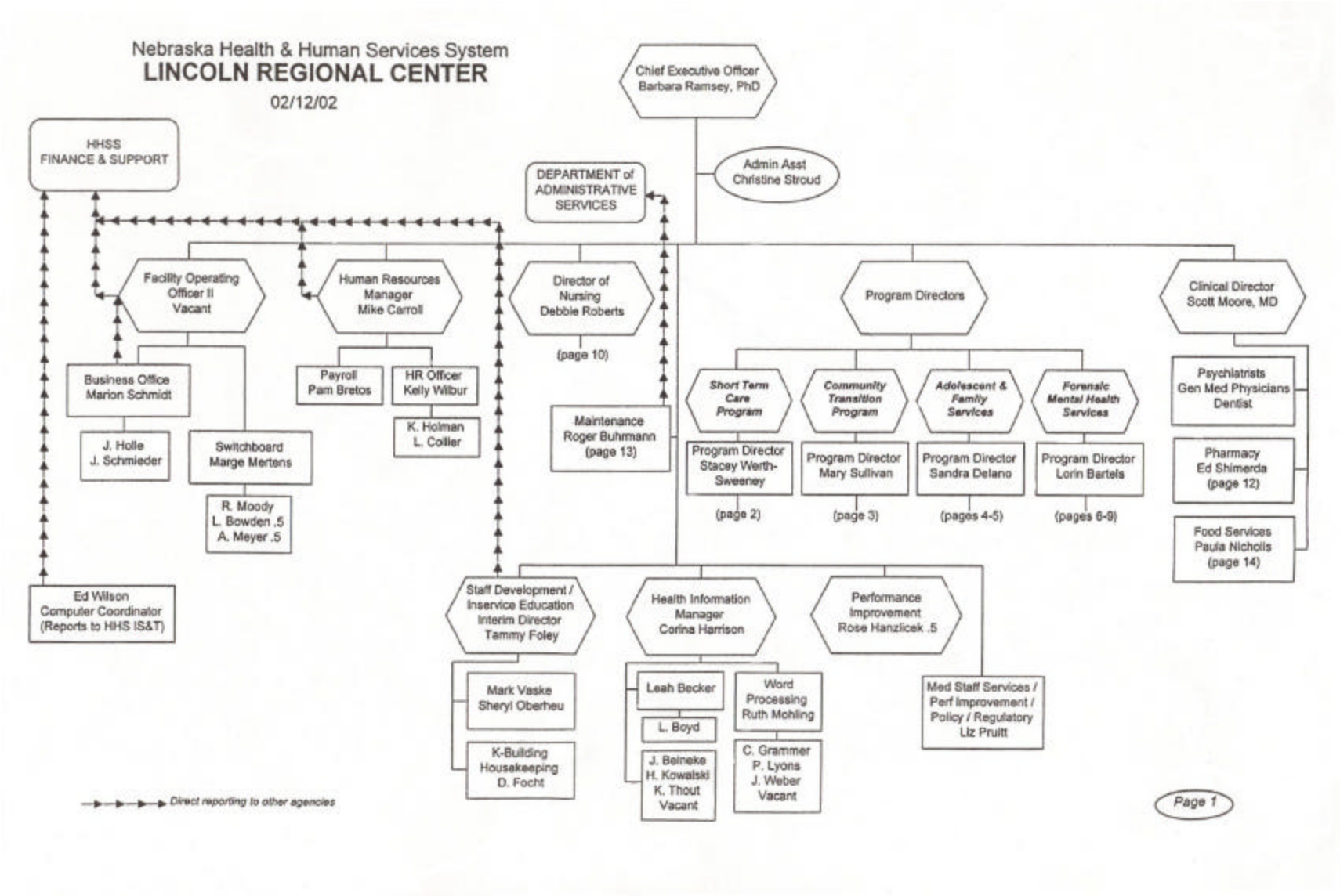

SUMMARY OF COMMENTS

During our audit of the Nebraska Health and Human Services System (HHSS) - Regional Centers [Hastings (HRC), Norfolk (NRC), Lincoln (LRC)], 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. ***Regional Center Billings:*** The Regional Centers had not billed Medicare Part B for ancillary services provided to patients since August 2000. Also, the Regional Centers had never billed Medicaid for outpatient services provided to patients at the HRC and NRC. In addition, although the Regional Centers had procedures for reviewing all claims that were denied payment by insurance companies, Medicare, and Medicaid, some denied claims could not be questioned due to inadequate documentation by HHSS physicians. As a result, there was an increased burden on the State general fund and Nebraska taxpayers.

2. ***Rules and Regulations Changes:*** HHSS had implemented several changes to Title 202 Nebraska Administrative Code "Determining Ability to Pay for Hospital Charges" pertaining to calculating a patient's ability to pay for hospital charges, without having the changes formally approved as required by Neb. Rev. Stat. Section 84-908 R.R.S. 1999.

3. ***Billing Rate Incorrectly Calculated:*** One person was responsible for determining the full cost rates charged to the Regional Centers' patients. The calculation was very complex and was not reviewed by a second individual. We recalculated 3 of 17 full-cost rate amounts. One of three rates was incorrectly calculated for the Forensics program at the LRC creating an under billed amount of $13,755.

4. ***Spending Authority Exceeded:*** All three Regional Centers exceeded their spending authority authorized by the Legislature for the fiscal year ended June 30, 2002. NRC exceeded its authority by $364,873, HRC exceeded its authority by $517,281, and LRC exceeded its authority by $773,394.

5. ***Member Account Adjustments:*** Patient trust fund accounts were adjusted at all three Regional Centers on a routine basis. We noted at least $15,876,645 in adjustments were made during the fiscal year ended June 30, 2002. Some of the adjustments were prepared and processed without a review or approval. In addition, although some of the adjustments made were reviewed by a second individual, these reviews were not documented.

6. ***Member Trust Funds:*** There was not an adequate segregation of duties over the patient trust funds. One individual was responsible for entering all receipts and disbursements on the AIMS system and for reconciling the bank account. There was no review completed by a second individual.

SUMMARY OF COMMENTS
(Concluded)

7. ***Pharmacy Inventory Procedures:*** None of the Regional Centers maintained a perpetual inventory system over pharmacy supplies. Total pharmacy supply disbursements were $3,572,546 for the fiscal year ended June 30, 2002.

8. ***Payroll Calculations:*** Employee payroll payments tested did not appear to agree to the amount due based on the hours worked as recorded on employee timesheets and the rates to be paid according to the labor agreement. Each of the variances were less than $4. Regional Center and HHSS payroll staff were unable to explain the variances or provide documentation as to how the actual payroll payments were calculated.

9. ***Ability To Pay Calculations:*** The HRC had not completed reviewing patient accounts and recalculating their ability to pay amounts during the fiscal year as required by Title 202 Nebraska Classified System Personnel Rules and Regulations, Chapter 1, Section 007.04. We noted two of ten patients lacked an annual redetermination calculation.

10. ***Contracts:*** There was not adequate documentation to support legal reviews of contracts. The Regional Centers were not following the Department of Administrative Services Procedures for the Procurement of Contractual Services policy and did not have a written policy pertaining to when an approved alternate procedure would be followed.

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 Regional Centers 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.

COMMENTS AND RECOMMENDATIONS

1. Regional Center Billings

Acute care and secure residential and transitional services are provided to persons with mental disorders through the LRC, NRC, and HRC. The Regional Centers provide specialized treatment programs. All Regional Centers provide diagnostic and treatment services for acute and long-term patients. Costs to provide these services come from the federal government in the form of Medicaid and Medicare payments, and from payments by parents, patients, schools, counties, and insurance companies. The State's taxpayers, through the State's general fund, pay the remaining costs that are not paid by the above sources.

In our review of the Regional Centers billing and through discussion with management of HHSS we noted the following:

Medicare Part B Claims

Medicare Part B Physician's Manual Billing Instructions Section establishes the time frame for submitting claims: "Medicare assigned claims should be submitted within one year of the date of service to be considered for full payment. Payment for claims received more than a year after, but still within the following time limits, will be reduced by 10 percent. Claims submitted outside of these time frames will be denied as untimely. Patients cannot be charged more than the 20 percent coinsurance and deductible (if applicable) on claims that have been submitted untimely."

Items/Services Supplied Between:	Must be Filed By:
10/01/1998 and 09/30/1999	12/31/2000
10/01/1999 and 09/30/2000	12/31/2001
10/01/2000 and 09/30/2001	12/31/2002

Since August 2000, Medicare Part B claims, which are for ancillary services, have not been filed for reimbursement. Effective August 2000, Medicare federal regulations changed the filing process. Claims, which were previously filed at an all-inclusive rate per day for the medical services provided, were required to be itemized. However, medical documentation necessary to file itemized claims was not being completed. Regional Center doctors should have documented the services provided, and forms should have been completed and sent to Financial Responsibility for billing.

On January 1, 2002, Medicare changed regulations again to allow State providers the option of billing at an all-inclusive rate instead of itemizing from that date forward.

According to management of HHSS, the records and systems of the Regional Centers were not set up to document and process itemized claims. Without further action, HHSS will lose all Medicare Part B claims for the period August 1, 2000 through December 31, 2001. HHSS management indicated they could not reasonably estimate the amount of lost revenue to the State.

COMMENTS AND RECOMMENDATIONS

1. Regional Center Billings (Continued)

Medicare Part B Claims (Concluded)

Again, according to HHSS management, no claims have been processed since August 2000, even at the all-inclusive rate, which the Regional Centers could have started billing in January of 2002. The reason given by HHSS management for not processing any Medicare Part B claims is that no decision had been made on how to proceed with the Medicare Part B billings.

By not processing Medicare Part B claims some amounts that could have been billed may be totally lost to the State, and future billings, if not done in a timely manner may also be lost. By not maximizing Medicare Part B revenue, there is an additional burden to Nebraska taxpayers.

> We recommend HHSS take the necessary steps to arrive at a timely decision for Medicare Part B billings, that is, whether to itemize for services rendered or to charge the all-inclusive rate. Once this decision has been made, records, procedures, and systems should be developed to ensure complete, accurate, and timely billings.

HHSS's Response: The Department has reached a decision to pursue itemized billing. The Department will be working on processes and procedures to develop the systems to accomplish itemized billing.

Outpatient Services

The HRC and the NRC provide outpatient services. In addition, the HRC provides Assertive Community Treatment (ACT) outpatient services. From discussion with HHSS management these Regional Centers did not bill for allowable Medicaid costs for outpatient services during fiscal year 2002, or any previous years, because they did not have an outpatient Medicaid provider number.

Good government business practice requires billing all costs possible to maximize revenues and decrease the burden on the general taxpayers.

According to HHSS management, the HRC obtained a Medicaid outpatient provider number and started billing for those services in August 2002, the ACT program at the HRC is presently trying to obtain a Medicaid provider number, and the NRC has now obtained a provider number and they are in the beginning stages to bill their outpatient services.

Management of the HRC and NRC estimated the total possible reimbursement for outpatient claims to the State for the fiscal year ended June 30, 2002 as follows:

COMMENTS AND RECOMMENDATIONS

1. Regional Center Billings (Continued)

Outpatient Services (Concluded)

- HRC - $1,078,857
- NRC - The NRC does not have this information available, as they do not have their costs set for these services.

When HRC and NRC do not bill for all services they are not maximizing their revenues, which then puts an additional burden on the State general fund and Nebraska taxpayers.

> We recommend HRC and NRC move as quickly as possible to obtain the necessary documentation to obtain approval to bill all allowable outpatient costs and proceed with those billings.

HHSS's Response: Outpatient services are now being billed at HRC, LRC, and NRC. HRC is in the process of obtaining a provider number to bill ACT services.

Denied Claims

As part of the billing process, the Regional Centers sometimes get claims denied from Medicaid, Medicare, and private insurance claims. In our review of the Regional Centers' process for handling these denied claims we noted the Regional Centers do have a process to review these claims and many of the denied claims are legitimately denied. However, when we made inquiries of management about the denied claims, it was disclosed to us that some records of the physicians are not adequate for the State to question the denied status as determined by the Medicaid and Medicare processing agent or the private insurance company. Thus, they are not questioned and the claim is not paid.

Based on information provided by the Regional Centers, the total denied claims for each center for the fiscal year ended June 30, 2002 was as follows:

- HRC - $133,724
- NRC - $299,880
- LRC - $826,624

Good government business practice and good internal controls require procedures and processes to be in place to ensure all physician medical records are properly documented to ensure all legitimate costs are recovered to maximize revenues and decrease the burden on the general taxpayers.

When medical records documentation is not adequate to support billings, the State is not receiving all the revenues it is due, and there is an additional burden on the State general fund and Nebraska taxpayers.

COMMENTS AND RECOMMENDATIONS

1. Regional Center Billings (Concluded)

Denied Claims (Concluded)

> We recommend the Regional Centers develop procedures and processes to ensure all physician records are adequate to support all legitimate claims.

HHSS's Response: The Department will be working to develop procedures and implement training to ensure adequate documentation is present to support all legitimate claims.

According to HHSS, draft reports were provided to HHSS on May 22, 2002 by a private consulting and accounting firm, under contract with HHSS, which relate to the subject matter of this comment. HHSS has asserted these reports are subject to an Attorney-Client Privilege.

2. Rules and Regulations Changes

Neb. Rev. Stat. Section 83-1211 R.R.S. 1999 states, "A person receiving specialized services from a local specialized program which receives financial assistance through the department shall be responsible for the cost of such services…" Neb. Rev. Stat. Section 84-908 R.R.S. 1999 states, " No adoption, amendment, or repeal of any rule or regulation shall become effective until the same has been approved by the Governor and filed with the Secretary of State after a hearing has been set on such rule or regulation pursuant to section 84-907."

HHSS Rules and Regulations Title 202 NAC 1, Determining Ability to Pay for Hospital Charges, has not been revised since implementation in 1975. Several unofficial changes have been made since then. They include the following:

A. 202 NAC 1 section 001.13E and section 007.01 allows a $1,250 exclusion each for the patient, spouse, and each of their dependents when calculating the chargeable asset amount for the patient's ability to pay. HHSS has implemented a change and allows a $4,000 exclusion for the patient, spouse, and each dependent.

B. 202 NAC 1 sections 8, 11, and 12 describe how to calculate a patient's, spouse's, or parent's ability to pay for care. Per these sections a patient's ability to pay is to be based upon 2% of annual income if there is a spouse and/or dependents or 3% of annual income if he or she has no spouse or dependents. After one years time these rates reduce to 1.5% and 2%. HHSS has implemented a change to determine all ability to pay based upon 1.5%, no matter the circumstances.

C. 202 NAC 1 section 013 states a patient may request a hearing with the Department if they feel they are unable to pay any amount of their care if the Regional Center has calculated some amount of ability to pay. HHSS does not go through any such hearing. Instead, the

COMMENTS AND RECOMMENDATIONS

2. Rules and Regulations Changes (Concluded)

Trust Officer has a meeting with the patient and determines if the patient's account will be reduced to zero determination. The Trust Officer then does an adjustment on the Advanced Institutional Management Software (AIMS) system.

HHSS was at the same stage in its process of revision and approval of their changes to 202 NAC 1 during our audit of the Regional Centers for fiscal year 1999. As a result, HHSS's rules and regulations for determining ability to pay are out of date and do not reflect actual practice.

We recommend HHSS make revisions to its rules and regulations only as statutorily authorized.

HHSS's Response: As of December 20, 2002 HHSS/Finance and Support/ Legal Services are reviewing the revisions to 202 NAC 1.

3. Billing Rate Incorrectly Calculated

One person was responsible for calculating all daily full cost rates for all three Regional Centers. Once the calculations were completed they were forwarded to an individual to enter into the AIMS system. These rates are used to bill the federal government, parents of patients, patients, schools, counties, and insurance companies millions of dollars each year. We tested the calculation on 3 of 17 cost rates. During our testing we noted the following:

- The calculation of the rates is very complex and involved.

- No one, other than the person who prepared the calculation, reviewed the calculation or the supporting documentation for these rates.

- The full cost billing rate for the Forensic unit at the LRC was calculated incorrectly. The correct billing rate was $271 per day while the amount charged was $250. The only patients billed at full cost in the Forensic unit were those completing a court competency evaluation. Each county must pay the full billing rate for the number of days needed to complete the evaluation. For the fiscal year tested we noted 655 days billed to counties for these evaluations. The total amount billed was $163,750. The amount that should have been billed was 655 days at $271 or $177,505 creating an under billed amount of $13,755.

Good internal control requires a proper review of billing rate calculations to ensure billing amounts are accurate and complete.

COMMENTS AND RECOMMENDATIONS

3. Billing Rate Incorrectly Calculated (Concluded)

If proper internal controls are not in place to ensure billing rate calculations are accurate and complete, there is a higher risk the State may over or under bill for services. This can result in time consuming adjustments when errors are detected, or undetected errors resulting in lost State revenue.

> We recommend a second individual review the calculations to ensure they are accurate and complete. This review should be completed before the amounts are entered into the AIMS system. We also recommend the calculation process and related supporting documentation be reviewed for the current rates. Finally, we recommend the error noted above be corrected as well as any other corrections necessary to correct all billings.

HHSS's Response: The Department acknowledges the billing rate was incorrectly calculated. The Department is in the process of reviewing whether it has authority to retroactively change the rate and bill each county to correct the billings.

4. Spending Authority Exceeded

The Legislature makes appropriations for each fiscal year July 1, through June 30. An appropriation is an authorization to make expenditures and incur obligations. This authority is granted by the Legislature and each agency is expected to operate within those limits. Allowable expenditures against these appropriations are amounts actually spent plus allowable encumbrances.

All three Regional Centers exceeded their appropriations spending authority for the fiscal year ended June 30, 2002. The HRC exceeded their spending authority by at least $517,281, the NRC exceeded their spending authority by at least $364,873, and the LRC exceeded their spending authority by at least $773,394. This included expenses actually paid during the fiscal year ended June 30, 2002, and expenses for fiscal year 2002 that were not paid until fiscal year 2003 and were not encumbered at June 30, 2002.

When expenditures are not matched to the amount appropriated for the fiscal period July 1, through June 30, the Regional Centers have not followed the requirement of the appropriations bill.

> We recommend the Regional Centers match fiscal year expenditures with fiscal year appropriations as required by appropriations legislation.

COMMENTS AND RECOMMENDATIONS

4. Spending Authority Exceeded (Concluded)

HHSS's Response: The Department disagrees with the auditor's conclusion that the Regional Centers exceeded their spending authority. The amounts identified by the auditors are expenses routinely paid from the following year's appropriation, which in this case would be FY 2003.

5. Member Account Adjustments

Patient accounts are adjusted on a regular basis at all three Regional Centers. These adjustments are completed on an "Adjustment Form" and inputted into the AIMS system.

In our review of the controls over these adjustments we noted the following:

- The Trust Officer at the LRC, who also processes the adjustment for the NRC, performed a review of the adjustments prepared by her staff. However, this review was not documented.
- The Trust Officer at the HRC reviewed only part of the adjustments prepared by her staff.
- All other adjustments, other than insurance, were completed by the LRC and the HRC Trust Officers and were not reviewed by anyone.
- The Trust Officers have the capability to use any of the adjustment codes and adjust the accounts. For the fiscal year ended June 30, 2002, we noted at least $15,876,845 in adjustments from 40 adjustment codes used.
- The majority of the adjustments made were routine in nature required when a patient's ability to pay is originally determined or annually redetermined.

Good internal control requires a documented review of any adjustment made to a patient account to ensure the adjustment is accurate and complete.

When adjustments to patient accounts are not reviewed by someone other than the person preparing the adjustment, or there is no documentation of the review performed, there is a greater risk that adjustments may have been posted to the AIMS system incorrectly and errors may remain undetected.

> We recommend all adjustments be reviewed and recalculated to ensure postings are accurate and complete. A separate individual from the person preparing/posting the adjustment should review each adjustment. This review should be documented. We also recommend the Financial Responsibility Officer take a role in reviewing these adjustments. This

COMMENTS AND RECOMMENDATIONS

5. Member Account Adjustments (Concluded)

can be accomplished by having Financial Responsibility staff review adjustments on a test basis to ensure the controls recommended are in place and that all supporting documentation is on file.

HHSS's Response: A procedure has been put in place to ensure all adjustments are reviewed to ensure postings are accurate and that management reviews adjustments on a test basis.

While the Department acknowledges adjustments should be reviewed and documented by a separate individual from the person preparing/posting the adjustment, we disagree that it is necessary or practical to review and recalculate each and every adjustment. We believe that adequate review could take place on a test basis and this should be documented. The Trust Officers completed adjustments have been included in on-site reviews in the past, but with the transition of a manager due to retirement, the on-site reviews have not been completed. The on-site reviews will resume.

Auditors' Response: We believe member account adjustments are a significant area in accounting for member billings, and as such, we believe an individual separate from the person preparing/posting the adjustment should review all adjustments. However, if management feels this is not practical and a test approach is decided on, then management should develop a written test procedures plan to ensure all adjustments are appropriate. Factors that management should consider in developing such a plan might include:

- **All adjustments should be subject to testing.**
- **The type of adjustment being made and its associated risk of errors or irregularities occurring.**
- **The dollar amount of adjustment types (more review and monitoring should take place for larger dollar adjustment types).**
- **The dollar amount of individual adjustments (more review and monitoring should take place for larger/significant individual dollar adjustments).**
- **Analytical review procedures such as having data available to perform comparison of data between periods (month to month, quarter to quarter, for example) to look for unusual or unexpected variations.**
- **Other procedures that management might consider necessary to ensure all adjustments are appropriate.**

6. Member Trust Funds

During our review of the internal controls over patient trust funds we noted there was an inadequate segregation of duties over these funds at all three Regional Centers. One person was responsible for entering all receipts/disbursements on the AIMS system and reconciling the bank account. No independent review of the transactions entered on the AIMS system was performed to ensure amounts were correctly posted to the patient accounts.

COMMENTS AND RECOMMENDATIONS

6. Member Trust Funds (Concluded)

Good internal control requires an adequate segregation of duties when handling funds for the trust fund. An independent review of transactions posted to accounts should be performed to ensure trust activity is accurate and complete.

If an adequate segregation of duties is not maintained there is a greater risk of loss or misuse of funds held in trust by the State.

> We recommend a separate individual from the person entering the transactions review the receipts and disbursements entered on the AIMS system. This review should be completed on a regular basis and should be documented to ensure the records are accurate and complete.

HHSS's Response: A procedure has been put in place to ensure that a separate individual from the person entering the transactions reviews the receipts and disbursements entered on AIMS.

7. Pharmacy Inventory Procedures

Good internal control requires perpetual inventory records be maintained to reduce the risk of theft or loss of State supplies.

In our review of the Regional Centers pharmacy supply procedures, we noted the following:

- None of the Regional Centers in Lincoln, Norfolk, and Hastings maintained a perpetual inventory for their non-controlled medications.
- The HRC estimated the amount of medications they had on hand, but did not conduct an annual physical inventory.
- The NRC had not conducted a physical inventory of their non-controlled medications in five years.

Total pharmacy disbursements for the fiscal year ended June 30, 2002, for the HRC, NRC, and LRC were, $725,334, $1,434,738, and $1,412,474 respectively.

Without adequate inventory control to document what is and should be on hand, there is an increased risk of theft or loss of State supplies.

> We recommend HHSS implement a perpetual inventory system for the Regional Centers' pharmacy supplies.

COMMENTS AND RECOMMENDATIONS

7. Pharmacy Inventory Procedures (Concluded)

HHSS's Response: HHSS agrees that improved inventory controls of pharmacy supplies are needed. The Regional Centers will review current inventory controls and implement adequate controls to reduce the risk of theft or loss of pharmacy supplies.

8. Payroll Calculations

Good internal control requires procedures to ensure wages are correctly calculated. Good business practice requires hours worked per approved timesheets agree to actual hours paid. Further, the payroll staff should have the capability to calculate the pay for all employees for which they are responsible. The Nebraska Employee Information System (NEIS) is the official payroll system for the State.

For 9 of 21 employees tested, the amount paid to the employee per the payroll calculate did not agree to the amount calculated by the auditor using the employee's timesheets and labor agreement rates. The differences were all less than $4. The nine exceptions were at the following Regional Centers, HRC-3, NRC-1, and the LRC-5. Regional Center and HHSS payroll staff were unable to explain the variances or provide documentation as to how the actual payments were calculated.

Without good internal control the possibility of overpaying employees increases.

> We recommend all HHSS payroll staff be made aware of how payroll calculations are made and periodic reviews of the calculations be performed.

HHSS's Response: The State of Nebraska no longer uses NEIS for payroll processing. The new Nebraska Information System (NIS) has replaced NEIS. NIS, when fully operational, will allow employees to enter their time into the system. That time will be reviewed and approved by the supervisor prior to being sent to Human Resources. Human Resources staff will then take the appropriate steps to process the payroll. Pay rules have been written into the computer system to comply with practices and amounts outlined in the labor contract as well as the Classified System Rules and Regulations. The premise behind having the system is to have it do the calculations rather than the employees.

At the present time, Human Resources staff are entering the time into the system because the employee self-service features for time entry are not yet available. The system, however, is calculating the pay.

COMMENTS AND RECOMMENDATIONS

9. Ability to Pay Calculations

Ability to pay calculations are performed when a patient is admitted to a Regional Center in order to determine the patient's current ability to pay. Title 202 Nebraska Classified System Personnel Rules and Regulations, Chapter 1, Section 007.04, states, "A redetermination shall be made annually and at such additional times when, in the judgment of the director, it is appropriate to do so, or when a request is made by the patient or relative who is liable for the payments."

During testing of the ability to pay calculations at the HRC we noted two of ten patients tested lacked an annual redetermination calculation to determine if their ability to pay had changed since being admitted. The HRC Trust Officer indicated she had not had time to complete the rederminations in a timely manner.

When redeterminations are not completed in a timely manner there is a possible loss of State funds.

> We recommend the HRC review current rules and regulations and implement procedures for compliance. The Trust Officer should ensure all patients have an annual redetermination completed if the patient has been treated at the facility for more than one year.

HHSS's Response: The Department acknowledges that all annual re-determinations of ability to pay were not on file. The Department will ensure that all re-determinations of ability to pay are on file.

10. Contracts

Sound business practice and good internal controls over contracts require contracts be reviewed by an individual with the legal expertise and knowledge to determine if the contract is in compliance with contract law or federal and state laws and regulations governing contracts, and to ensure the best interest of the State is being served.

Executive Order No. 00-04 required each contract in excess of $25,000 to follow the DAS Materiel *Procedures for the Procurement of Contractual Services* manual or a process approved by the DAS Director.

During our testing of disbursements we tested 11 contracts at the LRC. Payments in fiscal year 2002 to these vendors from LRC totaled $670,155. We noted the following pertaining to these contracts:

- The LRC could not provide documentation to support a legal review had been performed for the contracts selected for testing. The LRC provided documentation from the Chief Legal Counsel stating he regularly reviewed contracts pertaining to the Regional Centers; however, he was unable to show any support for the reviews.

COMMENTS AND RECOMMENDATIONS

10. Contracts (Continued)

- The LRC did not have any written policy pertaining to when they follow the process prescribed by the *Procedures for the Procurement of Contractual Services* manual of DAS or when an alternate process would be approved by DAS.

  The LRC was not following the DAS policy because they believed they were exempt by an "Approval of Deviation From Contractual Services Process" form completed and signed by the DAS Director on July 5, 1995. It could not be determined what the policy was back in 1995, or the policy during the fiscal period under audit of July 1, 2001 through June 30, 2002, however, the current policy requires the following:

  Deviation from Contractual Services Contract Process Procedure set by DAS states, "In the event that an agency director determines a need to deviate from the guidelines set forth in Executive Order 02-03 (effective December, 2002) a "Deviation from Contractual Services Contract Process" form should be used. This form must include a copy or a draft of the contract, a contract number, an estimated dollar value of the contract, percentage of funding (Federal/State), and the agency director's signature. The justification for sole source should be included in the comments. Justification should fully explain why it cannot be competitively bid or details of the emergency or specialized situation."

When a legal review of a contract is not performed there is an increased risk a contract will not be in conformity with contract law or federal and state laws and regulations governing contracts, and to ensure the best interest of the State is being served. In addition, when a review is not documented there is no assurance the review was actually performed.

Without the LRC following the processes set forth by DAS for contracts, there is an increased risk the Regional Center's contracts are not financially in the best interest of the State.

> We recommend the LRC develop a written policy concerning their legal review of contracts. We further recommend the LRC develop a written policy for guidance on when they must follow the *Procedures for the Procurement of Contractual Services* manual of DAS or when they will need to have an alternate procedure approved. When requesting approval for deviation, the LRC should follow the process set forth by DAS located on their website. Each new contract and each contract renewal should follow this process.

HHSS's Response: The contracts utilized a standardized format, which was developed and pre-reviewed by Legal Services for the Regional Centers. The standardized format incorporates the state and federal laws, regulations and policies related to contracts for this program area of

COMMENTS AND RECOMMENDATIONS

10. Contracts (Concluded)

HHSS. Legal Services has developed several standardized formats for HHSS that incorporate contract requirements and accommodate the volumes of state and federal laws and regulations that authorize and control HHSS programs and funding. Good contracts require legal expertise on the contract requirements as well as the expertise of the program/facility administrators to clearly define the scope of services purchased and the expectations of performance. Program/facility administrators are responsible to monitor contractor compliance and performance in order to authorize payments to the service provider.

HHS policy requires all contracts over $5,000 be forwarded to the Director for review and signature. The Facility CEO, the Deputy Director for Behavioral Health, and the Assistant Director for Administration review contracts for the Regional Centers prior to the Director's signature. Certain contracts may also require review by Financial Services, Human Resources, or other program divisions affected or related to the contract scope. Any variance from the standard legal format is forwarded to Legal Services to review. All reviewers note, or sign off, on the contract transmittal or routing cover sheet. Divisions are not required to maintain the document containing the review notations.

The 1995 deviation form followed the requirements of the Executive Order and Material policy. It included the basic process that would be followed by the regional centers for contracting and when signed was interpreted as "an alternate process approved by the Director of Administrative Services" required in section 3.0 of Executive Order 95-04. This deviation request included the "unique requirements" of these 24-hour facilities as was identified in section 3.8 of the same Order. The request follows the direction provided on deviations in section 2(B) of a June 14, 1995 memo from Material to all agencies, boards and commissions on "Contractual Services -- Guidelines". This memo provided guidance and interpretation for Executive Order 95-04 and supplemented the policy and standards in the April 1995 Procurement Manual. We have copies of this and subsequent policies.

We will continue to monitor contract processes to comply with the December 2002 Executive Order and the new procedures posted to the Material web site in January 2003. We look forward to the implementation of NIS this year and its functionality as an integrated tool for management of contract tracking, processes and expenditures. We will issue instructions as necessary to assure compliance with the policies and implementation of the processing through NIS.

Auditors' Response: Again, we believe it necessary to develop written policies concerning the legal review of contracts. Further, we believe it necessary to document and maintain documentation pertaining to the reviews done by all levels of management for all contracts.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Health and Human Services System - Regional Centers (Regional Centers), as of and for the year ended June 30, 2002, which collectively comprise the Regional Centers' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Regional Centers' 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 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 - Regional Centers, are intended to present the cash balances and changes in cash balances of only that portion of the governmental

activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Health and Human Services System - Regional Centers. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information 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, each major fund, and the aggregate remaining fund information of the Nebraska Health and Human Services System - Regional Centers, 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 December 3, 2002, on our consideration of the Nebraska Health and Human Services System - Regional Centers' 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 Regional Centers' basic financial statements. The accompanying combining statements and 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 - Regional Centers. 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.

Don Dunlap CPA

December 3, 2002 Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES **TOTAL (Memorandum Only)**
Assets	
Cash in State Treasury	$ 4,762,280
Petty Cash	9,000
Deposit with Vendors	4,061
Total Assets	$ 4,775,341
Net Assets	
Unrestricted	$ 4,775,341
Total Net Assets	$ 4,775,341

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF ACTIVITIES - CASH BASIS
June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Disbursements:	
Health and Social Services Function:	
Personal Services	$ 42,716,162
Operating	17,078,864
Travel	161,181
Capital Asset Purchases	236,867
Government Aid	1,736
Total Disbursements	60,194,810
Program Receipts:	
Charges for Services (Note 6)	11,326,379
Operating Grants & Contributions	89,245
Net Program Receipts (Disbursements)	(48,779,186)
General Receipts and Other Financing Sources (Uses):	
Appropriations	49,301,700
Unrestricted Investment Interest	51,084
Other Financing Sources & Uses	(10,818)
Total General Receipts and Other Financing Sources (Uses)	49,341,966
Change in Net Assets	562,780
Net Assets July 1, 2001	4,212,561
Net Assets June 30, 2002	$ 4,775,341

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Funds			Other Fund	
	School District Reimbursement Cash Fund 2253	Federal Cash Award Federal Fund 4810	Title XIX Medicaid Federal Fund 4812	Institution Cash Fund 2252	**Total Governmental Funds (Memorandum Only)**
Assets					
Cash in State Treasury	$ 594,019	$ 1,659,780	$ 2,522,536	$ (14,055)	$ 4,762,280
Petty Cash	-	-	-	9,000	9,000
Deposit with Vendors	-	-	276	3,785	4,061
Total Assets	$ 594,019	$ 1,659,780	$ 2,522,812	$ (1,270)	$ 4,775,341
Fund Balances					
Reserved:					
Postage	$ -	$ -	$ 276	$ 3,785	$ 4,061
Unreserved	594,019	1,659,780	2,522,536	-	4,776,335
Unreserved, Reported in					
Nonmajor Special Revenue Funds	-	-	-	(5,055)	(5,055)
Total Fund Balances	$ 594,019	$ 1,659,780	$ 2,522,812	$ (1,270)	$ 4,775,341

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Funds				Other Fund	
	State General Fund 1000	School District Reimbursement Cash Fund 2253	Federal Cash Award Federal Fund 4810	Title XIX Medicaid Federal Fund 4812	Institution Cash Fund 2252	**Total Governmental Funds (Memorandum Only)**
RECEIPTS:						
Appropriations	$ 49,301,700	$ -	$ -	$ -	$ -	$ 49,301,700
Federal Grants & Contracts	-	-	55,105	-	34,140	89,245
Sales & Charges	(9,762)	235,431	568,816	5,708,902	3,463,865	9,967,252
Miscellaneous:						
Investment Interest	-	33,222	8,046	4,324	5,492	51,084
Other Miscellaneous	19,547	-	1,279,374	(9,299)	69,505	1,359,127
TOTAL RECEIPTS	49,311,485	268,653	1,911,341	5,703,927	3,573,002	60,768,408
DISBURSEMENTS BY FUNCTION:						
Health and Social Services	49,301,700	616,317	1,295,331	5,941,345	3,040,117	60,194,810
TOTAL DISBURSEMENTS	49,301,700	616,317	1,295,331	5,941,345	3,040,117	60,194,810
Excess of Receipts Over (Under) Disbursements	9,785	(347,664)	616,010	(237,418)	532,885	573,598
OTHER FINANCING SOURCES (USES):						
Adjustments to Fund Balance (Note 5)	-	-	(1,033)	-	-	(1,033)
Deposit to the General Fund	(9,785)	-	-	-	-	(9,785)
TOTAL OTHER FINANCING SOURCES (USES)	(9,785)	-	(1,033)	-	-	(10,818)
Net Change in Fund Balances	-	(347,664)	614,977	(237,418)	532,885	562,780
FUND BALANCES, JULY 1, 2001	-	941,683	1,044,803	2,760,230	(534,155)	4,212,561
FUND BALANCES, JUNE 30, 2002	$ -	$ 594,019	$ 1,659,780	$ 2,522,812	$ (1,270)	$ 4,775,341

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	Private-Purpose Trust Funds
Assets	
Cash in State Treasury	$ 442,942
Cash in Bank	43,791
Total Assets	$ 486,733
Net Assets	
Held in trust for:	
Member Accounts	$ 135,923
Canteen Amusement	350,810
Total Net Assets	$ 486,733

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2002

	Private-Purpose Trust Funds
ADDITIONS:	
Member Accounts	$ 974,160
Sales & Charges	421,078
Investment Income	17,877
Miscellaneous	15,635
Sales Tax Collections	13,936
Total Additions	1,442,686
DEDUCTIONS:	
Maintenance Charges	974,059
Operating	410,316
Travel	389
Capital Asset Purchases	7,729
Sales Tax Remittances	14,644
Total Deductions	1,407,137
Change in Net Assets Held in Trust	35,549
Net Assets July 1, 2001	451,184
Net Assets June 30, 2002	$ 486,733

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Regional Centers are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

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

The Nebraska Health and Human Services System - Regional Centers is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Centers-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 Regional Centers, 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 Regional Centers, except for fiduciary activities. 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 Regional Centers 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 - Regional Centers receipts include program and 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 requirements of a particular function or segment. General receipts include all other receipts properly not included as

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

program receipts. The Regional Centers reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Fund Financial Statements. The fund financial statements provide information about the Regional Centers' funds, including its fiduciary funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Regional Centers uses governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Regional Centers reports the following major governmental funds:

General Fund. This is the Regional Centers' primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

School District Reimbursement Cash Fund. This fund records tuition reimbursements received by the Regional Centers for operating schools at the centers.

Federal Cash Award Federal Fund. This fund records the amounts received by the Regional Centers from Medicare for services provided to members.

Title XIX Medicaid Federal Fund. This fund records the amounts received by the Regional Centers for Medicaid billed to and received from HHSS. The State (HHSS) considers the Regional Centers, for Medicaid funding, to be an outside provider of services.

The Regional Centers also reports the following other fund:

Private-Purpose Trust Funds. These funds account for the members' personal monies held in trust by the Regional Centers and for the funds generated by the canteens operated at each Regional Center. Member funds are expended for reimbursements to the Regional Centers to help pay for the cost of care based on each member's ability to pay. Canteen trust funds are expended for the use and benefit of all members.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 Regional Centers are maintained and the Centers-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 Regional Centers. This differs from governmental generally accepted accounting principles (GAAP), which require the Centers-wide and fiduciary 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 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 Regional Centers were designated for investment during fiscal year 2002.

1. Summary of Significant Accounting Policies (Concluded)

Cash in Bank. The June 30, 2002 carrying amount of total deposits, which includes three checking accounts, was $43,791. The bank balance was $54,107. All funds were entirely covered by federal depository insurance.

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.

Compensated Absences. All permanent employees working for the Regional Centers earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide and fiduciary fund financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

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 expenses.

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 because interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Regional Centers are 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 Regional Centers, 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

3. Contingencies and Commitments (Concluded)

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 - Regional Center's financial statements.

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

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. Prior to April 18, 2002, membership in the Plan was 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 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. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Regional Centers match the employee's contribution at a rate of 156%.

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

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed $1,232,697 and the Regional Centers contributed $1,923,007.

5. Adjustments to Fund Balance

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a receipt or disbursement account.

6. Medicaid Reimbursements

The Regional Centers received $5,720,909 in Medicaid reimbursements from HHSS during the fiscal year ended June 30, 2002. These reimbursements are included in Fund 4812 Sales and Charges on the fund financial statements and are included in Charges for Services on the Centers-wide financial statements. HHSS considers the Regional Centers, for Medicaid funding, to be an outside provider of services. Charges for Services on the Centers-wide financial statements also include $1,847,458 in reimbursements from Medicare, and reimbursements from other sources such as counties, members and their relatives, and insurance companies.

7. Full Accountability of the General Fund

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

General Fund	
Beginning (Reappropriated) Balance July 1, 2001	$ 217,291
New Appropriations	49,293,413
Total Appropriations	49,510,704
Disbursements	(49,301,701)
Ending (Appropriations) Balance June 30, 2002	$ 209,003

8. GASB 34

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

The Regional Centers implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in note 1.C. the Regional Centers' 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 Regional Centers were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous financial statements of the Regional Center.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
SUPPLEMENTARY INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL AMOUNTS	
PROGRAM:				
365 - Mental Health	$ 49,510,704	$ 49,510,704	$ 49,301,701	$ 209,003
TOTAL DISBURSEMENTS	$ 49,510,704	$ 49,510,704	$ 49,301,701	$ 209,003

See Notes to Supplementary Information

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

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 the program, the Legislature appropriated the Regional Centers' legally adopted annual budget amount. The Regional Centers' budgetary comparison schedules includes the general fund. A budgetary comparison could not be shown for the School District Reimbursement Cash Fund 2253, Federal Award Federal Fund 4810, and Title XIX Medicaid Federal Fund 4812 because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

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 Regional Centers 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*.

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

BUDGETARY COMPARISON SCHEDULE
(Concluded)

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 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 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
REGIONAL CENTERS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	Hastings Dormant Trust Fund 6803	Lincoln Dormant Trust Fund 6805	Norfolk Dormant Trust Fund 6810	Hastings Canteen Amusement Trust Fund 6823	Lincoln Canteen Amusement Trust Fund 6825	Norfolk Canteen Amusement Trust Fund 6830	Hastings Member Trust Fund 6841	Norfolk Member Trust Fund 6841	Lincoln Member Trust Fund 6841	Total Private-Purpose Trust Funds
Assets										
Cash in State Treasury	$ 3,624	$ 19,848	$ 1,625	$ 133,814	$ 185,000	$ 31,996	$ 4,532	$ 33,479	$ 29,024	$ 442,942
Cash in Bank	-	-	-	-	-	-	7,131	10,353	26,307	43,791
Total Assets	$ 3,624	$ 19,848	$ 1,625	$ 133,814	$ 185,000	$ 31,996	$ 11,663	$ 43,832	$ 55,331	$ 486,733
Net Assets										
Held in trust for:										
Member Accounts	$ 3,624	$ 19,848	$ 1,625	$ -	$ -	$ -	$ 11,663	$ 43,832	$ 55,331	$ 135,923
Canteen Amusement	-	-	-	133,814	185,000	31,996	-	-	-	350,810
Total Net Assets	$ 3,624	$ 19,848	$ 1,625	$ 133,814	$ 185,000	$ 31,996	$ 11,663	$ 43,832	$ 55,331	$ 486,733

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2002

	Hastings Dormant Trust Fund 6803	Lincoln Dormant Trust Fund 6805	Norfolk Dormant Trust Fund 6810	Hastings Canteen Amusement Trust Fund 6823
ADDITIONS:				
Member Accounts	$ -	$ -	$ -	$ -
Sales & Charges	-	-	-	108,761
Investment Income	180	986	81	6,243
Miscellaneous	-	-	-	8,183
Sales Tax Collections	-	-	-	4,678
Total Additions	180	986	81	127,865
DEDUCTIONS:				
Maintenance Charges	-	-	-	-
Operating	-	-	-	97,526
Travel	-	-	-	-
Capital Asset Purchases	-	-	-	4,650
Sales Tax Remittances	-	-	-	5,336
Total Deductions	-	-	-	107,512
Change in Net Assets Held in Trust	180	986	81	20,353
Net Assets July 1, 2001	3,444	18,862	1,544	113,461
Net Assets June 30, 2002	$ 3,624	$ 19,848	$ 1,625	$ 133,814

Lincoln Canteen Amusement Trust Fund 6825	Norfolk Canteen Amusement Trust Fund 6830	Hastings Member Trust Fund 6841	Norfolk Member Trust Fund 6841	Lincoln Member Trust Fund 6841	Total Private-Purpose Trust Funds
$ -	$ -	$ 173,433	$ 348,906	$ 451,821	$ 974,160
211,065	101,252	-	-	-	421,078
8,739	1,648	-	-	-	17,877
5,747	1,705	-	-	-	15,635
4,231	5,027	-	-	-	13,936
229,782	109,632	173,433	348,906	451,821	1,442,686
-	-	173,989	350,377	449,693	974,059
205,607	107,183	-	-	-	410,316
389	-	-	-	-	389
3,079	-	-	-	-	7,729
4,293	5,015	-	-	-	14,644
213,368	112,198	173,989	350,377	449,693	1,407,137
16,414	(2,566)	(556)	(1,471)	2,128	35,549
168,586	34,562	12,219	45,303	53,203	451,184
$ 185,000	$ 31,996	$ 11,663	$ 43,832	$ 55,331	$ 486,733

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
HASTINGS REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

(1) Average Daily Census = Total Patient Days / 365 Days
(2) Occupancy Rate = Average Daily Census / Capacity

	2000	2001	2002
Hastings Regional Center			
Chemical Dependency Unit **			
Capacity	13	-	-
Total Patient Days	1,329	-	-
Average Daily Census (1)	4	-	-
Occupancy Rate (2)	30%		
Admissions:			
First Admissions	26	-	-
Readmissions	14	-	-
Total	40	-	-
Discharges	63	-	-
Average Length of Stay	28	-	-
*** * The Chemical Dependency Unit was closed as of 9-9-99**			
Youth Chemical Dependency Unit			
Capacity	29	30	30
Total Patient Days	2,586	9,376	9,009
Average Daily Census (1)	9	26	25
Occupancy Rate (2)	31%	86%	82%
Admissions:			
First Admissions	44	67	61
Readmissions	1	3	-
Total	45	70	61
Discharges	19	53	66
Average Length of Stay	72	131	145
New Alternatives			
Capacity	28	28	28
Total Patient Days	6,685	6,692	7,818
Average Daily Census (1)	18	18	21
Occupancy Rate (2)	65%	65%	76%
Admissions:			
First Admissions	1	-	-
Readmissions	5	1	-
Total	6	1	-
Discharges	98	126	98
Average Length of Stay	95	97	97

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
HASTINGS REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

(1) Average Daily Census = Total Patient Days / 365 Days

(2) Occupancy Rate = Average Daily Census / Capacity

	2000	2001	2002
Sex Offender Program			
Capacity	-	12	14
Total Patient Days	-	541	4,305
Average Daily Census (1)	-	6	12
Occupancy Rate (2)	-	52%	84%
Admissions:			
First Admissions	-	-	21
Readmissions	-	1	7
Total	-	1	28
Discharges	-	-	17
Average Length of Stay	-	-	179
***** The Sex Offender Program started in Fiscal Year 2001**			
Psychiatric			
Capacity	84	84	84
Total Patient Days	23,382	24,514	25,026
Average Daily Census (1)	64	67	69
Occupancy Rate (2)	76%	80%	82%
Admissions:			
First Admissions	222	235	260
Readmissions	227	231	232
Total	449	466	492
Discharges	324	325	375
Average Length of Stay	137	67	84
Total Hastings Regional Center			
Capacity	154	154	156
Total Patient Days	33,982	41,123	46,158
Average Daily Census (1)	93	113	126
Occupancy Rate (2)	60%	73%	81%
Admissions:			
First Admissions	293	302	342
Readmissions	247	236	239
Total	540	538	581

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
HASTINGS REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

(3) Average Payroll Costs per Patient = Total Payroll/ Average Daily Census
(4) Total Other Operating Costs per Patient = Total Operating Costs / Average Daily Census
(5) Total Costs per Patient = Total Costs / Average Daily Census

	2000	2001	2002
Total Hastings Regional Center (Concluded)			
Discharges	504	504	556
Total Payroll Costs	$ 12,269,715	$ 13,006,723	$ 13,399,561
Average Payroll Costs per Patient (3)	$ 131,932	$ 115,104	$ 106,346
Total Other Operating Costs	$ 5,261,665	$ 5,416,858	$ 5,759,803
Total Other Operating Costs per Patient (4)	$ 56,577	$ 47,937	$ 45,713
Total Costs	$ 17,531,380	$ 18,423,581	$ 19,159,364
Total Costs per Patient (5)	$ 188,509	$ 163,041	$ 152,058

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NORFOLK REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

(1) Average Daily Census = Total Patient Days / 365 Days
(2) Occupancy Rate = Average Daily Census / Capacity
(3) Average Payroll Costs per Patient = Total Payroll/ Average Daily Census
(4) Total Other Operating Costs per Patient = Total Operating Costs / Average Daily Census
(5) Total Costs per Patient = Total Costs / Average Daily Census

	2000	2001	2002
Capacity	174	174	176
Total Patient Days	61,282	60,871	60,982
Average Daily Census (1)	167	167	167
Occupancy Rate (2)	96%	96%	95%
Admissions:			
First Admissions	171	159	144
Readmissions	165	173	128
Total	336	332	272
Discharges	334	333	270
Average Length of Stay	208	188	212
Total Payroll Costs	$ 8,460,019	$ 10,281,139	$ 10,909,610
Average Payroll Costs per Patient (3)	$ 50,659	$ 61,564	$ 65,327
Total Other Operating Costs	$ 5,096,074	$ 4,588,818	$ 4,595,242
Total Other Operating Costs per Patient(4)	$ 30,515	$ 27,478	$ 27,516
Total Costs	$ 13,556,093	$ 14,869,957	$ 15,504,852
Total Costs per Patient (5)	$ 81,174	$ 89,042	$ 92,843

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
LINCOLN REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

(1) Average Daily Census = Total Patient Days / 365 Days
(2) Occupancy Rate = Average Daily Census / Capacity

	2000	2001	2002
Lincoln Regional Center - Inpatient Services			
Short Term Care Program			
Total Patient Days	14,907	15,079	15,163
Average Length of Stay	79	72	83
Community Transition Program			
Total Patient Days	14,498	14,428	14,474
Average Length of Stay	649	569	623
Adolescent Psych Acute			
Total Patient Days	727	1,116	1,204
Average Length of Stay	18	14	21
Forensic Mental Health Service - Psych Program			
Total Patient Days	14,765	14,683	14,767
Average Length of Stay	460	154	160
Forensic Mental Health Service - Sex Offender Program			
Total Patient Days	23,364	23,320	23,261
Average Length of Stay	602	530	1,289
Office of Juvenile Services Program ****			
Total Patient Days	664	693	387
****_This Program closed effective June 30,2002._			
Total Lincoln Regional Center - Inpatient Services			
Capacity	193	195	196
Total Patient Days	68,925	69,319	69,256
Average Daily Census (1)	188	189	190
Occupancy Rate (2)	97%	97%	97%
Admissions:			
First Admissions	182	173	184
Readmissions	116	169	139
Transfers In-Other Regional Centers	6	8	32
Total	304	350	355
Discharges	309	342	355

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
LINCOLN REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:
(1) Average Daily Census = Total Patient Days / 365 Days
(2) Occupancy Rate = Average Daily Census / Capacity

	2000	2001	2002
Lincoln Regional Center - Residential Services			
Adolescent Psychiatric Residential Program			
Total Patient Days	6,033	5,612	5,133
Average Length of Stay	113	101	117
Adolescent Sex Offender Community Residential Program			
Total Patient Days	5,342	5,489	5,238
Average Length of Stay	374	388	453
Adult Sex Offender Services Residential Program*****			
Total Patient Days	-	-	3,273
***** ***This Program began October 11,2001. Statistics are based on 263 days.***			
Total Lincoln Regional Center - Residential Services			
Capacity	36	36	56
Total Patient Days	11,375	11,101	13,644
Average Daily Census (1)	31	30	40
Occupancy Rate (2)	92%	89%	75%
Admissions:			
First Admissions	31	32	24
Readmissions	43	36	33
Total	74	68	57
Discharges	77	68	56
Total Lincoln Regional Center - Inpatient and Residential Programs			
Capacity	229	231	252
Total Patient Days	80,300	80,420	82,900
Average Daily Census (3)	220	219	230
Occupancy Rate (4)	95%	95%	92%
Admissions:			
First Admissions	213	205	208
Readmissions	159	205	172
Transfers In-Other Regional Centers	6	8	32
Total	378	418	412
Discharges	386	410	411
Total Payroll Costs	$ 16,752,162	$ 17,726,561	$ 18,406,991

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
LINCOLN REGIONAL CENTER
SCHEDULE OF STATISTICAL DATA
FISCAL YEARS ENDED JUNE 30, 2000, 2001, AND 2002
UNAUDITED

Notes:

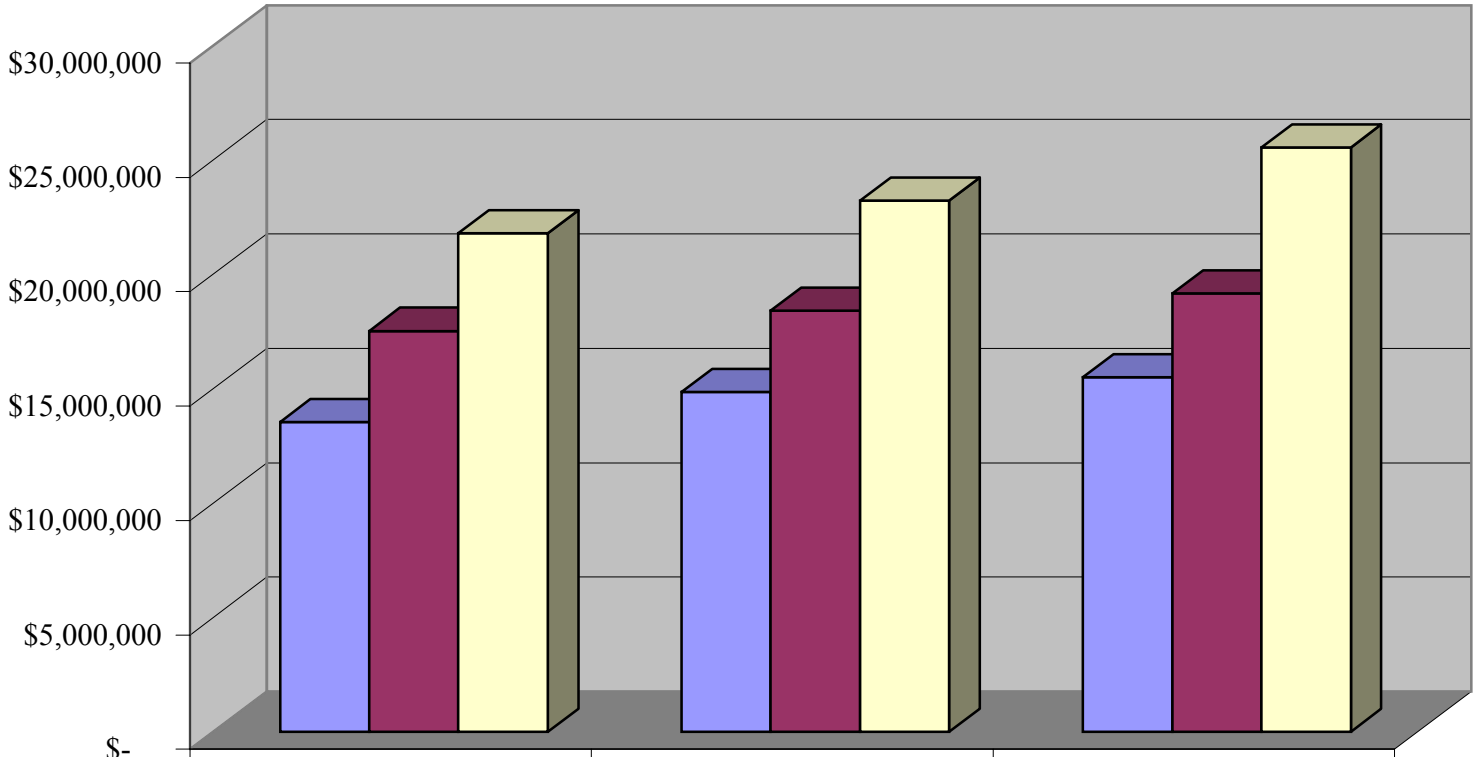
(1) Average Daily Census = Total Patient Days / 365 Days
(2) Occupancy Rate = Average Daily Census / Capacity
(3) Average Payroll Costs per Patient = Total Payroll/ Average Daily Census
(4) Total Other Operating Costs per Patient = Total Operating Costs / Average Daily Census
(5) Total Costs per Patient = Total Costs / Average Daily Census

	2000	2001	2002
Average Payroll Costs per Patient (3)	$ 76,146	$ 80,575	$ 80,030
Total Other Operating Costs	$ 5,045,693	$ 5,490,223	$ 7,123,604
Total Other Operating Costs per Patient (4)	$ 22,935	$ 24,956	$ 30,972
Total Costs	$ 21,797,855	$ 23,216,784	$ 25,530,595
Total Costs per Patient (5)	$ 99,081	$ 105,531	$ 111,003
Total All Regional Centers			
Capacity	557	559	584
Total Patient Days	175,564	182,414	190,040
Average Daily Census (1)	480	499	523
Occupancy Rate(2)	86%	89%	90%
Admissions:			
First Admissions	677	666	694
Readmissions	571	614	539
Transfers In-Other Regional Centers	6	8	32
Total	1,254	1,288	1,265
Discharges	1,224	1,247	1,237
Total Payroll Costs	$ 37,481,896	$ 41,014,423	$ 42,716,162
Average Payroll Costs per Patient (3)	$ 78,087	$ 82,193	$ 81,675
Total Other Operating Costs	$ 15,403,432	$ 15,495,899	$ 17,478,649
Total Other Operating Costs per Patient (4)	$ 32,090	$ 31,054	$ 33,420
Total Costs	$ 52,885,328	$ 56,510,322	$ 60,194,811
Total Costs per Patient (5)	$ 110,178	$ 113,247	$ 115,095

(Concluded)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS
SCHEDULE OF TOTAL OPERATING COSTS
For the Fiscal Years Ended June 30, 2000, 2001, and 2002

TOTAL OPERATING COSTS



	2000	2001	2002
Norfolk	$13,556,093	$14,869,957	$15,504,852
Hastings	$17,531,380	$18,423,581	$19,159,364
Lincoln	$21,797,855	$23,216,784	$25,530,595
	UNAUDITED	UNAUDITED	

Fiscal Year

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS

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 - Regional Centers as of and for the year ended June 30, 2002, and have issued our report thereon dated December 3, 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 Health and Human Services System - Regional Centers. 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 - Regional Centers' 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. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Regional Centers in the Comments Section of this report as Comment Number 2 (Rules and Regulations Changes), Comment Number 4 (Spending Authority Exceeded), Comment Number 9 (Ability To Pay Calculations), and Comment Number 10 (Contracts).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Regional Centers' 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Regional Centers' 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 5 (Member Account Adjustments).

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 Health and Human Services System - Regional Centers in the Comments Section of the report as Comment Number 1 (Regional Center Billings), Comment Number 3 (Billing Rate Incorrectly Calculated), Comment Number 6 (Member Trust Funds), Comment Number 7 (Pharmacy Inventory Procedures), Comment Number 8 (Payroll Calculations), and Comment Number 10 (Contracts).

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

Don Dunlap CPA

December 3, 2002 Assistant Deputy Auditor