

**ATTESTATION REPORT
OF THE
NEBRASKA HEALTH AND HUMAN
SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID
JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Vision Statement	1
Organizational Chart	2
Comments Section	
Exit Conference	3
Summary of Comments	4
Comments and Recommendations	5 - 11
Financial Section	
Independent Accountant's Report	12 - 13
Schedule of Revenues, Expenditures, and Changes in Fund Balances	14
Notes to Schedule	15 - 18
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Statistical Section	21
Total Aid	22
Disbursements by Fund Type	23
Average Annual Cost Per Client	24

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

BACKGROUND

The Department of Health and Human Services System (HHSS) uses State and Federal funds to purchase community-based services for individuals with developmental disabilities. Developmental Disability Aid is accounted for in Program 424 and Program 348. Individuals are referred to providers for services by the HHSS's Service Coordination Local Field Offices. HHSS certifies the service providers prior to the service and prior to the providers receiving any aid payments.

There are service providers located across the State. The providers offer adult developmental services to facilitate the psychological, social, intellectual, and physical adjustment and development of each individual. These services include basic life skills, vocational related instruction, and residential services to support an independent living situation. Some child developmental services are also provided. Developmental Disability Aid does not provide for any of the clients' room, board, or personal costs.

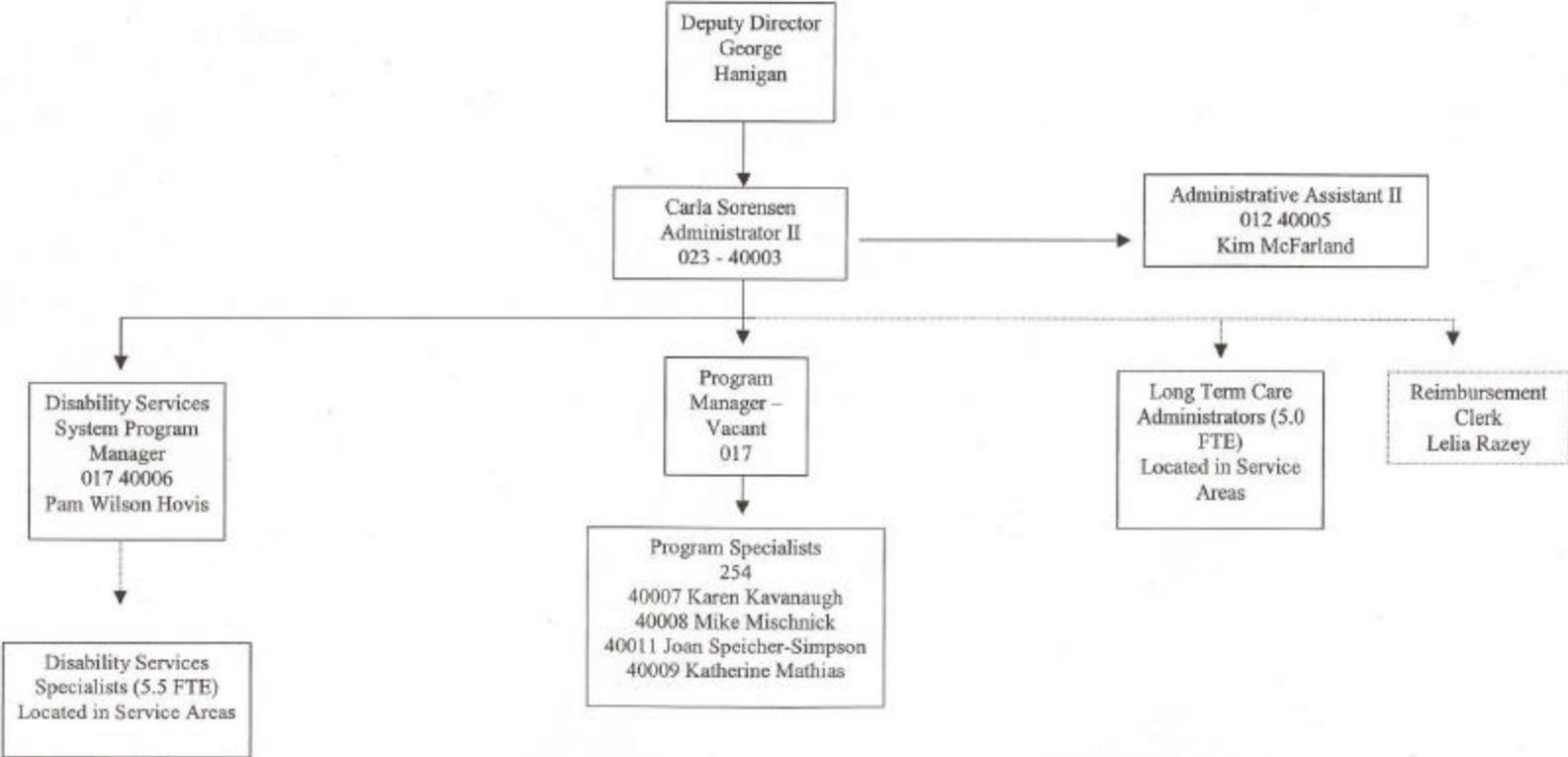
The expenditures are only for the aid provided to the clients. HHSS's costs related to administering the Developmental Disability Aid such as payroll and operating expenses, are recorded in a different HHSS program.

VISION STATEMENT

Individuals with developmental disabilities and their families shall receive supports and services which meet their objectively assessed needs and preferences and promote their independence, interdependence, productivity, and community integration. The service system which provides these services and supports will be comprehensive, coordinated, effective, and efficient.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

EXIT CONFERENCE

An exit conference was held February 5, 2004 with the System to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System - Developmental Disability Aid were:

<u>NAME</u>	<u>TITLE</u>
George Hanigan	HHSS Deputy Director
Willard Bouwens	Administrator
Carla Sorensen	Developmental Disability - Administrator
Jane Quiring	Controller
Tom Jurgens	Accounting and Finance Manager
Shirley Baack	Trust Officer Supervisor
Phil Birkel	Financial Responsibility Manager
Dan Ransdell	Budget Analyst
Pam Hovis	Disability Services Coordinator
Dan Albrecht	Budget Analyst
Kim Collins	Lead Program Analyst

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

SUMMARY OF COMMENTS

During our examination of the Nebraska Health and Human Services System - Developmental Disability Aid, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. **Nebraska Information System:** During the fiscal year ended June 30, 2003, the State of Nebraska implemented two significant components of a new information system called the "Nebraska Information System" (NIS). From examinations and procedures completed we have identified concerns and areas where improvement to NIS is needed.
2. **CMS Reconciliation:** There is an ongoing disagreement between HHSS and the U.S. Department of Health and Human Services - Centers for Medicaid and Medicare Services (CMS). The main issue concerns what are allowable components of costs that can be claimed. A reconciliation between actual allowable expenditures and Medicaid claims for the State fiscal years ended June 30, 1998, 1999, 2000, and 2001 showed HHSS had overbilled CMS by \$998,505.
3. **Contract Rate Reimbursement Calculations:** Four of five contract reimbursement rates used to determine payments for services to developmental disability providers could not be verified.
4. **Collection of Outstanding Accounts Receivable Balances:** No steps were taken by the Financial Responsibility area to collect on or write off clients' outstanding accounts receivable balances, other than to send out a monthly statement.
5. **Provider Contracts:** None of the seven contracts with developmental disability providers reviewed were entered into NIS, the State accounting system.
6. **Provider Audit Not On File:** One of seven developmental disability providers tested did not have an annual audit on file and no process was in place to ensure all provider audits were reviewed and problems noted investigated.

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 HHSS 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. Where no response has been included, HHSS declined to respond. 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 examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 12, 2003. This procedure would have provided control over cash and accurate financial information. The reconciliation should have been done on a monthly basis and has not been done since the implementation of NIS to ensure all financial information is correct in NIS.
- b. As of December 12, 2003, the Annual Budgetary Report and the Comprehensive Annual Financial Report were not completed for the fiscal year ended June 30, 2003. These reports are to be prepared and presented by the Department of Administrative Services Accounting Division.
- c. A comprehensive written NIS policy and procedures manual has not been prepared. The current Nebraska Accounting System and Nebraska Employees Information System (NEIS) policies and procedures manuals only relate to NAS and NEIS and have not been updated to adjust to changes in NIS.
- d. Labor Distribution – The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System (Concluded)

- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

2. CMS Reconciliation

There has been an ongoing disagreement between HHSS and the U.S. Department of Health and Human Services - Centers for Medicaid and Medicare Services (CMS), formerly the Health Care Financing Administration (HCFA). The main issue concerns what are the allowable components of costs that can be claimed. This disagreement began over 10 years ago. HHSS pays Developmental Disability providers based on a calculated rate established for the fiscal year. This is an estimate of the actual costs of the services provided. Medicaid is billed for this estimated cost. HHSS should then reconcile the actual allowable costs to provide the services to the amounts paid to the providers. The difference would be an overbilled or underbilled amount. HHSS may owe CMS money or CMS may owe HHSS money. HHSS has reconciled actual allowable expenditures to Medicaid claims

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

2. CMS Reconciliation (Concluded)

for the State fiscal years ended June 30, 1998, 1999, 2000, and 2001. The reconciliation for the four years showed HHSS had overbilled CMS a net amount of \$998,505. This was a prior audit comment.

Office of Management and Budget (OMB) Circular A-87 Cost Principles for State, Local, & Indian Tribal Governments requires actual costs to be paid to public developmental disability providers. OMB Circular A-87 does allow estimated costs to be claimed if a reconciliation between actual and estimated costs is completed and adjustments are made in subsequent claims. Public developmental disability providers include the Nebraska Regions.

When reconciliations between actual allowable costs and Medicaid claims are not completed in a timely manner there is a possibility the State will owe considerable monies back to the Federal government.

We recommend HHSS continue to work with CMS to resolve these issues. Reconciliations between estimated and actual costs should be completed annually and any overbilled or underbilled amounts should be addressed.

HHSS's Response: The Department has completed its work and submitted a letter of settlement, dated July 30, 2003. The Department is waiting for a response from the Centers for Medicaid and Medicare Services.

3. Contract Rate Reimbursement Calculations

The contract reimbursement rates used to determine payments for services to developmental disability providers could not be verified. Supporting documentation of the calculations used to determine the contract reimbursement rates paid to developmental disability providers was not available for four of the five categories of developmental disability aid. The five categories were assisted day, supported day, assisted residential, supported residential, and respite. Documentation of the calculation of the contract reimbursement rate for the supported day, assisted residential, supported residential, and respite categories was not available. Documentation of the calculation of the contract reimbursement rate for the assisted day category was available. A rate per unit is calculated for each category and included in the contracts with developmental disability providers. Each year HHSS uses a specific methodology to determine the rate per unit for each category of service. The methodology to calculate the rates was established in 1992 and is based on the State's costs to provide similar services at the Beatrice State Developmental Center.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Contract Rate Reimbursement Calculations (Concluded)

Sound accounting practice and good internal control require supporting documentation of the calculation of contract reimbursement rates be maintained.

When supporting documentation of the calculation of contract reimbursement rates is not maintained, there is no evidence to verify the contract reimbursement rates were correctly calculated.

We recommend HHSS maintain documentation to support the calculation of contract reimbursement rates for each of the developmental disability aid categories.

HHSS's Response: The Department did provide the documentation for one of the rates but has been unable to find the supporting calculations for the other four services. The Department will locate these and provide to the Auditors office.

Auditor's Response: Documentation of the calculations used to determine four of the five contract reimbursement rate categories of Developmental Disability Aid have not been provided. HHSS did provide additional documentation of the calculation of the contract reimbursement rate for the assisted day category.

4. Collection of Outstanding Accounts Receivable Balances

No steps were taken by the Financial Responsibility area to collect on or write off clients' outstanding accounts receivable balances, other than to send out a monthly statement. Outstanding accounts receivable balances at June 30, 2003 were \$7,369,981. When information used to determine the individual's or legally responsible relative's ability to pay is not provided the individual is not refused services but is billed for 100% of the costs of the services. The cost of these services may or may not actually be due the State when information is received and the actual ability to pay is determined. That portion of the outstanding accounts receivable balances assessed because of a failure to provide financial information was \$5,538,648. This was a comment in a prior audit.

Neb. Rev. Stat. Section 83-1211 R.R.S. 1999 states those individuals receiving specialized services from local specialized programs and their relatives shall be responsible for the cost of services and the determination of the ability to pay for the services. Title 202 NAC 1.005 states "When a client, his/her representative or attorney-in-fact, or legally responsible relative fails to furnish financial information including but not necessarily limited to a copy of their state tax return and a completed financial questionnaire to the Department within 20 days from the date requested, the Department must deem these persons to have the ability to pay the full cost of any care, support, maintenance, and

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Collection of Outstanding Accounts Receivable Balances (Continued)

treatment provided.” Title 202 NAC 1.006 states “When a client or legally responsible relative fails to pay the amounts determined to be due under 202 NAC 1, the State of Nebraska may proceed against such person in the manner authorized by the law for the recovery of money owed to a creditor.” Title 202 NAC 1.006.01 states, “The Department may assess a 1% per month charge on all accounts that are in excess of 90 days old.”

When collection of outstanding accounts receivable balances is not actively pursued the State is forced to absorb the costs of services provided to those clients with an ability to pay. There is less incentive for any individual with an ability to pay to make any payments or provide the financial information necessary to determine their financial responsibility if there is no process in place to collect on past due accounts receivable balances.

We recommend HHSS develop and implement collection policies and procedures to collect monies due the State for Developmental Disability Aid payments made for those clients with an ability to pay.

HHSS’s Response: HHS does not agree with this audit finding. Generally accepting accounting principles would support the fact that these amounts should not be reported in financial statements because they do not represent valid Accounts Receivable (AR). The HHS Finance and Support Agency, however, follows Legislative Statute 83-370 as well as, Nebraska Department of Health and Human Services, Rules and Regulations, Title 202 NAC 1, Section 1-005. These criteria direct us to record these amounts in our AR despite the fact that we know they are not likely a valid collectible AR. We determined most of this AR should be removed from our financial statements but believe we do not have statutory authority to remove any account where we have not received financial information. All clients in this program are developmentally disabled and often have no means to produce financial documentation.

Our ongoing informal review processes of the AR balances indicate all money owed the State is being collected. The department collected \$1.4 million in FY03 toward these Developmental Disability services. A formal review of the \$7.4 million of AR balances indicated that \$789,418 is due the State. This formal review confirmed the reliability of our ongoing informal review processes.

Our formal review also indicated that reasonable steps were taken by HHS to obtain the required documentation from clients and relatives in order to make an ability to pay determination. These clients routinely do not have the mental capacity or the support network to ensure the information is provided. HHS Services does not suspend or deny services to Developmental Disability clients who do not provide necessary information required to determine ability to pay.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Collection of Outstanding Accounts Receivable Balances (Concluded)

HHSS's Response, Concluded:

This approach has evolved because in most cases the individual is determined to have no ability to pay either initially or after the hardship review process.

The department needs to determine if there is a cost-effective way to obtain the necessary information. The department will review its statutory authority to remove accounts from AR that have not supplied financial information or develop some type of AR reserve. We will work in conjunction with HHS Services to determine the appropriateness of denying or suspending services for these frail and vulnerable citizens for failure to provide the required documentation.

Auditor's Response: HHSS should actively pursue collection of accounts receivable for those clients with an ability to pay. Procedures should be developed to address those accounts receivable which are uncollectable.

5. Provider Contracts

None of the seven contracts with developmental disability providers reviewed were entered into NIS, the State accounting system. These contracts state they are contracts to provide services to individuals with developmental disabilities.

2003 Neb. Laws LB 626, Section 3(1) states, "All state agencies shall process and document all contracts for services through the state accounting system . . . State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system." 2003 Neb. Laws LB 626, Section 2(1) states, "Contract for services means any contract that directly engages the time or effort of an independent contractor whose purpose is to perform an identifiable task, study, or report rather than to furnish an end item of supply, goods, equipment, or material."

The NIS contract database established to create an accurate reporting of expended funds for contractual services is not accurate when contracts are not entered.

We recommend HHSS document all contracts with developmental disability providers within NIS.

HHSS's Response: Developmental Disability Provider agreements are recorded as specialized providers in NFOCUS rather than as independent contractors in NIS. The payments to the providers are made through NFOCUS rather than through NIS. NFOCUS is able to identify and track services and payments by provider or by client. Providers must meet the certification and accreditation requirements in the Developmental Disabilities Services Act to be a "specialized program" provider for DD services. Since the Developmental Services Act statutes of 1991 authorized the agency to 'contract' with providers, the term continues to appear in the specialized program provider agreement.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Provider Audit Not On File

One of seven developmental disability providers tested did not have an annual audit on file with HHSS until it was requested by the APA during the course of the attestation engagement. None of the other audits tested were date-stamped when received so receipt within 90 days of the end of the providers' fiscal year could not be verified. No process was in place to ensure all provider audits were reviewed and that problems noted were investigated.

Title 205 NAC 3-006 requires a provider to have an annual independent audit performed of its financial operations. Section VI of the contracts with providers includes a requirement that states "Contractor agrees to provide the Department an independent annual audit as specified in the Regulations for Organizing and Implementing Services for Persons with Developmental Disabilities in Community-Based Programs or any other applicable federal requirements." Title 205 NAC 3-006.01 requires the contractor to provide the audit to HHSS within 90 days of the end of the fiscal year. Good internal control requires provider audits to be reviewed and any problems noted be investigated.

The review of annual audits of developmental disability providers is part of the provider monitoring process. Financial problems could be identified by annual independent audits of developmental disability providers, but if no process is in place to ensure audits are received and reviewed HHSS will not be aware of these problems.

We recommend HHSS obtain audit reports from all providers and document when the audit was received with a date stamp. Additionally, a process should be developed to ensure all provider audits are reviewed and problems noted investigated.

HHSS's Response: To date, only one developmental disability provider, Region VI Developmental Services, has not filed their annual audit. Region VI is on a calendar year fiscal year and by terms of their contract their audit would not be past due until the end of March 2004.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM DEVELOPMENTAL DISABILITY AID

Independent Accountant's Report

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Developmental Disability Aid (HHSS) for the fiscal year ended June 30, 2003. HHSS's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The State of Nebraska implemented two components of a new statewide information system (Nebraska Information System - NIS) during the fiscal year ended June 30, 2003. The two components were the Human Resources and Payroll component and the Financial component. A significant internal control procedure, a reconciliation of the State Treasurer's cash balances to the cash balances reported on NIS, had not been completed by the State for the fiscal year ended June 30, 2003. Without this reconciliation we were unable to satisfy ourselves as to the accuracy and completeness of the System's fund balances of \$7,656,643 as of June 30, 2003. Although we extended our audit procedures, it was impracticable to extend our procedures sufficiently to determine the extent to which the fund balances as of June 30, 2003 may have been affected by this procedure not being completed.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on NIS been completed as described in the preceding paragraph, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Developmental Disability Aid for the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2004, on our consideration of the Nebraska Health and Human Services System - Developmental Disability 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 a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

Handwritten signature of Timothy J. Chamber CPA in cursive script.

Assistant Deputy Auditor

February 5, 2004

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	General Fund 10000	Institution Cash Fund 22520	Nebraska Healthcare Cash Fund 22640	Title XIX Medicaid Federal Fund 48120	Federal General Fund 40000	Total (Memorandum Only)
REVENUES:						
Appropriations	\$ 53,354,816	\$ -	\$ -	\$ -	\$ -	\$ 53,354,816
Intergovernmental	-	-	-	36,183,467	30,058,966	66,242,433
Sales & Charges	-	1,423,386	-	-	-	1,423,386
Miscellaneous	2,943	2,117	-	34,538	-	39,598
TOTAL REVENUES	<u>53,357,759</u>	<u>1,425,503</u>	<u>-</u>	<u>36,218,005</u>	<u>30,058,966</u>	<u>121,060,233</u>
EXPENDITURES:						
Operating	41,234	-	-	-	-	41,234
Government Aid	53,313,582	1,083,334	5,000,000	36,274,957	30,058,966	125,730,839
TOTAL EXPENDITURES	<u>53,354,816</u>	<u>1,083,334</u>	<u>5,000,000</u>	<u>36,274,957</u>	<u>30,058,966</u>	<u>125,772,073</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,943</u>	<u>342,169</u>	<u>(5,000,000)</u>	<u>(56,952)</u>	<u>-</u>	<u>(4,711,840)</u>
OTHER FINANCING SOURCES (USES):						
Deposits to General Fund	(2,943)	-	-	-	-	(2,943)
Operating Transfers In	-	-	5,000,000	-	-	5,000,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,943)</u>	<u>-</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>4,997,057</u>
Net Change in Fund Balances	-	342,169	-	(56,952)	-	285,217
FUND BALANCES, JULY 1, 2002	<u>-</u>	<u>565,724</u>	<u>465,586</u>	<u>6,340,116</u>	<u>-</u>	<u>7,371,426</u>
FUND BALANCES, JUNE 30, 2003	<u>\$ -</u>	<u>\$ 907,893</u>	<u>\$ 465,586</u>	<u>\$ 6,283,164</u>	<u>\$ -</u>	<u>\$ 7,656,643</u>

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Health and Human Services System - Developmental Disability Aid are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for HHSS was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003 which had not been posted to NIS as of June 30, 2003.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

HHSS had accounts receivable not included in the Schedule of \$7,369,981 from services provided to clients for which the clients are financially responsible. DAS did not require HHSS to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. No accounts payable for services received but not yet paid were included in expenditures. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by HHSS are:

10000 - General Fund – accounts for all financial resources not required to be accounted for in another fund.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Concluded)

20000 - Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 - Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

The major revenue object account codes established by NIS used by HHSS are:

Appropriations - Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

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

Sales & Charges - Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous - Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by HHSS are:

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

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.

Other significant object account codes established by NIS and used by HHSS include:

Assets - Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are included in fund balances.

Liabilities - Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance.

Other Financing Sources - Operating transfers.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

NOTES TO THE SCHEDULE
(Continued)

2. State Agency

The Nebraska Health and Human Services System - Developmental Disability Aid (HHSS) is a State agency established under and governed by the laws of the State of Nebraska. As such, the System is exempt from State and Federal income taxes. The schedule includes all funds of HHSS.

The Nebraska Health and Human Services System - Developmental Disability Aid is part of the primary government for the State of Nebraska.

3. Beginning Balance

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid for all funds of HHSS. Therefore, the beginning fund balances do not include accounts receivables or accounts payable.

4. 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.

5. Transfers

2001 Neb. Laws LB 692A, Section 10 appropriated \$5,000,000 from the Nebraska Health Care Cash Fund to Program 424 to be used for Developmental Disability Aid.

6. Developmental Disability Aid Accounting

In January 2003 HHSS started using the NFOCUS computer system to process payment information for Developmental Disability Aid. At that time HHSS changed the way accounting transactions for the payment of Developmental Disability providers were recorded. Instead of recording the payment in Fund 48120 - Title XIX Medicaid Federal Fund and in Fund 40000 - Federal General Fund (Letter of Credit Federal Fund) the payments were only recorded in Fund 40000. The financial schedule for Developmental Disability Aid includes financial activity in Program 424 - Developmental Disability Aid and Program 348 - Medical Assistance. All Program 424 activity was included in the Schedule of Revenues, Expenditures, and Changes in Fund Balances as Developmental Disability Aid. The financial schedule also includes that portion of Program 348 activity in those NIS business units specifically identified as Developmental Disability Aid. Program 348 activity includes activity in General Fund

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

NOTES TO THE SCHEDULE
(Continued)

6. Developmental Disability Aid Accounting (Concluded)

10000 and in the Federal General Fund (Letter of Credit Federal Fund) 40000. Only that portion of the Federal General Fund (Letter of Credit Federal Fund) 40000 activity from January 2003 through June 2003 was included because if the entire fiscal year's activity was included, the activity for July 2002 through December 2002 would be duplicated, as it was already included in the Title XIX Medicaid Federal Fund 48120 activity.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Developmental Disability Aid for the fiscal year ended June 30, 2003, and have issued our report thereon dated February 5, 2003. The report was qualified for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on the Nebraska Information System (NIS) been completed. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related 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 - Developmental Disability Aid's schedule of revenues, expenditures, and changes in fund balances, is 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, 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 2 (CMS Reconciliation) and

Comment Number 4 (Collection of Outstanding Accounts Receivable Balances). We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Health and Human Services System - Developmental Disability Aid in the Comments Section of this report as Comment Number 5 (Provider Contracts) and Comment Number 6 (Provider Audit Not On File).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Health and Human Services System - Developmental Disability Aid's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, 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 - Developmental Disability Aid's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Nebraska Information System) and Comment Number 3 (Contract Rate Reimbursement Calculations).

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 schedule being examined 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 Comment Number 1 described above to be a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to management of the Nebraska Health and Human Services System - Developmental Disability Aid in the Comments Section of the report as Comment Number 6 (Provider Audit Not On File).

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

Assistant Deputy Auditor

February 5, 2004

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

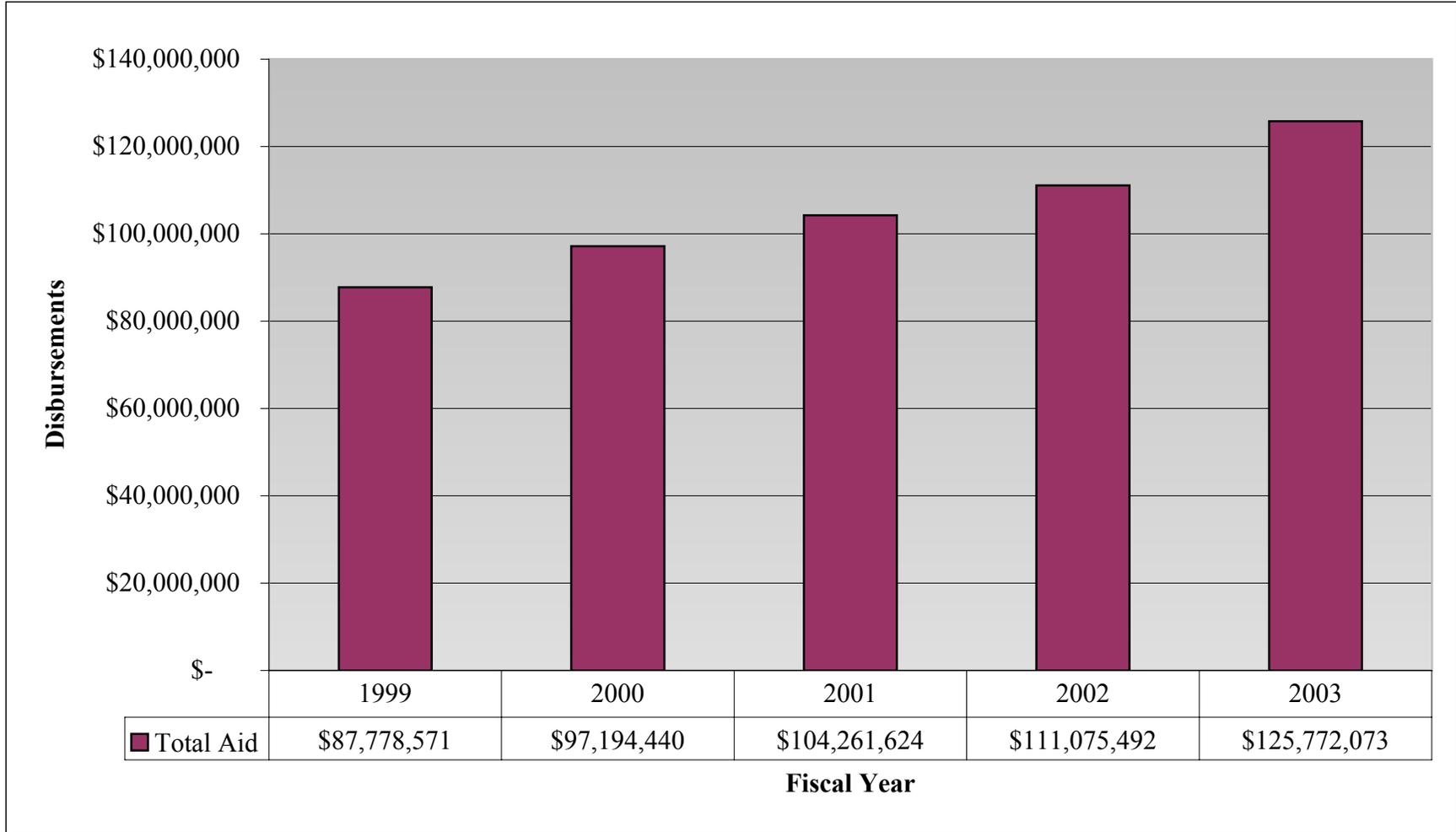
STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

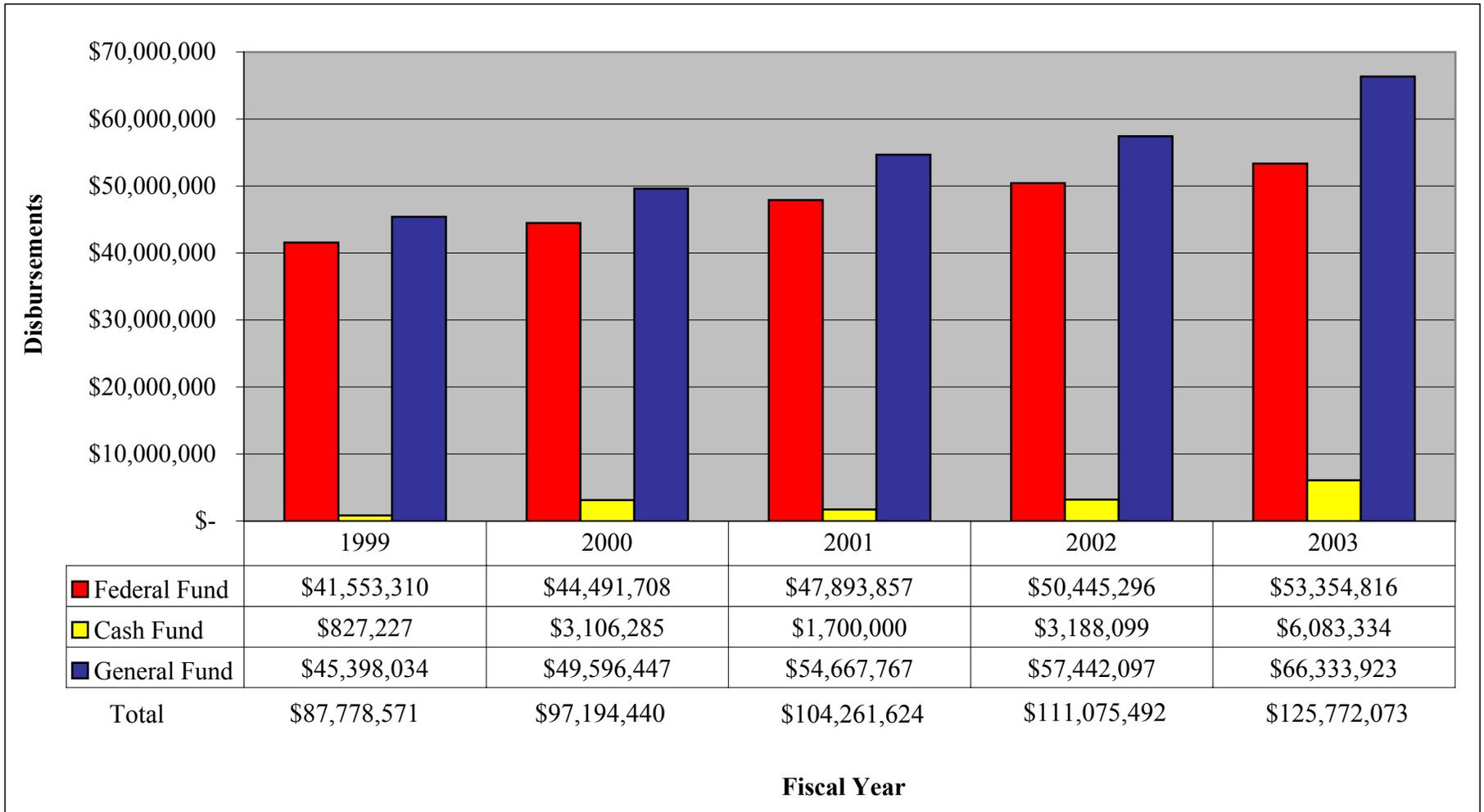
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
DEVELOPMENTAL DISABILITY AID

TOTAL AID

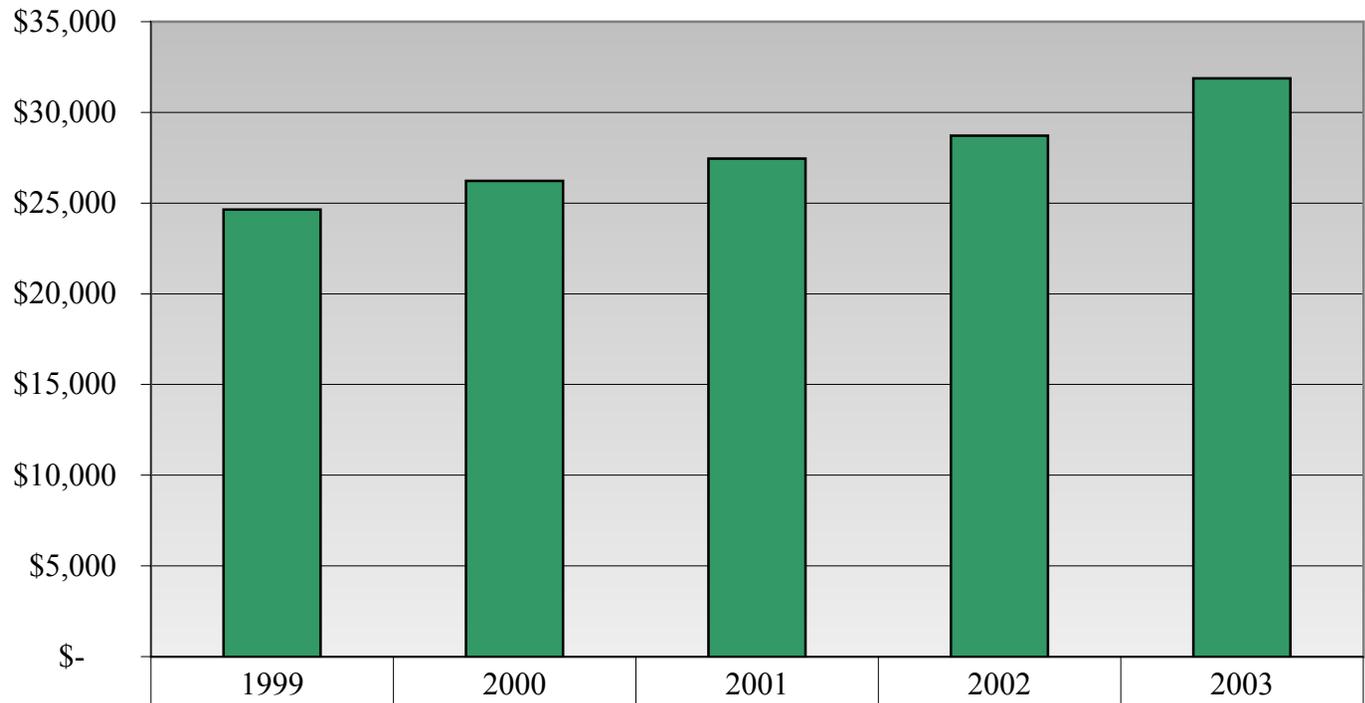
Fiscal Years 1999, 2000, 2001, 2002, and 2003



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 DEVELOPMENTAL DISABILITY AID
DISBURSEMENTS BY FUND TYPE
 Fiscal Years 1999, 2000, 2001, 2002, and 2003



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 DEVELOPMENTAL DISABILITY AID
AVERAGE ANNUAL COST PER CLIENT
 Fiscal Years 1999, 2000, 2001, 2002, and 2003



■ Average Annual Cost Per Client	\$24,636	\$26,226	\$27,459	\$28,724	\$31,881
Total Cost	\$87,778,571	\$97,194,440	\$104,261,624	\$111,075,492	\$125,772,073
Number of Clients	3,563	3,706	3,797	3,867	3,945