

**ATTESTATION REPORT  
OF THE  
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.  
JULY 1, 2005 THROUGH JANUARY 31, 2006 AND  
JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on April 12, 2006**

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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**BACKGROUND**

The Nebraska Health and Human Services System (NHHSS) awards State and Federal grants to a variety of for-profit and not-for profit entities in Nebraska in order to implement a broad range of health and human services initiatives across the State. NHHSS has entered into several agreements with the Panhandle Partnership for Health and Human Services, Inc. (Partnership) for services in relation to the State Incentive Cooperation Agreement (SICA), Maternal & Child Health (MCH), Native American Public Health Act, Lifespan Respite Care, etc.

The Partnership is a 501(c)(3) community based collaboration of for-profit and not-for-profit health and human services agencies, organizations, and community members serving an 11 county area in Western Nebraska. The Partnership, which is managed by a Board of Directors, was incorporated in 1998 and has no physical buildings and no paid staff. Administrative services are contracted through Western Community Health Resources and Dana F. Cole and Company.

<u>Partnership Board of Directors</u>	<u>Term</u>
Sharyn Wohlers, Panhandle Mental Health Center	October 2008
Linda Redfern, Region I Office of Human Development	October 2007
Deanna Trowbridge, WNCC	October 2008
Linda Boeckner, University of Nebraska-Lincoln	October 2008
Diana Stevens, Garden County Health Services	October 2006
Carolyn Jones, Western Community Health Resources	October 2007
Jan Fitts, Panhandle Community Services	October 2006
Shelley Knutson, United Way of Nebraska	October 2007
Hilary Wasserburger, DOVES	October 2007
Barbara Jolliffe, Panhandle Substance Abuse Council	October 2006
Lonnie Starke, Area Administrator for NE Health & Human Services	By Status of Position
Kim Engel, Panhandle Public Health District	By Status of Position

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**EXIT CONFERENCE**

An exit conference was held March 31, 2006, with the Nebraska Health and Human Services System to discuss the results of our examination. Those in attendance were:

<b>NAME</b>	<b>TITLE</b>
Nancy Montanez	Director
John McVay	Deputy Administrator
Willard Bouwens	Administrator/Financial Services

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**SUMMARY OF COMMENTS**

During our examination of the Nebraska Health and Human Services System - Expenditures to Panhandle Partnership for Health and Human Services, Inc., we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Appearance of Impartiality in Performing Official Duties:*** Instances were noted where the Nebraska Health and Human Services System (NHHSS) management appeared not to follow NHHSS's code of conduct.
2. ***Minority Health and Leadership Conference (Unexpended Funding):*** We noted \$10,000 in grant funds were advanced to the Panhandle Partnership for Health and Human Services, Inc. (Partnership) in October 2004 without subsequent reconciliation to actual expenditures. Of these funds, \$4,286 remained unexpended and not returned to NHHSS as of February 28, 2006.
3. ***State Incentive Cooperative Agreement (SICA) Coordination Costs:*** We concur with the NHHSS decision to deny the Partnership's request for reimbursement of \$24,000 in coordinator services based on situational ambiguities and conflicting source documentation.
4. ***Subcontractor Payments:*** The Partnership paid some subcontractors according to allocations of contract budgets or based on payment schedules rather than reimbursing actual expenses. In such instances, the Partnership did not perform reconciliations of the advanced amounts to actual expenses.
5. ***Timely Financial Reviews:*** NHHSS should implement comprehensive and timely financial monitoring of all grantees to ensure funds are spent in accordance with grant requirements and any problems are identified and resolved in a timely manner.
6. ***Respite Services Program Advance Payments:*** Two instances were noted in which \$25,000 was advanced to the Partnership for respite special projects; however, review of the Partnership's General Ledger indicated the Partnership had no immediate cash need for this funding.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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 Nebraska Health and Human Services System 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 Nebraska Health and Human Services System 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. Appearance of Impartiality in Performing Official Duties**

Nebraska Health and Human Service System's (NHHSS) Code of Conduct requires NHHSS employees to ensure that personal relationships do not influence professional decisions and that even the appearance of impropriety, bias, or conflict of interest be avoided. Additionally, Neb. Rev. Stat. Section 49-1496 R.R.S. 2004 which addresses, in part, the contents of the statement of financial interests form, requires disclosure of the name and address of any entity in which a position of trustee was held.

During her employment as Service Area Administrator for Health and Human Services and immediately prior to assuming her current position as NHHSS Director, Nancy Montanez, was a member of the Panhandle Partnership for Health and Human Services, Inc.'s (Partnership) Board of Directors. John McVay, then Director of the Panhandle Mental Health Center, also served on the Partnership's Board of Directors, with his most recent term ending October 2005. Mr. McVay's employment with the State of Nebraska as Behavioral Health Services Deputy Administrator began effective October 3, 2005.

During our examination the following was noted:

- Review of Nancy Montanez's Statements of Financial Interests filed with the Nebraska Accountability and Disclosure Commission for the calendar years of 1999 through 2004 noted no disclosure of her participation as a Partnership Board member (Nancy Montanez was appointed Director of NHHSS in March 2004).
- A March 15, 2006, corporation and business entity search of the Partnership on the Nebraska Secretary of State's website listed John McVay as the Partnership's corporate director.
- A March 22, 2005, letter to Nancy Montanez from Linda Redfern, Partnership Board President, stated, in part, "we are requesting a meeting in person or by conference call with you, me as Partnership President, Kim Engel, Panhandle Public Health Director, and Joan Frances to outline our concerns and develop possible courses of action. We are requesting that no other parties be involved at this time in the hope of being able to develop future working relationships." Additionally, an April 4, 2005, e-mail from Linda Redfern stated that "Joan Frances, Kim Engel and I met with Nancy Montanez, Ron Sorensen (Administrator, Behavioral Health) and Lonnie Stark this morning regarding our SICA contract, lack of payment, and issues surrounding all that."

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Appearance of Impartiality in Performing Official Duties (Concluded)**

- November 15, 2005, Partnership Board of Directors' meeting minutes reported financial discussion to include "Linda Redfern talked to John McVey and approximately \$22,700 will be distributed to cover last year's SICA unreimbursed expenses." As is discussed in Comment Number 3, the Partnership and NHHSS have been involved in a financial dispute regarding questioned costs related to 2004 grant coordination costs. As previously noted, Mr. McVay was on the Partnership's Board of Directors up until October 2005 and, as such, personal discussions regarding these disputed financial issues would appear inappropriate and could create an appearance of a lack of impartiality and objectivity on the part of NHHSS management.

When management is directly involved in matters involving specific parties or situations which might appear to affect or be the result of previous personal and/or business relationships, a reasonable person may question the integrity of NHHSS programs and operations.

We recommend NHHSS actively strive to conduct itself in a manner which removes, in both fact and appearance, any possible perception of bias and/or impartiality in its actions and/or decisions.

*NHHSS's Response: The Department agrees that the Service Area Administrator for HHSS should have disclosed membership on the Panhandle Partnership Board and has amended the 2004 filing to include this. The Department also agrees that the Behavioral Health Services Deputy Administrator should not be listed as the Corporate Director of the Partnership and has requested this be corrected on the next annual filing. Management is always attentive to ensure objectivity and impartiality and will continue to conduct itself in this manner.*

**2. Minority Health and Leadership Conference (Unexpended Funding)**

Title 45 CFR Subtitle A, Part 92 sets the uniform requirements for grants and cooperative agreements to State, local, and tribal governments and generally describes reimbursement as the preferred method of payment. Advance payments are allowed, provided the grantees and subgrantees maintain and demonstrate a willingness and ability to minimize the time elapsing between transfer of funds and subsequent expenditure of those funds for their intended purpose(s). Good internal control requires procedures be in place to reconcile all advanced payments against actual expenditures whenever advance payments are made in order to ensure the reasonableness of payments and reduce the risk of over-award.



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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Minority Health and Leadership Conference (Unexpended Funding) (Continued)**

During our examination, the following was noted:

- A grant agreement dated June 15, 2004, and signed by Nancy Montanez, NHHSS Director, awarded \$10,000 to the Partnership to develop and provide a 2004 Minority Health and Leadership Conference whose target population was adolescent minority youth. A Fall 2004 Multicultural Leadership, Education and Health Conference was organized by Western Nebraska Community College (WNCC) and held in Scottsbluff. There were numerous co-sponsors for the event, including the Partnership. In November 2004, the Partnership paid to WNCC as conference expense the \$10,000 it had received from its grant agreement with NHHSS. During this examination it was confirmed, in writing, as of February 28, 2006, WNCC had a balance of \$4,286 on hand from the Partnership's \$10,000 November 2004 "donation." Additionally, a WNCC representative advised that the Partnership had been advised by WNCC of the remaining \$4,286 balance; however, the Partnership had not requested its return. Additionally, the WNCC representative confirmed that a Minority Health and Leadership conference had not been held in 2005; however, a 2006 conference was anticipated with the Partnership expected to use the \$4,286 balance to help defray costs for the 2006 conference.
- NHHSS coded this \$10,000 expenditure to Business Unit 25060182, which is associated with CFDA 93.674, Chafee Foster Care Independence Program, which assists in establishing and carrying out programs designed to assist foster youth. Beneficiary eligibility for this program is limited to children and youth who are likely to remain in foster care and former foster care recipients up to age 21. The expenditure of this \$10,000 is considered a questioned cost due to the CFDA's focus being on foster youth, which was not the intent of the 2004 Minority Health and Leadership Conference.

When awards are advanced rather than being based on reimbursement of actual costs, there is a risk of over-award (award in excess of actual costs incurred) as well as an increased risk of loss, theft, or misuse of funds. Furthermore, when expenditures are not accurately coded, there is a risk of such expenditures not being allowable.

We recommend NHHSS implement procedures to minimize the time elapsing between advances and actual expenditures. We further recommend NHHSS implement procedures to require reconciliation of all advances against actual expenditures to ensure the propriety and reasonableness of costs. Additionally, NHHSS should implement procedures to ensure all expenditures are

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Minority Health and Leadership Conference (Unexpended Funding) (Concluded)**

accurately coded. Finally, we strongly recommend the \$4,286 balance be returned to NHHSS and the entire \$10,000 be returned by NHHSS for reimbursement to the Federal grant as the expense was not allowable for CFDA 93.674.

*NHHSS's Response: The Department agrees to establish procedures to follow up on funds granted for program events and has requested the return of the unused funds. The Department does not agree the expenditure was coded incorrectly or that the Grant funds were improperly used.*

**Auditor's Response: Eligible beneficiaries of the Chafee Foster Care Independence grant are explicitly defined as children and youth who are likely to remain in foster care and former foster care recipients up to age 21. HHSS did not provide any documentation that attendees at the Fall 2004 Multicultural Leadership, Education and Health Conference met this unambiguous definition and, therefore, expenditure of the \$10,000 is considered a questioned cost.**

**3. State Incentive Cooperative Agreement (SICA) Coordination Costs**

Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements are generally followed in determining the reasonableness and allowability of costs. Consultant services are commonly considered allowable; however, when determining the reasonableness and allowability of any costs, no single factor or any special combination of factors is necessarily determinative. The availability of detailed source documentation is often a primary relevant factor in determining allowability. With consultant services, it is necessary to consider, in part, the nature and scope of the services rendered as well as the adequacy of all available supporting documentation including contractor invoices, contractual agreements, progress reports, etc.

December 14, 2004, Partnership Board minutes state that "there are coordinator funds in the SICA grant that started July 1, 2004. This would be \$24,000. This would go back to the Administrative budget." A motion was made and carried to approve the transfer of \$24,000 from SICA to Administrative to "cover the coordinator costs for the last six months." NHHSS questioned the reasonableness and allowability of this \$24,000 charge to the SICA program. A financial review conducted in April 2005 determined that there were no timesheets or billings indicating services rendered and time worked, no current contract or employment agreements, no

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. State Incentive Cooperative Agreement (SICA) Coordination Costs (Continued)**

copies of accounting entries showing the amounts paid for SICA related work and/or SICA related expenses, etc. and, as a result, declared the \$24,000 as questioned costs that should not be reimbursed by NHHSS without the presentation of proper documentation.

During our examination, the following was noted:

- August 19, 2004, Partnership Board minutes state, “we will need to look at some grants that might have some dollars for Panhandle Partnership for Health and Human Services (PPHHS) administration in them. We do have several grants out there which may have funds.”
- Joan Frances was the Partnership’s Project Coordinator for the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) Healthy Communities Access Program (HCAP) grant; CFDA 93.252, a grant which ended August 31, 2004. The Partnership’s General Ledger for the HCAP grant year September 1, 2003, through August 31, 2004, showed the Partnership charged Joan Frances’ July and August 2004 salary of \$5,000 per month to the HCAP grant. This is important because, as previously noted, in December 2004 the Partnership charged \$4,000 per month in coordinator salary to the SICA grant for July and August 2004 purportedly for Joan’s work on the SICA grant. Such accounting would, in effect, overcharge the Federal awarding agency (U.S. Department of Health and Human Services).
- The SICA contract between NHHSS and the Partnership was signed September 27, 2004. As a general rule, pre-award costs are unallowable which is important to note because any attempt to transfer coordinator costs from July 1, 2004, to the effective date of the contract would be unallowable.
- The Partnership’s October 2004 Board minutes state “Joan Frances indicated that there are not funds to pay a consultant; therefore, her consulting duties will end December 31, 2004.”
- In October 2004, following the completion of interviews for the position of SICA Prevention Coordinator, a contract offer was extended to an individual who subsequently declined the position. The Prevention Coordinator position was eventually officially contracted beginning January 1, 2005.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. State Incentive Cooperative Agreement (SICA) Coordination Costs (Continued)**

- Coordinator reports and expense reimbursements for Joan Frances during the period of July through December 2004 were observed that establish her work in several areas including, in part, SICA, Positive Youth Development, Collaborative Evaluation, and the Partnership's annual membership meeting.
- Contradictory information and discrepancies were noted in the various source documents and explanations the Partnership provided to NHHSS to justify its transfer of the \$24,000 of administrative costs to the SICA grant. For example:
  1. The Partnership's General Ledger and cancelled checks showed, during the period of July through December 2004, Joan Frances was paid \$5,000 per month. The SICA grant agreement budgeted for a \$4,000 monthly coordinator cost. In justifying its December 2004 journal entry, the Partnership's Board noted the \$24,000 was for 6 months of SICA coordination and continued to assert this point for a considerable time to NHHSS; however, in August 2005, the Partnership told NHHSS, in writing, the \$24,000 represented payment to Joan Frances as Acting Coordinator for the period of October through December 2004 at \$5,000 per month plus expenses.
  2. In response to NHHSS's request for contract documentation the Partnership provided a contract initiated in 1999 which paid Joan Frances \$4,000 per month.
  3. An invoice from Joan Frances Consulting, dated September 15, 2005, billed the Partnership \$1,500 for SICA project coordination and indicated, for July 1, 2004, through December 31, 2004, her fee was \$4,000 per month, for a total of \$24,000. From this total she deducted \$22,500 for payments received for September 2004 through January 2005. This invoice, prepared after the fact, is contradictory to the \$5,000 actually paid per month to Ms. Frances during the entire period of July 1, 2004, through December 31, 2004, and the additional \$2,500 paid in January 2005.

The Partnership's records (coordinator reports, expense reimbursements, Board minute discussions, etc.) if taken in totality demonstrate that Joan Frances was, among other activities, working on SICA activities during the period of October 2004 through December 2004 (the July 2004 through September 2004 period, for reasons previously explained, are unallowable) to move the program forward. Her activities during this period would not have been dedicated solely to SICA activities but also furthered other Partnership goals and objectives as well. Based

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. State Incentive Cooperative Agreement (SICA) Coordination Costs (Concluded)**

on all available documentation, including some that was clearly contradictory, NHHSS's denial of the Partnership's reimbursement claim for \$24,000 in July 2004 through December 2004 coordinator costs was proper and necessary.

We concur with NHHSS's decision to deny the Partnership's request for \$24,000 in reimbursement for coordinator services based on the aforementioned circumstances.

**4. Subcontractor Payments**

Sound accounting practices and good internal control require that whenever payment is made on a basis other than reimbursement of actual expenses, procedures be in place to: 1) reconcile, in a timely manner, advanced payments against subsequent actual expenditures and 2) ensure all subsequent actual expenditures were for the intended purpose(s) of grant agreements, contract provisions, and regulations. Furthermore, for Federal grants, 45 CFR Subtitle A, Part 92 allows advance payments provided the grantees and subgrantees maintain and demonstrate a willingness and ability to minimize the time elapsing between the transfer of funds and the subsequent expenditure of those funds for their intended purpose(s).

The Partnership does not have paid staff, but rather subcontracts with various organizations to perform services. During our examination it was noted the Partnership paid some subcontractors according to allocations of contract budgets or payment schedules, regardless of any evidence of a subcontractor's financial need for the payments and without any subcontractor invoices. With this procedure the Partnership was, in essence, advancing payments rather than reimbursing actual expense amounts. Furthermore, the Partnership was not performing any reconciliation of the amounts advanced to actual expenses. This issue was first brought to the attention of the Partnership following an on-site, contracted financial review of its State Incentive Cooperative Agreement (SICA) in April 2005 (see further discussion of this review in Comment Number 5), after which time the Partnership did implement new reimbursement procedures for the SICA program beginning with the contract year starting July 1, 2005. These new procedures have resulted in subcontractors submitting SICA reimbursement requests based on actual expenses. The Partnership, however, has not implemented similar funding changes in any of its other programs, including Lifespan Respite Care and the Native American Public Health Act, under which it pays subcontractors on a basis other than actual costs. Partnership representatives assert that reimbursed or advanced payments to the 11 coalitions and/or their representatives should not be subject to detailed financial accountability or tracking by the Partnership because these

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Subcontractor Payments (Concluded)**

coalitions and/or their agents are subcontractors to the Partnership. This reasoning is not correct as all grant or contract requirements, provisions, restrictions, etc. related to the use of funds remain in place until such funds are actually expended for documented and allowed purposes.

We noted that:

- Following recommendations of the April 2005 SICA financial review, a reconciliation performed by the Partnership as of June 30, 2005, revealed SICA subcontractors had been overpaid a total of \$49,037 for the grant year.
- The current Native American Public Health Act contract set a contract term of March 1, 2005, through June 30, 2006, a sixteen month period, and provided funding accordingly. The prior Native American Public Health Act contract had been for a twelve month period; however, it was observed that the Partnership made advance payments to some subcontractors under the current contract based on a twelve month time period, rather than a sixteen month period. As a result, payments to those subcontractors would end four months prior to the contract end date which could increase the likelihood of services being discontinued or scaled back by those subcontractors during their last four unfunded months of the contract term.
- In August 2005, two Native American Public Health Act payments, totaling \$27,080, were made to one subcontractor despite that subcontractor's award agreement not being signed until October 20, 2005.
- Six of eighteen payments tested were for subcontract payments that were not based on actual costs. The six payments totaled \$282,687. There was no documentation to support funds were used in accordance with grant conditions.

When awards are advanced rather than based on reimbursement of actual costs, and no timely reconciliations are made of such advances to actual costs, there is a risk of over-awards (award in excess of actual costs incurred) as well as an increased risk of loss, theft, or misuse of funds.

We recommend NHHSS implement procedures requiring, in the case of advanced payments to subcontractors, reconciliation of all advanced payments against actual expenditures. Also, see Comment Number 5 for additional recommendation regarding the need for ongoing, comprehensive financial reviews of grantees.

*NHHSS's Response: The Department agrees.*

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Timely Financial Reviews**

Good internal control requires ongoing, comprehensive financial monitoring of all grantees to ensure awarded funds are properly accounted for, documented, and spent in accordance with all applicable requirements.

NHHSS does not have a comprehensive plan to perform on-site financial reviews of grantees. NHHSS contracted with Harlow A. Hyde, MBA, to perform an independent review of the State's SICA contract with the Partnership in April 2005. In summary, Mr. Hyde's review identified the following major financial findings:

- Cash management issues related to the Partnership's use of "advances" or "prospective payments" to pay subcontractors rather than reimbursing subcontractors based on actual expenditures. It was determined to be essential that amounts paid by the Partnership to subcontractors be reconciled with actual costs incurred.
- Accounting procedures and expense documentation through March 31, 2005, were adequate, except for \$24,000 of costs related to SICA coordination which were considered to be questioned costs (See Comment Number 3 for additional information regarding this \$24,000) and disallowed until proper backup was provided.

Mr. Hyde's April 2005 review of the SICA program was comprehensive and raised many valid concerns. NHHSS should consider the need to perform such detailed reviews of all of its grantees on an ongoing basis in order to timely identify any issues that might exist and to work quickly to resolve such issues. Without comprehensive financial monitoring of grant award funds, there is an increased risk of loss, theft, or misuse of funds.

We recommend NHHSS implement ongoing, comprehensive, financial monitoring of all grantees to ensure awarded grant funds are spent in accordance with all applicable requirements.

*NHHSS's Response: The Department agrees and will ensure comprehensive financial monitoring of all grantees.*

**6. Respite Services Program Advance Payments**

Sound business practices and good internal control require that when advance payments are made to grantees, the time elapsing between the transfer of the advanced funds and the subsequent expenditure of those funds by the grantee be minimized, to ensure efficient cash management.

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**6. Respite Services Program Advance Payments (Concluded)**

Contracts between NHHSS and the Partnership for the Lifespan Respite Services Program for the period of July 1, 2004, to June 30, 2005, and July 1, 2005, to June 30, 2007, each provided, in part, for \$25,000 to be made available for the development and implementation of new respite programs and/or services resulting from the passage of LB 692 (2001). NHHSS advanced the \$25,000 in special projects funding to the Partnership near the start of each contract period, without regard to the Partnership's immediate cash needs for this funding. For example, in September 2004 NHHSS advanced \$25,000 to the Partnership for Respite special projects; however, review of the Partnership's General Ledger related to this funding indicated it took the Partnership approximately ten months to expend this \$25,000.

When advance payments are made without regard to a grantee's immediate cash needs, NHHSS not only loses its own potential for earning interest on the amounts advanced, but also increases the risk of misuse of such funds.

We recommend NHHSS review its advance payment procedures and implement measures to minimize the time elapsing between transfer of funds and subsequent expenditure by grantees.

*NHHSS's Response: The Department agrees.*



# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM EXPENDITURES TO PANHANDLE PARTNERSHIP FOR HEALTH AND HUMAN SERVICES, INC.

### INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of expenditures of the Nebraska Health and Human Services System – Expenditures to Panhandle Partnership for Health and Human Services, Inc. for the period July 1, 2005, through January 31, 2006, and for the fiscal year ended June 30, 2005. The Nebraska Health and Human Services System's management is responsible for the schedule of expenditures. Our responsibility is to express an opinion based on our examination.

**Tim Channer, CPA**  
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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 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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In our opinion, the schedule referred to above present, in all material respects, the expenditures of the Nebraska Health and Human Services System – Expenditures to Panhandle Partnership for Health and Human Services, Inc. for the period July 1, 2005, through January 31, 2006, and for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, on our consideration of the Nebraska Health and Human Services System's internal control over financial reporting related to expenditures to the Panhandle Partnership for Health and Human Services, Inc. and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Pat Reding, CPA

Assistant Deputy Auditor

March 31, 2006

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
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**SCHEDULE OF EXPENDITURES**  
For the Period July 1, 2005 through January 31, 2006

	General Fund 10000	Nebraska Health Care Fund 22640	Federal Fund 40000	Federal Grants Fund 42641	Totals (Memorandum Only)
<b>EXPENDITURES BY PROGRAM:</b>					
033-Department Central Office	\$ 50	\$ -	\$ -	\$ -	\$ 50
035-Respite Care	-	33,296	25,351	6,941	65,588
038-Behavioral Health Aid	-	-	74,953	-	74,953
341-Administration	50	-	-	-	50
514-Health Aid	66,667	-	53,334	-	120,001
<b>TOTAL EXPENDITURES</b>	<b>\$ 66,767</b>	<b>\$ 33,296</b>	<b>\$ 153,638</b>	<b>\$ 6,941</b>	<b>\$ 260,642</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.  
**SCHEDULE OF EXPENDITURES**  
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Nebraska Health Care Fund 22640	Federal Fund 40000	Federal Grants Fund 42641	Totals (Memorandum Only)
<b>EXPENDITURES BY PROGRAM:</b>					
033-Department Central Office	\$ 50	\$ -	\$ 10,000	\$ -	\$ 10,050
035-Respite Care	2,500	36,668	53,280	5,613	98,061
038-Behavioral Health Aid	-	-	241,929	-	241,929
343-Excellence in Health Care Grants	-	20,000	-	-	20,000
350-Child Abuse Prevention	-	3,125	-	-	3,125
514-Health Aid	50,000	-	157,069	-	207,069
<b>TOTAL EXPENDITURES</b>	<b>\$ 52,550</b>	<b>\$ 59,793</b>	<b>\$ 462,278</b>	<b>\$ 5,613</b>	<b>\$ 580,234</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.

**NOTES TO THE SCHEDULE**

**1. Criteria**

The accounting policies of the Nebraska Health and Human Services System's - Expenditures to Panhandle Partnership for Health and Human Services, Inc. (Partnership) 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.S.Supp., 2004, 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 for the Nebraska Health and Human Services System – Expenditures to Panhandle Partnership for Health and Human Services System, Inc. was obtained directly from NIS. NIS records accounts receivable and accounts payable as transactions occur. As such 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, 2006, and June 30, 2005, includes only those payables posted to NIS before January 31, 2006, and June 30, 2005 and not yet paid as of that date. The amount recorded as expenditures as of January 31, 2006, and June 30, 2005, **does not** include amounts for goods and services received before January 31, 2006, and June 30, 2005, which had not been posted to NIS as of January 31, 2006, and June 30, 2005, respectively.

The fund types established by NIS that are used by the Nebraska Health and Human Services System for its expenditures to the Partnership are:

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

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

**40000 – Federal Funds** – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.

**NOTES TO THE SCHEDULE**  
(Continued)

**2. State Agency**

The Nebraska Health and Human Services System is a State agency established under and governed by the laws of the State of Nebraska.

The Nebraska Health and Human Services System is a part of the primary government for the State of Nebraska.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.  
REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN EXAMINATION OF THE SCHEDULE OF  
EXPENDITURES PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of expenditures of the Nebraska Health and Human Services System - Expenditures to Panhandle Partnership for Health and Human Services, Inc. for the period of July 1, 2005, through January 31, 2006, and for the fiscal year ended June 30, 2005, and have issued our report thereon dated March 31, 2006. 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.

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**Internal Control Over Financial Reporting**

**Dennis Meyer, CGFM**  
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Coordinator  
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In planning and performing our examination, we considered the Nebraska Health and Human Services System's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule expenditures and not to provide an opinion 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'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 2

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(Minority Health and Leadership Conference (Unexpended Funding)), Comment Number 4 (Subcontractor Payments), and Comment Number 6 (Respite Services Program Advance Payments).

A material weakness is a reportable 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 caused by error or fraud 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System's schedule of expenditures is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Health and Human Services. in the Comments Section of this report as Comment Number 1 (Appearance of Impartiality in Performing Official Duties), Comment Number 3 (State Incentive Cooperative Agreement (SICA) Coordination Costs), and Comment Number 5 (Timely Financial Reviews).

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

Pat Reding, CPA

March 31, 2006

Assistant Deputy Auditor

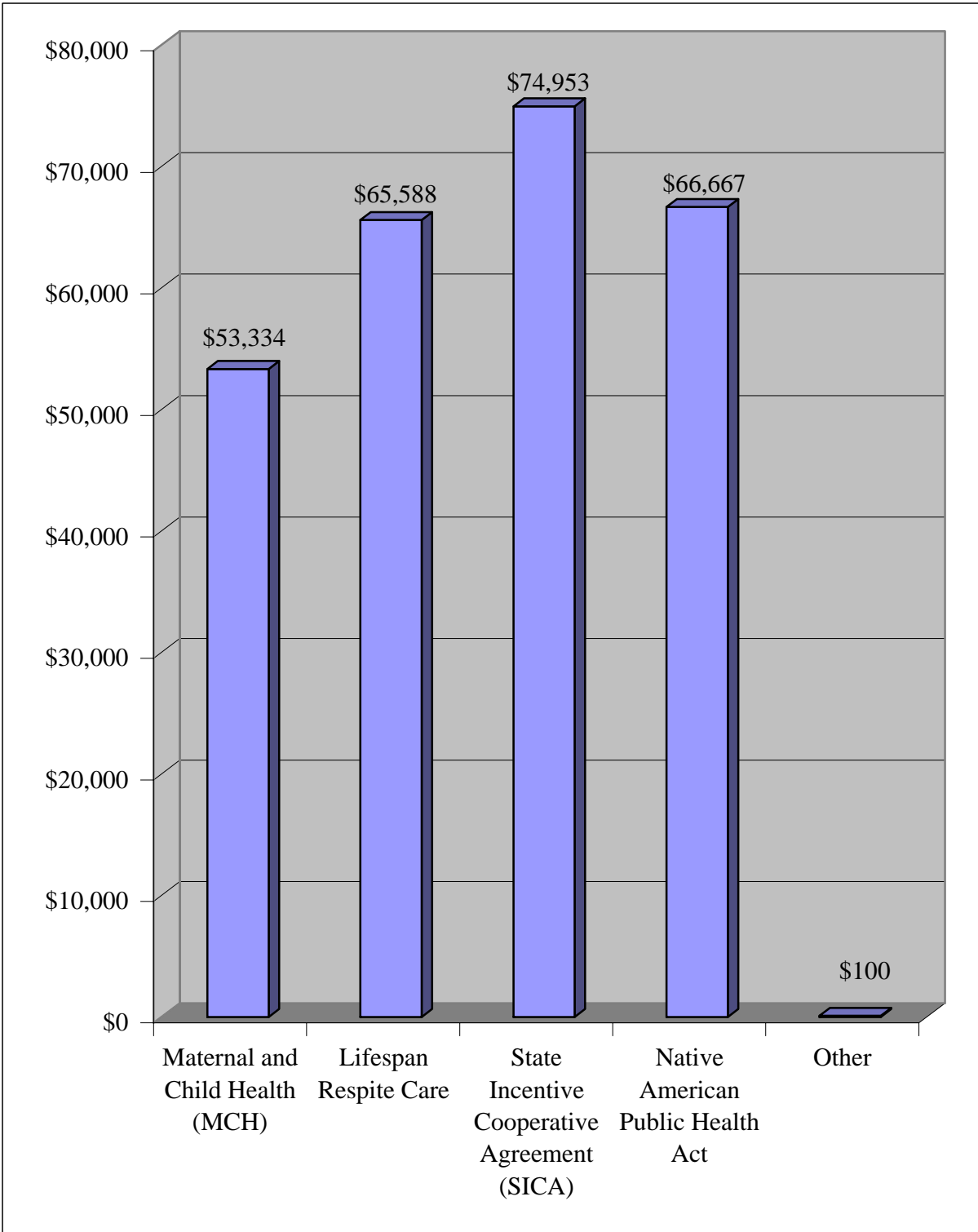


NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.

**STATISTICAL SECTION**

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
 EXPENDITURES TO PANHANDLE PARTNERSHIP  
 FOR HEALTH AND HUMAN SERVICES, INC.  
**EXPENDITURES BY GRANT TYPE**  
 For the Period July 1, 2005 through January 31, 2006



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
EXPENDITURES TO PANHANDLE PARTNERSHIP  
FOR HEALTH AND HUMAN SERVICES, INC.  
**EXPENDITURES BY GRANT TYPE**  
For the Fiscal Year Ended June 30, 2005

