

**ATTESTATION REPORT
OF THE
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on June 28, 2006

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

BACKGROUND

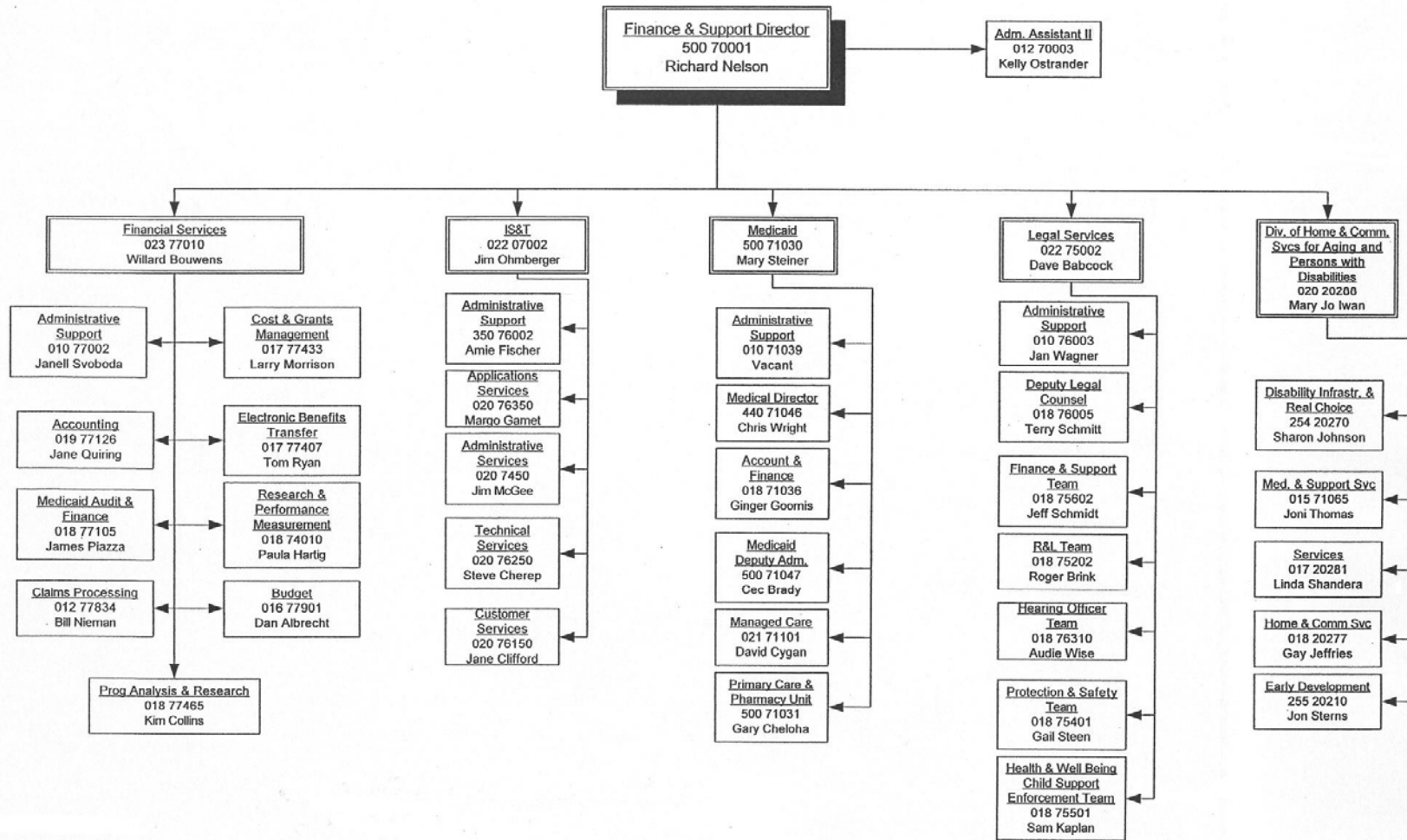
In 2001, the Nebraska Health and Human Services System (HHSS) Program 623, Biomedical Research, was created by the Nebraska Legislature to provide funding for biomedical research including research to improve ethnic and minority health. It was also started to build institutional capacity at the University of Nebraska Medical Center (UNMC) and the Creighton University Medical Center (CUMC), the University of Nebraska - Lincoln (UNL) and the Boys Town Research Hospital (BTRH) to contribute to biomedical research. The Nebraska Health and Human Services System - Department of Finance and Support distribute the funds from the Nebraska Health Care Cash Fund to UNMC and CUMC, who distribute a portion of the funds to UNL and BTRH respectively.

MISSION STATEMENT

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

EXIT CONFERENCE

An exit conference was held June 1, 2006, with the Program to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System - Program 623 - Biomedical Research were:

NAME	TITLE
Willard Bouwens	Administrator - Financial Services
Todd Reckling	Administrator - Office of Protection & Safety
Kim Hawekotte	Administrator - Office of Juvenile Services
Dan Albrecht	Budget Manager
Larry Morrison	Cost Accounting Manager
Tom Jurgens	Accounting and Finance Manager
Elmer Meiler	Budget Analyst
Duane Singsas	Performance Measurement

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

COMMENT AND RECOMMENDATION

During our examination of the Nebraska Health and Human Services System – Program 623 – Biomedical Research, we noted a certain matter involving the internal control over financial reporting and other operational matters which is presented here:

Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENT AND RECOMMENDATION

(Continued)

Reconciliation of Bank Records to the Nebraska Information System (Concluded)

We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

It should be noted this report is critical in nature as it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Program to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The Program declined to respond.

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

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM PROGRAM 623 - BIOMEDICAL RESEARCH

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
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Nebraska Health and Human Services System
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Health and Human Services System - Program 623 - Biomedical Research (Program) for the fiscal year ended June 30, 2005. The Program's management is responsible for the schedule of revenues, expenditures, and changes in fund balance. Our responsibility is to express an opinion based on our examination.

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Tim Channer, CPA
Asst. Deputy Auditor
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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 revenues, expenditures, 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@apa.ne.gov

Mark Avery, CPA
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Review Coordinator
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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balance of the Nebraska Health and Human Services System - Program 623 - Biomedical Research 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.

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2006, on our consideration of the Nebraska Health and

Human Services System - Program 623 - Biomedical Research's internal control over financial reporting 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 Program and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Timothy J. Chamber CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

June 1, 2006

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH
**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**
For the Fiscal Year Ended June 30, 2005

	Nebraska Health Care Fund 22640
REVENUES:	\$ -
TOTAL REVENUES	-
EXPENDITURES:	
Government Aid	10,000,000
TOTAL EXPENDITURES	10,000,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,000,000)
OTHER FINANCING SOURCES :	
Operating Transfers In (Note 3)	10,000,000
TOTAL OTHER FINANCING SOURCES	10,000,000
Net Change in Fund Balance	-
FUND BALANCE, JULY 1, 2004	-
FUND BALANCE, JUNE 30, 2005	\$ -

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Health and Human Services System - Program 623 - Biomedical Research 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 revenues, expenditures, and changes in fund balance 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 June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005, which had not been posted to NIS as of June 30, 2005.

The Program had no accounts receivable at June 30, 2005. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund type established by NIS that is 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
PROGRAM 623 - BIOMEDICAL RESEARCH

NOTES TO THE SCHEDULE
(Continued)

2. State Agency

The Nebraska Health and Human Services System - Program 623 - Biomedical Research (Program) is a State program 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 623 - Biomedical Research is part of the primary government for the State of Nebraska.

3. Transfers

2003 Neb. Laws LB 407, Section 121, appropriated \$10,000,000 of Nebraska Health Care Cash Fund monies to Program 623 for biomedical research.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH
**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN EXAMINATION OF THE SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Pat Reding, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Health and Human Services System - Program 623 - Biomedical Research for the fiscal year ended June 30, 2005, and have issued our report thereon dated June 1, 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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Mary Avery
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Internal Control Over Financial Reporting

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
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In planning and performing our examination, we considered the Nebraska Health and Human Services System - Program 623 - Biomedical Research'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 balance, and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Program 623 - Biomedical Research's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Reconciliation of Bank Records to the Nebraska Information System.

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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 the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 623 - Biomedical Research's schedule of revenues, expenditures, and changes in fund balance, 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*.

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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

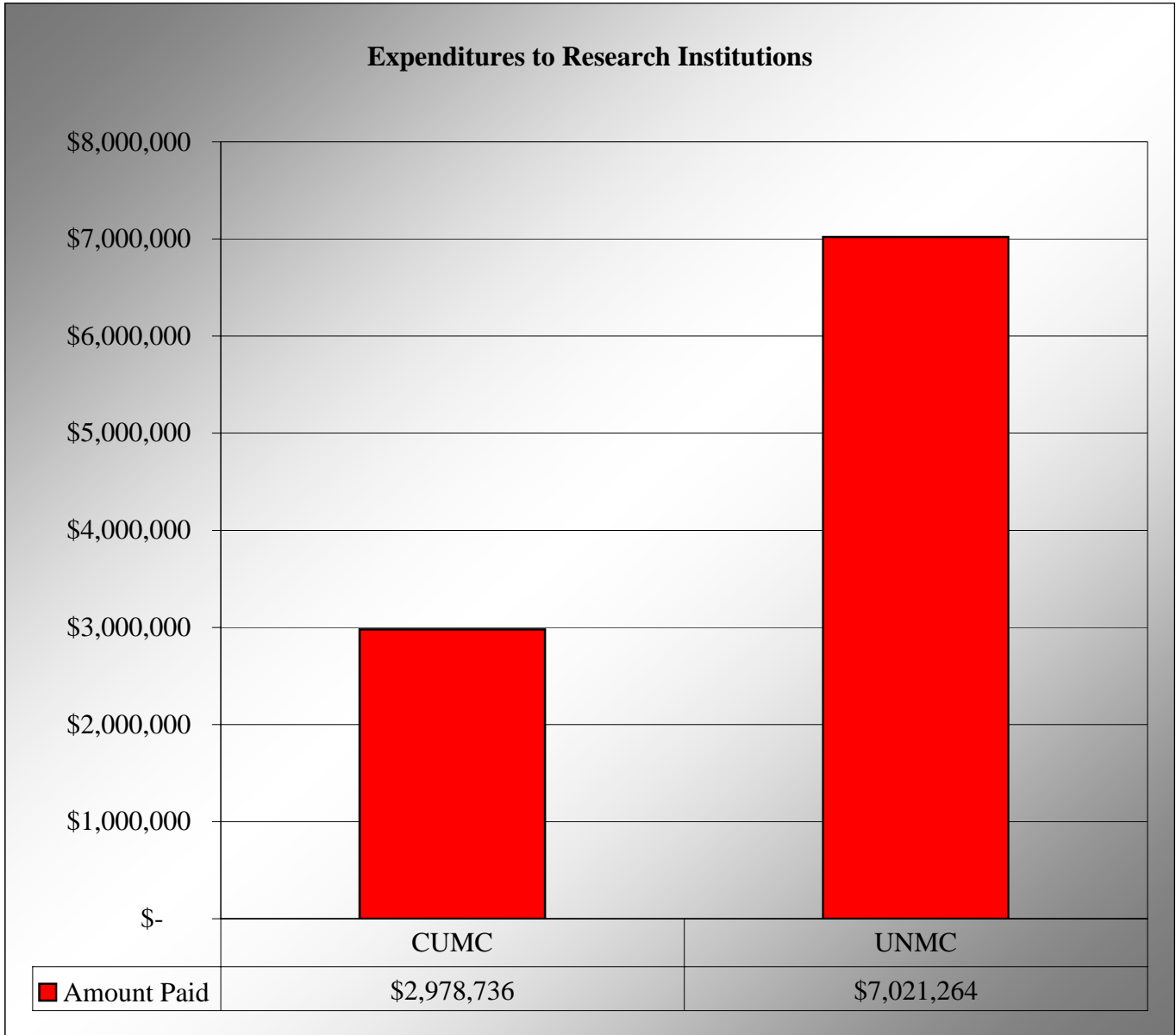
June 1, 2006

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH

STATISTICAL SECTION

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 623 - BIOMEDICAL RESEARCH
EXPENDITURES TO RESEARCH INSTITUTIONS
For the Fiscal Year Ended June 30, 2005



CUMC-Creighton University Medical Center

UNMC-University of Nebraska Medical Center

Note: Creighton University Medical Center and the University of Nebraska Medical Center distributed a portion of the funds they received to the University of Nebraska and the Boys Town Research Hospital respectively.