STATE OF NEBRASKA
ATTESTATION REVIEW
OF THE
NEBRASKA DEPARTMENT OF
HEALTH AND HUMAN SERVICES
LINCOLN REGIONAL CENTER

JULY 1, 2007 THROUGH JUNE 30, 2008

Issued on June 15, 2009

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
LINCOLN REGIONAL CENTER

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Independent Accountant's Report

Citizens of the State of Nebraska:

We have reviewed the expenditures, revenues, supplies, transfers, trust activity, and trust balance of the Nebraska Department of Health and Human Services Lincoln Regional Center (LRC) for the period July 1, 2007, through June 30, 2008. LRC's management is responsible for the expenditures, revenues, supplies, transfers, trust activity, and trust balance. We did not obtain a written assertion regarding such matters from management.

Our review 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. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the expenditures, revenues, supplies, transfers, trust activity, and trust balance. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the expenditures, revenues, supplies, transfers, trust activity, and trust balance are not presented, in all material respects, in conformity with the criteria set forth in the Criteria section.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to LRC's expenditures, revenues, supplies, transfers, trust activity, and trust balance and any fraud and illegal acts that are more than inconsequential that come to our attention during our review. We are also required to obtain the views of management on those matters. We did not perform our review for the purpose of expressing an opinion on the internal control over LRC's expenditures, revenues, supplies, transfers, trust activity, and trust balance or on compliance and other matters; accordingly, we express no such opinions.

Our review disclosed certain findings that are required to be reported under *Government Auditing Standards* and certain other matters. Those findings, along with the views of management and the identification of significant deficiencies and material weaknesses, are described below in the Summary of Results. A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

This report is intended solely for the information and use of the Citizens of the State of Nebraska, management of LRC, others within LRC, and the appropriate Federal and regulatory agencies; however, this report is a matter of public record, and its distribution is not limited.

Signed Original on File

Mike Foley	Pat Reding, CPA
Auditor of Public Accounts	Assistant Deputy Auditor

June 15, 2009

Background

The Nebraska Department of Health and Human Services (DHHS) directly operates three Regional Centers (public psychiatric hospitals) in Lincoln, Hastings, and Norfolk, Nebraska.

The Regional Centers care for persons committed by mental health boards or the courts. LRC provides general psychiatric services, intensive residential treatment, a sex offender community residential program, and secure intermediate and transitional residential services. Norfolk Regional Center provides inpatient mental health and sex offender services. Hastings Regional Center provides adolescent residential mental health and substance abuse treatment for boys and girls.

Lincoln Regional Center Program Services Description:

- **General Psychiatric Services**

  Admissions Program: The primary mission of the Admission Program is to conduct assessments, identify treatment needs, identify the least restrictive treatment environment, and transfer individuals to that setting in the least amount of time. The program is designed to conduct thorough psychological evaluations and physical exams, and to begin a medication and treatment regime. The goal is to help individuals rapidly stabilize and transition to a less restrictive environment including transition back to the community.

  Intensive Residential Treatment Program: The primary mission of psychiatric rehabilitation is to elevate individuals' behavioral and social functioning to a level adequate for a stable adjustment in an outpatient community setting. People come to the rehabilitation program because they cannot be discharged from the hospital directly to the community. LRC uses a rehabilitation and recovery model for treatment. Some people have been in treatment facilities for many years, and are referred in an effort to help them return to the community. Others are caught in a "revolving door" between hospital stays and being discharged to the community. In any case, the purpose of the rehabilitation program is to help people recover enough so that they can live stably in the community and continue their recovery. As all people have different needs, recovery time will be different for each person going through the program.

- **Forensic Mental Health Service (FMHS)**

  The Forensic Mental Health Service at LRC is a 126-bed male treatment facility which serves the State of Nebraska for individuals mainly involved in the legal system. It is comprised of two distinct programs:

  Sex Offenders Community Residential Program: The Forensic Mental Health Services Sex Offender Program at LRC provides effective, comprehensive state-of-the-art treatment to individuals who demonstrate a pattern of sexually deviant behavior. The 85-

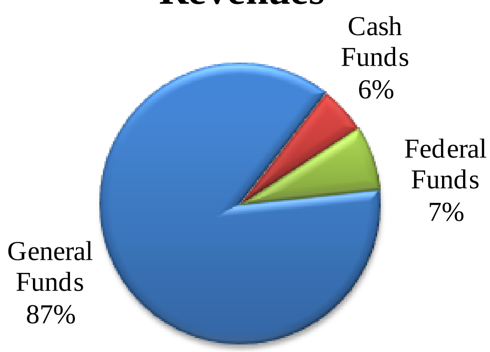
bed male patient population includes convicted sex offenders and patients committed by a mental health board. Programming is individualized to the unique needs of the population served; thus, inpatient services are available for adult males who will receive treatment through either the Cognitive Behavior Change program or through the Life Skills Program. The goals for the programs are designed to reduce repeat offenses, provide for community safety, and minimize the possibility of further victims. In addition, five of the beds are for female sex offenders. Aftercare services are also provided for individuals who have successfully completed the treatment program and are reintegrating into the community.

Forensic Psychiatric Services Program: The 41 bed Psychiatric Services Program provides evaluation and assessments for individuals as ordered by the Nebraska legal court systems.

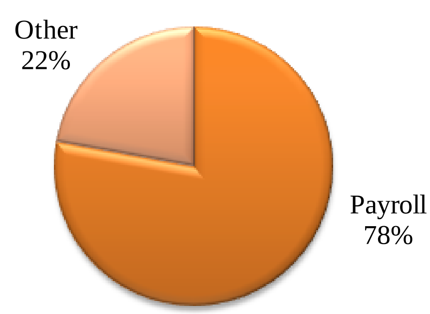
The program is designed to provide treatment and intensive mental health services leading to community referral, placement, and discharge. Individuals admitted to Forensics Psychiatric Services have histories of especially severe and persistent psychiatric disorders and/or have failed to respond to community based and short-term services. Individuals are hospitalized in a psychiatric program because they demonstrate severe deficits in ordinary living skills or their behavior is sufficiently unacceptable or dangerous, that others seek their admission. Therefore, the FMHS Psychiatric Services program focuses on establishment of basic living skills, social skills, problem solving skills, and on control of unacceptable behavior through the use of medication, education and a broad range of social and rehabilitative approaches.

The primary source of revenue for LRC is from General Fund Appropriations. LRC also receives Federal Medicaid reimbursements; and cash fund revenues from patients based on their ability to pay, counties, and other third party payors. Personnel services comprise 78% of LRC's expenditures.

Revenues



Expenditures



Criteria

The criteria used in this attestation review were the Nebraska Department of Administrative Services State Accounting Manual, Nebraska Rules and Regulations, and State Statutes.

Summary of Procedures

Pursuant to Neb. Rev. Stat. § 84-304 (Reissue 2008), the Auditor of Public Accounts (APA) conducted an attestation review of the expenditures, revenues, supplies, transfers, trust activity, and trust balance for July 1, 2007, through June 30, 2008, in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The APA's attestation review consisted of the following procedures:

1. Gain an understanding of internal control procedures over expenditures, revenues, supplies, and trust accounts.
2. Detail testing of payroll, contracts, and other expenditures.
3. Detail testing of revenues and transfers.
4. Review of rates for services and determination of patient's ability to pay for cost of care.
5. Detail testing of accounts receivable adjustments.
6. Review of accounts receivable collection procedures.
7. Detail testing of trust activity.
8. Reconcile bank balance and activity to trust records.
9. Perform counts of inventory items.
10. Follow up and assess status of prior findings.

Summary of Results

The summary of our attestation review noted the following findings and recommendations:

1. Internal Control Over 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, including using vacation hours available before using leave without pay. Good internal control also requires manual adjustments affecting pay and leave be calculated properly.

We noted a lack of segregation of duties over payroll. One individual at LRC prepares the biweekly Pre-Payroll Register and performs reconciliations of payroll input to payroll output. No other employee compares information input on employees' timesheets or manual adjustments processed by this individual to the Final Payroll Register. We also noted one employee completed termination pay calculations and entered leave payoff amounts on NIS without review by a second individual. This same individual also handles all functions of leave balancing without approval from another person.

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

- One individual made entries coded in NIS as "Adjust Prior" to correct errors from previous pay periods. The individual calculated the amount owed, entered the amount into NIS, and reconciled the payroll register to the time card. This process was completed without a second person review of the Final Payroll Register. During testing we noted one employee was overpaid $18 and another was overpaid $56 due to "Adjust Prior" errors.

- Manual adjustments to pay and leave occur every pay period and are due in part to time cards not always being reviewed and approved by employees and supervisors prior to payroll being processed. Adjustments are also due to situations when employees' absences from work were recorded as leave without pay for any absence that was not pre-approved and authorized on the appropriate form. 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 took vacation, 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 balance of the employee was adequate. When the employee later submitted the authorized leave form, the pay would be adjusted in subsequent pay periods. Even though the employees' pay was generally adjusted in subsequent pay periods, manual adjustments increase the risk for errors to occur.

Without a proper segregation of duties, there is an increased risk of undetected errors. The number of manual adjustments greatly increases the risk of error or fraud to occur and not be detected.

We consider this finding to be a significant deficiency. A similar finding was noted in our prior report.

> We recommend LRC implement procedures to ensure an adequate segregation of duties over payroll. We further recommend that steps be taken to reduce the number of manual adjustments.

Agency's Response: The Department agrees with the condition reported.

The APA was not provided, the Notification of Payroll/Leave Adjustment forms that are completed by the payroll specialist and reviewed and approved by the Human Resources Manager for any adjustment to previous pay or leave. The manager reviews the calculations that are present on the form before signing. This form is then sent to the employee and filed in the employee's payroll file. In the case of the situation where an employee was underpaid $18.00, this error occurred because the premium hourly rate was not calculated for payment of the overtime hours from a previous pay period. All payroll staff have been notified of this requirement that any overtime paid in a subsequent pay period must have the hourly rate for payment of that overtime recalculated if the employee was paid shift differential or on-call hours for the pay period in which the overtime was worked. The $56 overpayment was due to an *adjustment in the vacation leave pay out. The former employee was contacted about the overpayment and no response was received.*

Corrective Action Plan: The LRC has worked closely with the employees, supervisors and timekeepers to ensure that accurate information is entered into KRONOS. In April 2009 LRC Policy HR-41 was implemented. This policy notifies employees of clocking requirements and their responsibility for reporting missed clockings. It also notifies employees that if they have accumulated leave but have missed clocking, accumulated leave will be entered on their behalf and the employee must follow-up with the appropriate leave approval by a specified time, otherwise the time will be changed to unauthorized leave without pay. LRC will monitor the number of manual adjustments after this policy is implemented to determine if this change has been effective.

Contact: Linda Gerner

Anticipated Completion Date: On-going

2. Documentation of Time Worked

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) 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." Title 273 NAC 10-002 states, "Each agency shall maintain an attendance record for each employee, accounting for time worked and all absences from work." 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. Good internal control also requires time cards be approved by both the employee and the employee's supervisor in a timely manner.

During our testing of seven employees we noted the following:

- LRC stated that time cards are usually signed indicating approval by employee and supervisors <u>after</u> 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. During detail testing, it was noted that three employees had changes made to hours on one or both time cards tested after payroll had been run indicating approval after the fact.
- Two employees had not signed either of their two time cards tested. One employee signed the time card as both the employee and the approver. LRC was unable to provide documentation of approval of clock-in-time and overtime for four days of one period for one employee.
- One employee tested did not have time cards completed to reflect actual hours worked or a statement certifying they had worked at least 40 hours. This was an overtime exempt

employee reporting leave only through May 2008. Starting June 2008 we noted the employee recorded hours; however, the hours recorded were 40 hours worked on each Monday, which is not possible. The employee is a psychiatrist. The Legislative Performance Audit Committee has noted in the past that LRC lacked an effective means of ensuring the psychiatrists, some of whom have significant work commitments outside the LRC, work the 40 hours each week required by law.

Without employee and supervisor approval of time before payroll is processed, there is an increased risk of loss or misuse of State funds and of errors in payroll calculations. Also, these errors require additional time and resources to correct and adjust. Inaccurate time records increase the risk for abuse. A similar comment was noted in our prior report.

> We recommend all timesheets be approved by both the employee and the employee's supervisor before payroll is processed. We further recommend LRC 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.

Agency's Response: The Department agrees with the condition reported.

Corrective Action Plan: The Lincoln Regional Center encourages employees to view their time worked and leave usage in KRONOS at the end of the pay period and to notify the time keepers of any discrepancies. The paper time cards are sent to the employees and supervisors as soon as possible after the end of the pay period (Tuesday). However, there is a very short window in getting the paper time cards out to employees and supervisors and then getting them signed and returned to HR prior to the deadline (at that time), which was Thursday at 1 p.m.

Since the time period involved in this audit, a change in the method of time reporting for exempt staff was instituted by LRC. Exempt staff must verify they have worked 40 hours each week.

In the future, none of the 24 hour facilities will be printing time sheets for employee signatures. This change is being made because when the employee clocks in/out using their specific ID in Kronos and signs their leave request and missed clocking forms, we have captured their signatures for their time. Supervisors, however, will be required to sign a summary report for their staff time at the end of each pay period. Employees have access to view their time in KRONOS at any time during the pay period and will be encouraged to do so.

Contact: Linda Gerner

Anticipated Completion Date: July 1, 2009

3. 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 pay, shift differential pay, 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. The 2007-2009 NAPE/AFSCME Article 14.4 further states "In addition to normal holiday pay, hours worked by an overtime eligible employee on the employee's designated holiday shall be compensated at 1.5 times their <u>normal</u> hourly rate of pay." Good internal control requires procedures to ensure Federal regulations and contract requirements are adhered to. Good internal control also requires shift differential be calculated in accordance with the NAPE Labor contract. Good internal control further requires consistency in shift times contained in policies and shift times used in the calculation of pay.

LRC uses Kronos, an attendance collection software system, to record employee hours worked.

At June 30, 2008, LRC had 458 full-time equivalent employees. We tested 6 full-time employees and 1 temporary employee for two pay periods each during detail testing. We noted 6 of the employees were paid incorrectly, due to shift differential, overtime pay, and holiday pay not being calculated in accordance with Federal and contract requirements. The variances ranged from $1 overpaid to $18 overpaid for the pay periods tested. Errors totaled $75 for the pay periods tested.

Of the 6 employees with variances, 2 had errors due to shift differential and holiday pay, 1 had errors due to shift differential and overtime pay, 1 had errors due to overtime pay and holiday pay, and 2 had errors due to overtime pay only. A similar finding was noted in a prior report.

Shift differential was not paid in accordance with the NAPE contract:

- DHHS designates payment rules into Kronos to apply shift weekend rates from midnight on Friday through midnight on Sunday. According to NAPE/AFSCME the third shift weekend differential applied to third shift Friday and third shift Saturday. LRC third shift began at 11:00 p.m. and ended at 7:00 a.m. The third shift weekends for LRC should have been for shifts worked from 11:00 p.m. to 7:00 a.m. on Fridays and 11:00 p.m. to 7:00 a.m. on Saturdays. According to the Kronos rules every Friday third shift worked would be underpaid one hour of weekend shift rate and every Sunday third shift worked would be overpaid one hour of weekend shift rate.
- The NAPE labor contract specifies that only hours worked between 6:00 p.m. and 6:00 a.m. for food service employees are to be paid 2nd shift differential. One employee was paid 7.5 hours of weekend 2nd shift differential for weekend 1st shift hours worked on three Saturdays during the two pay periods tested. The employee was also paid 3 hours of 2nd shift differential for 1st shift hours worked on a Friday.

There are also variations due to inconsistencies in shift times between Kronos and LRC Policy HR-39:

- The shift times designated by LRC and used by Kronos in calculating shift differential include hours worked from 6:30 a.m. to 3:00 p.m. as 1st shift, hours worked from 3:00

p.m. to 11:00 p.m. as 2nd shift, and hours worked from 11:00 p.m. to 7:00 a.m. as 3rd shift. The LRC policy lists slightly varied times for nursing shift times for main campus. One employee was paid .25 hours of second shift differential for 13 days or a total of 3.25 hours which were considered 1st shift per LRC policy. If it is not feasible to change Kronos, LRC should change their policies to be consistent with Kronos and how employees are actually being paid.

Overtime pay calculations were not in accordance with the Fair Labor Standards Act:

- LRC did not include overtime hours worked in its calculation of the premium rate. The Fair Labor Standards Act, as administered by the U.S. Department of Labor, includes overtime hours paid at the regular rate in its calculation of total remuneration and overtime hours worked in its calculation of total hours worked. The difference in the calculation of the overtime pay rate contributed to pay variances in four of seven employees for the two periods tested.

Holiday pay calculations were not in accordance with the NAPE contract:

- We noted LRC is paid holiday hours worked using the premium rate calculated for overtime pay. Per the NAPE contract, LRC employees are to be compensated for holiday hours worked at 1.5 times their normal hourly rate of pay, which is the rate for like work performed and does not include shift differential.

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 LRC implement procedures to ensure compliance with the Fair Labor Standards Act and the NAPE contract. We also recommend LRC review and modify their policies to develop consistency between the policies and Kronos to ensure shift differential pay is calculated in accordance with the policies. We further recommend LRC consult with the Department of Administrative Services Division of State Personnel to ensure employee pay is properly calculated.

Agency's Response: The Department agrees with the condition reported.

Corrective Action Plan: The Department agrees with the recommendation and a review of the shift times in KRONOS will be accomplished. However, each facility has different shift times from one another. Therefore, it is impossible to establish the exact same 1st, 2nd, or 3rd shift times for every facility and every functional area within each facility. KRONOS requires standard shift times be established in the software to determine when the shift diff pay is to change. Each individual employee then has a daily rule that identifies whether that individual is eligible for shift differential. These daily rules are necessary because each facility has different start/stop times for their various shifts that differ from the standard shift times that must be established in KRONOS.

On the finding regarding the shift differential and the employee being paid .25 hours of 2nd shift diff for 13 days - Kronos automatically pays shift differential for the .25 hours when an employee works beyond 3 p.m. because that is when 2nd shift is set to begin in KRONOS. In this employee's case, she worked between 3:00 and 3:15. Kronos calculates 2nd shift differential pay any time an employee works beyond 3:00 p.m.

The Auditor's Office, in their Attestation Report, dated 07/01/05 through 06/30/06 and issued 08/02/07, said due to the numerous manual overrides, in part due to the removal of shift differential, LRC was at an increased risk of error or fraud. The Department responded by saying "regarding the finding of shift differential, this practice has been stopped."

Holiday pay calculations are paid using the premium rate. This is how the NIS program is currently calculating the rate of pay for working a holiday. This will be changed with the correction to the NIS overtime premium pay calculation.

The Department agrees with the recommendation to ensure compliance with the Fair Labor Standards Act and the NAPE Contract. The Department believes it is in compliance with these two documents. The overtime premium calculations in the NIS programming were based on the calculations acquired from Wage and Hour Division of the Department of Labor when the program was developed in 2002. Since that time, there have been changes to the interpretation of how holiday time and the calculation of the premium rate is applied in the calculation of premium pay. The Department of Administrative Services provided direction on the appropriate calculation in 2007 and this was provide to NIS to correct. The program corrections in NIS have now been completed and will be in NIS production by July 1, 2009.

Contact: Linda Gerner

Anticipated Completion Date: July 1, 2009

APA Response: We recommend LRC modify the timekeeping system to calculate pay in accordance with LRC policies. If the system cannot be manipulated to calculate the shifts in accordance with policy, LRC should revise policies to reflect calculations performed by the timekeeping software. The policies and calculations should be in agreement.

We continue to recommend the Agency calculate premium pay and shift differential in accordance with all applicable standards. We have not evaluated the changes implemented to the NIS system at this time.

4. Transfer of Employee Leave Balances

Neb. Rev. Stat. § 23-2518.03 (Reissue 2007) states, "(1) The state…shall transfer all accrued sick leave of the transferred employee up to the maximum number of accumulated hours for sick leave allowed by the county personnel system. The state…shall reimburse the county for twenty-five percent of the value of the accrued sick leave hours based on the straight-time rate of pay for the employee." It also states, "(2) The transferred employee may transfer the maximum amount of accrued annual leave earned as an employee of the state…allowed by the county personnel system. The state…shall reimburse the county for one hundred percent of the value of the hours of accrued annual leave transferred." Good internal control requires leave balances transferred to another government entity be removed from NIS and the amount due be remitted per State Statute.

One of two terminated employees tested had remaining leave balances in NIS even though the employee had transferred to employment with the county and was no longer a State employee. Per review of NIS, remaining balances of 959 hours of sick leave and 93 hours of vacation leave were still in the system. Leave balances were transferred to Lancaster County and funds paid to Lancaster County for 25% of the total accrued sick leave and for 100% of the total accrued vacation leave. The amounts paid did not agree to the actual leave balances and resulted in an underpayment of $300 for vacation leave and an overpayment of $116 for sick leave. A net of $183 is due Lancaster County for the variances.

Inadequate controls and noncompliance with State Statute increases the risk for misuse of State funds. Inaccurate NIS records increase the risk for improper leave if the employee should return to State employment.

> We recommend LRC remove the leave balances for the employee from NIS and pay any funds still due to Lancaster County.

Agency's Response: The Department agrees with the condition reported.

Corrective Action Plan: A payment is being made to Lancaster County in the amount of $183.41 for the remainder of this employee's leave balance. The leave balances have also been removed from NIS.

Contact: Linda Gerner

Anticipated Completion Date: Complete

5. <u>Incorrect Termination Payouts</u>

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 our review of negative leave balances, we noted one terminated employee had an improper negative vacation leave balance. This balance is the result of an overpayment of the vacation leave balance upon termination. The employee received an additional 2.25 hours of vacation pay due to a manual adjustment of vacation after the payout was calculated. The gross amount overpaid is $56 and has not been recovered. A similar finding was noted in our prior report.

We also noted two underpayments of termination pay, noted during the fiscal year 2006 attestation, had not been corrected. The underpayments of $5 and $103 were due to errors in determining accumulated leave due and errors in work hours and payroll deductions.

Without adequate procedures to ensure termination payouts are accurate, there is an increased risk for errors in employee payments.

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

Agency's Response: The Department agrees with the condition reported.

Corrective Action Plan: In December, 2007 directives were issued to all payroll staff and managers outlining the separation-payroll benefits checklist and leave payout calculation that must be used for every separation. These documents are required and are subject to random review by the payroll manager. Any overpayments or underpayments that exceed $25.00 DHHS will try to recover. The underpayment, which actually amounts to $136.66 by our calculations since we reviewed the leave balances over the two years prior to the termination, will be paid to the former employee. The underpayment of $5.00 will not be paid since we do not process underpayments which are less than $25.00. The employee overpaid $56 was notified of the overpayment and we requested repayment. That employee has not replied to our request for repayment.

Contact: Linda Gerner

Anticipated Completion Date: Complete

6. <u>Make-up Retirement</u>

As a member of the State Employees' Retirement Plan, an employee is required to contribute a percentage of gross compensation to the Plan each payroll period. Good internal control requires procedures to ensure contributions are properly withheld from pay and remitted to the Plan.

Four employees noted during the fiscal year 2006 attestation as being subject to make-up retirement for past shortages in retirement contributions, had not had retirement adjusted correctly. Three employees still had balances between $66 and $8 not yet collected from the employee and/or remitted to the Plan. One employee still had a balance of $30 not yet withdrawn from the Plan and/or returned to the employee. The errors in the prior attestation have not been corrected.

The employee's retirement contribution and the State's match were incorrect based upon the employees' earnings.

We recommend LRC follow up on prior findings and make corrections as needed to ensure contributions for the employees are correct.

Agency's Response: The Department partially agrees with the condition reported.

DHHS is in agreement with the State Auditor's recommendation on two of the individuals. The third individual was a DAS employee who transferred to DHHS. That makeup calculation was completed with another agency and DHHS does not believe it is our responsibility to double check these initiated in another agency.

Corrective Action Plan: The two current employees have been notified that deductions will need to be made or payment received to correct the underpaid contributions.

Contact: Linda Gerner

Anticipated Completion Date: Complete

APA Response: Although the initial error may have been with another agency, the individual is now an employee of LRC. LRC should work with DAS and the Public Employees Retirement Systems to ensure the proper corrections are made, including any corrections to current pay.

7. Overtime

We noted LRC spent $1,087,743 on 49,515 hours of overtime worked by 507 employees for the fiscal year ended June 30, 2008. As it was beyond the scope of our review, we did not calculate an estimate of any possible savings LRC would realize if LRC was staffed with various levels of overtime planned. LRC may want to consider performing such an analysis.

LRC	2007 – 2008 Amount
Overtime Total	$ 1,384,623
Comp Time Total	137,127
Holiday Overtime at 1.5	(434,007)
Grand Total	$ 1,087,743

Holiday at 1.5 was not included in total overtime/comp hours because those hours represent work required to be done on a holiday. No matter how many staff members the facility has, those days must be worked by someone, and thus were considered "regular hours."

The table below outlines the top ten employees who earned overtime and comp time during the fiscal year. During the fiscal year ended June 30, 2008, the top ten employees each worked overtime ranging from 498 to 713 hours in addition to their regular hours worked which ranged from 1,946 to 2,165 hours.

Top 10 LRC Employees Earning Overtime/Comp

Agency Original Hire Date	Years of Service, as of 6/30/08	Position	Overtime Hours	Regular Hours	Total Hours Worked	Average Hours Per Week	Max hours on one biweekly paycheck	Total Wages Paid for the Year	Normal Wage per hour at 6-30-08	Yearly salary at normal wage
12/13/2004	3.5	Mental Health Security Specialist II	713	2,077	2,790	54	124.75	$ 45,127	$ 12.226	$ 25,430
12/11/2000	7.5	Psychiatric Technician II	643	2,077	2,720	52	146.25	$ 37,733	$ 11.391	$ 23,693
6/28/1993	15.0	Mental Health Security Specialist II	589	1,946	2,535	49	117.75	$ 47,967	$ 14.896	$ 30,984
2/7/2005	3.4	Psychiatric Technician II	581	2,084	2,665	51	116	$ 46,490	$ 13.878	$ 28,866
12/11/2006	1.5	Psychiatric Technician II	580	2,054	2,634	51	124.25	$ 35,736	$ 10.842	$ 22,551
7/2/1984	24.0	Psychiatric Technician II	569	2,080	2,649	51	162.5	$ 51,015	$ 15.035	$ 31,273
6/2/2003	5.1	Psychiatric Technician II	540	2,096	2,636	51	101	$ 33,087	$ 10.842	$ 22,551
4/7/1998	10.2	Nurse Supervisor	528	2,165	2,693	52	139.5	$ 72,013	$ 22.565	$ 46,935
6/25/2007	1.0	Mental Health Security Specialist II	518	1,976	2,494	48	142.25	$ 36,930	$ 12.226	$ 25,430
11/29/1999	8.6	Mental Health Security Specialist II	498	2,077	2,575	50	139.5	$ 39,102	$ 12.226	$ 25,430

The APA discussed this finding with appropriate DHHS and LRC officials who concur that the cost of overtime has been a challenge and concern for the facility. They emphasize that considerable progress has been made in recent months to address this matter. The APA conducted additional test work for the three month period ended April 13, 2009. For the three month additional test period, average monthly overtime hours were 1,276, a substantial reduction from the average monthly overtime hours of 4,126 for the fiscal year ended June 30, 2008. The APA concurs that available evidence documents a substantial reduction in the use of overtime hours.

We recommend LRC review the appropriateness of overtime hours worked by employees. The APA will refer this matter to the Legislature's Performance Audit Committee for their consideration.

Agency's Response: The Department only uses overtime when necessary.

8. Accounts Receivable

Neb. Rev. Stat. § 83-364 (Reissue 2008) states, "When any person is admitted to a state institution or other inpatient treatment facility pursuant to an order of a mental health board under the Nebraska Mental Health Commitment Act or the Sex Offender Commitment Act or receives treatment prescribed by such institution or facility following release or without being admitted as a resident patient, the patient and his or her relatives shall be liable for the cost of the care, support, maintenance, and treatment of such person to the extent and in the manner provided by sections 83-227.01, 83-227.02, 83-350, and 83-363 to 83-380."

Neb. Rev. Stat. § 83-375 (Reissue 2008) states, "When any patient or relative fails to pay the amounts determined to be due under sections 83-227.01, 83-227.02, 83-350, and 83-363 to 83-380, the state of Nebraska may proceed against such person in the manner authorized by law for the recovery of money owed to a creditor. The Attorney General shall represent the state in such actions, but may authorize the county attorney for the county in which such person resides or owns property to investigate and prosecute the action on behalf of the state."

DHHS Accounts Receivable Guidelines state, "If payment arrangements are not made within 90 days after notice . . . the director's letter is sent to the debtor. If no response within 30 days of the director's letter, send a legal letter to the debtor. If payment arrangements are not made within 30 days of the legal letter, the debtor's account is referred to the Financial Administrator in a timely manner for review." The Guidelines outline further action to consider including: review with DHHS attorney for legal action, referral to a collection agency, submit for tax refund intercept, and submit to the State Claims Board.

Title 202 NAC 1-006.01 states, "The Department may assess a 1% per month finance charge on all accounts that are in excess of 90 days old, as allowed as pre-judgment interest per statute." Sound business practice requires interest be charged on delinquent accounts.

We selected ten patients with accounts receivable balances over 120 days old at June 30, 2008, and reviewed through March 12, 2009, to determine if timely and appropriate collection procedures were performed. We noted three cases in which procedures were not performed in a timely manner, and four cases that did not have appropriate action taken to collect the overdue balances as noted below. We also noted LRC was not charging interest on past due accounts and did not have written procedures detailing when interest would be charged. The amount of self pay accounts over 90 days past due at June 30, 2008 was $1,272,683. Our prior report also noted accounts receivable weaknesses. We consider this to be a significant deficiency.

Failure to follow up on accounts receivables in a timely manner greatly increases the risk that amounts due the State will not be collected, which results in a greater burden to taxpayers.

#	6/30/08 Balance	Description (through March 12, 2009)	Disposition
1	$ 50,924.28	Discharged LB 95 7/9/08. Has been making $50 per month payments. Balance at 3/9/09 is $48,074.28. (at this rate would take over 80 years to pay) Patient had bank accounts at 8/07 of $137,094.	Payment schedule not approved, no action taken.
2	$ 44,200.00	Discharged 5/20/05. Guardian/daughter is making $25 to $100 payment each month. At $100 per month would take over 36 years to pay. 2007 assessed value of 160 acres land that patient has ½ interest in is $181,940. No indication of any action taken.	Payment schedule not approved, no action taken.
3	$ 130,447.00	Based on earned income, unearned income, and assets, patient was billed at full cost. Discharged 2/3/06. March 2008 was still working on Ability to Pay determination. No director letter sent, no collection procedures performed.	No action taken
4	$ 74,250.00	Discharged 9/3/08. Discharged LB 95 3/9/09. Ability to pay of $1,631 thru 12/07 and $1,670 thru 1/09. One payment of $1,631 was received 3/4/08.	No action taken since 3/4/08
5	$ 231,821.20	Discharged 9/6/06. Director letter sent 5/9/07. Demand letter 12/5/07. Turned over to collection agency 5/28/08. Client and spouse had not been cooperating with providing financial information. On 7/30/08 provided tax returns for 2002, 2004, 2005. However, did not provide asset information. No additional action taken. Have 2007 valuation on home of $94,000. No additional procedures from August 2008 thru 3/12/09.	Procedures not timely, limited action taken.
6	$ 30,322.00	Based on unearned income and assets, patient was billed at $6,455.50 per month. Discharged 12/13/07. Director letter sent 6/13/08. Director letter to guardian on 7/1/08. Demand letter sent 9/9/08. On 11/4/08 statement of claim filed with County Court. On 2/3/09 claim filed with Court against conservator.	Procedures not timely, appropriate action taken.
7	$ 37,048.00	Discharged 1/8/08. Sent Director letter 6/24/08, sent demand letter 12/5/08, sent to collections 3/6/09.	Action taken, not timely

We recommend LRC follow up on accounts receivables and take appropriate action in a timely manner. We further recommend DHHS implement written procedures detailing when interest will or will not be charged on delinquent accounts.

Agency's Response: The Department agrees with the recommendation of timely action. However, in each of the accounts referenced there has been activity going on in the account that will resolve the balance. Charging Interest: At a May, 2009, meeting, DHHS Directors formalized our long-standing practice of not charging interest on past-due accounts, except for situations where required by law or court order. In our opinion, sound business practice includes many considerations as to the decision on whether or not to charge interest, and is not an automatic decision to always charge interest.

Corrective Action Plan: The Department will continue to work toward timely actions on all accounts.

Contact: Heather Janssen and Ron Sanchez

Anticipated Completion Date: On going

9. <u>Rates for Services</u>

Neb. Rev. Stat. § 83-365 (Reissue 2008) states, "The department shall periodically determine the individual cost, exclusive of the cost of education, for the care, support, maintenance, and treatment of the patients in each state institution and for persons receiving treatment prescribed by an institution following release or without being admitted as a resident patient. In making such determinations, the department may use averaging methods for each institution if, in the judgment of the department, it is not practicable to compute the cost for each patient. The cost of capital expenditures and capital construction shall not be included in making such determinations."

Good internal control requires adequate documentation be maintained to support the rate calculation. Good internal control also requires written procedures and a comparison of estimated rates to actual expenses. Such a comparison would help analyze if rate setting procedures are adequate and to highlight areas that may need to be revised.

During fiscal year 2008, LRC set eight different rates for inpatient services based on the type of care provided. Rates ranged from $266 per day to $520 per day. These rates are used to bill insurance companies and to bill patients based on their ability to pay. We noted the following:

- The rate calculation is complex and there are no written procedures documenting the methodology.
- The number of patient days used in the calculation appears overstated. Patients reside in eight different wards. LRC used total capacity; however, only four of the eight wards were more than 90% capacity for fiscal year 2007 or fiscal year 2008. One ward was less than 70% capacity in both years. Overall occupancy rate was 89% capacity and 90% capacity for fiscal years 2007 and 2008, respectively. We also noted that patient days for two of the wards were switched.
- The number of meals used in the calculation is the number of patient days used times three meals per day. As patient days appear overstated, the number of meals would also be overstated.
- Square footage used for physical plant and housekeeping was not adequately supported.
- Pounds of laundry used the fiscal year 2007 estimate rather than a 2008 estimate based on 2007 actual laundry.
- The number of employee days used for nurse practitioners, psychiatrists, and psychologists could not be verified.
- There was no comparison of estimated rates to actual expenses at the end of the fiscal year. The rates are calculated using budget amounts. We noted several variances in subsidiary accounts between budgeted amounts and actual expenses ranging from ($804,871) to $1,404,397. A review of historical patterns would help management evaluate the rate setting process and determine whether or not any changes are needed.

Without adequate procedures over the process used to calculate rates, there is an increased risk that service rates billed were incorrect, resulting in under/over payments.

> We recommend LRC establish written procedures documenting the rate setting methodology. We further recommend adequate documentation be maintained to support the calculation. Finally, we recommend LRC annually perform a comparison of estimated rates to actual expenses.

Agency's Response: The Department partially agrees with the conditions reported.

Corrective Action Plan: Procedures will be written to document the methodology of determining the rates to be charged for services. As part of the written procedures we will review the documentation to determine that is adequate to support the rate calculation.

The Department disagrees with the finding regarding the LRC annually perform a comparison of estimated rates to actual expenses. The rates are established based on budgeted expenses which follow industry standards. There is no provision to adjust rates to recoup or pay any difference from the original rate calculations. There is no benefit to LRC to perform this function.

Contact: Randall Willey

Anticipated Completion Date: December of 2009

APA Response: As noted above, we believe a comparison of estimated rates to actual expenses would help analyze if the rate setting procedures are adequate and highlight areas needing revision for future periods.

10. 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:

- There is not an adequate segregation of duties over the use of pharmacy inventory to reduce the risk of theft or misuse of State pharmacy supplies. LRC'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 no documented systematic review of entries on Performance, the pharmacy's software that tracks prescriptions. Also, the amount of drugs used or usable was not reconciled to the amount purchased per NIS.

- LRC did not maintain a perpetual inventory for its non-controlled substances.

- For four of five pharmacy inventory items tested, we were unable to reconcile the ending balance per the June 26, 2008, physical inventory count to the beginning balance per the June 28, 2007, physical inventory count by adding purchases and acquisitions from other locations and subtracting disbursements to patients and return of outdated items. Balances counted for items ranged from 204 items of inventory less than calculated to 125 units of inventory more than calculated.

- One pharmacy inventory item that did reconcile included the return of 95 outdated items to a reverse distributor. LRC could not provide documentation showing either the return did not qualify for a payment or documentation of the receipt of proceeds.

Type	**Trade Name**	**Physical Count Balance 6-26-08**	**Calculated Balance**	**(Shortage)/ Overage**
C2	Concerta 18MG 100 ER	532	532	0
C3	Hydrocod/Apap 2.5-500MG 100	100	304	(204)
C4	Clonazepam 2MG 100	150	25	125
---	Medroxyprogest 150MG/ML 25x 1ML	375	315	60
---	Celebrex 100MG 100	170	294	(124)

A similar finding was noted in our prior report. Total pharmacy expenditures for the fiscal year ended June 30, 2008, was $2,130,238. We consider this finding to be a significant deficiency.

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

> We recommend LRC strengthen controls over Pharmacy inventory, including procedures to ensure an adequate segregation of duties. We also recommend LRC implement policies and procedures to accurately maintain supply inventories. We further recommend LRC implement procedures to follow up on the return of outdated items to determine receipt of either a notice of nonpayment or receipt proceeds. We believe there is a heightened level of risk associated with the inventory of controlled substances and strongly recommend LRC take immediate steps to ensure these substances are safeguarded.

Auditor's Response: The Department agrees with the conditions reported.

Corrective Action Plan: Procedures will be written to strengthen controls over pharmacy inventory that include procedures to ensure adequate segregation of duties.

We will research software upgrade options and procedures for ordering, receiving and returning non-controlled substances will be developed and implemented.

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

Contact: Randall Willey

Anticipated Completion Date: December of 2009

11. Inadequate Segregation of Duties Over Supply Inventories

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

LRC maintains supply inventories including food, medical, household, and office supplies inventories. We noted:

- There were no written procedures for supply inventories.
- A lack of segregation of duties for supply inventories.
- Eight of thirty supply inventory items tested did not agree to the inventory record. Actual counts of items ranged from 550 units of inventory less than inventory records to 4 units of inventory more than inventory record.

Supply Item	Auditor Count	Record Count	(Shortage)/ Overage
Marshmallow Mini (12/1 lb)	3	10	(7)
Eyewash Solution (bottle)	5	6	(1)
Crutch Replacement Parts (bag)	4	5	(1)
Knee Hi Hose X-LG/Long (pair)	2	4	(2)
Gloves Exam Small (pair)	4	0	4
Glucometers, Strips (box)	15	14	1
Cups, Paper, 4 OZ (each)	34	584	(550)
Folder, File Hanging Letter (box)	5	7	(2)

Total expenditures for supplies inventory during fiscal year 2008 was $966,988. Similar findings were noted in our prior report. We consider this finding to be a significant deficiency.

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

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

Auditor's Response: The Department agrees with the condition reported.

Corrective Action Plan: Procedures will be written to document supply inventories. Procedures will also be written to strengthen controls over supply inventories that include procedures to ensure adequate segregation of duties.

Contact: Randall Willey

Anticipated Completion Date: December of 2009

12. <u>Spending Authority Exceeded</u>

The Legislature makes appropriations for each fiscal year. An appropriation is an authorization to make expenditures and incur obligations. This authority is granted by the Legislature and each agency is expected to operate within those limits.

LRC exceeded their appropriated spending authority for the fiscal year ended June 30, 2008. The spending authority was exceeded by at least $1.4 million. Payroll was not encumbered at year end due to insufficient authority remaining. This amount included fiscal year 2008 expenditures which were paid for in fiscal year 2009.

As a result, LRC did not comply with LB restrictions.

> We recommend LRC operate within the limitation set by the Legislature.

Agency's Response: The Department disagrees with the condition reported because LB 959, Section 120 moved all remaining Behavioral Health funds to Behavioral Health Aid and distributed all those funds per LB 959, Section 119.

Corrective Action Plan: N/A

Contact: Willard Bouwens

Anticipated Completion Date: N/A

APA Response: The Agency is expected to operate within the limits set by the Legislature. LB 959 does not exempt the Agency from the restrictions of the appropriations bill.

13. <u>State Vehicle Usage</u>

Neb. Rev. Stat. § 81-1025(1) (Reissue 2008) 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."

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."

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, we noted the following:

- One of five vehicle logs tested did not record all points of destination or official starting and stopping points. This vehicle log showed mileage in Lincoln of 60 miles for an entire day as one line item titled "Pt Trans" or patient transportation. Auditor was unable to determine reasonableness of mileage as there was insufficient information provided.
- For one of five trips, mileage was unreasonable per information provided on log. Mileage calculated by the APA based on the listed destination totaled 40 miles. Actual mileage claimed by LRC for this trip totaled 49 miles. This resulted in 9 additional miles claimed over the calculated miles.
- Examples of purpose of trip shown on logs are as follows: bank, buying flowers at Earl May, donating blood at Blood Bank, food at McDonalds, and treat at DQ. These do not appear to be a business purpose.
- LRC did not have an adequate review of mileage logs. The person reviewing the logs was not reviewing whether the mileage was reasonable per destination noted or reviewing whether the destinations were reasonable per the employee's job duties.
- LRC also did not have adequate procedures to ensure supervisory approval prior to checking out vehicles. The maintenance staff checked vehicles out to any staff with a driver's license that had completed the TSB requirements.

A similar finding was noted in our prior report.

Without adequate control procedures, there is an increased risk of misuse of State vehicles. Also, without proper documentation of destinations of travel, it is impossible to determine whether mileage is reasonable.

> We recommend LRC implement procedures to ensure employees have approval prior to checking out a vehicle and employees record all points of travel. We also recommend LRC implement procedures to review vehicle usage to ensure destinations and miles traveled are reasonable.

Agency's Response: The Department agrees with the conditions reported.

Corrective Action Plan: Additional training will be provided to the staff responsible for the checking in/out of state vehicles to ensure that only those drivers that have obtained 'State of Nebraska Transportation Services Bureau Driver Identification Card' are allowed to check out a vehicle. Procedures will also 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 recommending to Transportation Service Bureau (TSB) ways to update and implement a revised mileage log policy that will include supervisory review procedures to ensure miles traveled are reasonable. TSB has provided LRC with the protocol and policy to train staff to complete logs that indicate "each official stopping and starting point included in the travel log" that is recorded as an individual line entry.

Vehicles averaging less than 1,000 miles per month are used daily for patient transportation to appointments and activities. Also, these vehicles are purchased used to reduce the cost per mile to less than leasing. The following is being done to determine if the vehicles owned and leased are necessary:

- *annually review vehicle usage to determine if vehicle is necessary*
- *purchase used vehicles in lieu of leasing for vehicles used for patient transportation to appointments and activities*
- *continue to review the need for owned and leased vehicles*

Contact: Randall Willey

Anticipated Completion Date: December of 2009 and annually

14. <u>Contracts</u>

Good internal control requires a documented review of contracts be performed by legal counsel; all contracts should include the date they were entered into and the correct contractor; documentation should be maintained to support the number of hours worked and monthly billings are based on service dates and are in accordance with the contract.

We tested four contracts and noted the following:

- Documentation to support a legal review had been performed could not be provided for the four contracts selected for testing.

- One contract did not include the date it was entered into and also included the name of a contractor different than with whom the contract was with.

- One contract for psychological services noted the following:

    - Timesheets were included with the monthly billings to document the number of hours worked; however, timesheets for work performed in July 2007 were not provided.

- Specific days and hours of work were detailed in the contract for one of the psychologists; however, it was noted during review of the timesheets, the contracted days and hours were not being worked on a regular basis.
- The June 2008 billing included the time worked by the individuals working according to the fiscal year 2009 contract instead of the individuals for the fiscal year 2008 contract. Although, the contract in total was not exceeded, three of four programs were overpaid at the program level by a total of $2,249.

A similar finding was noted in the prior report. Inadequate controls increase the risk for loss or misuse of State funds.

> We recommend LRC implement procedures to ensure a documented legal review of contracts is performed and all contracts are completed with the correct information. We further recommend LRC ensure adequate documentation is maintained with the days and hours worked and monthly billings are in accordance with the applicable contract.

Agency's Response: The Department agrees with the conditions reported.

Corrective Action Plan: The Department has reviewed existing procedures and has implemented new procedures to ensure legal and administrative review of contracts and agreements. This was complete in July of 2008.

LRC will review to ensure that adequate documentation is maintained with the days and hours worked and monthly billings are in accordance with the applicable contract.

Contact: Randall Willey

Anticipated Completion Date: December of 2009

15. <u>Inadequate Controls Over Trust Accounts</u>

Good internal control requires an adequate segregation of duties so no one individual is capable of handling all phases of a transaction and is in the position to perpetrate and conceal errors. Good internal control also requires individuals responsible for opening mail containing receipts do not have access to post transactions in the system. Good internal control requires checks to be restrictively endorsed immediately upon receipt. LRC uses the AVATAR system to record patient account activity and balances.

One individual at LRC was responsible for opening the mail containing receipts for the patient accounts. The individual had full access on the AVATAR system to post receipts and adjustments to patient accounts. The individual was also reviewing the Accounts Receivable report to follow up on outstanding accounts. Checks received in the mail at LRC were not restrictively endorsed before being sent to the Central Office in Lincoln for deposit. The checks were restrictively endorsed once they were received in the Central Office and provided to the individual responsible for posting the amounts received to the patient accounts on AVATAR. The individual who posted receipts to patient accounts was also responsible for preparing the NIS deposits and reconciling the deposits to receipts posted on AVATAR.

A similar finding was noted in the prior report. Without adequate controls, there is an increased risk for loss of funds.

> We recommend LRC evaluate the receipting process and consider limiting system access for the individual who opens the mail or have two individuals open the mail. We recommend LRC restrictively endorse checks prior to sending them to the Central Office. We also recommend an individual independent of the receipting process reconcile the NIS deposits to AVATAR receipts.

Agency's Response: The Department agrees with the condition reported.

Corrective Action Plan: Central Finance and Lincoln Regional Center will review available staff to be assigned to this procedure. Restrictive endorsements will be applied to checks before sending to Central Office.

Contact: Willard Bouwens and Randall Willey

Anticipated Completion Date: September 30, 2009

<u>Overall Conclusion</u>

During our review we noted several issues that had not been resolved from our prior examination. These include: inadequate controls and errors in payroll, inadequate controls over pharmacy drugs and supplies, weaknesses in trust receipting, inadequate documentation for rates charged, and weaknesses in accounts receivable collections. We also noted LRC could improve procedures over vehicle usage and contracts. We further noted LRC exceeded legislative spending authority by at least $1.4 million.

The APA staff members involved in this attestation review were:

Pat Reding, CPA, Assistant Deputy Auditor
Sara Leber, Auditor II
Crystal Goldsmith, CPA, Auditor II

If you have any questions regarding the above information, please contact our office.

EXHIBIT 1

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
LINCOLN REGIONAL CENTER
SCHEDULE OF REVENUES AND EXPENDITURES
For the Fiscal Year Ended June 30, 2008

	General Fund	Cash Funds	Federal Funds	**Totals (Memorandum Only)**
REVENUES:				
Appropriations	$ 28,279,661	$ -	$ -	$ 28,279,661
Intergovernmental				
Medicaid	-	-	1,793,702	1,793,702
Other Grants	-	13,403	41,989	55,392
Sales & Charges				
State Ward Education Reimbursement	-	538,104	-	538,104
Medicare Reimbursements	-		514,902	514,902
County Reimbursements	-	379,132	-	379,132
Insurance Reimbursements	-	163,231	-	163,231
Maintenance Payments-Residents	-	614,759	-	614,759
Other Sales & Charges	(669)	776	-	107
Miscellaneous	77	52,627	40,626	93,330
TOTAL REVENUES	28,279,069	1,762,032	2,391,219	32,432,320
EXPENDITURES:				
Personal Services	25,126,976	254,526	11,072	25,392,574
Operating				
Depreciation Surcharge	830,122	-	-	830,122
Household and Instution Supplies	97,432	4,232	182,900	284,564
Food Expense	58,893	25,319	417,100	501,312
Medical Supplies	680,506	16	1,515,582	2,196,104
Physician Services	424,476	-	46,210	470,686
Psychological Services	271,328	-	63,620	334,948
Hospital Services	127,383	-	72,807	200,190
Rental/Maintenance Contract-DAS	-	1,031,608	-	1,031,608
Other Contractual	305,521	89,974	118,511	514,006
Other Operating	301,248	30,764	463,926	795,938
Travel	53,284	-	10,084	63,368
Capital Outlay	2,492	-	-	2,492
TOTAL EXPENDITURES	28,279,661	1,436,439	2,901,812	32,617,912
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (592)	$ 325,593	$ (510,593)	$ (185,592)

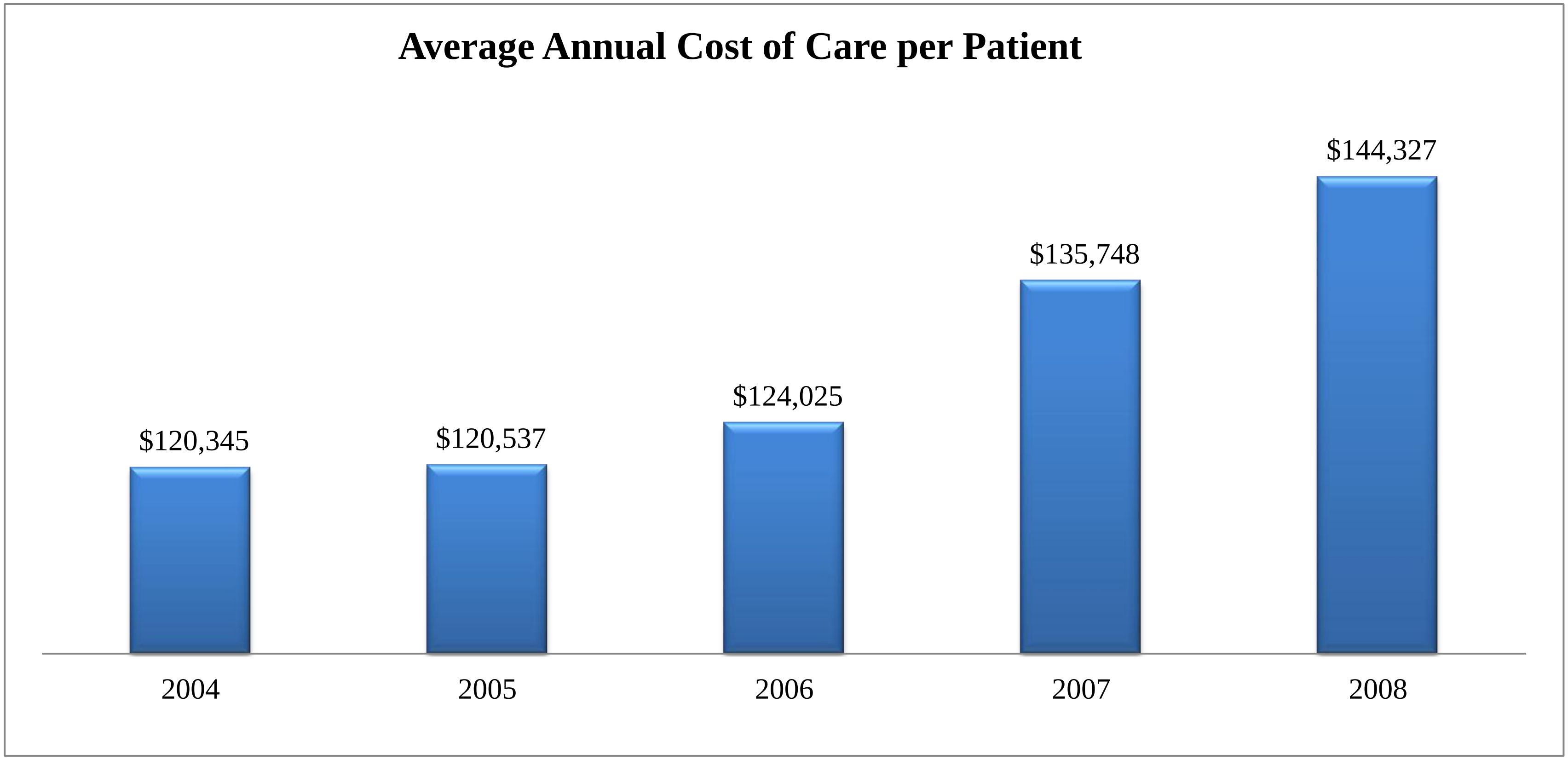
EXHIBIT 2

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
LINCOLN REGIONAL CENTER
SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
PATIENTS' TRUST FUND
For the Fiscal Year Ended June 30, 2008

	Trust Fund
ADDITIONS:	
Patients' Contributions	$ 532,803
Interest Income	3,340
TOTAL ADDITIONS	536,143
DEDUCTIONS:	
Maintenance Charges	203,049
Refunds	100,210
Patients' Withdrawals	225,433
Other	1,296
TOTAL DEDUCTIONS	529,988
Change in Net Assets Held in Trust	6,155
NET ASSETS-BEGINNING OF YEAR	75,111
NET ASSETS-END OF YEAR	$ 81,266
NET ASSETS CONSIST OF:	
General Cash	$ 83,231
Deposits	(1,965)
TOTAL NET ASSETS	$ 81,266

EXHIBIT 3

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
LINCOLN REGIONAL CENTER



	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
Program 363 Expenditures	$ 28,762,401	$ 28,687,830	$ 28,525,728	$ 30,679,073	$ 32,617,912
Average Daily Census	239	238	230	226	226
Average Cost Per Patient	$ 120,345	$ 120,537	$ 124,025	$ 135,748	$ 144,327

Source: Department of Administrative Services Budgetary Report and DHHS Reports of Patients

EXHIBIT 4

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

NEBRASKA BEHAVIORAL HEALTH SERVICES ACT

On April 14, 2004, the Governor signed LB 1083 which included the Nebraska Behavioral Health Services Act (Act). The Act included provisions for the reduction of regional center services. As regional center services were reduced, the funding for those expenditures were to be reallocated for specific purposes related to the statewide development and provision of community-based services.

The exhibits depict the funding changes made from April 12, 2004, through March 31, 2009, and the changes in number of Regional Center patients from fiscal year 2004 through March 31, 2009.

Exhibit 5, “Regional Center Amounts Transferred to Behavioral Health Program” reflects the amounts identified by the Department of Health and Human Services (DHHS) to transfer and the years those transfers were performed. The amount identified for Hastings Regional Center was based on fiscal year 2004 General Fund appropriations for inpatient and outpatient services, but excluded adolescent substance abuse, sex offenders, meals for INS, and Assertive Community Treatment (ACT). In 2008, ACT at Hastings was closed and the funding added to amounts to transfer. The amount identified for Norfolk Regional Center was the total fiscal year 2004 General Fund appropriation, based on the anticipated closing of the Norfolk facility. The amount to be transferred also included inflationary costs. The Department worked with the Legislative Fiscal Office in determining amounts to transfer and when those transfers would be made.

Exhibit 6, “General Fund Appropriations Summary by LB for Programs 038, 365, and 870” lists the appropriations by fiscal year for Program 038 Behavioral Health Aid, Program 365 Mental Health Operations, and Program 870 Norfolk Sex Offender Treatment. Program 870 was established in April 2006 by LB 1199 to provide court-ordered treatment of sex offenders who have completed their sentences, but continue to pose a threat of harm to others. As a result of LB 1199, the Norfolk Regional Center did not close. Patients were moved between Norfolk and Lincoln or to community programs based on their treatment needs.

Exhibit 9, “Behavioral Health Aid Program 038 and Regional Center Programs 365 and 870 - Changes in Appropriation Funding and Number of Patients” summarizes the changes in General Fund appropriations from fiscal year 2004 through March 31, 2009, and shows the changes in the number of patients at each facility.

Based on discussions with the Department and Legislative Fiscal Office, after a $3.5 million transfer to be included in the 2009 deficit appropriation bill, all amounts identified per LB 1083 will have been transferred from Regional Center funding to Behavioral Health. The Behavioral Health Aid program will then receive the continuation funding of $30.4 million each year.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGIONAL CENTER AMOUNTS TRANSFERRED TO BEHAVIORAL HEALTH PROGRAM

Regional Center Amounts Identified by DHHS to Transfer		
Hastings Fiscal Year 2004 Inpatient Costs	$ 11,049,349	
Hastings Fiscal Year 2004 Outpatient Costs	943,696	
Hastings Fiscal Year 2008 Assertive Community Treatment	550,661	
Norfolk Fiscal Year 2004 Inpatient Costs	14,840,533	
Norfolk Fiscal Year 2004 Outpatient Costs	186,280	
Inflation Amounts since 2004	3,793,034	
Transitional Costs Incurred	(371,035)	
Total to Transfer to Behavioral Health		30,992,518
Transfers Made from Regional Centers		
Fiscal Year 2005		
Behavioral Health Aid	(4,967,000)	
Behavioral Health Administration	(312,500)	
Fiscal Year 2005 Total		(5,279,500)
Fiscal Year 2006		
Behavioral Health Aid	(2,045,734)	
Behavioral Health Administration	(674,766)	
Fiscal Year 2006 Total		(2,720,500)
Fiscal Year 2008		
Behavioral Health Aid (Note 1)	(14,092,518)	
Behavioral Health Aid (Note 2)	(3,500,000)	
Behavioral Health Aid (Note 3)	(5,400,000)	
Fiscal Year 2008 Total		(22,992,518)
Remaining		$ -

LB 1083 included provisions for the reduction of regional center services. As regional center services were reduced, the funding for those expenditures were to be reallocated for purposes related to the statewide development and provision of community-based services.

Note 1: Transferred through increase in Program 038 base appropriation and decrease to Program 365 base appropriation.

Note 2: One-time transfer. On-going funds remain in regional centers for 30 beds for clients not yet transferred to community-based programs. To be included in 2009 Legislative Session deficit appropriation bill.

Note 3: Amount increased to $5,800,000 for fiscal year 2009 to account for increases granted by the Legislature and approved by the Governor since the passage of LB 1083.

Note 4: Total continuation funding to Program 038: $4,967,000 + 2,045,734 + 14,092,518 + 3,500,000 + 5,800,000 (Note 3) = $30,405,252

EXHIBIT 6

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

GENERAL FUND APPROPRIATIONS*

SUMMARY BY LB FOR PROGRAMS 038, 365, AND 870

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Program 038 Behavioral Health Aid						
LB 1089	$ 31,035,877	$ 30,919,130				
**LB 1083A		4,967,000				
LB 425			$ 39,939,037	$ 41,538,531		
***LB 1060			2,045,734	3,039,384		
LB 317				7,000,000		
LB 321					$ 60,328,781	$ 61,765,686
LB 959					8,900,000	5,800,000
***LB 959						1,707,320
	$ 31,035,877	$ 35,886,130	$ 41,984,771	$ 51,577,915	$ 69,228,781	$ 69,273,006
Program 365 Mental Health Operations						
LB 1089	$ 53,672,497	$ 55,500,772				
**LB 1083A		(5,279,500)				
LB 425			$ 52,094,445	$ 54,821,081		
LB 1060			(1,995,343)	(2,043,926)		
LB 317				(7,000,000)		
LB 321					$ 41,085,734	$ 43,166,082
LB 959					(8,900,000)	(5,800,000)
LB 960					472,259	801,466
	$ 53,672,497	$ 50,221,272	$ 50,099,102	$ 45,777,155	$ 32,657,993	$ 38,167,548
Program 870 Norfolk Sex Offender Treatment****						
LB 1199A				$ 5,481,000		
LB 960					$ 143,940	$ 188,954
LB 321					7,531,024	13,716,220
	$ -	$ -	$ -	$ 5,481,000	$ 7,674,964	$ 13,905,174

Total General Fund New Appropprations Behavioral Health Aid and Regional Centers*****

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
038	$ 31,035,877	$ 35,886,130	$ 41,984,771	$ 51,577,915	$ 69,228,781	$ 69,273,006
365/870	53,672,497	50,221,272	50,099,102	51,258,155	40,332,957	52,072,722
Total	$ 84,708,374	$ 86,107,402	$ 92,083,873	$ 102,836,070	$ 109,561,738	$ 121,345,728

*Does not include reappropriations or General Funds appropriated for capital construction projects.

**Transfer from 365 includes $312,500 to Program 268 Behavioral Health Administration.

***Includes funding for provider rate increases.

**** Established by LB 1199 in April 2006 to provide court-ordered treatment of sex offenders who have completed their sentences but continue to pose a threat of harm to others.

*****Summary of amounts noted above.

EXHIBIT 7

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

APPROPRIATION FUNDING BY PROGRAM - PROGRAMS 038, 365, AND 870

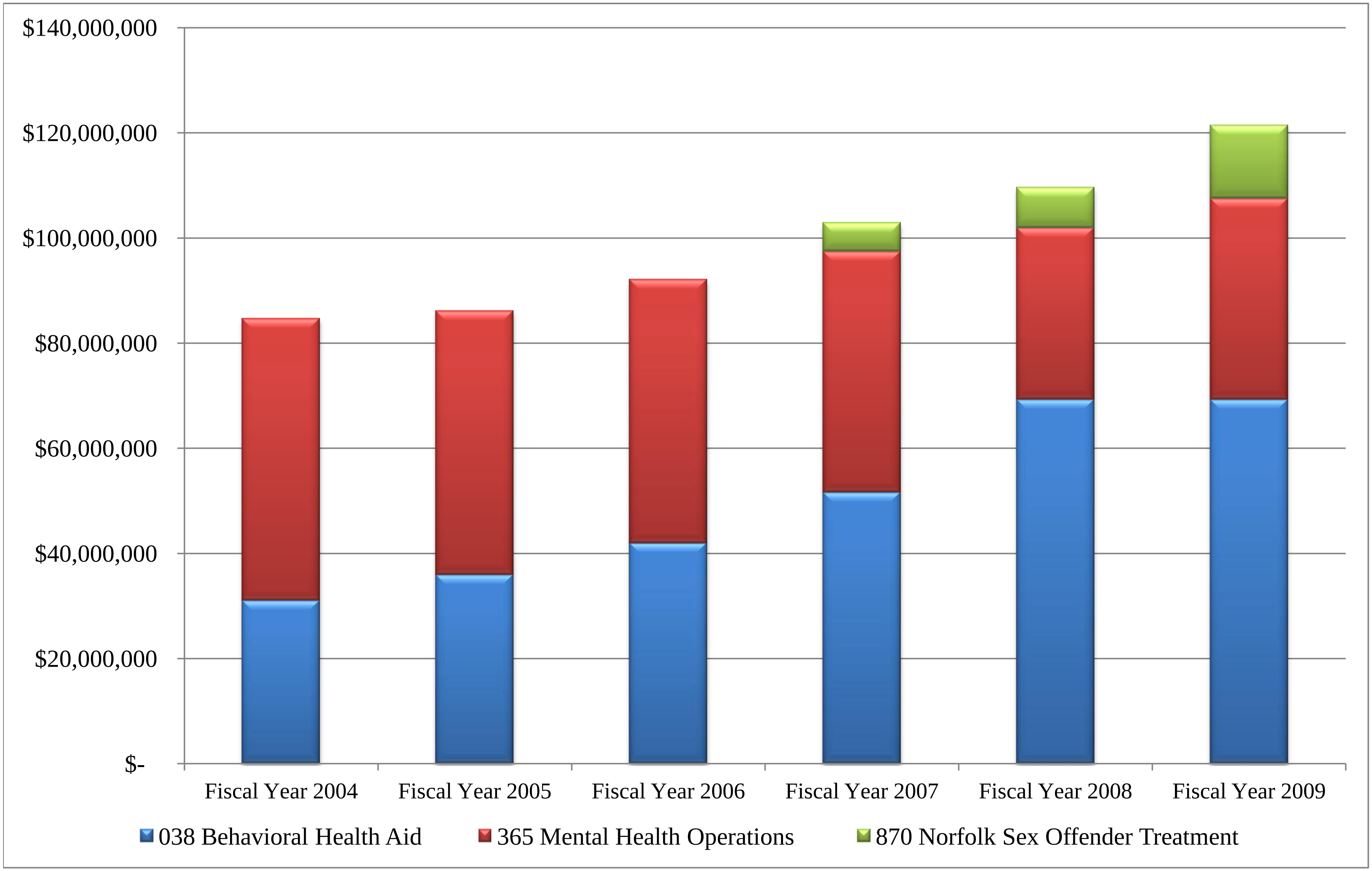


EXHIBIT 8

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

GENERAL FUND APPROPRIATIONS BEHAVIORAL HEALTH AID AND REGIONAL CENTERS

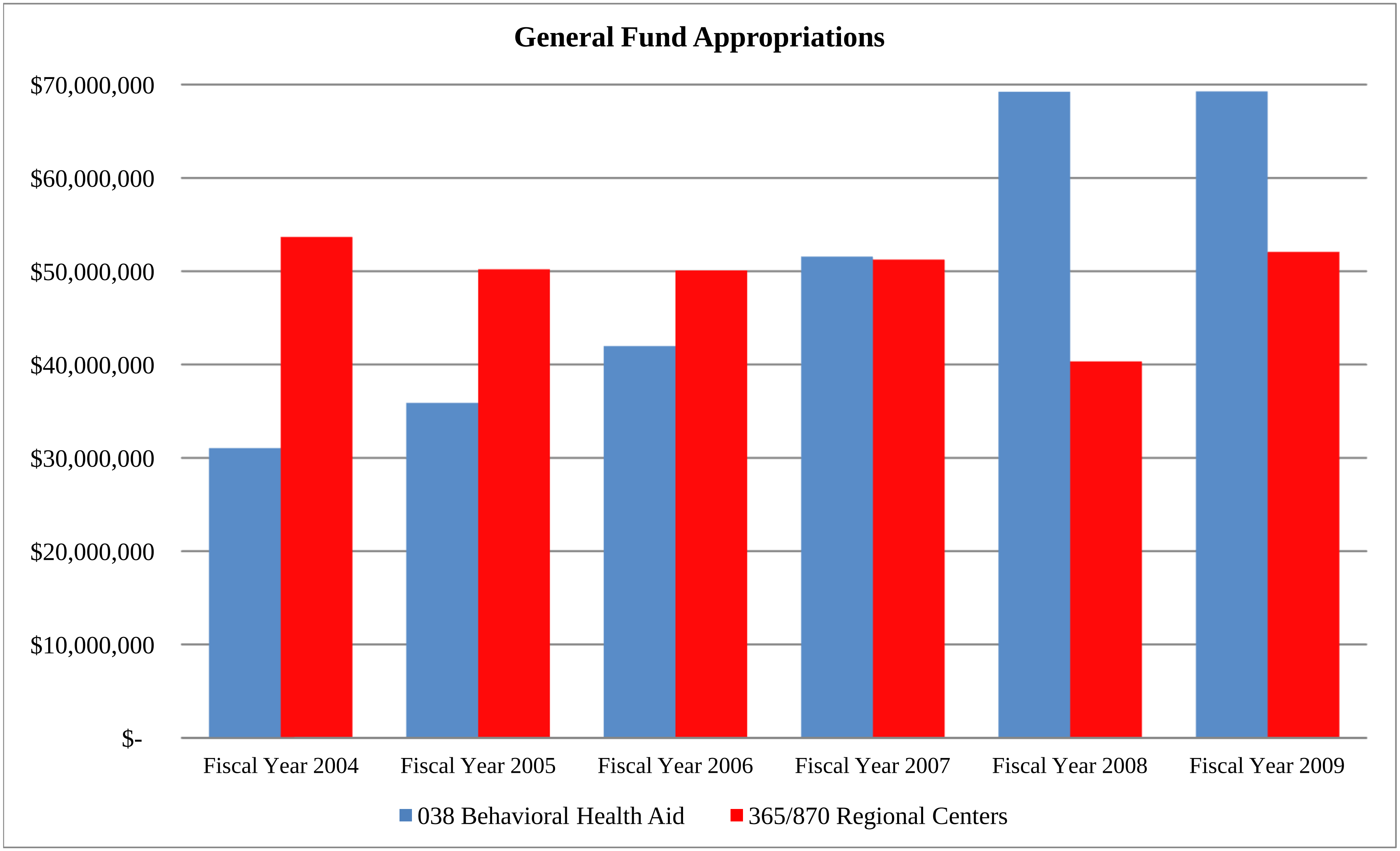


EXHIBIT 9

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEHAVIORAL HEALTH AID PROGRAM 038 AND REGIONAL CENTER PROGRAMS 365 AND 870

CHANGES IN APPROPRIATION FUNDING AND NUMBER OF PATIENTS

Program	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	% increase /decrease since FY 04
038 Behavioral Health Aid	$ 31,035,877	$ 35,886,130	$ 41,984,771	$ 51,577,915	$ 69,228,781	$ 69,273,006	123%
365 Mental Health Operations	53,672,497	50,221,272	50,099,102	45,777,155	32,657,993	38,167,548	-29%
870 Norfolk Sex Offender Treatment**	-	-	-	5,481,000	7,674,964	13,905,174	100%
Total	$ 84,708,374	$ 86,107,402	$ 92,083,873	$ 102,836,070	$ 109,561,738	$ 121,345,728	43%

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	
Total Programs 365 & 870	$ 53,672,497	$ 50,221,272	$ 50,099,102	$ 51,258,155	$ 40,332,957	$ 52,072,722	-3%
Average Daily Census 365 & 870							
Lincoln Regional Center	239	238	230	226	226	214	-10%
Norfolk Regional Center	180	179	100	95	89	84	-53%
Hasting Regional Center	72	71	48	46	38	37	-49%
Total All Facilities	491	488	378	367	353	335	-32%
Average Appropriations per Patient***	$ 109,313	$ 102,912	$ 132,537	$ 139,668	$ 114,258	$ 155,441	42%

	Program 038
Increase in Program 038 Appropriations since 2004	$ 38,237,129
Amount attributed to Regional Center reduction	$ 30,405,252
Reduction in Regional Center Patients since 2004	156
Program 038 Increased Funding per Patient****	$ 194,905

*Does not include reappropriations or General Funds appropriated for capital construction projects.

** Established by LB 1199 in April 2006 to provide court-ordered treatment of sex offenders who have completed their sentences but continue to pose a threat of harm to others.

***Includes appropriations and the average daily patient census for Programs 365 and 870. Fiscal year 2009 numbers based on information at March 31, 2009.

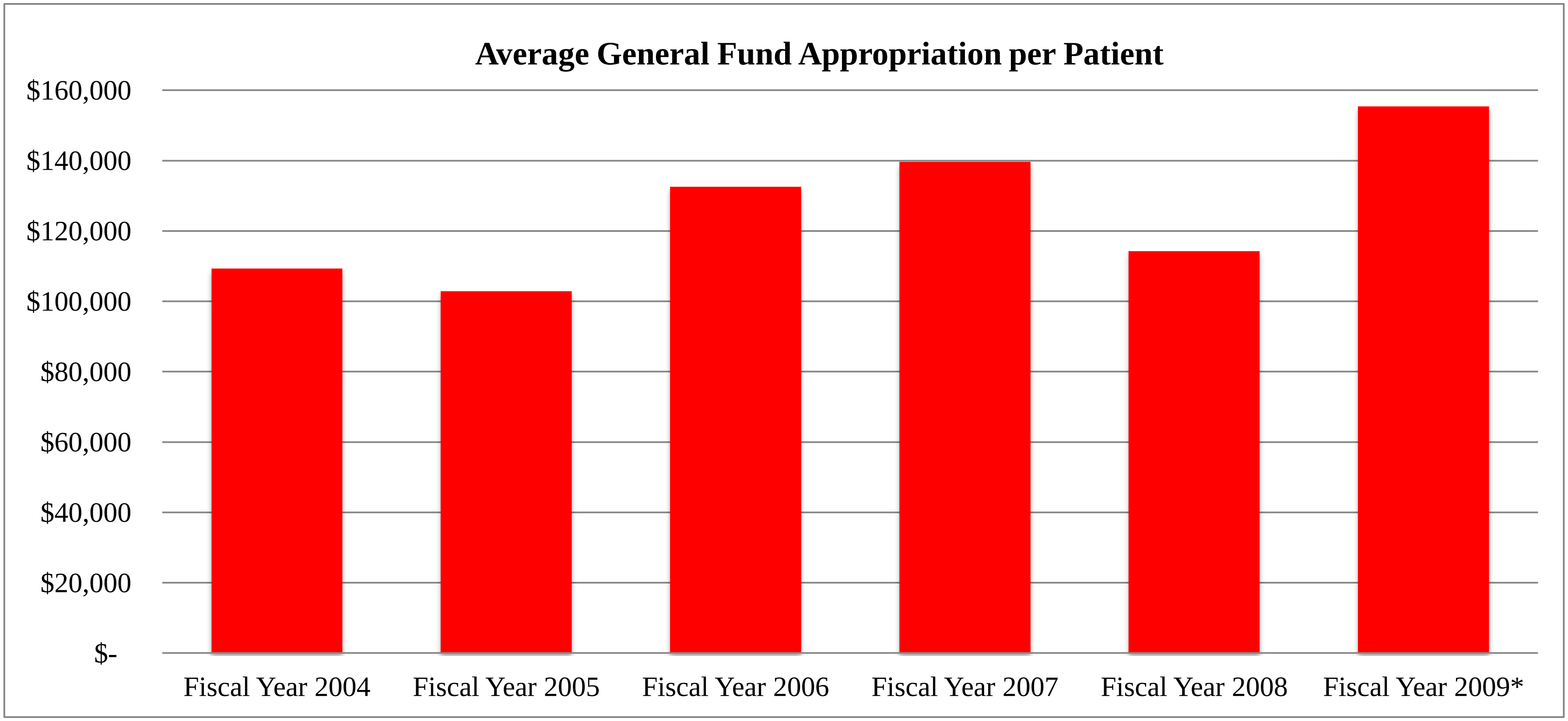
****Based on assumption that patients reduced from Regional Centers are now being served in community programs.

EXHIBIT 10

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGIONAL CENTER PROGRAMS 365 MENTAL HEALTH OPERATIONS AND 870 NORFOLK SEX OFFENDER TREATMENT GENERAL FUND APPROPRIATIONS PER PATIENT

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009*
Programs 365 & 870 Appropriations	$ 53,672,497	$ 50,221,272	$ 50,099,102	$ 51,258,155	$ 40,332,957	$ 52,072,722
Average Daily Census 365 & 870	491	488	378	367	353	335
Average Appropriation per Patient	$ 109,313	$ 102,912	$ 132,537	$ 139,668	$ 114,258	$ 155,441



Does not include reappropriations or General Funds appropriated for capital construction projects.

*Based on average daily census through March 31, 2009. Average daily census is the average number of patients in the facility per day.