

**ATTESTATION REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM**

JULY 1, 2005 THROUGH JUNE 30, 2006

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Issued on August 2, 2007

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

BACKGROUND

The Nebraska Partnership for Health and Human Services Act, LB 1044, was passed by the Nebraska Unicameral on March 28, 1996, and signed into law by the Governor on April 3, 1996. LB 1044 eliminated five state agencies; the Departments of Social Services, Public Institutions, and Health, the Department on Aging, and the Office of Juvenile Services in the Department of Correctional Services on December 31, 1996, and created a unified system of three new functionally organized agencies. It outlined a new health and human services relationship between state government and communities, intended to better serve Nebraska.

Nebraska Health and Human Services Systems is now comprised of three agencies within the System; Department of Health and Human Services, Department of Health and Human Services Regulation and Licensure and Department of Health and Human Services Finance and Support. The System is governed by the Policy Cabinet which is made up of the directors of the three agencies, a policy secretary, and a separate Chief Medical Officer if the Director of Regulation and Licensure is not a physician.

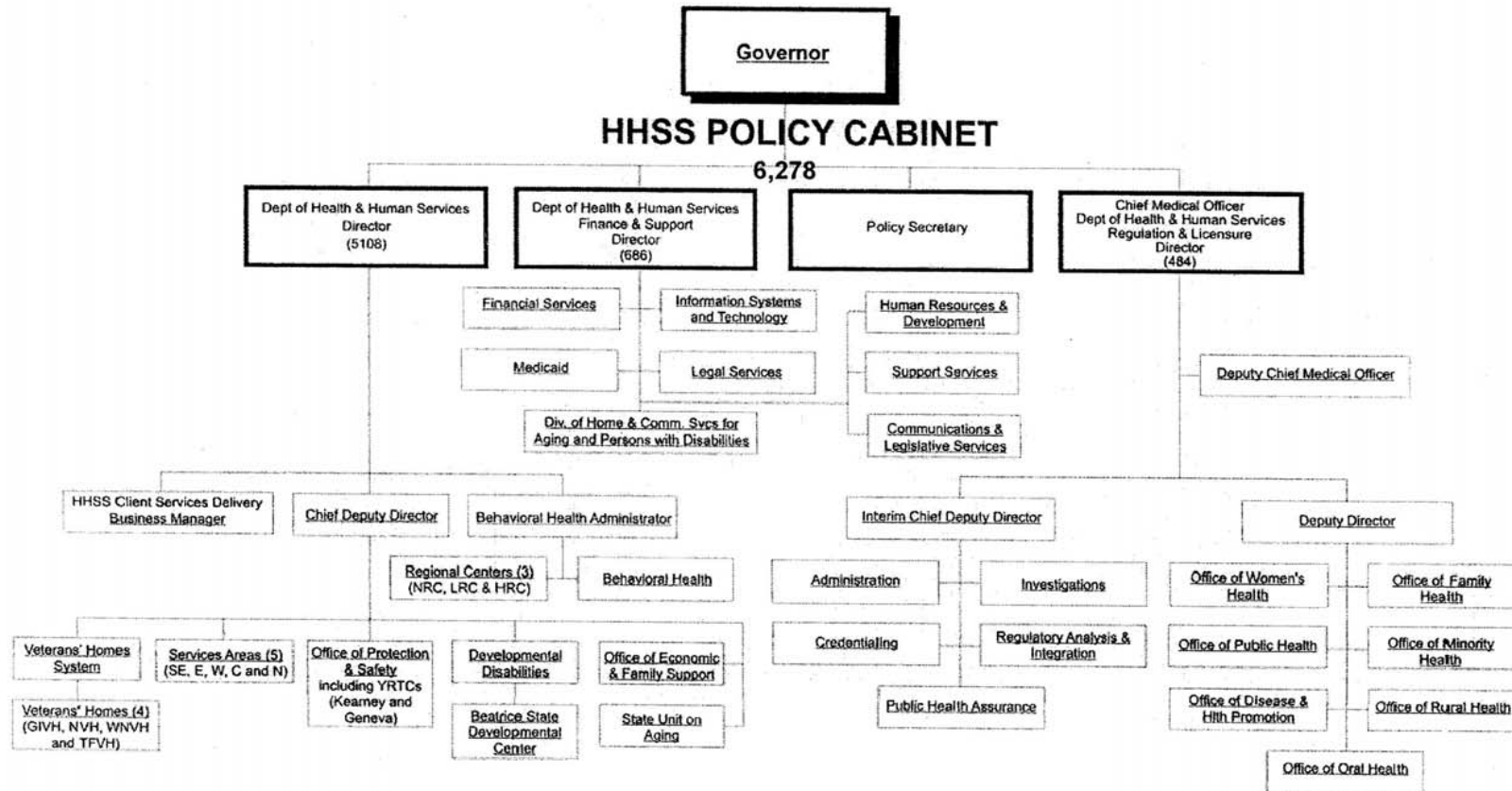
The Department of Health and Human Services Regulation is responsible for providing functions related to public health. They certify and license facilities and professionals, develop and revise regulations, and assess the environment and operate programs to guard against toxic substances, contamination, and diseases. The Department of Health and Human Services is responsible for serving people through intervention services. Services are in the areas of Behavioral Health, Support, Aging, Disability, Veterans and Protection and Safety and Juvenile Services. The Department of Health and Human Services Finance and Support is responsible for providing administrative, financial, and technical support to the entire HHS System and administer the Medicaid Program. The core functions of the agency consist of human resources, financial services, information systems and technology, legal services, and support services.

MISSION STATEMENT

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

EXIT

Exit conferences were held with the System to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System were:

<u>NAME</u>	<u>TITLE</u>
Chris Peterson	Chief Administrative Officer
Scot Adams	Director of Services
Willard Bouwens	Financial Services Administrator
Dan Albrecht	Budget Manager
Amir Azimi	Support Services Administrator
Shirley Baack	Trust Officer Supervisor – Financial Responsibility
Linda Gerner	Human Resource Regional Manager
Bill Gibson	CEO Regional Centers
Karen Homes	Support Services
Thomas Jurgens	Accounting and Finance Manager
Dick Kohel	Accounting Manager – Financial Services
Dennis Loose	Chief Deputy Director
Jim McGee	IS&T Support Services Manager
Elmer Meiler	Budget Analyst
Mary Ott	Records Management and Contract Manager
Brad Pope	Fiscal Analysis
Kathy Reidy	Support Services
Wade Remmenga	Procurement and Materials Manager
Marion Schmidt	Business Manager Lincoln Regional Center
Emily Walter	Human Resource Officer
Julia West	Food Distribution Program Coordinator
Sherri Haber	Administrator I, Protection and Safety
Don Severance	Disability Services Coordinator
Rene Ferdinand	Developmental Disabilities System Administrator
Dan Ransdell	Budget Analyst
Todd Reckling	Protection and Safety Administrator
Eric Hunsberger	Health Program Manager I, Behavior Health
Margaret Bitz	Administrator I, Protection and Safety
Chris Hanus	Administrator I, Protection and Safety
Kim Collins	Program Analyst and Research Administrator
George Kahlandt	Administrator I, Economic and Family Support
Daryl Wusk	Economic and Family Support Administrator
Mike Harris	Administrator II, Economic and Family Support
Gaylene Jeffries	Administrator I, Home and Community Services
Mary Jo Iwan	Administrator II, Home and Community Services
Jeanette Harris	Business System Analyst, Economic and Family Support

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

SUMMARY OF COMMENTS

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

Program 424

1. ***Developmental Disabilities Legislative Compliance:*** Two of ten providers tested did not have a minimum of sixty-five percent of provider's funds certified as used for front-line personnel compensation. Documentation was not adequate to support \$5,000,000 Developmental Disabilities program funds were used for individuals on the waiting list as required by LB 1060.

Regional Centers

2. ***Pharmacy Controls:*** The Regional Centers did not have adequate segregation of duties over the use of pharmacy inventory. There was not a review of the drugs ordered, received, or returned. Additionally, a perpetual inventory was not maintained for the non-controlled substances.
3. ***Contracts and Purchasing Requirements:*** Lincoln Regional Center and Norfolk Regional Center could not provide documentation to support a legal review had been performed for the six contracts selected for testing. The Lincoln Regional Center did not follow State bidding requirements and one contract tested did not require adequate documentation for payment.
4. ***Internal Control Over Regional Center Payroll:*** We noted a lack of segregation of duties over payroll. The Personnel Assistants at each Regional Center prepare the biweekly Pre-Payroll Register, and perform reconciliations of payroll input to payroll output. No other employee compares information input on employees' timesheets to the Final Payroll Register. We also noted excessive manual adjustments were performed. This was also noted in our prior report.
5. ***Regional Center Errors in Employee Pay:*** We tested 25 Regional Center employees and noted 10 employees were paid incorrectly, due to shift differential and premium pay not calculated in accordance with Federal and contract requirements, a 40% error rate. This was also noted in our prior report.
6. ***Incorrect Termination Payoff:*** We noted 3 of 11 payments tested to terminated Regional Center employees were not paid correctly upon termination. This was also noted in our prior report.

SUMMARY OF COMMENTS

(Continued)

Regional Centers (Concluded)

7. ***Timesheets:*** Each Regional Center stated that timesheets are usually signed for approval by employees and supervisors after payroll has been run. Two of twenty-five employees tested did not have supervisor approval on their timesheets, and one of the two timesheets did not have employee approval. This was also noted in our prior report.
8. ***Medicaid Overpaid/Underpaid:*** During review of Medicaid journal entries and adjustments for the Regional Centers, we tested 33 claims. We noted four claims with errors in the number of days or the correct rate was not paid.
9. ***Inadequate Controls Over Trust Accounts:*** One individual at the Central Office was responsible for Regional Center receipts, including approving deposits and preparing reconciliations. One individual was opening mail containing receipts at each of the Regional Centers.
10. ***State Vehicle Usage:*** Four of six TSB vehicle logs tested did not record all points of destinations or official starting and stopping points. Lincoln Regional Center and Hastings Regional Center did not have an adequate review of mileage logs. The Lincoln Regional Center did not have adequate procedures to check out vehicles or to review vehicle usage. Vehicles at the Lincoln and Hastings Regional Centers did not travel 1,000 miles per month.
11. ***Petty Cash Fund:*** We noted one individual at the Norfolk Regional Center approved deposits, prepared the bank reconciliation, and balanced the cash drawer. Two blank checks on hand were signed by the Hastings Regional Center Business Manager. The Lincoln Regional Center petty cash fund was \$138 short.
12. ***Sales and Lodging Tax:*** The Regional Centers reimbursed four employees for sales and lodging taxes for an in-state hotel charge. In addition, we noted hotel charges direct billed to the Regional Centers which included the sales and lodging tax for an in-state hotel.

Program 347

13. ***State Disability Program Medical Payments:*** Three payments did not have a signed application on file for the client. One payment of \$330,677 was for a disability not approved by the State Review Team. Six payments were for recipients who did not meet all the eligibility requirements of the program. One payment was not recouped from the insurance company. Two case files appeared questionable pertaining to the documentation and narratives.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

SUMMARY OF COMMENTS

(Continued)

Program 347 (Concluded)

14. ***Aged, Blind, and Disabled Maintenance Payments:*** One payment did not have a signed application on file. Three payments had shelter costs included on the budget which did not agree to the application. One payment was for a recipient who did not meet all the eligibility requirements of the program.
15. ***Social Services Block Grant:*** Of 15 claims tested, 13 were paid at excessive rates and/or did not have adequate documentation to support the payment was proper.
16. ***Controls Over Family Preservation Grant:*** A payment totaling \$459,141 was made to a non-profit foundation of which \$414,141 was federally funded. There was no documentation from the foundation on file to support the funds were used in accordance with the grant agreement and Federal program requirements.
17. ***Child Welfare Payment for Ineligible Child:*** For 1 of 46 Child Welfare cases tested there was no social security number for the client or documentation of citizenship or immigrant admitted for permanent residence on file.
18. ***Child Welfare Payments:*** We tested 104 child welfare claims. All four clothing payments did not have adequate supporting documentation. Five of nine transportation payments tested were not adequately supported. One of two furniture payments did not have the proper documentation to support the purchase. All five payments tested for motor vehicle tax gas did not have supporting documentation. A hotel payment of \$2,567 was paid; however, the length of the stay was not documented. For three of four payments tested for motor vehicle repairs and purchases, there were no receipts for the purchases.
19. ***Inadequate Monitoring of Contract:*** A Nebraska Tribe received \$530,983 during fiscal year 2006 for child welfare services. Documentation of actual expenditures is not received and periodic reviews are not performed to ensure contract compliance.
20. ***State Ward Education Payments:*** For 2 of 19 wards tested, the education payment was not made to the school district.
21. ***State Ward Trust Disbursements:*** Four of twenty-three disbursements tested from State Wards' accounts were paid to the parent when the child was not in the parent's home. Also noted, two disbursements were erroneously paid to a relative.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

SUMMARY OF COMMENTS

(Continued)

Program 33

22. ***Termination Pay:*** Leave earnings for 2 of 3 terminations tested were not properly adjusted which resulted in final leave overpayments of \$156 and \$78. Two terminated employees with vacation balances were not properly adjusted at termination which resulted in overpayments of \$422 and \$51.
23. ***Federal Compliance Over Payroll:*** Three of twenty-five employees tested had payroll costs allocated to a single Federal award, and did not have the periodic certifications required by OMB Circular A-87.
24. ***Timesheets:*** Four of twenty-five employees tested did not have timesheets completed to reflect actual hours worked.
25. ***Federal Compliance Over Expenditures:*** One of eight travel documents tested included unallowable expenses paid with Federal funds. A total of \$1,801 was paid for non-employee meal expense.
26. ***Rental Agreement Not in Accordance with State Statute:*** One of two rent payments tested was not properly approved by the Department of Administrative Services. The contract is for rental space in the Omaha metropolitan area. The total amount paid for the contract during fiscal year 2006 was \$141,423.
27. ***Travel Expenses:*** Three of ten travel documents tested included unreasonable mileage reimbursements based on the most direct route of travel. Ten travel documents included errors totaling \$960 regarding meal reimbursements. Three expense reimbursement documents were not submitted on a monthly basis, and one of the three documents was not properly completed. One employee exceeded the Federal guideline for lodging expense by \$14 per day for three days which totaled \$42.
28. ***Permanently Assigned Vehicles:*** Four of five permanently assigned vehicles tested were not driven an average of 17 days or more per month.
29. ***Food Commodity Program:*** Two of three subrecipients tested were not charged the proper amount for the Food Commodity Program, and one of three vendors tested were not paid correctly based on the contract.
30. ***Administrative Authority Over the Nebraska Volunteer Service Commission:*** The Auditor of Public Accounts performed an audit of the Nebraska Volunteer Service Commission (NVSC) for the fiscal year ended June 30, 1998. In that audit report, we reported there were no clear lines of administrative authority over the operations of the Commission. This issue is still unresolved as we found no documentation that clear lines of administrative authority over the operations of the Commission has been established.

SUMMARY OF COMMENTS

(Continued)

Fixed Assets

31. ***Lack of Segregation of Duties Over Fixed Assets:*** One individual who was capable of adding non-computer fixed assets also ensured all purchases were correctly added as well as reviewing the additions and retirements report. One individual who was capable of adding computer assets also reviewed reports to ensure computer items were correctly added and also performed the physical inventory. There was no independent review to ensure all computer items were properly added to fixed asset records. There were no procedures to report lost or stolen computer assets to the Department of Administrative Services. This was also noted in our prior report.
32. ***Inadequate Computer Asset Management System Procedures:*** There were no written policies or procedures to authorize and review the changes in the Computer Asset Management System (CAMS) including adding, deleting, or changing the status of assets. There was no review of CAMS updates to NIS. One individual was responsible for reviewing exception reports, comparing the physical inventory to CAMS, and had access to CAMS to make changes. There was no independent review by management. There was no documentation that a comparison between the received inventory listings and agency's records of inventory on CAMS was performed. This was also noted in our prior report.
33. ***Inadequate Segregation of Duties Over Supply Inventories:*** There were no written procedures and there was a lack of segregation of duties over supply inventories at Lincoln, Norfolk, and Hastings Regional Centers. Seven of thirteen supply inventory items tested at Lincoln did not agree to the inventory records.
34. ***Surplus Proceeds Held in Incorrect Fund:*** Surplus proceeds received in the amount of \$65,776 remained in the Cash Fund and were not transferred to the fund of origination or the General Fund.

Miscellaneous

35. ***Accounts Receivable:*** Procedures are not in place to ensure all laws and regulations are followed, all ability-to-pay determinations and accounts receivable records are accurate; undue hardships granted are proper; and all billings and adjustments are performed timely and reviewed for propriety. In addition, there are not adequate collection procedures for past due accounts.
36. ***Medicaid Overcharged for ICF MR Tax:*** The auditing division inappropriately included provider tax costs for fiscal year 2005 to determine fiscal year 2004 rates. In total, Medicaid was overcharged by \$1,526,029.

SUMMARY OF COMMENTS

(Continued)

Miscellaneous (Concluded)

37. ***Inadequate Monitoring of Grant Awards:*** Annual audits for the Tobacco Free Grant or State Incentive Cooperative Agreement (SICA) grant for one subrecipient tested was not received. Subrecipient monitoring was not performed for the SICA grant. CFDA 93.230 Consolidated Knowledge Development and Application Program funded \$139,326 of SICA payments that do not appear to be in accordance with the use restrictions of the Federal Program.
38. ***Reconciliation of Fund 72640:*** The reconciliation between the NIS Fund 72640 balance and the bank balance had a variance of \$1,592,201 at June 30, 2006, with the bank being short compared to NIS.

COMMENTS RELATED TO THE SINGLE AUDIT

39. ***Computer Controls:*** Three on-call Support Mainframe Programmers were permitted access to the mainframe production environment. Programmer access creates a segregation of duties issue as application programmers could circumvent existing change control procedures. HHSS did not reconcile the data sent from NFOCUS to NIS. In addition, segregation of duty issues were identified. Notification of termination for 18 of 25 terminations tested was sent after the employee's termination date.
40. ***No Reconciliation Between Federal Reports and NIS:*** HHSS utilizes the Medicaid Management Information System (MMIS), the NFOCUS system, and NIS to prepare the quarterly Federal reports to the Centers for Medicare and Medicaid Services (CMS). The Agency reconciles MMIS to NIS monthly; however, no reconciliation is performed between the Federal reports and NIS.
41. ***Developmental Disability Adjustment:*** HHSS reported an adjustment of \$7,742,848 on the March 31, 2006, quarterly CMS report for Developmental Disability services from October 2004 through December 2005; these costs were never paid to providers and were not recorded on NIS. The Federal share of these costs was \$4,618,444. The Agency did not have documentation to support these were allowable costs; or if allowable, that the costs were provided by public funds in accordance with Federal requirements.
42. ***Transfers of State Expenditures to Federal Costs:*** Two journal entries tested transferred a total of \$7,000,000 of expenditures to Federal costs, which were originally paid with State funds. Detailed documentation was not available to determine if expenditures charged to the Federal grant were for allowable activities.

SUMMARY OF COMMENTS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Concluded)

43. *Various:* We noted a variety of findings regarding programs including Food Donation, Medicaid, Child Care, Aging, Prevention & Treatment of Substance Abuse, Temporary Assistance for Needy Families, Child Support Enforcement, Foster Care, Adoption Assistance, and Maternal and Child Health Services.

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.

Draft copies of this report were furnished to the 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. 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.

COMMENTS AND RECOMMENDATIONS

Program 424

1. Developmental Disabilities Legislative Compliance

2006 Neb. Laws LB 1060, Section 207 states, “It is the intent of the Legislature that a minimum of sixty-five percent of the additional funds appropriated for rate equity each fiscal year be used to compensate front-line direct care staff.”

2006 Neb. Laws LB 1060, Section 207 appropriated \$5,000,000 for fiscal year 2006 “from Nebraska Health Care Cash Fund to be used for services for persons with developmental disabilities (1) who were on the waiting list for such services prior to July 1, 2001, and began receiving such services on and after such date and (2) who are on the waiting list for such services on and after July 1, 2005, beginning with those who have been on the waiting list for the greatest length of time past their date of need.”

During our review of the Developmental Disabilities program we noted:

- All ten providers tested did not have a minimum of sixty-five percent of provider’s funds certified as used for front-line personnel compensation. In prior years Developmental Disabilities had a contract clause requiring the provider certify sixty-five percent of funding was being used for front-line direct care staff; however, this clause was removed from the contracts for fiscal year 2006. After this was brought to their attention HHSS obtained certifications in May and June 2007; however, two of the ten providers tested did not have at least 65% of the funding change expended for front-line staff. Also, HHSS did not have documentation to verify the certifications submitted were accurate.
- HHSS charged the entire \$5,000,000 to the Developmental Disabilities program; however, HHSS did not have an accurate list of individuals waiting for services, or an accurate detailed listing of services that were paid by the Nebraska Health Care Cash Fund. We noted the following:
 - The list indicated several individuals had waited for services more than 14 years, including one individual waiting 26 years. HHSS indicated the list was incorrect due to a typographical error.
 - Several hundred individuals were listed with a service date provided before the requested date.
 - There were 1,092 individuals listed as waiting for services, of these 409 had been waiting from June 2001 through June 2004.
 - The listing provided for services paid by the Nebraska Health Care Cash Fund included both State and Federal funded claims. The \$5,000,000 is appropriated for State funds and therefore Federal funded claims should not be included.

Without documentation to support restrictions were adhered to there is an increased risk that funds are not spent in accordance with legislative intent.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 424 (Continued)

1. Developmental Disabilities Legislative Compliance (Continued)

We recommend HHSS maintain documentation to support legislative restrictions have been adhered to. HHSS should review and monitor funds appropriated for rate equity to ensure sixty-five percent is being used to compensate front-line direct care staff. We further recommend HHSS maintain an accurate list of persons waiting to receive Developmental Disability services.

Department's Response: The Department disagrees with the finding that DHHS did not have a minimum of 65% of the additional funds appropriated for rate equity used to compensate front-line direct care staff.

- *The appropriation bill for FY '05-'06, - LB425, signed May 24, 2005, did not include language regarding a minimum of 65% of the increase going to direct care staff. Such language was in the deficit bill LB1060 signed April 3, 2006. However the DD provider contracts for FY 05-06 were signed in July 2005, before the language was added.*
- *Even though there was no such requirement in FY '05-'06, in response to the concern of the auditors, DHHS did request and collect information from service provider agencies verifying that they did or did not allocate at least 65% of their increase to direct care staff. The contracted DD provider agencies did provide such verification.*

Corrective Action Plan:

- *Obtain verification of 65% usage for direct care staff.*

Anticipated Completion Date: July 2007

The Department disagrees that the documentation was not adequate to support the \$5,000,000 Developmental Disabilities program funds used for individuals on the waiting list.

- *DHHS's documentation indicates that \$5,000,000 from the Nebraska Health Care Cash Fund was used for services to 463 individuals on the waiting list in accordance with LB 1060.*
- *Expenditures for the 'tobacco' funds are derived by tracking persons, identified by name and Social Security number, on the registry or waiting list who were offered services with these funds. The dollar amount is then determined by the total claims for those persons after they accept these funds. This is tracked for each year they remain in services after accepting the funding.*
- *Quality assurance of the service request tracking will include checks against the previous registry maintained in the ECHO database as well as checks against N-FOCUS claims. Checks will also be made internally within the N-FOCUS service request table to ensure the funding source codes, need request and service dates are accurate.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 424 (Concluded)

1. Developmental Disabilities Legislative Compliance (Concluded)

APA's Response: Although LB 425 did not include such language regarding a minimum of sixty-five percent of provider's funds being certified as used for direct care staff; LB 1060 signed April 3, 2006, did include such language and was applicable for fiscal year 2006.

HHSS has the responsibility to ensure they comply with the Legislature when changes are made. It is the responsibility of the Agency to review Legislation and to make any necessary changes when laws are changed or updated, to ensure they are in compliance with such laws.

Regional Centers

2. Pharmacy Controls

Good internal control requires adequate procedures over pharmacy inventory to ensure no one individual is in the position to both perpetrate and conceal errors or theft. Sound business practice requires a perpetual inventory system be maintained for pharmacy supplies to reduce the risk of theft or loss of State supplies.

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

- None of the Regional Centers had adequate segregation of duties over the use of pharmacy inventory to reduce the risk of theft or misuse of State pharmacy supplies. The Regional Center's inventory includes controlled substances. All pharmacy staff had access to the pharmacy, and the staff was allowed in the pharmacy alone. In addition, there was not a review of the drugs ordered, received, or returned.
- None of the Regional Centers maintained a perpetual inventory for their non-controlled substances.

A similar finding was noted in our prior report. Total pharmacy disbursements for the fiscal year ended June 30, 2006, for Hastings, Norfolk, and Lincoln Regional Centers were \$391,901; \$1,704,409; and \$1,719,278 respectively.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

2. Pharmacy Controls (Concluded)

Without adequate inventory controls, there is an increased risk of theft or loss of State supplies.

We recommend HHSS strengthen controls over Pharmacy inventory, including procedures to ensure an adequate segregation of duties. We believe there is a heightened level of risk associated with the inventory of controlled substances and strongly recommend HHSS take immediate steps to ensure these substances are safeguarded.

Department's Response: The Department agrees with the finding regarding the inadequate segregation of duties over the use of pharmacy inventory.

Corrective Action Plan:

- *Procedures will be written to strengthen controls over pharmacy inventory that include procedures to ensure adequate segregation of duties.*

Anticipated Completion Date: November 2007.

The Department agrees with the finding regarding review of drugs ordered, received or returned.

Corrective Action Plan:

- *While some procedures are in place regarding the ordering, receiving and returning of medications, existing procedures will be reviewed and strengthened to ensure an adequate review and accounting of the drugs ordered, received and returned.*

Anticipated Completion Date: December 2007

The Department agrees with the finding regarding the need for a perpetual inventory for non-controlled substances.

Corrective Action Plan:

- *Procedures for ordering, receiving and returning non-controlled substances will be developed and implemented.*

Anticipated Completion Date: December 2007.

The Department agrees that it is ideal for more than one staff person to be in the pharmacy during the hours when the pharmacy is open, however there are no regulations in licensure or accreditation that require two pharmacists to be present.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

3. Contracts and Purchasing Requirements

Good internal control requires contracts be reviewed by an individual with legal expertise to determine the contract is in compliance with contract law, Federal regulations, and State laws and to ensure the best interest of the State is being served. Good internal control also requires adequate documentation be maintained to support payments are made in accordance with the contract.

Neb. Rev. Stat. Section 73-504(2) R.R.S. 2003 states, "All proposed state agency contracts for services in excess of fifty thousand dollars shall be bid in the manner prescribed by the materiel division procurement manual or a process approved by the Director of Administrative Services."

Neb. Rev. Stat. Section 81-161.03 R.R.S. 2003 states, "The materiel division shall adopt and promulgate rules and regulations establishing criteria which must be met by any agency seeking direct market purchase authorization." The Department of State Accounting (DAS) – Materiel Division requires agencies to formally bid for the goods in excess of \$25,000 through DAS Materiel.

We noted the following:

- Lincoln and Norfolk Regional Centers could not provide documentation to support a legal review had been performed for the six contracts selected for testing.
- The Lincoln Regional Center did not bid a contract that exceeded the threshold established by State Statute. Total payments for the contract in fiscal year 2006 were \$85,843. The contract was to conduct four comprehensive nation-wide searches for a psychiatrist.
- The Lincoln Regional Center did not require adequate documentation for payment of contractual services. A contract for psychological services stated that Lincoln Regional Center would pay for services on an hourly basis; however, Lincoln Regional Center did not require any documentation of hours provided. Instead, Lincoln Regional Center monthly paid 1/12th of the total contract price, without regard to service hours. The payment tested was \$19,571.
- The Lincoln Regional Center purchased 28 licenses for web-based education software for \$32,600 without bidding through DAS Materiel and without performing a purchase order on NIS.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

3. Contracts and Purchasing Requirements (Concluded)

A similar finding was noted in our prior report. Inadequate controls and noncompliance with State requirements increases the risk for misuse of State funds.

We recommend HHSS implement procedures to have a documented legal review of contracts and ensure payments are adequately supported. We further recommend HHSS follow State statutes and DAS Materiel Rules and Regulations.

Department's Response: The Department agrees with the finding regarding legal review of contracts.

Corrective Action Plan:

- *The Department has reviewed existing procedures and is implementing new procedures to ensure legal and administrative review of contracts and agreements.*

Anticipated Completion Date: July 2007

The Department agrees with the finding regarding documentation for payment of contractual services.

Corrective Action Plan:

- *The Department has added a paragraph to the UNL Psychology contract requiring the Contractor to send a monthly bill to the Department for 1/12th of the contract total. The paragraph further stipulates that it is the Contractor's responsibility to verify that the number of hours worked by the UNL clinical psychologists and psychology externs is correct and that documentation of this verification be made available to the Department or to the State Auditor's Office upon request.*

Anticipated Completion Date: Completed

The Department agrees with the findings regarding State bidding requirements.

Corrective Action Plan:

- *The Department will review and implement procedures to follow State statutes and DAS Materiel Rules and Regulations.*

Anticipated Completion Date: August 2007.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

4. Internal Control Over Regional Center Payroll

Good internal control requires a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. Good internal control also requires procedures to ensure proper payment to employees for work performed and leave used, and manual adjustments should be verified and approved by a second individual.

We noted a lack of segregation of duties over payroll. The Personnel Assistants at each Regional Center prepare the biweekly Pre-Payroll Registers and perform reconciliations of payroll input to payroll output. No other employee compares information input on employees' timesheets to the Final Payroll Register. A similar finding was noted in our prior report.

During testing, we also noted excessive manual adjustments were performed. We noted the following concerning manual adjustments:

- The Personnel Assistants at each Regional Center could make entries on NIS coded as "Adjust Prior" to correct errors from previous pay periods. The Personnel Assistants handled all phases of the "Adjust Prior" process. They calculated the amount owed, entered the amount on NIS, and reconciled the payroll register to the timesheet. This process was completed without a second person review or approval. One employee at the Lincoln Regional Center received \$91 of "Adjust Prior" on February 1, 2006. The amount was calculated and entered by the Personnel Assistant only. We calculated the employee was overpaid \$13.
- The Personnel Assistants completed termination pay calculations and entered leave payoff amounts on NIS without review or approval by a second individual.
- The Personnel Assistant at the Lincoln Regional Center tracked every employee's vacation, sick, and compensatory time balances by hand with documents called "Time Sheets." (The Norfolk and Hastings Regional Centers used NIS to maintain employee leave earnings, accruals, and balances.) Due to the number of manual adjustments, balances on NIS may not have reflected actual leave balances and earnings at certain points in time during the year. Three of six employees tested at the Lincoln Regional Center had NIS leave balances that did not agree to the Personnel Assistant's leave balances during the fiscal year. The Personnel Assistant had to account for all changes due to years of service thresholds as well as all leave used during a pay period. The Personnel Assistant made manual adjustments to leave by entering them directly on NIS.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

4. Internal Control Over Regional Center Payroll (Continued)

The Personnel Assistant was also responsible for verification of leave balances in the payroll register. The Personnel Assistant handled all functions of leave balancing without approval from another person. There was no independent approval of the correct leave balance.

- The Lincoln Regional Center Personnel Assistant had to make approximately 20-30 manual adjustments to pay and leave every pay period due in part to situations when employees' absences from work were recorded as leave without pay and also due to the fact that timesheets were not reviewed and approved before the payroll was processed. At the Lincoln Regional Center, any absence that was not pre-approved and authorized on the appropriate forms was coded as leave without pay. Employees were not paid for the absence, even when the employee had adequate leave balances to cover the absence from work. For example, if an employee called in sick to the supervisor, and the appropriate form was not submitted prior to the end of the payroll, the employee was put into leave without pay status, even if the vacation or sick leave balances of the employee were adequate. When the employee submitted the authorized leave form, the pay would then be adjusted in subsequent pay periods. Even though the employees' pay was generally adjusted in subsequent pay periods, employees could lose significant amounts of pay in any given pay period due to this policy at the Lincoln Regional Center. This was a very frequent occurrence at the Lincoln Regional Center. We noted the Norfolk and Hastings Regional Centers rarely had employees' time recorded as leave without pay and did not have excessive manual adjustments, as they allowed their employees to use leave for the absences noted above. The number of manual adjustments greatly increases the risk of error or fraud in payroll.
- We found numerous manual overrides entered in the Kronos time record system by Timekeepers at the Lincoln Regional Center. These overrides were done to remove shift differential hours granted to employees in Kronos, but not allowed by the NAPE contract. Three of thirteen Lincoln Regional Center employees tested had overrides during the biweekly period tested. For these three employees, Timekeepers manually removed shift differential on four, five, and nine different days worked.

As a result, the correct employee vacation, sick, and compensatory leave balances were not accurately recorded on NIS. Additionally, employees were overpaid and could have been underpaid, leave balances were misstated, and there was an increased risk of error or fraud due to the number of manual adjustments to payroll.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

4. Internal Control Over Regional Center Payroll (Continued)

We recommend HHSS implement procedures to ensure an adequate segregation of duties over payroll. We also recommend all HHSS employee leave earnings, accruals, and balances be maintained on NIS, and steps be taken to significantly reduce the number of manual records and adjustments.

Department's Response: The Department agrees with the finding regarding the separation of payroll duties. Separation of duties is important as a cross check of accurate calculations and for prevention of fraud.

Corrective Action Plan:

- *The process will be reviewed at each of the Regional Centers to ensure that a check on payroll/leave changes is reviewed by a separate individual.*

Anticipated Completion Date: August 2007

The Department disagrees with the finding that NIS is not being used as the master for leave balances. The Lincoln Regional Center uses a separate paper system to track comp time balances due to the Contract's requirement of payment of comp time after six pay periods have elapsed. NIS is unable to track this information. We did not find that the Personnel Assistant at LRC was tracking leave balances separate from NIS.

The Department agrees with the finding regarding the override of shift differential.

Corrective Action Plan:

- *This practice has been stopped.*

Anticipated Completion Date: May 2007

The Department agrees that the manual adjustments required by the personnel assistant at the Lincoln Regional Center are excessive.

Corrective Action Plan:

- *A new process is being implemented at LRC which will have a single individual responsible for entering leave used and monitoring non-clocking times in Kronos.*
- *This individual will follow-up with supervisors and employees to review time before the end of the pay period so that adjustments can be made prior to the end of the pay period.*

Anticipated Completion Date: September 2007

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

4. Internal Control Over Regional Center Payroll (Concluded)

APA's Response: The APA obtained "Time Sheets" that documented manual leave balances for each LRC employee from the Personnel Assistant at LRC. We agree there are leave balances tracked in NIS; however, as noted in our comment, three of six employees tested at the Lincoln Regional Center had NIS leave balances that did not agree to the balances per the "Time Sheet." One of the three employees received a vacation leave payoff upon termination that agreed directly to their vacation leave balance per the "Time Sheet" maintained by the Personnel Assistant. However, the payoff amount did not agree to the NIS vacation leave balance.

5. Regional Center Errors in Employee Pay

The labor contract between the State of Nebraska and the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSCME) stipulates requirements for employee pay including normal pay, overtime, shift differential and premium pay. Per Fair Labor Standards Act Section 7(e) "regular rate" shall not include payments when no work is performed due to vacation, holiday, illness and shall not include extra compensation provided by a premium rate paid for work by the employee on Saturdays, Sundays, or holidays. Good internal control requires procedures to ensure Federal regulations and contract requirements are adhered to.

HHSS uses Kronos, an attendance collection software system, to record employee hours worked at all 24-hour facilities.

We tested 25 Regional Center employees and noted 10 employees were paid incorrectly, due to shift differential and premium pay not calculated in accordance with Federal and contract requirements, a 40% error rate. The variances ranged from \$3 underpaid to \$37 overpaid for the pay period tested. Errors totaled \$128 overpaid for the pay period tested. Total estimated error for the fiscal year was \$177,512 overpaid to employees.

Of the 10 employees with variances, 5 had errors due to shift differential and premium pay, 4 had errors due to premium pay only, and 1 had an error due to shift differential only. Errors were noted at all three Regional Center facilities. A similar finding was noted in our prior report.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

5. Regional Center Errors in Employee Pay (Continued)

The errors due to shift differential not paid in accordance with the NAPE contract totaled \$18 in underpayments to employees during a single pay period.

- Three employees tested worked a double shift and were not paid correctly, as the employees received shift differential for the entire shift, and not just the shift differential as noted in the Labor Contract. Kronos tracks shift differential hours without taking an employee's normal work shift into consideration. The employees' should not have received shift differential for their normal shift. The employees' should only receive shift differential for part of the double shift, in accordance with the Labor contract.
- HHSS designates payment rules into Kronos, the attendance collection software system, to apply shift weekend rates from midnight on Friday through midnight on Sunday. According to Lincoln Regional Center policy HR-09, the shift weekend begins at 11:00 p.m. on Friday through 11:00 p.m. on Sunday. Therefore, every Friday third shift worked will be underpaid one hour of weekend shift rate and every Sunday third shift worked will be overpaid one hour of weekend shift rate. One employee was paid two hours of weekend shift differential for third shift Sundays worked during the pay period. According to the NAPE contract, Sunday is not a third shift weekend and the employee should not have received weekend shift differential. Conversely, the employee worked an 8 hour third shift Friday but was paid only 7 hours of weekend shift differential. According to the NAPE contract, Friday is a third shift weekend and the employee should have received another hour of weekend shift differential.

The errors for premium pay calculations totaled \$146 in overpayments to employees during a single pay period.

- HHSS included holiday hours worked in its calculation of the regular rate but did not include overtime hours worked. The Fair Labor Standards Act, as administered by the U.S. Department of Labor, does include overtime hours worked when calculating the regular rate. HHSS also paid overtime premium and holiday worked premium at 1.5 times its calculation of the regular rate. Based on the NAPE contract, HHSS employees are compensated for holiday hours worked at 1.5 times their normal hourly rate of pay which is extra compensation of one-half time the rate for like work performed. According to the Fair Labor Standards Act, these holiday hours worked should not be included in the calculation of the regular rate. Since holiday hours worked are already compensated at 1.5 times the normal hourly rate, only overtime hours would be compensated at a premium of one-half times the regular rate.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

5. Regional Center Errors in Employee Pay (Continued)

Specific details for those employees with variances were discussed with HHSS. We also met with the Department of Administrative Services Division of State Personnel to discuss how to properly calculate shift differential and premium pay in accordance with contract and Federal requirements.

Without adequate procedures to ensure payroll payments calculated agree with the terms of the labor contract and in accordance with the Fair Labor Standards Act, there is an increased risk for incorrect payments to State employees and the risk for loss or misuse of State funds.

We recommend HHSS consult with legal counsel and the Department of Administrative Services Division of State Personnel to ensure employee pay is properly calculated and to determine whether incorrect payments to employees need to be adjusted. We also recommend HHSS review and modify the Kronos system to ensure shift differential is paid in accordance with the NAPE labor contract and shift time established at each facility.

Department's Response: The Department disagrees with the finding regarding the shift differential calculations.

- *The shift differential calculations that are referenced are done in compliance with an agency decision to pay shift differential to employees who are called in to work extra hours contiguous to their regular shift.*
- *This is not in violation of the labor contract.*

The Department agrees with the finding regarding errors in premium pay calculations.

Corrective Action Plan:

- *The current error in the premium pay program within NIS is being corrected.*
- *The previous error, different from the current error, referenced in a previous audit report was corrected September 2003.*
- *The reason for the correction is recent clarification from the Department of Labor Wage and Hour Division and through DAS-Employee Relations regarding the use of Holiday Pay in the premium pay calculations.*

Anticipated Completion Date: Complete

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

5. Regional Center Errors in Employee Pay (Concluded)

Department's Response, Concluded:

The Department disagrees with the shift differential calculation for the weekend.

- *The Labor Contract does not define start and stop times for shifts.*
- *Each facility has different start times for 3rd shift, so to accommodate the shift differential calculations in Kronos, 3rd shift is defined to begin at midnight rather than 11 p.m. This has been consistently applied for 4 years.*
- *The HR09 policy referenced is a Lincoln Regional Center (LRC) (not a DHHS) policy and refers to shift reporting times for certain program areas within LRC.*

APA's Response: We recommend HHSS work with the Department of Administrative Services – Personnel Division and the Employee Relations Division's Chief Negotiator to obtain written documentation to support HHSS' policies and practices regarding shift differential payments.

6. Incorrect Termination Payoff

The NAPE/AFSCME labor contract Article 14.8 states, "Employees who leave employment shall be paid for any unused accumulated vacation leave earned, calculated on their base hourly rate." Good internal control requires procedures to ensure employees are properly paid at termination. Procedures should include an independent, documented review of the final pay calculation.

During review of employee terminations, we noted 3 of 11 termination payments tested were not correct. The errors ranged from \$103 underpaid to \$12 overpaid. The two underpayments have not been paid to the employees and the overpayment has not been recovered. Variances were due to errors in determining accumulated leave due and errors in work hours and payroll deductions. A similar finding was noted in our prior report.

As a result, there were underpayments and overpayments of money due to employees. Without adequate procedures to ensure termination payoffs are accurate, there is an increased risk of loss or misuse of State funds.

We recommend HHSS implement procedures to ensure employees are properly paid at termination. Procedures should include an independent review of the final pay calculation. We further recommend HHSS consider whether action should be taken to recover overpaid funds and to pay funds owed.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

6. Incorrect Termination Payoff (Concluded)

Department's Response: The Department agrees with the calculations of the underpayments.

Corrective Action Plan:

- *The Department has already made changes to how accruals and leave payments are processed.*

Anticipated Completion Date: July 2007

7. Timesheets

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Sound business practices, as well as good internal controls, require employees be paid for time worked and leave used. Good internal controls also require timesheets be approved by both the employee and the employee's supervisor in a timely manner.

We noted the following regarding timesheets:

- Each Regional Center stated that timesheets are usually signed for approval by employees and supervisors after payroll has been run. Timesheets with errors were processed by payroll before employees and supervisors had a chance to verify hours worked and leave used were correct. The Lincoln Regional Center processed approximately 20-30 paychecks per biweekly pay period with errors in pay or leave.
- Two of twenty-five employees tested did not have supervisor approval on their timesheets, and one timesheet did not have employee approval. A similar finding was noted in our prior report.

Without employee and supervisor approval of time before payroll is processed there is an increased risk for errors to occur. Also, these errors require additional time and resources to correct and adjust.

We recommend HHSS establish policies and procedures which require employees and supervisors to review and approve timesheets before payroll is processed.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

7. Timesheets (Concluded)

Department's Response: The Department agrees that some time sheets are not reviewed and approved by the employee and supervisor prior to payroll processing.

Corrective Action Plan:

- *A new process is being implemented at LRC which will have a single individual responsible for entering leave used and monitoring non-clocking times in Kronos.*
- *This individual will follow-up with supervisors and employees to review time before the end of the pay period so that adjustments in Kronos are entered and can be viewed by employees prior to the end of the pay period.*

Completion Date: September 2007

8. Medicaid Overpaid/Underpaid

Good internal control requires a review of Medicaid payments to ensure days authorized agree to days billed and rates are proper.

During review of Medicaid journal entries and adjustments for the Regional Centers, we tested 33 claims and the following was noted:

- For two claims tested HHSS charged Medicaid for additional days not authorized.
- For one claim tested, the claim calculation used included the incorrect daily rate and number of days.
- For one claim tested, the correct rate was not paid.

Errors ranged from an underpayment of \$1,960 to an overpayment of \$968. The overpayment or underpayment of Medicaid claims can result in a loss of State funds or Federal sanctions.

We recommend HHSS implement procedures to ensure Medicaid payments and adjustments are proper.

Department's Response: The Department agrees with the finding regarding Medicaid payment for regional center services.

Corrective Action Plan:

- *The Department will review the reasons for the variances and determine appropriate action.*

Anticipated Completion Date: September 2007

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

9. Inadequate Controls Over Trust Accounts

Good internal control requires adequate segregation of duties so no one individual is in the position to both perpetrate and conceal errors or irregularities.

During testing of Regional Center client trust accounts, we noted the following:

- One individual at the Central Office was responsible for all Regional Center receipts (insurance, trust accounts), including approving deposits and preparing reconciliations. A separate individual does not compare the amount posted to the amount receipted. A similar finding was noted in our prior Regional Center report.
- Only one individual was opening mail containing receipts at each of the Regional Centers. Most receipts are direct deposits or received at the Central Office; however, money is also received at the Regional Centers.

The regional centers trust receipts for the fiscal year totaled \$831,690, of this \$324,596 was cash and checks and the remainder was direct deposits to the bank. Regional center trust disbursements for the fiscal year totaled \$883,134.

Without procedures to ensure adequate segregation of duties are in place, there is an increased risk of the misuse or loss of client funds.

We recommend HHSS implement policies and procedures to ensure an adequate segregation of duties.

Department's Response: The Department disagrees with the finding regarding segregation of duties regarding the handling of trust funds.

- *Because the majority of receipts are direct deposit, and 'cash' receipts are rare, the potential for misuse or loss of funds is extremely low.*
- *SSA trust fund audits conducted in 2007 for the Lincoln Regional Center and Beatrice State Disabilities Center did not reveal cash handling issues.*

10. State Vehicle Usage

Neb. Rev. Stat. Section 81-1025(1) R.R.S. 1999 states, "Each operator of a state-owned motor vehicle ... shall report the points between which the motor vehicle traveled each time used, the odometer reading at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such motor vehicle, and the department to which such motor vehicle belongs."

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

10. State Vehicle Usage (Continued)

State of Nebraska, Transportation Service Bureau (TSB), Policies and Procedures Section V states "... All travel shall be recorded in the respective columns on the face of the form. Each official stopping and starting point included in the travel is to be recorded as an individual line entry ...". Sound business practice requires review of motor vehicle utilization to determine whether the vehicle is needed.

Good internal control requires procedures to ensure employees utilizing a State vehicle are properly authorized and documenting all destinations of travel. Good internal control also requires that mileage logs are reviewed to ensure miles driven are reasonable per place of travel.

During our testing of TSB billing and State-owned vehicles, we noted the following:

- Four of six TSB vehicle logs tested did not record all points of destinations or official starting and stopping points. These vehicles were utilized by the Assertive Community Treatment (ACT) unit. In order to determine if mileage was reasonable for these trips, we used the employee list of clients that were visited during each trip.
 - For 7 of 20 trips, the ACT unit did not have supporting documentation to determine if mileage was reasonable since the Hastings Regional Center could not locate the list of clients visited for these trips.
 - For 5 of 20 trips, mileage was unreasonable per list of clients visited. The actual mileage calculated by the APA based on the list of destinations was 575 miles. Actual mileage claimed by the ACT unit for these trips totaled 731 miles. This resulted in 156 additional miles claimed over the calculated miles.
- The Lincoln and Hastings Regional Centers did not have an adequate review of mileage logs. For these facilities, the person reviewing the logs was not reviewing whether mileage was reasonable per destination noted or reviewing whether the destinations were reasonable per the employee's job duties.
- The Lincoln Regional Center did not have adequate procedures to ensure supervisory approval prior to checking out vehicles. The Lincoln Regional Center maintenance staff checked vehicles out to any staff with a driver's license that had completed the TSB requirements.

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

10. State Vehicle Usage (Continued)

- One agency owned vehicle tested at the Hastings Regional Center and all three agency owned vehicles tested at the Lincoln Regional Center did not travel 1,000 miles per month. The Hastings Regional Center vehicle averaged 451 miles per month. The Lincoln Regional Center vehicles averaged 419 to 599 miles per month.

Without adequate control procedures there is an increased risk of misuse of State vehicles.

We recommend HHSS implement procedures to ensure employees have approval prior to checking out a vehicle and employees record all points of travel. We also recommend HHSS implement procedures to review vehicle usage to ensure destinations and miles traveled are reasonable. We further recommend HHSS determine if the vehicles owned and leased are necessary.

Department's Response: The Department agrees with the Auditor's findings regarding state vehicle use.

Corrective Action Plan:

- *Additional training will be provided to the staff responsible for checking in/out of state vehicles to ensure that only those drivers that have obtained a 'State of Nebraska Transportation Services Bureau Driver Identification Card' are allowed to check out a vehicle.*
- *Procedures will be provided to staff to schedule a vehicle ahead of time, while recognizing that on occasion prior approval may not be possible for unexpected requests.*
- *The Department is updating and implementing a revised mileage log policy that will include directions for the staff to document each official stopping and starting point as an individual line entry.*
- *The Department will also develop supervisory review procedures to ensure that miles traveled are reasonable.*

Anticipated Completion Date: September 2007

The Department agrees with the finding that the utilization for some vehicles was below 1,000 miles per month. However, vehicles averaging less than 1,000 miles per month are used daily for patient transportation to appointments and activities.

- *The Department has found that purchasing used vehicles for patient transportation is more cost effective than leasing vehicles.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Continued)

10. State Vehicle Usage (Concluded)

Department's Response, Concluded:

Corrective Action Plan:

- *DHHS will conduct an annual review of vehicle usage to determine if the vehicles owned and leased are necessary.*
- *The Department will purchase used vehicles in lieu of leasing vehicles for patient transportation to appointments and activities.*

Anticipated Completion Date: September, 2007 and Annually

11. Petty Cash Fund

Good internal control requires no one individual be in the position to both perpetrate and conceal errors or irregularities. Sound business practice requires petty cash funds be maintained at the approved level and any variances be promptly investigated.

During our examination of the Regional Centers' petty cash funds, we noted the following:

- One individual at the Norfolk Regional Center approved deposits, prepared the bank reconciliation, and balanced the cash drawer.
- Two blank checks on hand were signed by the Hastings Regional Center Business Manager.
- The Lincoln Regional Center petty cash fund was \$138 short.

Each Regional Center has \$3,000 in a petty cash fund.

Without adequate internal controls over petty cash funds, there is an increased risk for the loss or misuse of State funds.

We recommend HHSS implement procedures to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities. In addition, checks should not be signed before payee detail is completed and petty cash fund balances should be maintained at the approved level.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Concluded)

11. Petty Cash Fund (Concluded)

Department's Response: The Department agrees with the findings regarding internal controls over petty cash funds.

Corrective Action Plan:

- *The Department will review existing procedures and develop internal control processes for petty cash funds.*

Anticipated Completion Date: October 2007

12. Sales and Lodging Taxes

Nebraska State Accounting Manual, AM-005, General Policies 14, Nebraska Sales Tax Exemption states, "Sales to the State of Nebraska and its agencies are exempt from Nebraska sales tax." Good internal control requires procedures to ensure sales and lodging taxes are not paid. Good internal control also requires that in-state hotel invoices are directly billed to the State of Nebraska to avoid paying the sales and lodging taxes.

During our testing of travel expenditures, we noted the Regional Centers reimbursed four employees for sales and lodging taxes for in-state hotel charges that could have been directly-billed to the State. In addition, we noted an instance where direct-billed hotel charges incorrectly included sales and lodging taxes for an in-state hotel and the taxes were paid by HHSS. In total, \$230 in sales and lodging taxes were paid which could have been avoided.

Without adequate controls over sales and lodging taxes, there is an increased risk for loss of State funds.

We recommend HHSS implement procedures to ensure in-state hotel charges are directly billed to the State. We further recommend HHSS implement procedures to ensure sales and lodging taxes are not paid on hotel invoices that are directly billed.

Department's Response: The Department disagrees with the finding regarding direct billing for in-state lodging.

- *The Department can not require that employees direct bill lodging expenses. In addition, not all in-state hotels accept direct billings.*
- *The Department does support Nebraska State Accounting Manual, General Policy 14.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Regional Centers (Concluded)

12. Sales and Lodging Taxes (Concluded)

Department's Response, Concluded:

The Department agrees with the Auditor's findings regarding sales and lodging tax.

Corrective Action Plan:

- *The Department accounting staff will review and emphasize Nebraska State Accounting Manual, General Policies 14. Nebraska Sales Tax Exemption.*

Anticipated Completion Date: August, 2007

Program 347

13. State Disability Program Medical Payments

Neb. Rev. Stat. Section 68-1007 R.R.S. 2003 states, "In determining need for assistance to the aged, blind, or disabled, the Director of Health and Human Services shall take into consideration all other income and resources of the individual claiming such assistance ..."

Title 469 NAC 1-008.02 states "A request becomes an application when a properly signed application is received. A properly signed application contains: 1. Name; 2. Address; and 3. Proper signature, as defined by the appropriate program. An application may be signed by an individual for himself/herself or by the applicant's guardian, conservator, an individual acting under a duly executed power of attorney, or another person authorized to act for the applicant."

Title 469 NAC 2-001 states "An individual wishing to apply for assistance, or an individual acting on behalf of the applicant is required to have a face-to-face interview."

Title 469 NAC 2-007.02 states an individual is considered disabled for State Disability Program/Medical Assistance (SDP/MA) if s/he is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 6 months from onset. SRT always makes the determination for SDP/MA.

Title 469 NAC 2-011 states "This assignment gives the Department the right to pursue and receive payments from any third party liable to pay for the cost of medical care and services of the client and any other unit member and which otherwise would be covered by NMAP."

Good internal control requires procedures to ensure all case files contain complete and adequate documentation.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

13. State Disability Program Medical Payments (Continued)

Total SDP medical payments for the fiscal year ended June 30, 2006, were \$8,153,800.

We tested 18 SDP medical payments, totaling \$1,109,943, and noted the following:

- Three payments did not have a signed application on file for the client.
- One payment of \$330,677 was for a disability that was not approved by the State Review Team (SRT).
- Six payments were for recipients who did not meet all the eligibility requirements of the program. Five payments did not have a face to face interview completed. One payment of \$109 did not verify the resource amounts used to determine eligibility.
- One payment was not reasonable. The payment of \$1,526 was for a medical expense for an individual who had an additional insurance policy that was not entered into the system. Since the insurance information was not entered into the system, the claim was not verified nor recouped from the insurance company.
- Two case files appeared questionable pertaining to the documentation and narratives. One case file contained only three narratives, all of which were dated after the APA requested the file. The other case file had a single narrative which was also dated after the APA requested the file. It further had documentation in the file which appeared to be inconsistent with the dates of events. A report which stated the client was deceased was completed on March 18, 2006. However, the date on the death certificate was March 20, 2006.

There is an increased risk for abuse or misuse of State funds and assets without procedures to ensure payments are proper and only for eligible individuals. Without complete and adequate documentation in case files, there is also an increased risk of misuse of State funds.

We recommend HHSS implement procedures to ensure all eligibility requirements are met and all case files are maintained with adequate documentation. We also recommend HHSS ensure payments are reasonable and proper.

Department's Response: The Department agrees with the finding that three payments did not have properly signed applications on file for the client.

- *One application failed to include the family member's signature who applied on behalf of the client.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

13. State Disability Program Medical Payments (Continued)

Department's Response, Continued:

- *A second application was signed by the person who helped the client complete the application, but not by the client.*
- *In the third case, there were applications in the master case record, but not for the date of service.*

Corrective Action Plan:

Corrective action will include:

- *Clarifying regulations relating to form and case retention and when new applications are required.*
- *A supervisory case review process will be established, requiring supervisors to review targeted cases focusing on eligibility requirements and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation. The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

The Department partially agrees with the finding that one hospital payment of \$330,677 was for a disability not approved by the State Review Team (SRT).

- *We note that eligibility was correctly determined, however we agree there was a processing error.*
- *Subsequently, this case was reviewed by the SRT, found disabled and confirmed to be eligible with no loss of funds.*

Corrective Action Plan:

- *A second party review of each approved SRT case is being conducted by a program specialist in the Economic Assistance Unit.*
- *A supervisory case review process will be established requiring supervisors to review targeted cases focusing on eligibility requirements in the case and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation.*
- *The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

The Department agrees with the finding that six payments did not meet all of the eligibility requirements of the program.

- *We note that this procedural error did not result in a loss of funds.*
- *The Department agrees that better documentation of the face-to-face interview process is needed in five of these cases.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

13. State Disability Program Medical Payments (Concluded)

Department's Response, Concluded:

Corrective Action Plan:

- *Regulations will be monitored to specify how "face to face" interview requirements can be met and by whom.*
- *A supervisory case review process will be established requiring supervisors to review targeted cases, focusing on eligibility requirements in the case and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation.*
- *The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

The Department agrees with the findings that: 1) one payment was not reasonable; and 2) that two case files appeared questionable due to documentation errors and untimely narratives.

Corrective Action Plan:

- *A supervisory case review process will be established requiring supervisors to review targeted cases, focusing on eligibility requirements in the case and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation.*
- *The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

14. Aged, Blind, and Disabled Maintenance Payments

Neb. Rev. Stat. Section 68-1007 R.R.S. 2003 states, "In determining need for assistance to the aged, blind, or disabled, (AABD) the Director of Health and Human Services shall take into consideration all other income and resources of the individual claiming such assistance ..."

Title 469 NAC 1-008.02 states "A request becomes an application when a properly signed application is received."

Title 469 NAC 2-001 states "An individual wishing to apply for assistance, or an individual acting on behalf of the applicant is required to have a face-to-face interview."

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

14. Aged, Blind, and Disabled Maintenance Payments (Continued)

Title 469 NAC 3-007.04 states “The case records of the AABD/MA or SDP/MA client must be complete and contain facts to substantiate each action with respect to assistance payments. Case records must be retained for four years from the closing of the case.”

Good internal control requires procedures to ensure payments are proper and only for eligible individuals. Good internal control further requires procedures to make certain required documentation is on file for all payments.

Total AABD maintenance payments for the fiscal year ended June 30, 2006, were \$6,748,440.

We tested 20 AABD maintenance payments, totaling \$45,477, and noted the following:

- One payment did not have a signed application on file for the client.
- Three payments had shelter costs included on the budget which did not agree to the application.
 - One individual had shelter costs of \$3,426 included in the payment which was a retroactive payment for 15 months; however, County General Assistance paid for the shelter. Therefore, the individual was overpaid \$3,426.
 - The second individual had shelter costs of \$929 included in the retroactive payment for 13 months; however, the application stated that County General Assistance paid for the rent. Verification was obtained after the audit period which stated County General Assistance did not pay for the rent.
 - The third individual had \$4,036 included in the retroactive payment for 18 months; however, the application stated County General Assistance paid for the rent. There was no documentation of verification with County General Assistance.
- One payment was for a recipient who did not meet all the eligibility requirements of the program. The individual did not have a face-to-face interview completed.

There is an increased risk for abuse or misuse of State funds and assets without procedures to ensure payments are proper and only for eligible individuals.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

14. Aged, Blind, and Disabled Maintenance Payments (Continued)

We recommend HHSS implement procedures to ensure all eligibility requirements are met and documented. Further, we recommend costs be included in budgets only if the client is responsible and proper documentation is obtained for verification of costs.

Department's Response: The Department agrees with the finding that one payment did not have a signed application on file for the client.

- *There is documentation in this case that the original application for the client was submitted in 1997.*
- *Per state regulation, each form including the application can be destroyed after four years.*
- *Regulations at 469 NAC 1-009.01A do not require a complete application at annual review for a federal Supplemental Security Income (SSI) client.*
- *We note that this procedural error did not result in a loss of funds.*

Corrective Action Plan:

- *Regulations relating to form and case retention, and when new applications are required, will be clarified.*

Anticipated Completion Date: September 2007

The Department agrees with the finding that three payments had shelter costs included on the budget which did not agree to the application.

Corrective Action Plan:

- *A supervisory review process requiring supervisors to review targeted cases, focusing on eligibility requirements in the case and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation.*
- *The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

The Department agrees with the finding that one payment was for a recipient who did not have a face to face interview.

- *The Department agrees that better documentation of the face-to-face interview process is needed.*
- *We note that this procedural error did not result in a loss of funds.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

14. Aged, Blind, and Disabled Maintenance Payments (Concluded)

Department's Response, Concluded:

Corrective Action Plan:

- *Regulations to specify how "face to face" interview requirements can be met and by whom will be modified.*
- *A supervisory case review process will be established requiring supervisors to review targeted cases, focusing on eligibility requirements in the case and the N-FOCUS automated eligibility system to ensure case files are maintained with adequate and timely documentation.*
- *The findings of the supervisory review process will be used to provide additional staff training.*

Anticipated Completion Date: September 2007

APA's Response: As indicated above State regulations require applications be maintained for four years from the closing of the case. These cases were not closed and applications should have been retained. Title 469 NAC 3-007.04 states "The case records of the AABD/MA or SDP/MA client must be complete and contain facts to substantiate each action with respect to assistance payments. Case records must be retained for four years from the closing of the case."

15. Social Services Block Grant

Good internal control requires procedures to ensure payments are for services rendered and paid at the proper rate. Supporting documentation of claims should be maintained, including time worked and mileage traveled. Rate changes should be periodically reviewed by management.

Title 473 NAC 5-001.06 provides the maximum hourly rate for chore services at the Federal minimum wage. Title 473 NAC 5-002.06 provides the maximum rate for adult day care service at \$7.50 per day.

HHSS Social Services Block Grant (SSBG) included services to aged and disabled adults for payments of \$1,451,089 and \$6,176,041 from Federal and General funds respectfully in fiscal year 2006. Providers were allowed to request a rate of payment above the NAC Manual's stated rates from their local HHSS offices; the local offices forwarded these "Social Services exception" requests to the HHSS Central Office for approval.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

15. Social Services Block Grant (Continued)

We tested fifteen SSBG claims totaling \$7,929, thirteen of the claims were paid at excessive rates and/or did not have adequate documentation to support the payment was proper. We noted the following:

- Two claims were paid \$6.50 per hour for chore services. HHSS allowed all providers \$6.50 per hour which was above the Federal minimum wage (\$5.15) per NAC regulations.
- Two claims were paid \$17 per day for adult day care services. In 2001, the adult day care provider's standard daily rate increased to \$17. This increase exceeded the maximum rate of \$7.50 per day set per NAC regulations.
- Four claims for chore services were paid at a rate set by a "Social Services exception" request, that were approved in year 2000 and 2001 by the Central Office. The providers continued to receive rates above the NAC Manual maximum in fiscal year 2006 with no current approval by the Central Office.
- Four chore service claims did not have timesheets supporting the hours claimed by the provider.
- Five claims for transportation services did not have documentation to support the destinations or mileage of trips. Since the rates were determined based on mileage of each trip, we were unable to verify the payment was proper.

For one claim, we could not independently verify the home repair services were rendered for the intended client due to State Statute 28-377(6) which states, "that no information identifying the subjects of the report shall be made available to the researcher or auditor."

Without adequate control policies and procedures in place to ensure rates are periodically reviewed and approved by the Central Office and claims are paid for services actually rendered, it increases the risk of loss or misuse of State and Federal funds.

We recommend HHSS implement procedures to ensure adequate documentation is maintained to support claims are paid for services actually rendered. We further recommend HHSS comply with NAC regulations regarding rates paid.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

15. Social Services Block Grant (Concluded)

Department's Response: The Department agrees that adequate documentation must be maintained to support correct payment for services rendered.

Corrective Action Plan:

The Department will implement the following action steps:

- *Issue a memo to staff and providers reminding them that documentation requirements need to be followed.*
- *Assign central office staff to begin a quarterly audit sampling in October 2007 to verify that supporting documentation is being maintained by providers.*

Anticipated Completion Date: April 2008

The Department disagrees with the finding that rates were paid in excess of NAC regulations. We do, however, recognize the need to ensure periodic review of rates and will take the following action:

- *Revise NAC title 473 to incorporate an annual rate review by April 2008*

16. Controls Over Family Preservation Grant

OMB Circular A-133 requires a pass-through entity to monitor the activities of subrecipients to ensure Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Good internal control requires that adequate procedures are in place to monitor funds expended by subrecipients.

During testing of public assistance aid payments, we noted a payment totaling \$459,141 was made to a non-profit foundation of which \$414,141 was federally funded. The foundation was responsible for disbursing the monies to eligible communities in accordance with CFDA 93.556 "Promoting Safe and Stable Families" to fund family preservation of families at risk or in crisis. HHSS did not have documentation from the Foundation on file to support the funds were used in accordance with the grant agreement and Federal program requirements. We were unable to determine if the expended Federal funds were allowable per OMB Circular A-87.

Without adequate supporting documentation and monitoring there is an increased risk of the loss or misuse of Federal and State funds.

We recommend HHSS monitor subrecipients and maintain records to support payments are reasonable, necessary, and in accordance with Federal requirements and the grant agreement.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

16. Controls Over Family Preservation Grant (Concluded)

Department's Response: The Department agrees with the finding regarding controls over Family Preservations Grant.

Corrective Action Plan:

- *A letter will be sent by August 1, 2007, to the Executive Director of the Nebraska Children and Families Foundation to identify the need for detailed expenditure reports and to request a report for the July 1, 2007, to September 30, 2007 quarter.*
- *A provision will be included in the next contract period, November 1, 2007 through October 31, 2008, to require the Foundation to provide quarterly detailed reports of expenditures to sub-recipients.*
- *Quarterly reports detailing expenditures to sub-recipients will be reviewed by the program staff responsible for management of the contract by the end of the quarter following each reporting period to assure compliance with OMB Circular A-87.*

Anticipated Completion Date: November 2007

17. Child Welfare Payment for Ineligible Child

Title 479 NAC 6-002.02 states, "In order to be eligible for public assistance, an individual must be either: 1. A citizen of the United States; or 2. An immigrant lawfully admitted for permanent residence." Title 479 NAC 2-001.06 states, "The worker must complete Form SS-5 if: 1. The ward does not have an SSN ..." Title 479 NAC 2-009.01E1 states, "When a ward is an alien, the worker must obtain verification." Title 479 NAC 479-000-300 states, "For every element of eligibility, the case record must contain an explanation of how a determination regarding that point was made." Title 479-000-300 also states, "After documentation is received identifying that the alien is eligible under one of the established categories, the worker shall verify the alien's documentation through the Systematic Alien Verification for Entitlements (SAVE) procedures." It goes on to state, ". . . that the alien may be eligible if acceptable verification is obtained."

For 1 of 46 Child Welfare cases tested, there was no social security number for the client or a SS-5 form on file; nor was there evidence to support the parent/child requested for permanent residency. The narrative in NFOCUS noted the child and both of his parents are undocumented citizens. Per review of the case file, the child was born in Mexico and the family moved to Omaha when he was 4 months old. The child was 14 years-old at the time service was provided. HHSS also could not provide support to verify the parent/child requested for permanent residency, nor other documentation that identified the alien was eligible to receive child welfare services.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

17. Child Welfare Payment for Ineligible Child (Concluded)

Without adequate procedures to ensure compliance with NAC regulations, there is an increased risk for loss or misuse of State funds.

We recommend HHSS obtain social security numbers for clients in an Alien Status or obtain verification the alien was lawfully admitted for permanent residence. This information should be recorded in NFOCUS and maintained in the client's case file.

Department's Response: The Department partially agrees with the finding regarding child welfare payment for ineligible child.

- *Specifically, we disagree, in part, with the portion of the finding that states "DHHS also could not provide support to verify the parent/child requested for permanent residency, nor other documentation that identified the alien was eligible to receive child welfare services."*
- *While it is correct that in one case there was no Social Security Number for the child or documentation of efforts to verify alien status, Auditors were provided with and did review the court order making the child a ward of the state.*
- *State and federal law clearly provide for the use of state or federal funds for the care of children who are wards of the state by court order and funds were appropriately expended for the one youth highlighted in this finding.*
- *We agree with the remainder of the finding.*

Corrective Action Plan:

- *Policy and/or guidelines in NAC 390 will be issued to Protection and Safety staff to remind them of resources available for determining alien status of children who are wards for requesting permanent residency, and the need to clearly document efforts made.*
- *These resources include the Appendix to 479 NAC (479-000-311), SAVE (System Alien Verification for Entitlements), provision of an interpreter for the child or parents when needed, and consultation with the Division's expert who can assist with applications for permanent resident status.*
- *Consideration will be given to adding the existence of an SSN to supervisory reviews, which are required for each child at least every sixty days.*
- *It should be noted that interfaces are done daily with Social Security to obtain existing Social Security Numbers for clients.*
- *Staff is aware of the need to obtain the SSN or to apply for an SSN when possible.*

Anticipated Completion Date: October 2007

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

18. Child Welfare Payments

Good internal control requires procedures to ensure all payments have adequate supporting documentation including receipts and the purpose of the payment. Good internal control also requires procedures to ensure payments are only made for eligible individuals and services.

Title 479 NAC 2-002.03H3 states furniture such as beds, dressers, tables, or chairs may be paid for to provide the minimum adequate furniture necessary to set up a household. It also states that the payment for furniture must be based on the lowest of estimates for similar products from at least two stores.

We tested 104 child welfare claims and noted the following:

- All four clothing payments tested did not have adequate documentation. No receipts were on file to support the payment was for clothing.
- Five of nine transportation payments tested were not adequately supported:
 - One payment did not have documentation for who the travel was for and the children were not State wards.
 - Three payments did not have an invoice.
 - One payment did not have documentation for the purpose of the travel and did not have an invoice.
- For one of two furniture payments tested, the payment for \$3,533 did not have estimates from two stores as required by NAC, no receipt was on file to document what the purchase was for, and there was no supporting documentation to determine the payment was reasonable and necessary.
- All five payments tested for motor vehicle gas did not have a receipt. Four of these did not have documentation for the purpose of the gas.
- A hotel payment for \$2,567 was paid for a family to stay in a hotel for one month while looking for an apartment; there was not adequate documentation to support the length of stay. The length of time to find an apartment did not appear reasonable. We also noted the same family stayed an additional ten days the following month for \$715.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

18. Child Welfare Payments (Concluded)

- For 3 of 4 payments tested for motor vehicle repairs and purchase, there was no receipt for the purchase:
 - A \$2,000 engine repair did not have a receipt.
 - An automobile repair of \$1,752 did not have a receipt and did not have documentation for the purpose of the repair.
 - A \$1,000 motor vehicle purchase did not have a receipt, documentation of the purpose of the purchase. The purchase was made on May 30, 2006, and the individual ceased to be a ward on May 30, 2006.

Without adequate documentation, including itemized receipts and invoices, there is an increased risk of fraud or misuse of State funds.

We recommend HHSS ensure adequate documentation is on file for all payments to ensure payment is reasonable, necessary and in accordance with NAC.

Department's Response: The Department agrees with the finding regarding Child Welfare payments.

Corrective Action Plan:

- *An assessment will be made of current requirements dealing with documentation of expenditures such as the ones noted in the report, and a process will be put into place to more clearly document the need for the expenditure.*
- *The assessment and revised requirements will include justification of need, obtaining estimates, documentation of the purchase, and location of this information, so that there is no question about where the information should be found when an audit or review is being done.*

Anticipated Completion Date: October 2007

19. Inadequate Monitoring of Contract

Good internal control requires adequate review and monitoring of contractual agreements to ensure expenses are in accordance with the contract.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

19. Inadequate Monitoring of Contract (Concluded)

During child welfare testing, we noted a General Fund payment of \$121,448 to a Nebraska Tribe. The Tribe provides services for tribal children in foster care. HHSS did not monitor the spending of this payment by the Tribe. Documentation of actual expenditures were not received for payments made to the Tribe and periodic reviews were not performed to ensure compliance. The total amount paid to the Tribe in fiscal year 2006 for child welfare services was \$530,982.

Without adequate review and monitoring of contractual spending agreements there is an increased risk of loss or misuse of State funds.

We recommend HHSS perform periodic on-site reviews, or periodically request supporting documentation to ensure expenses are reasonable and in accordance with contract provisions.

Department's Response: The Department agrees with the finding regarding the inadequate monitoring of a contract.

Corrective Action Plan:

- *The current Tribal Agreements will be amended to include a requirement for an annual audit.*
- *Effective immediately, action will be taken to request and review supporting documentation at least four times per contract period.*
- *Documentation requested will be for randomly selected periods of time.*

Anticipated Completion Date: October 2007

20. State Ward Education Payments

Neb. Rev. Stat. Section 79-215(7) R.R.S. 2003 states, "When a student as a ward of the state or as a ward of any court (a) has been placed in a school district other than the district in which he or she resided at the time he or she became a ward ... or (b) has been placed in any institution which maintains a special education program which has been approved by the State Department of Education ... the cost of his or her education and the required transportation costs associated with the student's education shall be paid by the state, but not in advance, to the receiving school district or approved institution ...". Good internal control requires procedures to ensure payments are made to the correct facility or public school.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Continued)

20. State Ward Education Payments (Concluded)

For 2 of 19 wards tested, the education payment was not made to the school district. The wards were living in a group home and not able to attend public school, but were attending another education provider. In those situations the procedure would be for the public school to contract with the educational provider. The public school would then be paid by the State and the school would have the responsibility to pay the provider. HHSS incorrectly paid the group home provider \$52,409 during the fiscal year for the State wards education.

Without adequate procedures to ensure compliance with State Statute, there is an increased risk for duplicate or erroneous payments to occur.

We recommend HHSS implement procedures to ensure payments for State Ward Education are only made to the school district or approved institution.

Department's Response: The Department agrees with the finding regarding State Ward education payments.

Corrective Action Plan:

- *Written clarification will be provided to the staff directly responsible for the processing of state ward education payments that state ward education payments can be made only to public schools or institutions approved by the State Department of Education.*
- *Beginning with the July 1, 2007 to September 30, 2007 quarter, a report will be prepared, on a quarterly basis at a minimum, of recipients of state ward education payments.*
- *The report will be reviewed by the Program Specialist responsible for the State Ward Education program and any errors in payment will be brought to the attention of staff directly responsible for the processing of state ward education payments requesting correction of any error discovered.*

Anticipated Completion Date: October 2007

21. State Ward Trust Disbursements

Neb. Rev. Stat. Section 43-907 R.R.S. 2004 states, "the Director of Health and Human Services shall take custody of and exercise general control over assets owned by children under his or her charge. Children owning assets shall at all times pay for personal items. Assets over and above a maximum of one thousand dollars and current income shall be available for reimbursement to the state for the cost of care." Good internal control requires procedures to ensure all trust disbursements are proper.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 347 (Concluded)

21. State Ward Trust Disbursements (Concluded)

We noted 4 of 23 disbursements tested from State Wards' accounts were paid to the parent when the child was not in the parent's home. If the child is not in the home, the parent is not providing for the child's needs, and therefore should not have received a payment. We also noted 2 disbursements erroneously paid to a relative; the relative was reimbursed for foster care maintenance by the State and should not have received the additional payment from the State Wards' account. It appeared the errors occurred because the caseworker had not updated the NFOCUS system in a timely manner. The total of the 23 disbursements tested was \$13,706 and the 6 payments in error totaled \$2,762.

Without adequate procedures to ensure payments are proper there is an increased risk for loss or errors to occur. In addition, the State may not receive all reimbursements due if the trust funds are paid in error.

We recommend HHSS implement procedures to ensure placement information is current and to ensure payments are proper.

Department's Response: The Department agrees with the finding regarding State Ward Trust disbursements.

Corrective Action Plan:

- *Information regarding the payments found to be in error will be obtained by August 1, 2007, in order to determine the specific causes for the errors.*
- *Policies and/or procedures will be issued to assure that disbursements are made correctly in the future.*

Anticipated Completion Date: October 2007

Program 33

22. Termination Pay

Good internal control requires procedures to ensure the accurate calculation of final pay based on the date of termination, and a calculation of any leave payment owed the employee. Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states, "Each employee, upon retirement, dismissal, or voluntary separation from state employment, shall be paid for unused accumulated vacation leave." Additionally, employees meeting the retirement requirements under Neb. Rev. Stat. Section 81-1325 R.R.S. 1999 are eligible to receive a payment for one-fourth of their sick leave balance.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

22. Termination Pay (Concluded)

- Leave earnings for 2 of 3 terminations tested were not properly adjusted. The employees received leave for an entire month of work when they were terminated in the middle of the month. The calculation of a final leave payout resulted in one employee overpaid \$157. The other employee was overpaid \$78.
- Both terminated employees with vacation balances tested, the balances were not adjusted down to zero at the time of termination. The employees were overpaid on their last pay check. One employee was overpaid \$422 and the second employee was overpaid \$51.

Inadequate procedures for accurate calculations of employees final pay, increases the risk for losses due to errors.

We recommend HHSS implement procedures to accurately calculate final employee compensation payments.

Department's Response: The Department agrees with the finding regarding overpayment of terminated employees who are on monthly pay cycles.

Corrective Action Plan:

- *All employees will be converted from a monthly to a biweekly pay cycle to reduce the possibility of employees being over paid or under paid upon termination.*
- *All employees were notified of the overpayment and one has repaid the amount.*

Anticipated Completion Date: July 2008

23. Federal Compliance Over Payroll

Good internal control requires procedures to ensure compliance with Federal requirements. Office of Management and Budget (OMB) Circular A-87 requires charges for salaries and wages for employees who work solely on a single Federal award or cost objective, be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

We noted 3 of 25 employees tested had payroll costs allocated to a single Federal award. These 3 employees did not have periodic certifications on file as required by Circular A-87.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

23. Federal Compliance Over Payroll (Concluded)

Without documentation to support employees worked on a single Federal award, HHSS is not in compliance with OMB Circular A-87, and there is a risk for Federal sanctions.

We recommend HHSS ensure requirements of OMB Circular A-87 are met.

Department's Response: The Department agrees with the Auditor's finding and recommendation regarding requirements of OMB Circular A-87.

Corrective Action Plan:

- *The Department will develop a method to identify individuals paid solely from a single cost objective not completing a monthly or biweekly time report and obtain periodic certifications as required by OMB Circular A-87.*
- *A process to identify and obtain required certifications has been developed for implementation on July 1, 2007.*
- *Full compliance will be accomplished within six months of implementation.*

Anticipated Completion Date: December 2007

24. Timesheets

Good internal control requires procedures to ensure adequate documentation is on file to indicate full time employees complete forty hours of work each week, particularly when employees will receive a payment for unused sick and vacation leave upon termination. Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur."

We noted 4 of 25 employees tested did not have timesheets completed to reflect actual hours worked. These were overtime exempt employees reporting leave only.

A lack of accountability for actual hours worked increases the risk for the loss or fraudulent use of State or Federal funds. Without adequate documentation of actual hours worked, HHSS is not in compliance with State statute.

We recommend employees report actual hours worked or include a statement on each timesheet that certifies the employee worked or was on approved leave for at least 40 hours each week.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

24. Timesheets (Concluded)

Department's Response: The Department disagrees with the finding regarding timesheets for exempt staff.

- *The Fair Labor Standards Act does not require exempt staff to record actual hours worked.*
- *The statute cited also does not require the documentation of hours worked.*
- *DHHS receives, each month, the amount of leave used by exempt staff and records that usage.*
- *It is DHHS's position that exempt staff does not need to complete time sheets because the leave usage is captured through another process.*

APA's Response: As indicated in our comment, good internal control requires each employee to document 40 hours of work each week. We do not feel recording deviations from the "normal" work schedule satisfies this requirement. Again, we recommend HHSS implement procedures to ensure each employee documents 40 hours of work each week, either by completing a daily timesheet of time worked and leave used, or by signing a statement certifying that at least 40 hours of work were rendered each week.

25. Federal Compliance Over Expenditures

OMB Circular A-87 states, "To be allowable under Federal awards, costs must meet the following general criteria ... Be authorized or not prohibited under, State or local laws or regulations." State Accounting Manual, AM-005, General Policies regarding State agency sponsored conferences states, "Agencies, boards, and commissions may sponsor conferences and pay conference expenses of anyone who is NOT an employee of the state, if sufficient money is collected from such person, or other non-State sources, to cover personal maintenance expenses, including meals and nonalcoholic beverages." Good internal control also requires procedures to be in place to ensure expenses are allowable and in compliance with Federal requirements.

One of eight applicable travel documents tested included unallowable expenses paid with Federal funds. Meal expenses for non-employees were paid for a conference hosted by HHSS using Federal funds. These expenses are not allowed per State policy and therefore not allowed per OMB Circular A-87. A total of \$1,801 was paid for non-employee meal expense on the document tested.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

25. Federal Compliance Over Expenditures (Concluded)

HHSS is not in compliance with OMB Circular A-87 and the State Accounting Manual. There is also an increased risk of misuse or loss of State funds.

We recommend HHSS review regulations and develop policies and procedures to comply with OMB Circular A-87.

Department's Response: The Department agrees with the finding regarding federal compliance over expenditures.

Corrective Action Plan:

- *Review DHHS policies and procedures for compliance with OMB Circular A-87.*

Anticipated Completion Date: On-going

26. Rental Agreement Not in Accordance with State Statute

Neb. Rev. Stat. Section 81-1108.22 (2) R.S.Supp., 2006 states, "When any ... agency ... or department of the state government ... desires to use funds available for the purpose of renting office space outside of the State Capitol, it shall submit a request to the Director of Administrative Services. If the director approves the lease, the terms and location shall be approved by the director and the administrator in writing and the leases shall be entered into and administered by the administrator on behalf of the ... agency ... or department. A copy of all such lease contracts shall be kept on file by the state building division and shall be open to inspection by the Legislature and the public during normal business hours."

One of two rent payments tested was not properly approved by the Department of Administrative Services (DAS); and therefore, was not on file with the State Building Division. The contract is for rental space in the Omaha metropolitan area for the purpose of operating a community-based child advocacy center. The contract has been in effect since August 1, 1996, and was originally set up as a service contract rather than a lease agreement. A total of \$141,423 was paid for this contract during the fiscal year.

HHSS is in noncompliance with State statute. There is also an increased risk of misuse of State funds.

We recommend HHSS submit a request to DAS for all rental space desired to comply with State statute.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

26. Rental Agreement Not in Accordance with State Statute (Concluded)

Department's Response: The Department agrees with the finding that a rent payment was not properly approved by the Department of Administrative Services.

Corrective Action Plan:

- *The Department is currently taking steps to involve the State Building Division in this agreement.*

Anticipated Completion Date: November 2007

27. Travel Expenses

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2006 requires request for payment for reimbursement of expenses incurred to be submitted each month. "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved."

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies states, "Pursuant to Section 81-1174, employees traveling on State business shall claim only actual amounts paid for meals ... Agencies are responsible to see that all submitted claims for meals are adequately substantiated. Unsubstantiated meals should not be reimbursed." The Nebraska State Accounting Manual, AM-005, Travel Expense Policies further states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost. A combination of receipts and detailed itemization is permitted."

The Federal General Service Administration (GSA) per diem rates provide guidance for reasonable lodging and meal expenses in travel status.

Good internal control requires procedures to ensure all reimbursements are reasonable and necessary expenses and that adequate supporting documentation is maintained. Good internal control further requires procedures to be in place to ensure compliance with State statute and State Accounting Manual policies.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

27. Travel Expenses (Continued)

A total of 18 travel documents were tested, 10 of which were employee expense reimbursement documents. During testing, we noted the following:

- Three documents included unreasonable mileage reimbursements based on the most direct route of travel. A total of \$96 for 215 miles was reimbursed for mileage expenses over the most direct route without adequate supporting documentation.
 - One employee traveled round trip from Norfolk to Kearney and claimed 364 miles, map mileage is 319; the employee also traveled round trip from Norfolk to Lincoln on two occasions and claimed 283 miles and 292 miles, map mileage is 254 miles.
 - One employee traveled round trip from Columbus to Lincoln on two occasions and claimed 184 miles and 202 miles, map mileage is 163 miles.
 - One employee traveled from Lincoln to Grand Island and claimed 126 miles, map mileage is 100 miles; the employee also traveled from Lincoln to Geneva and claimed 88 miles, map mileage is 71 miles.
- Ten documents included errors totaling \$960 regarding meal reimbursements.
 - We noted three employees were reimbursed a total of \$76 for meal receipts. There was not supporting documentation on file for those receipts. We also noted a total of \$11 was not reimbursed to two employees who provided documentation.
 - Three employees were reimbursed a total of \$71 for four meals which were provided by the conference the employee was attending.
 - Six employees were reimbursed a total of \$300 in meal expenses without detailed receipts. Meal receipts did not adequately substantiate the meal expenses; the receipts did not always include the date, place (e.g. city) or description, and/or purpose. One employee submitted receipts including either no dates, or they were crossed out, and it could not be determined the meals were purchased on the dates noted.
 - Three employees did not provide complete meal logs for a total of \$367 in meal expenses.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

27. Travel Expenses (Continued)

- One employee did not submit meal log or receipts; the employee was reimbursed \$135 in meal expenses for 9 days. The employee has since terminated and documentation was not able to be obtained.
- Three expense reimbursement documents were not submitted on a monthly basis, and one of the three documents was not properly completed. The reimbursement included \$106 for meal expenses for one day that should have been entered as 106 miles in the mileage column. As a result, the employee was over paid \$59. After the document was questioned by the auditor, the employee refunded the overpayment.
- One employee exceeded the Federal guideline for lodging expense by \$14 per day for three days for a total of \$42. In addition, the employee was reimbursed \$18 more than the hotel billing.

A similar finding was noted in our prior report. Without adequate review and documentation of expenses, there is an increased risk for loss or errors to occur.

We recommend HHSS implement procedures to ensure travel expenses are reasonable, adequately documented, and in compliance with State guidelines.

Department's Response: The Department disagrees with the finding regarding unreasonable mileage reimbursement.

- *Our mileage reimbursement allows for a variance of 20% between destinations due to the variables associated with the use of the start and stopping points.*

The Department agrees that the meal reimbursement policy requires that the employee maintain supporting documentation either in the form of a log, diary or actual receipts of the transactions.

Corrective Action Plan:

- *Remind staff of policy.*
- *DHHS will continue to emphasis our policy and procedures on the importance of maintaining meal receipts or meal logs.*

Anticipated Completion Date: On-going

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

27. Travel Expenses (Concluded)

Department's Response, Concluded:

The Department agrees that its reimbursement policy states that claims be submitted on a monthly basis unless amounts less than \$5 are involved.

Corrective Action Plan:

- *Remind staff of policy.*

Anticipated Completion Date: On-going

The Department agrees that the 106-mileage transaction was an oversight on our part.

Corrective Action Plan:

- *This was corrected once brought to our attention.*

Anticipated Completion Date: On-going

The Department agrees that the hotel expense reimbursement should reconcile with the hotel billings.

Corrective Action Plan:

- *DHHS policy is to pay for actual expenses for lodging based on actual hotel receipts.*

Anticipated Completion Date: On-going

APA's Response: The unreasonable mileage claim variances noted above were all 10% or more than map mileage and three of the variances noted were greater than 20%. State Statute 81-1176 requires mileage reimbursements to be by the most direct route of travel.

28. Permanently Assigned Vehicles

The Department of Administrative Services Transportation Services Bureau (DAS TSB) Requirements for Permanently Assigned Motor Vehicles and Related Information states, vehicles shall be considered for permanent assignment when they will travel a minimum of 1,000 miles and be utilized seventeen working days per month.

Four of five permanently assigned vehicles tested were not driven an average of 17 days or more per month. Per review of travel logs, the vehicles were driven an average of 13 to 15 days per month during the fiscal year.

By not meeting the minimum travel requirements, there is an increased risk of misuse of State funds for unnecessary permanently assigned vehicles.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

28. Permanently Assigned Vehicles (Concluded)

We recommend HHSS reassess the number of permanently assigned vehicles being leased to ensure all vehicles are being utilized according to DAS TSB requirements.

Department's Response: The Department agrees with the finding that vehicles were used two to four days per month below the standard set by TSB.

Corrective Action Plan:

- *DHHS has completed the recommended reassessment. In our review, we noted that the vehicles were utilized more than the 1,000 mile per month requirement set by DAS-TSB. The resulting cost per mile was lower than reimbursing staff for personal vehicle mileage or any other method of transportation.*

Anticipated Completion Date: Completed

29. Food Commodity Program

The Food Distribution Program receives commodities from the Federal government which are distributed to schools, daycare centers, charitable institutions, and emergency food programs, for the cost of warehousing, transportation, and processing only. Good internal control requires procedures to ensure vendors are properly paid and subrecipients are properly charged for commodities received.

Two of three subrecipients tested were not charged the proper amount for the Food Commodity Program and one of three vendors tested were not paid correctly based on the contract.

One school was charged \$14.14 per case for strawberry milk, the processor's contract amount was \$13.63 resulting in an overcharge of \$306. A transport company was not paid at rates according to the contract and therefore schools were also overcharged. The total tested for one school was \$162 which was an overcharge of \$74. Extrapolating the error rate of 45.66% to total paid to the transport company of \$421,823, the estimated overpayment for the fiscal year was \$192,604 which would be subsequently overcharged to schools.

There is an increased risk for incorrect payments to vendors and for subrecipients to be charged incorrectly.

We recommend HHSS implement procedures to ensure vendors are properly paid in accordance with contract rates and ensure subrecipients are properly charged for commodities.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Continued)

29. Food Commodity Program (Concluded)

Department's Response: The Department agrees with the finding that one of the vendors was not paid correctly based on the contract and that two sub-recipients were not charged the proper amount.

- *The contractor has been contacted and DHHS is in the process of retrieving the over payment. This amount will then be credited back to the accounts of the agencies that were over charged.*

Corrective Action Plan:

- *Procedures to ensure that vendors are paid in accordance with contractor rates, and to ensure that sub-recipients are correctly charged for commodities, were implemented in July 2007 for the FY 2007-08 contracts.*

Anticipated Completion Date: Completed

30. Administrative Authority Over the Nebraska Volunteer Service Commission

Executive Order 94-5 established the Nebraska Commission for National and Community Service. The Executive Order did not specify whether the Commission could or could not hire staff to carry out their responsibilities. In addition, the Commission is not established under State statutes. Further, it is our understanding when the Executive Order was signed the decision was made to use three open positions in the then Nebraska Department of Social Services (now the Department of Health and Human Services).

During our review of the Commission's operating procedures, we noted only HHSS Accounting and Personnel staff have final approval authority for processing transactions on NIS. This means the Commission could not issue any warrants without the approval of HHSS Personnel and Accounting staff.

While the Commission staff is technically HHSS employees and HHSS has the final and official approval of all Commission disbursements, the management of HHSS stated that they have no formal administrative responsibilities or authority over the Commission. Also, the Commission themselves and the Governor's Office exert no formal administrative authority over the Commission staff. Therefore, no clear lines of administrative authority existed over the Commission, and the unofficial administrative authority of the Commission rested with the Executive Director who was not even included in the original Governor's Executive Order.

COMMENTS AND RECOMMENDATIONS

(Continued)

Program 33 (Concluded)

30. Administrative Authority Over the Nebraska Volunteer Service Commission
(Concluded)

In May 2002, the Commission developed some operational guidelines; however, they did not address the issue of administrative authority. Per discussion with management of HHSS, clear lines of administrative authority over the operations of the Commission still have not been established and documented. Currently, the only responsibilities HHSS has regarding the Nebraska Volunteer Service Commission (NVSC) are: 1) NVSC appropriates through HHSS; 2) vouchers are prepared and approved through HHSS; and 3) the draw down of Federal funds.

A similar comment was noted in the 2001 report of HHSS Program 33 and also in the 1998 report of NVSC.

Without established and documented clear lines of administrative authority, it remains unclear who is ultimately responsible for the financial activity of the Commission and its office.

We again recommend the Governor, the Commission, and HHSS establish and document clear lines of administrative authority over the operations of the Commission.

Department's Response: The Department agrees with the finding regarding administrative authority over the Nebraska Volunteer Service Commission.

Corrective Action Plan:

- *The Department will prepare a memorandum of understanding which will document clean lines of authority.*

Anticipated Completion Date: November 2007

Fixed Assets

31. Lack of Segregation of Duties Over Fixed Assets

Good internal control requires an adequate segregation of duties so no one individual is in a position to both perpetuate and conceal errors or irregularities. Good internal control also requires procedures to ensure accurate records are maintained and that assets are properly safeguarded.

COMMENTS AND RECOMMENDATIONS

(Continued)

Fixed Assets (Continued)

31. Lack of Segregation of Duties Over Fixed Assets (Continued)

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires each State agency to make an inventory of all property, including furniture and equipment, belonging to the State of Nebraska; if any of the property of the State, is lost or destroyed, the (DAS) administrator shall, take the proper steps to recover such State property or the reasonable value thereof from the agency. The statute further requires each agency indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with "Property of the State of Nebraska."

We noted the following:

- One individual was responsible for maintaining the fixed asset records for non-computer items, ensuring all purchases were correctly added, and reviewing the additions and retirements report and also had the capability to add fixed assets.
- One individual responsible for adding computer assets also reviewed reports to ensure computer items were correctly added and performed the physical inventory. There was no independent review to ensure all computer items were properly added to fixed asset records.
- HHSS had no procedures to report lost or stolen computer assets to DAS. HHSS changed assets to a Pending stolen status, but DAS was not notified.
- Two transactions totaling \$88,701 that were listed on fixed asset exception reports were "passed" on but were not corrected on the State accounting system. The items were coded as building improvements but were subsequently determined by HHSS to be operating expenses; however, no corrective journal entry was made to change the capital outlay expenses to operating expenses.
- During testing of 40 fixed assets, 1 laptop was not located, 3 assets were not identified with a tag number or stating "Property of the State of Nebraska," and the recorded location was incorrect compared to actual location for 2 assets.

Similar findings were noted in our prior report.

Without adequate controls over fixed assets, there is an increased risk of loss or theft of State assets.

We recommend HHSS develop policies and procedures to ensure fixed assets are properly recorded and safeguarded.

COMMENTS AND RECOMMENDATIONS

(Continued)

Fixed Assets (Continued)

31. Lack of Segregation of Duties Over Fixed Assets (Concluded)

Department's Response: The Department agrees with the findings regarding the lack of segregation of duties over fixed assets.

Corrective Action Plan:

- *Policies and procedures are being written to assure the continued recording and safeguarding of assets and to strengthen internal controls to address the weaknesses due to lack of segregation of duties.*

Anticipated Completion Date: September 2007

32. Inadequate Computer Asset Management System Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets, including ensuring all fixed assets are properly accounted for. Good internal control also requires access to be limited to only necessary authorized employees based on functions (add, delete, status change, location change) and changes be reviewed by management.

HHSS uses Computer Asset Management System (CAMS) to help manage and maintain records of their computer and computer-related fixed assets. One function of CAMS is to record the location of assets, this information is used to perform annual physical inventories at HHSS site locations throughout the State. Each location sends a list of computer assets to the Central Office in Lincoln. Exceptions reports were run to show differences between CAMS and the listing of assets sent by location. There were 139 users in CAMS that had access to add, change the status, and change location of computer items. We noted the following during the review of CAMS:

- There were no written policies or procedures to authorize and review the changes in CAMS including adding, deleting, or changing the status of assets.
- Locations in CAMS were updated to NIS monthly without review.
- Individuals who were responsible for sending the annual physical inventory listings of assets to the HHSS Central Office had access to CAMS. The users had the ability to archive assets which removes items from showing up on physical inventory exception reports.
- One individual was responsible for reviewing exception reports, comparing the physical inventory to CAMS, and had access to CAMS to make changes. There was no independent review by management.

COMMENTS AND RECOMMENDATIONS

(Continued)

Fixed Assets (Continued)

32. Inadequate Computer Asset Management System Procedures (Concluded)

- For 57 HHSS WIC and Immunization locations throughout the State there was not adequate documentation of physical inventories. There was no documentation that a comparison between the received inventory listings and HHSS records of the inventory on CAMS was performed.

Similar findings were noted in our prior report.

Without approved written policies and procedures and adequate segregation of duties there is an increased risk for the misuse or loss of State computer assets.

We recommend HHSS implement procedures to ensure a segregation of duties so that no one individual can both perpetrate and conceal errors or irregularities. We also recommend adequate written procedures be established including documented authorization of changes made to computer items in CAMS and the review of these changes by management.

Department's Response: The Department agrees with the findings regarding inadequate Computer Asset Management System (CAMS) procedures.

Corrective Action Plan:

- *Policies and procedures are being written to assure the continued recording and safeguarding of assets and to strengthen internal controls to address the weaknesses due to lack of segregation of duties, and to document authorization of changes to computer items in CAMS with review by management.*

Anticipated Completion Date: September 2007

33. Inadequate Segregation of Duties Over Supply Inventories

Good internal control requires adequate segregation of duties to be in place, so that no one individual could perpetrate and conceal errors or irregularities. Good internal control also requires procedures to accurately account for inventory.

All three HHSS regional centers (Lincoln, Norfolk, and Hastings) maintain supply inventories including food, medical, and household supplies inventory. We noted:

- There were no written procedures at Lincoln, Norfolk, or Hastings Regional Centers for supply inventories.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

Fixed Assets (Concluded)

33. Inadequate Segregation of Duties Over Supply Inventories (Concluded)

- A lack of segregation of duties for food, medical, and household supply inventories at Lincoln Regional Center, for medical and household supplies inventory at Norfolk Regional Center, and for food inventory at Hastings Regional Center.
- Seven of thirteen supply inventory items tested at Lincoln did not agree to the inventory records. Actual counts of items were less than inventory records ranging from 1 to 44 units of inventory.

Supply Item	Auditor Count	Record Count	Shortage
Pork Chops (lbs)	156	200	44
Cookies (bag)	5	16	11
BBQ sauce (case)	2	3	1
Orange Juice (case)	21	23	2
Medical Soap (bottle)	34	41	7
Medical Sets (set)	14	15	1
Cooking Oil (case)	1	12	11

Without adequate controls there is an increased risk of loss or misuse of State inventory.

We recommend HHSS establish written procedures and adequate segregation of duties to ensure supply inventories are accurately recorded and properly safeguarded.

Department's Response: The Department agrees with the findings regarding segregation of duties over supply inventories.

Corrective Action Plan:

- *The Department will forward a draft to each facility for appropriate modification and adoption relative to the operation of all supply warehouses.*

Anticipated Completion Date: September 2007

34. Surplus Proceeds Held in Incorrect Fund

Neb. Rev. Stat. Section 81-161.04(2) R.R.S. 2003 states, "the proceeds of the sales shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either

COMMENTS AND RECOMMENDATIONS

(Continued)

Fixed Assets (Concluded)

34. Surplus Proceeds Held in Incorrect Fund (Concluded)

cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property.”

HHSS surplus property proceeds are deposited to Cash Fund 22600 and then transferred by HHSS to the General Fund; however, surplus proceeds received from December 2003 to October 2005 for a total amount of \$65,776 remained in the Cash Fund and were not transferred to the fund of origination or the General Fund.

We recommend HHSS implement procedures to timely transfer all surplus proceeds, including the excess balance noted above, to the General Fund.

Department's Response: The Department agrees with the finding that surplus property proceeds were not routinely transferred to the appropriate fund(s).

Corrective Action Plan:

- *Surplus property proceeds are being transferred to the fund of origination or the General fund monthly.*

Anticipated Completion Date: Completed

Miscellaneous

35. Accounts Receivable

Per State statute, clients receiving services at the Regional Centers, Beatrice State Developmental Center (BSDC), and those receiving community-based developmental disability services, are liable for their cost of care, support, maintenance, and treatment. Clients (or other responsible persons) and third-party payers are billed monthly based on ability-to-pay determinations as required by statutes and regulations. For the fiscal year ended June 30, 2006, HHSS reported total client accounts receivables for the State Comprehensive Annual Financial Report (CAFR) of \$49,787,742 and net receivables after allowances were \$11,906,708 at June 30, 2006.

Good internal control requires an adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires procedures to ensure compliance with State statutes and regulations. Neb. Rev. Stat. Sections 83-227.01, 83-363 through 83-379, and 83-1211 prescribe requirements related to costs of services. Title 202 NAC Chapter 1 details ability-to-pay procedures.

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

35. Accounts Receivable (Continued)

HHSS does not have procedures in place to ensure all laws and regulations are followed, all ability-to-pay determinations and accounts receivable records are accurate; undue hardships granted are proper; and all billings and adjustments are preformed timely and reviewed for propriety. HHSS also does not have adequate collection procedures for past due accounts.

Without adequate procedures and without compliance with State requirements, individuals are not treated equitably based on their income and resources. It is likely that individuals with fewer resources were paying more than some individuals with substantial income and resources. There is a risk of the following:

- Individuals unable to pay may be improperly charged.
- Individuals with the ability-to-pay may not be properly assessed.
- Individuals with adequate resources may not be paying due to inadequate collection attempts.

Inadequate collection procedures results in a greater burden to taxpayers.

We recommend HHSS implement procedures to ensure ability-to-pay determinations and accounts receivable records are accurate; and adequate collection procedures are performed.

Department's Response: The Department disagrees with the finding for the ability-to-pay determinations.

- *Ongoing collection activities and client appeals are frequently reviewed by the Financial Responsibility Administrator, a DHSS attorney, and trust officers when reviewing AR reports, during collection activities, or responding to appeals.*
- *The ability-to-pay guidelines were extensively reviewed and modified in 2006 and additional changes were made in 2007 to assure compliance with statutes, regulations, and to improve the accuracy of AR balances.*

The Department partially agrees with the finding for undue hardship procedures.

- *Audit findings did not confirm a negative trend or significant problem exists. However the Department agrees improvement is needed.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

35. Accounts Receivable (Continued)

Department's Response, Concluded:

Corrective Action Plan:

- *A review of the procedure and current practices with all staff was already planned to assure consistency and to further enhance accuracy.*
- *Persons receiving needs-based government benefits now qualify for undue hardship. This will reduce the potential for error and is expected to reduce the number of delinquent accounts.*

Anticipated Completion Date: September 2007

The Department partially agrees with the finding for inadequate collection attempts.

- *Since 2005, several performance, procedural, and system issues were prioritized and resolved. However, more improvement is required.*

Corrective Action Plan:

- *More recently, collection guidelines were revised by DHHS to streamline and improve overall collections performance (June 2007).*
- *The Avatar billing and collection system was installed in two more regional centers facilities (Spring, 2007), with plans to install at BSDC (Fall, 2007).*
- *A tax refund intercept procedure was proposed to DAS.*
- *DHHS is currently pursuing a contract with a debt collection agency; a current project involves cleaning up inactive and 'old' uncollected DD balances, to continue throughout FY2008.*
- *DD is implementing new policies and practices to address noncompliant clients.*
- *FR will not have to collect Medicaid Share-of-Costs from clients beginning January 2008.*

Anticipated Completion Date: January 2008

The Department disagrees with the finding regarding a lack of procedures to assure Compliance with Statutes and Regulations.

- *Since 2005, many key procedures and practices were reviewed by and discussed with various parties, including responsible employees, DHHS legal staff, administration, and others, to assure compliance, and also to improve overall performance.*
- *Many procedures and system changes resulted from this effort.*
- *Because a complex array of intermingled laws, regulations, program policies, practices, and procedures exist, implementing changes is a slow process.*
- *The audit does not recognize several key improvements accomplished since 2005 resulting in a reduction of uncollected AR.*
- *The Department believes it complies with applicable statutes and regulations.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

35. Accounts Receivable (Concluded)

APA's Response: During our review of these receivables we noted:

- **Effective December 2005, HHSS assessed the ability-to-pay at \$0 for cases where the client was solely responsible for charges and no financial information was received. This is in direct conflict with State regulations which requires ability-to-pay be assessed at full cost if financial information is not received.**
- **Undue hardships were granted without verification of income or liabilities submitted. Adjustments were made to reduce the accounts receivable for reasons such as deceased and unable to locate. Adjustments were not submitted to the State Claims Board. Adjustments and undue hardships were processed without any evidence of supervisory review.**
- **For services provided to children, the case files did not document information related to both parents. For Medicaid eligible children, parents were assessed an ability-to-pay for DD Community Services and BSDC, but parents were not assessed for Regional Center services.**

Our prior Regional Center report also noted HHSS procedures which did not comply with State rules and regulations, and inadequate controls over adjustments. For fiscal year 2006, we did not note any significant changes of performance or procedural issues related to collection attempts of accounts receivable. Our current testing demonstrates a need to improve controls and procedures over ability-to-pay calculations, undue hardships, adjustments, and collections.

36. Medicaid Overcharged for ICF MR Tax

Neb. Rev. Stat. Section 68-1803 R.S.Supp., 2004 requires each intermediate facility for the mentally retarded (ICF MR) to pay a tax equal to six percent of its revenue for credit to the ICF/MR Reimbursement Protection Fund. Once the tax is paid, it becomes an expense used in the determination of the cost of patient care.

Most patients at these facilities are eligible for Medicaid, which pays approximately 60% of the cost of care for eligible patients. To be allowable, Medicaid costs must be in accordance with the State Plan approved by the Federal regulatory agency, Center of Medicaid Services (CMS). CMS approved the provider tax starting fiscal year 2005. Good internal control requires procedures to ensure expenditures are in compliance with Federal regulations.

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

36. Medicaid Overcharged for ICF MR Tax (Concluded)

BSDC is an ICF MR facility. BSDC bills Medicaid for eligible patients based on an estimated cost per day. Throughout the year, HHSS audit division will make rate adjustments based on a review of actual BSDC expenditures. These adjustments retroactively change the estimated rates paid to the rate calculated based on actual expenditures for invoices paid during that fiscal year.

In 2006 the auditing division performed a review of BSDC expenditures for fiscal years 2004 and 2005. During this review they inappropriately included provider tax costs for fiscal year 2005 to determine fiscal year 2004 rates. This rate was retroactively applied to 2004 invoices and as a result HHSS incorrectly paid BSDC \$1,388,149 in Federal Medicaid funds. The provider tax was not approved by CMS for 2004 and was not paid by BSDC for fiscal year 2004. HHSS also incorrectly paid BSDC \$137,879 in Federal Medicaid funds due to an error in the amount of ICF MR Provider Tax used to calculate the cost for the fiscal year ended June 30, 2005. In total, Medicaid was overcharged \$1,526,028.

Noncompliance with Federal regulations results in questioned costs and possible Federal sanctions.

We recommend HHSS implement procedures to ensure compliance with Federal and State regulations. We further recommend HHSS correct the \$1,526,028 charged to Medicaid.

Department's Response: The Department agrees with the finding regarding Medicaid being overcharged for ICF-MR Tax.

Corrective Action Plan:

- *An adjustment was made in May 2007 and will appear in the June 2007 federal claim (CMS-64 Report).*

Anticipated Completion Date: July 2007

37. Inadequate Monitoring of Grant Awards

Good internal control requires procedures to ensure grant conditions are adhered to and funds are properly spent. The Tobacco and SICA grant agreements required annual audits and documentation to support that no funds were used to supplant existing activities. OMB Circular A-133 requires a pass through entity to monitor the subrecipient's use of Federal awards to provide reasonable assurance the subrecipient administer the award in compliance with laws

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

37. Inadequate Monitoring of Grant Awards (Continued)

regulations, and the provisions of contract or grant agreements, and those performance goals were achieved. OMB Circular A-87 also requires charges for good and services to be in accordance with relative benefits received and charges for salaries must be supported by timesheets.

HHSS did not receive annual audits for the Tobacco Free Grant or State Incentive Cooperative Agreement (SICA) grant for one subrecipient tested and did not perform subrecipient monitoring for the SICA grant. In addition, HHSS did not have documentation to support funds were not used to supplant existing activities. We also noted the March 31, 2006, SICA quarterly report was not on file and had to be obtained by HHSS from the subrecipient. Our review of subrecipient SICA payments noted charges that were not in accordance with OMB Circular A-87. Payroll charges did not agree to timesheets and \$2,547 in goods and services were not in accordance with the relative benefits received by the SICA grant. The subrecipient received \$55,256 from the Tobacco Grant and \$156,808 from the SICA grant during the fiscal year ended June 30, 2006.

We further noted CFDA 93.230 Consolidated Knowledge Development and Application Program funded \$139,326 of the SICA payments. This CFDA is to be used to provide knowledge to service providers to cope with the changing health care environment. The SICA grant to Community Connections is for substance abuse prevention activities and does not appear to be in accordance with the use restrictions of the Federal Program.

Inadequate monitoring of grant payments increased the risk for loss or abuse to occur.

We recommend HHSS implement procedures to ensure grant conditions and Federal regulations are met.

Department's Response: The Department agrees with the finding regarding inadequate monitoring of grant funds.

Corrective Action Plan:

- *Procedures have been implemented to ensure grant conditions and Federal regulations have been met.*

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Continued)

37. Inadequate Monitoring of Grant Awards (Concluded)

Department's Response, Concluded:

- *Since January 2007, more stringent monitoring procedures have been implemented. These procedures will assure that all quarterly reports are filed on time and that the required annual audits are completed in a timely manner. If they are not, payments are withheld from sub recipients.*
- *In addition, the expenditure reports from all sub recipients will be closely analyzed to assure that the grant funds meet conditions of the grant and comply with Federal regulations.*

Anticipated Completion Date: Completed

38. Reconciliation of Fund 72640

Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. Good internal control requires procedures to ensure bank records agree to NIS, the State's accounting system.

The State Disbursement Unit's (SDU) reconciliation between the NIS Fund 72640 balance and the bank balance had a variance of \$1,592,201 at June 30, 2006, with the bank being short compared to NIS. The IV-D Support Payment Distributive – SDU Fund (Fund 72640) is under the authority of HHSS and is used by the SDU and HHSS to administer the process of collecting and distributing child support payments. The SDU was balancing records to the Treasurer's Ledger; however, there was no reconciliation completed between the bank records and NIS from inception until December 2005. The Treasurer's Ledger was used to record all financial transactions affecting the State Treasurer. The SDU is in the process of determining what caused this variance by going back and reviewing transactions since the inception of the SDU. The SDU did not start performing a daily reconciliation until December 2005.

There is an increased risk of loss or misuse of Federal funds when the bank balance does not reconcile to the State's accounting system.

We recommend HHSS work with the State Treasurer to resolve the variance noted and periodically reconcile the bank balance to NIS.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

Miscellaneous (Concluded)

38. Reconciliation of Fund 72640 (Concluded)

Department's Response: The Department agrees with the finding regarding reconciliation of Fund 72640.

Corrective Action Plan:

- *The Nebraska State Treasurer has entered into an interagency agreement with the Nebraska Department of Health and Human Services (DHHS) to administer and operate the State Disbursement Unit (SDU).*
- *The function of the SDU included the collection and disbursement of payments received under child support orders. In order to properly process the collection and disbursement of child support payments received, an SDU Collection Fund was created in the Nebraska Information System (NIS) under fund number 72640.*
- *This fund was managed by the State Treasurer under the authority of DHHS.*
- *DHHS Child Support Enforcement (CSE) has been working with the State Treasurer to reconcile the SDU collection Fund (Fund 72640). Effective May 1, 2007 CSE will devote additional time to work with the State Treasurer to reconcile the noted variance documented in the State audit and better implement procedures to periodically reconcile the bank balance to NIS in the future.*
- *CSE has been in contact with the State Treasurer staff at the SDU to initiate and accomplish this outcome.*

Anticipated Completion Date: October 2007

COMMENTS RELATED TO THE SINGLE AUDIT

The following findings were noted during the State of Nebraska Comprehensive Annual Financial Report (CAFR) and Statewide A-133 Single Audit for the fiscal year ended June 30, 2006. Findings considered reportable conditions of internal control over financial reporting are included in their entirety, the remaining findings are presented in summary form. 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. The complete findings along with Management responses are presented in the State of Nebraska Single Audit Report for fiscal year ended June 30, 2006. <http://www.auditors.state.ne.us/>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

39. Computer Controls

Finding #06-26-03

Program: CFDA 93.558 Temporary Assistance for Needy Families, 93.778 Medicaid, 93.575 and 93.596 Child Care Cluster, 93.659 Adoption Assistance Title IV-E, and 93.658 Foster Care Title IV-E - Allowability/Eligibility

Grant Number & Year: All grants open during State fiscal year 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires access to the system to be limited to users who need access to complete their job responsibilities. Good internal control and sound business practice requires a reconciliation to be completed between NFOCUS and the Nebraska Information System (NIS) prior to posting transactions on NIS.

Condition: Three on-call Support Mainframe Programmers were permitted access to the mainframe production environment. This access was formally approved by the Technical Applications Manager and/or the IS&T Business Applications Manager. However, programmer access creates a segregation of duties issue as application programmers could circumvent existing change control procedures.

The Health and Human Services Finance Department did not reconcile the data sent from NFOCUS to NIS. In addition, the following segregation of duty issues were identified: 1) Two individuals had the ability to set up a case, make eligibility adjustments to that case, and create/approve claims payments for those cases. 2) Four individuals had the ability to create and approve claims payments, but do not need this access to complete their job responsibilities.

Notification of termination for 18 of 25 terminations tested was sent after the employee's termination date. User termination requests were not processed in a timely manner.

Questioned Costs: N/A

Process Description: NFOCUS supports an integrated service delivery platform to determine a family's eligibility for multiple programs and/or services from a single point. It provides an interactive expert system with rule based processing. NFOCUS also interfaces with NIS to pay claims such as Temporary Assistance to Needy Families, Foster Care, and Child Care. NFOCUS sends NIS PTF files of volume vouchers, financial numbers based on claims paid, and journal entries.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

39. Computer Controls (Continued)

Context: Procedures were performed to evaluate the design and operating effectiveness of application specific controls for NFOCUS. This included performing procedures related to edit checks, validation checks, segregation of duties, and interface controls. The procedures commonly consisted of a combination of inquiry, corroboration, observation, and re-performance.

Cause: Unknown.

Effect: There is an increased risk the changes made to production data may not be properly authorized, and users may have excessive access to the system. There is also an increased risk for invalid claims payments because there is no reconciliation between NFOCUS and NIS being completed and there is a lack of segregation of duties.

Recommendation: We recommend the Agency implement the following:

- Procedures to ensure the ability to update code within the production environment is limited to personnel whose job does not include programming responsibilities. Also, changes made should be done utilizing a change control tool to check code in and out of production.
- Procedures to ensure access to the system is limited to users who need access to complete their job responsibilities and terminated employee's access is deactivated.
- Perform reconciliation between NFOCUS and NIS prior to posting transactions on NIS.

Management Response: This issue is not exclusively a TANF issue. The item has been cited for the IT area for several program audits and the Agency last responded to these findings in August of 2005. The Agency has made corrections by limiting the number of development individuals who have access to the database and production environment.

Corrective Action Plan:

- The mainframe production programmers referenced in the condition cited are On-Call Production Support Shift Analysts. Their primary job function requires access to the mainframe production environment to address production issues on a 24/7 basis. In reviewing access, it was determined that two of the individuals identified no longer needed mainframe production access to Agency applications and their access was terminated. The remaining individuals identified will retain their access to the production environment to perform their primary job function and support the Agency's critical applications.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

39. Computer Controls (Concluded)

- All access was removed in May 2006 during the Deloitte review for the four individuals cited in the 'segregation of duties' finding related to create/approve claims payments.
- The finance unit has developed a process to reconcile the data sent from NFOCUS to NIS.

Auditor's Response: No programmer should be permitted access to the mainframe production environment.

40. No Reconciliation Between Federal Reports and NIS

Finding #06-26-07

Program: CFDA 93.778 Medicaid – Reporting

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. The Nebraska Information System (NIS) is the official accounting system of the State and all expenditures are generated from NIS. Good internal control requires timely, periodic reconciliations between required reports and the accounting system.

Condition: The Agency utilizes the Medicaid Management Information System (MMIS), the NFOCUS system, and NIS to prepare the quarterly Federal reports to the Centers for Medicare and Medicaid Services (CMS). The Agency reconciles MMIS to NIS monthly; however, no reconciliation is performed between the Federal reports to NIS.

Questioned Costs: Unknown.

Context: Our review of Medicaid aid expenditures for the quarter ended March 31, 2006, reported compared to NIS noted:

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

40. No Reconciliation Between Federal Reports and NIS (Concluded)

<u>Aid Expenditures</u>	<u>Federal</u>	<u>State</u>
Per Report to CMS	\$ 211,270,587	\$140,991,617
Per NIS	<u>205,040,323</u>	<u>139,789,959</u>
Variance	\$ 6,230,264	\$ (1,201,658)

The Agency prepares the Federal report using total expenditures and multiplies by the applicable Federal percentage to report the allocation between Federal and State funds. There is no reconciliation to ensure the Federal reports agree to NIS. Our cursory review of federal aid expenditures by quarter also noted variances in other quarters, including, the quarter ended June 30, 2006:

<u>Aid Expenditures</u>	<u>Federal</u>
Per Report to CMS	\$ 215,870,749
Per NIS	<u>199,661,847</u>
Variance	\$ 16,208,902

Cause: In May 2006, the Agency began developing a methodology to reconcile CMS reports to NIS; however, no quarterly reports had yet been reconciled.

Effect: Without adequate controls there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency perform a quarterly reconciliation of Medicaid aid expenditures per NIS to the CMS report.

Management Response: The Agency agrees.

Corrective Action Plan: As noted above, the development of reconciliation methodology was initiated earlier this year. However, there are barriers to a successful development of a fully automated process. Variances occur because a number of NIS accounts do not match MMIS or NFOCUS accounts and because there are different month end and year end transaction cutoff dates and a very complex array of fund, business unit, grant, and program numbers affecting reportable expenditures. To address this problem, sources of each variance will be identified and explained on the quarterly reconciliation report. This change should be fully implemented beginning with the reporting period of October 1, 2006 – December 31, 2006.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

41. Developmental Disability Adjustment

Finding #06-26-08

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles/Reporting/Matching

Grant Number & Year: #050605NE5028, #050505NE5028, #050405NE5028; FFY 2006, 2005, 2004

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: To be allowable, Medicaid costs for medical services must be paid to eligible providers, and paid at the rate allowed by the State plan. Per OMB Circular A-87, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized under State laws or regulations. Title 45 CFR 92.20 requires the State expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The Nebraska Information System (NIS) is the official accounting system of the State of Nebraska. Title 42 CFR 433.10 provides “for payments to States, on the basis of a Federal medical assistance percentage.” Title 42 CFR 433.51 allows public funds to be considered as the State's share in claiming Federal participation if the public funds are appropriated directly to the local Medicaid agency, or certified by the contributing public agency as representing expenditures eligible for Federal participation; and the public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

Condition: The Agency reported an adjustment of \$7,742,848 on the March 31, 2006, quarterly CMS report for Developmental Disability services from October 2004 through December 2005; these costs were never paid to providers and were not recorded on NIS. The Federal share of these costs was \$4,618,444. The Agency did not have documentation to support these were allowable costs; or if allowable, that the costs were provided by public funds in accordance with Federal requirements.

Questioned Costs: \$4,618,444

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

41. Developmental Disability Adjustment (Continued)

Context: The Agency pays providers of developmental disability services at 90% of Agency determined rates. The Agency then reported an adjustment to claim the 10% not paid to public providers. The Agency did not have adequate documentation to support the amount paid was 90% of costs or that 10% was provided by Public funds. Further, the Public funds were not appropriated directly to the local provider, and were not certified as representing expenditures eligible for Federal participation.

The Agency reconciliation of allowable expenditures for fiscal year 2005 indicated providers were reimbursed 95%. This reconciliation used an unsupported administration allocation, without the unsupported allocation the providers were reimbursed 111%. In addition, the amount per Agency records provided by county funds was only 3%.

Public Providers	Actual Paid per NIS		Claimed per Report	
October 2004 - September 2005				
State Funds	\$ 25,064,852	35.16%	\$ 31,286,743	40.36%
Federal Funds	46,232,442	64.84%	46,232,443	59.64%
subtotal	71,297,294		77,519,186	
October 2005 -December 2005				
State Funds	6,512,376	35.39%	8,033,331	40.32%
Federal Funds	11,890,606	64.61%	11,890,607	59.68%
subtotal	18,402,982		19,923,938	
Total				
State Funds	31,577,228	35.20%	39,320,074	40.35%
Federal Funds	58,123,048	64.80%	58,123,050	59.65%
Total	\$ 89,700,276		\$ 97,443,124	

Cause: The Agency indicated they had verbal approval from CMS.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency obtain written approval certifying these adjustments are allowable. We further recommend the Agency maintain adequate support to document rates paid are 90% of costs; all Federal charges and State matching costs be recorded on NIS; and public matching funds be certified by the public provider as representing expenditures eligible for Federal participation.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

41. Developmental Disability Adjustment (Concluded)

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: This was approved during the quarterly CMS 64 review. The Agency does maintain support for all expenditures eligible for Federal Reimbursement.

42. Transfers of State Expenditures to Federal Costs

Finding #06-26-23

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Allowability

Grant Number & Year: #G0602NETANF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires adequate supporting documentation to ensure expenditures are proper.

Condition: Two journal entries tested transferred a total of \$7,000,000 of expenditures to Federal costs, which were originally paid with State funds. Detailed documentation was not available to determine if expenditures charged to the Federal grant were for allowable activities.

Questioned Costs: Unknown.

Context: The Agency used the same business unit (BU) on the Nebraska Information System for the Separate State Program benefit payments and State Maintenance of Effort (MOE) benefit payments. Because the two State expenditure types are accounted for in the same BU, but the Separate State Program would not be allowable Federal activities, the transfer of costs from the State BU to the Federal BU resulted in an inability to determine which of the costs transferred to Federal funds were from which type of State expenditure. We noted as of February 2006, the Agency began using a distinct BU for the Separate State Program expenditures. Per our estimation, it appeared there were sufficient allowable expenditures available for the transfer; however, detailed documentation was not available to test the underlying charges.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

42. Transfers of State Expenditures to Federal Costs (Concluded)

Finding #06-26-23

Cause: Agency did not utilize a separate business unit for the Separate State Program until February 2006.

Effect: Inability to trace expenditures to detailed payments to determine if expenditures charged to the Federal grant were allowable activities.

Recommendation: We recommend the Agency ensure transactions are adequately supported with detailed documentation to ensure payments are proper per Federal and State requirements. All transfers should have sufficient detail to trace to the original transactions.

Management Response: We agree with this finding and have put into place procedures to identify allowable expenditures.

Corrective Action Plan: The Separate State Program Business Unit, in place since February 2006, will ensure payments in this program are not made with Federal funds.

43. Various

Finding #06-26-01 Food Donation – Subrecipient Monitoring

Food Donation had 508 subrecipients for fiscal year 2006. The CFDA title and Federal agency were identified to the subrecipient, but the CFDA number was not.

Finding #06-26-02 Payroll - Allowable Costs/Cost Principles

We noted 3 of 50 employees tested worked on a single Federal award or cost objective. These 3 employees did not have periodic certifications as required by OMB Circular A-87.

Finding #06-26-04 Cost Allocation Plan– Allowable Costs/Cost Principles

For the quarter ended March 31, 2006, we tested two cost pools utilizing Time and Effort allocation methodology. Cost pool HR Staff Development had employees who recorded time and effort to two time codes, TANF/EF Employment First and Veterans Homes, which were not properly included in the calculations to allocate costs from this cost pool. Cost pool SM – Resource Development had labor costs for 13 of 72 employees with the NIS Job Code Description ‘HHSS Resource Developer’ charged to 3 other cost pools. Additionally, 8 of 72 employees with Job Code ‘HHSS Resource Developer’ did not complete time and effort reports, and their time and effort was not included in the calculation to allocate costs.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

43. Various (Continued)

Finding #06-26-05 Cost Allocation Plan - Allowable Costs/Cost Principles

For the quarter ended March 31, 2006, we tested two cost pools utilizing Random Moment Time Study allocation methodology. The statistical reports from the Random Moment Time Study (RMTS) program did not include complete samples, which altered the actual allocation amounts. Cost allocation pools were not properly allocated based upon the percentages developed from the complete RMTS samples.

Finding #06-26-06 Medicaid – Period of Availability

Fiscal year 2006 grant funds were used to pay for fiscal year 2004 and 2005 expenditures. The Agency charged \$18,557,995 to the fiscal year 2006 grant for expenditures related to the fiscal year 2004 and 2005 grants. The 2004 and 2005 grants are fully expended. The Agency corrected \$1,986,279 in May 2006 and \$16,571,715 in June 2006.

Finding #06-26-09 Medicaid – Allowable Costs/Cost Principles/Reporting/Matching

Payments during the State fiscal year ended June 30, 2006, for 2004 and 2005 DSH allotments were not in accordance with NAC regulations. One provider's pool calculation for 2004 DSH was \$1,613,101; the provider was paid \$962,699 but the \$1,613,101 was claimed on the Federal report.

Finding #06-26-10 Medicaid - Allowable Costs/Cost Principles

Practitioner claims for injections Medicaid recipients receive in a physician's office are not being reviewed and submitted to the drug manufacturers for rebate. Rebates for injectible drugs administered in a physician's office are reported to Medicaid on a Practitioner Claim instead of a Drug Claim. Drug Claims are monitored by ACS (Affiliated Computing Services) and the total of each drug is compiled for Nebraska Medicaid to submit to the appropriate manufacturer for rebate. Practitioner claims were not monitored for injectible drugs.

Finding #06-26-11 Medicaid – Eligibility

Two of forty-five Developmental Disability Waiver claims tested did not have documentation that yearly physicals were completed and for one claim tested the recipients' Individual Program Plan was not signed.

Finding #06-26-12 Medicaid - Special Tests and Provisions

The SURS Unit does not maintain adequate documentation regarding the methods and procedures used to perform the sampling and profiling of misutilization practices. The SURS Unit has procedures to evaluate possible misutilization practices, but written copies of these methods and procedures are not available. The Agency does not have a written sampling plan detailing the profiling cases to be reviewed.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

43. Various (Continued)

Finding #06-26-13 Medicaid – Allowable Costs/Cost Principles

Two of five provider claims tested did not list the start and stop times for chore services provided. We tested 5 provider claims for chore services totaling \$12,231 with a Federal share of \$7,300; total Federal expenditures for chore services for fiscal year 2006 were \$14,551,725. Two of the providers tested did not list start and stop times; therefore, we were unable to determine if they worked more than 5 hours per day required for the partial day rate. The Federal share for these two claims totaled \$3,616.

Finding #06-26-14 Child Care Cluster - Allowable Costs/Cost Principles and Eligibility

Two of twenty-four in-home provider payments tested did not have attendance sheets signed by the parent or guardian.

Finding #06-26-15 Aging Cluster - Subrecipient Monitoring.

One of four audits selected for testing was not on file. Another audit was not received within the 9 month requirement set forth by OMB Circular A-133.

Finding #06-26-16 Aging Cluster - Cash Management.

The Agency did not have written procedures or established guidelines regarding cash advances to subrecipients. Both cash advances tested appeared excessive. We tested one cash request each for two of eight subrecipients. One Area Agency had a Federal cash balance of \$59,233 and estimated expenditures for the next two months were \$65,000; the Area Agency was advanced an additional \$33,000 Federal funds. Another Area Agency had a Federal cash balance of \$42,495 and estimated expenditures for the next two months were \$20,785; the Area Agency was advanced an additional \$30,000 Federal funds.

Finding #06-26-17 Block Grants for Prevention & Treatment of Substance Abuse (SABG) – Subrecipient Monitoring

Subrecipient monitoring procedures should be improved. The Program operates under six regional governing boards which administer or contract with local community health facilities to provide services. The Agency has centralized monitoring procedures related to subrecipient audits, but did not receive all necessary reports and did not properly document the review of reports.

Finding #06-26-18 SABG – Allowability

One journal entry tested did not have adequate documentation to support expenses charged to the Federal Grant. The journal entry totaled \$1,174,430 and the amount not supported was \$86,583. The Agency paid the Regions with State funds for January and February 2006

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

43. Various (Continued)

Finding #06-26-18 (Concluded)

substance abuse services. In April, the Agency prepared a journal entry to transfer the cost from State to Federal Funds. The amount transferred for one region was \$157,323; however, the substance abuse claim amount was only \$58,231. The transfer for another region was for \$44,994; however, the claim amount was \$57,503.

Finding #06-26-19 SABG– Special Tests

The Agency did not have a peer review performed during fiscal year 2006. The last peer review was performed in September 2004.

Finding #06-26-20 Temporary Assistance for Needy Families – Allowability/Eligibility

We noted 5 of 45 TANF payments tested did not comply with Federal and State regulations. Two payments tested did not have documentation verifying the child's date of birth to ensure the child was a minor. We noted for one of these payments the custodial parent was not required to participate in Employment First because the TANF caseworker stated the recipient was a victim of domestic violence. The case was reviewed by the caseworker's supervisor and no verification of domestic violence was provided. The supervisor placed the custodial parent in mandatory Employment First status. There were an additional 4 TANF assistance payments noted during the fiscal year where the custodial parent was not required to participate in Employment First. One payment tested did not have verification of the custodial parent's income. The parent is an ineligible immigrant per the caseworker notes on NFOCUS and the notes in the case file. There was a verification of employment in the case file, but the caseworker had noted the custodial parent was working under another individual's name. The employment verification was outdated and did not state the custodial parents name because the individual was working under another name and social security number. In two payments tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews were three and seven months overdue.

Finding #06-26-21 Temporary Assistance for Needy Families – Special Tests

The TANF assistance was not properly reduced for Child Support non-cooperation in 9 of 28 cases tested. We tested 45 CSE sanctions to determine if the TANF assistance payment was properly reduced for non-cooperation and the reduction was applied in a timely manner. Of the 45 sanctions tested, 28 received TANF assistance during fiscal year 2006. A non-cooperating individual's assistance was not properly reduced by at least 25%, terminated, or, if not reduced the reason was documented and allowable, for 9 of the 28 applicable cases. The reduction in assistance for 2 of these 9 was eventually completed, but was not completed timely. The sanction amount was imposed from two to five months after the notice of non-cooperation form was sent to the TANF worker.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

43. Various (Continued)

Finding #06-26-22 Temporary Assistance for Needy Families – Eligibility/Allowability

We tested 45 cases and noted three cases received greater than 60 months of Federal TANF payments. One of the three cases had also exceeded the State's requirement of receiving more than 24 months of assistance in a continuous 48 month period of time.

Finding #06-26-24 Temporary Assistance for Needy Families – Reporting

The two ACF-196 reports tested did not correctly report Federal expenditures in the appropriate grant award year and the Federal and State expenditures reported on the FFY 2005 and FFY 2006 grants were not actual expenditures as reported on NIS. We were also unable to determine if the amount reported for Separate State Program expenditures was accurate because the Agency did not have procedures to ensure amounts reported agreed to NIS, the official accounting system of the State.

Finding #06-26-25 Child Support Enforcement – Subrecipient Monitoring

The Agency could not provide supporting documentation showing whether or not subrecipients were notified of the award information.

Finding #06-26-26 Child Support Enforcement - Allowability

For 1 of 8 State Treasurer employees tested, there was no written approval from the cognizant Federal agency for the substitute system used for the allocation of payroll costs for the Federal program. In addition, it was noted an additional employee did not have written approval for the allocation of payroll costs for the Federal program. The Treasurer receives Federal funding through HHSS. HHSS contracts with the State Treasurer to collect and distribute child support payments.

Finding #06-26-27 Foster Care Title IV-E – Reporting

Adjustments were not adequately supported, adjustments were not recorded on NIS, and expenditures were incorrectly reported. Reporting errors for the two quarters total \$4,300 under reported, (\$12,056 + \$23,292 - \$2,651 - \$36,997). Adjustments not recorded on NIS for the fiscal year totaled \$2,608,621, (\$2,611,272 - \$2,651). The initial expenditures were charged on NIS to the Federal grant; however, as the adjustments were not recorded on NIS, the amounts were not paid back. The Agency indicated awards were adjusted quarterly to the actual claimed amount and adjustments will be reflected when the final quarterly awards are issued by the Federal agency.

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Continued)

43. Various (Continued)

Finding #06-26-28 Foster Care Title IV-E – Allowability and Eligibility

We noted 7 of 50 Foster Care maintenance payments tested were not allowable as all eligibility requirements were not met. For four payments tested, the child was not in a licensed foster care home and an additional payment did not have documentation on file during testing to support the child was in an approved home. Cases files were requested August 28, 2006, and documentation was not received until January 24, 2007. One child had been in foster care, returned to the family, and then returned to foster care. Eligibility was not redetermined for the second episode and therefore the payment was not allowable. For one payment tested, the child was 18 years old and not a full-time student.

Finding #06-26-29 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

The adoption subsidy agreement forms were not reviewed by a supervisor. Two of forty-five cases selected for testing were not signed by a supervisor. The adoption subsidy agreements were in October 2005 and March 2006. The agreements were signed and approved by a caseworker; however, there was no documented review by a supervisor.

Finding #06-26-30 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

The adoption subsidy agreements were not signed and in effect before the final decree of adoption. During the testing of forty-five payments, we noted two agreements were not signed before the final decree of adoption. The adoption agreements were signed three weeks to three months after the final decree of adoption.

Finding #06-26-31 Adoption Assistance – Activities Allowed or Unallowed and Matching

Unallowed costs were noted including respite care and incorrect adoption subsidy payment amounts. Unallowed costs were included in determining the Federal match amounts. One case tested the amount paid exceeded the subsidy agreement by (federal share) \$142. The caseworker recalculated the payment amount based on request for an increase in the adoption subsidy payment by the parent. The request was approved; however, the adoption subsidy agreement was not updated. Also during testing we noted two families with payments for multiple siblings. Three of the siblings included respite care that was correctly paid with State funds; however, the federal share was calculated including the respite care. Federal funds were over-charged by \$381 due to the improper matching computation.

Finding #06-26-32 Adoption Assistance – Eligibility

Benefits were not discontinued when period of eligibility expired. During our testing of 45 cases, we noted 11 individuals who turned 18 during the fiscal year. Three of the eleven cases, had payments after the individual turned 18. The federal share of payments during the fiscal year after eligibility had expired for the three cases totaled \$2,956.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

COMMENTS AND RECOMMENDATIONS

(Continued)

COMMENTS RELATED TO THE SINGLE AUDIT (Concluded)

43. Various (Concluded)

Finding #06-26-33 Adoption Assistance – Allowable Costs/Cost Principles and Matching

Legal fees were paid that exceeded the amount specified on the adoption subsidy agreement and legal fees were not matched at the correct rate. During testing of 45 cases, we noted 4 payments for legal fees. Two payments exceeded the legal fees authorized on the adoption agreement by a total of \$64. All four legal expenses tested were matched at the incorrect rate. The payments were charged as aid rather than administrative costs and were matched at the Federal aid rate of 59.68% instead of the 50% match rate for administrative costs.

Finding #06-26-34 Maternal and Child Health Services Block Grant - Earmarking

The Agency does not have adequate support to demonstrate earmarking requirements were met. MCH tracks expenditures based on the Federal fiscal year and not by the allotment/grant period. As expenditures from one Federal fiscal year could include funds from up to two allotments/grants, the program is not able to identify what types of expenditures, i.e. by earmark categories, were specifically spent from each allotment.



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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Health and Human Services System
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System (System) for the fiscal year ended June 30, 2006. The System's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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 balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System for the fiscal year ended June 30, 2006, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007, on our consideration of the Nebraska Health and Human Services System'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 System and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

June 25, 2007


Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

	General Fund 10000	Cash Funds	Construction Funds	Federal Funds
REVENUES:				
Appropriations	\$ 1,012,002,715	\$ -	\$ 3,210,029	\$ -
Taxes	-	11,372,189	-	-
Intergovernmental	3,195	1,808,579	-	1,302,389,190
Sales & Charges	15,524	33,305,689	-	10,888,325
Miscellaneous:				
Investment Interest	-	3,341,156	-	1,720,471
Gain on Sales of Investments	-	-	-	-
Donations & Contributions	-	2,648,882	-	4,055
Other Miscellaneous	1,360,688	12,772,071	-	2,082,675
TOTAL REVENUES	1,013,382,122	65,248,566	3,210,029	1,317,084,716
EXPENDITURES:				
Personal Services	145,246,972	24,428,935	-	106,778,601
Operating	53,359,827	23,006,981	312,035	143,804,638
Travel	2,752,665	603,921	-	1,531,406
Capital Outlay	1,181,375	294,768	2,897,994	6,499,782
Government Aid	809,461,876	82,282,496	-	1,058,704,629
TOTAL EXPENDITURES	1,012,002,715	130,617,101	3,210,029	1,317,319,056
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,379,407	(65,368,535)	-	(234,340)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	81,402	-	-	-
Adjustment to Fund Balance	190,815	123,074	-	(8,365)
Deposit to General Fund	(1,463,929)	-	-	-
Deposit to/from Common Fund	-	(93,892)	-	-
Operating Transfers In	3,120	56,444,207	-	-
Operating Transfers Out	-	(8,232,421)	-	(3,120)
TOTAL OTHER FINANCING SOURCES (USES)	(1,188,592)	48,240,968	-	(11,485)
Net Change in Fund Balances	190,815	(17,127,567)	-	(245,825)
FUND BALANCES, JULY 1, 2005	527,695	75,737,266	-	41,093,368
FUND BALANCES, JUNE 30, 2006	\$ 718,510	\$ 58,609,699	\$ -	\$ 40,847,543
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 57,608,207	\$ -	\$ 43,491,291
Petty Cash	4,200	61,618	-	-
NSF Items	-	-	-	-
Deposits with Vendors	275,688	14,123	-	276
Accounts Receivable Invoiced	-	590,996	-	295,167
Due From Other Funds	-	973,000	-	4,154,504
Due From Other Government	-	(13,990)	-	-
Loans Receivable	-	1,640,472	-	57,458
Long-Term Investments	-	-	-	-
Due to Vendors	-	(395,676)	-	(4,730,020)
Tax Refunds Payable	-	-	-	-
Deposits	-	-	-	(3,300,000)
Due to Fund	-	(1,871,113)	-	(1,840,021)
Supplies	438,622	2,062	-	2,718,888
TOTAL FUND BALANCES	\$ 718,510	\$ 58,609,699	\$ -	\$ 40,847,543

The accompanying notes are an integral part of the schedule.

Trust Funds	Distributive Funds	Totals (Memorandum Only)
\$ -	\$ -	\$ 1,015,212,744
-	-	11,372,189
-	-	1,304,200,964
782,711	-	44,992,249
7,909,462	-	12,971,089
27,126,113	-	27,126,113
56,983,605	-	59,636,542
9,732,705	-	25,948,139
<u>102,534,596</u>	<u>-</u>	<u>2,501,460,029</u>
75,371	-	276,529,879
1,249,368	-	221,732,849
863	-	4,888,855
53,270	-	10,927,189
9,043,819	-	1,959,492,820
<u>10,422,691</u>	<u>-</u>	<u>2,473,571,592</u>
92,111,905	-	27,888,437
-	-	81,402
-	-	305,524
-	-	(1,463,929)
(419,481)	-	(513,373)
16,655	-	56,463,982
<u>(52,068,339)</u>	<u>-</u>	<u>(60,303,880)</u>
<u>(52,471,165)</u>	<u>-</u>	<u>(5,430,274)</u>
39,640,740	-	22,458,163
348,234,063	77,306	465,669,698
<u>\$ 387,874,803</u>	<u>\$ 77,306</u>	<u>\$ 488,127,861</u>
\$ 7,844,273	\$ 3,126,060	\$ 112,069,831
-	-	65,818
-	551,285	551,285
-	-	290,087
1,000	-	887,163
-	-	5,127,504
3	-	(13,987)
-	-	1,697,930
381,705,859	-	381,705,859
(5,781)	47,730	(5,083,747)
-	(36)	(36)
(1,476,246)	(1,736,733)	(6,512,979)
(194,305)	(1,911,000)	(5,816,439)
-	-	3,159,572
<u>\$ 387,874,803</u>	<u>\$ 77,306</u>	<u>\$ 488,127,861</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

1. Criteria

The accounting policies of the Nebraska Health and Human Services System (System) 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 the Nebraska State Accounting Manual published by DAS – Accounting Division and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the System 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, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

NIS also records other liabilities (primarily in the Distributive Fund Type) in accounts titled Due to Vendors, Tax Refund Payable, Deposits, and Due to Fund, for the System. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity recorded to those accounts for the fiscal year ended June 30, 2006, see Notes 8, 9, 10, and 11.

HHSS records trust activity for Beatrice State Development, regional centers, and State Ward Guardianship accounts in separate authorized bank accounts not included on NIS. The balances and activity for these accounts are recorded on the cash receipts and cash disbursements basis of accounting. The activity and balances are included on the financial schedule.

The System had accounts receivable not included in the Schedule from Medicaid Third Party Liability, Medicaid Drug Rebates, and Regional Center Patient and County receivables. DAS did not require the Department to record receivables on the NIS system and these amounts are

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll, and compensated absences or accrued accounts payable for government aid.

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

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

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.

30000 – Construction Funds – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

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

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

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

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the System consists of ICF MR tax per Neb. Rev. Stat. Section 68-1803, cigarette tax proceeds from Department of Revenue per Neb. Rev. Stat. Section 77-2602, and documentary stamp tax proceeds per Neb. Rev. Stat. Section 76-903.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income; trust receipts for State Wards, Regional Center patients and BSDC clients; and contributions from the Tobacco Settlement and from the Medicaid Intergovernmental Transfer.

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

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the System.

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

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

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long term character, owned or held by the government.

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.

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long term investments. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS. Long term investments (investments) are stated at fair value based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Concluded)

the System's funds at June 30, 2006, included Tax Refund Payable, Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers, proceeds of fixed asset dispositions, and adjustments to fund balances.

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. As such, the System is exempt from State and Federal income taxes. The schedule includes all funds of the System.

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

3. **Totals**

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

4. **General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. **Capital Assets**

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The System values all capital assets at cost where historical records are

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

5. **Capital Assets** (Continued)

available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, computer equipment and non-computer equipment that has a cost of \$750 and \$1,500 respectively at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100,000 are capitalized. Building improvements and renovations in excess of \$100,000 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 Years
Equipment	3 to 10 Years

Capital asset activity of the System for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets					
Buildings	\$ 57,286,549	\$ -	\$ 541,778	\$ 8,658,779	\$ 65,403,550
Land	114,533	-	-	-	114,533
Equipment	28,395,426	3,263,027	5,268,082	-	26,390,371
Construction in Progress	9,806,376	7,948,812	-	(8,658,779)	9,096,409
Total	<u>\$ 95,602,884</u>	<u>\$ 11,211,839</u>	<u>\$ 5,809,860</u>	<u>\$ -</u>	<u>101,004,863</u>
Less: accumulated depreciation for:					
Buildings					39,133,952
Equipment					18,332,201
Total					<u>57,466,153</u>
Total capital assets, net of depreciation					<u>\$ 43,538,710</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Net Assets by Agency	Services	Finance and Support	Regulation & Licensure	Balance
Buildings	\$ 26,269,598	\$ -	\$ -	\$ 26,269,598
Land	84,532	30,001	-	114,533
Equipment	4,711,220	2,238,433	1,108,517	8,058,170
Construction in Progress	9,096,409	-	-	9,096,409
Total	<u>\$ 40,161,759</u>	<u>\$ 2,268,434</u>	<u>\$ 1,108,517</u>	<u>\$ 43,538,710</u>

6. Investments

Long-Term Investments represent the balance as reflected on NIS. These investments are part of the Nebraska Health and Social Services Governmental Fund. Additional information on the Governmental Funds investments can be found in the State of Nebraska's CAFR.

7. Loans Receivables

Loans Receivable of the Rural Health Professional Incentive Fund 22020 includes student loans to Nebraska medical students. If the borrower practices an approved specialty in a designated health profession shortage area in Nebraska, the loan shall be forgiven as provided in Neb. Rev. Stat. Section 71-5666.

8. Food Distribution Program Changes in Due to Vendors

The Food Distribution Program receives commodities from the Federal government which are distributed to schools, daycare centers, charitable institutions, and emergency food programs, for the cost of warehousing, transportation, and processing only. Fund 72610 Due to Vendors represents the payments to vendors for storage, freight and processing (Out) and the receipts from the schools and other entities (In) for these charges.

Fund	Balance July 1, 2005	In	Out	Balance June 30, 2006
72610 Food Distribution Program	\$ (359,770)	\$ 5,469,763	\$ 5,875,701	\$ 46,168

9. Child Support Changes in Deposits

Child support is an ordered monetary amount to be paid by a noncustodial parent for the financial welfare of his/her children. The Child Support Enforcement Program was established by Title IV-D of the Social Security Act. Federal regulations require all States to have one location to receive all child support payments. HHSS contracts with the State Treasurer to perform the State Disbursement Unit (SDU) function. The SDU utilizes Fund 72640 to record collections and disbursements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

9. Child Support Changes in Deposits (Concluded)

The Program utilizes Fund 72650 to record support payments from IRS intercepts and the distribution to recover Federal and State aid payments. When a person applies for TANF (Temporary Assistance to Needy Families) they agree that any past, present, or future support will be assigned to the State. Both Federal and Nebraska State law require child support payments be assigned to the State to repay assistance the custodial parent received under TANF, Medicaid, and certain other federal programs.

Fund	Balance July 1, 2005	In	Out	Balance June 30, 2006
IV-D Support Payment Distribution Fund-SDU 72640	\$ 1,106,752	\$ 259,329,501	\$ 258,578,932	\$ 1,857,321
IV-D Support Payment Distribution Fund-HHSS 72650	\$ 1,918,740	\$ 19,409,388	\$ 19,988,419	\$ 1,339,709

10. Fund 72630 Deposits and Due to Fund

Fund 72630 is the fund used by Child Support Enforcement to track all child support collections received and paid out prior to the implementation of the State Disbursement Unit (SDU) in December 2001. An examination of the fund by HHSS showed that prior child support systems did not consider adjustments from payouts for misapplied payments, IRS recoveries, and refunds to payors. This bad debt created a fund shortage. In August 2002, HHSS borrowed \$1,714,504 from Fund 42680 Child Support Incentive Collection Fund to cover the pay out due to State and Federal public assistance programs. See also Note 13 regarding interfund transfers.

Fund	Balance July 1, 2005	In	Out	Balance June 30, 2006
Child Support Operations Fund 72630				
Deposits	\$ 1,717,410	\$ -	\$ 2,906	\$ 1,714,504
Due to Fund	\$ (1,717,410)	\$ -	\$ (2,906)	\$ (1,714,504)

11. Fund 72620 Supplemental Security Income

An individual who is waiting for Social Security Disability payments to begin or who was denied disability payments and is in the process of appealing the decision may apply for assistance from the State. The individual signs that they will return payments they receive from State Disability or County General Assistance. HHSS utilizes Fund 72620 to deposit the money received from the Social Security Administration (SSA) to cover the cost of State assistance provided to the individual. If the SSA settlement amount is more than the State needs to recover

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

11. **Fund 72620 Supplemental Security Income** (Concluded)

its costs, then the remaining balance is distributed to the individual. Fund 72620 is also utilized for distribution to counties for General Assistance reimbursement and also to certain attorneys who have represented clients to obtain a settlement from SSA.

Fund	Balance July 1, 2005	In	Out	Balance June 30, 2006
72620 -- Changes in Due to Vendor	\$ 1,562	\$ 1,003,928	\$ 1,003,928	\$ 1,562
72620 -- Changes in Deposits	\$ 229,262	\$ 1,318,769	\$ 1,294,945	\$ 253,086

12. **Transfers**

Significant transfers for fiscal year 2006 include:

ICF-MR: Neb. Rev. Stat. Section 68-1803 R.S.Supp., 2004 required each intermediate care facility for the mentally retarded (ICF-MR) to pay a tax equal to six percent of its revenue. Total tax collected plus interest earned for the fiscal year ended June 30, 2006, was \$3,690,028. Per Neb. Rev. Stat. Section 68-1804 R.S.Supp., 2004, the tax proceeds were distributed \$1,016,240 to the Institution Cash Fund for the State share of the cost of the tax; \$1,120,707 remained in the ICF-MR Fund for use in accordance with 68-1804 and \$1,553,081 remaining after the required allocations were transferred to the General Fund.

IGT and Tobacco Settlement: Operating transfers per Neb. Rev. Stat. Section 71-7611 include:

- \$52,000,000 transfer in from the Nebraska Medicaid Intergovernmental Trust (IGT) Fund and the Nebraska Tobacco Settlement Trust Fund to the Nebraska Health Care Cash Fund. The State Investment Officer shall advise the State Treasurer on the amounts to be transferred from each fund. For the fiscal year ended June 30, 2006, the State Treasurer transferred \$27,040,000 from the Medicaid IGT Fund and \$24,960,000 from the Tobacco Settlement Fund.
- \$2,000,000 transfer out of the Nebraska Health Care Cash Fund to the University of Nebraska Medical Center Designated Cash Fund.
- \$1,939,863 transfer out of the Nebraska Health Care Cash Fund to the Nebraska Capital Construction Fund.
- \$700,000 transfer out of the Nebraska Health Care Cash Fund to the Nebraska Capital Construction Fund.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE
(Continued)

12. Transfers (Concluded)

Behavioral Health Services: Neb. Rev. Stat. Section 58-703 R.S.Supp., 2006 required the State Treasurer to transfer \$2,000,000 from the Affordable Housing Trust Fund to the Behavioral Health Services Fund.

13. Interfund Loan Balances

Due To/Due From Other Funds includes sales tax payable and the following interfund loans:

Due From Fund	Due to Fund					TOTALS
	22030	22550	28000	48120	42680	
22080	\$ 65,000	\$ -	\$ 858,000	\$ 150,000	\$ -	\$ 1,073,000
22520	-	-	-	500,000	-	500,000
42510	-	-	-	440,000	-	440,000
42520	-	50,000	-	-	-	50,000
42540	-	-	-	1,350,000	-	1,350,000
72630	-	-	-	-	1,714,504	1,714,504
TOTALS	\$ 65,000	\$ 50,000	\$ 858,000	\$ 2,440,000	\$ 1,714,504	\$ 5,127,504

14. Deposits to/from Common Funds

Common Funds are funds shared with other State Agencies. Deposits to Common Funds includes fines and penalties collected by the System and deposited directly to the Permanent School Fund.

15. Child Support Negative Miscellaneous Receipt

The Program receives a Child Support incentive payment from the Federal government based on State performance levels for paternity establishment, support orders, current payments, arrearage payments, and the cost-effectiveness performance level. During the fiscal year the Program received \$1,004,869 for 2003 and \$885,367 for 2004 incentives. The \$1,890,236 was recorded as a receipt from the Federal government (governmental receipt) in Fund 40000; and as a prior period adjustment to Fund 40000 (negative miscellaneous receipt) and Fund 42680 (miscellaneous receipt) to transfer the money from Fund 40000 to Fund 42680.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

NOTES TO THE SCHEDULE

(Continued)

16. Reconciliation of Bank Records to Nebraska Information System

Through their bank reconciliation procedures, DAS State Accounting Division has identified a large unknown state-wide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the System. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the System's balances; however, State Accounting believes it will not have a material impact on the System's operations.

17. Subsequent Event

On March 15, 2007, the Governor signed LB 296, the Health and Human Services Act. The purposes of the Health and Human Services Act are to (1) provide for the administration of publicly funded health and human services programs and services in the State of Nebraska through the Department of Health and Human Services; (2) transfer programs, services, and duties of the Department of Health and Human Services, the Department of Health and Human Services Regulation and Licensure, and the Department of Health and Human Services Finance and Support to a single state agency to be known as the Department of Health and Human Services; (3) create six divisions within the Department of Health and Human Services; (4) require the appointment by the Governor of a single chief executive officer for the department, a director for each of the six divisions of the department, and a chief medical officer; and (5) clarify the department core missions, scope, functions and responsibilities; ensure and improve accountability, collaboration, and coordination; and enhance services provided to Nebraskans by the department.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CASH FUNDS

For the Fiscal Year Ended June 30, 2006

	Compulsive Gamblers Assistance Fund 21750	Organ/Tissue Donor Awareness Fund 22010	Rural Health Professional Incentive Fund 22020	Cancer Registry Fund 22029	Nebraska EMS Operations Fund 22030	Radiation Trans Emergency Fund 22040	HHS Reg & Licensure Reimb Fund 22060
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	15,600	-	-	-
Sales & Charges	1,350	-	-	-	1,053,549	10,000	1,559,697
Miscellaneous							
Investment Interest	21,384	4,797	88,211	347	74,102	1,718	13,804
Donations and Contributions	-	64,865	-	-	-	-	-
Other Miscellaneous	-	-	717,939	-	(10,000)	-	-
TOTAL REVENUES	22,734	69,662	806,150	15,947	1,117,651	11,718	1,573,501
EXPENDITURES:							
Personal Services	25,749	-	-	-	325,626	-	1,362,090
Operating	24,909	9,458	419,572	8,515	431,428	-	154,688
Travel	8,631	-	3,513	109	50,412	-	50,335
Capital Outlay	3,974	-	-	-	1,673	-	-
Government Aid	831,096	-	180,000	-	67,181	-	-
TOTAL EXPENDITURES	894,359	9,458	603,085	8,624	876,320	-	1,567,113
Excess (Deficiency) of Revenues Over (Under) Expenditures	(871,625)	60,204	203,065	7,323	241,331	11,718	6,388
OTHER FINANCING SOURCES (USES):							
Adjustment to Fund Balance	-	-	120,994	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	-
Operating Transfers In	821,018	-	-	-	52,561	-	-
Operating Transfers Out	-	-	-	-	(151,716)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	821,018	-	120,994	-	(99,155)	-	-
Net Change in Fund Balances	(50,607)	60,204	324,059	7,323	142,176	11,718	6,388
FUND BALANCES, JULY 1, 2005	374,609	91,558	3,519,525	5,719	1,770,074	33,245	325,574
FUND BALANCES, JUNE 30, 2006	\$ 324,002	\$ 151,762	\$ 3,843,584	\$ 13,042	\$ 1,912,250	\$ 44,963	\$ 331,962
FUND BALANCES CONSIST OF:							
General Cash	\$ 324,002	\$ 151,762	\$ 2,203,158	\$ 13,042	\$ 1,855,698	\$ 44,963	\$ 163,096
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	139	-	169,539
Due From Other Funds	-	-	-	-	65,000	-	-
Due From Other Government	-	-	-	-	-	-	-
Loans Receivable	-	-	1,640,426	-	-	-	-
Due to Vendors	-	-	-	-	(8,587)	-	(673)
Due to Fund	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 324,002	\$ 151,762	\$ 3,843,584	\$ 13,042	\$ 1,912,250	\$ 44,963	\$ 331,962

(Continued)

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CASH FUNDS

For the Fiscal Year Ended June 30, 2006

	Regulation & Licensure Cash Fund 22080	Institution Cash Fund 22520	School District Reimbursement Fund 22530	Health & Human Services Cash Fund 22550	Tobacco Prevention & Control Fund 22560	Finance & Support Cash Fund 22600	Nursing Facility Conversion Fund 22620
REVENUES:							
Taxes	\$ 3,427,116	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	990,271	215,005	-	5,247	-	72,122	-
Sales & Charges	7,189,624	20,599,562	423,289	39,957	-	47,032	-
Miscellaneous							
Investment Interest	512,663	237,707	15,463	387,916	126,302	6,887	71
Donations and Contributions	68,706	4	-	12,685	2,500,000	2,622	-
Other Miscellaneous	10,258,443	214,790	-	432,248	(22,092)	282,102	-
TOTAL REVENUES	22,446,823	21,267,068	438,752	878,053	2,604,210	410,765	71
EXPENDITURES:							
Personal Services	3,713,541	13,147,191	410,089	1,464,552	-	24,658	-
Operating	7,060,977	8,558,820	56,929	794,725	2,105,365	320,534	-
Travel	179,183	8,844	322	52,163	2,350	88	-
Capital Outlay	205,636	28,282	4,470	35,234	-	(60)	-
Government Aid	10,715,109	333,334	-	-	216,000	(90)	-
TOTAL EXPENDITURES	21,874,446	22,076,471	471,810	2,346,674	2,323,715	345,130	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	572,377	(809,403)	(33,058)	(1,468,621)	280,495	65,635	71
OTHER FINANCING SOURCES (USES):							
Adjustment to Fund Balance	-	2,080	-	-	-	-	-
Deposit to/from Common Fund	24,940	-	-	-	-	-	-
Operating Transfers In	613,242	1,016,240	-	-	-	-	-
Operating Transfers Out	(274,687)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	363,495	1,018,320	-	-	-	-	-
Net Change in Fund Balances	935,872	208,917	(33,058)	(1,468,621)	280,495	65,635	71
FUND BALANCES, JULY 1, 2005	11,262,824	3,458,674	487,035	10,675,398	3,925,647	16,237	-
FUND BALANCES, JUNE 30, 2006	\$ 12,198,696	\$ 3,667,591	\$ 453,977	\$ 9,206,777	\$ 4,206,142	\$ 81,872	\$ 71
FUND BALANCES CONSIST OF:							
General Cash	\$ 13,087,365	\$ 4,184,227	\$ 308,979	\$ 9,151,351	\$ 4,446,983	\$ 344,363	\$ 71
Petty Cash	1,650	24,000	-	-	-	35,568	-
Deposits with Vendors	1,431	3,785	-	-	-	-	-
Accounts Receivable Invoiced	239,410	7,844	144,998	8,203	-	17,646	-
Due From Other Funds	-	-	-	50,000	-	-	-
Due From Other Government	(1,230)	-	-	-	-	-	-
Loans Receivable	-	46	-	-	-	-	-
Due to Vendors	(56,930)	(53,908)	-	(2,660)	(240,841)	(18,374)	-
Due to Fund	(1,073,000)	(500,465)	-	(117)	-	(297,331)	-
Supplies	-	2,062	-	-	-	-	-
TOTAL FUND BALANCES	\$ 12,198,696	\$ 3,667,591	\$ 453,977	\$ 9,206,777	\$ 4,206,142	\$ 81,872	\$ 71

(Continued)

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CASH FUNDS

For the Fiscal Year Ended June 30, 2006

	Childhood Care Fund 22630	Nebraska Health Care Fund 22640	Nebraska Child Abuse Prevention Fund 22650	Fund 22660	Behavioral Health Service Fund 22670	ICF/MR Reimbursement Protection Fund 22680	Nursing Facility Penalty Cash Fund 22690
REVENUES:							
Taxes	\$ 20	\$ -	\$ -	\$ -	\$ 2,119,550	\$ 3,645,698	\$ -
Intergovernmental	-	-	-	-	-	-	-
Sales & Charges	130,339	-	296,312	-	-	-	-
Miscellaneous							
Investment Interest	27,776	1,467,715	25,645	-	87,181	44,330	2,249
Donations and Contributions	-	-	-	-	-	-	-
Other Miscellaneous	200	22,052	-	-	-	-	24,967
TOTAL REVENUES	158,335	1,489,767	321,957	-	2,206,731	3,690,028	27,216
EXPENDITURES:							
Personal Services	-	706,237	-	-	-	20,286	-
Operating	1,686	916,268	93	-	-	10	-
Travel	-	7,173	-	-	-	-	-
Capital Outlay	-	2,400	-	-	-	-	-
Government Aid	-	50,796,719	180,834	-	3,375,047	909,706	-
TOTAL EXPENDITURES	1,686	52,428,797	180,927	-	3,375,047	930,002	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	156,649	(50,939,030)	141,030	-	(1,168,316)	2,760,026	27,216
OTHER FINANCING SOURCES (USES):							
Adjustment to Fund Balance	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	62,349	-	-	-	-	-
Operating Transfers In	-	51,515,756	-	-	2,000,000	-	-
Operating Transfers Out	(1,541)	(4,639,863)	-	-	-	(2,569,321)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,541)	46,938,242	-	-	2,000,000	(2,569,321)	-
Net Change in Fund Balances	155,108	(4,000,788)	141,030	-	831,684	190,705	27,216
FUND BALANCES, JULY 1, 2005	596,661	17,010,018	580,389	-	1,656,831	292,277	39,855
FUND BALANCES, JUNE 30, 2006	\$ 751,769	\$ 13,009,230	\$ 721,419	\$ -	\$ 2,488,515	\$ 482,982	\$ 67,071
FUND BALANCES CONSIST OF:							
General Cash	\$ 764,529	\$ 13,009,230	\$ 721,205	\$ -	\$ 2,488,515	\$ 482,982	\$ 67,071
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Accounts Receivable Invoiced	200	-	214	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-
Due From Other Government	(12,760)	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-	-
Due to Vendors	-	-	-	-	-	-	-
Due to Fund	(200)	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 751,769	\$ 13,009,230	\$ 721,419	\$ -	\$ 2,488,515	\$ 482,982	\$ 67,071

(Continued)

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CASH FUNDS

For the Fiscal Year Ended June 30, 2006

	UNMC Medical Education Rev Fund 25160	Homeless Shelter Assistance Fund 27270	Professional & Occup Cred Cash Fund 28000	Totals (Memorandum Only)
REVENUES:				
Taxes	\$ -	\$ 2,179,805	\$ -	\$ 11,372,189
Intergovernmental	-	-	510,334	1,808,579
Sales & Charges	-	-	1,954,978	33,305,689
Miscellaneous				
Investment Interest	-	75,795	119,093	3,341,156
Donations and Contributions	-	-	-	2,648,882
Other Miscellaneous	-	-	851,422	12,772,071
TOTAL REVENUES	-	2,255,600	3,435,827	65,248,566
EXPENDITURES:				
Personal Services	-	43,171	3,185,745	24,428,935
Operating	-	9,990	2,133,014	23,006,981
Travel	-	2,079	238,719	603,921
Capital Outlay	-	-	13,159	294,768
Government Aid	12,385,827	2,291,733	-	82,282,496
TOTAL EXPENDITURES	12,385,827	2,346,973	5,570,637	130,617,101
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,385,827)	(91,373)	(2,134,810)	(65,368,535)
OTHER FINANCING SOURCES (USES):				
Adjustment to Fund Balance	-	-	-	123,074
Deposit to/from Common Fund	(181,181)	-	-	(93,892)
Operating Transfers In	-	-	425,390	56,444,207
Operating Transfers Out	-	-	(595,293)	(8,232,421)
TOTAL OTHER FINANCING SOURCES (USES)	(181,181)	-	(169,903)	48,240,968
Net Change in Fund Balances	(12,567,008)	(91,373)	(2,304,713)	(17,127,567)
FUND BALANCES, JULY 1, 2005	12,567,008	1,945,318	5,102,790	75,737,266
FUND BALANCES, JUNE 30, 2006	\$ -	\$ 1,853,945	\$ 2,798,077	\$ 58,609,699
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 1,853,945	\$ 1,941,670	\$ 57,608,207
Petty Cash	-	-	400	61,618
Deposits with Vendors	-	-	8,907	14,123
Accounts Receivable Invoiced	-	-	2,803	590,996
Due From Other Funds	-	-	858,000	973,000
Due From Other Government	-	-	-	(13,990)
Loans Receivable	-	-	-	1,640,472
Due to Vendors	-	-	(13,703)	(395,676)
Due to Fund	-	-	-	(1,871,113)
Supplies	-	-	-	2,062
TOTAL FUND BALANCES	\$ -	\$ 1,853,945	\$ 2,798,077	\$ 58,609,699

(Concluded)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**
CAPITAL CONSTRUCTION FUNDS
For the Fiscal Year Ended June 30, 2006

	State General Construction Fund 33000	Capital Construction Fund 38000	Totals (Memorandum Only)
REVENUES:			
Appropriations	\$ 23,100	\$ 3,186,929	\$ 3,210,029
TOTAL REVENUES	<u>23,100</u>	<u>3,186,929</u>	<u>3,210,029</u>
EXPENDITURES:			
Operating	21,786	290,249	312,035
Capital Outlay	1,314	2,896,680	2,897,994
TOTAL EXPENDITURES	<u>23,100</u>	<u>3,186,929</u>	<u>3,210,029</u>
Net Change in Fund Balances	-	-	-
FUND BALANCES, JULY 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FEDERAL FUNDS

For the Fiscal Year Ended June 30, 2006

	Federal Letter of Credit Fund 40000	Federal Cash Fund 42020	EPA Water Supply Program Fund 42070	VA Construction Reimbursement Fund 42510	HHS OJS Federal Fund 42520
REVENUES:					
Intergovernmental	\$ 1,245,045,807	\$ 5,378,631	\$ 1,958,243	\$ 5,598,559	\$ 1,091,608
Sales & Charges	-	(8,158)	134	-	-
Miscellaneous					
Investment Interest	-	57,161	(6,881)	30,536	7,190
Donations and Contributions	-	-	-	-	-
Other Miscellaneous	(1,940,161)	(39,370)	(22,104)	-	22,134
TOTAL REVENUES	1,243,105,646	5,388,264	1,929,392	5,629,095	1,120,932
EXPENDITURES:					
Personal Services	73,741,582	798,455	1,150,074	-	274,696
Operating	111,251,838	3,732,043	763,663	800	821,420
Travel	634,734	500,205	33,287	-	34,245
Capital Outlay	1,435,407	1,229	18,661	4,794,623	-
Government Aid	1,056,042,085	805,224	-	-	-
TOTAL EXPENDITURES	1,243,105,646	5,837,156	1,965,685	4,795,423	1,130,361
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(448,892)	(36,293)	833,672	(9,429)
OTHER FINANCING SOURCES (USES):					
Adjustment to Fund Balance	-	(1,076,160)	-	-	-
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,076,160)	-	-	-
Net Change in Fund Balances	-	(1,525,052)	(36,293)	833,672	(9,429)
FUND BALANCES, JULY 1, 2005		2,173,033	38,247	(104,831)	178,547
FUND BALANCES, JUNE 30, 2006	\$ -	\$ 647,981	\$ 1,954	\$ 728,841	\$ 169,118
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ 507,355	\$ 1,798	\$ 1,159,948	\$ 95,462
Supplies	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Accounts Receivable Invoiced	-	141,395	-	-	123,656
Due From Other Funds	-	-	-	-	-
Loans Receivable	-	-	156	8,893	-
Due to Vendors	-	(769)	-	-	-
Deposits	-	-	-	-	-
Due to Fund	-	-	-	(440,000)	(50,000)
TOTAL FUND BALANCES	\$ -	\$ 647,981	\$ 1,954	\$ 728,841	\$ 169,118

Veteran's Homes Federal Fund 42540	Federal Clearing Fund 42600	USDA Food Stamp Fund 42610	Federal Project Grant Fund 42640	Child Support Collection Incentive Fund 42680	Federal Cash Award Fund 48100	Title XIX Medicaid Fund 48120	Totals (Memorandum Only)
\$ -	\$ 1,113,099	\$ -	\$ 2,187,246	\$ 3,708,149	\$ 158,632	\$ 36,149,216	\$ 1,302,389,190
9,900,379	2,075	257,102	91,221	-	645,756	(184)	10,888,325
41,644	271,230	41,547	103,554	96,410	69,845	1,008,235	1,720,471
-	4,055	-	-	-	-	-	4,055
4,522	1,224,663	1,854	(616,034)	2,755,184	656,295	35,692	2,082,675
9,946,545	2,615,122	300,503	1,765,987	6,559,743	1,530,528	37,192,959	1,317,084,716
5,827,687	2,997	327,735	279,666	-	-	24,375,709	106,778,601
4,378,384	3,819,536	14,994	466,883	4,135,262	1,569,464	12,850,351	143,804,638
51,392	108,679	1,841	23,014	14,880	849	128,280	1,531,406
67,752	95,503	-	2,019	-	4,039	80,549	6,499,782
-	-	-	1,013,773	-	-	843,547	1,058,704,629
10,325,215	4,026,715	344,570	1,785,355	4,150,142	1,574,352	38,278,436	1,317,319,056
(378,670)	(1,411,593)	(44,067)	(19,368)	2,409,601	(43,824)	(1,085,477)	(234,340)
-	1,076,160	-	-	-	-	(8,365)	(8,365)
-	(3,120)	-	-	-	-	-	(3,120)
-	1,073,040	-	-	-	-	(8,365)	(11,485)
(378,670)	(338,553)	(44,067)	(19,368)	2,409,601	(43,824)	(1,093,842)	(245,825)
142,521	2,406,592	1,020,182	3,664,943	116,400	1,277,658	30,180,076	41,093,368
\$ (236,149)	\$ 2,068,039	\$ 976,115	\$ 3,645,575	\$ 2,526,001	\$ 1,233,834	\$ 29,086,234	\$ 40,847,543
\$ 1,134,450	\$ 6,715,201	\$ 976,515	\$ 3,620,721	\$ 4,110,916	\$ 1,234,428	\$ 23,934,497	\$ 43,491,291
-	-	-	-	-	-	2,718,888	2,718,888
-	-	-	-	-	-	276	276
-	-	-	25,000	-	-	5,116	295,167
-	-	-	-	1,714,504	-	2,440,000	4,154,504
-	-	-	-	581	-	47,828	57,458
(20,599)	(4,647,162)	(400)	(146)	-	(594)	(60,350)	(4,730,020)
-	-	-	-	(3,300,000)	-	-	(3,300,000)
(1,350,000)	-	-	-	-	-	(21)	(1,840,021)
\$ (236,149)	\$ 2,068,039	\$ 976,115	\$ 3,645,575	\$ 2,526,001	\$ 1,233,834	\$ 29,086,234	\$ 40,847,543

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TRUST FUNDS
For the Fiscal Year Ended June 30, 2006

	HHS F&S Welfare/Club Trust Fund 62510	HHS Fin/Supt Welfare/Club Trust Fund 62520	HHS Juvenile Trust Fund 62530	Medically Handicapped Children Fund 62620	Nebraska Tobacco Settlement Fund 62630	Nebraska Medicaid Intergovtial Fund 62640	Permanent School Fund 63340	Dormant Hastings Reg Center Trust Fund 68030	Dormant Lincoln Reg Center Trust Fund 68050
REVENUES:									
Sales & Charges	\$ 994	\$ 52,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous									
Investment Interest	597	569	614	10,634	3,671,139	4,173,434	-	176	932
Gain on Sale of Investments	-	-	-	-	12,806,712	14,319,401	-	-	-
Donations & Contributions	700	-	-	243	32,310,200	24,502,000	-	-	-
Other Miscellaneous	3,201	-	-	-	-	-	419,481	-	-
TOTAL REVENUES	5,492	53,335	614	10,877	48,788,051	42,994,835	419,481	176	932
EXPENDITURES:									
Personal Services	-	-	-	-	-	-	-	-	-
Operating	19,331	45,321	-	-	106,119	119,085	-	-	-
Travel	-	7	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	19,331	45,328	-	-	106,119	119,085	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,839)	8,007	614	10,877	48,681,932	42,875,750	419,481	176	932
OTHER FINANCING SOURCES (USES):									
Deposit to/from Common Fund	-	-	-	-	-	-	(419,481)	-	-
Operating Transfers In	16,655	-	-	-	-	-	-	-	-
Operating Transfers Out	-	(16,655)	-	-	(24,960,000)	(27,040,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	16,655	(16,655)	-	-	(24,960,000)	(27,040,000)	(419,481)	-	-
Net Change in Fund Balances	2,816	(8,648)	614	10,877	23,721,932	15,835,750	-	176	932
FUND BALANCES, JULY 1, 2005	11,523	21,217	14,714	253,407	164,716,503	178,632,508	-	4,203	22,317
FUND BALANCES, JUNE 30, 2006	\$ 14,339	\$ 12,569	\$ 15,328	\$ 264,284	\$ 188,438,435	\$ 194,468,258	\$ -	\$ 4,379	\$ 23,249
FUND BALANCES CONSIST OF:									
General Cash	\$ 14,401	\$ 13,348	\$ 15,328	\$ 264,284	\$ 944,858	\$ 255,976	\$ -	\$ 4,379	\$ 23,249
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	187,493,577	194,212,282	-	-	-
Due to Vendors	(11)	(444)	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-
Due to Fund	(51)	(335)	-	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 14,339	\$ 12,569	\$ 15,328	\$ 264,284	\$ 188,438,435	\$ 194,468,258	\$ -	\$ 4,379	\$ 23,249

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TRUST FUNDS
For the Fiscal Year Ended June 30, 2006

	Dormant Norfolk Reg Center Trust Fund 68100	Alcoholism Contribution Fund 68120	BSDC Canteen Amusement Trust Fund 68200	Vets Canteen Amusement Trust Fund 68220	HRC Canteen Amusement Trust Fund 68230	LRC Canteen Amusement Trust Fund 68250	CDR Memorial Fund 68260	NRC Canteen Amusement Trust Fund 68300	Department of Public Institution Trust Fund 68410	Totals (Memorandum Only)
REVENUES:										
Sales & Charges	\$ -	\$ -	\$ 291,911	\$ 295,444	\$ 25,683	\$ 44,904	\$ -	\$ 71,009	\$ -	\$ 782,711
Miscellaneous										
Investment Interest	62	501	21,535	7,705	4,746	9,521	6,455	842	-	7,909,462
Gain on Sale of Investments	-	-	-	-	-	-	-	-	-	27,126,113
Donations & Contributions	-	-	29,480	124,535	11	2,784	-	-	13,652	56,983,605
Other Miscellaneous	-	-	5,265	1,171	9	-	-	42	9,303,536	9,732,705
TOTAL REVENUES	62	501	348,191	428,855	30,449	57,209	6,455	71,893	9,317,188	102,534,596
EXPENDITURES:										
Personal Services	-	(4)	75,375	-	-	-	-	-	-	75,371
Operating	-	-	292,410	475,695	61,918	48,191	-	67,648	13,650	1,249,368
Travel	-	-	643	213	-	-	-	-	-	863
Capital Outlay	-	-	18,880	15,347	19,043	-	-	-	-	53,270
Government Aid	-	-	-	-	-	-	-	-	9,043,819	9,043,819
TOTAL EXPENDITURES	-	(4)	387,308	491,255	80,961	48,191	-	67,648	9,057,469	10,422,691
Excess (Deficiency) of Revenues Over (Under) Expenditures	62	505	(39,117)	(62,400)	(50,512)	9,018	6,455	4,245	259,719	92,111,905
OTHER FINANCING SOURCES (USES):										
Deposit to/from Common Fund	-	-	-	-	-	-	-	-	-	(419,481)
Operating Transfers In	-	-	-	-	-	-	-	-	-	16,655
Operating Transfers Out	-	(51,684)	-	-	-	-	-	-	-	(52,068,339)
TOTAL OTHER FINANCING SOURCES (USES)	-	(51,684)	-	-	-	-	-	-	-	(52,471,165)
Net Change in Fund Balances	62	(51,179)	(39,117)	(62,400)	(50,512)	9,018	6,455	4,245	259,719	39,640,740
FUND BALANCES, JULY 1, 2005	1,473	51,179	538,879	236,634	136,017	230,653	154,544	17,018	3,191,274	348,234,063
FUND BALANCES, JUNE 30, 2006	\$ 1,535	\$ -	\$ 499,762	\$ 174,234	\$ 85,505	\$ 239,671	\$ 160,999	\$ 21,263	\$ 3,450,993	\$ 387,874,803
FUND BALANCES CONSIST OF:										
General Cash	\$ 1,535	\$ -	\$ 504,849	\$ 178,804	\$ 85,282	\$ 238,551	\$ 161,030	\$ 21,511	\$ 5,116,888	\$ 7,844,273
Accounts Receivable Invoiced	-	-	-	-	-	1,000	-	-	-	1,000
Due From Other Government	-	-	-	3	-	-	-	-	-	3
Long-Term Investments	-	-	-	-	-	-	-	-	-	381,705,859
Due to Vendors	-	-	(2,827)	(2,331)	(168)	-	-	-	-	(5,781)
Deposits	-	-	-	-	-	-	-	-	(1,476,246)	(1,476,246)
Due to Fund	-	-	(2,260)	(2,242)	391	120	(31)	(248)	(189,649)	(194,305)
TOTAL FUND BALANCES	\$ 1,535	\$ -	\$ 499,762	\$ 174,234	\$ 85,505	\$ 239,671	\$ 160,999	\$ 21,263	\$ 3,450,993	\$ 387,874,803

(Concluded)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DISTRIBUTIVE FUNDS

For the Fiscal Year Ended June 30, 2006

	Food Distribution Program Fund 72610	Supplemental Security Income Fund 72620	Child Support Operations Fund 72630	Child Support SDU-Payment Distribution Fund 72640	Child Support HHSS-Payment Distribution Fund 72650	Totals (Memorandum Only)
TOTAL REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	-	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-	-
FUND BALANCES, JULY 1, 2005	78,298	(992)	-	-	-	77,306
FUND BALANCES, JUNE 30, 2006	<u>\$ 78,298</u>	<u>\$ (992)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,306</u>
FUND BALANCES CONSIST OF:						
General Cash	\$ 199,437	\$ 279,757	\$ 1,121	\$ 1,306,036	\$ 1,339,709	\$ 3,126,060
NSF Items	-	-	-	551,285	-	551,285
Due to Vendors	46,168	1,562	-	-	-	47,730
Tax Refunds Payable	(36)	-	-	-	-	(36)
Deposits	-	(253,086)	1,713,383	(1,857,321)	(1,339,709)	(1,736,733)
Due to Fund	(167,271)	(29,225)	(1,714,504)	-	-	(1,911,000)
TOTAL FUND BALANCES	<u>\$ 78,298</u>	<u>\$ (992)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,306</u>



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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
BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Nebraska Health and Human Services System
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System for the fiscal year ended June 30, 2006, and have issued our report thereon dated June 25, 2007. 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.

Internal Control Over Financial Reporting

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 of revenues, expenditures, and changes in fund balances, 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 4 (Internal Control Over Regional Center Payroll), Comment Number 35 (Accounts Receivable), Comment Number 36 (Medicaid Overcharged for ICF MR Tax), Comment Number 39 (Computer Controls), Comment Number 40 (No Reconciliation Between Federal Reports and NIS), Comment Number 41 (Developmental Disability Adjustment), and Comment Number 42 (Transfers of State Expenditures to Federal Costs).

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 revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 System in the Comments Section of this report as Comment Number 1 (Developmental Disabilities Legislative Compliance), Comment Number 2 (Pharmacy Controls), Comment Number 3 (Contracts and Purchasing Requirements), Comment Number 5 (Regional Center Errors in Employee Pay), Comment Number 6 (Incorrect Termination Payoff), Comment Number 7 (Timesheets), Comment Number 8 (Medicaid Overpaid/Underpaid), Comment Number 9 (Inadequate Controls Over Trust Accounts), Comment Number 10 (State Vehicle Usage), Comment Number 11 (Petty Cash Fund), Comment Number 12 (Sales and Lodging Tax), Comment Number 13 (State Disability Program Medical Payments), Comment Number 14 (Aged, Blind, and Disabled Maintenance Payments), Comment Number 15 (Social Services Block Grant), Comment Number 16 (Controls Over Family Preservation Grant), Comment Number 17 (Child Welfare Payment for Ineligible Child), Comment Number 18 (Child Welfare Payments), Comment Number 19 (Inadequate Monitoring of Contract), Comment Number 20 (State Ward Education Payments), Comment Number 21 (State Ward Trust Disbursements), Comment Number 22 (Termination Pay), Comment Number 23 (Federal Compliance Over Payroll), Comment Number 24 (Timesheets), Comment Number 25 (Federal Compliance Over Expenditures), Comment Number 26 (Rental Agreement Not in Accordance with State Statute), Comment Number 27 (Travel Expenses), Comment Number 28 (Permanently Assigned Vehicles), Comment Number 29 (Food Commodity Program), Comment Number 30 (Administrative Authority Over the Nebraska Volunteer Service Commission), Comment Number 31 (Lack of Segregation of Duties Over Fixed Assets), Comment Number 32 (Inadequate Computer Asset Management System Procedures), Comment Number 33 (Inadequate Segregation of Duties Over Supply Inventories), Comment Number 34 (Surplus Proceeds Held in Incorrect Fund), Comment Number 37 (Inadequate Monitoring of Grant Awards), Comment Number 38 (Reconciliation of Fund 72640), and Comment Number 43 (Various).

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

June 25, 2007

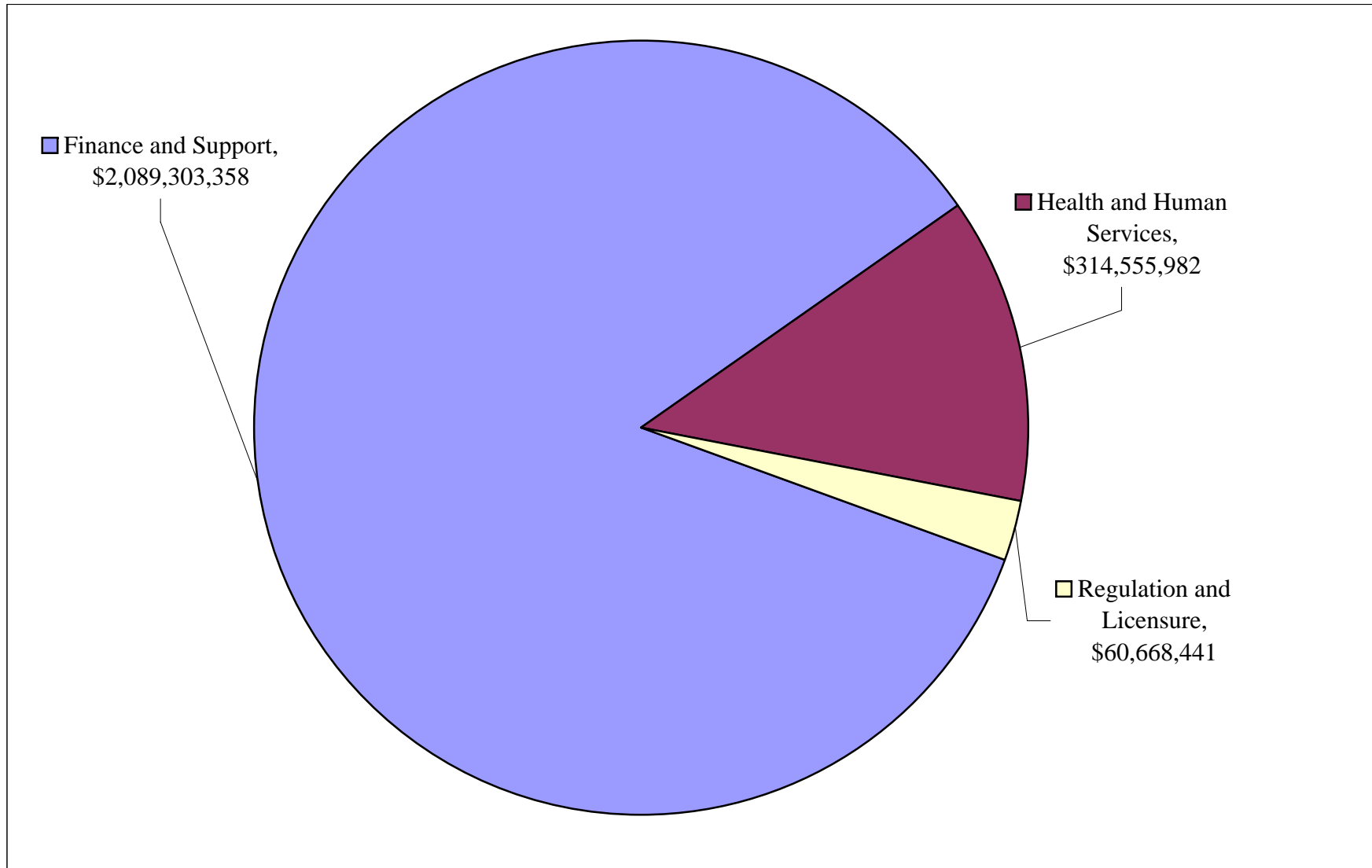

Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM

STATISTICAL SECTION

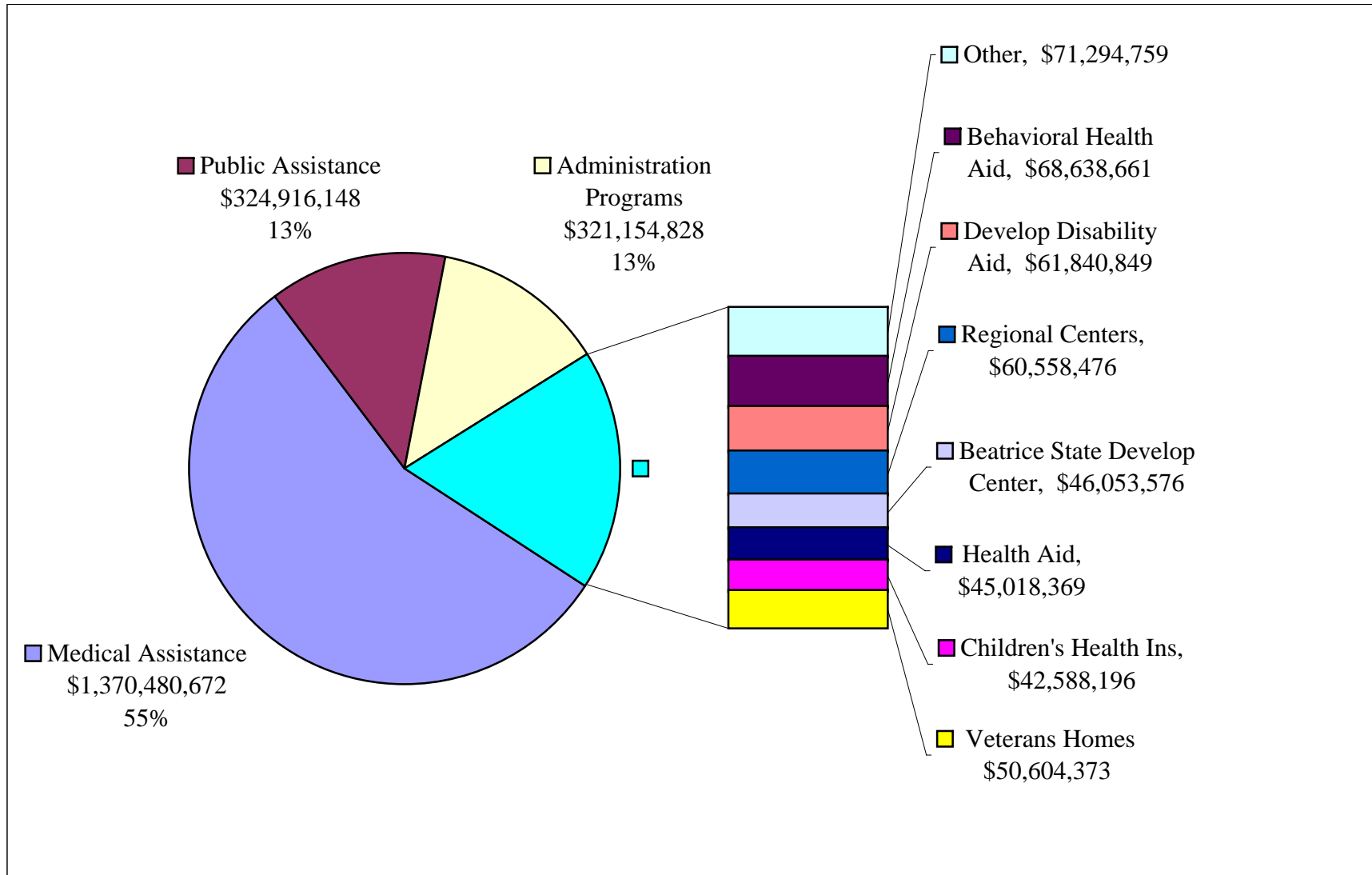
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
EXPENDITURES BY AGENCY
For the Fiscal Year Ended June 30, 2006



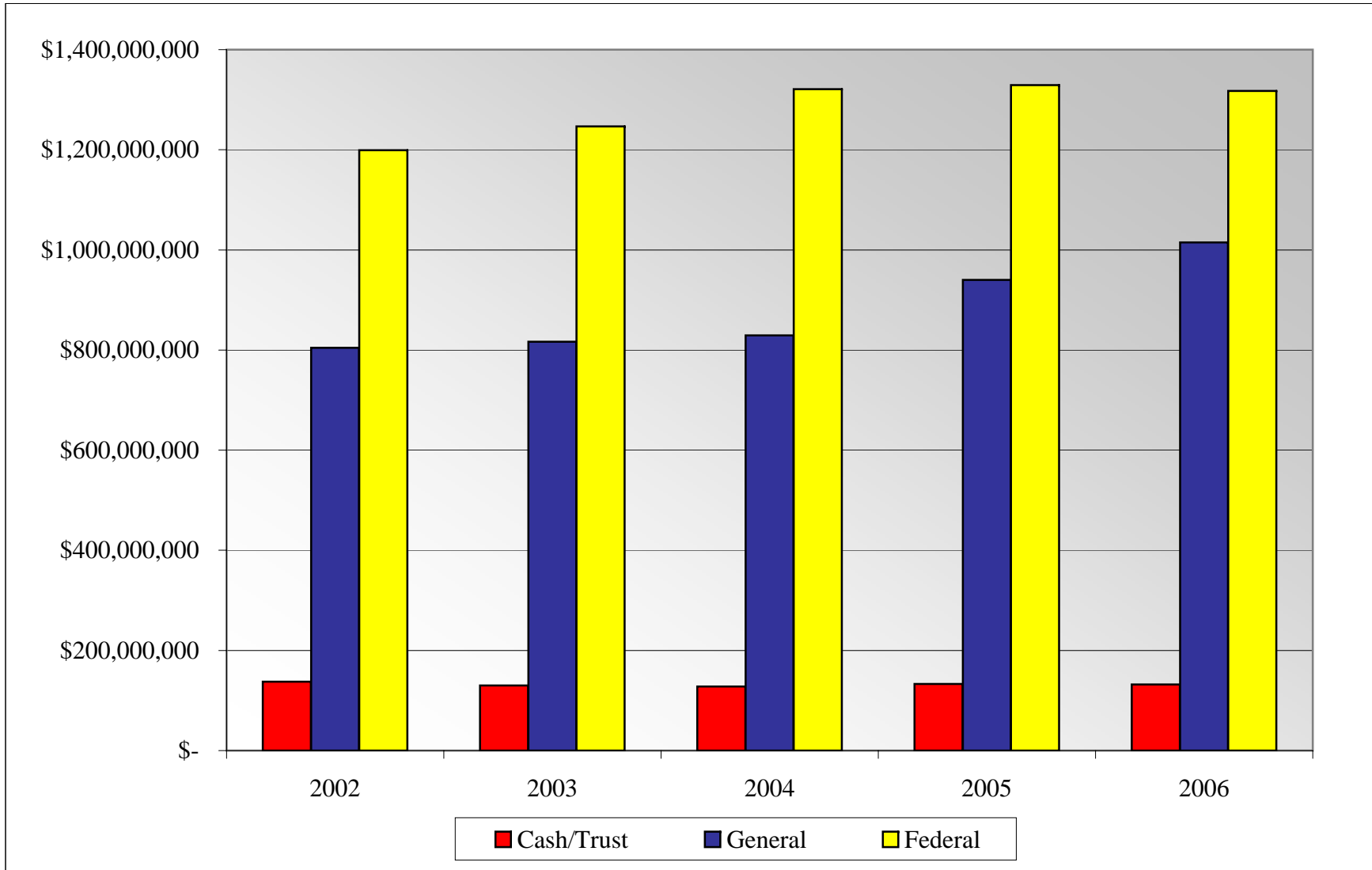
Sources: DAS Budgetary Report (Does not include Trust activity not on NIS.)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
EXPENDITURES BY PROGRAM
 For the Fiscal Year Ended June 30, 2006



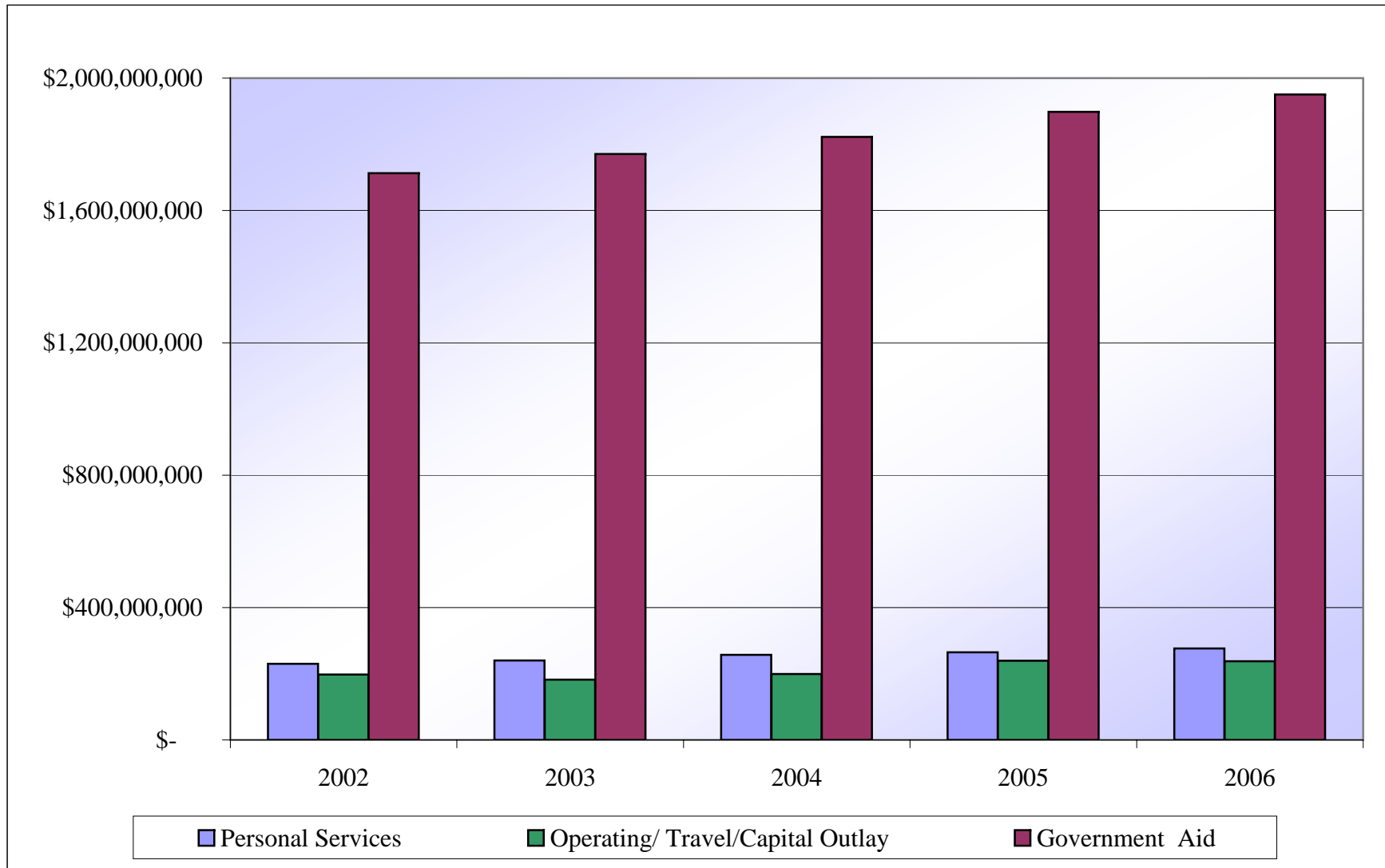
Source: DAS Budgetary Report (Does not include Trust activity in separate bank accounts.)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
EXPENDITURES BY FUND TYPE
 Fiscal Years Ended June 30, 2002 Through 2006



Source: DAS Budgetary Report (Does not include Trust activity in separate bank accounts.)

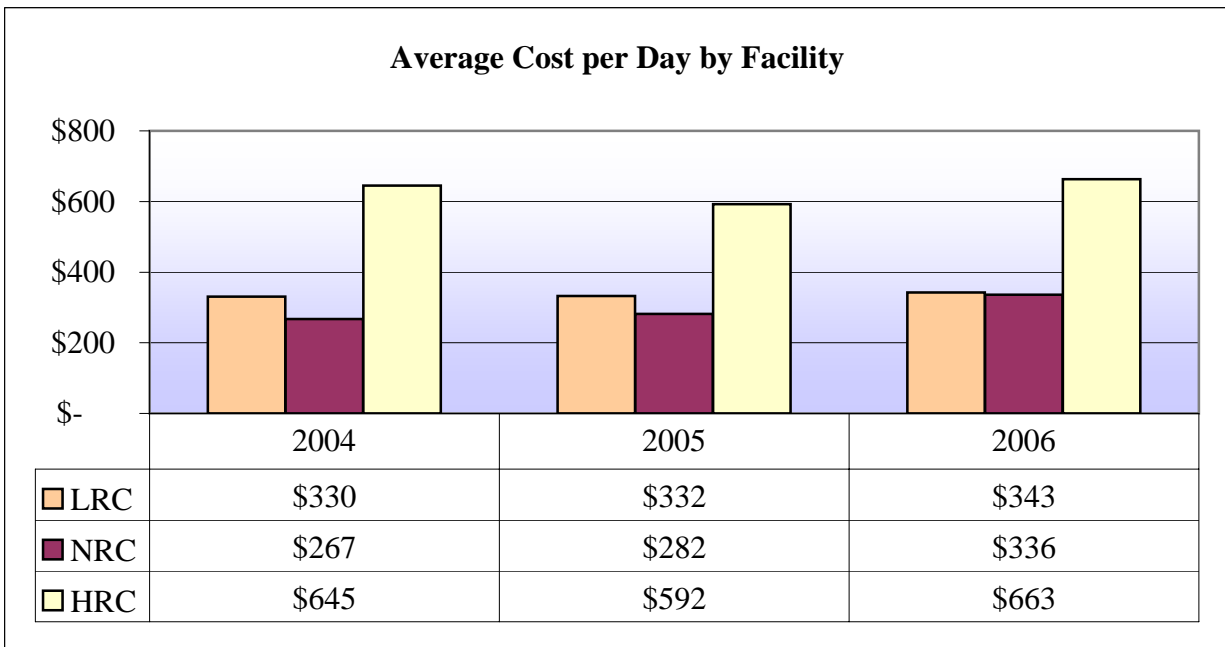
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
EXPENDITURES BY MAJOR ACCOUNT
 Fiscal Years Ended June 30, 2002 Through 2006



Source: DAS Budgetary Report (Includes NIS activity, does not include Trust Activity in separate bank accounts.)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
REGIONAL CENTERS AVERAGE COST PER DAY
 Fiscal Years Ended June 30, 2004 Through 2006

	Fiscal Year Ended June 30,		
	2004	2005	2006
Lincoln Regional Center			
Program Expenditures	\$ 28,762,401	\$ 28,687,830	\$ 28,525,728
Patient Days	87,058	86,306	83,217
Average Cost Per Day	<u>\$ 330</u>	<u>\$ 332</u>	<u>\$ 343</u>
Norfolk Regional Center			
Expenditures	\$ 16,495,750	\$ 17,946,772	\$ 17,487,295
Patient Days	61,788	63,698	52,006
Average Cost Per Day	<u>\$ 267</u>	<u>\$ 282</u>	<u>\$ 336</u>
Hastings Regional Center			
Expenditures	\$ 19,093,710	\$ 15,271,821	\$ 14,545,453
Patient Days	29,612	25,788	21,943
Average Cost Per Day	<u>\$ 645</u>	<u>\$ 592</u>	<u>\$ 663</u>
Total			
Expenditures	\$ 64,351,861	\$ 61,906,423	\$ 60,558,476
Patient Days	<u>\$ 178,458</u>	<u>\$ 175,792</u>	<u>\$ 157,166</u>
Average Cost Per Day	<u>\$ 361</u>	<u>\$ 352</u>	<u>\$ 385</u>



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
CHILD WELFARE PAYMENTS BY SERVICE TYPE
For the Fiscal Year Ended June 30, 2006

Service Type	Service Code	Amount	Percentage
OUT OF HOME MAINTENANCE	4880	\$ 28,766,920	29.84%
INTEGRATED CARE COORDINATION	8657	27,109,428	28.12%
GUARDIANSHIP SUBSIDY	1323	7,271,050	7.54%
EMERGENCY SHELTER CARE	3015	6,287,409	6.52%
FAMILY SUPPORT SERVICES	4331	4,616,640	4.79%
VISIT SUPERVISION/MONITORING	4205	3,228,583	3.35%
INTENSIVE FAMILY PRESERVATION	8487	2,732,454	2.83%
FOSTER PARENT RESPITE CARE	6246	2,159,186	2.24%
TRANSPORTATION COMMERCIAL	1965	2,141,221	2.22%
OUT OF HOME TREATMENT	4235	1,852,286	1.92%
PSYCHOTHERAPY INDIVIDUAL	3592	842,528	*
MENTAL BEHAVIORAL OUT PATIENT HOSPITAL REPORTING CENTER	3805	666,661	*
ESCORT	5129	633,610	*
CLOTHING	5581	582,142	*
MOTOR VEHICLE PRIVATE	5064	564,319	*
FAMILY GROUP CONFERENCING	2061	552,135	*
DETENTION	3159	533,452	*
ASSESSMENT DRUG AND ALCOHOL	5657	522,829	*
TRANSPORTATION FAMILY VISITATION	9613	415,547	*
TRACKER SERVICES	3773	395,589	*
ADOPTION PLACEMENT & SUPPORT SERVICES	2464	356,066	*
PSYCHOLOGICAL ASSESSMENT	6013	353,757	*
PSYCHOTHERAPY FAMILY	4383	340,747	*
ABFC CONTINUITY PLACEMENT	8492	338,969	*
RENT	4453	304,422	*
MOTOR VEHICLE GAS	1396	280,527	*
TRAINING INDEPENDENT SKILLS	4017	250,489	*
PRETREATMENT ASSESSMENT	8382	240,212	*
ESC ADDITIONAL STAFFING	9243	195,423	*
OUT OF HOME ASSISTED LIVING	1350	146,127	*
INTERPRETER	4202	125,306	*
PERSONAL NEEDS	1450	120,713	*
LEGAL FEES	1500	115,365	*
RESPITE CARE	2498	99,986	*
EXPEDITED FAMILY GROUP CONFERENCE	7395	99,034	*
INTERVENTION HOURS	2610	94,432	*
PSYCHOTHERAPY GROUP	7210	82,854	*
MAINTENANCE WARD'S CHILD	5697	80,018	*
GROCERY/MEAL PURCHASE	2908	76,718	*
FURNITURE	9621	74,925	*
ACADEMIC TUTORING	5345	72,238	*
OFFICE EXAMINATION AND TREATMENT	1762	70,691	*
TUITION	4522	58,530	*
PARENT EDUCATION	3123	55,687	*
HOUSING DEPOSIT	8125	52,595	*
COMMUNITY INTERVENTION SERVICES	3952	49,774	*
DORM FEES	9723	43,716	*
NATURAL GAS	1071	42,542	*
	3250	36,133	*

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
CHILD WELFARE PAYMENTS BY SERVICE TYPE
For the Fiscal Year Ended June 30, 2006

Service Type	Service Code	Amount	Percentage
ELECTRIC	4994	35,275	*
MOTEL/HOTEL	5820	28,960	*
MOTOR VEHICLE REPAIRS	8220	25,900	*
PRESCRIBED DRUGS AND MEDICAL SUPPLIES	7901	20,564	*
MEDIATION AND FACILITATION	4946	17,795	*
DRIVERS EDUCATION CLASSES	8369	15,930	*
OUT OF HOME STRUCTURE	5616	14,377	*
HOUSEHOLD SUPPLIES	3262	13,566	*
UTILITY DEPOSIT	3179	10,643	*
DENTAL	4372	10,051	*
MOTOR VEHICLE PURCHASE	9831	9,756	*
EXPERT TESTIMONY	2218	8,574	*
STUDENT FEES	6340	8,433	*
MEDICAL SURGICAL OUT PATIENT HOSPITAL	1576	7,419	*
PSYCH CONSULTATION	4294	6,701	*
TELEPHONE BILL	9391	5,534	*
INSURANCE PREMIUM VEHICLE	7594	5,511	*
ACADEMIC TUTORING IN HOME	5727	5,318	*
BONDING AND ATTACHMENT	7615	4,247	*
PEST EXTERMINATION	6165	3,559	*
PARENTING ASSESSMENT	4669	2,857	*
HOMEMAKER	7599	2,719	*
FUNERAL COSTS	7237	2,256	*
MOVING SERVICE	9910	1,997	*
VISUAL	8044	1,805	*
PROPANE	9112	1,717	*
GARBAGE REMOVAL	5037	1,713	*
BOOKS	4490	1,680	*
MOTOR VEHICLE LICENSING FEE	9562	1,535	*
TELEPHONE INSTALLATION	6625	1,448	*
ENVIRONMENTAL MODIFICATIONS	1650	1,440	*
HOSPITAL CARE ACUTE	9963	1,236	*
FAMILY ASSESSMENT	7617	1,112	*
CHORE	1691	1,027	*
SPECIAL NEEDS COUNSELING	3080	1,019	*
AMBULANCE	5478	534	*
RESPIRE CARE IN HOME	1113	427	*
MOTOR VEHICLE TAXES	2674	427	*
COURT COSTS	6730	386	*
HOMEMAKER IN HOME	6700	339	*
COURT TESTIMONY	2861	261	*
WORK SUPPLIES	2949	163	*
PURCHASED WATER	7184	112	*
FOSTER PARENT RESPIRE CARE IN HOME	3918	91	*
EMERGENCY SPECIAL DIET	8650	65	*
FILING FEES	9611	52	*
FUEL OIL	2809	25	*
		\$ 96,418,541	

*Less than 1%

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NEBRASKA RURAL STUDENT LOAN PROGRAM
NUMBER OF LOANS BY TYPE AND OUTCOME BY YEAR RECEIVED
 Fiscal Years 1998 through 2006

Year	Total Amount Awarded	Student Loans Awards			As of 2006			Buyout Rate
		New	Continuation	Total	Post Grad Training	In Practice	Contract Buyout	
1998	\$ 210,000	6	17	23	0	14	9	39%
1999	\$ 180,000	5	13	18	0	12	6	33%
2000	\$ 190,000	6	13	19	1	12	6	32%
2001	\$ 255,000	7	10	17	4	10	3	N/A
2002	\$ 270,000	6	12	18	5	9	4	N/A
2003	\$ 240,000	5	11	16	9	5	2	N/A
2004	\$ 255,000	6	11	17	8	5	1	N/A
2005	\$ 292,000	12	10	22	8	4	1	N/A
2006	\$ 341,250	10	14	24	7	1	1	N/A

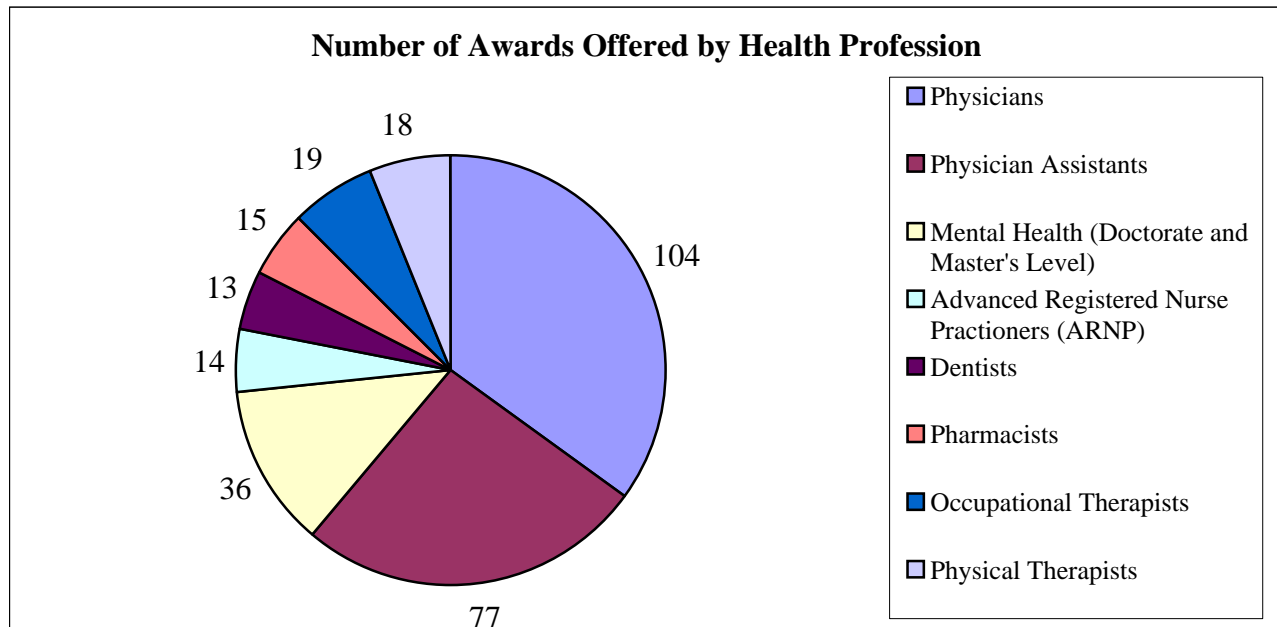
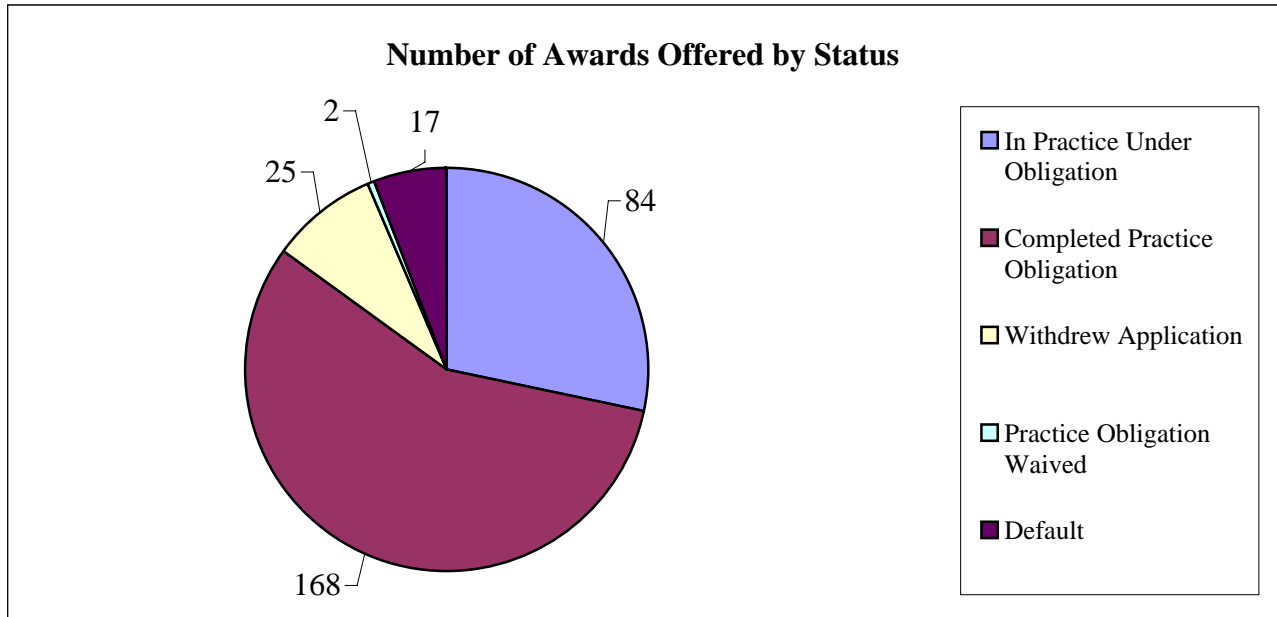
Note 1: To be eligible, students, who are Nebraska residents, must be enrolled or accepted for enrollment in a medical, dental, or graduate-level mental health training program in Nebraska. Awards are made by the Rural Health Advisory Commission based on the student's understanding of and commitment to the practice of primary care, dental care, or mental health care in rural Nebraska.

Note 2: Students must agree to practice one year in a shortage area for each year a student loan is awarded and accept Medicaid patients for their loans to be forgiven. If a student loan recipient fails to practice in a shortage or area or pursues a non-approved specialty, the principal plus 24 percent simple interest from the date of the loan must be repaid.

Note 3: Student loan recipients may receive up to four annual loans. This means a recipient will be counted as a new loan one year and then as a continuation loan the next year. Therefore, adding total awards over a period of several years will result in duplication of individuals receiving awards.

Note 4: Buyout Rate is the number of recipients who buyout their contracts divided by total student awards for each year. Buyout rates are not applicable for 2000-2006 since most recipients are still in training.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NEBRASKA LOAN REPAYMENT PROGRAM
 For the Years 1994 Through 2006



Note 1: Physicians, nurse practitioners, and physician assistants practicing the specialties of family practice, general internal medicine, general pediatrics, obstetrics/gynecology, general surgery, and psychiatry; dentists specializing in general dentist, pediatric dentistry, or oral surgery; clinical psychologists, master's level mental health professionals, pharmacists, occupational therapists, and physical therapists are eligible for the loan repayment program.

Note 2: Funds received are to be used toward the repayment of commercial or government educational loans. The recipient must agree to a three-year practice commitment in a shortage area and accept Medicaid patients.

Source: Rural Health Annual Report