

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

**JULY 1, 2003 THROUGH JANUARY 31, 2004  
AND  
JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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**BACKGROUND**

The Tobacco Prevention and Control Program (Program) was established during the 2000 legislative session. Funding was provided from revenue from the Tobacco Settlement. The Program was to receive \$21 million over a three-year period beginning in 2000. Future funding has been requested from the tobacco settlement funds.

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

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

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

**MISSION STATEMENT**

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

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**EXIT CONFERENCE**

An exit conference was held April 6, 2004 with the Program to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control were:

<u>NAME</u>	<u>TITLE</u>
Willard Bouwens	Financial Services Administrator
Romeo Guerra	Health Services Deputy Director
Dan Cillessen	Health Section Administrator II
Judy Martin	Health Program Manager II
Daniel Albrecht	Budget Officer III
Jane Quiring	Controller

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**SUMMARY OF COMMENTS**

During our examination of the Nebraska Health and Human Services System (System) - Program 30 - Tobacco Prevention and Control (Program), we noted certain matters involving the internal control over financial reporting and other operational matters, which are presented here.

1. **Nebraska Information System:** Significant areas of concern or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. **Grantee Monitoring:** The Program was seriously deficient in its financial monitoring of grantees to such a degree there was an increased risk of loss, theft, or misuse of awarded funds.
3. **Non-Competitive Selection of Contractor:** The System did not employ an open and competitive bidding process related to the selection of a contractor to provide services, coordination, and training related to smoking cessation.
4. **Conflict of Interest/Breach of Ethics:** Serious financial conflicts of interest/breach of ethics issues were noted related to the vendor selected to operate the Nebraska Tobacco Cessation Quit Line and the System Program Manager who had direct oversight of the Quit Line project.
5. **Alteration of Bid Scores:** Selection committee bid scores were altered, after the fact, resulting in the System's bid award to a vendor other than the one recommended by the selection committee after scoring of RFPs and oral interviews.
6. **Contract Monitoring:** The Program did not adequately monitor contractor performance reporting requirements.
7. **Grantee Site Visits:** Significant deficiencies were noted by the auditors during site visits to four Program grantees.
8. **Contractor Overpayment:** A contractor overpayment of \$12,182 occurred and was not detected by Program personnel.
9. **Expense Reimbursements:** Expense reimbursements tested were not in accordance with State Statutes and IRS regulations.
10. **Dating of Contract Documents:** Contract documents were not properly dated.

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.

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**SUMMARY OF COMMENTS**

(Continued)

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

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

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**COMMENTS AND RECOMMENDATIONS**

**1. Nebraska Information System**

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 12, 2003. This procedure would have provided control over cash and accurate financial information. The reconciliation should have been done on a monthly basis and has not been done since the implementation of NIS to ensure all financial information is correct in NIS.
- b. As of December 12, 2003, the Annual Budgetary Report and the Comprehensive Annual Financial Report have not been completed for the fiscal year ended June 30, 2003. These reports are to be prepared and presented by the Department of Administrative Services Accounting Division.
- c. A comprehensive written NIS policy and procedures manual has not been prepared. The current Nebraska Accounting System and Nebraska Employees Information System (NEIS) policies and procedures manuals only relate to NAS and NEIS and have not been updated to adjust to changes in NIS.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Nebraska Information System** (Concluded)

- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

**2. Grantee Monitoring**

Good internal control and sound accounting practices require the Program to have documented policies and procedures related to the allocation of grantee funding. These internally generated policies and procedures should detail the process to be followed when approving and awarding grant funds as well as outline the process related to subsequent monitoring of awarded grant funds. If award amounts, as initially calculated, are subsequently changed, the Program should retain detailed documentation to support award changes. Good internal control also requires active, ongoing monitoring of all grantees to ensure awarded grant funds are spent in accordance with the grant agreements and that detailed documentation is maintained to support all claimed expenditures. The Program should implement procedures to include timely reviews of all submitted Fiscal Reports and Program Reports in order to monitor compliance with grantee reporting requirements. If grantees are not in compliance with reporting requirements, the Program should have active procedures in place to ensure compliance, including the revocation of funding until the grantee comes into compliance.



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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Grantee Monitoring** (Continued)

The Program lacked adequate written policies and procedures for allocating grantee funds. According to 2000 Neb. Laws LB 1436, the Program was to receive \$7 million annually for fiscal years 2000, 2001, and 2002. Through this funding \$2.9 million was to be awarded over a two-year period beginning January 1, 2002 and ending December 31, 2003 for grants in schools, communities, and enforcement projects within the State. Over the same time period, \$1.8 million was to be awarded to racial and ethnic minority populations.

A total of \$2,480,366 and \$827,155 were paid out to school/community/enforcement and minority outreach grants for the fiscal year ended June 30, 2003 and the period of July 1, 2003 through January 31, 2004, respectively.

The following issues were noted in relation to the school/community/enforcement and minority outreach grant awards:

- No written procedures existed in relation to the determination of awards and the disbursement of award funds. Actual award amounts could not be recalculated. It appears funding for the minority outreach grants was subsequently changed after initial grant awards were calculated by Program personnel. According to Program personnel, grantee funding was adjusted by the Deputy Director of Health Services to direct additional funding to specific minority grantees. Program personnel indicated these changes were completed within the minority funding; however, documentation was not maintained to support any of the funding recalculations.
- The Program lacked adequate financial monitoring of its grantees. Program personnel conducted a limited number of on-site financial reviews during the examination period. The reviews consisted primarily of verifying only one line item (e.g. travel or supplies) of one quarter to supporting documentation. We noted at least three grantees that did not have an on-site financial review completed. These three grantees received a combined \$1,673,394 during the examination period.

The Teen Tobacco Education and Prevention Project involves high schools throughout the State to apply for four separate \$100,000 grant awards to be spent on anti-tobacco related projects. Five hundred thousand dollars was to be awarded in fiscal years 2001, 2002, and 2003.

A total of \$386,435 and \$134,273 were paid out to the grantee schools for the fiscal year ended June 30, 2003 and the period of July 1, 2003 through January 31, 2004, respectively.

No on-site financial reviews had been completed since the inception of the Teen Tobacco Education and Prevention Project funding in 2001, although Program Managers did attend various high school rallies, planning meetings, and other projects held by the schools.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Grantee Monitoring** (Continued)

The Program provided specific reporting requirements to each of its grantees with timelines of due dates given to all grantees awarded funding. We noted numerous instances where required reports were not submitted, were not submitted in a timely manner, were not dated as to date of submission, or were not submitted in the prescribed format. Despite these reporting discrepancies, grantees routinely continued to receive funding.

Additionally, “special project” funding arose due to a determination by Program personnel that there were unawarded funds near the end of each fiscal year. In these instances, Program personnel specifically searched out grantees and divided the remaining unawarded funds among eligible “special project” grantees. A total of \$13,481 was awarded for special projects for the fiscal year ended June 30, 2003. No written procedures existed to support this process of granting additional award funds resulting from unawarded balances. Furthermore, no monitoring was completed on these “special project” grantees to ensure awarded funds were spent in accordance with the award agreements.

Lastly, significant deficiencies were noted by the auditors during site visits to four program grantees, as is further described in Comment Number 7 (Grantee Site Visits).

Without written procedures guiding and documenting the allocation of funds to grantees, there is an increased risk of intentional misappropriation or calculation errors in grant awards. In addition, without active, documented financial monitoring of awarded funds, there is an increased risk of incorrect or erroneous payments being made to grantees.

We recommend the Program implement written procedures guiding the allocation of award funding and the calculation of grant awards including documentation of any subsequent changes in grant awards. We also strongly recommend the Program implement active, documented financial and reporting monitoring of all grantees to ensure awarded payments are within the intended guidelines and budget of the Program.

*HHSS’s Response: Since there were finite resources available to implement the comprehensive tobacco prevention and control program, the NHHSS placed a high priority on allocating available resources for services which would directly enhance the health of the public and communities and not on hiring additional staff for the program to perform administrative activities.*

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Grantee Monitoring** (Concluded)

*HHSS's Response, Concluded:  
(first bullet)*

*The adjustments in the minority funding category were made to assure that the federally recognized Tribes with a high need but low population received adequate funding to initiate tobacco programming. Using the population based formula for distribution of these funds was not adequate for funding of Tribal projects.*

*The Department permitted NAF to submit one grant application for serving multiple counties in which the amount of funding available was reflective of the population-based funding available for the specific counties they proposed to serve. Thus NAF did not receive additional funds or preference as a result of this process.*

*The Tobacco Free Nebraska Program will develop written procedures for the disbursement of any unawarded or awarded, but unspent funds. Procedures developed will include monitoring expectations.*

**3. Non-Competitive Selection of Contractor**

Executive Order 00-04 regarding Selection of Contractual Services, which became effective December 21, 2000 had the purpose of establishing a standardized, open and fair process for the selection of contractual services, assuring a fair assessment of qualifications and capabilities for project completion. The Executive Order applied to all services in excess of \$25,000 for a contract period and, as such, required an open, competitive contractor selection process, holding each agency director responsible and accountable for adherence to the charges set forth in the Executive Order.

In April 2001, the Health and Human Services System entered into an initial agreement with Rock Mueller, who at the time of the initial agreement was an inmate at the Nebraska Department of Correctional Services, serving a sentence related to a felony theft conviction. Mr. Mueller was to provide services, coordination, and training related to smoking cessation. The initial contract was for a period beginning April 9, 2001 and ending September 9, 2001, which coordinated with the contractor's release from the Nebraska Department of Correctional Services. At the end of the initial contract period, an amendment extended the term to an ending date of September 30, 2001. A new contract was then entered into with Rock Mueller, identifying him as a sole source contractor, beginning on October 1, 2001 and ending on September 30, 2002; after which time Mr. Mueller's contract was subsequently amended twice to extend the term until January 31, 2003, after which time he became an employee of the System, yet functioning in the same capacity as when he had been a contractor. During the

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Non-Competitive Selection of Contractor (Concluded)**

entire term of the System's contracts with Rock Mueller, April 9, 2001 until January 31, 2003, Mr. Mueller was paid \$4,600 per month, an annual equivalent of \$55,200. The System had no documentation to support an open, competitive bidding process was conducted in the initial selection of Rock Mueller.

The selection process conducted by the System was not consistent with the Executive Order. Also, when an open and fair process for the selection of contractual services is not undertaken by the System, it calls into question the honesty and integrity of State government and opens the State to public criticism. Furthermore, the lack of competitive selection increases the State's risk of potential litigation related to the selection process employed.

We recommend the System employ an open and competitive contractor selection process related to its selection of contractual services in order to ensure compliance with all State contracting requirements.

*HHSS's Response: The original contract for services with Mr. Mueller was initiated on April 9, 2001 and was to conclude on September 9, 2001. This contract was for \$23,000. The executive order applies to contracts that reach or exceed \$25,000. There was no requirement to competitively bid this position or to seek a deviation from the bid process. Five months later the decision was made to develop a new contract for Mr. Mueller. That contract was to begin on October 1, 2001 and his duties were substantially changed from those outlined in the April 9, 2001 contract. The new contract would exceed the \$25,000 limit; therefore, a deviation from this process was requested and granted by the Department of Administrative Services. A three week contract extension was developed to cover the period of September 9, 2001 and the beginning of the new and revised contract on October 1, 2001. We wanted to cover the three week period between the two contracts so as not to interrupt services in the Tobacco Free program.*

**APA's Response: The original contract, as subsequently amended, was for a period of approximately 6 months at a cost of \$4,600 per month, or \$27,600. Furthermore, the System should have exercised utmost caution and compliance with an open and fair process for the selection of these contractual services, particularly since the contractor the System intended to employ was an inmate at the Nebraska Department of Correctional Services serving a sentence related to a felony theft conviction at the time of the original contract.**

**4. Conflict of Interest/Breach of Ethics**

The Standard Conditions and Terms of Contractual Services and Leasing Solicitation and Offer, which are part of the State of Nebraska's standard Request for Proposal (RFP) documents released to and subject to all vendors responding to RFPs, disclose numerous contractor and

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Conflict of Interest/Breach of Ethics (Continued)**

State of Nebraska rights and responsibilities. Section K, regarding Conflict of Interest, states, in part, “. . . the contractor shall provide assurances . . . that it shall not acquire any interest, either directly or indirectly, which will conflict in any manner or degree with the performance of its services hereunder . . .” and that “. . . the contractor shall also provide assurances that no person having any such known interests shall be employed during the performance of this contract.” Furthermore, Section RR, regarding Ethics in Public Contracting, states, in part, “. . . no contractor shall pay, offer to pay, either directly or indirectly any fee, commission compensation, gift, gratuity, or other thing of value to any State officer, legislator or employee.” Section RR further states, “. . . if the contractor is found to be in non-compliance with this provision of the RFP, they will forfeit the contract if awarded to them or be disqualified from the selection process.”

In addition, Neb. Rev. Stat. Section 49-14,101.01 R.S.Supp., 2002 regarding personal financial gain, states, in part, “A public official or public employee shall not use or authorize the use of, for personal financial gain . . . that person’s public office or any confidential information received through the holding of a public office . . . .”

In June 2002, the System entered into a \$759,400 contract with Pioneer Development and Support Services (Pioneer) for services related to operation of a Tobacco Cessation Quit Line. During the course of our examination Pioneer personnel informed the Auditor of Public Accounts that Pioneer had been separately employing Rock Mueller, the System Program Manager responsible for monitoring and direct oversight of the Tobacco Cessation Quit Line project. Pioneer personnel stated the scope of Mr. Mueller’s employment involved identifying potential business opportunities related to smoking cessation for Pioneer in other states, as well as providing some assistance with Pioneer’s employee assistance program. As part of this examination, Pioneer also confirmed, in writing, payments of \$4,349 in expenses and \$73,931 in marketing fees paid to Rock Mueller during the period of July 1, 2002 through January 31, 2004, in relation to his employment with Pioneer.

We recommend the System review with its legal counsel as well as the Nebraska Department of Administrative Services, the serious contractual conflict of interest/breach of ethics reported to the Auditor of Public Accounts during the course of the examination and take appropriate action. We further recommend the System implement ongoing contract review procedures to ensure no further conflicts of interest/breaches of ethics occur.

*HHSS’s Response: The Department was unaware, nor did any member of the supervisory, managerial or administrative staff approve of the employment of Mr. Mueller by the contractor or the payments made by the contractor to Mr. Mueller.*

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Conflict of Interest/Breach of Ethics (Concluded)**

*HHSS's Response, Concluded:*

*Upon notification of the potential conflict of interest, appropriate personnel action was taken.*

*It was at this time that the agency also requested that the State Auditor conduct an audit.*

**5. Alteration of Bid Scores**

Neb. Rev. Stat. Section 28-911 R.R.S. 1995 states, in part, "A person commits abuse of public records if: (a) he knowingly makes a false entry in or falsely alters any public record; or . . . (d) he makes, presents, or uses any record, document, or thing, knowing it to be false, and with the intention that it be taken as a genuine part of the public record . . ." Abuse of public records is a Class II misdemeanor.

Executive Order 00-04, regarding Selection of Contractual Services, became effective December 21, 2000 for the purpose of establishing a standardized, open, and fair process for the selection of contractual services, assuring a fair assessment of qualifications and capabilities for project completion. The Executive Order held each agency director responsible and accountable for adherence to the charges set forth in the Executive Order.

Furthermore, Neb. Rev. Stat. Section 81-161 R.R.S. 2003, requires that all contracts based on competitive bids be made to the lowest responsible bidder, taking into consideration the best interests of the State, including the ability, capacity, skill, character, integrity, reputation, judgment, experience, and efficiency of the bidder.

In 2001, the System undertook a competitive bidding process seeking a vendor to operate a Tobacco Cessation Quit Line. Following the competitive bidding process, including RFP analysis and oral vendor interviews, a System selection committee scored each of the vendors and ultimately recommended the contract be awarded to Mayo Clinic. Despite this committee recommendation, in May 2002 the System entered into a \$759,400 contract with Pioneer for services related to operation of a Tobacco Cessation Quit Line. Based on review of the System's original bid score documentation, the selection committee's scoring of vendors was subsequently altered, resulting in the System contracting with Pioneer. Further review of the altered documentation, as well as discussion with System personnel, indicated Rock Mueller, the System Program Manager assigned responsibility for monitoring and direct oversight of the Tobacco Cessation Quit Line, either made the handwritten alterations to the vendor bid scores or was aware of the alterations, resulting in the System's ultimate selection of Pioneer. Any bid alterations done under these circumstances are particularly concerning based on what has been determined to be an on-going conflict of interest/breach of ethics involving the winning bidder, Pioneer Development and Support Services, and Rock Mueller, which is further discussed in Comment Number 4 (Conflict of Interest/Breach of Ethics).

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Alteration of Bid Scores (Concluded)**

Because of the scoring alterations, the selection process was not consistent with the Executive Order. When an open and fair process for the selection of contractual services is not undertaken by the System, it calls into question the honesty and integrity of State government and opens the State to public criticism and potential litigation by the unsuccessful bidders. The scoring alterations may also have been an abuse of public records pursuant to Section 28-911.

We recommend the System review with its legal counsel as well as the Department of Administrative Services, the serious breach of compliance with Executive Order 00-04 or the possible violation of any other law and take appropriate action.

*HHSS's Response: The two top vendors for this contract were very close in the review committee's selection process. Pioneer was selected by the Director since the bid was approximately \$100,000 less and offered 24 hour/7 day service which the top scoring bidder did not offer.*

**APA's Response: The original Tobacco Free Nebraska Cessation Quit Line Score Sheets, which included ranking for cost, definitively ranked the Mayo Clinic number one, Group Health number two, and Pioneer number three. The selection committee, who prepared the score sheets, recommended the Mayo Clinic. There was nothing on file noting the Director's approval to defer from the original scoring method or rejection of the proposals. The final submission to the Department of Administrative Services of the score sheets was altered.**

**6. Contract Monitoring**

Good internal control requires adequate procedures be in place to monitor contractor reporting requirements in order to provide the Program with timely assurances as to whether contract terms are being met prior to payments being made to contractors.

The Program lacked sufficient monitoring of contractor reporting requirements. The following was noted:

- The 18-month evaluation report from Pioneer, the Tobacco Cessation Quit Line Vendor, was due from the contractor by November 2003; however, at the time of this examination, March 2004, the report was not yet on file at the Program.
- The monthly progress report for August 2002 related to the Midwest Latino Center contract was also not on file at the Program.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Contract Monitoring (Concluded)**

Payments to both of these vendors occurred despite the Program not having documentation of the contractors' compliance with reporting requirements.

We recommend the Program implement procedures to ensure timely monitoring of contractor reporting requirements prior to contractor payments being made.

*HHSS's Response: Twenty monthly reports from Pioneer covering August 2002-March 2004 are on file with Tobacco Free Nebraska Program. These monthly reports have provided Program staff a monthly update on the contractor's performance since the live telephone quitline service began. The NHHSS Program requested additional detail from the vendor in calculating quit rates, including calculating an 18 month sustained quit rate. The expectation that the vendor be in position to calculate the cumulative 18 month quit rates by November 2003 was not feasible since the quitline with a start date of August 2002, would have been in operation less than 18 months. Enough time has now elapsed for the vendor to calculate 18 month sustained tobacco quit rates with the callers from September and October 2002, and they will be included in the April and May 2004 reports from the vendor.*

**7. Grantee Site Visits**

Good internal control requires the Program have policies and procedures in place which include active, documented financial monitoring of all of its grantees on an ongoing basis in order to ensure that only actual, allowable, and reasonable expenditures are claimed for reimbursement by grantees. Good internal control further requires adequate supporting documentation in the form of receipts and/or invoices be submitted with subgrantee reimbursements for payment. As such, detailed supporting documentation should be obtained and retained for all subgrantee reimbursement amounts to ensure reimbursements are within the intended Program funding guidelines.

The Teen Tobacco Education and Prevention Project was created for the purpose of providing scholarships for high school students who design creative project proposals to aid in the prevention, reduction, and cessation of teen smoking and to provide award money for the sponsors of such proposals. In relation to the Teen Tobacco Education and Prevention Project, Neb. Rev. Stat. Section 71-5715 R.S.Supp., 2003, provides five thousand dollar scholarships to each of the student designers of winning project proposals and requires the Coordinating Commission for Postsecondary Education to oversee and administer those scholarship awards. In addition to project design, the students are also responsible for overseeing implementation of their projects. Neb. Rev. Stat. Section 71-5715 R.S.Supp., 2003, also provides the sponsor of each winning project proposal an award of five thousand dollars to be administered by the System. The System's signed agreements with student sponsors state that sponsor awards are to be made in two payments, the first following submission of an accurate midyear program report.



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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Grantee Site Visits** (Continued)

Significant deficiencies were noted by the auditors during site visits to four of twenty-nine Program grantees: (1) Region VI Behavioral Healthcare, (2) Charles Drew Health Center, (3) Lincoln High School, and (4) Lexington High School. These deficiencies were as follows:

(1) Region VI Behavioral Healthcare

Two separate award payments were tested at Region VI Behavioral Healthcare.

Testing of the first payment noted the following:

- Six of thirteen Region VI subgrantees did not submit supporting documentation with their claims for reimbursement. These unsupported claims submitted for payment by subgrantees totaled \$77,755 and represented 35% of the total payment of \$225,237 to Region VI for the quarter tested.
- A \$12,411 overpayment was noted to subgrantee, PRIDE - Omaha. The correct total which should have been reimbursed to PRIDE - Omaha was \$3,967. The Region VI Fiscal Agent used the total amount of \$16,378, which was noted on the reimbursement form, without first deducting a previous advance of \$12,411.

Testing of the second payment noted the following:

- One receipt from Wal-Mart was noted with several questionable items submitted for reimbursement from subgrantee, N.E.T.W.O.R.K. The questionable items included purchase of diaper bags, a boxer set, union suit, and Looney Toon briefs. The total reimbursed to the subgrantee was \$57.
- Three of eight Region VI subgrantees did not submit adequate supporting documentation with their claims for reimbursement. These unsupported claims submitted for payment by subgrantees totaled \$6,228 and represented 13% of the total payment of \$48,575 to Region VI for the quarter tested.

(2) Charles Drew Health Center

When testing the Charles Drew Health Center, we noted the following:

- Contracts were not on file to support \$13,138 in contracted services.
- A \$1,247 pay period salary of one individual could not be traced to a Labor Distribution Report for the pay period tested.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

7. **Grantee Site Visits** (Continued)

(2) **Charles Drew Health Center, Concluded**

- Allocation of insurance benefits to support \$141 in expenditures claimed was not available for examination.
- Travel expenses of \$429 were unsupported.
- Other expenses, including conference expenses of \$2,049 were unsupported.
- Eleven subgrantees did not submit supporting documentation with their claims for reimbursement. These unsupported claims totaled \$78,770 and represented 56% of the total payment of \$139,894 to Charles Drew Health Center for the quarter tested.

(3) **Lincoln High School**

A \$32,519 contract was entered into with Snitily Carr for advertising and production services. Upon further review, it was observed that a representative of the school did not sign the contract. According to school personnel it was presumed by the school that a System Program Manager had signed and entered into the agreement on behalf of the School. Furthermore, the Snitily Carr contract was set at a maximum of \$32,519. However, actual expenditures totaled \$39,169; an overage of \$6,650. No amendment to the original contract amount was on file to support the additional expense.

(4) **Lexington High School**

- At the time of the site visit, March 15, 2004, Lexington High School had \$18,539 in advanced grant money on hand. This balance appeared to have occurred due to the school claiming reimbursement for estimated costs rather than actual expenditures for the third quarter of 2003.
- Expenditures were not adequately documented. Payments, including \$300 to a post prom committee, \$600 to a karate school for Rally entertainment, and \$20,000 in consulting fees, were not supported by invoices.
- The School directly paid \$703 in college credit hour tuition for students who designed and developed the school's winning project proposal despite the responsibility for student scholarship payments residing with the Coordinating Commission for Post Secondary Education.

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

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Grantee Site Visits (Concluded)**

**(4) Lexington High School, Concluded**

Of the \$100,000 grant award, the school spent \$27,000, or 27% of the grant total, to contract out administrative services related to the monitoring and implementation of the school's teen tobacco project.

- Of the \$27,000 spent in monitoring and implementing contracts, one contract for \$7,000 related specifically to monitoring the project. This contract was not signed by any school authorized agent, but rather, in addition to the contractor, was signed by three of the four students who designed and developed the winning proposal. Also, this contract was not dated, did not provide a period of performance, a description of how contractor performance was to be evaluated, or a schedule of when contractor payments were to occur. Furthermore, during discussion with the auditors, the contractor's authorized agent stated that the contractor had not substantially completed all of its responsibilities related to this contract and it was interested in either receiving guidance from the Program as to how to proceed with the contract or it was interested in repaying a portion of the \$7,000 which had been advanced to it.
- The project sponsor received \$2,500 (50%) of the sponsor fee of \$5,000 prior to any project activities being initiated. A similar instance involving the early payment of an initial 50% sponsor award was also noted during other grant award testing. In that instance, the early payment related to Lawrence/Nelson High School.

We strongly recommend the Program implement comprehensive, detailed financial monitoring procedures, which include periodic grantee site-visits, including thorough, detailed financial reviews by Program personnel to ensure the accuracy, compliance, and overall reasonableness of grantee expenditures. The Program's financial monitoring procedures should include monitoring of all grantees.

*HHSS's Response: Existing staff have conducted numerous programmatic evaluation visits to assure that grantees are implementing best practice approaches that lead to a decrease in tobacco use. Additional emphasis on fiscal monitoring will be implemented by the Program including a formal site visit schedule and, at a minimum, all line items in one budget quarter being checked during the site visit process.*

*Regarding the four grantee site visits, the Tobacco Free Nebraska Program will review the deficiencies noted in the audit and take appropriate action.*

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

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. Contractor Overpayment**

Good internal control requires procedures be in place to reduce and eliminate the possibility of contract overpayments.

During the examination, it was observed a contract entered into on February 5, 2002 with the Nebraska Minority Public Health Association was overpaid by \$12,182. System personnel were unaware of the overpayment until brought to their attention during the examination.

When the System does not have adequate procedures in place to monitor contract payments, there is an increased risk that overpayments will occur and either not be detected at all, or not be detected and corrected in a timely manner.

We recommend the System implement procedures to ensure contract overpayments are not made. We further recommend the System contact all overpaid contractors and work to secure repayment, including the \$12,182 contract overpayment noted in this Comment.

*HHSS's Response: There is one contractor who received a payment in excess of the contracted amount. NHSS contacted the contractor and the overpayment has been returned.*

**9. Expense Reimbursements**

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2003 states, in part, “. . . when reimbursement is requested for mileage by automobile . . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be shown on such request . . .”

The Internal Revenue Service (IRS) requires employees to substantiate the costs of meals under an accountable plan. Adequate accounting requires the use and retention of a detailed meal log or actual physical detailed receipts to document expenses.

Good internal controls require the System to have in place procedures to ensure disbursements are reasonable, necessary, and in accordance with State and Federal guidelines. As such, the Federal meal per diem rates should be used as a guideline when determining the reasonableness of meal expenses claimed.

Lastly, NAS Manual, Chart of Accounts, defines the employee Travel Expense series of accounts to be used to record all travel expenses for any State officer, employee, or member of any commission, council, committee, or board of the State.

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

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. Expense Reimbursements (Continued)**

During the examination of five expense reimbursements of Rock Mueller, we noted the following:

- Description of travel was often vague, e.g., “meeting” or “training.”
- One instance in which a travel description, as noted on an expense reimbursement document, appeared to be inaccurate based on review of his computerized calendar as well as the number of miles claimed for reimbursement. Mr. Mueller’s expense reimbursement claimed 134 miles for a round trip from Lincoln to Macy, Nebraska. However, actual map miles for that trip would have been 266 miles. Mr. Mueller’s calendar for the day in question indicated he was attending a Wellness/Health Fair in Geneva, Nebraska; a round trip of 142 miles, which closer approximates the mileage claimed for reimbursement.
- In one instance, involving out-of-state travel to a National Health Conference, sufficiently detailed meal receipts were not provided as documentation. Typically, summary credit card receipts were provided as support for meal expenditures. From this type of receipt, which often did not include the restaurant name and/or location or a breakdown of the meal expenses, the reasonableness of the expenses as well as compliance with State Statute and Federal Regulations could not be determined.
- In one instance, the mileage claimed did not appear reasonable. Rock Mueller claimed 346 miles; however, actual map miles for the trip totaled 265 miles, a difference of 81 miles, which resulted in a potential excess mileage reimbursement of \$29.
- In one instance the Federal General Services Administration (GSA) meal per diem rate was exceeded by \$10, with no detailed meal receipts provided as documentation to support the claimed expenses.
- Expense reimbursements of \$981 related to the period of Rock Mueller’s contractual work for the Program prior to becoming an employee in February 2003. These expenses were coded to employee Travel Expense accounts when they should have been coded to Operating Expense accounts.

Without adequate controls and procedures over expense reimbursements, there is an increased risk of loss or misuse of State funds. In addition, there is an increased risk the State’s accountable plan status could be revoked without adequate documentation in accordance with the accountable plan. This would result in all expense reimbursements being considered taxable income to employees.

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

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. Expense Reimbursements (Concluded)**

We recommend the System review controls and procedures to ensure expense reimbursements are reasonable, necessary, and in accordance with State Statutes and IRS guidelines.

*HHSS's Response: This finding deals with the process of approving reimbursement requests made by Mr. Mueller. The first recommendation suggests greater detail rather than using terms like "meeting" or "training." The HHSS agrees to review their controls and procedures over expense reimbursement reporting before the end of the current fiscal year.*

**10. Dating of Contract Documents**

Good internal control requires that all documents, including contract documents be properly dated.

During the examination of Program contracts and related contract documentation, two instances were noted in which the System did not accurately date contracts or related contract documentation:

- The System entered into a \$92,000 contract with the Board of Trustees of the University of Illinois-Midwest Latino Research Center. The unsigned contract was sent to the University and signed by their Comptroller on February 13, 2003 and later date stamped as received by the System on February 18, 2003. When the Director of the Department of Health and Human Services subsequently signed the contract, the date associated with his signature was backdated to December 23, 2002, which more closely coincided with the contract start date of January 1, 2003.
- The System entered into a \$759,400 contract with Pioneer Development and Support Services for services related to the operation of a Tobacco Cessation Quit Line. Documentation on file at the System indicates the System had not made the selection of the winning bidder as late as May 6, 2002. However, the System's letter of intent to contract, which was sent to the Department of Administrative Services, was dated May 1, 2002.

When contracts and related contract documentation are not accurately dated, there is an increased risk of potential contract disputes or litigation.

We recommend the System implement procedures to ensure all documents, including contract documents, are accurately dated.

*HHSS's Response: We are unable to verify or refute the allegation regarding the sequence of signatures on the University of Illinois contract.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

### Independent Accountant's Report

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control (Program) for the period July 1, 2003 through January 31, 2004 and the fiscal year ended June 30, 2003. The Program's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Except as discussed in the following two paragraphs, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The State of Nebraska implemented two components of a new statewide information system "Nebraska Information System" (NIS) during the fiscal year ended June 30, 2003. The two components were the Human Resources and Payroll component and the Financial component. A significant internal control procedure, a reconciliation of the State Treasurer's cash balances to the cash balances reported on NIS, has not been completed by the State for the fiscal year ended June 30, 2003. Without this reconciliation we were unable to satisfy ourselves as to the accuracy and completeness of the Program's fund balances of \$3,984,569 and \$5,372,488 as of January 31, 2004 and June 30, 2003, respectively. Although we extended our audit procedures, it was

impracticable to extend our procedures sufficiently to determine the extent to which the fund balances as of January 31, 2004 and June 30, 2003 may have been affected by this procedure not being completed.

The Program did not perform active, detailed financial and report submission monitoring of all Program grantees in a timely manner. Without active, ongoing financial and report submission monitoring of grantees, there is an increased risk that governmental aid payments, which totaled \$996,244 and 3,029,264 for the period July 1, 2003 through January 31, 2004 and the fiscal year ended June 30, 2003, respectively, may not represent actual, allowable, and reasonable expenditures related to Program agreements and objectives.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on NIS been completed, and had Program personnel conducted detailed financial and report submission monitoring of all Program grantees in a timely manner, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control for the period July 1, 2003 through January 31, 2004 and the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2004, on our consideration of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an attestation audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our examination.

April 6, 2004

*Pat Reding, CPA*  
Assistant Deputy Auditor



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 31, 2004

	General Fund 10000	Tobacco Prevention & Control Fund 22560	Totals (Memorandum Only)
<b>REVENUES:</b>			
Appropriations	\$ 124,480	\$ -	\$ 124,480
Investment Interest	-	133,373	133,373
<b>TOTAL REVENUES</b>	<b>124,480</b>	<b>133,373</b>	<b>257,853</b>
<b>EXPENDITURES:</b>			
Operating	51,658	595,376	647,034
Travel	-	2,494	2,494
Government Aid	72,822	923,422	996,244
<b>TOTAL EXPENDITURES</b>	<b>124,480</b>	<b>1,521,292</b>	<b>1,645,772</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,387,919)	(1,387,919)
<b>FUND BALANCES, JULY 1, 2003</b>	<b>-</b>	<b>5,372,488</b>	<b>5,372,488</b>
<b>FUND BALANCES, JANUARY 31, 2004</b>	<b>\$ -</b>	<b>\$ 3,984,569</b>	<b>\$ 3,984,569</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL  
**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE**  
For the Fiscal Year Ended June 30, 2003

	Tobacco Prevention & Control Fund 22560
REVENUES:	
Investment Interest	\$ 380,421
TOTAL REVENUES	380,421
EXPENDITURES:	
Operating	2,404,375
Travel	6,654
Government Aid	3,029,264
TOTAL EXPENDITURES	5,440,293
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,059,872)
FUND BALANCE, JULY 1, 2002	10,432,360
FUND BALANCE, JUNE 30, 2003	\$ 5,372,488

The accompanying notes are an integral part of the schedule.

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

**NOTES TO THE SCHEDULES**

For the Period July 1, 2003 through January 31, 2004 and  
the Fiscal Year Ended June 30, 2003

**1. Criteria**

The accounting policies of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Program was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of January 31, 2004 and June 30, 2003 includes only those payables posted to NIS before January 31, 2004 and June 30, 2003, respectively, and not yet paid as of that date. The amount recorded as expenditures as of January 31, 2004 and June 30, 2003 does not include amounts for goods and services received before January 31, 2004 and June 30, 2003, respectively, which had not been posted to NIS as of January 31, 2004 and June 30, 2003, respectively.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

The Program had no accounts receivable at January 31, 2004 and June 30, 2003.

The fund types established by NIS that are used by the Program are:

**10000 – General Fund** – accounts for all financial resources not required to be accounted for in another fund.

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

**NOTES TO THE SCHEDULES**

(Continued)

**1. Criteria** (Concluded)

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

The major revenue object account codes established by NIS used by the Program are:

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Program are:

**Operating** – Expenditures directly related to a program's primary service activities.

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

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

**2. State Agency**

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

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

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

**NOTES TO THE SCHEDULES**

(Continued)

**3. Beginning Balance**

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid for all funds of the Program. Therefore, the beginning fund balances do not include accounts receivables or accounts payable.

**4. Totals**

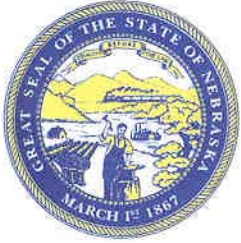
The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

**5. Related Party Transactions**

In June 2002, the System entered into a \$759,400 contract with Pioneer Development and Support Services (Pioneer) for services related to operation of a Tobacco Cessation Quit Line. During the course of our examination Pioneer personnel informed the Auditor of Public Accounts that Pioneer had been separately employing Rock Mueller, the System Program Manager responsible for monitoring and direct oversight of the Tobacco Cessation Quit Line project. Pioneer personnel stated the scope of Mr. Mueller's employment involved identifying potential business opportunities related to smoking cessation for Pioneer in other states, as well as providing some assistance with Pioneer's employee assistance program. As part of this examination, Pioneer also confirmed, in writing, payments of \$4,349 in expenses and \$73,931 in marketing fees paid to Rock Mueller during the period of July 1, 2002 through January 31, 2004, in relation to his employment with Pioneer.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL  
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control for the period July 1, 2003 through January 31, 2004 and the fiscal year ended June 30, 2003, and have issued our report thereon dated April 6, 2004. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control's schedule of revenues, expenditures, and changes in fund balances, is 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the Comments Section of this report as Comment Number 5 (Alteration of Bid Scores). We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System-

Program 30 - Tobacco Prevention and Control in the Comments Section of this report as Comment Number 3 (Non-Competitive Selection of Contractor), Comment Number 4 (Conflict of Interest/Breach of Ethics), Comment Number 7 (Grantee Site Visits), and Comment Number 9 (Employee Expense Reimbursements).

#### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Program 30 - Tobacco Prevention and Control's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Nebraska Information System), Comment Number 2 (Grantee Monitoring), and Comment Number 7 (Grantee Site Visits).

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 schedule being examined 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 consider the reportable conditions described above to be material weaknesses. 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 - Program 30 - Tobacco Prevention and Control in the Comments Section of the report as Comment Number 6 (Contract Monitoring), Comment Number 8 (Contractor Overpayment), Comment Number 9 (Employee Expense Reimbursements), and Comment Number 10 (Dating of Contract Documents).

April 6, 2004

*Pat Reding, CPA*  
Assistant Deputy Auditor

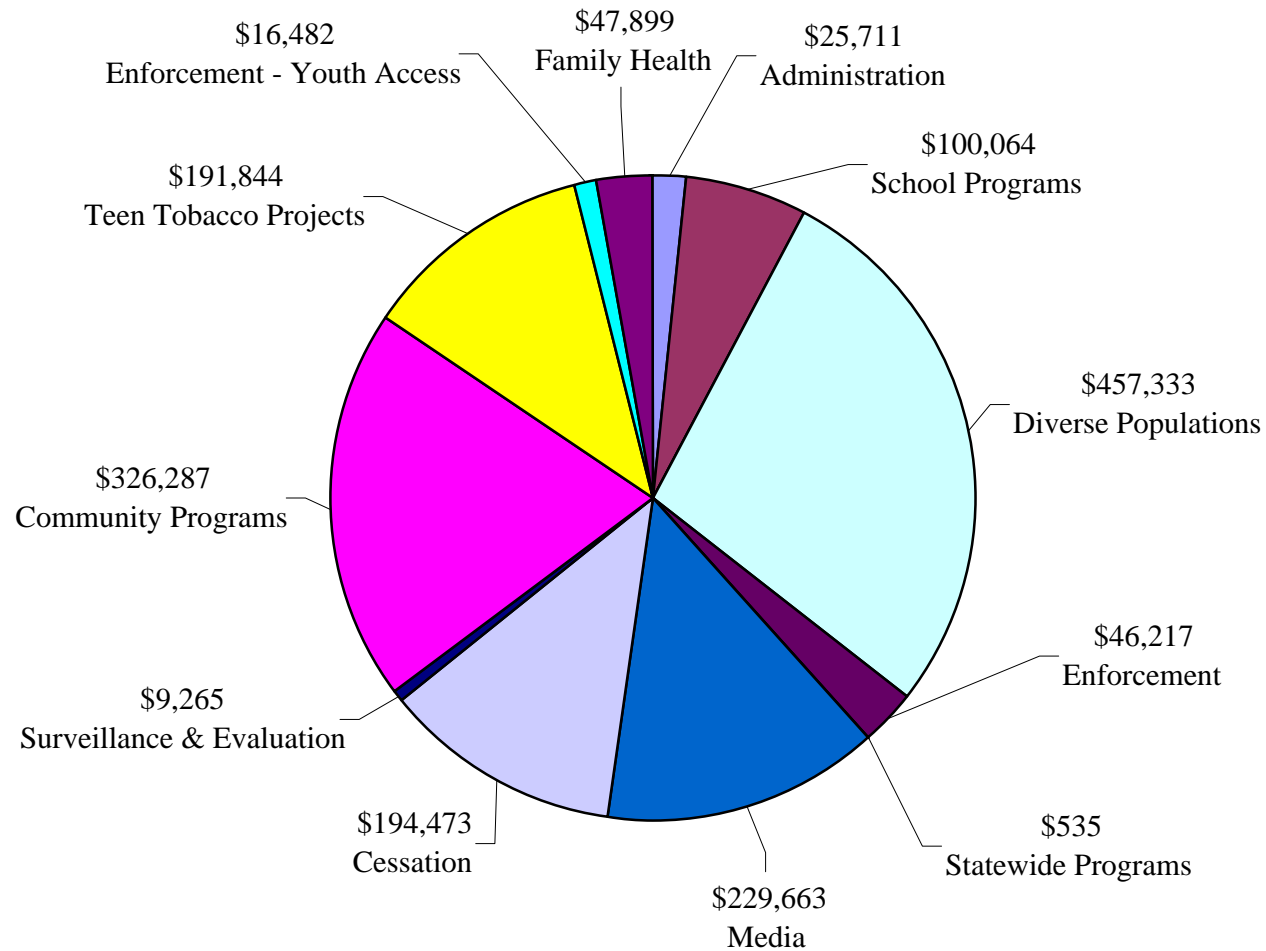
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL

**STATISTICAL SECTION**

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

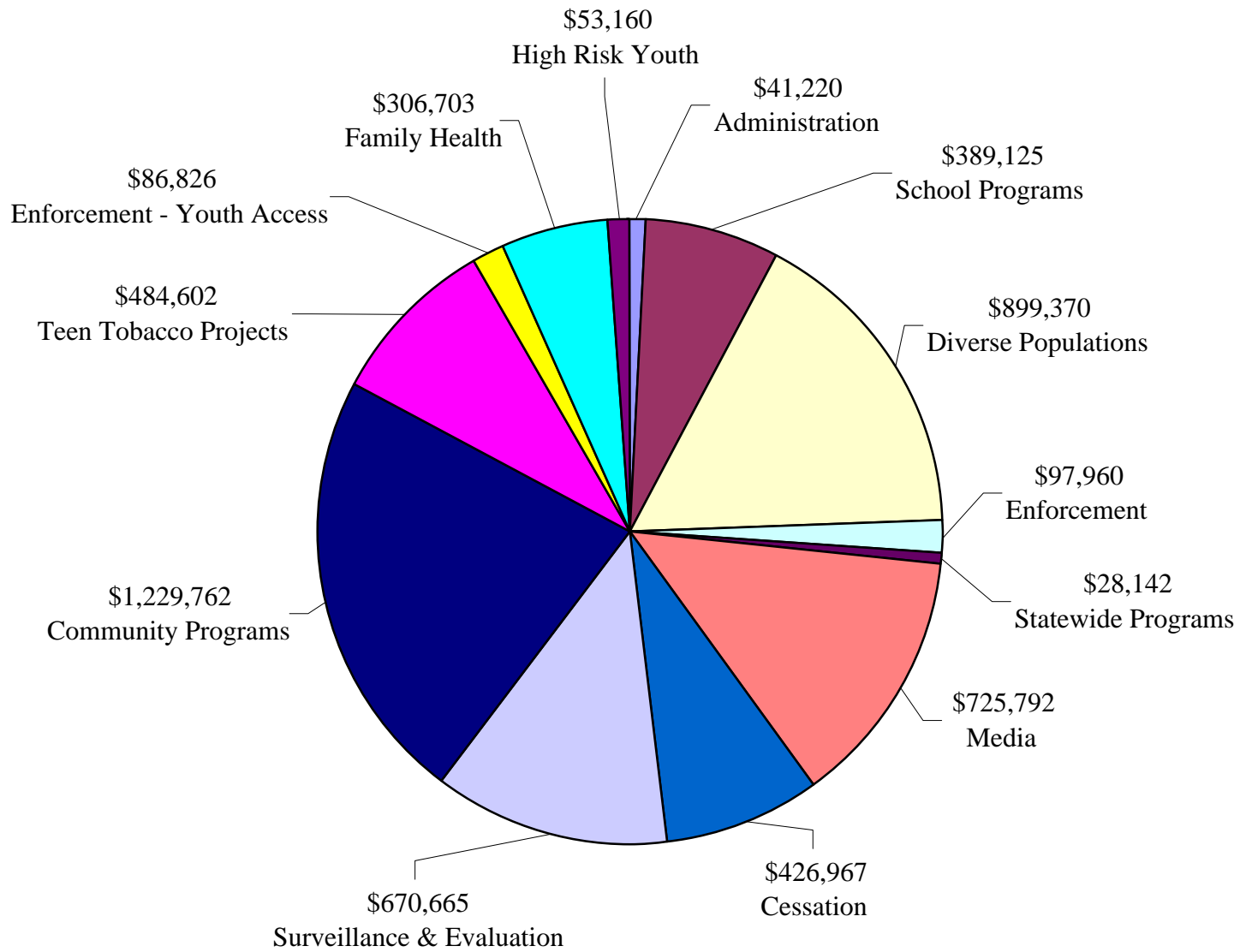


**SCHEDULE OF EXPENDITURES BY PROGRAM COMPONENT**  
**PROGRAM 30 - TOBACCO PREVENTION AND CONTROL**  
**SCHEDULE OF EXPENDITURES BY PROGRAM COMPONENT**  
 For the Period July 1, 2003 through January 31, 2004

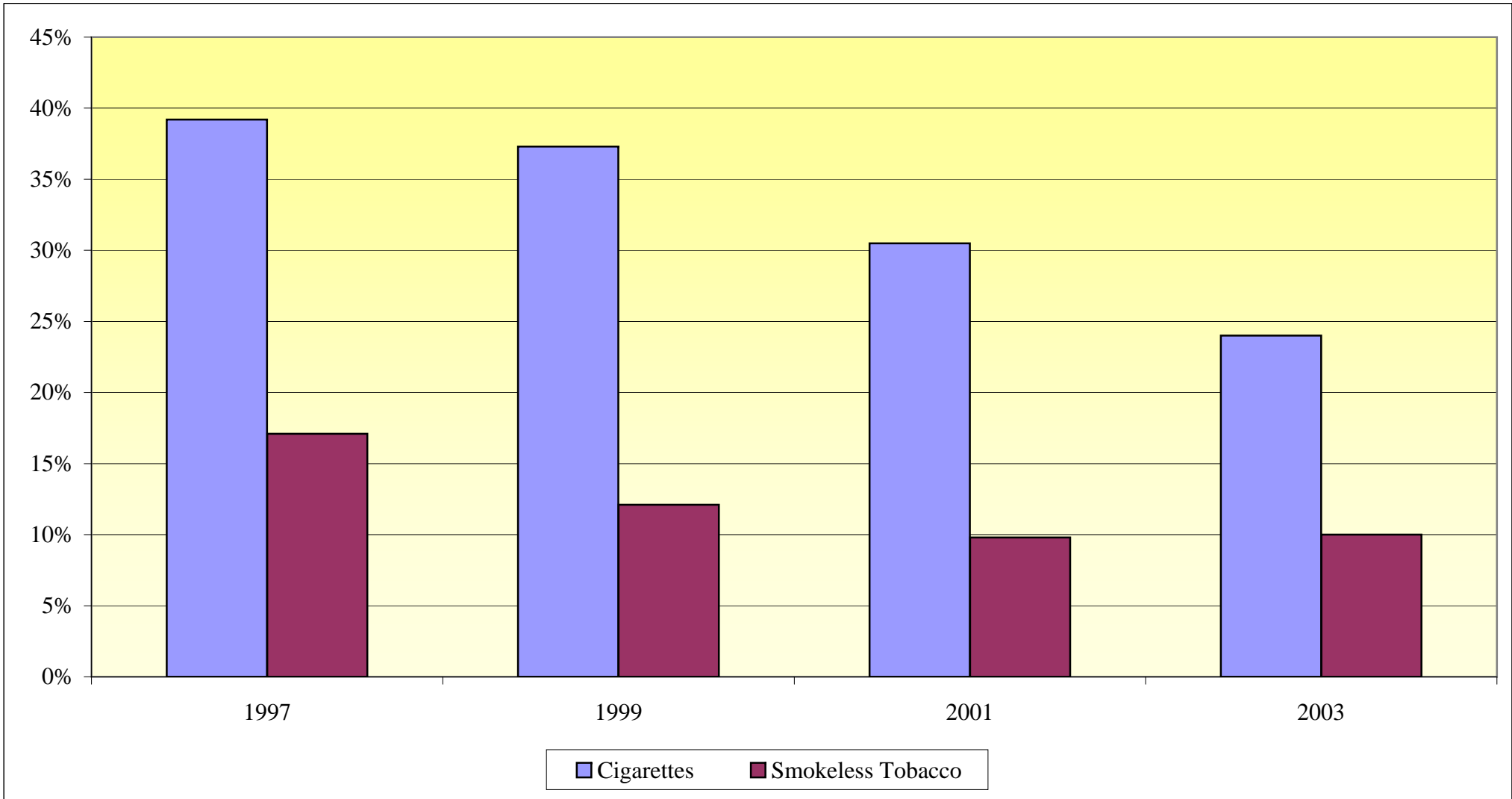


Program 30 received \$405,000 in general funds for the fiscal year ending June 30, 2004 from LB 285A. Expenditures noted consist of those expenses for the period from the General Fund and the Tobacco Prevention and Control Cash Fund

**SCHEDULE OF EXPENDITURES BY PROGRAM COMPONENT**  
**PROGRAM 30 - TOBACCO PREVENTION AND CONTROL**  
**SCHEDULE OF EXPENDITURES BY PROGRAM COMPONENT**  
 For the Fiscal Year Ended June 30, 2003



SCHEDULE OF EXPENDITURES BY PROGRAM COMPONENT  
PROGRAM 30 - TOBACCO PREVENTION AND CONTROL  
**PERCENTAGE OF NEBRASKA YOUTH WHO USED TOBACCO PRODUCTS IN THE PAST 30 DAYS**  
For Calendar Years Ended December 31, 1997, 1999, 2001, and 2003



Source: Biannual Nebraska High School Surveys.