



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Telephone 402 348 1450
Fax 402 348 0152
Internet www.us.kpmg.com

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Telephone 402 476 1216
Fax 402 476 1944

December 22, 2004

Mr. Richard P. Nelson, Finance and Support Director
Health and Human Services System
State of Nebraska
P. O. Box 95026
Lincoln, Nebraska 68509-5026

Dear Mr. Curtiss:

We have audited the basic financial statements of the state of Nebraska (the State) for the year ended June 30, 2004, and have issued our report thereon dated December 22, 2004. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated December 22, 2004. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with Office of Management and Budget (OMB) Circular A-133 and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control matters related to the activities of the Health and Human Services System (the Agency) and other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency management, are intended to improve internal control or result in other operating efficiencies. Comments related to internal control and compliance with requirements applicable to federal award programs are reported in the schedule of findings and questioned costs, which is included in the statewide single audit report. We encourage the Agency to review this report.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations have been satisfactorily resolved.

Our comments and recommendations for the year ended June 30, 2004 are shown on the following pages.



1 Medicaid TEFRA and End of Year Settlement Receivable

The receivable is based on an estimate; however, there is information available to enable the Agency to calculate the actual amount. To ensure the receivable balance is accurately valued and reported, we recommend the Agency adjust their calculation procedures accordingly, and also take into consideration any other known facts in calculating the receivable balance.

2. Medicaid Short-Term Liability Estimate Adjustment

The estimate developed to determine the year-end Medicaid short-term liability included an estimated \$6 million in adjustments related to Federally Qualified and Rural Health Centers and Critical Access Hospitals. These adjustments are based on old historical data and may be outdated. To ensure the adjustments represent current activity and the liabilities reasonable, we recommend the Agency investigate current trends in these adjustments and update the estimate accordingly.

3. Accounts Payable

The Agency included on its accrual questionnaire a payable for the State Ward Education Program; however, because the payable was also labeled in NIS as a "P9" transaction, it was also recorded by DAS as a payable. We recommend the Agency and DAS work together to develop a method of financial reporting to ensure payables are not double-booked in the financial statements.

4. Medicaid Drug Claims Rebate

For the State's financial reporting package, the Agency includes a receivable for drug rebates for all outpatient prescriptions purchased by outpatient Medicaid claims. The Center for Medicare and Medicaid Services (CMS) tracks and calculates the formula for the rebates for the State. One and a half months after the end of each quarter, the rebates are calculated. A Medicaid Drug Claims Rebate OIG Report is maintained which details by quarter the totals of rebates, amounts collected, and amounts outstanding. The receivable reported on the accrual questionnaire reported a receivable that included only rebates due to activity for the period January 1 – March 31, 2004. However, the receivable should also include amounts for the quarter ended June 30, 2004, even if final numbers are not available. If final numbers are not available, an estimate should be made to estimate the future billings and collections.

Further, the questionnaire reported an allowance of 75% of outstanding rebates. After reviewing the prior ten-year collection history, it appeared that the historical percentage of uncollectible rebates was approximately 15%. We recommend that the Agency review its procedures for estimating the drug rebates and the corresponding allowance to ensure the receivable is fairly stated at year-end.



*State of Nebraska
Health and Human Services System
Mr. Richard P. Nelson, Finance and Support Director
December 22, 2004*

5. Patient and County Billings Receivable and NFOCUS Receivable

The Agency estimates a receivable and related allowance for Patient and County Billings for services at the regional centers in Nebraska and also for amounts related to NFOCUS. The Agency uses spreadsheets to perform a calculation to estimate the outstanding receivable and related allowance. When agreeing the information used in these spreadsheets to the source documentation, several errors were noted, causing each receivable and related allowance to be misstated. To ensure receivables are accurately recorded, we recommend the Agency implement review procedures to verify information used in its calculation properly reconciles to the source documents used to prepare the calculation.

* * * * *

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Auditor of Public Accounts, the Governor and members of the Legislature, the Health and Human Services System, and management of the State of Nebraska, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate and thank all of the Health and Human Services System's employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

KPMG LLP