

STATE OF NEBRASKA
Auditor of Public Accounts



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March 7, 2007

Major General Roger Lempke, The Adjutant General
Nebraska Department of Military
1300 Military Road
Lincoln, NE 68508-1090

Dear Major General Lempke:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 6, 2007. 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 the Federal Office of Management and Budget (OMB) Circular A-1 33 (the Single Audit) 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 Department of Military (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency's management, are intended to improve internal control or result in other operating efficiencies.

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 (if applicable) have been satisfactorily resolved.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

Our comments and recommendations for the year ended June 30, 2006, are shown on the following pages.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #06-31-01

Program: CFDA 12.401 National Guard Operations and Maintenance - Cash Management

Grant Number & Year: W91243-05-2-1001, FFY 2005; W91243-06-2-1001, W91243-06-2-1021, W91243-06-2-1024, FFY 2006

Federal Grantor Agency: Department of Defense

Criteria: Title 31 CFR 205.33 requires that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes. The timing and amount of funds transferred must be as close as administratively feasible to a State's actual cash outlay.

Condition: The Agency did not minimize the time between the drawdown of Federal funds from the Federal government and the disbursement for program purposes. For 9 of 22 expenditures tested, the drawdown of funds appeared excessive.

Questioned Costs: NA

Context: The CMIA agreement allows the National Guard to have a 15 day receipt window. The CMIA agreement further requires the Agency to request funds such that they are deposited in a State account no more than three days prior to the day of disbursement. We noted the following:

<u>Document</u>	<u>Draw Date</u>	<u>Received Date</u>	<u>Expenditure Date</u>	<u>#Days Expended after Draw</u>	<u># Days Expended after Receipt</u>
6625086	9/7/05	9/14/05	10/4/05	27	20
6378130	8/3/05	8/5/05	8/22/05	19	17
7867757	3/3/06	3/9/06	3/24/06	21	15
3030884	4/4/06	4/17/06	4/26/06	22	9
3030885	4/4/06	4/17/06	4/26/06	22	9
3031049	3/3/06	3/9/06	4/27/06	55	49
3031050	3/3/06	3/9/06	4/27/06	55	49
3026395	10/04/05	10/18/05	10/31/05	27	13
3026396	10/04/05	10/18/05	10/31/05	27	13

Cause: The Agency feels they are in compliance with cash management requirements. The Agency tracks expenditures and compares to the budget on a monthly basis.

Effect: Noncompliance with cash management requirements could result in interest due or penalties.

Recommendation: We recommend the Agency comply with cash management requirements to ensure a minimal amount of time between the Federal drawdown and the disbursement of funds for program purposes.

Management Response:

1. 205.33 How Are Funds Transfers Processed?

Proposed 205.33 reaffirms the overall goal of Part 205, efficient cash management. Federal program agencies and States must limit funds transfers to the minimum amounts necessary to meet program goals. These funds transfers must be conducted to minimize the time between the funding and the paying out of the funds for Federal assistance program purposes.

CMIA requires States and Federal agencies to minimize the time between the drawdown and the subsequent expenditure of Federal funds for Federal program purposes. A State may only drawdown Federal funds in accordance with the time and amounts dictated by the agreed upon funding technique. Drawdowns may not include an extra amount, or occur earlier, to create a balance for the purpose of compensation.

Exhibit I – Funds Request and Receipt Times Schedule for Nebraska

This documentation confirms the State of Nebraska Army and Air National Guard should receive Federal funds in the State of Nebraska within 15 days of request. This does not reference a specified expenditure time limit.

2. The CMIA Agreement states that the amount of the request shall be the amount the State expects to disburse.

The Nebraska Military Department is not listed in the Average Clearance Patterns. The Agency exercises all efforts to minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes.

The Military Department recommends that this finding be deleted from final reporting because CMIA agreement language does not stipulate that Federal funds be expended within 15 days.

Corrective Action Plan: Awaiting Federal guidance

Contact: Shawn D. Fitzgerald

Anticipated Completion Date: Ongoing.

Auditor's Response: As indicated, Federal regulations require drawdowns be as close as administratively feasible to the expenditure of funds. We do not feel expenditures paid 49 days after the receipt of Federal funds is in accordance with cash management requirements.

Finding #06-31-02

Program: CFDA 12.401 National Guard Military Operation and Maintenance—Allowable Costs/Cost Principles

Grant # and Year: W91243-06-2-1021 ANG FOMA and W91243-06-2-1024 ANG FIRE, FFY 2006

Federal Grantor Agency: Department of Defense

Criteria: OMB Circular A-87 indicates the costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Where employees work on more than one Federal award, a distribution of their salaries or wages will be supported by personnel activity reports which reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services are performed do not qualify as support for charges to Federal awards.

Condition: Air Guard employees did not have monthly personnel activity reports that recorded each employee's actual time spent on different programs or a certification the employees worked solely on a single program for the period.

Questioned Costs: None.

Context: National Guard did implement monthly personnel activity reports that record each employee's actual time spent on different programs as a percentage to be entered on NIS. However, it was only the Army National Guard that implemented this new procedure; Air Guard had not implemented this procedure. We tested 11 National Guard employees; 6 employees tested from the Army were appropriately certifying actual time spent on programs; 5 Air Guard employees tested did not have certifications in accordance with A-87. Total payroll for the fiscal year ended June 30, 2006, for Federal program FFY06 ANG FIRE was \$1,438,697. Total fiscal year ended June 30, 2006, payroll for Federal program FFY06 ANG FOMA was \$245,233.

Cause: Unknown.

Effect: Noncompliance with requirements could result in unallowable costs charged to Federal grants.

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation.

Management Response:

Corrective Action Plan: Air National Guard FOMA supervisors of State employees and Air National Guard Firefighter Supervisors of State employees will be advised to implement the monthly personnel activity reports to record each employees' actual time spent on different programs. ANG-Firefighter employees are directly coded to ONE program, and therefore will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared quarterly and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Contact: Shawn D. Fitzgerald

Anticipated Completion Date: December 15, 2006

Finding #06-31-03

Program: CFDA 97.042 Emergency Management Performance Grants (EMPG), 97.004/16.007 State Domestic Preparedness Equipment Support, 97.067 Homeland Security Grant Program—Allowable Costs/Cost Principles

Grant # and Year: 2003-MU-T3-0008, 2004-GE-T4-0048, 2005-MU-T3-0008, 2005-GE-T5-0020, 2006-EM-E6-0024

Federal Grantor Agency: Department of Homeland Security

Criteria: OMB Circular A-87 indicates the costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Where employees work on more than one Federal award, a distribution of their salaries or wages will be supported by personnel activity reports which reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services are performed do not qualify as support for charges to Federal awards.

Condition: During our review of payroll for October 2005 we noted five employees tested did not have the required certification. Nebraska Emergency Management Agency (NEMA) implemented the new timesheets in December 2005 with the required A-87 certification.

However, NEMA is still not in compliance with A-87 as one employee tested worked on more than one Federal program (Homeland Security and EMPG). Currently the employee is documenting how many hours they worked for each program on the timesheet, but their time is compensated based on a budget estimate and not the actual hours worked for each program.

Questioned Costs: Unknown.

Context: The Statewide Single audit for 2005 noted certifications were not completed. NEMA indicated they would modify their timesheets for all employees to certify hours worked on one program or multiple programs to comply with OMB Circular A-87. However, during our review of timesheets for October 2005 it was noted the change had not occurred yet and five employees tested did not have the certification. NEMA implemented the new timesheets in December 2005. However, NEMA was still not in compliance with A-87 as one of these employees worked on more than one Federal program and time was not charged to each program based on actual hours worked for those employees. Total October 2005 payroll for these five employees was \$12,391.

Cause: Change implemented after 2005 Single Audit.

Effect: Noncompliance with requirements could result in unallowable costs charged to Federal grants.

Recommendation: We recommend the Agency implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Charges must certify that employees worked solely on that program and the period covered. Time worked by employees on multiple Federal programs must be based on an after-the-fact distribution of actual activity.

Management Response:

Corrective Action Plan: Payroll coding for the four (4) employees has been changed to reflect only one source of funding. NEMA will no longer assign employees to more than one funding source. When/if an employee works on an activity/project with an alternative funding source than the one permanently assigned; the time expended on the activity/project will be recorded and charged on an hourly basis and will be certified by the employee and supervisor.

Contact: Deb Kai

Anticipated Completion Date: Completed November 15, 2006

Finding #06-31-04

Program: CFDA 97.067 Homeland Security Grant Program - Reporting

Grant Number & Year: 2005-GE-T5-0020, FFY 2005

Federal Grantor Agency: Department of Homeland Security

Criteria: Nebraska Information System (NIS) is the official accounting system of the State of Nebraska. Per 44 CFR 13.20 a State must account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to (1) Permit preparation of reports required and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Good internal control requires procedures to ensure Federal expenditures are accurately reported and agree to the State accounting system.

Condition: One of five reports tested for the period ended March 31, 2006, did not agree to NIS.

Questioned Costs: NA

Context: The Federal share of outlays reported was \$5,276,306, the amount per NIS was \$6,812,181 for the period January 1 through March 31, 2006; a variance of \$1,535,875. Auditor noted the grant expenditures were corrected for the June 30, 2006, quarterly report.

Cause: Clerical error and inadequate review.

Effect: Inaccurate reporting of expenditures.

Recommendation: Implement procedures to ensure Federal reported expenditures agree to NIS.

Management Response:

Corrective Action Plan: Journal entry was completed to correctly report expenditures.

Contact: Deb Kai

Anticipated Completion Date: Completed June 30, 2006

Finding #06-31-05

Program: CFDA 97.036 Public Assistance Grants – Cash Management

Grant Number & Year: FEMA-1590-DR-NE, Grant Period 6/23/05 to 6/23/09

Federal Grantor Agency: Department of Homeland Security

Criteria: Title 44 CFR 13.21 requires methods and procedures for payment to minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

Condition: The Agency did not comply with cash management requirements to minimize the time between the transfer of funds to the subrecipient and the actual payout. One of fifteen documents tested was an advance payment of \$196,095 for a large project. The payment was made March 3, 2006, and no invoices had been received as of October 16, 2006, to substantiate the actual costs.

Questioned Costs: Unknown.

Context: We tested 15 documents with Federal expenditures totaling \$1,053,195. Total expenditures for Public Assistance Grants during the fiscal year were \$6,014,381. Five of the documents tested were for large projects. Large projects require reimbursements to subrecipients for actual costs. There were 24 large projects open during the fiscal year. The project tested was for hail-damaged vehicles.

Cause: The Public Assistance Officer failed to follow policies and procedures. The employee was disciplined and is no longer with the Agency.

Effect: Increased risk for loss or misuse of funds.

Recommendation: Implement procedures to ensure payments for large projects are reimbursed based on actual costs; if funds must be advanced then the Agency should ensure invoices are received on a timely basis.

Management Response: The Public Assistance Office had specific Program guidelines NOT to advance funds, although Federal guidelines in the 44 CFR allow for advancement of funds on large projects.

Corrective Action Plan: Public Assistance Officer was subsequently disciplined.

Contact: Deb Kai

Anticipated Completion Date: Completed

Finding #06-31-06

Program: CFDA 97.036 Public Assistance Grants – Reporting

Grant Number & Year: FEMA-3245-EM-NE, Grant Period 9/13/05 to 9/12/06

Federal Grantor Agency: Department of Homeland Security

Criteria: Nebraska Information System (NIS) is the official accounting system of the State of Nebraska. Per 44 CFR 13.20 a State must account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to (1) Permit preparation of reports required and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition: One of five Public Assistance reports tested for the period ended March 31, 2006, did not agree to NIS.

Questioned Costs: NA

Context: The Federal share of outlays reported was \$21,488, the amount per NIS was \$9,342 for the period September 13, 2005, through March 31, 2006, a variance of \$12,146.

Cause: The Agency reported the amount of funds drawn.

Effect: Inaccurate reporting of expenditures.

Recommendation: Implement procedures to ensure Federal reports are accurate and agree to NIS.

Management Response:

Corrective Action Plan: Three percent administrative fees are allowed on Public Assistance Grants for eligible costs. \$12,146.00 was not transferred to the cash fund and held in abeyance for miscellaneous unknown eligible expenditures (contingency).

Once the grant is complete and closed – the contingency will be transferred via journal entry to the Governor’s Emergency Cash Fund.

Contact: Deb Kai

Anticipated Completion Date: Completion of grant

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.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.



Pat Reding
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor