AUDIT REPORT
OF THE
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM - PROGRAM 510
VETERANS' HOME ADMINISTRATION

JULY 1, 2000 THROUGH JUNE 30, 2001

January 10, 2002

Hon. Kate Witek
Auditor of Public Accounts
Lincoln, Nebraska 68509

Dear Mrs. Witek:

Enclosed is our audit report of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration for the year ended June 30, 2001.

The objectives of the audit were to examine organizational structure, report on the financial statements, and evaluate compliance with pertinent state statutes, regulations, and accounting procedures. Our audit included tests of accounting records, internal controls and compliance, and such other auditing procedures we determined necessary.

We wish to express our appreciation for the cooperation and assistance provided during our audit.

Respectfully submitted,

Pat Reding

Pat Reding, CPA
Assistant Deputy Auditor

Approved:

Kate Witek

AUDITOR OF PUBLIC ACCOUNTS

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

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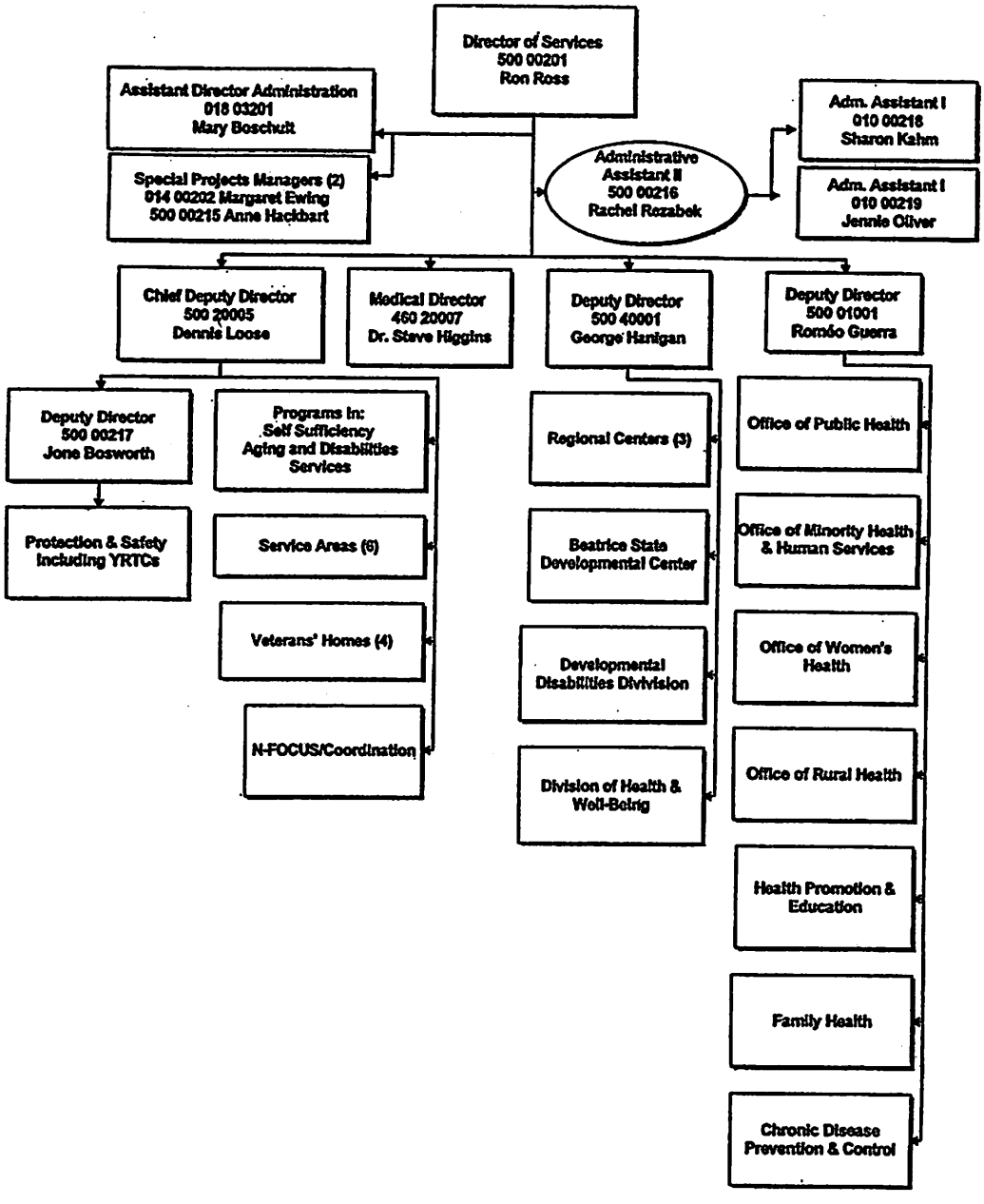
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

BACKGROUND

The Veterans' Homes Administration Program was created in 1996 to manage and administer the four veterans homes and the treatment of the members of the homes. The veterans' homes include Thomas Fitzgerald Veterans' Home (Omaha); Grand Island Veterans' Home; Norfolk Veterans' Home; and Western Nebraska Veterans' Home (Scottsbluff). The Program was created within the Department of Health and Human Services. The Director of Health and Human Services appoints the director of the program.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

ORGANIZATIONAL CHART



SUMMARY OF COMMENTS

During our audit of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration, 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 Appropriations***: Payments to the Medical Director for Health and Human Services were not properly allocated, but were paid exclusively from Program 510 appropriations.

2. ***Travel Reimbursements***: Documents included multiple months on one travel expense reimbursement and adequate supporting documentation was not present.

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 the Program to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Program declined to respond.

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

COMMENTS AND RECOMMENDATIONS

1. Misuse of Appropriations

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. Good internal control requires an allocation of payroll and travel expenses between all programs being provided a service.

We determined the Medical Director's salary and benefits of approximately $144,000 and travel expenses of approximately $4,749 for the fiscal year were paid exclusively from Program 510 appropriations, but his duties related to several programs within Health and Human Services.

Without proper allocation of charges between all programs involved the expenses are mis-stated. The audit report was qualified, as we were unable to determine the amount improperly charged to Program 510.

> We recommend HHS comply with legislative authorizations and properly allocate payroll and expenses between the programs served.

2. Travel Reimbursements

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 requires travel reimbursement requests be presented each month to the Director of Administrative Services. Good internal control requires agendas or other documentation to support the details of any business trip to ensure all expenses claimed were relevant and necessary.

Statute requires requests be submitted monthly, we noted one of nine expense reimbursement documents tested included travel reimbursements for August 4, 1999 through June 29, 2000 totaling $3,288. Further, we noted two of nine expense reimbursement documents did not have adequate supporting documentation to determine whether all expenses claimed were relevant to the conference attended. The two documents which, totaled $2,352, did not have agendas attached to substantiate dates of travel, meals claimed for reimbursement, or that the charges were proper for the program.

There is an increased risk of improper reimbursements without proper supporting documentation.

> We recommend HHS implement procedures to ensure compliance with State Statute. We further recommend HHS require and maintain adequate documentation to support all expenses reimbursed.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration as of and for the fiscal year ended June 30, 2001, 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.

Except as discussed in the following paragraph, 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.

We were unable to determine the proper allocation of certain payroll and travel expenses related to several programs and charged exclusively to Program 510, Veterans' Home Administration.

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.

Also as discussed in Note 1, the financial statements present only the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration, 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.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the proper allocation of the charges noted above, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration as of June 30, 2001, 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 November 30, 2001, on our consideration of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration'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 schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration. 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.

Pat Reding, CPA

November 30, 2001 Manager

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Type
	General Fund
RECEIPTS:	
Appropriations	$ 475,748
DISBURSEMENTS:	
Personal Services	423,175
Operating	29,779
Travel	21,935
Capital Outlay	859
TOTAL DISBURSEMENTS	475,748
Excess of Receipts Over (Under) Disbursements	-
FUND BALANCE, JULY 1, 2000	-
FUND BALANCE, JUNE 30, 2001	$ -

The accompanying Notes to Financial Statements are an integral part of this statement.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2001

	GENERAL FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations		$ 475,748	
TOTAL RECEIPTS		475,748	
DISBURSEMENTS:			
Personal Services	$ 456,043	423,175	$ 32,868
Operating	15,606	29,779	(14,173)
Travel	12,070	21,935	(9,865)
Capital Outlay	600	859	(259)
TOTAL DISBURSEMENTS	484,319	475,748	8,571
Excess of Receipts Over (Under) Disbursements		-	
FUND BALANCES, JULY 1, 2000		-	
FUND BALANCES, JUNE 30, 2001		$ -	

The accompanying Notes to Financial Statements are an integral part of this statement.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration 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 510 - Veterans' Home Administration (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 510 - Veterans' Home Administration 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.

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 records receipts, disbursements, and the fund balance. The fixed asset

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

account group is a financial reporting device designed to provide accountability over fixed assets. The fund type 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.

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 fund type 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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

to exceed the personal service limitations contained in the appropriations bill. Increases in total general fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

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, 2001, 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.

E. **Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. Under GAAP, the cost of general fixed assets would be recorded in the General Fixed Asset Account Group.

F. **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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 2001.

G. **Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

H. **Compensated Absences.** All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

I. **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.

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

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

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

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

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. 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, and natural disasters. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

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 $200,000 per loss occurrence. 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. The perils of flood and earthquake are covered up to $10,000,000.

E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation 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 510 - Veterans' Home Administration's financial statements.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

3. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Program matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2001, employees contributed $16,108 and the Program contributed $25,129.

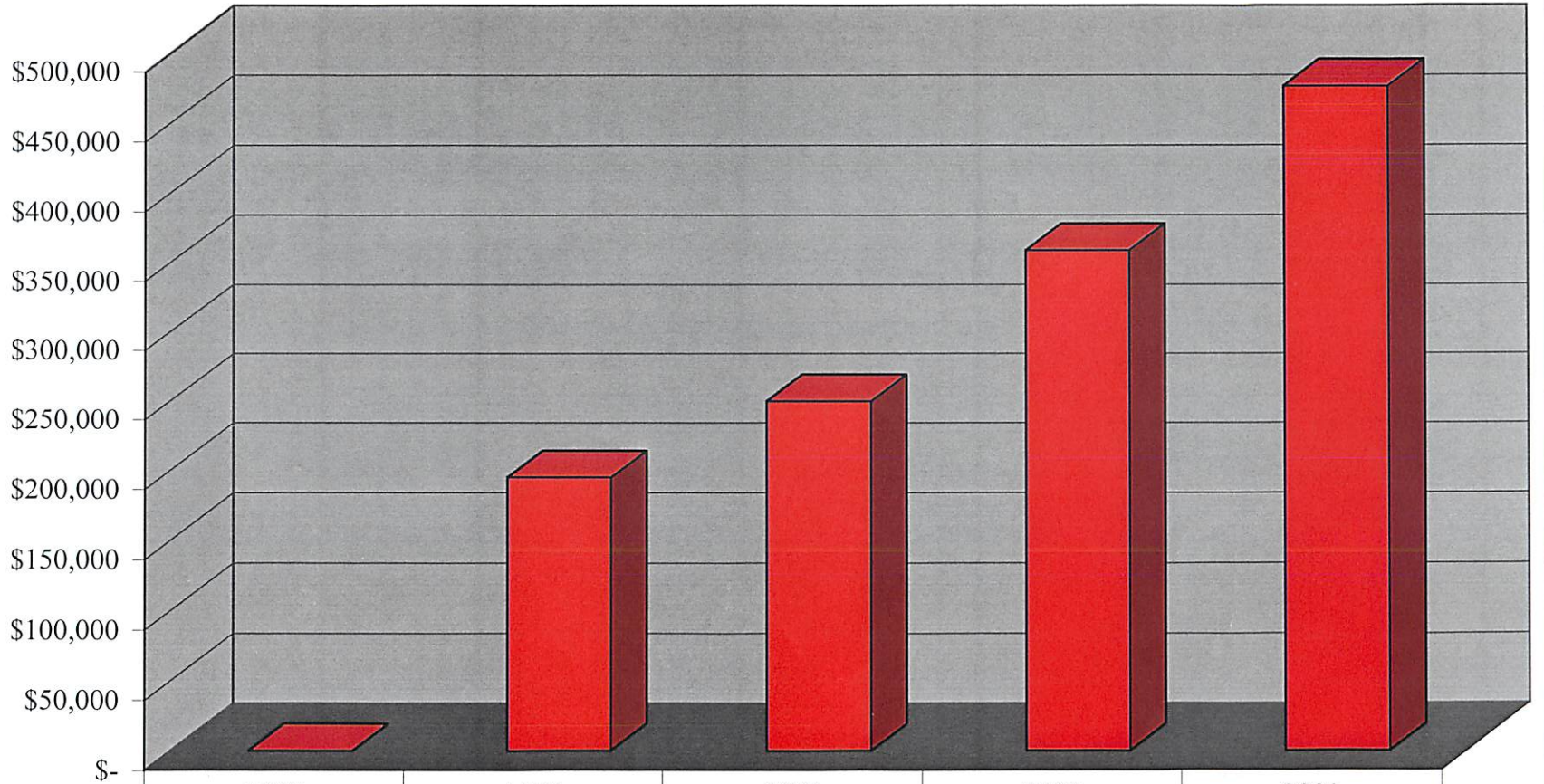
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Full Accountability of the General Fund

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this funds the following schedule reflects appropriations. Appropriations do not represent cash transactions.

	General Fund
Beginning (Reappropriated) Balance July 1, 2000	$ 21,347
New Appropriations	462,972
Total Appropriations	484,319
Disbursements	(475,748)
Ending (Appropriations) Balance June 30, 2001	$ 8,571

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION
DISBURSEMENTS
Fiscal Years Ended June 30, 1997 through 2001



	1997	1998	1999	2000	2001
Disbursements	$-	$194,445	$249,163	$357,982	$475,748

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 510 - VETERANS' HOME ADMINISTRATION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration as of and for the year ended June 30, 2001, and have issued our report thereon dated November 30, 2001. 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 510 - Veterans' Home Administration and was qualified because the Nebraska Health and Human Services System paid the Medical Director exclusively from Program 510 appropriations. 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 510 - Veterans' Home Administration'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 instances of noncompliance that are required to be reported under Government Auditing Standards, and are described in the Comments Section of our report as Comment Number 1 (Misuse of Appropriations). We also noted certain immaterial instances of

noncompliance that we have reported to management of the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration in the Comments Section of this report as Comment Number 2 (Travel Reimbursements).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Program 510 - Veterans' Home Administration'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 510 - Veterans' Home Administration's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Misuse of Appropriations).

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, we consider the reportable condition described above, Comment Number 1 (Misuse of Appropriations) to be a material weakness. 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 510 – Veterans' Home Administration in the Comments Section of the report as Comment Number 2 (Travel Reimbursements).

This report is intended solely for the information and use of the Program, 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

November 30, 2001

Manager