

**AUDIT REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM - WESTERN
NEBRASKA VETERANS' HOME
JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Charts	2 - 3
Comments Section	
Summary of Comments	4
Comments and Recommendations	5 - 7
Financial Section	
Independent Auditors' Report	8 - 9
Basic Financial Statements:	
Facility-wide Financial Statements:	
Statement of Net Assets Arising from Cash Transactions	10
Statement of Activities - Cash Basis	11
Fund Financial Statements:	
Statement of Assets and Fund Balances Arising from Cash Transactions - Governmental Funds	12
Statement of Receipts, Disbursements, and Changes in Fund Balances - Governmental Funds	13
Statement of Fiduciary Net Assets Arising from Cash Transactions - Fiduciary Funds	14
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	15
Notes to Financial Statements	16 - 22
Combining Fund Statements and Schedules:	
Combining Statement of Fiduciary Net Assets Arising from Cash Transactions - Fiduciary Funds	23
Combining Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	24
Member Care Statistics	25
Average Daily Census	26
Total Member Days of Care Furnished	27
Total Operating Costs	28
Total Full Time Equivalents (FTE) Used	29
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

BACKGROUND

The Nebraska Health and Human Services System (HHSS) operates four veterans' homes which provide domiciliary care, nursing care, physical and occupational therapy, group activities, crafts, and social and spiritual activities. To live in one of these facilities, veterans must have served in active duty during a war, lived in Nebraska at least two years, be disabled, and satisfy certain income requirements. Spouses of veterans and Gold Star Mothers and Fathers are eligible under similar requirements.

The focus of the veterans' homes is on wellness; allowing people to live their lives to the fullest through different levels of care. The homes have a supportive relationship with various veterans' organizations whose members donate time, money, and companionship to the members. The federal Veterans Administration provides per diem federal fund reimbursements for the Nebraska Veterans' Homes and the Homes' members' pay maintenance fees based upon their ability to pay.

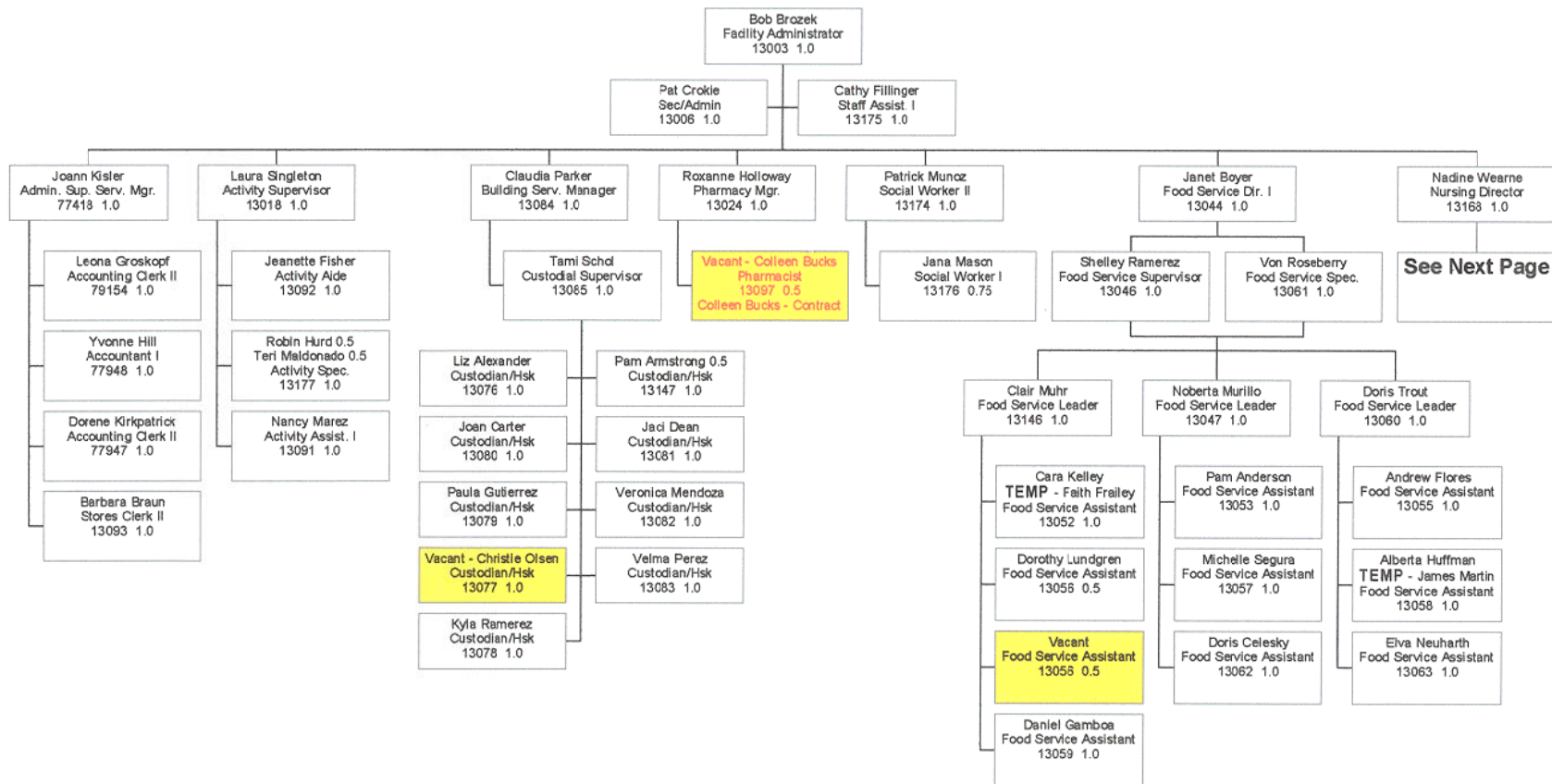
All the homes are located on properties owned by the State of Nebraska, except for the Thomas Fitzgerald Veterans' Home in Omaha, which is owned by Douglas County. HHSS leases the property.

MISSION STATEMENT

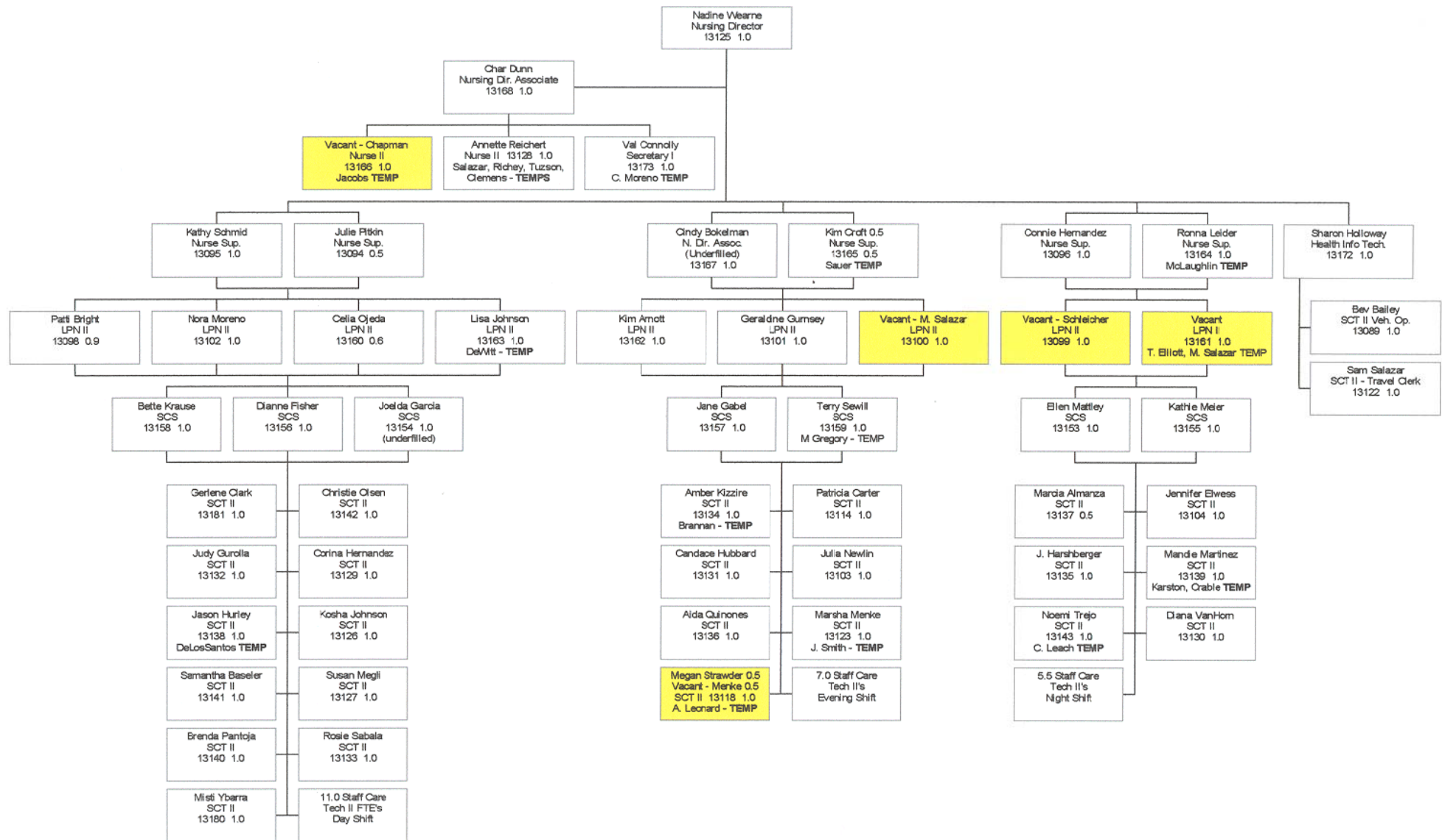
“We help people live better lives through effective health and human services.”

Western Nebraska Veterans Home

Organizational Chart



WNVH Nursing Department



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

SUMMARY OF COMMENTS

During our audit of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home (WNVH), we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Leave Balancing Procedures:*** Two of three excess employee vacation leave balances tested were not balanced, or approved for excess carry-forward, at December 31st of the calendar year.
2. ***Permanently Leased Vehicle Use:*** One of the WNVH's three permanently leased vehicles was underutilized, per DAS-TSB standards.
3. ***Internal Control – Receipts/Receivables:*** One individual was capable of handling all phases of receivable processing from beginning to end, General Document postings were not verified by the WNVH, and the WNVH permitted the cashing of personal employee checks from receipts on hand.

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 WNVH 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.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

COMMENTS AND RECOMMENDATIONS

1. Leave Balancing Procedures

Title 273 Nebraska Classified System Personnel Rules and Regulations, Chapter 9, Section 004.02 and the Nebraska Association of Public Employees (NAPE) Contract Article 14.7 state that an employee's accumulated vacation time in excess of thirty-five days [280 hours] shall be forfeited as of the end of business on December 31st of each calendar year. The Nebraska Classified System Personnel Rules and Regulations further allow for Agency head approval of carryover for excess leave in special and meritorious cases.

Three employees with vacation leave balances in excess of 280 hours at calendar year-end were selected for leave balance testing. Two of the three employees tested did not use their excess leave prior to December 31st, yet their vacation leave balances were not approved for excess carry-forward or forfeited back to 280 hours.

As a result, the WNVH was not in compliance with Nebraska Classified System Personnel Rules and Regulations and the NAPE Contract as they relate to balancing of employee vacation leave and the employees in question carried over excess leave balances.

We recommend the WNVH implement review procedures adequate to ensure all employee vacation leave is balanced or approved for excess carry-forward as outlined in the Nebraska Classified System Personnel Rules and Regulations and the NAPE employee union contract.

WNVH's Response:

- *WNVH will remind all employees in advance of the year-end to review their leave balances, so employees can manage their balances and avoid losing leave.*
- *HR Director will review the leave balances of all WNVH employees in January each year to ensure vacation leave balances in excess of the 280 hours have been adjusted. This same procedure will be used to ensure all sick leave balances are adjusted.*

2. Permanently Leased Vehicle Use

Department of Administrative Services (DAS)-Transportation Service Bureau (TSB) standards for permanently assigned motor vehicles require, in part, that a permanently leased vehicle must "travel a minimum of 1,000 miles per month" and "be utilized seventeen working days per month."

The WNVH had three vehicles on permanent lease from TSB. One of the vehicles, a Chevrolet Suburban 4x4, was used an average of 171 miles per month from the period May 1, 2001 to April 30, 2002. Furthermore, during that period the vehicle was used an average of 10 days per month, primarily for local travel.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

COMMENTS AND RECOMMENDATIONS

2. Permanently Leased Vehicle Use (Concluded)

As a result, the WNVH's utilization of this vehicle is in conflict with DAS-TSB usage standards.

We recommend the WNVH review the cost-benefit of its permanently leased vehicles on a regular basis. In the case of a utility vehicle, which the WNVH feels is particularly useful in the winter months for safety reasons, the WNVH may want to consider other less costly options, such as requesting TSB add a utility vehicle to their vehicle pool in Scottsbluff, and then checking it out from TSB on an as-needed daily basis. Alternatively, WNVH may want to consider leasing such a vehicle only during the winter months.

WNVH's Response: The audit of FY02 does show an under usage of the leased Suburban. WNVH feels it is necessary to retain the lease. The 1998 Suburban currently has an odometer reading of 48,598 miles. The average monthly usage has been 1,012 miles. FY02 had a very mild winter with one recorded snowfall in the Scottsbluff area, limiting the usage, thus explaining the under usage for FY02.

3. Internal Controls – Receipts/Receivables

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include adequate segregation of duties so no one individual can handle all phases of a transaction. In addition, sound accounting practices require verification of individual transaction postings to ensure all transactions are completely and accurately posted to the accounting system. Lastly, good internal control prohibits cashing of personal employee checks from receipts on hand because such transactions are not related to the function of the WNVH and alter the composition of the original receipts.

During our review of the receipt and receivable procedures of the WNVH, we noted the following:

- One individual was capable of handling all phases of the receivable process, including receipt of member maintenance funds, preparation and reconciliation of the monthly members' maintenance billings, and posting of adjustments to member accounts. Adjustments were not periodically reviewed, or approved, by someone independent of the receipting process.
- General Documents were not reconciled to the Nebraska Accounting System (NAS) Posted Transaction Report or the General Ledger for Institution Cash Fund 2252 and Federal Cash Award Fund 4810 in order to verify transaction coding, account codes, amounts, and related information was posted correctly.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

COMMENTS AND RECOMMENDATIONS

3. Internal Controls – Receipts/Receivables (Concluded)

- In addition, during a surprise cash count in the Business Office, one personal check, totaling \$35, was observed in the receipts on hand. This personal check had been cashed for a Business Office employee using cash on hand from cafeteria receipts.

A lack of segregation of duties over receivables, a lack of transaction reconciliation procedures, and the practice of cashing employees' personal checks from receipts on hand, all increase the WNVH's risk of loss, theft, or misuse of funds.

We recommend the WNVH implement compensating controls over receivables, such as having the Business Manager periodically review adjustments made to member maintenance accounts. We also recommend General Documents be reconciled to either the NAS General Ledger or the Daily Posted Transaction Reports. Such reviews and reconciliations should be documented in order to be relied upon as functioning internal controls. Lastly, we recommend the WNVH immediately discontinue its practice of cashing employee personal checks.

WNVH's Response:

- *Internal procedures have been changed; the individual that prepares and reconciles the monthly report, no longer receipts the member maintenance or disburses petty cash. Adjustments will be reviewed, approved, and initialed by the Administrative Support Service Manager before adjustments are made to the member's accounts.*
- *The Administrative Support Service Manager has begun to reconcile the posted transactions to the General Ledger, receipt General Document, and/or the transmittal documents.*
- *A memo from the Administrative Support Service Manager has been sent to each employee regarding the cashing of personal checks. No personal checks will be cashed for any reason except to pay for purchases from the Canteen or for meals.*

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM WESTERN NEBRASKA VETERANS' HOME

INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home (WNVH), as of and for the year ended June 30, 2002, which collectively comprise the WNVH's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the WNVH's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska

Health and Human Services System - Western Nebraska Veterans' Home. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2002, on our consideration of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the WNVH's basic financial statements. 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 - Western Nebraska Veterans' Home. 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

August 1, 2002

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ (21,402)
Petty Cash	<u>3,000</u>
Total Assets	<u><u>\$ (18,402)</u></u>
Net Assets	
Unrestricted	<u>\$ (18,402)</u>
Total Net Assets (Note 6)	<u><u>\$ (18,402)</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF ACTIVITIES - CASH BASIS
 June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)	FUNCTION	
		Health and Social Services	Capital Outlay
Disbursements:			
Personal Services	\$ 2,915,479	\$ 2,915,479	\$ -
Operating	1,773,363	1,773,290	73
Travel	18,206	18,206	-
Capital Asset Purchases	34,868	34,868	-
Total Disbursements	<u>4,741,916</u>	<u>4,741,843</u>	<u>73</u>
Program Receipts:			
Charges for Services	<u>2,815,475</u>	<u>2,815,475</u>	<u>-</u>
Net Program Receipts (Disbursements)	<u>(1,926,441)</u>	<u>(1,926,368)</u>	<u>(73)</u>
General Receipts and Other Financing Sources (Uses):			
Appropriations	1,671,164		
Unrestricted Investment Interest	16,098		
Other Financing Sources & Uses	<u>(2)</u>		
Total General Receipts, and Other Financing Sources (Uses)	<u>1,687,260</u>		
Change in Net Assets	(239,181)		
Net Assets July 1, 2001	<u>220,779</u>		
Net Assets June 30, 2002 (Note 6)	<u><u>\$ (18,402)</u></u>		

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS

June 30, 2002

	<u>Major Funds</u>		Total Governmental Funds (Memorandum Only)
	Institution Cash Fund 2252	Federal Cash Award Fund 4810	
<u>Assets</u>			
Cash in State Treasury	\$ 75,169	\$ (96,571)	\$ (21,402)
Petty Cash	3,000	-	3,000
Total Assets	<u>\$ 78,169</u>	<u>\$ (96,571)</u>	<u>\$ (18,402)</u>
<u>Fund Balances</u>			
Unreserved	<u>\$ 78,169</u>	<u>\$ (96,571)</u>	<u>\$ (18,402)</u>
Total Fund Balances (Note 6)	<u>\$ 78,169</u>	<u>\$ (96,571)</u>	<u>\$ (18,402)</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2002

	Major Funds			Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Institution Cash Fund 2252	Federal Cash Award Fund 4810	Multi-Purpose Building Fund 3300	
RECEIPTS:					
Appropriations	\$ 1,671,091	\$ -	\$ -	\$ 73	\$ 1,671,164
Sales and Charges	-	1,672,871	1,141,424	-	2,814,295
Miscellaneous:					
Investment Interest	-	8,642	7,456	-	16,098
Other Miscellaneous	-	1,162	18	-	1,180
TOTAL RECEIPTS	1,671,091	1,682,675	1,148,898	73	4,502,737
DISBURSEMENTS BY FUNCTION:					
Capital Outlay	-	-	-	73	73
Health and Social Services	1,671,091	1,664,288	1,406,464	-	4,741,843
TOTAL DISBURSEMENTS	1,671,091	1,664,288	1,406,464	73	4,741,916
Excess of Receipts Over Disbursements	-	18,387	(257,566)	-	(239,179)
OTHER FINANCING SOURCES (USES):					
Distributive Activity:					
Ins	-	1,067	-	-	1,067
Outs	-	(1,069)	-	-	(1,069)
TOTAL OTHER FINANCING SOURCES (USES)	-	(2)	-	-	(2)
Net Change in Fund Balances	-	18,385	(257,566)	-	(239,181)
FUND BALANCES, JULY 1, 2001	-	59,784	160,995	-	220,779
FUND BALANCES, JUNE 30, 2002 (Note 6)	\$ -	\$ 78,169	\$ (96,571)	\$ -	\$ (18,402)

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
 June 30, 2002

	Private-Purpose Trust Funds
Assets	
Cash in State Treasury	\$ 51,313
Cash in Bank - Member Trust	10,709
Total Assets	<u>\$ 62,022</u>
 Net Assets	
Held in trust for:	
Members' Accounts	\$ 18,205
Canteen Amusement	<u>43,817</u>
 Total Net Assets	 <u>\$ 62,022</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions	\$ 9,348
Sales and Charges	14,062
Member Accounts	<u>94,957</u>
Total Additions	<u>118,367</u>
DEDUCTIONS:	
Member Accounts	103,971
Operating	<u>26,925</u>
Total Deductions	<u>130,896</u>
Change in Net Assets Held in Trust	(12,529)
Net Assets July 1, 2001	<u>74,551</u>
Net Assets June 30, 2002	<u><u>\$ 62,022</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Health and Human Services System - Western Nebraska Veterans' Home (WNVH) is a facility within the Nebraska Health and Human Services System. The Nebraska Health and Human Services System consists of three State agencies established under and governed by the laws of the State of Nebraska. As such, WNVH is exempt from State and Federal income taxes. The financial statements include all funds of the WNVH.

The Nebraska Health and Human Services System - Western Nebraska Veterans' Home is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Facility-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the WNVH, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the WNVH, except for fiduciary activities. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The WNVH reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The WNVH reported the following general receipts: 1) Appropriations, which are granted by the

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent. 2) Unrestricted Investment Interest. Investment of all available cash is made by the State Investment Officer. Interest is distributed based on the average daily book cash balance of funds designated for investment.

Fund Financial Statements. The Statement of Assets and Fund Balances Arising From Cash Transactions and the Statement of Receipts, Disbursements, and Changes in Fund Balances provide information about the WNVH's governmental funds. The Statement of Fiduciary Net Assets Arising from Cash Transactions and the Statement of Changes in Fiduciary Net Assets provide information about WNVH's fiduciary funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The WNVH uses governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The WNVH reports the following major governmental funds:

General Fund. This fund accounts for the WNVH's share of Legislative appropriations.

Institution Cash Fund. This fund accounts for receipt of member maintenance charges in various forms, e.g., social security benefits, veterans' administration benefits, and private member payments.

Federal Cash Award Fund. This fund accounts for federal reimbursements received by WNVH on a per diem basis for the providing of member care by WNVH.

The WNVH also reports the following other funds:

Multi-Purpose Building Fund. This fund accounts for the revenues and expenditures associated with the acquisition or construction of capital facilities.

Canteen Amusement and Patient Trust Funds. These funds account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trusts. No appropriation control is established for these funds.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the WNVH are maintained and the Facility-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the WNVH. This differs from governmental GAAP, which requires the Facility-wide and fiduciary fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental GAAP, which requires governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

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 WNVH were designated for investment during fiscal year 2002.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the WNVH 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 the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide and fiduciary fund financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the WNVH's policy to use restricted resources first, then the unrestricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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 because interfund balances and transactions have not been eliminated.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments

Risk Management. The WNVH 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 WNVH, 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 - Western Nebraska Veterans' Home's financial statements.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the WNVH, if any, could not be determined at this time. However, it is the WNVH's opinion that final settlement of those matters should not have an adverse effect on the WNVH's ability to administer current programs. Any judgment against the WNVH would have to be processed through the State Claims Board and be approved by the Legislature.

4. 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. Prior to April 18, 2002, membership in the Plan was 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. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The WNVH matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years participation in the system, which includes the twelve month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$67,884 and the WNVH contributed \$105,899.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Distributive Activity

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 WNVH, which are owed to some individual, organization, or other government agency, or are deposits, which will be returned on completion of some specified requirement.

The WNVH 's Distributive Activity for the audit period consists of sales tax collections and remittances to the Nebraska Department of Revenue.

6. Negative Fund Balance

The Governmental Funds of the WNVH include the Federal Cash Award Fund 4810. This Nebraska Accounting System (NAS) Fund is also used by other Health and Human Services System Programs, including all four Nebraska Veterans' Homes. The Health and Human Services System utilizes an accounting subsystem to allocate receipts and disbursements to each Program. The Western Nebraska Veterans' Home portion of the NAS fund balance at June 30, 2002 was negative. The negative fund balance was \$96,571 at June 30, 2002. The Federal Cash Award Fund 4810 activity for the WNVH is only a portion of the total activity for Fund 4810 as recorded on NAS. The Fund was not negative on a combined basis for all four Veterans' Homes. The NAS does not allow disbursements to be made in excess of the actual fund balance.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS

June 30, 2002

	Canteen Amusement Trust Fund 6822	Patient Trust Fund 6841	Total Private-Purpose Trust Funds
Assets			
Cash in State Treasury	\$ 43,817	\$ 7,496	\$ 51,313
Cash in Bank - Member Trust	-	10,709	10,709
Total Assets	<u>\$ 43,817</u>	<u>\$ 18,205</u>	<u>\$ 62,022</u>
Net Assets			
Held in trust for:			
Members' Accounts	\$ -	\$ 18,205	\$ 18,205
Canteen Amusement	<u>43,817</u>	<u>-</u>	<u>43,817</u>
Total Net Assets	<u><u>\$ 43,817</u></u>	<u><u>\$ 18,205</u></u>	<u><u>\$ 62,022</u></u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

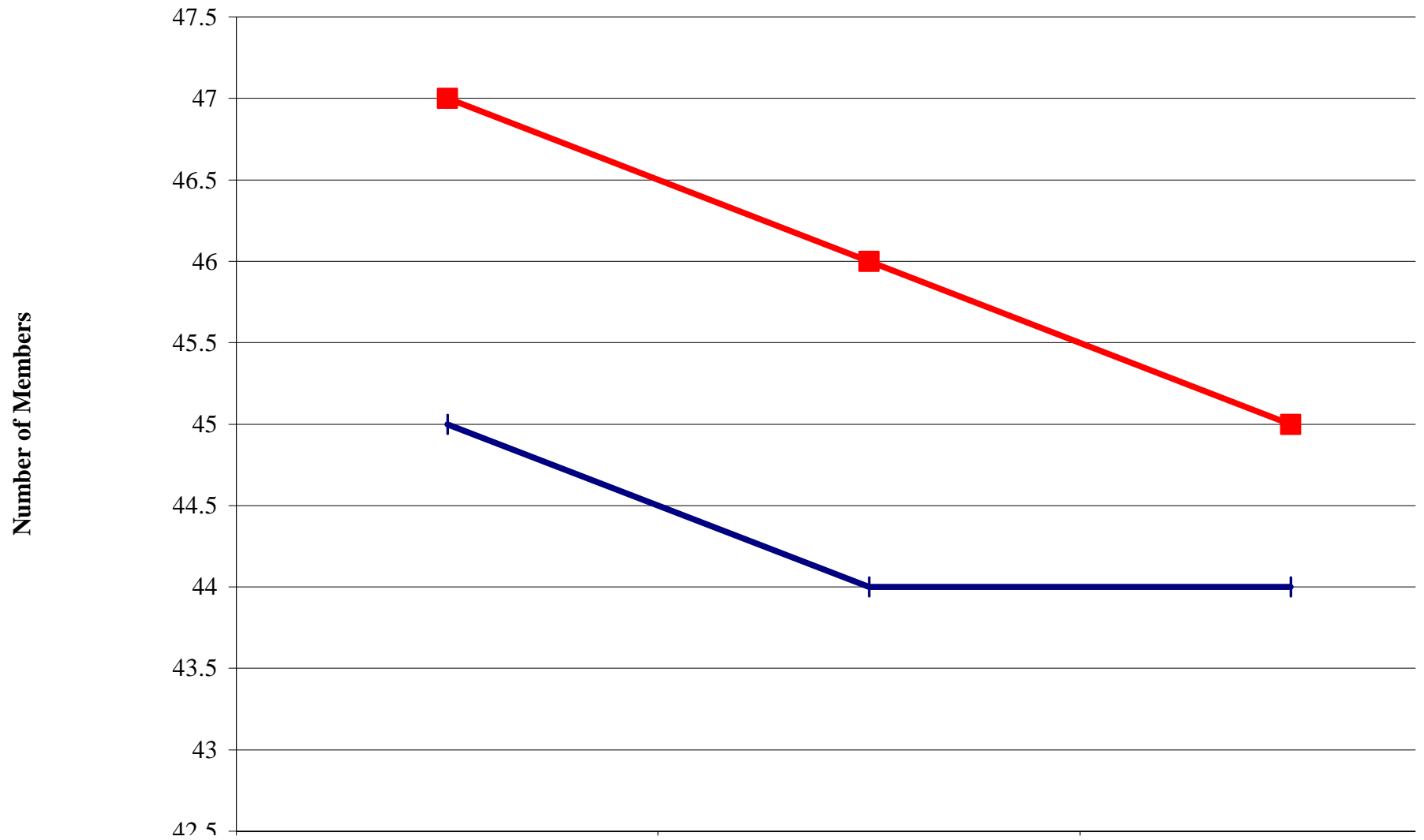
	Canteen Amusement Trust Fund 6822	Patient Trust Fund 6841	Private-Purpose Trust Funds
ADDITIONS:			
Contributions	\$ 9,348	\$ -	\$ 9,348
Sales and Charges	14,062	-	14,062
Member Accounts	-	94,957	94,957
Total Additions	<u>23,410</u>	<u>94,957</u>	<u>118,367</u>
DEDUCTIONS:			
Member Accounts	-	103,971	103,971
Operating	26,925	-	26,925
Total Deductions	<u>26,925</u>	<u>103,971</u>	<u>130,896</u>
Change in Net Assets Held in Trust	(3,515)	(9,014)	(12,529)
Net Assets July 1, 2001	<u>47,332</u>	<u>27,219</u>	<u>74,551</u>
Net Assets June 30, 2002	<u>\$ 43,817</u>	<u>\$ 18,205</u>	<u>\$ 62,022</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 WESTERN NEBRASKA VETERANS' HOME
MEMBER CARE STATISTICS
UNAUDITED

	Total Fiscal Year 2000		Total Fiscal Year 2001		Total Fiscal Year 2002	
	Domiciliary Care	Nursing Care	Domiciliary Care	Nursing Care	Domiciliary Care	Nursing Care
Capacity (1)	90	50	90	50	90	50
Average Daily Census (2)	47	45	46	44	45	44
Occupancy Rate (2)/(1)	52.22%	90.00%	51.11%	88.00%	50.00%	88.00%
Total Domiciliary and Nursing Care Members (3)	92		90		89	
Number of Full-time Equivalents (FTEs) at June 30 (4)	84.9		84.52		90.25	
Average Number of FTEs per Member (4)/(3)	0.923		0.939		1.014	
Total Net Operating Costs (5)	\$ 1,824,730	\$ 2,608,022	\$ 1,695,136	\$ 2,747,962	\$ 1,696,750	\$ 2,939,548
Member Days of Care Furnished:						
Veteran days	12,809	15,284	11,890	14,508	11,948	13,851
Non-veteran days	4,384	1,091	4,874	1,477	4,441	2,111
Total Nursing Days (6):	17,193	16,375	16,764	15,985	16,389	15,962
Average Net Daily Costs per Member (5)/(6)	106	159	101	172	104	184

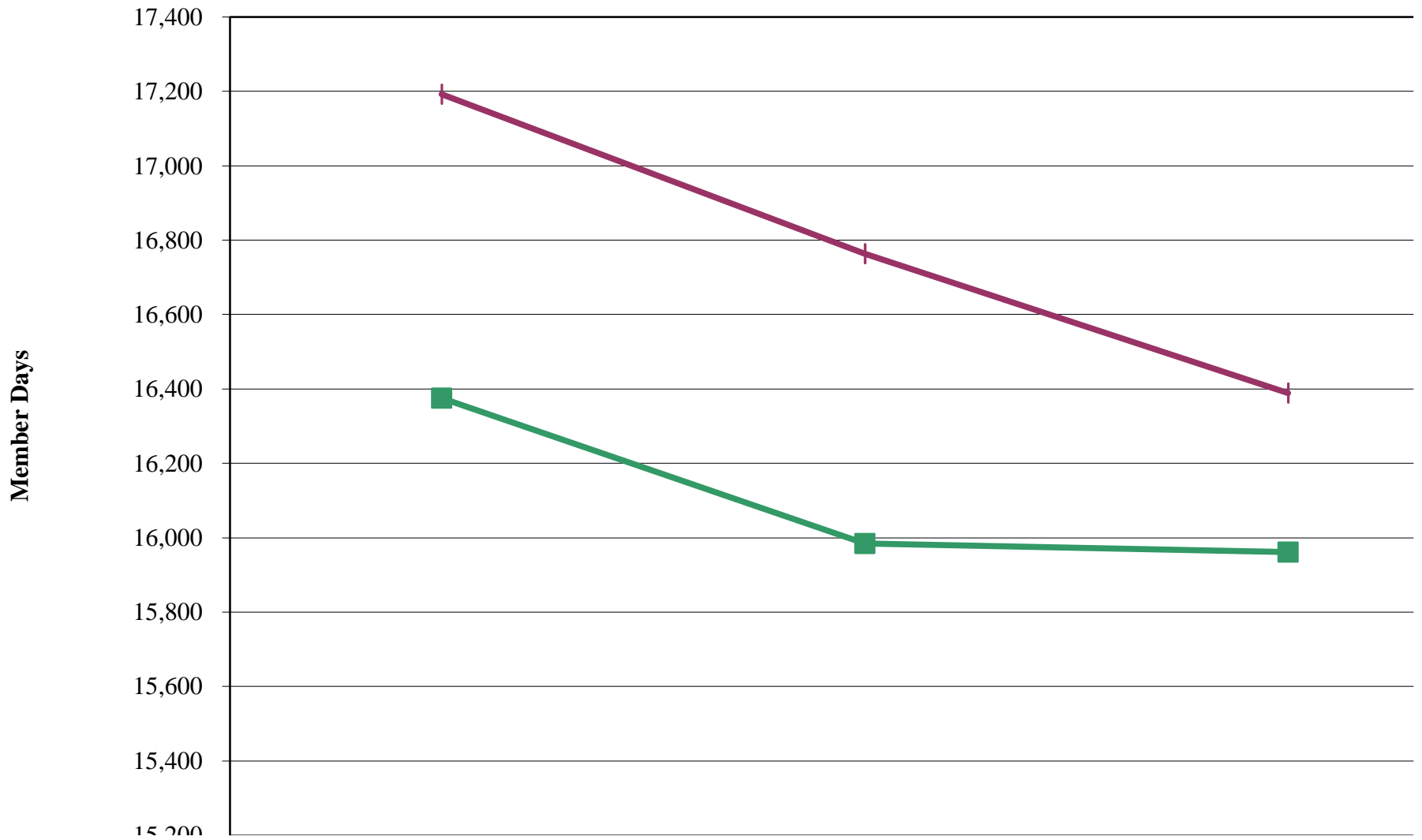
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

**Average Daily Census
UNAUDITED**



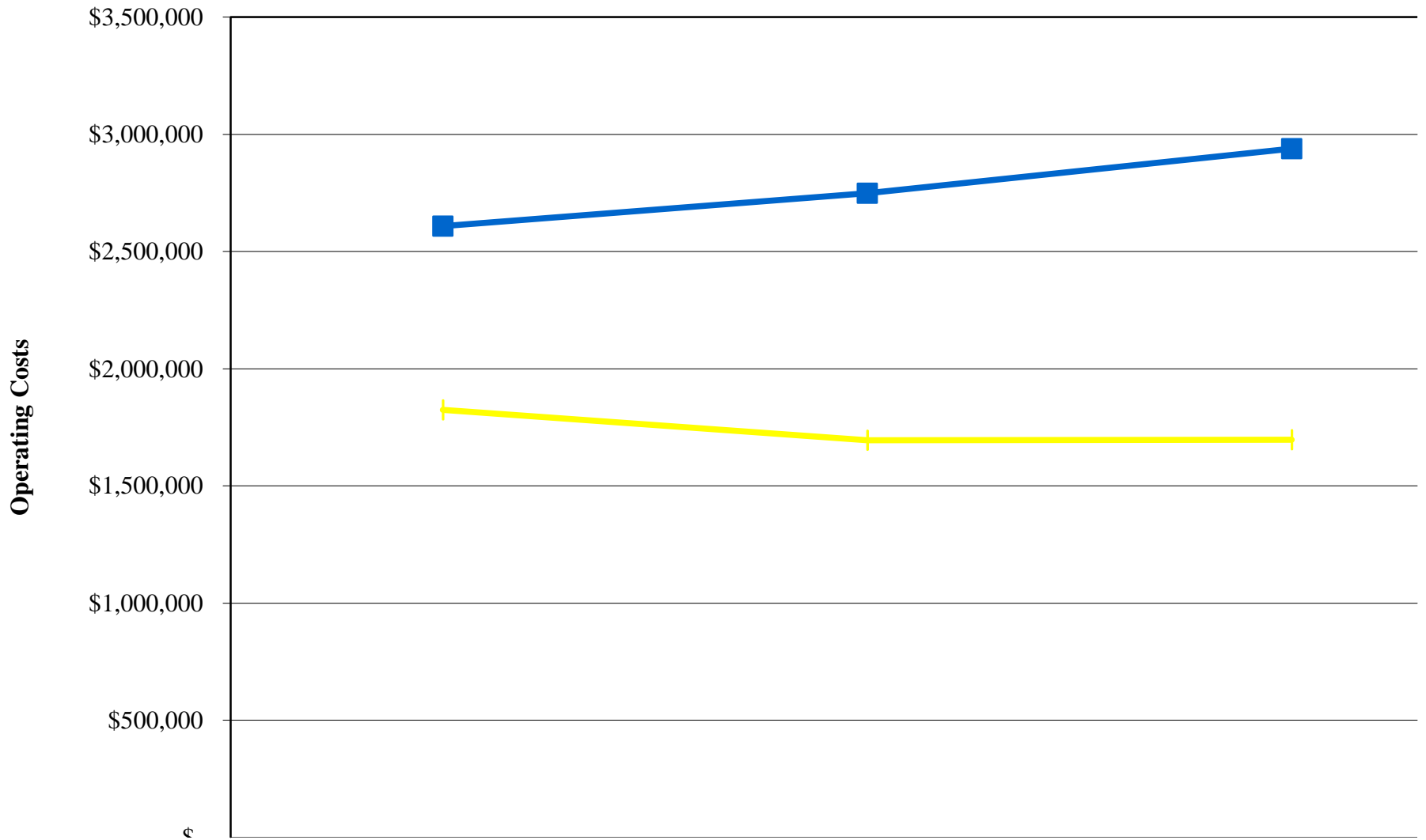
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

**Total Member Days of Care Furnished
UNAUDITED**



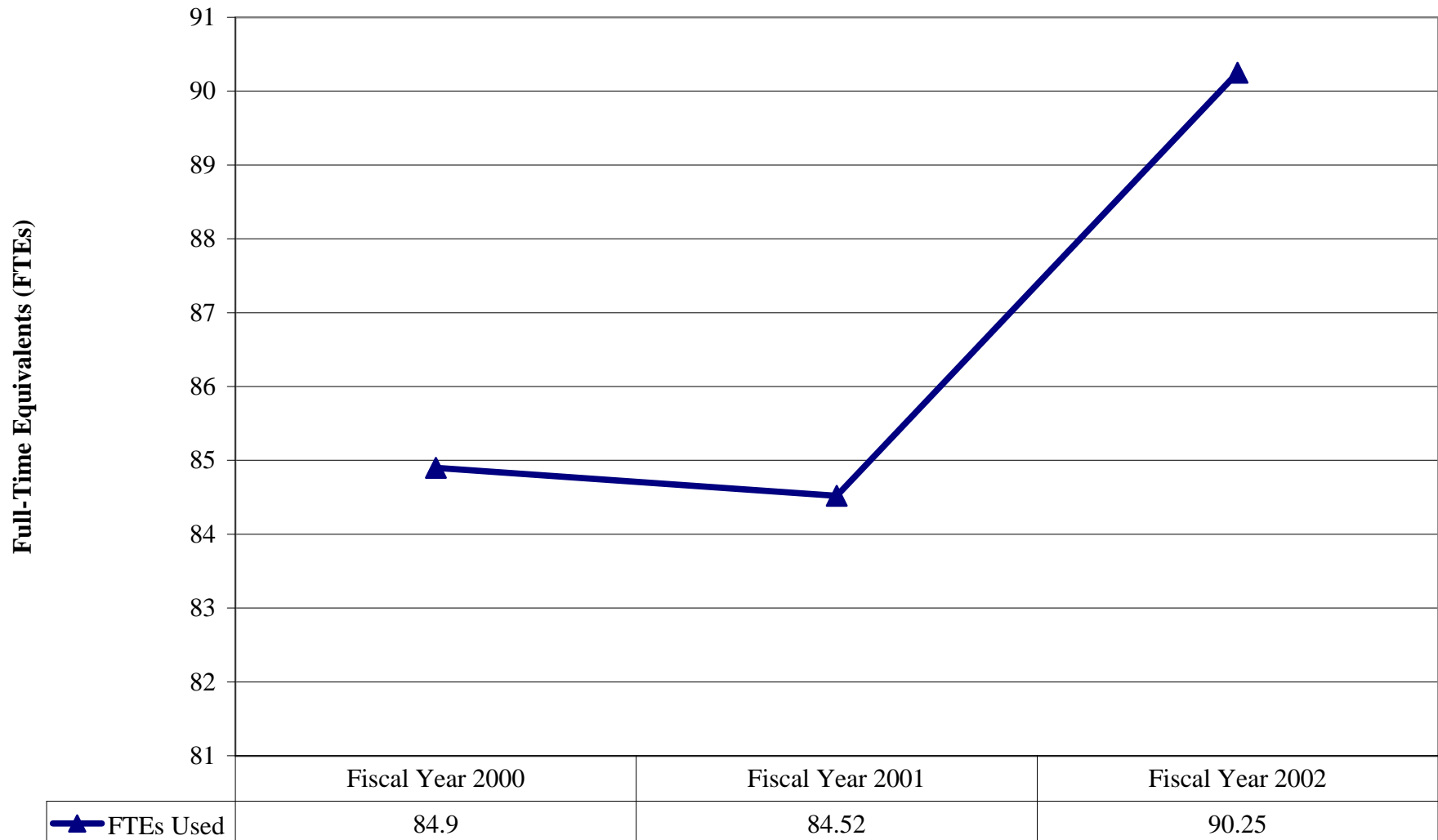
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

Total Operating Costs
UNAUDITED



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME

**Total Full-Time Equivalents (FTE) Used
UNAUDITED**



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
WESTERN NEBRASKA VETERANS' HOME
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 - Western Nebraska Veterans' Home as of and for the year ended June 30, 2002, and have issued our report thereon dated August 1, 2002. 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 - Western Nebraska Veterans' Home. 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 - Western Nebraska Veterans' Home'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 also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home in the Comments Section of this report as Comment Number 1 (Leave Balancing Procedures) and Comment Number 2 (Permanently Leased Vehicle Use).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Health and Human Services System - Western Nebraska Veterans' Home'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that we have reported to management of the Nebraska Health and Human Services System - Western Nebraska Veterans' Home in the Comments Section of this report as Comment Number 3 (Internal Control-Receipts).

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

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive, flowing style.

Assistant Deputy Auditor

August 1, 2002