

**ATTESTATION REPORT
OF THE
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on June 29, 2006

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

BACKGROUND

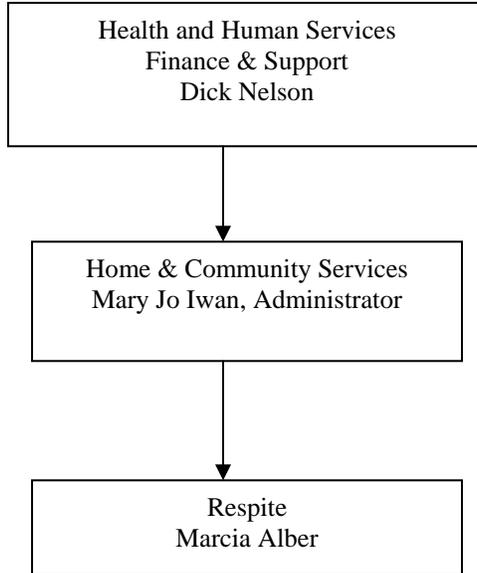
This Program provides for the administration of the six Nebraska Respite Network organizations that hire respite providers for caregivers. The main Program objective is to offer information and referral to families, market respite care, recruit respite providers, and offer training to respite providers and consumers. The Program administers the funding provided to the six contractors charged with infrastructure and development.

MISSION STATEMENT

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

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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ORGANIZATIONAL CHART



NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

EXIT CONFERENCE

An exit conference was held June 12, 2006, with the Program to discuss the results of our examination. Those in attendance for the Nebraska Health and Human Services System - Program 35 - Respite Care were:

NAME	TITLE
Linda J. Shandera	LTC Services Coordination Manager
Tom Jurgens	Accounting and Finance Manager
Elmer G. Meiler	Budget Analyst
Duane Singsaas	Performance Measurement Consultant
Linda Sand	Program Specialist
Marcia Alber	Program Coordinator Respite
Larry Morrison	Cost Accounting Manager
Ann Linneman	Program Analyst
Mary Jo Iwan	Home & Community Services Administrator
Don Swartz	Accounting and Finance Manager

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

SUMMARY OF COMMENTS

During our examination of the Nebraska Health and Human Services System (HHSS) - Program 35 - Respite Care (Program), we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Service Contracts:*** All four service contracts tested did not have a documented review by legal counsel.
2. ***Reconciliation of Fund Balance:*** The Federal fund balance for Program 35 has not been reconciled since June 30, 2001.
3. ***NIS Security:*** HHSS employees had authorization on NIS to prepare and approve their own transactions and employees could prepare transactions, but no individual was setup to post their transactions.
4. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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.

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.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

COMMENTS AND RECOMMENDATIONS

1. Service Contracts

Good internal control requires all contractual agreements be reviewed by legal counsel to ensure the State's interests are properly protected.

We tested four service contracts entered into by the Program. All four of these contracts were not reviewed by legal counsel before the Program entered into the contract.

Without adequate procedures to ensure contracts are reviewed by legal counsel, there is an increased risk for loss or misuse of State and Federal funds.

We recommend HHSS implement procedures to ensure all service contracts are reviewed by legal counsel to ensure the State's interests are properly protected.

HHSS's Response: We followed the process approved by the HHS Services Agency for contract development and approval. All contracts are developed using the template approved by HHSS Legal Division.

2. Reconciliation of Fund Balance

Sound governmental accounting practices and internal controls require agencies to properly match receipts and disbursements by funds and programs.

The fund balance for Federal Program Grants Fund 42640 was reconciled by program at June 30, 2001. With the implementation of the Nebraska Information System (NIS) in 2003, HHSS created various "sub" funds for Fund 42640, including Fund 42641. The fund balance in Fund 42641 was not reconciled by program on a regular basis to ensure the program balances agreed to NIS, the State's accounting system. The fund balances for Fund 42640 for the past four fiscal years was prepared by the APA and is shown below:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Beginning Balance	\$ 24,450	\$ (12,986)	\$ (18,132)	\$ 3,433
Receipts	-	25,000	50,000	50,000
Disbursements	<u>37,436</u>	<u>30,146</u>	<u>28,435</u>	<u>32,206</u>
Ending Balance	<u>\$ (12,986)</u>	<u>\$ (18,132)</u>	<u>\$ 3,433</u>	<u>\$ 21,227</u>

Without the reconciliation of fund balances by program, there is an increased risk that program funds will be misspent.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Reconciliation of Fund Balance (Concluded)

We recommend HHSS implement procedures to ensure fund balances are properly reconciled by program on an annual basis to ensure funds are correctly spent for each program.

HHSS's Response: The fund balance for Program 035 has been reconciled.

3. NIS Security

Good internal control requires a proper segregation of duties so no one individual can prepare, approve, and post their own documents on NIS, and an employee cannot prepare a document without an authorized approver.

Our review of NIS security authorizations at June 30, 2005, noted the following:

- Six employees could prepare and approve their own transactions on NIS.
- Eleven employees had NIS user security to prepare transactions, but no individual was set up on NIS for batch approval of these transactions.

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

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

HHSS's Response: All security changes have been made except for three staff that must retain this security to do their job.

4. Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before

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COMMENTS AND RECOMMENDATIONS

(Continued)

4. Reconciliation of Bank Records to the Nebraska Information System (Continued)

NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

(Continued)

4. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM PROGRAM 35 - RESPITE CARE

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 - Program 35 - Respite Care (Program) for the fiscal year ended June 30, 2005. 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 Health and Human Services System - Program 35 - Respite Care for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2006, on our consideration of the Nebraska Health and

Human Services System - Program 35 - Respite Care'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.

June 12, 2006


Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Nebr. Health Care Fund 22640	Federal Fund 40000	Federal Project Grants Fund 42640	Totals (Memorandum Only)
REVENUES:					
Appropriations	\$ 47,904	\$ -	\$ -	\$ -	\$ 47,904
Intergovernmental	-	-	422,038	50,000	472,038
Miscellaneous	-	77,468	(77,343)	-	125
TOTAL REVENUES	47,904	77,468	344,695	50,000	520,067
EXPENDITURES:					
Personal Services	44,835	42,266	23,857	-	110,958
Operating	2,525	207,712	320,244	32,206	562,687
Travel	544	(117)	594	-	1,021
TOTAL EXPENDITURES	47,904	249,861	344,695	32,206	674,666
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(172,393)	-	17,794	(154,599)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	250,000	-	-	250,000
Net Change in Fund Balances	-	77,607	-	17,794	95,401
FUND BALANCES, JULY 1, 2004	-	63,448	-	3,433	66,881
FUND BALANCES, JUNE 30, 2005	<u>\$ -</u>	<u>\$ 141,055</u>	<u>\$ -</u>	<u>\$ 21,227</u>	<u>\$ 162,282</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ 141,055	\$ -	\$ 21,227	\$ 162,282
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 141,055</u>	<u>\$ -</u>	<u>\$ 21,227</u>	<u>\$ 162,282</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Health and Human Services System - Program 35 - Respite Care 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.S.Supp., 2004, 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, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

The Program had no accounts receivable at June 30, 2005. The NIS system does not include liabilities for accrued payroll and compensated absences.

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 HEALTH AND HUMAN SERVICES SYSTEM
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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 other sources not covered by other major categories, such as prior period adjustments.

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

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Program.

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.

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are also included in fund balance and are reported as recorded on NIS.

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.

2. State Agency

The Nebraska Health and Human Services System - Program 35 - Respite Care (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.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE

NOTES TO THE SCHEDULE
(Continued)

2. State Agency (Concluded)

The Nebraska Health and Human Services System - Program 35 - Respite Care is part of the primary government for the State of Nebraska.

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. Operating Transfers

The Program received an operating transfer of \$250,000 in Tobacco Settlement Funds per 2004 Neb. Laws LB 1089.

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**NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
PROGRAM 35 - RESPITE CARE
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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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Health and Human Services System - Program 35 - Respite Care for the fiscal year ended June 30, 2005, and have issued our report thereon dated June 12, 2006. 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.

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Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Health and Human Services System - Program 35 - Respite Care'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Health and Human Services System - Program 35 - Respite Care's ability to record, process, summarize, and report financial

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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 2 (Reconciliation of Fund Balance), Comment Number 3 (NIS Security), and Comment Number 4 (Reconciliation of Bank Records to the Nebraska Information System).

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 that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Health and Human Services System - Program 35 - Respite Care'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 also noted a certain additional item that we reported to management of the Nebraska Health and Human Services System - Program 35 - Respite Care in the Comments Section of this report as Comment Number 1 (Service Contracts).

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.

June 12, 2006


Assistant Deputy Auditor