

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF HEALTH
AND HUMAN SERVICES - PROGRAM 38 -
BEHAVIORAL HEALTH AID**

JULY 1, 2003 THROUGH JUNE 30, 2004

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Issued on June 3, 2005

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

BACKGROUND

The Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid (Program) is responsible for distributing State aid for behavioral health services; including mental health, substance abuse, and addiction services. The Office of Mental Health, Substance Abuse and Addiction Services within the Nebraska Department of Health and Human Services provides leadership for the Program and administers the aid through contracts with the six Mental Health Regional Governing Boards and through direct contracts with providers. Contracts are managed through utilization review, quality of care review, program fidelity audits, and consumer input. Contracts include both fee-for-service and non-fee-for-service payments.

The Program receives annually \$50,000 from the Charitable Gaming Operations Fund, and \$500,000 plus one percent of net lottery revenues from the State Lottery Operations Trust Fund, which are deposited into the Compulsive Gamblers' Assistance Fund. This fund is used to provide grants for outpatient therapy services, training services, and a 24-hour hotline for counseling, information, and referrals for compulsive gamblers.

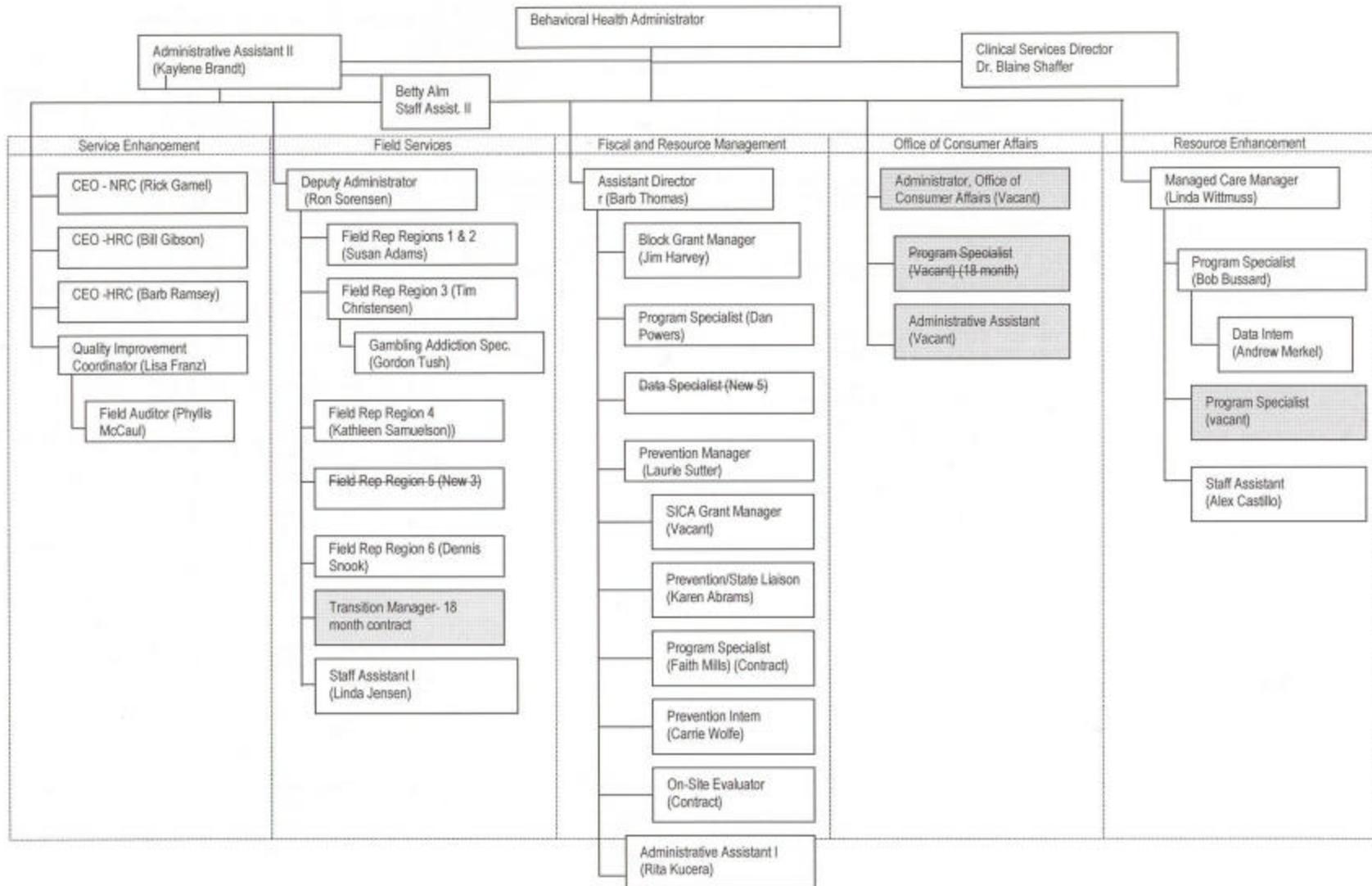
The Program also contains tobacco settlement and Intergovernmental Transfer (IGT) funds which are deposited into the Nebraska Health Care Cash Fund that are used to provide behavioral health services.

MISSION STATEMENT

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

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ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
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EXIT CONFERENCE

An exit conference was held April 19, 2005 with the Program to discuss the results of our examination. Those in attendance for the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid were:

NAME	TITLE
Ron Sorensen	Division Administrator, Division of Behavioral Services
Barbara Thomas	Assistant Director, Division of Behavioral Services
Willard Bouwens	Administrator, Financial Services
Jane Quiring	Controller
Larry Morrison	Cost Accounting Manager
Duane Singsaas	Performance Measurement Consultant
Dan Ransdell	HHSS Budget Analyst
Tom Jurgens	Accounting and Finance Manager

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SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid (Program), we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Support for Payments to Regions:*** Two of thirteen expenditure documents tested did not have adequate supporting documentation on file.
2. ***Statutory Match:*** Two of six regional governing boards tested did not meet their matching requirement for funding received from the State General Fund. One of six regional governing boards tested did not receive the amount of match certified.
3. ***Provider Audits:*** Regional governing board and provider financial audits, program fidelity audits, and services performed audits were not on file, did not properly report mental health and substance abuse funding, did not include a statement that block grant funds were not used for inpatient services, were not signed by the auditor, and were not filed timely.
4. ***Provider Certification:*** The Program had no documentation on file the 12 regional governing boards and providers tested were certified as required by regulations.
5. ***Service Contracts:*** Our review of contracts entered into by the Program noted contracts were not properly signed, were not entered on the Nebraska Information System (NIS), not correctly entered on NIS, and were not approved by legal counsel.
6. ***NIS Security:*** The items noted include Program employees had authorization on NIS to prepare and post their own transactions and could prepare transactions but no one was setup to post their transactions.
7. ***Outstanding Warrants:*** The Program did not have procedures in place to review and to follow up on outstanding warrants.
8. ***Nebraska Information System and Accounting Procedures:*** Significant areas of concern where improvements to NIS is needed to ensure NIS integrity and operational efficiency were identified.

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

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SUMMARY OF COMMENTS

(Continued)

Draft copies of this report were furnished to the Program to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Program 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.

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COMMENTS AND RECOMMENDATIONS

1. Support for Payments to Regions

Good internal control requires billings be reviewed and recalculated before they are processed for payment.

Two of thirteen expenditure documents tested did not have adequate supporting documentation on file. One document had an incorrect math calculation for the number of units times the rate and the other document had the incorrect number of units provided. Both documents were underpaid, with the largest underpayment being \$6,232.

When billings are not adequately reviewed before processing, there is an increased risk of improper payments being made.

We recommend the Program ensure billings are reviewed to verify the units are adequately supported and the amounts are appropriately calculated before approving the billing for payment.

2. Statutory Match

Neb. Rev. Stat. Section 71-808(3) R.S.Supp., 2004 states, "The total amount of funding provided by counties under this subsection shall be equal to one dollar for every three dollars from the General Fund."

Each regional governing board certified the amount of their local matching funds including a break down of their tax requirement. These certifications were reviewed by Program Field Representatives, but the amounts received by the regions were not verified. Two of six regions tested did not meet their match requirement for the fiscal year ended June 30, 2004. The largest amount under-matched was \$15,762. One of six regions tested did not actually receive the amount of match certified. The amount under-matched, based on actual receipts, was \$48,568.

When matching requirements are not met, there is an increased risk that services will not reach all intended individuals.

We recommend the Program review the final regional governing boards' certifications of match for accuracy of calculations, compliance with required amount, and to ensure the amounts certified were received.

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COMMENTS AND RECOMMENDATIONS
(Continued)

3. Provider Audits

Each regional governing board and provider was required to file three separate audits for the contract period. Requirements for these audits were as follows:

- Good business practices require audits be reviewed, documentation of the review be on file, and audit findings be pursued and remedied.
- Title 203 NAC Chapter 4, Section 006.01, states “Each Region or provider with a total annual operating budget of \$75,000 or more shall contract with a Certified Public Accountant for an independent audit of its financial operations using generally accepted auditing techniques.” Title 204 NAC Chapter 4, Section 004, states “Every region/provider receiving mental health funds administered by the Department shall contract for an annual independent audit of its financial operation by certified public accountants . . .” Section 004.01 states, “Such audits must include the following . . . Perform such tests and examinations as deemed necessary under the circumstances to verify the accuracy of the numbers and required documentation of units of services billed to the Department . . .” The provider contract requires each provider who receives funds to submit three audits, an Independent Annual Financial Audit, an Independent Audit of Program Fidelity, and an Independent Audit of Services Purchased.
- Attachment F of the provider contract states, “The Contractor agrees to provide the Office with two (2) copies of the independent, neutral audits of program fidelity for all services purchased from the Contractor and all subcontractors.” The Nebraska Behavioral Health Services Audit Orientation Workbook is a guideline established by the Program for Audits of Program Fidelity and Units of Services Purchased Audits. The Workbook states, “Program Fidelity audits shall be conducted on each service at a minimum of once every three years.”
- The provider contract with the Winnebago Tribe of Nebraska requires a routine verification of services delivered.
- Attachment F of the contract states, “The contractor agrees that all revenues for all MH (Mental Health) and SA (Substance Abuse) services must be reported in the financial CPA audit separately from other programs and services provided by the Contractor.” Attachment F also states, “The contractor’s independent audit shall include separate entries specifically identifying the amounts of Mental Health Performance Partnership Block Grant funds and Substance Abuse Performance Partnership Block Grant funds received.”

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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Provider Audits (Continued)

- Attachment F of the contract states, “An independent CPA auditor shall certify that no block grant funds were used to provide inpatient services.”
- Good internal controls require audits be properly reviewed to make sure the audit is complete before the audit is filed.
- Title 203 NAC Chapter 4, Section 006.01A, states “The audit shall be submitted to the Division no later than one hundred twenty (120) calendar days after the end of the fiscal year.” Title 204 NAC Chapter 4, Section 004.02, states “Two copies of audits and any related information from the auditor must be submitted to the Department no later than 120 calendar days after the end of the region/provider’s fiscal year.” Attachment F of the provider contract states, “In regard to the submission dates of annual financial audits, compilation financial statements (as applicable), or a review of financial statements (as applicable) as specified in this Attachment, time shall be considered of the essence but not more than 120 days after the end of the Contractor’s or subcontractor’s fiscal year. If audits, compilations, or reviews are not received by this date, funds may be withheld until such financial reports are received.”

Our review of 12 of the 62 regional governing boards and providers and four additional provider contracts noted the following:

- Regional governing boards and providers were required to file three audits for each contract period; a financial audit, a program fidelity audit, and a services purchased audit. These audits were reviewed by the Program’s field representatives; however, there was no documentation on file to document the review process was performed and what corrective action was taken, if any.
- Two of twelve regional governing boards and providers tested did not have a financial audit report on file or a financial audit report could not be located for review.
- Seven of twelve regional governing boards and providers tested did not have a program fidelity audit performed for the fiscal year ending June 30, 2004. These providers stated the next program fidelity audit would be for the fiscal year ending in 2006.

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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Provider Audits (Continued)

- Five of twelve regional governing boards and providers tested did not have an audit of services purchased on file. If a regional governing board was a provider, a neutral entity was to perform the audit. The regional governing boards' financial audits were performed by an independent CPA, but the audits did not include a statement verifying units of service purchased were received. Of the 12 audits of services purchased selected for testing, three were regional governing boards who were also providers and all three regional governing boards did not complete the requirements for the services purchased audit.
- Two of four contracts tested did not have an audit of services purchased on file. One regional governing board's financial audit did not show units of service purchased were received and there was no verification by the Program that services purchased were delivered. One provider sent quarterly reports to the Program for reimbursement which were used to verify services purchased, but the Program did not test the reports or documents.
- Four of ten regional governing boards' and providers' financial audits tested did not report mental health and substance abuse block grant funds received separately.
- Nine of ten regional governing boards' and providers' financial audits tested did not include a statement that no block grant funds were used for inpatient services.
- One of ten regional governing boards' and providers' financial audits tested was not signed by the CPA firm performing the audit.
- Eight of ten regional governing boards' and providers' financial audits tested were not received by the Program within 120 days after the end of the provider's fiscal year.

When audits are not performed or adequately reviewed by the Program, there is an increased risk of loss or misuse of State funds

We recommend the following:

- The Program document their review of all audits filed, follow up on all audit findings, and document corrective actions taken.

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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Provider Audits (Concluded)

- The Program ensure all regional governing boards and providers audits are received, received in a timely manner, are complete and include the required information, and are properly filed in their office.
- The CPA firms conducting the audits receive a copy of Attachment F to the provider contract or a listing of audit requirements to ensure all the requirements in the contract are met.
- The Program review their procedures and comply with all contract and State regulations relating to audits of regions and other providers.

HHS's Response: We will improve monitoring methods to ensure that service providers and regional governing boards submit audits required by and agreed to in contracts, provider agreements and grant sub-awards.

4. Provider Certification

Title 203 NAC Chapter 5, Section 002.01, states "Providers of substance abuse programs shall be certified by the Division when any of the following is desired: Eligibility to receive funds from the Division." Title 204 NAC Chapter 5, Section 001.02A, states "All organizations and individuals receiving funds from the Department under a contract with the Department or through a Regional Governing Board shall be certified by the Department to provide the program(s) specified in the contract." The provider contract states, "Providers must be certified by the Office as provided for in applicable State Regulations (Title 203 NAC 5 and Title 204 NAC 5), and in Department standards."

There was no documentation on file at the Program office to document the twelve regional governing boards and providers tested were certified.

When providers are not certified, there is an increased risk services are not being provided or are not adequately provided.

We recommend the Program review their procedures and comply with the contract and State regulations that require all regional governing boards and providers be certified.

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COMMENTS AND RECOMMENDATIONS

(Continued)

4. Provider Certification (Concluded)

HHS's Response: Regulations for this program are being re-written to implement changes made by the legislature in LB 1083 (2004), the Behavioral Health Services Act. They will be evaluated to incorporate appropriate review and certification requirements for providers and the agency.

5. Service Contracts

Good internal control requires all contracts entered into be reviewed by legal counsel to ensure the contract is correctly completed. Good internal controls require contracts and amendments be signed by all parties involved. Neb. Rev. Stat. Section 73-503(1) R.R.S. 2003 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." Neb. Rev. Stat. Section 73-502(1) R.R.S. 2003 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." Good internal controls require contracts to be properly entered on NIS.

Our review of Program service contracts noted the following:

- Contracts between the Program and regional governing boards, tribes, and statewide providers were not reviewed by legal counsel. A standard contract template was used for all contracts with regional governing boards and tribes, which was initially reviewed by legal counsel when it was created. Small changes have been made to the template since legal counsel's review. Contracts with statewide providers were significantly different from the contract template.
- One of four contracts tested had been amended, but the amendment was not signed by the Program.
- Five of six compulsive gambling service contracts tested were not entered on the NIS contract database. We noted two other contracts were not entered on NIS. One was a contract with a region and one was a contract with an Indian tribe.
- One of four contracts tested was entered on the NIS contract database twice.

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COMMENTS AND RECOMMENDATIONS
(Continued)

5. Service Contracts (Concluded)

When contracts are not reviewed by legal counsel there is an increased risk the contracts do not adequately protect the interests of the State of Nebraska. If contracts are not signed there is a risk the contract is not enforceable. 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 all contracts be reviewed by legal counsel and this review be documented, all contracts be reviewed and properly signed before sent for filing, and all service contracts be properly entered on NIS.

HHS's Response: We will have new contract and new provider agreement templates reviewed by the HHSS Legal Division staff and will review requirements for NIS entry.

6. NIS Security

Good internal control requires segregation of duties so no one individual can prepare and post their own documents and an employee can not prepare a document that has no approval authorization.

Our review of NIS security authorizations at June 30, 2004, noted the following:

- 12 employees could prepare and approve their own transactions on NIS.
- 68 employees had NIS user security to prepare transactions, but no one was setup on NIS for batch approval of these transactions.

When individuals can prepare and approve the documents they have prepared, there is a lack of segregation of duties and an increased risk of inappropriate transactions. When individuals have the ability to prepare documents but there is no one set up to approve and post any documents they prepare there is an increased risk that documents may be posted if a statewide approval was processed.

We recommend the Program review their NIS security to ensure no one can process and approve their own transactions, everyone authorized to prepare transactions has a second individual authorized to post the transactions.

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COMMENTS AND RECOMMENDATIONS

(Continued)

6. NIS Security (Concluded)

HHS's Response: The 12 employees identified that can prepare and post their own transactions were initially set up this way when NIS started as they were the only ones trained. We agree with this finding and will make this change.

The 68 employees identified by the Auditor's Office were as of June 30, 2004. HHSS had subsequently changed all but 14 of them to inquiry only so they could not prepare documents. Those 14 will be changed to inquiry access only as well, and will not be able to prepare documents. The remaining staff were all employees with a second user ID, and those will no longer be needed after the next NIS update scheduled for September 2005.

7. Outstanding Warrants

Good internal control requires all outstanding warrants be reviewed and followed up on to ensure the payments have gone to the correct party or individual.

The Program did not have procedures in place to review and follow up on outstanding warrants.

We recommend the Program institute procedures to review and follow up on outstanding warrants.

HHS's Response: There were no outstanding warrants for this budget program.

8. Nebraska Information System and Accounting Procedures

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). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004, the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

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COMMENTS AND RECOMMENDATIONS
(Continued)

8. Nebraska Information System and Accounting Procedures (Continued)

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 obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported; however, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003, reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004, have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

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COMMENTS AND RECOMMENDATIONS
(Continued)

8. Nebraska Information System and Accounting Procedures (Continued)

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but do acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.
- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State (Secretary of State). The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the administrator, (administrator means the State Records Administrator) schedules proposing the length of time each record series warrants retention for administrative,

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COMMENTS AND RECOMMENDATIONS

(Continued)

8. Nebraska Information System and Accounting Procedures (Continued)

legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.
- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.
- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the

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COMMENTS AND RECOMMENDATIONS

(Continued)

8. Nebraska Information System and Accounting Procedures (Continued)

State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.

- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

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COMMENTS AND RECOMMENDATIONS

(Continued)

8. Nebraska Information System and Accounting Procedures (Concluded)

The issues identified above are the responsibility of the DAS 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 DAS, 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.

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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 Department of Health and Human Services - Program 38 - Behavioral Health Aid (Program) for the fiscal year ended June 30, 2004. The Program'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.

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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements 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.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Perry Pirsch, JD, MPA
Legal Counsel
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In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2005, on our consideration of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid's internal control

over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Program and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Timothy J. Chamber CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

April 19, 2005

NEBRASKA HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	State General Fund 10000	Compulsive Gamblers Assistance Fund 21750	Nebraska Health Care Fund 22640	Federal General Fund 40000	Medicare- Other/HRC Fund 48100	Title XIX Medicaid Fund 48120	Total (Memorandum Only)
REVENUES:							
Appropriations	\$ 28,651,169	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,651,169
Intergovernmental	-	-	-	11,562,423	-	5,840,400	17,402,823
Miscellaneous	-	-	-	-	2,643	59,057	61,700
TOTAL REVENUES	<u>28,651,169</u>	<u>-</u>	<u>-</u>	<u>11,562,423</u>	<u>2,643</u>	<u>5,899,457</u>	<u>46,115,692</u>
EXPENDITURES:							
Operating	30,000	-	3,303	2,053	-	-	35,356
Travel	-	-	-	2,950	-	-	2,950
Government Aid	28,621,169	666,320	11,152,718	11,557,420	-	5,875,022	57,872,649
TOTAL EXPENDITURES	<u>28,651,169</u>	<u>666,320</u>	<u>11,156,021</u>	<u>11,562,423</u>	<u>-</u>	<u>5,875,022</u>	<u>57,910,955</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(666,320)</u>	<u>(11,156,021)</u>	<u>-</u>	<u>2,643</u>	<u>24,435</u>	<u>(11,795,263)</u>
OTHER FINANCING SOURCES (USES):							
Operating Transfers In (Note 4)	-	703,079	10,599,660	-	-	-	11,302,739
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>703,079</u>	<u>10,599,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,302,739</u>
Net Change in Fund Balances	-	36,759	(556,361)	-	2,643	24,435	(492,524)
FUND BALANCES, JULY 1, 2003	<u>-</u>	<u>375,686</u>	<u>4,666,982</u>	<u>-</u>	<u>75,072</u>	<u>1,115,621</u>	<u>6,233,361</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ -</u>	<u>\$ 412,445</u>	<u>\$ 4,110,621</u>	<u>\$ -</u>	<u>\$ 77,715</u>	<u>\$ 1,140,056</u>	<u>\$ 5,740,837</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Criteria

The accounting policies of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid (Program) 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 the Program 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, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

The Program had no accounts receivable at June 30, 2004.

The fund types established by NIS that are used by the Program are:

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

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.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

The major revenue object account codes established by NIS used by the Program 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.

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 the Program are:

Operating – Expenditures directly related to a program’s primary service activities.

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

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 the Program include:

Other Financing Sources – Operating transfers.

2. State Agency

The Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid (Program) is a State Program established under and governed by the laws of the State of Nebraska. As such, the Program is exempt from State and Federal income taxes. The schedule includes all funds of the Program.

The Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid is part of the primary government for the State of Nebraska.

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

NOTES TO THE SCHEDULE

(Continued)

3. 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.

4. Transfers

Transfers in consists of monies the Program receives annually from the Charitable Gaming Operations Fund and the State Lottery Operations Trust Fund transferred into the Compulsive Gamblers' Assistance Fund and tobacco settlement funds transferred into the Nebraska Health Care Fund from the Nebraska Tobacco Settlement Trust Fund.

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NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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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Nebraska Department of Health and Human Services
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid for the fiscal year ended June 30, 2004, and have issued our report thereon dated April 19, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Department of Health and Human Services - Program 38 - Behavioral Health Aid's ability to

record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 8 (Nebraska Information System and Accounting Procedures).

A material weakness is a reportable 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 caused by error or fraud 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 believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health 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 grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska Department of Health and Human Services - Program 38 - Behavioral Health Aid in the Comments Section of this report as Comment Number 1 (Support for Payments to Regions), Comment Number 2 (Statutory Match), Comment Number 3 (Provider Audits), Comment Number 4 (Provider Certification), Comment Number 5 (Service Contracts), Comment Number 6 (NIS Security), and Comment Number 7 (Outstanding Warrants).

This report is intended solely for the information and use of the Program and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

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

Assistant Deputy Auditor

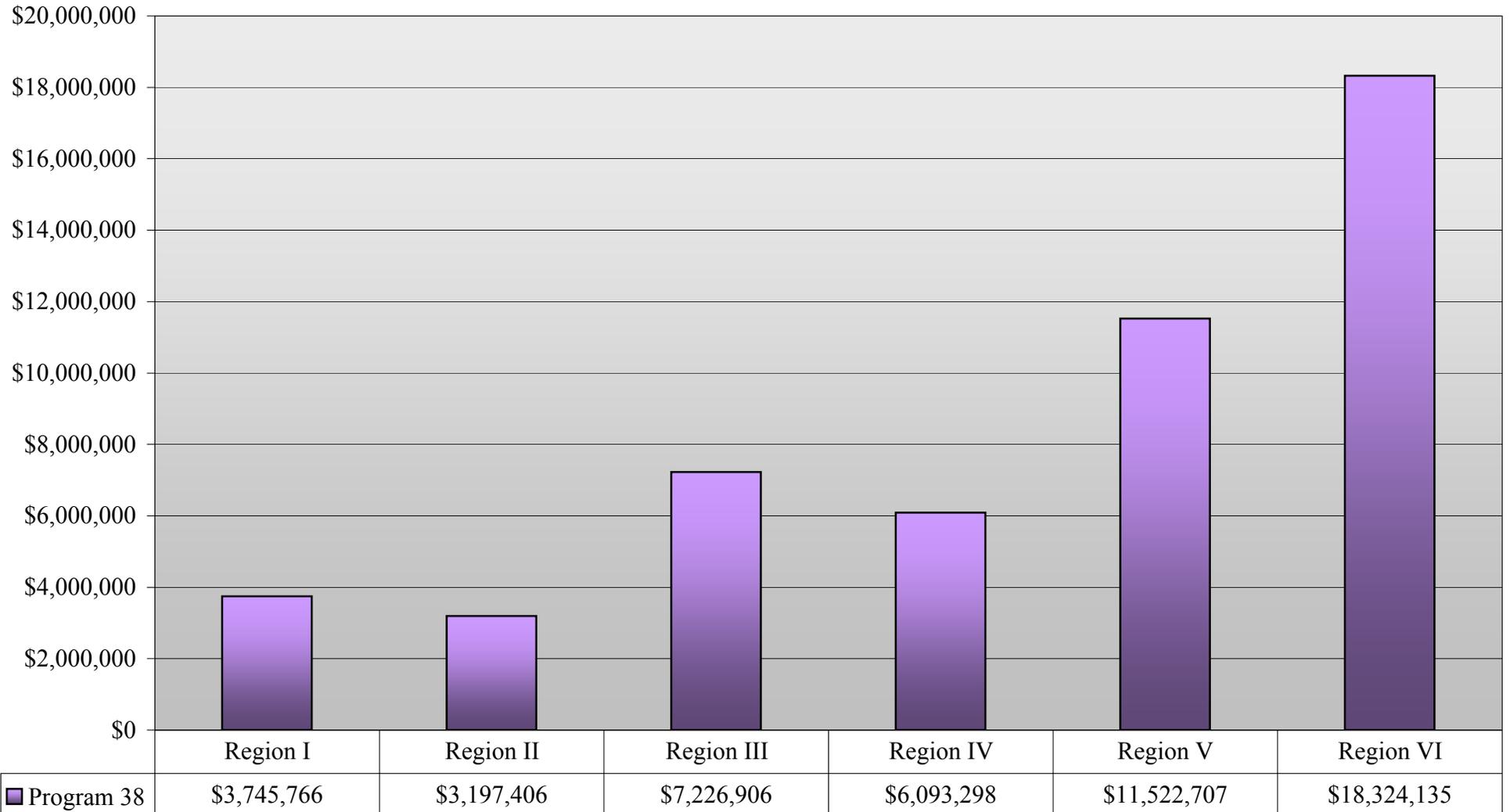
April 19, 2005

NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM 38 - BEHAVIORAL HEALTH AID

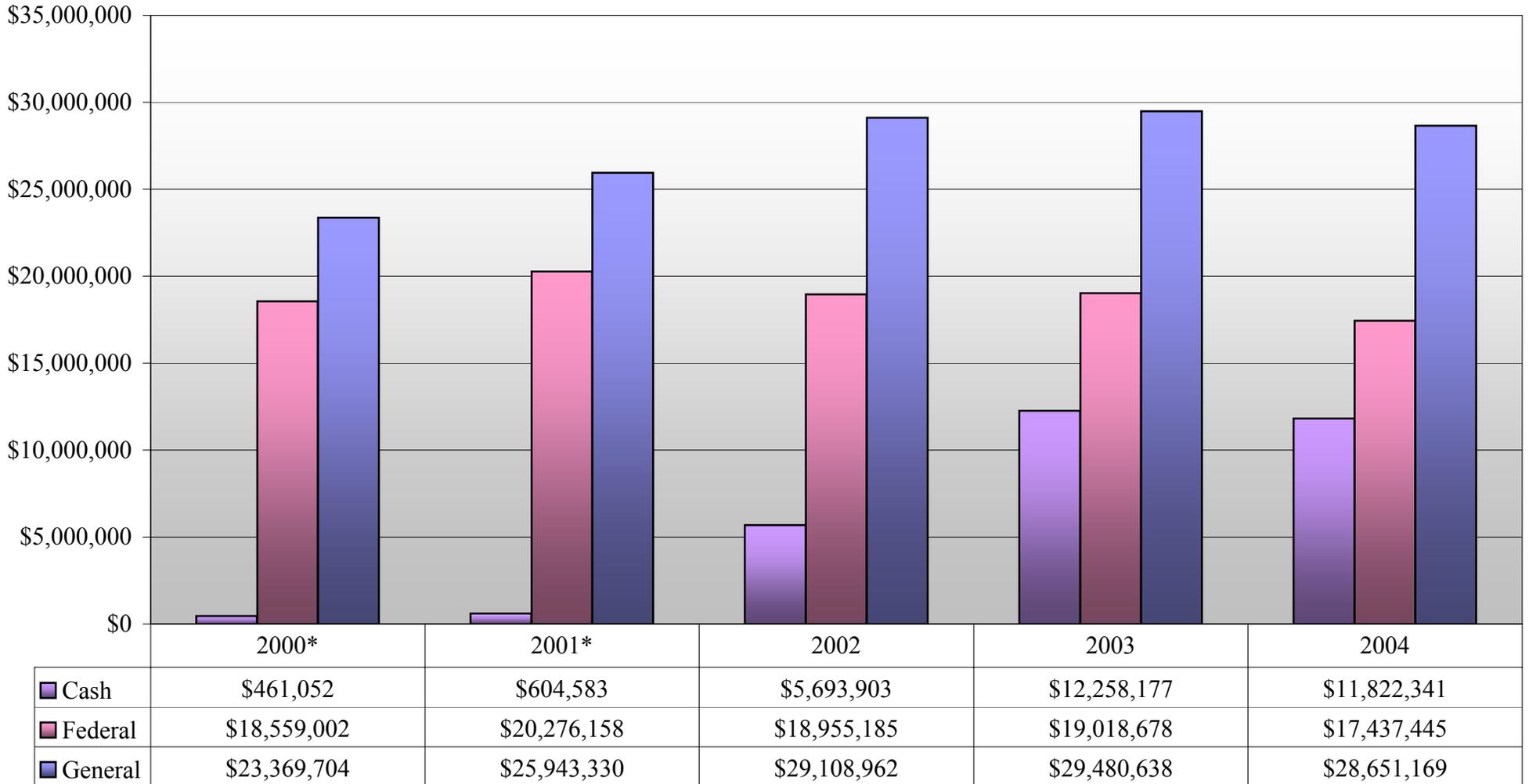
STATISTICAL SECTION

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
PROGRAM 38 - BEHAVIORAL HEALTH AID
DISBURSEMENTS TO REGIONS
For the Period July 1, 2003 Through June 30, 2004



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 38 - BEHAVIORAL HEALTH AID
DISBURSEMENTS BY FUND TYPE
Fiscal Years 2000 Through 2005



* - Fiscal years 2000 and 2001 figures are a combination of Program 34 and 366, which were combined in 2002 to form Program 38.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 38 - BEHAVIORAL HEALTH AID
COMPULSIVE GAMBLERS ASSISTANCE DISBURSEMENTS
Fiscal Years 2002 Through 2004

