

**AUDIT REPORT  
OF THE  
NEBRASKA HEALTH AND HUMAN  
SERVICES SYSTEM  
PROGRAM 34  
ALCOHOL-DRUG ADDICTION AID  
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

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**BACKGROUND**

The Nebraska Health and Human Services System (HHS) manages Program 34 Alcohol/Drug Addiction Aid. Within the Health and Human Services System are the Departments of Finance & Support, Health and Human Services, and Regulation and Licensure. The HHS Department of Finance & Support is responsible for distributing state aid for community substance abuse and addiction services. The HHS Department of Health and Human Services (Services) administers the aid. HHS Services administers the aid through contracts with the six Mental Health Regional Governing Boards and through direct contracts with providers. The following services are funded: prevention, assessment/evaluation, detoxification emergency services, partial care, intensive outpatient therapy, outpatient therapy (individual, family, and group), medication management-methadone, five residential services (intermediate, short-term, halfway house, therapeutic community, and dual disorder), and community support services.

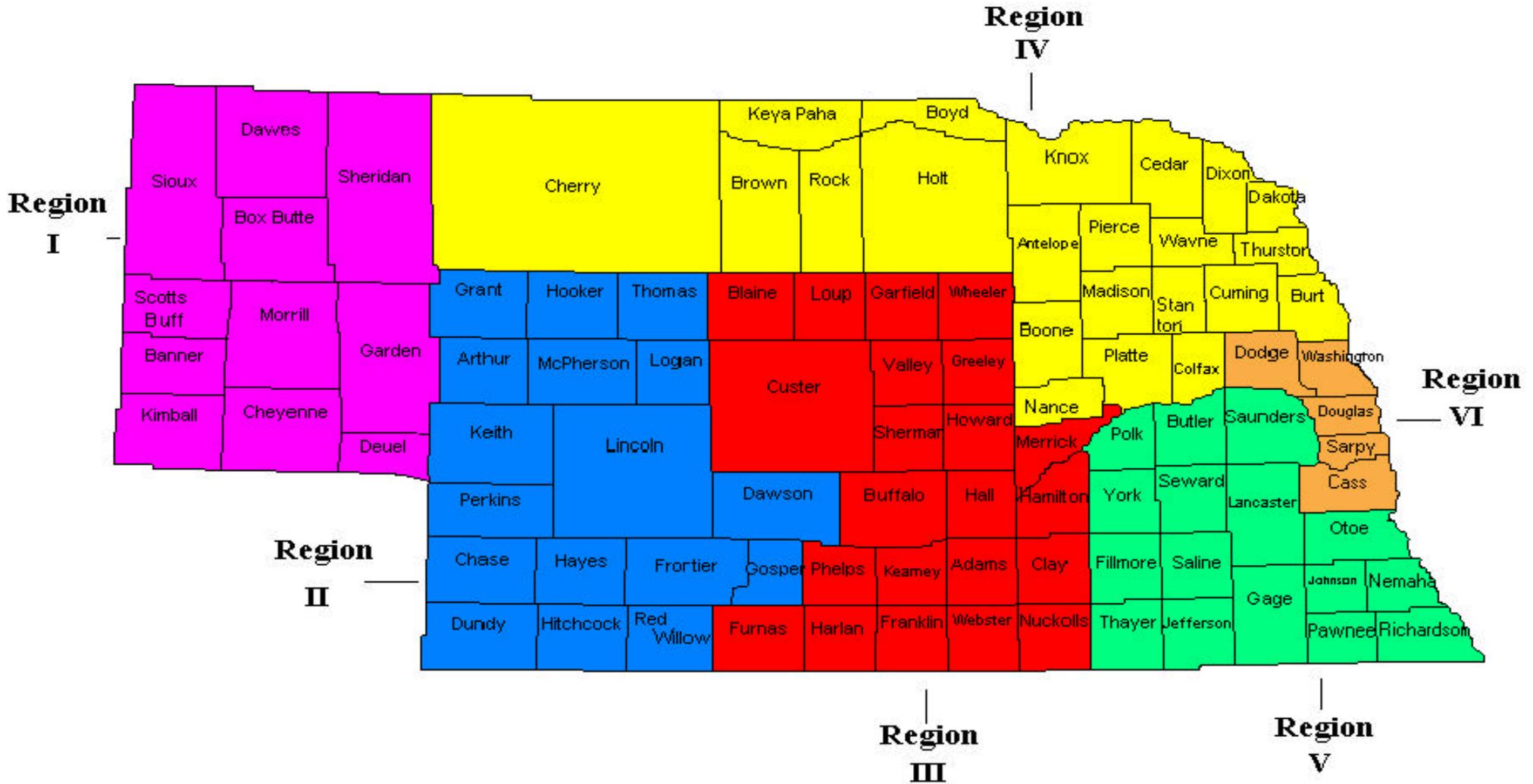
The Regional Governing Boards are organized under the Inter-Local Cooperation Act for the purposes of planning, organizing, coordinating, and reporting of the local service systems of mental health and substance abuse within geographic areas (regions). The six Mental Health Regional Governing Boards are headquartered in Scottsbluff (Region I), North Platte (Region II), Kearney (Region III), Norfolk (Region IV), Lincoln (Region V), and Omaha (Region VI). Each county in the Region appoints one county commissioner to the Regional Governing Board. The Regional Governing Boards provide services and/or contract with private organizations to provide services. These organizations request payment for services from the Region, the Region compiles a monthly reimbursement request for all providers in the Region, then HHS makes payment to the Region, and the Region in turn reimburses providers. Decisions regarding which providers will be awarded contracts, and in what amounts, are made by the Regional Governing Boards. By statute, each Regional Governing Board is required to provide not less than forty cents from local and county taxes for every three dollars provided by the State General Fund.

One percent of net lottery revenues are deposited in the Compulsive Gamblers Assistance Fund. The funds are used to provide grants for outpatient therapy services, training services, and a 24-hour hotline for counseling, information, and referrals for compulsive gamblers.

**MISSION STATEMENT**

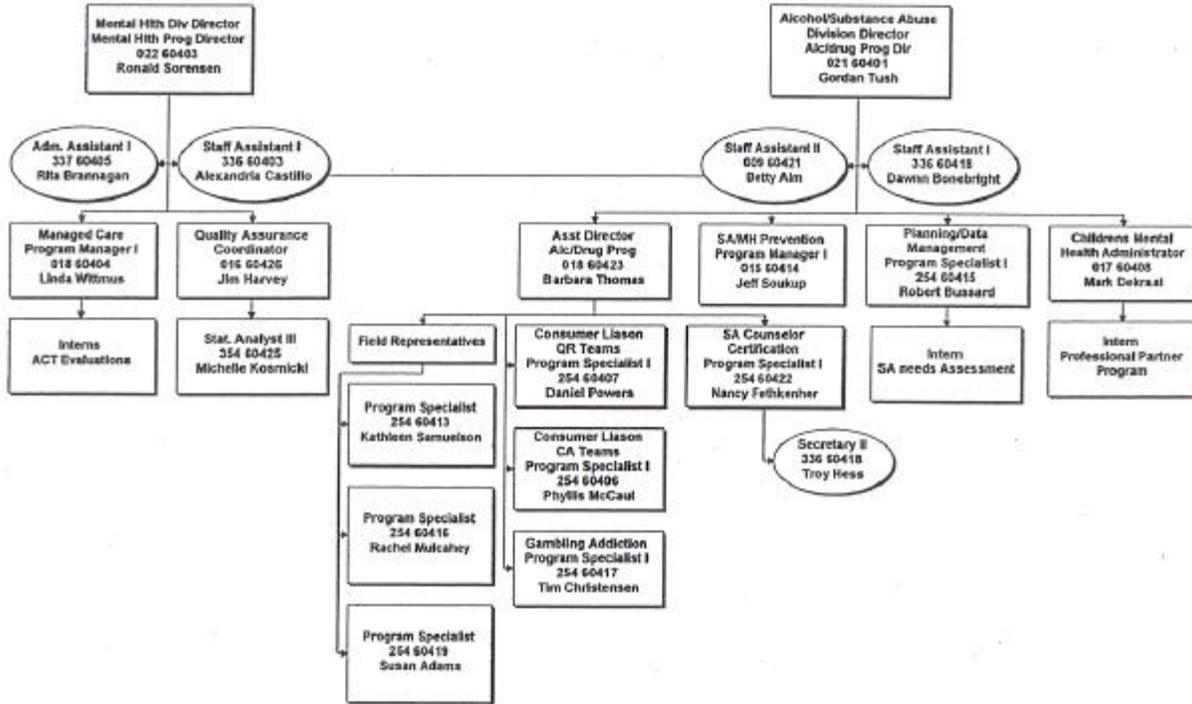
“We help people live better lives through effective health and human services.”

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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 MENTAL HEALTH AND SUBSTANCE ABUSE REGIONS



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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**SUMMARY OF COMMENTS**

During our audit of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. **Misuse of Funds:** The contracts with the Regions included Mental Health, Substance Abuse, and Behavioral Health components. HHS used \$549,310 of Program 34 funds to reimburse for Program 366 charges.
2. **Contract Monitoring:** Payments to Region V for substance abuse services totaled \$3.2 million per HHS; the regional audit reported 3.6 million was received. Audits were not on file for payments to Indian Tribes which were under contract as providers, and monitoring to ensure contract compliance was not performed.
3. **Rates for Fees:** HHS did not have documentation to support the rates for substance abuse fees or compulsive gambling reimbursement rates.
4. **Region Match:** Region II did not provide the correct amount of matching funds as required by Statute.
5. **Allocation to Regions:** HHS did not have adequate documentation to support the allocation of funds between Regions.
6. **Use of Funds:** HHS received \$7,000 from the Nebraska Department of Highway Safety for a Statewide Drug-Free conference. The money was deposited to Fund 4810 Program 34 Alcohol/Drug Addiction Aid; however, conference expenses were not paid from the money received.

**Statewide Single Audit Report Schedule of Findings and Questioned Costs:**

The following comments related to the Block Grant for Prevention and Treatment of Substance Abuse were included in the fiscal year 2000 Nebraska Statewide Single Audit Report.

1. **Finding #00-26-19:** The Agency does not have proper procedures to ensure all Federal funds are obligated within the required period of availability.
2. **Finding #00-26-20:** The Agency's contract with NABHO does not include adequate procedures for the performance of peer reviews in accordance with the Federal Requirements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
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**SUMMARY OF COMMENTS**  
(Concluded)

3. **Finding #00-26-21:** The Agency's procedures do not include any controls nor do they monitor expenditures to ensure the subrecipients and subcontractors are properly allocating the expenditures. As a result, the Agency is inaccurately reporting the earmarking requirements on the SAPT Application.
4. **Finding #00-26-22:** Unit audits of subcontractors are one of the Agency's main controls for monitoring subrecipients and their activities. The Agency has failed to enforce unit audits, therefore they are not properly monitoring the subrecipients' activities to provide reasonable assurance the subrecipients are properly spending Federal funds.
5. **Finding #00-26-23:** A subcontractor was paid \$92,603 for unsubstantiated services.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to HHS to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

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**COMMENTS AND RECOMMENDATIONS**

**1. Misuse of Funds**

The contracts between HHS and the Regional Governing Boards included substance abuse, mental health, and behavioral health components. Behavioral Health Carryover is a term used by HHS to describe funds included in Fund 4812 used for substance abuse or mental health services. During fiscal year 2000, Program 34 was used for substance abuse services and Program 366 was used for mental health and behavioral health services. Beginning July 1, 2001, Programs 34 and 366 will receive funding through Program 38.

Appropriations are the authorizations granted by the Legislature to make expenditures or incur obligations for specific programs. Appropriations are made by specific program and fund type. An agency is required to operate within the established restrictions. The federal Block Grant for Prevention and Treatment of Substance Abuse is required to be used for prevention and treatment activities related to alcohol and drug abuse. Nebraska Accounting System (NAS) Manual Procedure 101 outlines the steps to record borrowing between funds and the subsequent repayment. Procedure 101 requires the agency to obtain statutory reference that provides for a fund to borrow from another fund and then prepare a General Document using the appropriate "Due to Fund" and "Due from Fund" accounts. Good internal control requires a plan of procedures to provide reliable financial records and to ensure funds are spent in accordance with Federal and State requirements.

During the audit period several payments to reimburse the Regions were made which did not agree with the reimbursement request and were not in accordance with contract provisions. HHS staff indicated that funds were borrowed due to the federal grant not being received in a timely manner. However, no general document was prepared in accordance with NAS procedures recording the "loan" or the repayment. In some instances Program 366 funds were used for Program 34 expenditures and sometimes Program 34 funds were used for Program 366. In one document \$700,000 in general funds for Program 34 were used to reimburse a Region; however, only \$244,335 was related to Program 34 expenditures. The net effect of the errors noted was that \$549,310 of Program 34 funds were used for Program 366 Community Mental Health Aid. The financial statements were adjusted for this error in order to fairly present Program 34 activity. General Fund Appropriations and Government Aid were increased \$282,003; Special Revenue (Federal) Fund Intergovernmental Revenue and Government Aid were decreased \$831,313.

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**COMMENTS AND RECOMMENDATIONS**

**1. Misuse of Funds (Continued)**

Fiscal Year 2000 Program 34 contracted amounts and amounts paid per the Nebraska Accounting System for each Region were as follows:

Region	State		Federal	
	Contract Limit	NAS Payments	Contract Limit	NAS Payments
I**	\$ 399,683	\$ 393,530	\$ 726,731	\$ 829,131
II*	369,106	256,514	361,174	401,255
III**	489,720	474,056	973,121	1,011,439
IV*	335,314	296,812	920,137	695,984
V*	1,216,381	1,096,237	1,623,591	1,700,980
VI**	1,672,135	1,588,959	2,415,107	2,976,112
Total**	\$ 4,482,339	\$ 4,106,108	\$ 7,019,861	\$ 7,614,901

\* Program 366 Funds were used for Program 34 expenditures.

\*\* Program 34 Funds were used for Program 366 expenditures.

We recommend HHS implement procedures to ensure funds are spent in accordance with State and Federal requirements and contract provisions. We further recommend HHS determine the proper disposition for the errors noted.

*HHS's Response: As stated, due to the late receipt of the Substance Abuse Prevention and Treatment Block Grant Award, it was necessary to use other funds (Primarily Fund 4812) as an interim measure to pay the Regions and other Providers until the Block Grant was received. This is done in order to continue the provision of essential services to Nebraska's citizens and meet the Department's contractual obligations. We disagree that the borrowing should be termed a "Misuse of Funds." This is done solely as a response to the late arrival of Federal Funds, a circumstance which is entirely beyond the Department's control. The chart below provides the dates recent SAPT Block Grants were received. The FFY2000 Block Grant is particularly pertinent to this audit. As you can see, it was not received until May 22, 2000, nearly eight months after the start of the October 1, 1999, Grant Year.*

***Dates the SAPT Block Grants were received--FFY1998 through FFY2001.***

<b><i>Federal Grant Year</i></b>	<b><i>Date Award Received</i></b>	<b><i>Extent of Award</i></b>
<i>SAPT FFY 1998 Block Grant</i>	<i>April 27, 1998</i>	<i>1st, 2nd, and 3rd Quarter's Allocation</i>
<i>SAPT FFY 1998 Block Grant</i>	<i>August 21, 1998</i>	<i>4th Quarter Allocation</i>

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**COMMENTS AND RECOMMENDATIONS**

**1. Misuse of Funds (Concluded)**

<i><b>Federal Grant Year</b></i>	<i><b>Date Award Received</b></i>	<i><b>Extent of Award</b></i>
<i>SAPT FFY 1999 Block Grant</i>	<i>March 29,1999</i>	<i>1st and 2nd Quarter's Allocation</i>
<i>SAPT FFY 1999 Block Grant</i>	<i>April 16,1999</i>	<i>3rd Quarter Allocation</i>
<i>SAPT FFY 1999 Block Grant</i>	<i>July 30,1999</i>	<i>4th Quarter Allocation</i>
<i><b>SAPT FFY 2000 Block Grant</b></i>	<i><b>May 22,2000</b></i>	<i><b>1st, 2nd, and 3rd Quarter's Allocation</b></i>
<i>SAPT FFY 2000 Block Grant</i>	<i>August 28,2000</i>	<i>4th Quarter Allocation</i>
<i>SAPT FFY 2001 Block Grant</i>	<i>Feb. 02,2001</i>	<i>1st and 2nd Quarter's Allocation</i>
<i>SAPT FFY 2001 Block Grant</i>	<i>April 18,2001</i>	<i>3rd Quarter Allocation</i>
<i>SAPT FFY 2001 Block Grant</i>	<i>July 23,2001</i>	<i>4th Quarter Allocation</i>

*Note: All Grant Award years begin on October 1. It can therefor be calculated how late an award was received. For example, the Grant Year for the FFY1998 SAPT Block Grant began on October 1, 1997. The initial Grant Award was received on April 27, 1998, which was six months and 37 days after the beginning of the Grant Year.*

**Auditor’s Response: HHS did not follow procedures to record “borrowing” between funds, and did not properly repay the funds after federal funding was received in May.**

**2. Contract Monitoring**

Neb. Rev. Stat. Section 71-5030 R.R.S. 1996 states it shall be the responsibility of HHS to require annual audits and reports necessary to monitor substance abuse providers. The statute further requires HHS to provide accountability for all sources of funds and all expenditures of funds for all substance abuse providers receiving such funds. Good internal control requires monitoring procedures to ensure funds are recorded and utilized in accordance with contract provisions. Title 203 NAC 4-006.01 requires each provider with a total operating budget of \$75,000 or more to contract for an annual independent audit of its financial operations. In lieu of an audit, a provider with a budget of less than \$75,000 may submit an annual detailed financial statement per 4-006.07. NAC regulations further state at 4-006.06 that failure to comply with audit requirements will result in HHS contracting for an independent audit with the costs of the audit being deducted from the provider’s allocation.

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**COMMENTS AND RECOMMENDATIONS**

**2. Contract Monitoring (Concluded)**

We noted the following:

- The audit report for the Region V Governing Board identified \$3.6 million received from HHS for substance abuse services; however, per contracts, NAS (Nebraska Accounting System), and Region billing requests, the amount reimbursed for substance abuse was \$3.2 million. Without adequate monitoring, including reconciling HHS records to Regional records, there is an increased risk for funds to be misused.
- None of the Indian Tribes which were under contract as providers filed annual audits as required. The most recent audits on file were for fiscal year 1997. We further noted HHS did not withhold payments to these providers or contract for an independent audit. We also noted HHS did not perform monitoring procedures to compensate for the lack of an audit. The Omaha, Santee, and Winnebago Tribes each received over \$75,000 during fiscal year 2000. Total program funds disbursed to these providers totaled \$390,425 for fiscal year 2000.

Without adequate monitoring there is an increased risk for loss or misuse of funds.

We recommend HHS reconcile HHS records and Region V records to ensure all funds were spent in accordance with contract provisions. We further recommend HHS implement procedures to ensure all required audits are received or contract for an independent audit with the cost deducted from the provider's allocation.

*HHS's Response: The audit finding that none of the Indian Tribes under contract as providers submitted annual audits as required is correct. This is not a new problem as the receipt of audits from the tribes has been problematic since the first contract awarded in 1981. We have always received the audits in due time but never on time. Funding the tribes directly is a recognition of their special status as governments and their very special need for substance abuse services. Since tribes receive a variety of federal funds they are subject to the government auditing standard for A-133 audits. The lack of timely submission of these audits has not stopped federal funding or other state funding. We will continue in our efforts to improve on this situation, but because of devastation caused by substance abuse among this population we do not intend to withhold funding. We do monitor the contract with the tribe contrary to the finding. This includes submission of an annual plan by the tribes for expenditure of the funds allocated and the monitoring of request for reimbursement based on the amounts indicated in the plans. In addition, phone contacts for assistance and monitoring purposes are routinely made to the programs as well as "as needed" on site visits.*

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**COMMENTS AND RECOMMENDATIONS**

**3. Rates for Fees**

HHS reimburses services for alcohol/drug addiction aid on a fee-for-service and a non-fee-for-service basis. Services paid fee-for-service to the Regions are based on a rate schedule included in the contract and all providers in the State must adhere to those rates. Services paid non-fee-for-service are based on reimbursements within the limits of the contract. Each Region may set rates for services or contract on a reimbursement basis. Compulsive gambling services are contracted at rates set by HHS. Good internal control requires procedures to ensure contracted rates are equitable and reasonable. Good internal control also requires documentation be maintained to support the basis for contracted rates.

We noted HHS did not have documentation to support the basis for contract rates for any substance abuse fee-for-service or compulsive gambling services.

Without adequate documentation there is an increased risk for errors to occur. Furthermore, contract rates which are set too high result in increased costs, and rates set too low affect the ability of HHS to receive quality services and meet Program goals.

We recommend HHS implement procedures to ensure documentation to support the basis for contract rates is maintained.

*HHS's Response: Rates for fee for services were originally based on an analysis of costs and program receipts. Over time these rates have been adjusted to reflect increases in cost caused by inflation and other factors. We have not kept documentation of the rate changes as pointed out by the audit. We are currently in the process of developing new cost models with technical assistance provided by the Center for Substance Abuse Treatment of the Federal Department of HHS.*

**4. Region Match**

Neb. Rev. Stat. Section 71-5027 R.S. Supp. 2000 requires each Regional Governing Board to provide one dollar for every three dollars provided by the State General Fund. Of the amount provided by each Board, not less than forty percent shall be provided by local and county taxes and the remainder shall come from other nonfederal sources.

We noted the matching funds for Region II were incorrectly calculated and did not meet statutory requirements. As a result, \$9,194 of local and county taxes were underprovided. HHS did not have procedures to ensure the match was properly provided. The certification submitted by the Region clearly indicated the match was insufficient for the General Funds provided by the contract; however, HHS failed to inform the Region or to provide guidance in calculating the match in accordance with Statute.

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**COMMENTS AND RECOMMENDATIONS**

**4. Region Match** (Concluded)

We recommend HHS implement procedures to ensure no State General Funds are provided without the proper match by the Region. We further recommend HHS require Region II to provide the match for State General Funds received in fiscal year 2000.

*HHS's Response: In the FY00 Regional Allocation Letter, the Division included a paragraph explaining that we thought the amount of match that we stated in the letters may need to be corrected in a couple of regions and that we would be analyzing and reviewing it during FY00. We stated in the letter that if we found any errors in the match amount required, we would expect the Region to meet the correct match amount for the next (FY01) contract year.*

**5. Allocation to Regions**

Sound business practice requires the allocation of public monies be made in a reasonable and equitable manner. Sound business practice also requires documentation be maintained to support the basis for the allocation.

We noted HHS did not have adequate documentation to support the allocation of funds between the six Regional Governing Boards. HHS indicated that starting with fiscal year 2002 contracts the allocation would be based upon population and income.

We also noted the allocation of State General Funds versus Federal Block Grant Funds was not consistent between Regions. The percentage of General Funds varied from 27% to 51% of total Program 34 services contracted. As Regional Governing Boards are required to match State General Funds with local and county taxes, the proportion paid by each county was not equitable. Regions with a higher percentage of General Funds were bearing a greater burden than counties in Regions with a lower percentage of General Funds.

Without a sound basis for allocating funds between Regions, one area may not have the necessary resources to provide services compared to other geographic areas.

We recommend HHS implement procedures to ensure the allocation process is documented and reasonable.

*HHS's Response: Allocations to Regions are based on a variety of historical factors. The original allocation of 1.1 Million in 1979 was allocated via a rather sophisticated model (adopted by other states) and based upon a formulae for population and need. The majority of increases in state funding since that time has been to correct for inflationary trends, but in general have been based on the percentage of population in each region. Increases in federal funding have generally been allocated by population or to meet federal set-aside requirements.*

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**COMMENTS AND RECOMMENDATIONS**

**5. Allocation to Regions** (Concluded)

*There is no requirement that it be allocated "consistent" between Regions. The Regions and HHHS have agreed to a hold harmless method of allocating increases in funding based on population and income.*

**6. Use of Funds**

Good internal control requires procedures to ensure funds are properly recorded and disbursed for the purpose designated.

In August 1999, HHS received \$7,000 from the Nebraska Department of Highway Safety for a Statewide Drug-Free conference. The money was deposited to Fund 4810 Program 34 Alcohol/Drug Addiction Aid; however, expenses were not paid from the money received. HHS indicated that General Funds had been used.

We recommend HHS implement procedures to ensure funds received are properly recorded and disbursed. We further recommend the \$7,000 be deposited to the General Fund.

*HHS's Response: These funds were to help support a Drug Free Youth Conference. The Division already supported this effort under contract with the Nebraska Council to Prevent Alcohol and Drug Abuse and these funds were to supplement the contract amount. When billed for this event the \$7,000 was not charged against the amount provided by the Office of Highway Safety. This has been corrected by charging this amount to the June 2001 billing from the Council.*

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**STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

The Block Grant for Prevention and Treatment of Substance Abuse was audited by KPMG LLP in conjunction with the Nebraska Statewide Single Audit for fiscal year 2000. There were several findings noted which were reviewed during this audit. The findings were as follows:

**1. Finding #00-26-19**

**Program:** CFDA #93.959- Block Grants for Prevention and Treatment of Substance Abuse – Period of Availability.

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

**Criteria:** Per 42 USC 300x-62, the State is required to obligate all the funds awarded during the fiscal year of the award. Amounts obligated by the State which remain unexpended at the end of the fiscal year for which amounts were awarded shall remain available until the end of the succeeding fiscal year.

**Condition:** In the subrecipient contracts, the Agency does not designate from which federal award year the Federal funds are awarded. As a result, KPMG was unable to determine if all the Federal funds had been awarded by the end of the first fiscal year after the award. Therefore, KPMG was unable to test the obligation portion of the requirement.

**Questioned Costs:** None.

**Context:** The Agency does not have proper procedures to ensure all Federal funds are obligated within the required period of availability.

**Cause:** The contracts with the subrecipients (regions) do not state from which federal award year the Federal funds are awarded.

**Effect:** The Agency may not be in compliance with obligating all funds within the period of availability.

**Recommendation:** We recommend the Agency document and specify on the contracts with the subrecipients (regions) from which federal award year the Federal funds are awarded. This will assist in monitoring the expenditures which have been obligated to ensure compliance with the period of availability requirements.

*HHS's Response: Corrective Action Plan: Nebraska has used the "First In-First Out" method of obligating and expending its Block Grants since the program was first enacted in 1981. This basic method, together with the signed Grants and Contracts, as well as the actual records which show dates of the expenditures of the grant funds, has been accepted by numerous previous federal site visits and independent audit reviews. If the procedures used are now*

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**STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**1. Finding #00-26-19 (Concluded)**

*considered inadequate, added written spreadsheets and/or contract procedures will be implemented to show that funds are both obligated and expended within the applicable time limits.*

**2. Finding #00-26-20**

**Program:** CFDA #93.959- Block Grants for Prevention and Treatment of substance Abuse - Special Tests and Provisions

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

**Criteria:** Per 45 CFR section 96.136, the State must provide for independent peer reviews which [assess] the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. As part of the independent peer review reviewers shall examine the following:

- 1) Admission criteria/intake process
- 2) Assessments
- 3) Treatment planning, including appropriate referral
- 4) Documentation of implementation or treatment services
- 5) Discharge and continuing care planning; and
- 6) Indication of treatment outcomes

The State is required to develop procedures for the implementation of these above noted requirements.

**Condition:** The Agency has entered into a contract with NABHO to conduct peer reviews, although the contract does not provide adequate review procedures. NABHO sends a review assessment packet to each program selected for review. The programs are required to complete the forms within the packets. The forms require information about admission criteria, intake process, program standards, and discharge and continuing care planning. When the review packets are returned to NABHO the results are compiled and submitted to the Agency.

**Questioned Costs:** None.

**Context:** The Agency's contract with NABHO does not include adequate procedures for the performance of peer reviews in accordance with the Federal requirements.

**Cause:** The Agency was not aware of the detail requirements of the independent peer review process.

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**STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**2. Finding #00-26-20 (Concluded)**

**Effect:** The Agency is not in compliance with the criteria required by Federal regulation.

**Recommendation:** We recommend the Agency enter into a new contract with NABHO that requires on-site reviews of the programs and meets the requirements of the Federal regulation for independent peer reviews.

*HHS's Response: Corrective Action Plan: The agency agrees with the finding that peer reviews performed for this block grant year did not meet all of the requirements. The Division contracted several years ago with the Nebraska Association of Behavioral Health Organizations to meet the block grant requirements for peer review. NABHO developed a site visit protocol which meet the requirements and for several years have trained reviewers in the protocol and conducted on site peer reviews. During the grant year under question there was turnover in the officers of NABHO as well as in the project officer at the Division. On site peer reviews were not conducted. To partly fulfill the requirement the required number of agencies were sent the protocol scoring instrument and asked to do a self review of their program.*

**3. Finding #00-26-21**

**Program:** CFDA #93.959- Block Grants for Prevention and Treatment of Substance Abuse - Earmarking and Reporting.

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

**Criteria:**

***Earmarking***

Per 45 CFR section 96.124, States are required to expend the Substance Abuse Prevention and Treatment Block Grant (SAPT) on various activities in certain proportions. Specifically, as to treatment and prevention, the State shall expend the grant as follows: (1) not less than 35 percent for prevention and treatment activities regarding alcohol; and (2) not less than 35 percent for prevention and treatment activities regarding other drugs. The States are also to expend the Block Grant on primary prevention programs, consistent with 45 CFR sections 96.124(b)(1) and 96.125, the State shall expend not less than 20 percent of the amount earmarked for alcohol and other drugs prevention and treatment activities for programs for individuals who do not require treatment for substance abuse.

***Reporting***

The Agency is required to submit annually the Substance Abuse Prevention and Treatment Block Grant Application (45 CFR 96.122).

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STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS

3. **Finding #00-26-21** (Concluded)

**Condition:**

***Earmarking***

The Agency codes expenditures received from the subrecipients based on the required percentages, not based on the actual expenditures. When a subrecipient submits a disbursement request the subrecipient does not breakout the types of activities or services provided, therefore the Agency allocates the percentages needed to meet the earmarking requirements.

***Special Reporting***

On the SAPT Application the Agency is required to submit the above earmarking (Form 6) requirements. The Agency is required to provide the amount expended on various activities by subrecipient and by the subcontractor of the subrecipients. The Agency provides these expenditures on the application, but they cannot substantiate the amounts.

**Questioned Costs:** None:

**Context:** The Agency's procedures do not include any controls nor do they monitor expenditures to ensure the subrecipients and subcontractors are properly allocating the expenditures. As a result, the Agency is inaccurately reporting the earmarking requirements on the SAPT Application.

**Cause:** The Agency does not properly allocate expenditures to the various activities within the grant.

**Effect:** The program is not in compliance with the earmarking requirements and is inaccurately reporting expenditures on the SAPT Application.

**Recommendation:** We recommend the Agency implement procedures to determine the appropriate amounts to be allocated to prevention/treatment of alcohol, prevention/treatment of drugs, and primary prevention programs. We also suggest the Agency require the subrecipients to document the type of treatment given and the percentage of Federal funds spent on the above earmarked requirements.

*HHS's Response: Corrective Action Plan: Nebraska's methods of demonstrating compliance with the percentage earmarking provisions of the law have been in continuous use since the Block Grant was first enacted in 1981. All previous site visits by federal officials, as well as numerous prior audit reviews, have accepted Nebraska's methodology. Nonetheless, if the existing procedures have now been deemed insufficient, additional steps will be implemented as needed to further demonstrate compliance with the earmarking requirements.*

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS

4. **Finding #00-26-22**

**Program:** CFDA #93.959- Block Grants for Prevention and Treatment of Substance Abuse - Subrecipient Monitoring.

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

**Criteria:** As required under 45 CFR sections 96.120 to 96.137, the State Agency is required to develop policies governing all aspects of the programs operated under the State Plan and to monitor their implementation. A pass-through entity is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.

**Condition:** The Agency has entered into contracts with the subrecipients (regions) to whom they grant Federal funds. Within these contracts, the Agency requires the subrecipients to perform unit audits on all subcontractors. This allows for proper monitoring and control over the activities of the subcontractors. The unit audits are required to be submitted to the Agency annually, currently all unit audits are not being performed and submitted to the Agency.

**Questioned Costs:** None.

**Context:** Unit audits of subcontractors are one of the Agency's main controls for monitoring subrecipients and their activities. The Agency has failed to enforce unit audits, therefore they are not properly monitoring the subrecipients' activities to provide a reasonable assurance the subrecipients are properly spending Federal funds.

**Cause:** The Agency does not enforce unit audits of the subrecipients' subcontractors.

**Effect:** The Agency is not performing adequate subrecipient monitoring.

**Recommendation:** We recommend the Agency enforce unit audits to be performed on all subcontractors of the subrecipients in order to ensure the subrecipients and subcontractors are properly spending Federal Funds.

*HHS's Response: Corrective Action Plan: The agency believes that the audit finding that "The Agency has failed to enforce unit audits, therefore they are not properly monitoring the subrecipient's activities to provide a reasonable assurance the subrecipients are properly spending Federal funds" is overly broad in it's conclusion. Requiring unit audits is one of many methods the agency employees to monitor subrecipients use of federal funds and is actually applicable to approximately 25% of the funds administered by the agency. During the block grant period under review the audit correctly finds that some agencies did not receive unit audits as required in our contracts with the six regional authorities, however many unit audits were*

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**4. Finding #00-26-22 (Continued)**

*performed by regions on subrecipients for which purchase of service contracts had been negotiated. The Division does need to develop procedures that will insure that this requirement is strictly enforced in the future.*

*Examples of other activities performed by the Division or by the administration of the six regional programs are as follows:*

- 1. Funded programs are required to perform and A-133 audit or and independent audit where this provision does not apply. The Division receives copies of these audits and Division staff review the reports for adverse findings.*
- 2. The Division periodically site visits funding programs to monitor the delivery of services and this is a shared responsibility with the Regions.*
- 3. Programs are required to bill the Division/Region on a monthly basis. In the case of purchase of service programs these billings include the units of service provided to clients which becomes the basis for unit audits. Other non purchase of service providers submit reimbursement request detailing cost incurred in providing services.*
- 4. Funded programs who provide direct services to clients are required to get pre-authorized for providing services to most clients and must complete admission for data for all clients served.*

*These are only some examples of the monitoring activities performed by the Division and Regions to reasonably insure proper expenditure of funds.*

*The division will be receiving technical assistance from the Center for Substance Abuse Treatment on contract development and monitoring of contracts which will improve the conduction of unit audits by the regions.*

**5. Finding #00-26-23**

**Program:** CFDA #93.959- Block Grants for Prevention and Treatment of Substance Abuse - Activities Allowed or Unallowed

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

**Criteria:** States are required to expend the Substance Abuse Prevention & Treatment Block Grant on various activities in certain proportions. Specifically, as to treatment and prevention, the State shall expend the grant as regulated by 45 CFR section 92.124.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**STATEWIDE SINGLE AUDIT SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**5. Finding #00-26-23 (Concluded)**

**Condition:** A subcontractor of one of the Agency's subrecipients has been unable to substantiate actual services to their clients, resulting in questioned expenditures in the amount of \$92,603. On February 11, 1999, the subcontractor entered into a repayment plan for monthly payments beginning October 1, 1999. Currently, no portion of this indebtedness has been paid.

**Questioned Costs:** \$92,603

**Context:** A subcontractor was paid \$92,603 for unsubstantiated services.

**Cause:** A subcontractor of the Agency's subrecipient is unable to substantiate actual services provided to the clients.

**Effect:** Federal funds were not administered in compliance with Federal requirements.

**Recommendation:** We recommend the Agency resolve this matter with the subrecipient and subcontractor and ensure the funds are returned to the Agency.

**Management's Response:** The Division disagrees with the finding that "federal funds were not administered in compliance with federal requirements." A subrecipient was paid \$92,603 for claimed services which they could not substantiate based on a unit audit performed by one of the regions. The program was requested to return the above amount and to date has not. There is currently litigation in this matter and the provider is currently not under contract.

*HHS's Response: Corrective Action Plan: The Division disagrees with the finding that "federal funds were not administered in compliance with Federal requirements". A sub-recipient was paid \$92,603 for claimed services which they could not substantiate based on a unit audit performed by one of the regions. The program was requested to return the above amount and to date has not. There is currently litigation in this manner and the provider is currently not under contract.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

### INDEPENDENT AUDITORS' REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
haeffner@mail.state.ne.us

We have audited the financial statements of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
aud1010@  
vmhost.cdp.state.ne.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Pat Reding, CPA**  
Asst. Deputy Auditor  
aud1008@  
vmhost.cdp.state.ne.us

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

**Mary Avery**  
SAE/Finance Manager  
MaryJAvery@aol.com

**Dennis Meyer**  
Budget Coordinator  
dmeyer@mail.state.ne.us

Also as discussed in Note 1, the financial statements present only the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

**Mark Avery**  
Subdivision Audit  
Review Coordinator  
mavery@mail.state.ne.us

**Robert Hotz, JD**  
Legal Counsel  
robhotz@mail.state.ne.us

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2001, on our consideration of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

June 25, 2001

Pat Reding, CPA

Manager

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS - ALL FUND TYPES**  
June 30, 2000

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
<b>Assets</b>			
Cash in State Treasury	\$ -	\$ 61,189	\$ 61,189
<b>Fund Balances</b>			
Unreserved, Undesignated	\$ -	\$ 61,189	\$ 61,189

See Notes to Financial Statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2000

	<u>Governmental Fund Types</u>		<b>Totals</b> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<b>RECEIPTS:</b>			
Appropriations	\$ 5,555,002	\$ -	\$ 5,555,002
Intergovernmental	-	7,059,607	7,059,607
Miscellaneous	-	5,476	5,476
TOTAL RECEIPTS	<u>5,555,002</u>	<u>7,065,083</u>	<u>12,620,085</u>
<b>DISBURSEMENTS:</b>			
Government Aid	<u>5,555,002</u>	<u>7,513,659</u>	<u>13,068,661</u>
Excess of Receipts Over (Under) Disbursements	<u>-</u>	<u>(448,576)</u>	<u>(448,576)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	-	428,875	428,875
Operating Transfers Out	-	(28,366)	(28,366)
Net Distributive Activity	-	50,000	50,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>450,509</u>	<u>450,509</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>-</u>	<u>1,933</u>	<u>1,933</u>
FUND BALANCE, JULY 1, 1999	<u>-</u>	<u>59,256</u>	<u>59,256</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ -</u>	<u>\$ 61,189</u>	<u>\$ 61,189</u>

See Notes to Financial Statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE**  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2000

	GENERAL FUND			CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ 5,555,002			\$ -	
Intergovernmental		-			-	
Miscellaneous		-			5,476	
TOTAL RECEIPTS		<u>5,555,002</u>			<u>5,476</u>	
DISBURSEMENTS:						
Government Aid	\$ 5,731,427	5,555,002	\$ 176,425	\$ 619,893	461,052	\$ 158,841
TOTAL DISBURSEMENTS	<u>5,731,427</u>	<u>5,555,002</u>	<u>176,425</u>	<u>619,893</u>	<u>461,052</u>	<u>158,841</u>
Excess of Receipts Over (Under) Disbursements		<u>-</u>			<u>(455,576)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			-	
Operating Transfers In		-			428,875	
Operating Transfers Out		-			(28,366)	
Net Distributive Activity		-			50,000	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>450,509</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			(5,067)	
FUND BALANCES, JULY 1, 1999		<u>-</u>			<u>59,256</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ -</u>			<u>\$ 54,189</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE**  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2000

	FEDERAL FUND			TOTAL		
		ACTUAL	VARIANCE		ACTUAL	VARIANCE
	BUDGET	(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)	BUDGET	(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)
<b>TOTALS</b> (MEMORANDUM ONLY)						
RECEIPTS:						
Appropriations		\$ -			\$ 5,555,002	
Intergovernmental		7,059,607			7,059,607	
Miscellaneous		-			5,476	
TOTAL RECEIPTS		<u>7,059,607</u>			<u>12,620,085</u>	
DISBURSEMENTS:						
Government Aid	\$ 8,500,000	7,052,607	\$ 1,447,393	\$ 14,851,320	13,068,661	\$ 1,782,659
TOTAL DISBURSEMENTS	<u>8,500,000</u>	<u>7,052,607</u>	<u>1,447,393</u>	<u>14,851,320</u>	<u>13,068,661</u>	<u>1,782,659</u>
Excess of Receipts Over (Under) Disbursements		<u>7,000</u>			<u>(448,576)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			-	
Operating Transfers In		-			428,875	
Operating Transfers Out		-			(28,366)	
Net Distributive Activity		-			50,000	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>450,509</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		7,000			1,933	
FUND BALANCES, JULY 1, 1999		-			59,256	
FUND BALANCES, JUNE 30, 2000		<u>\$ 7,000</u>			<u>\$ 61,189</u>	

See Notes to Financial Statements.

(Concluded)

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2000

**1. Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid (Program) is a Program within the Nebraska Health and Human Services System. The Nebraska Health and Human Services System is a State agency established under and governed by the laws of the State of Nebraska. As such, the Program is exempt from State and Federal income taxes. The financial statements include all funds of the Program.

The Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid is part of the primary government for the State of Nebraska's reporting entity.

- B. Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Program are maintained and the Program's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Program. This differs from governmental generally accepted accounting principles (GAAP), which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**C. Fund Accounting.** The accounts and records of the Program are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which record receipts, disbursements, and the fund balance. The fund types presented on the financial statements are those required by GAAP, and include:

**General Fund.** Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

**Special Revenue Funds.** Reflect transactions related to resources received and used for restricted or specific purposes.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Program are:

**1000 - General Fund** - accounts for all financial resources not required to be accounted for in another fund.

**2000 - Cash Funds** - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts. Fund 2175 Compulsive Gamblers Assistance receives transfers from the State Lottery Operation Trust Fund and the Charitable Gaming Operations Fund. These Funds are to be used exclusively for the purpose of providing assistance to agencies, groups, organizations, and individuals that provide education, assistance, and counseling to individuals and families experiencing difficulty as a result of problem or pathological gambling, to promote awareness of gambler assistance programs, and to pay costs and expenses.

**4000 - Federal Funds** - account for all federal grants and contracts received by the State.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Program and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, and federal fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

The Program utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Program's current procedure is to include in the budget columns, Total Disbursement line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Program's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash and federal funds on the Budgetary Statement are appropriately classified as special revenue funds for Financial Statement purposes.

- E. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Program were designated for investment during fiscal year 2000.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Concluded)**

**F. Net Distributive Activity.** Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Program which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

**G. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Program are:

**Appropriations.** Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

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

**Miscellaneous.** Receipts from sources not covered by other major categories.

**H. Disbursements.** The major account title and description as established by the Nebraska Accounting System used by the Program is:

**Government Aid.** Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

**2. Totals**

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**3. Contingencies and Commitments**

**Risk Management.** The Program is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions; injuries to employees; natural disasters; and health care insurance. The Program, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
- B. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid's financial statements.

**Litigation.** The potential amount of liability involved in litigation pending against the Program, if any, could not be determined at this time. However, it is the Program's opinion that final settlement of those matters should not have an adverse effect on the

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Contingencies and Commitments (Concluded)**

Program's ability to administer current programs. Any judgement against the Program would have to be processed through the State Claims Board and be approved by the Legislature.

**4. Operating Transfers In**

The Program's operating transfers in for the audit period consisted of \$250,000 from the Charitable Gaming Operations Fund to the Compulsive Gamblers Assistance Fund per Neb. Rev. Stat. Section 83-162.06 R.S. Supp. 2000 and Lottery proceeds of \$178,875 transferred to the Compulsive Gamblers Assistance Fund per Neb. Rev. Stat. Section 9-812 R.R.S. 1997.

**5. Operating Transfers Out**

The Program's operating transfers out for the audit period consisted of administrative expenses related to Fund 2175 Compulsive Gamblers Assistance. The agency recorded the administrative costs related to this Fund in another program. Neb. Rev. Stat. Section 83-162.04 R.R.S. 1999 stated that no more than \$50,000 of the money appropriated to the fund shall be spent for administrative costs.

**6. Net Distributive Activity**

The Program's net distributive activity for the audit period consisted of an inter-agency loan from Fund 6812 Alcoholism Contributions to Fund 2175 Compulsive Gamblers Assistance.

**7. Fund Balance**

The Fund Balance of Fund 2175 Compulsive Gamblers Assistance included \$50,000 due to Fund 6812 Alcoholism Contributions for loan repayment. The loan was subsequently repaid March 2001.

**8. Appropriations, Intergovernmental Revenue, and Government Aid**

During fiscal year 2000, HHS charged \$549,310 of Program 366 costs to Program 34. The financial statement was adjusted for this misclassification and Appropriations and Government Aid for the General Fund were increased by \$282,003 and Special Revenue Intergovernmental Receipts and Government Aid were decreased by \$831,313 to properly reflect Program 34 activity.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**9. Administrative Costs**

The administrative costs related to Program 34 – Alcohol-Drug Addiction Aid are accounted for in Program 33 and are not included in these financial statements. Administrative costs charged to the Federal Substance Abuse and Prevention Block Grant for fiscal year 2000 were \$374,821. Administrative costs paid from the State General Fund could not be determined as the Agency determined it was more cost effective to account for these operating costs in a pooled system rather than on an individual program basis.

**10. Subsequent Event**

Beginning July 1, 2001, Program 34 Alcohol/Drug Addiction Aid and Program 366 Community Mental Health Aid will receive funding through Program 38 Behavioral Health Care. The funding change was passed by the Legislature during the 2001 session under LB 692A, which appropriated funds to Program 38, and LB 543, which moved appropriations from Programs 34 and 366 into Program 38.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**COMBINING STATEMENT OF ASSETS AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS**  
**ALL SPECIAL REVENUE FUNDS**

June 30, 2000

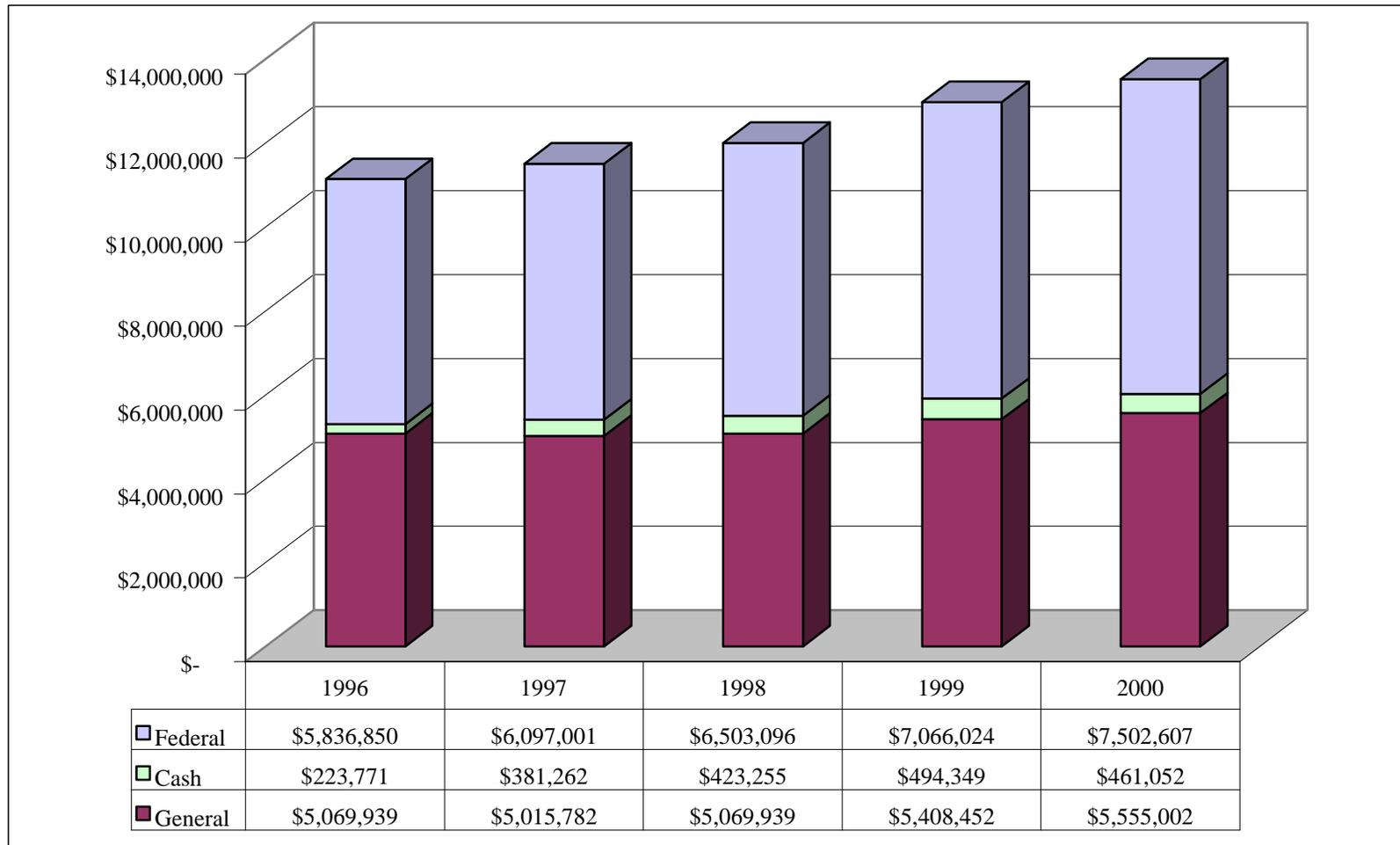
	Compulsive Gamblers Assistance Fund 2175	Federal Fund 4000	Federal Cash Award Fund 4810	<b>Totals Special Revenue Funds</b>
<hr/>				
<b>Assets</b>				
Cash in State Treasury	\$ 54,189	\$ -	\$ 7,000	\$ 61,189
	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>				
<b>Fund Balances</b>				
Unreserved, Undesignated	\$ 54,189	\$ -	\$ 7,000	\$ 61,189
	<hr/>	<hr/>	<hr/>	<hr/>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
**ALL SPECIAL REVENUE FUNDS**  
For the Fiscal Year Ended June 30, 2000

	Compulsive Gamblers Assistance Fund 2175	Federal Fund 4000	Federal Cash Award Fund 4810	<b>Total Special Revenue Funds</b>
<b>RECEIPTS:</b>				
Intergovernmental	\$ -	\$ 7,052,607	\$ 7,000	\$ 7,059,607
Miscellaneous	5,476	-	-	5,476
<b>TOTAL RECEIPTS</b>	<u>5,476</u>	<u>7,052,607</u>	<u>7,000</u>	<u>7,065,083</u>
<b>DISBURSEMENTS:</b>				
Government Aid	<u>461,052</u>	<u>7,052,607</u>	<u>-</u>	<u>7,513,659</u>
Excess of Receipts Over (Under) Disbursements	<u>(455,576)</u>	<u>-</u>	<u>7,000</u>	<u>(448,576)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	428,875	-	-	428,875
Operating Transfers Out	(28,366)	-	-	(28,366)
Net Distributive Activity	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>450,509</u>	<u>-</u>	<u>-</u>	<u>450,509</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(5,067)	-	7,000	1,933
<b>FUND BALANCE, JULY 1, 1999</b>	<u>59,256</u>	<u>-</u>	<u>-</u>	<u>59,256</u>
<b>FUND BALANCE, JUNE 30, 2000</b>	<u>\$ 54,189</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 61,189</u>

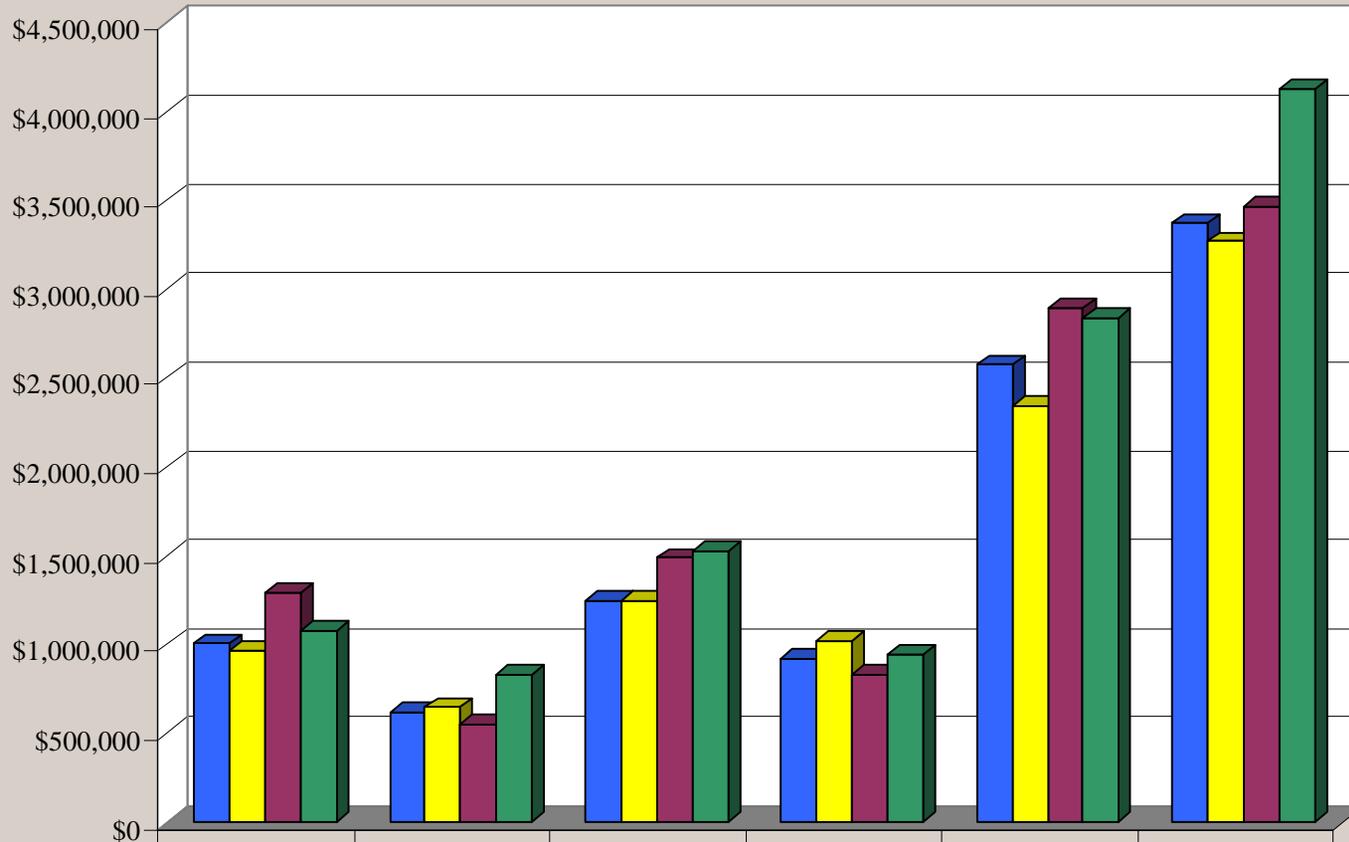
See Notes to Financial Statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 – ALCOHOL-DRUG ADDICTION AID  
**SCHEDULE OF DISBURSEMENTS BY FUND TYPE**  
Fiscal Years Ended June 30, 1996 through 2000



Note: Amounts are cash basis per the Nebraska Accounting System. Fiscal Year 2000 adjusted for errors (See Comment Number 1).

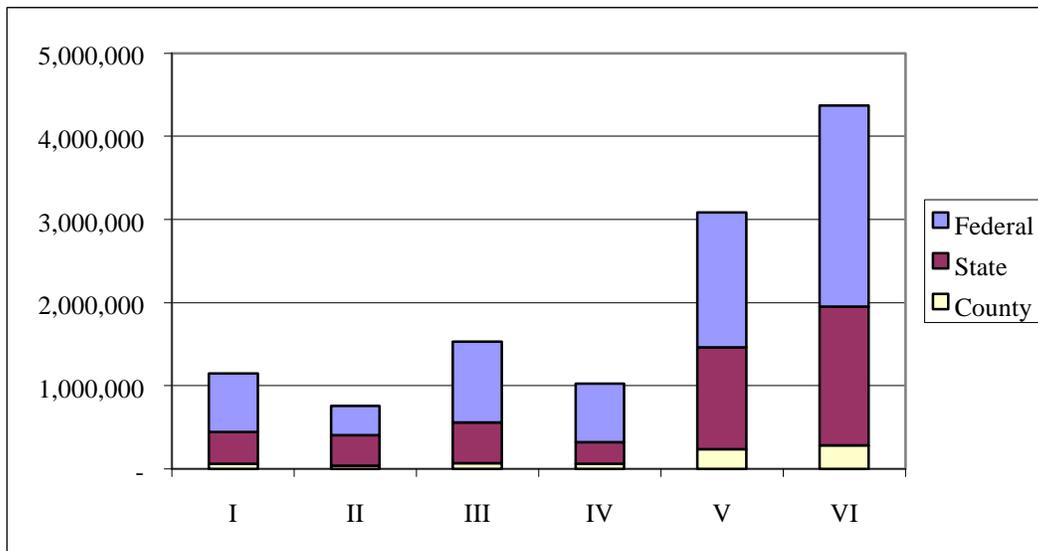
**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 – ALCOHOL-DRUG ADDICTION AID  
FOUR-YEAR SCHEDULE OF DISBURSEMENTS BY REGION**



	Region I	Region II	Region III	Region IV	Region V	Region VI
<span style="color: blue;">■</span> FY 1997	\$1,006,932	\$617,492	\$1,244,688	\$922,556	\$2,574,426	\$3,371,524
<span style="color: yellow;">■</span> FY 1998	\$968,183	\$649,109	\$1,250,042	\$1,020,472	\$2,348,319	\$3,269,013
<span style="color: maroon;">■</span> FY 1999	\$1,294,877	\$550,088	\$1,489,606	\$834,814	\$2,895,157	\$3,463,783
<span style="color: green;">■</span> FY 2000	\$1,076,923	\$828,925	\$1,529,081	\$944,405	\$2,838,158	\$4,129,225

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**SCHEDULES OF PAYMENTS TO REGIONS AND REGION ADMINISTRATIVE COSTS**  
Fiscal Year Ended June 30, 2000

	<u>Region I</u>	<u>Region II</u>	<u>Region III</u>	<u>Region IV</u>	<u>Region V</u>	<u>Region VI</u>
Program 34						
Funds Received From HHS:						
State	\$ 387,193	\$ 363,026	\$ 489,720	\$ 259,656	\$1,216,381	\$1,672,135
Federal	704,020	355,225	973,121	712,524	1,623,591	2,415,107
County Match	55,417	40,020	68,764	56,282	240,653	282,136
Total	<u>\$1,146,630</u>	<u>\$ 758,271</u>	<u>\$1,531,605</u>	<u>\$1,028,462</u>	<u>\$3,080,625</u>	<u>\$4,369,378</u>
County Match as a Percent of Total	5%	5%	4%	5%	8%	6%
County Match Required by Statute	\$ 53,238	\$ 49,214	\$ 65,231	\$ 44,709	\$ 160,562	\$ 222,951
Regional Administration Services Per Contract	\$ 57,387	\$ 62,620	\$ 70,775	\$ 78,818	\$ 117,744	\$ 145,359



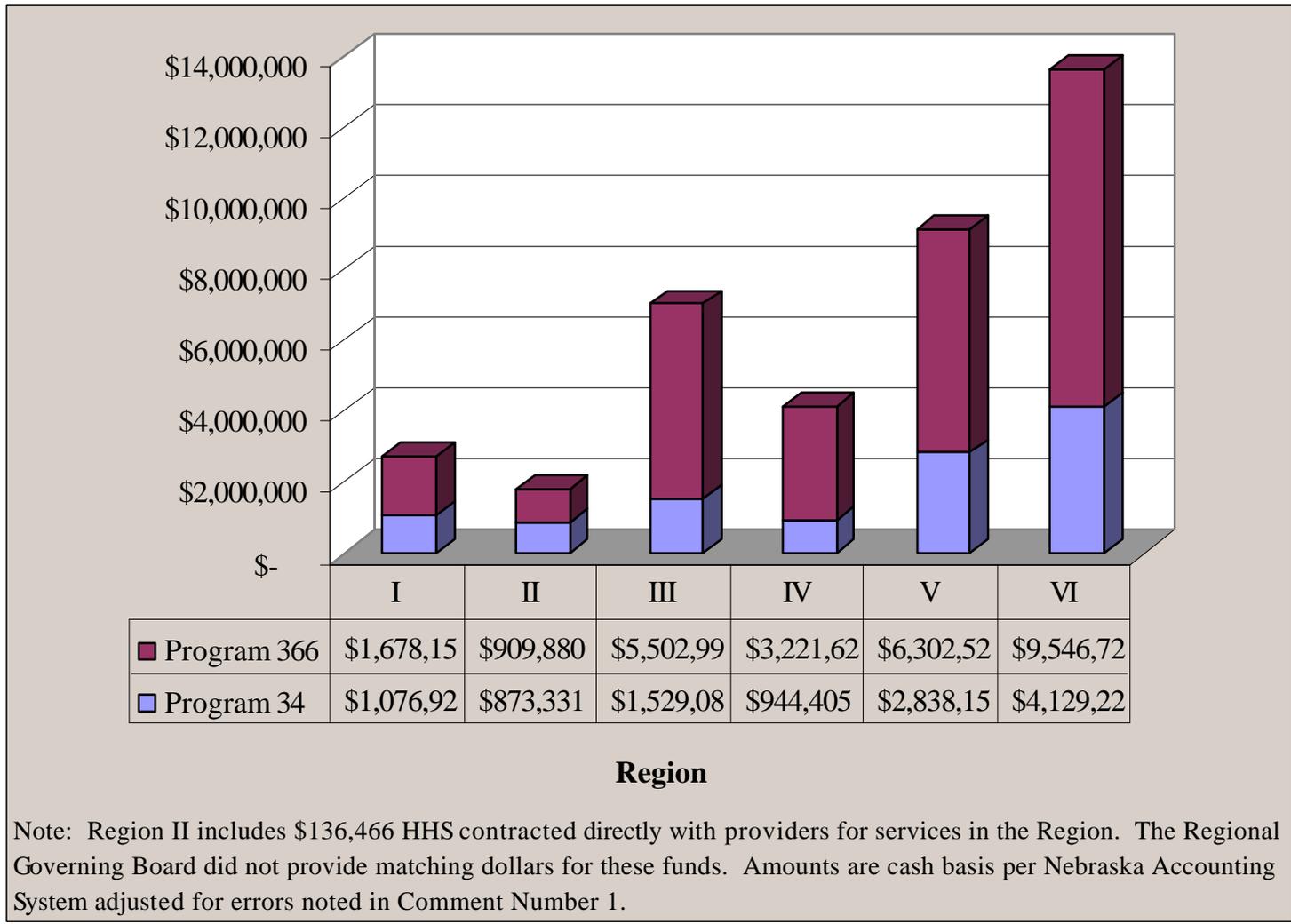
Note 1: Funds received from HHS are shown on the modified accrual basis to reflect reimbursements for services for the fiscal year ended June 30, 2000 adjusted for errors noted in Comment Number 1. The financial statements are presented on the cash basis of accounting.

Note 2: County Match required by Statute is the contracted State General Funds divided by three and multiplied by forty percent. The amount to be provided by each County is determined by the Regional Governing Board.

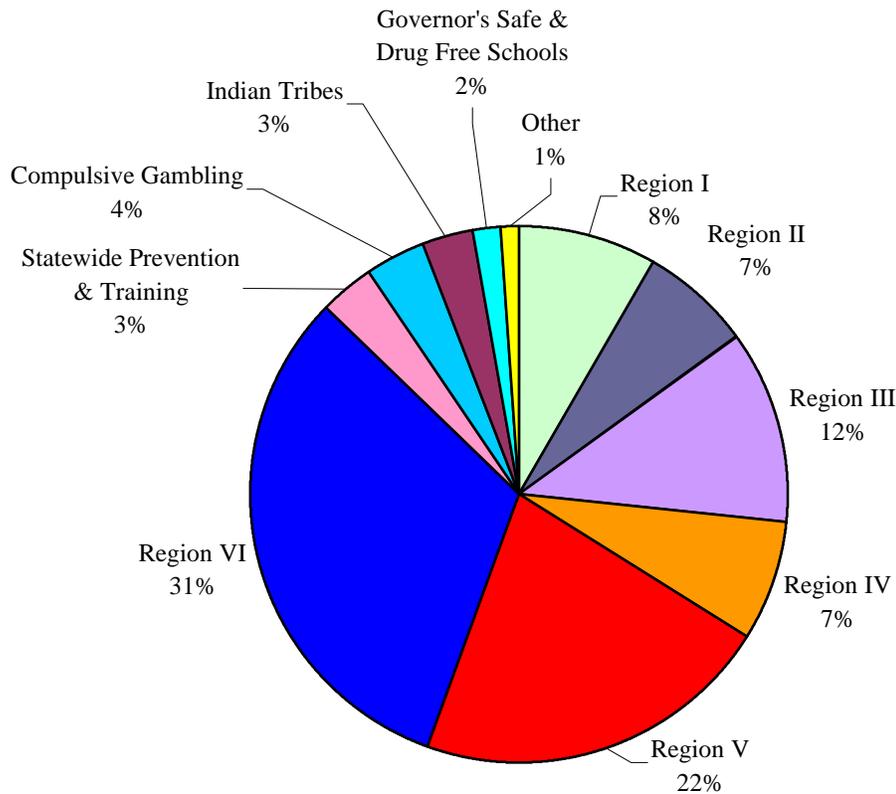
Note 3: Regions IV, V, and VI pass all Program 34 funds received from HHS (excluding administration) through to sub-contractors. Region II does not pass through any funds, all services are provided directly through the Region. Region III provides Prevention services and Region I provides Intensive Outpatient and Outpatient/Assessment services. All other services for Region III and Region I, excluding administration, are passed through to sub-contractors.

Note 4: Regional Administration is the amount contracted for reimbursement from HHS and is not actual or total administration costs for the Region. We performed procedures to determine amounts requested for reimbursement were adequately supported. However, the audits performed by independent CPAs were not in sufficient detail to determine total Region Administration costs related solely to Program 34.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 – ALCOHOL-DRUG ADDICTION AID  
**SCHEDULE OF DISBURSEMENTS TO REGIONS-PROGRAMS 34 AND 366**  
UNAUDITED



**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
SCHEDULE OF DISBURSEMENTS BY CONTRACTOR TYPE**



Region I	\$ 1,076,923
Region II	873,331
Region III	1,529,081
Region IV	944,405
Region V	2,838,158
Region VI	4,129,225
Statewide Prevention & Training	455,721
Compulsive Gambling	461,052
Indian Tribes	390,425
Governor's Safe & Drug Free Schools	223,250
Other	<u>147,090</u>
 Total	 <u><u>\$ 13,068,661</u></u>

Note: Region II includes \$136,466 that HHS contracted directly with providers for services in the Region. The Regional Governing Board did not provide matching dollars for these funds. Amounts are NAS cash basis adjusted for errors noted in Comment Number 1.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM  
PROGRAM 34 - ALCOHOL-DRUG ADDICTION AID  
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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We have audited the financial statements of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid as of and for the year ended June 30, 2000, and have issued our report thereon dated June 25, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid in the Comments Section of this report as Comment Number 1 (Misuse of Funds), Comment Number 2 (Contract Monitoring), Comment Number 4 (Region Match), and Findings #00-26-19, #00-26-20, #00-26-21, #00-26-22, and #00-26-23.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Misuse of Funds), Comment Number 2 (Contract Monitoring), and Findings #00-26-19, #00-26-21, and #00-26-22.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 1 (Misuse of Appropriations), Comment Number 2 (Contract Monitoring), and Finding #00-26-21 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Health and Human Services System - Program 34 - Alcohol-Drug Addiction Aid in the Comments Section of the report as Comment Number 3 (Rates for Fees), Comment Number 4 (Region Match), and Comment Number 6 (Use of Funds).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

*Pat Reding, CPA*

Manager

June 25, 2001