

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

JULY 1, 2007 THROUGH JUNE 30, 2008

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Issued on June 15, 2009

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER

TABLE OF CONTENTS

<u>Sections</u>	<u>Page</u>
Independent Accountant’s Report	1 - 2
Background	3 - 4
Criteria	4
Summary of Procedures	4
Summary of Results	5 - 17
Overall Conclusion	17
Exhibit 1 – Schedule of Revenues and Expenditures Programs 362, 870, and 906	
Exhibit 2 – Schedule of Changes in Fiduciary Net Assets-Patients’ Trust Fund	
Exhibit 3 – Expenditures by Program	
Exhibit 4 – Average Annual Cost of Care per Patient	
Exhibit 5 – Nebraska Behavioral Health Services Act	
Exhibit 6 – Regional Center Amounts Transferred to Behavioral Health Program	
Exhibit 7 – General Fund Appropriations – Summary by LB for Programs 038, 365, and 870	
Exhibit 8 – Appropriation Funding by Program – Programs 038, 365, and 870	
Exhibit 9 – General Fund Appropriations Behavioral Health Aid and Regional Centers	
Exhibit 10 – Behavioral Health Aid Program 038 and Regional Center Programs 365 and 870 – Changes in Appropriation Funding and Number of Patients	
Exhibit 11 – Regional Center Programs 365 Mental Health Operations and 870 Norfolk Sex Offender Treatment – General Fund Appropriations per Patient	



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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 Norfolk Regional Center (NRC) for the period July 1, 2007, through June 30, 2008. NRC'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 NRC'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 NRC'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 NRC, others within NRC, 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
Auditor of Public Accounts

Pat Reding, CPA
Assistant Deputy Auditor

June 15, 2009

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

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. NRC provides inpatient mental health and sex offender services.

Norfolk Regional Center Description:

The Norfolk Regional Center was created by an act of the Nebraska Legislature in 1885. NRC is a progressive 120-bed State psychiatric hospital providing specialized psychiatric care to adults.

The center works closely with the Lincoln Regional Center and other agencies to provide Adult Psychiatric and Phase One Sex Offender services. NRC and Lincoln Regional Center operate a combined sex offender treatment program. Phase One of sex offender treatment is done at NRC and Phase Two and Phase Three for sex offender treatment is done at Lincoln Regional Center.

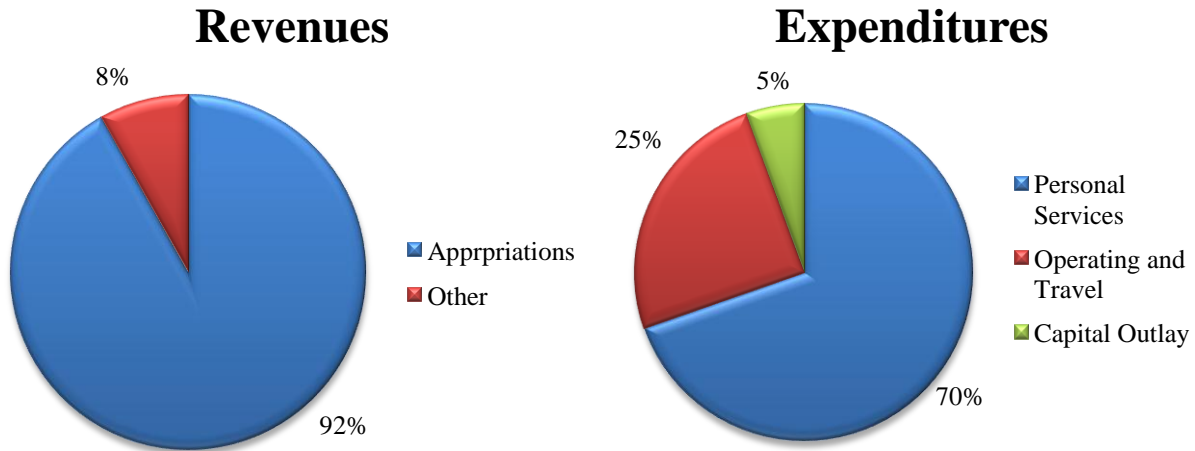
Legislation enacted in 2006 expanded the need for sex offender services provided by DHHS. Specialized programs currently include inpatient psychiatric hospitalization, limited psychiatric outpatient treatment, and phase one of the sex offender treatment. Program components may involve intensive psychological skill-building classes and individual, group, and family therapy as well as occupational and recreational therapy.

In addition, NRC utilizes the professional skills of psychiatrists, psychologists, social workers, registered nurses, occupational and recreational therapists, registered dietitians, substance abuse counselors, pharmacists, dieticians, dentists, physician assistants, and other health professionals.

NRC provides clinical educational experiences for a variety of health care professionals. Northeast Community College and Central Community College Columbus Campus nursing programs use NRC for clinical experience for nursing students in their RN programs. Wayne State College uses NRC for clinical training for students in the Master's Counseling program. NRC operates a pre-doctoral clinical psychology one-year internship program. Three interns are selected annually from graduate programs across the country. This is one of the longest standing psychology internship programs in the nation. It was started in 1954 and has been continuously accredited by the American Psychology Association since 1956. NRC has also provided clinical training for social worker students, physician assistants, physicians, and pharmacy students periodically.

The primary source of revenue for NRC is from General Fund Appropriations. NRC also received Federal Medicaid reimbursements, cash fund revenues from patients based on their ability to pay, counties, and other third party payors. Personnel services comprised approximately 70% of NRC's expenditures.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW



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 payroll, 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.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

Summary of Results

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

1. Pharmacy Controls

Good internal control requires adequate procedures over pharmacy inventory to reduce the risk of theft or loss of State supplies. Good internal control and sound business practices also require a perpetual inventory be maintained for pharmacy supplies to reduce the risk of theft or loss of State supplies.

The NRC pharmacy did not have adequate controls in place. The following items were noted during our review:

- The NRC pharmacy did not maintain a perpetual inventory for its non-controlled substances. There were variances in all five non-controlled substances we tested ranging from being 27 tablets short for one item to 60 tablets long for another item.
- There was not an adequate segregation of duties in the pharmacy. The items ordered, received, and returned to the pharmacy were not subject to a secondary review. Also, the information entered into the system utilized by NRC to track prescriptions was not subject to secondary review. All staff members had access to the pharmacy and could be in the pharmacy alone.
- NRC did not have procedures to reconcile drug usage to drug purchases in the State's accounting system, NIS. We noted no other compensating controls which mitigated the risks of theft or misuse of pharmacy supplies. Total pharmacy expenditures for the fiscal year ended June 30, 2008, were \$636,542.

Our prior report also noted pharmacy internal control weaknesses. We consider this finding to be a significant deficiency.

Without procedures in place to document the inventory amounts which should be on hand, there is an increased risk of theft or loss of pharmacy supplies.

We recommend NRC strengthen controls over pharmacy inventory.

Agency's Response: The Department agrees with the condition 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. It will be developed and implemented so it can be reconciled to the NIS system.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

Contact: *Randall Willey*

Anticipated Completion Date: *December, 2009*

2. Payroll Internal Control

Good internal control requires payroll information input in the accounting system be reconciled to the payroll amounts processed by and output from the system. Good internal control requires an adequate segregation of duties to ensure a single individual is not responsible for handling all phases of a transaction from beginning to end.

The Personnel Assistant at NRC was responsible for preparing the biweekly Pre-Payroll Register. The pre-payroll was approved by the DHHS Central Office and processed by the Department of Administrative Services. After the final payroll was processed, the Personnel Assistant who prepared the payroll reviewed individual items such as changes to pay rates and benefits; however, did not reconcile the payroll information input to the final payroll. There was not an independent review of the payroll input to payroll output by a second individual.

Our prior report also noted payroll internal control weaknesses. We consider this finding to be a significant deficiency.

Without procedures for an independent review or a proper segregation of duties there is an increased risk of undetected errors.

We recommend an individual other than the employee who inputs the payroll information in NIS perform the reconciliation of payroll input to payroll output.

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

Corrective Action Plan: There are two payroll staff in the office at NRC who do payroll for NRC/NVH and the Northern Service Area. These two staff will do random cross checking of payroll output for each other's payroll input.

Contact: *Linda Gerner*

Anticipated Completion Date: *On-going*

3. Calculation of 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. Fair Labor Standards Act Section 7(e) indicates "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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

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 normal 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 differentials 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.

At June 30, 2008, NRC had 286 employees. We tested 5 employees for one pay period and noted the following:

NRC used Kronos, an attendance collection software system, to record employee hours worked. Shift differential hours in Kronos were not consistent with shift times set in NRC policy:

- The shift times designated by DHHS and used by Kronos in calculating shift differential included 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. NRC policy included hours worked from 7:00 a.m. to 3:00 p.m. as 1st shift, with the other two shifts being identical to Kronos. The difference in shift times contributed to pay variances in four of five employees we tested.

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

- NRC 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, included 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 two of five employees we tested.

Holiday pay and shift differential calculations were not in accordance with the NAPE/AFSCME contract:

- NRC paid holiday hours worked utilizing the premium rate calculated for overtime pay. Based on the NAPE contract, NRC employees should have been 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. The difference in the calculation of the holiday pay rate contributed to pay variances in two of the five employees we tested.
- DHHS designated 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. NRC third shift began at 11:00 p.m. and ended at 7:00 a.m. The third shift weekends for NRC 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.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

Four of five employees tested were paid incorrectly due to shift differential, overtime pay, and/or holiday pay not being calculated in accordance with Federal and contract requirements. The variances ranged from \$2 underpaid to \$24 overpaid for the pay period tested.

Our prior report also noted weaknesses in the calculation of payroll. We consider this finding to be a significant deficiency.

The payroll amounts calculated were not in agreement with the terms of the labor contract and were not in accordance with the Fair Labor Standards Act. Failure to follow applicable standards increases the risk of incorrect payments to employees. Overpayments to employees increase the burden to taxpayers.

We recommend NRC implement procedures to ensure compliance with the Fair Labor Standards Act and the NAPE/AFSCME contract. We also recommend NRC review and consider modification of their policies to ensure consistency with Kronos. We further recommend NRC consult with the Department of Administrative Services Division of State Personnel to ensure employee pay is being calculated appropriately.

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

Corrective Action Plan: 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.

The Department believes it is in compliance with the Fair Labor Standards Act and the NAPE Contract. 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 provided 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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

APA Response: As noted above, employee pay was not consistently calculated in accordance with Agency policies and we agree the issue was partially due to the inability of the timekeeping system to handle multiple shift times. We feel the Agency needs to make improvements to the timekeeping system in order to calculate pay in accordance with Agency policies. If the system cannot be manipulated to calculate the shifts in accordance with policy, the Agency may need to consider implementing a standard shift time for all facilities and functional areas simplifying the calculation for the system.

Although Fair Labor Standards would allow for the Agency to compensate employees above the required amount, we feel this is an increased burden to taxpayers.

4. Employee Timesheets

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.”

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 prior to payroll processing. Good internal control requires only the hours worked in a day be included on employee timesheets.

NRC payroll staff indicated timesheets are typically signed by employees and approved by supervisors after the payroll has been processed. Staff indicated pay periods end on a Sunday and must be processed and sent to the Department of Administrative Services by the following Wednesday which does not allow adequate time for timesheets to be signed. During payroll detail testing we noted one employee, a psychiatrist, included all 40 hours worked for the week on a single day on the timesheet.

Our prior report also noted employee timesheets were signed subsequent to payroll processing. We consider this finding to be a significant deficiency.

Failure to require employees and supervisors to approve timesheets increases the risk timesheets have not been completed accurately. Further, without supervisor approval of timesheets there is not adequate evidence the employee completed 40 hours of work in accordance with State statute.

We recommend NRC require employees and supervisors to approve timesheets prior to payroll processing in order to ensure the correct work times have been included. We recommend employees record actual hours worked on their timesheets.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

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

Regarding the comment "Good internal controls requires only the hours worked in a day be included on employee timesheets", in our opinion this is not required for good internal control for recording exempt employee's time (doctors are considered exempt employees by the Wage and Hour Division regulations) and recording daily hours worked could possibly be detrimental to their exempt status determination.

Regarding the comment "Further, without supervisor approval of timesheets there is not adequate evidence the employee completed 40 hours of work in accordance with State statute." It is DHHS policy that the employees recording time in Kronos are certifying that their time is correct, and the supervisor approval is not what establishes evidence of time worked. Supervisor approval may be verification, but it's not the primary evidence.

Corrective Action Plan: The Norfolk 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.

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

APA Response: We believe good internal control does require timesheets to be accurate and only the hours worked in the day be recorded; i.e. 40 hours should not be recorded as worked on a Monday when there are only 24 hours in a day. Clearly, if someone is certifying that they worked 40 hours on Monday that is a false statement, and calls into question whether the individual worked the 40 hours required by Statute.

We believe a supervisory review of employee time does provide increased evidence employees complete 40 hours of work.

5. Internal Control Over Receipts

Good internal control requires segregation of duties so no one individual is in a position to both perpetrate and conceal errors. Good internal control requires individuals responsible for opening mail should not have access to post transactions in the receivable system. Good internal control also requires checks be restrictively endorsed upon receipt.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

A single individual at NRC was responsible for opening mail which contained receipts. The individual had full access to the AVATAR system which allowed the posting of adjustments to patient accounts. After the mail had been opened the checks received were mailed to the Central Office in Lincoln without being stamped restrictively. Once received in Lincoln the checks were stamped and provided to the individual responsible for posting amounts of mail-in payments to patient accounts in AVATAR. The individual who posted receipts to patient accounts was also responsible for preparing the NIS deposits and reconciling the deposits to receipts posted in AVATAR. The reconciliation was reviewed by a second individual; however, all documentation presented was prepared by the individual who prepared the deposits and posted the receipts to patient accounts.

Our prior report also noted receipting process weaknesses. These weaknesses increase the risk of loss due to fraud or theft.

We recommend NRC evaluate the receipting process and consider having two individuals open the mail or limit receivable system access for the individual who opens the mail. We recommend NRC restrictively endorse checks prior to sending them to the Central Office in Lincoln. We further recommend an individual independent of the receivable process reconcile the NIS deposit amount to the AVATAR receipts.

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

Corrective Action Plan: Central Finance and Norfolk 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

6. 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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

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 a DHHS attorney for legal action, referral to a collection agency, submit for tax refund intercept, and submit to the State Claims Board.

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.”

Good internal control requires timely follow-up of accounts receivables and the appropriate action be taken to collect outstanding balances. Sound business practices and good internal controls require interest be charged on past due accounts.

NRC accounts receivables at June 30, 2008, were \$853,252; of this \$796,485 related to amounts due from patients or patients’ relatives, with \$705,175 of patient accounts over 120 days past due. We selected eight accounts receivable balances over 120 days old at June 30, 2008, and reviewed through February 24, 2009, to determine if timely and appropriate collection procedures were performed. We noted the following:

- Two cases did not have appropriate action taken to collect the overdue balances. One patient discharged April 2007 had a June 2008 balance of \$29,223. A director letter was sent March 2008 and a demand letter was sent May 2008. The attorney for the patient was contacted July 2008. No further action was taken from July 2008 to February 2009. No payments have been received. A second patient discharged January 2000, had a June 2008 balance of \$24,736. A petition was filed in Douglas County Court July 2006. No further action was taken from July 2006 to February 2009.
- One case with a Medicare B balance due did not have any follow up noted since March 2007.
- Two cases were not valid receivables. Patients were discharged December 2005 and June 2006. The balances on the Accounts Receivable Listing were not for self pay. Patients were on the prior system and NRC was trying to collect from the Tribes. When converted to AVATAR there was no code for Tribes so amount due was coded as self pay. After our inquiry, NRC researched the accounts and noted there was no authority to bill the Tribes. An adjustment was made March 2009 to write balances off of AVATAR. The accounts were not followed up in a timely manner.
- NRC was not charging interest on delinquent accounts and did not have a written policy regarding when interest would be charged.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

Our prior report also noted weaknesses in the accounts receivable process. We consider this finding 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. Not collecting interest may reduce the patient's incentive to pay their balance in a timely manner. Not collecting interest reduces the revenue received and; therefore, increases the burden to the taxpayers.

We recommend NRC follow up on accounts receivables and take appropriate action in a timely manner. We further recommend NRC implement written policies regarding when interest will or will not be charged.

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, the decision on whether or not to charge interest has no affect on internal controls.

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

7. Rates for Services

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 highlight areas needing revision.

During fiscal year 2008 NRC had two different rates for inpatient services based on the type of care provided. The rates were \$333 per day and \$403 per day. These rates were used to bill

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

insurance companies and to bill patients based on their ability to pay. NRC did not have written procedures and did not maintain adequate documentation to support the rates charged for the fiscal year ended 2008.

Our prior report also noted a lack of supporting documentation for the calculation of rates. We consider this finding to be a significant deficiency.

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

Agency's Response: The Department agrees with the finding that NRC maintain adequate documentation to support the rates calculated.

Corrective Action Plan: As part of the written procedures we will review the documentation to determine that is adequate to support the rate calculation.

Management Response: The Department disagrees with the finding regarding the NRC 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 NRC to perform this function.

Contact: Randall Willey

Anticipated Completion Date: December, 2009

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

8. Vendor Selection

State of Nebraska Purchasing Bureau Agency Procurement Manual for Services states "fairness and impartiality in all phases of the process is an essential factor in public purchasing. Dealings with vendors and peers must be open, honest, and objective. The process cannot be both effective and self-serving; the two are incompatible. In the case of public purchasing, utmost fairness is required in expending public funds. The result of favoritism extended to either a user or seller is the same. The practice is not permissible. No matter how strongly a user may prefer

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

a particular vendor over others, all vendors must be given every reasonable consideration. The State must commit and adhere to fair and open competition. Integrity is manifested by fairness, openness, and impartiality and can be tarnished by even the slightest appearance of impropriety.”

The NIS Training Manual states service procurements less than \$50,000 are agency level decisions with three documented bids highly recommended.

Good internal controls and sound business practices require documentation of the criteria used for selection of vendors to ensure the best vendor is obtained.

For one of four contracts tested, DHHS did not request bids or maintain other documentation to support the selection of the vendor. The scope of the contract indicated the contractor should provide nurse staffing services to clients of NRC, upon request of DHHS. The hourly rate paid for nurse staffing services was \$74 per hour of which was inclusive of wages, payroll taxes, State licenses or permits, transportation, housing accommodations, background checks, and drug screens. The total amount paid to the vendor during the fiscal year was \$46,065.

By failing to obtain bids there is an increased risk contracts made by DHHS on NRC’s behalf are not in the best financial interest of NRC or the State. Without a documented selection process there is an increased risk the best vendor may not be selected resulting in loss of State funds.

We recommend NRC implement procedures to ensure a minimum of three bids are solicited for service contracts below \$50,000 and the process used for selection of vendors be documented to ensure the best vendor is obtained.

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

Corrective Action Plan: Procedures will be written to obtain bids where applicable and document that the best vendor is obtained.

Contact: Randall Willey

Anticipated Completion Date: December, 2009

9. Spending Authority

The Legislature makes appropriations for each July 1 through June 30 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.

Good internal control requires the facility to monitor the amount of expenditures made against appropriated funds to ensure the allowable amount is not exceeded.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

NRC exceeded Program 870 General Fund spending authority for the fiscal year ended June 30, 2008, by at least \$492,364. This amount included fiscal year 2008 expenditures that were paid in fiscal year 2009, which were not encumbered at June 30, 2008.

By overspending appropriation authority NRC is not in compliance with the appropriation bill.

We recommend NRC match expenditures to appropriations in accordance with appropriation legislation.

Agency's Response: The Department disagrees with the condition reported. The Department paid all expenditures due during fiscal year 2008 and in addition LB 315, Section 128, 101st Legislature appropriated additional funds to cover fiscal year 2009 expenditures to be paid in 2010.

Corrective Action Plan: N/A

Contact: Willard Bouwens

Anticipated Completion Date: N/A

APA Response: Our comment is reporting on 2008 expenditures paid in 2009, these should have been paid with the 2008 appropriations; however, as NRC had spent all of the 2008 General Fund authority, these expenditures were paid with 2009 appropriations.

10. Drugs for Indigents

Neb. Rev. Stat. § 83-380.01 (Reissue 2008) states that upon the discharge from a treatment facility, an indigent person may request that prescription medicine prescribed as necessary for the patient's mental health treatment be provided to him or her. DHHS shall provide such prescription medicine as may be necessary for such former patient's mental health treatment so long as he or she remains an outpatient and his or her treating physician continues to prescribe and certify that such prescription medicine is necessary for the patient's mental health treatment and he or she continues to be an indigent person as determined under the same standards of ability to pay as set forth in §§ 83-363 to 83-380. Good internal control requires procedures to follow-up on information not received from clients and to take appropriate action upon not receiving such information.

We selected three individuals who were receiving drugs based on their indigent status. One of the three individuals did not file the financial questionnaire for the fiscal year ended June 30, 2008. The individual received \$26,540 of drugs for the period June 12, 2007, to June 18, 2008.

Without a financial questionnaire on file NRC cannot determine if the individual is indigent and; therefore, eligible to receive drugs.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
ATTESTATION REVIEW

We recommend NRC obtain financial questionnaires in a timely manner for all indigent individuals receiving drugs.

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

Corrective Action Plan: The Department will continue to work to obtain financial information in a timely manner.

Contact: Heather Janssen

Anticipated Completion Date: June 30, 2009

Overall Conclusion

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 NRC could improve procedures over contracts, allocation of expenditures between funds, and documentation of indigent status. We further noted NRC exceeded legislative spending authority by at least \$492,364.

The APA staff members involved in this attestation review were:

Pat Reding, CPA, Assistant Deputy Auditor

Cory Miller, Auditor-In-Charge

Sara Leber, Auditor II

Timothy Weller, Auditor

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

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
 NORFOLK REGIONAL CENTER
SCHEDULE OF REVENUES AND EXPENDITURES
PROGRAMS 362, 870, AND 906
 For the Fiscal Year Ended June 30, 2008

	General Fund	Cash Funds	Building Funds	Federal Funds	Totals (Memorandum Only)
REVENUES:					
Appropriations	\$ 7,907,518	\$ -	\$ 813,122	\$ -	\$ 8,720,640
Intergovernmental					
Medicaid	-	-	-	285,454	285,454
Sales & Charges					
Medicare Reimbursements	-	-	-	51,395	51,395
County Reimbursements	-	125,704	-	-	125,704
Maintenance Payments-					
Residents	-	153,775	-	-	153,775
Maintenance Payments-					
Trust Funds	-	131,068	-	-	131,068
Miscellaneous	-	15,929	-	5,325	21,254
TOTAL REVENUES	7,907,518	426,476	813,122	342,174	9,489,290
EXPENDITURES:					
Personal Services	6,161,558	4,110,793	-	-	10,272,351
Operating					
Depreciation Surcharge	-	516,345	-	-	516,345
Food Expense	163,699	123,787	-	-	287,486
Medical Supplies	261,801	374,742	-	-	636,543
Rental/Maintenance					
Contract-DAS	271,540	543,080	-	-	814,620
Other Contractual	266,462	192,075	-	-	458,537
Other Operating	736,806	168,044	-	-	904,850
Travel	41,581	719	-	-	42,300
Capital Outlay	4,071	-	813,122	-	817,193
TOTAL EXPENDITURES	7,907,518	6,029,585	813,122	-	14,750,225
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	\$ -	\$ (5,603,109)	\$ -	\$ 342,174	\$ (5,260,935)

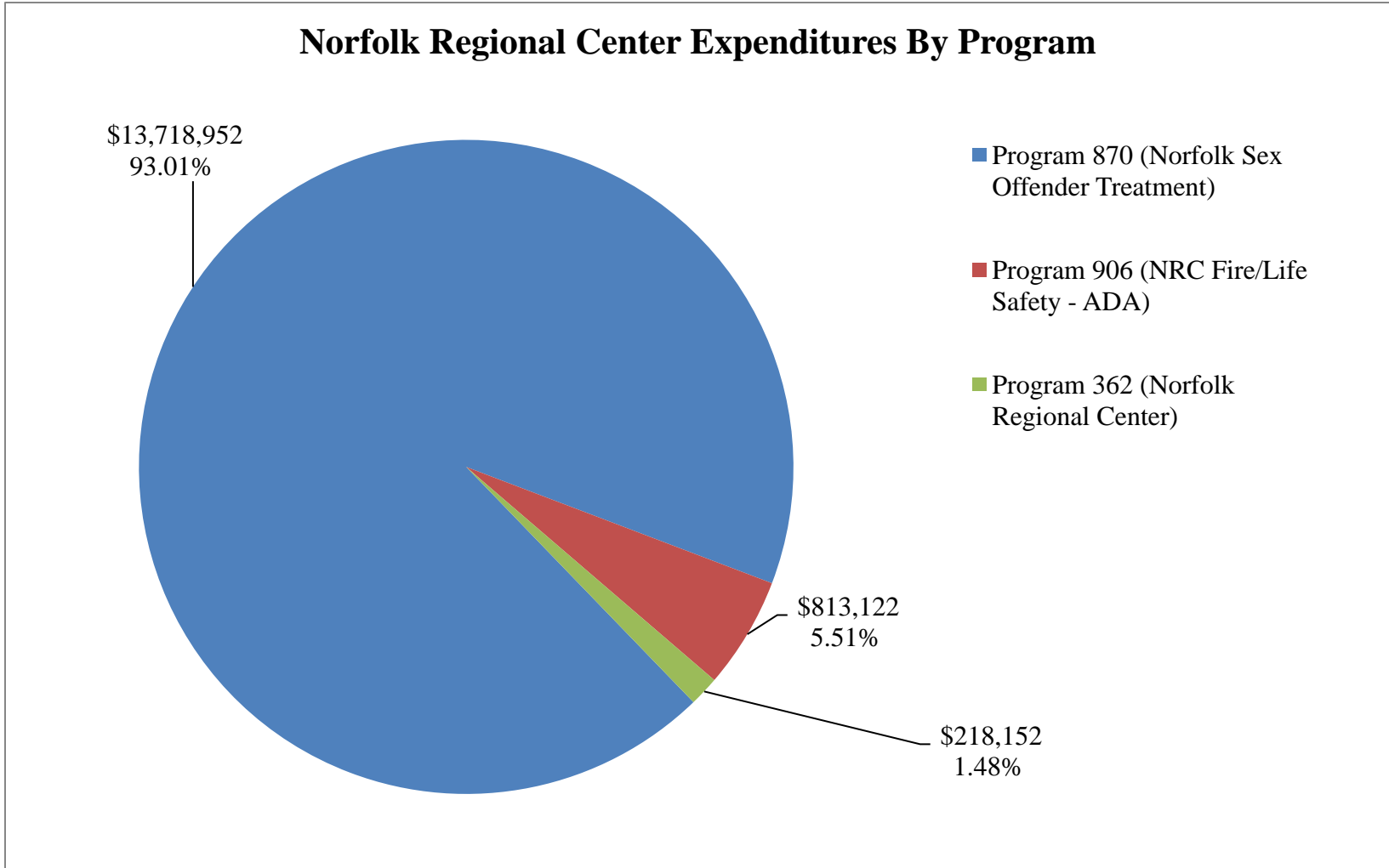
Note: Norfolk Regional Center cash fund expenditures were made from Fund 22640 (Nebraska Health Care). DHHS staff indicated the cash fund expenditures were made from the surplus cash funds carried over at the end of fiscal year 2007.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
 NORFOLK REGIONAL CENTER
SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
PATIENTS' TRUST FUND

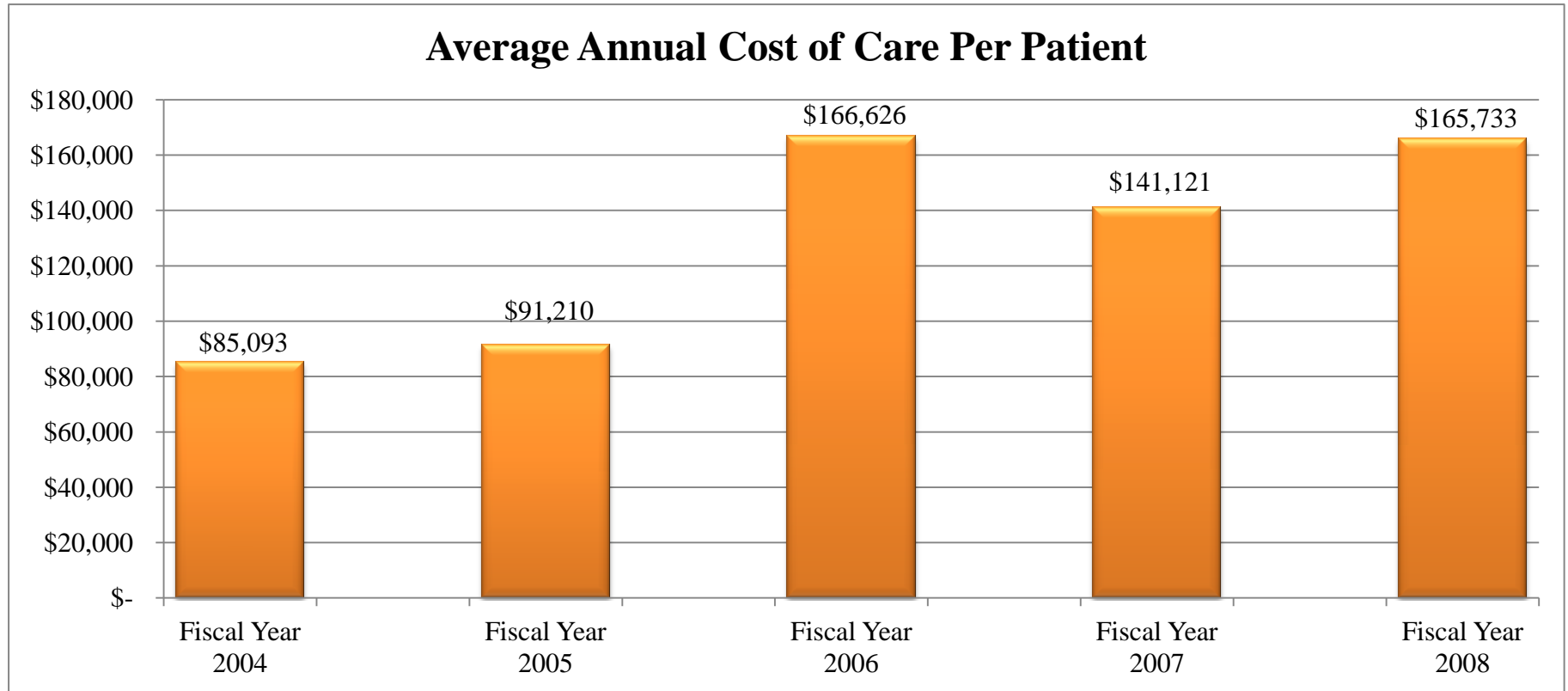
For the Fiscal Year Ended June 30, 2008

	Trust Fund
ADDITIONS:	
Members' Contributions	\$ 204,998
Interest Income	932
TOTAL ADDITIONS	205,930
DEDUCTIONS:	
Maintenance Charges	136,749
Members' Withdrawals	85,399
TOTAL DEDUCTIONS	222,148
Change in Net Assets Held in Trust	(16,218)
NET ASSETS-BEGINNING OF YEAR	39,980
NET ASSETS-END OF YEAR	\$ 23,762
NET ASSETS CONSIST OF:	
General Cash	\$ 24,489
Deposits	(727)
TOTAL NET ASSETS	\$ 23,762

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
NORFOLK REGIONAL CENTER
EXPENDITURES BY PROGRAM
Fiscal Year Ended June 30, 2008



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
 NORFOLK REGIONAL CENTER



	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
Annual Expenditures	\$ 15,316,771	\$ 16,326,635	\$ 16,662,588	\$ 13,406,458	\$ 14,750,225
Average Daily Population	180	179	100	95	89
Average Annual Per Patient Cost	\$ 85,093	\$ 91,210	\$ 166,626	\$ 141,121	\$ 165,733

Note: NRC started the sex offender assessment program during fiscal year 2006. The treatment of sex offenders increased the annual cost of care per patient.

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

Exhibit 6, "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 7, "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 10, "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	<u>(371,035)</u>	
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	<u>(312,500)</u>	
Fiscal Year 2005 Total		(5,279,500)
Fiscal Year 2006		
Behavioral Health Aid	(2,045,734)	
Behavioral Health Administration	<u>(674,766)</u>	
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		<u>(22,992,518)</u>
Remaining		<u><u>\$ -</u></u>

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

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
	<u>\$ 31,035,877</u>	<u>\$ 35,886,130</u>	<u>\$ 41,984,771</u>	<u>\$ 51,577,915</u>	<u>\$ 69,228,781</u>	<u>\$ 69,273,006</u>
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
	<u>\$ 53,672,497</u>	<u>\$ 50,221,272</u>	<u>\$ 50,099,102</u>	<u>\$ 45,777,155</u>	<u>\$ 32,657,993</u>	<u>\$ 38,167,548</u>
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
	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 5,481,000</u>	<u>\$ 7,674,964</u>	<u>\$ 13,905,174</u>
Total General Fund New Appropriations 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	<u>\$ 84,708,374</u>	<u>\$ 86,107,402</u>	<u>\$ 92,083,873</u>	<u>\$ 102,836,070</u>	<u>\$ 109,561,738</u>	<u>\$ 121,345,728</u>

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

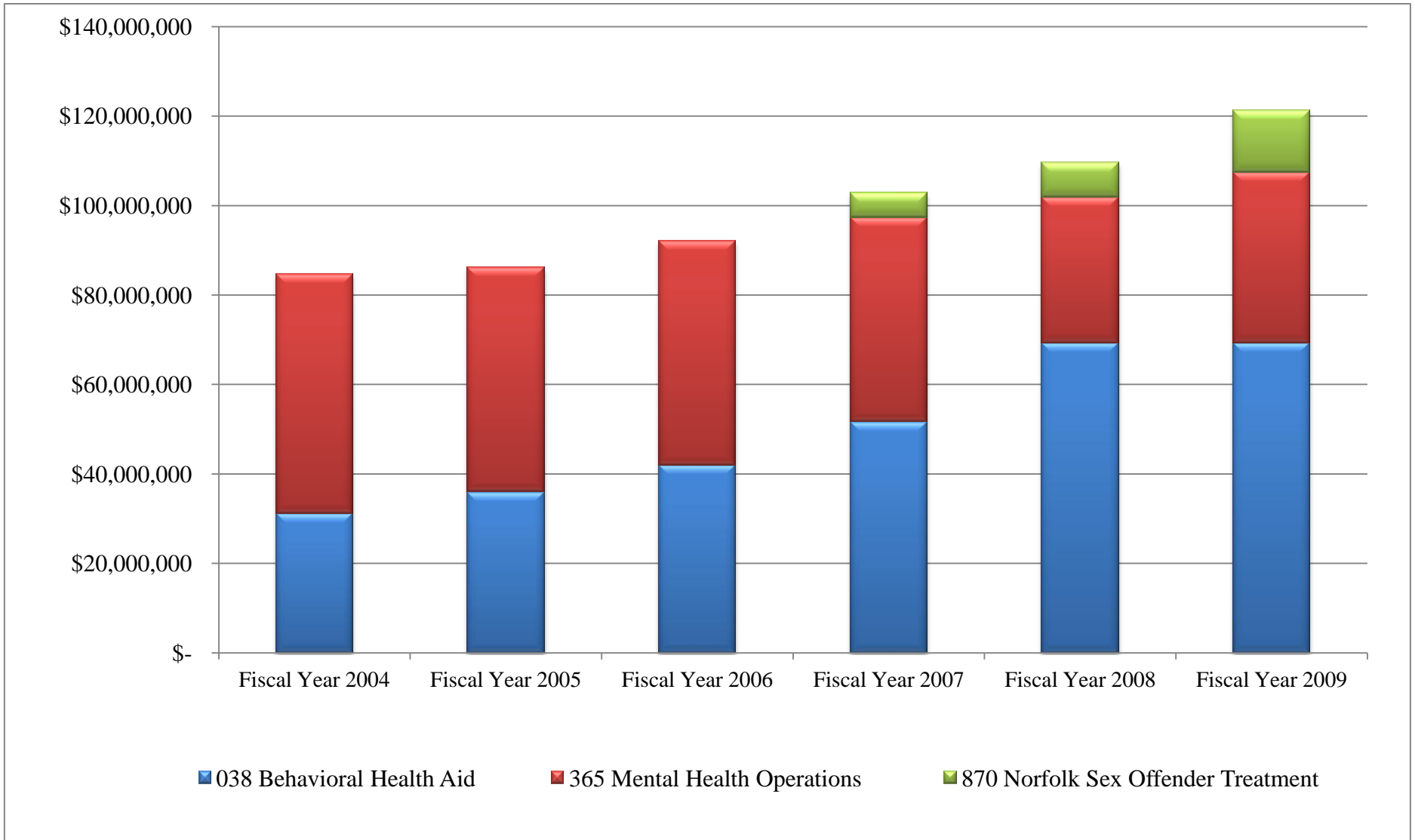
**Transfer from 365 includes \$312,500 to Program 268 Behavioral Health Administration.

***Includes funding for provider rate increases.

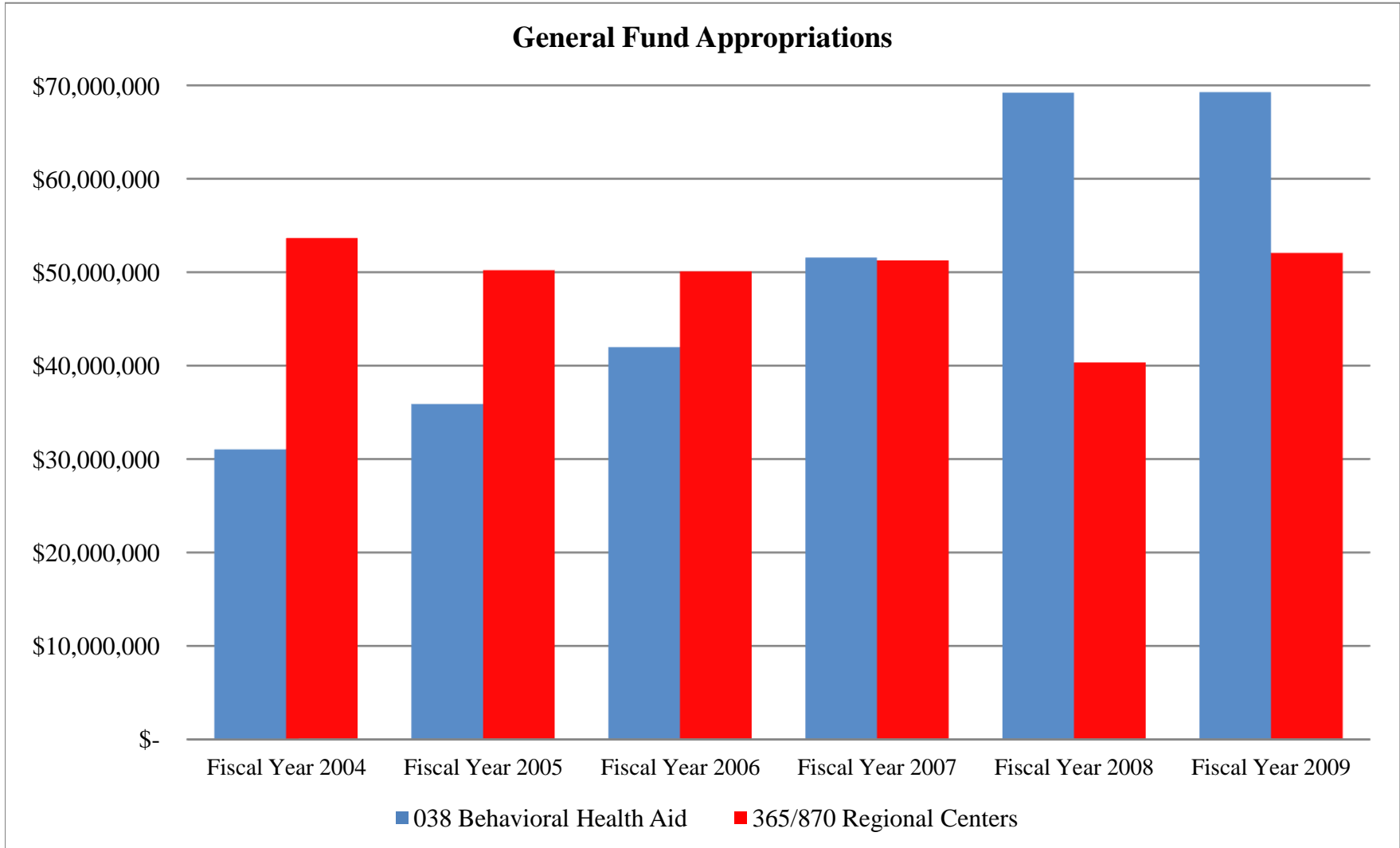
**** Established by LB 1199 in April 2006 to provide court-ordered treatment of sex offenders who have completed their sentences but continue to pose a threat of harm to others.

*****Summary of amounts noted above.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
APPROPRIATION FUNDING BY PROGRAM - PROGRAMS 038, 365, AND 870



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
GENERAL FUND APPROPRIATIONS BEHAVIORAL HEALTH AID AND REGIONAL CENTERS



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.

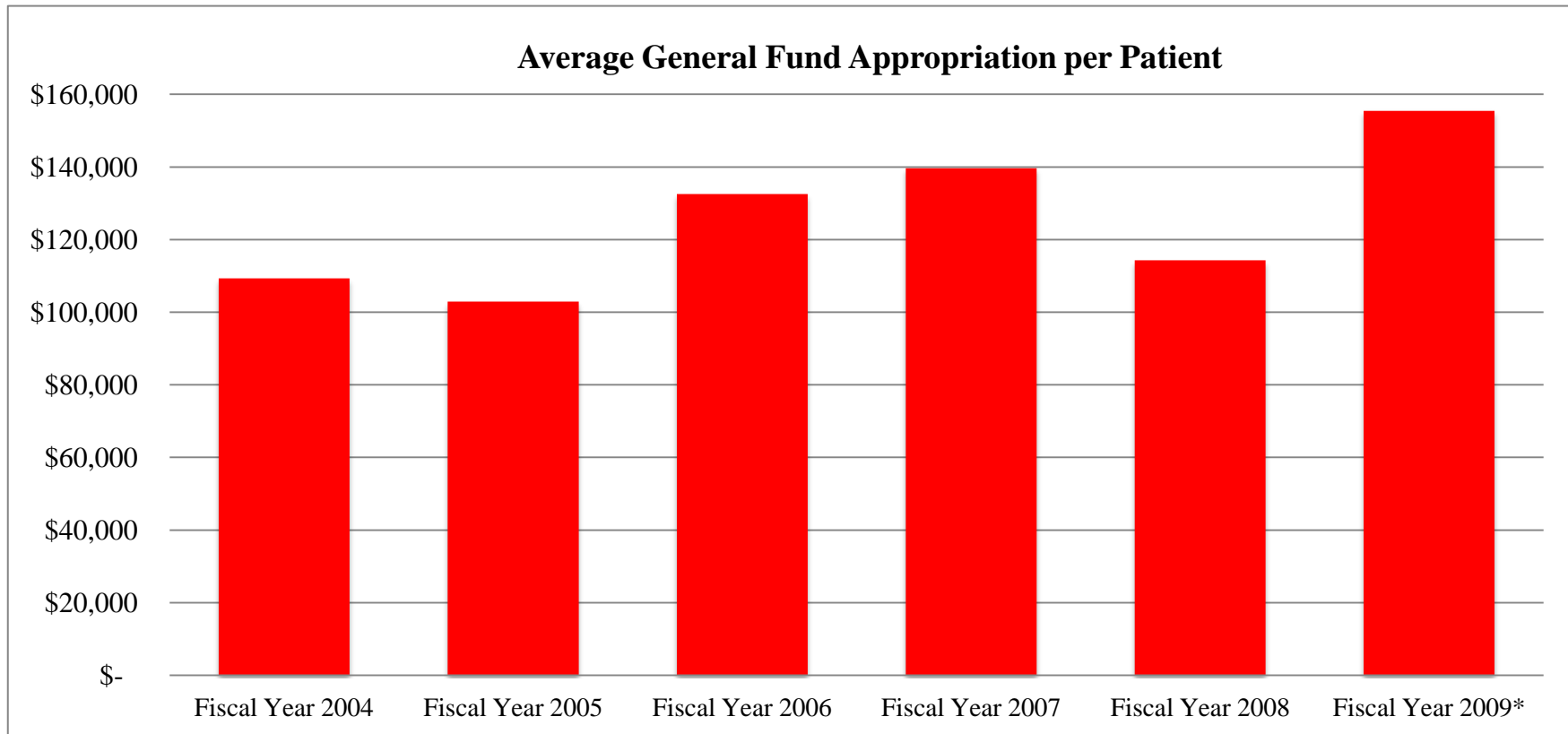
** Established by LB 1199 in April 2006 to provide court-ordered treatment of sex offenders who have completed their sentences but continue to pose a threat of harm to others.

***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.

**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.