

**ATTESTATION REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID
JULY 1, 2003 THROUGH JUNE 30, 2004**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID

BACKGROUND

The Nebraska Health and Human Services System Program 502 – Public Health Aid is comprised of two offices, the Office of Minority Health and the Office of Public Health.

The Office of Minority Health was established in 1992 to provide advocacy for and direct attention to the issues of and solutions for improving the health status of racial and ethnic minorities in Nebraska.

The Office of Public Health was formed in 2000 for the purpose of strengthening the public health systems in Nebraska by collaborating with local public health departments and other community-based public health organizations.

The intent of the Program is to ensure all people in Nebraska are covered by a county or district health department. These public health departments are responsible for:

- Assessing the health needs of the population,
- Developing policies and formulating strategies to address the needs, and
- Assuring that services are available to meet the health of the entire population.

This Program monitors its aid payments to recipients by four distinct subprogram names.

- “Planning”
- “Infrastructure”
- “Per Capita”
- “Minority Health Aid”

The “Planning” subprogram was used for the initial planning phase of implementing the objectives of the Office of Public Health.

The “Infrastructure” subprogram was used for payments to each local public health department based upon three population categories as established per Neb. Rev. Stat. Section 71-1628.08(2) R.R.S. 2003, of the combined populations of the counties participating in each separate local public health department.

The “Per Capita” subprogram was used for payments allocated by population, among all counties, but distributed only to the counties which are actually participating in a local public health department per Neb. Rev. Stat. Section 71-1628.08(3) R.R.S. 2003.

The “Minority Health Aid” subprogram was used for payments to health centers or other successful bidders through the RFP process based upon minority population requirements per Neb. Rev. Stat. Section 71-1628.07 R.R.S. 2003.

MISSION STATEMENT

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID

EXIT CONFERENCE

An exit conference was held August 25, 2004 with the Program to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System - Program 502 - Public Health Aid were:

NAME	TITLE
Willard Bouwens	Administrator, Financial Services
Romeo Guerra	Deputy Director, Health Services
David Palm	Division Director
Jane Quiring	Controller
Tom Jurgens	Finance and Accounting Manager
Duane Singsaas	Performance Measurement Consultant

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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SUMMARY OF COMMENTS

During our examination of the Nebraska Health and Human Services System - Program 502 - Public Health Aid, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System and Accounting Procedures:*** Significant concerns or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. ***Minority Health Initiative Grantee Financial Monitoring:*** The Health and Human Services System (HHSS) lacked comprehensive grantee financial monitoring procedures to ensure that grantee expenditures were accurately reported, supported, and in compliance with grant requirements.
3. ***Minority Health Initiative Grant Allocations and Expenditures:*** Expenditures were not in accordance with legislative restrictions. We noted questionable expenditures totaling \$54,834.
4. ***Grantee Considerations:*** NAF Multicultural Human Development Corporation received 2003-2005 Minority Health Initiative grant considerations not similarly offered to and/or made known to other grantees.

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 HHSS to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. HHSS declined to respond.

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System and Accounting Procedures

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). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004 the Procurement and Employee Self-Service components were partially implemented. 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 obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provides control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but do acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State (Secretary of State). The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the administrator, (administrator means the State Records Administrator) schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.
- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Concluded)

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS 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 DAS, 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. Minority Health Initiative Grantee Financial Monitoring

Good internal control requires comprehensive, active, and documented financial monitoring of all grantees to ensure awarded funds are spent in accordance with grant agreements and the expenditures are adequately supported by detailed documentation.

HHSS does not have comprehensive grantee financial monitoring procedures in place to ensure Minority Health Initiative Grant expenditures are in compliance with award agreements and adequately supported by detailed documentation. Inquiries of HHSS personnel indicated the level of financial monitoring ranged from nonexistent with project officers "taking the grantees word for it," to occasional requests by a project officer for an invoice or other supporting documentation if they had a particular concern with a grantee's reported expenditure. During the fiscal year ended June 30, 2004, HHSS expended \$1,683,377 in Minority Health Initiative funding.

Without comprehensive financial monitoring of grant award funds, there is an increased risk of misuse of State funds.

We recommend HHSS implement comprehensive, active, documented financial monitoring of all grantees to ensure awarded grant funds are spent in accordance with grant requirements.

3. Minority Health Initiative Grant Allocations and Expenditures

2003 Neb. Laws LB 407, Section 116, appropriated \$1,580,000 for the fiscal year ended June 30, 2004 in Nebraska Health Care Cash Funds for state aid to minority public health services in counties having a minority population equal to or exceeding five percent of the total population of the county in the first and third congressional districts as determined by the most recent Federal decennial census.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Minority Health Initiative Grant Allocations and Expenditures (Continued)

The LB stated that the funds were to be distributed on a per capita basis for the purpose of implementing a minority health initiative. A similar appropriation was also made for the fiscal year ending June 30, 2005 in LB 407. Good internal control also requires the Program have procedures in place to ensure compliance with legislative restrictions.

- The \$51,046 in per capita funding for the 2003-2005 Minority Health Initiative Grant period for Sarpy County Congressional District #1 was allocated by the Office of Minority Health to pay for a Racial/Ethnic Minority Needs Assessment in Douglas and Sarpy counties rather than being allocated to a minority health initiative directly benefiting the minority population of Sarpy County Congressional District #1. Per the 2000 decennial census, the combined minority populations of Douglas and Sarpy counties totaled 116,829 (all of Douglas County and a majority of Sarpy County is within Congressional District #2 which is not included in the above cited minority health initiative portion of LB 407 appropriation but has separate appropriated funding elsewhere in the LB). The minority population of Sarpy County Congressional District #1, as determined by HHSS personnel, totaled 1,466, or approximately 1% of the combined total minority population of Douglas and Sarpy counties. Despite this, and the fact that Congressional District #2 was not even a party to the above cited minority health initiative funding, Sarpy County Congressional District #1's entire Minority Health Initiative funding of \$51,046 for 2003-2005 was allocated to assist HHSS in paying the costs of a Sarpy/Douglas County Needs Assessment.

During our examination, HHSS personnel stated that no grantee applications had been submitted to provide minority public health services within Sarpy County Congressional District #1 and that Sarpy County Congressional District #1's \$51,046 of minority health initiative funding would have been otherwise undistributed for the 2003-2005 grant period.

- Two Minority Health Initiative grantee reimbursements, totaling \$33,588, were paid during the fiscal year ended June 30, 2004, not out of Minority Health Initiative Grant funding, but instead were paid, in error, from Preventative Health and Health Services (PHHS) Federal block grant funds of HHSS.
- Two expenditures, totaling \$3,788, were paid from Minority Health Initiative funds, despite these expenditures not being related to the Minority Health Initiative. These expenditures were for conference speaker fees for Latino Youth Leadership and Minority Health and Leadership conferences held in the third congressional district.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Minority Health Initiative Grant Allocations and Expenditures (Concluded)

When grant funding is not awarded and expended in accordance with legislative restrictions, there is an increased risk that minority health services will not reach all of the intended minority individuals.

We recommend HHSS implement procedures to ensure compliance with legislative restrictions.

4. Grantee Considerations

Good internal control requires government employ grant award processes which are fair and equitable to all grantees in both fact and appearance. When an impartial and unbiased process is not employed, it calls into question the integrity of the award process, and State government as a whole, and gives rise to accusations of preferential treatment of certain grantees. Title 402 Nebraska Administrative Code (NAC) Chapter 2 regulations implement Neb. Rev. Stat. Section 71-7614 R.R.S. 2003 by establishing the application process for grants, the criteria for reviewing the grants, and other procedures necessary for the proper administration of these grants. Title 402 NAC 2-007 further details grant approval criteria including an itemized budget. Title 402 NAC 2-007 states, "The Nebraska Health Care Council may award grants to the extent funds are available and within its discretion, the extent applications are approved."

The 2003-2005 award letters to NAF were signed by the Director of Health and Human Services and included the award contingency "Indirect cost is limited to 10% of the approved grant amount."

The Deputy Director of Health Services approved, in writing, the following requests from NAF (formerly Nebraska Association of Farmworkers) Multicultural Human Development Corporation:

- a. Request to use its Federal nonprofit organization indirect cost rate agreement of 30% of salaries and benefits for its 2003-2005 Minority Health Initiative Grant award. The indirect cost rate limitation applied to 2003-2005 Minority Health Initiative grantees per the Request for Application was 10% of the grant award. Based on the 2003-2005 NAF awards the total indirect costs allowed per the 10% rate would have been \$36,730; however, using the 30% rate NAF was allowed \$57,286 a difference of \$20,556. This comparison does not include indirect costs NAF also received at the 30% rate as a subgrantee.
- b. Request to operate the Lancaster County Minority Health Initiative Program for only 16 months for the same amount of funding as had been received under the previous 18 month grant period. The 2003-2005 Request for Application required a 24 month performance period from awarded grantees.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

4. Grantee Considerations (Concluded)

Additionally, several Minority Health Initiative grantees use NAF as a subgrantee to provide various minority health initiative services. For some grantees, who proposed reducing or eliminating NAF funding in their 2003-2005 grant period proposal, it became an award contingency requiring NAF be funded by the grantee at the same level as in the previous grant cycle.

The NAF Executive Director stated she had contacted the Deputy Director of Health Services (rather than the Office of Minority Health Administrator) with her requests due to NAF's previous relationship with the Deputy Director of Health Services. The Deputy Director of Health Services served on the NAF Multicultural Human Development Corporation Board of Directors in 1998 and 1999.

No similar considerations were noted as having been offered, or made known, to other 2003-2005 Minority Health Initiative grantees. The Deputy Director of Health Services stated that no other grantees had requested override of the 10% indirect cost rate or approval to reduce the performance period.

We recommend HHSS take every precaution to ensure a fair and equitable grant award process, in both fact and appearance.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM PROGRAM 502 - PUBLIC HEALTH AID

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
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We have examined the accompanying schedule of expenditures, transfers, and changes in fund balance of the Nebraska Health and Human Services System - Program 502 - Public Health Aid (Program) for the fiscal year ended June 30, 2004. The Program's management is responsible for the schedule of expenditures, transfers, and changes in fund balance. Our responsibility is to express an opinion based on our examination.

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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements 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 expenditures, transfers, and changes in fund balance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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Dennis Meyer, CGFM
Subdivision Budget
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In our opinion, the schedule referred to above presents, in all material respects, the expenditures, transfers, and changes in fund balance of the Nebraska Health and Human Services System - Program 502 - Public Health Aid for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Mark Avery, CPA
Subdivision Audit
Review Coordinator
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In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2004, on our consideration of the Nebraska Health and Human Services System - Program 502 - Public Health Aid'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 engagement performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

This report is intended solely for the information and use of the Program and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

August 25, 2004

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID
**SCHEDULE OF EXPENDITURES, TRANSFERS,
AND CHANGES IN FUND BALANCE**
For the Fiscal Year Ended June 30, 2004

	Nebraska Health Care Cash Fund <u>22640</u>
EXPENDITURES:	
Government Aid	<u>\$ 8,613,083</u>
OTHER FINANCING SOURCE:	
Operating Transfers In	<u>8,580,000</u>
Net Change in Fund Balance	(33,083)
FUND BALANCE, JULY 1, 2003	<u>1,364,689</u>
FUND BALANCE, JUNE 30, 2004	<u><u>\$ 1,331,606</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Criteria

The accounting policies of the Nebraska Health and Human Services System - Program 502 - Public Health Aid 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 (2) 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 expenditures, transfers, and changes in fund balance for the Program was obtained directly from 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 June 30, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

The Program had no accounts receivable at June 30, 2004.

The fund type established by NIS used by the Program is:

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 expenditure object account title established by NIS used by the Program is:

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.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Other significant object account codes established by NIS and used by the Program include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are also included in fund balance and are reported as recorded on NIS.

Other Financing Sources – Operating transfers.

2. State Agency

The Nebraska Health and Human Services System - Program 502 - Public Health Aid (Program) is a program within the Nebraska Health and Human Services System, 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 502 - Public Health Aid is part of the primary government for the State of Nebraska.

3. Transfers

Neb. Rev. Stat. Section 71-7611 R.R.S. 2003 details that the State Treasurer shall transfer fifty million dollars annually no later than July 15 from the Nebraska Medicaid Intergovernmental Trust Fund and the Nebraska Tobacco Settlement Trust Fund to the Nebraska Health Care Cash Fund. The fifty million dollars transferred into the Nebraska Health Care Cash Fund is deposited to various programs supported by this fund as legislatively appropriated. 2003 Neb. Laws LB 407, Section 116, appropriated \$8,580,000 to Program 502 – Public Health Aid.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE
SCHEDULE OF EXPENDITURES, TRANSFERS, AND CHANGES IN
FUND BALANCE PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of expenditures, transfers, and changes in fund balance of the Nebraska Health and Human Services System - Program 502 - Public Health Aid for the fiscal year ended June 30, 2004, and have issued our report thereon dated August 25, 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 engagements 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 502 - Public Health Aid's schedule of expenditures, transfers, and changes in fund balance, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Program 502 - Public Health Aid in the Comments Section of this report as Comment Number 3 (Minority Health Initiative Grant Allocations and Expenditures).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Health and Human Services System - Program 502 - Public Health Aid's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of expenditures, transfers, and changes in fund balance, 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 502 - Public Health Aid'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 and Accounting Procedures) and Comment Number 2 (Minority Health Initiative Grantee Financial Monitoring).

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 believe that none of the reportable conditions described above are material weaknesses. We also noted another matter involving internal control over financial reporting that we have reported to management of the Nebraska Health and Human Services System – Program 502 – Public Health Aid in the Comments Section of the report as Comment Number 4 (Grantee Considerations).

This report is intended solely for the information and use of the Program and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

August 25, 2004

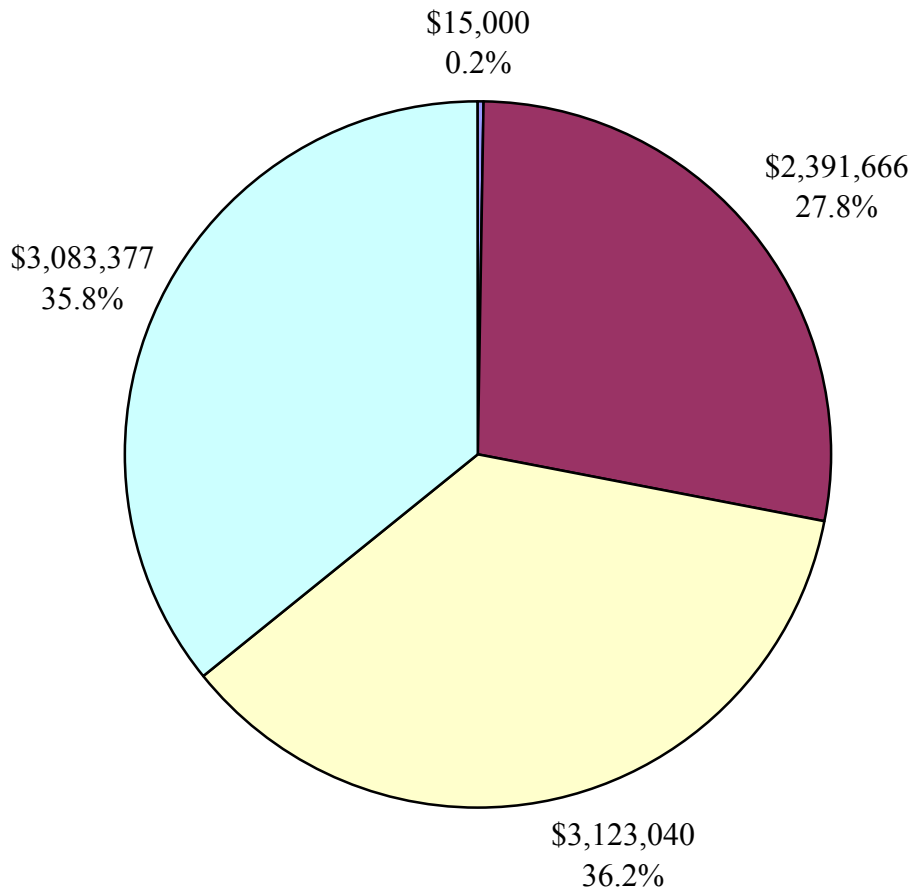
Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of expenditures, transfers, and changes in fund balance. 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 expenditures, transfers, and changes in fund balance, and, accordingly, we express no opinion on it.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID
EXPENDITURES BY SUBPROGRAM
For the Fiscal Year Ended June 30, 2004

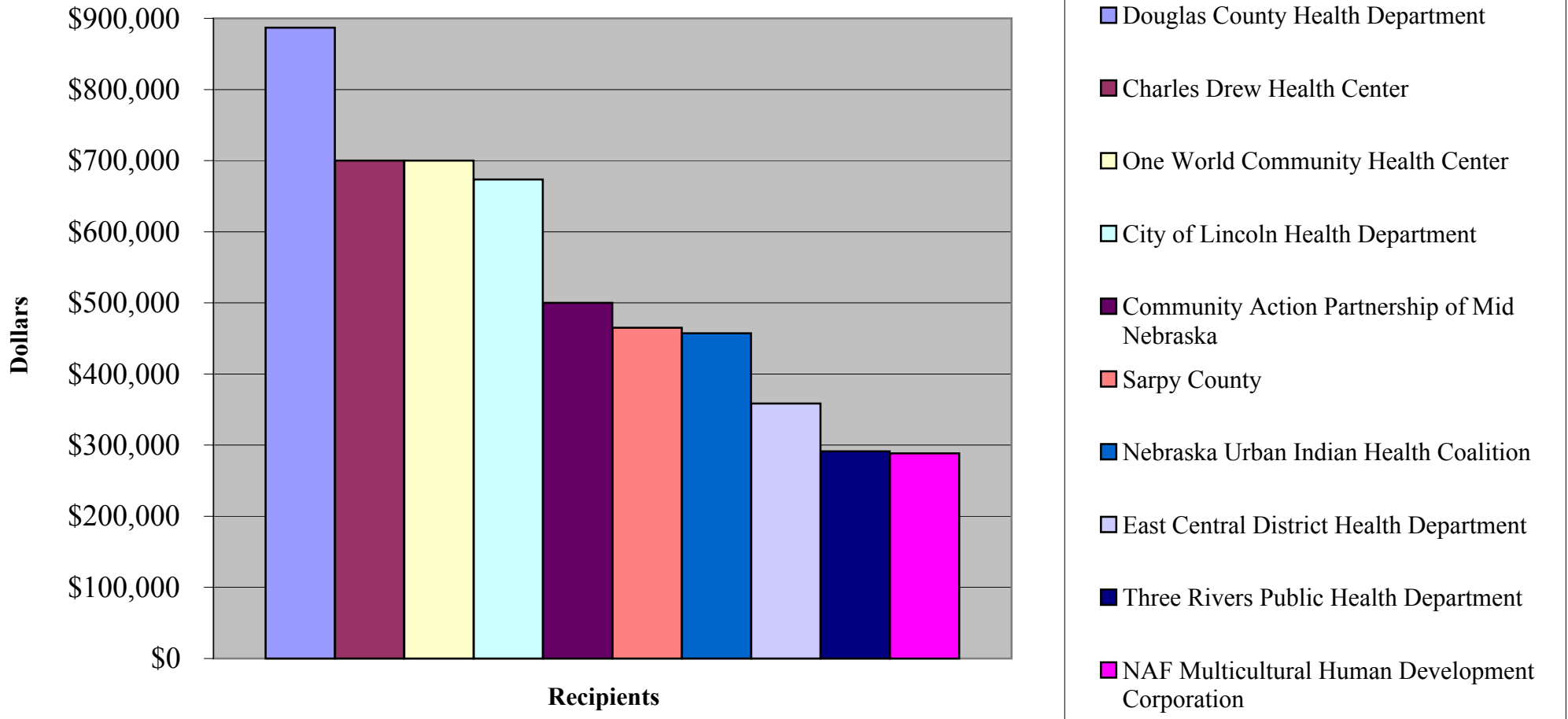


■ Subprogram 26 - Planning Grants	■ Subprogram 27 - Infrastructure
■ Subprogram 28 - Per Capita	■ Subprogram 29 - Minority Health Aid

Source: Nebraska Information System.

Note: See Background Section for subprogram descriptions.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 PROGRAM 502 - PUBLIC HEALTH AID
TOP 10 RECIPIENTS OF PUBLIC HEALTH AID
 For the Fiscal Year Ended June 30, 2004



The Top 10 Recipients Make Up 62% or \$5,320,843 of the Total \$8,613,083 Payments Made for Public Health Aid.

Source: Nebraska Information System

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 502 - PUBLIC HEALTH AID
PUBLIC HEALTH DEPARTMENT DISTRIBUTIONS
For the Fiscal Year Ended June 30, 2004

<u>Department Name</u>	<u>Subprogram 27 Infrastructure</u>	<u>Subprogram 28 Per Capita</u>	<u>Total</u>
Central District Health Department	\$ 125,000	\$ 143,424	\$ 268,424
Douglas County Health Department	150,000	718,253	868,253
East Central District Health Department	125,000	105,641	230,641
Elkhorn Logan Valley Public Health Department	125,000	120,308	245,308
Four Corners Health Department	100,000	91,731	191,731
Lincoln-Lancaster County Health Department	150,000	504,600	654,600
Loup Basin Public Health Department	100,000	66,776	166,776
North Central District Health Department	125,000	102,988	227,988
Northeast Nebraska Public Health Department	100,000	66,481	166,481
Panhandle Public Health District	125,000	107,776	232,776
Public Health Solutions	125,000	116,645	241,645
Sarpy/Cass Department of Health & Wellness	150,000	296,217	446,217
South Heartland District Health Department	100,000	95,376	195,376
Southeast District Health Department	100,000	80,799	180,799
Southwest Nebraska Public Health Department	100,000	67,760	167,760
Three Rivers Public Health Department	125,000	150,740	275,740
Two Rivers Public Health Department	125,000	187,001	312,001
West Central District Health Department	100,000	95,797	195,797
	<u>\$ 2,150,000</u>	<u>\$ 3,118,313</u>	<u>\$ 5,268,313</u>

Note: These are calculated distributions based on the fiscal year ended June 30, 2004 appropriations. These amounts do not agree to the financial statement due to timing differences of fourth quarter distributions.

Source: Health and Human Services System