

STATE OF NEBRASKA
STATEWIDE SINGLE AUDIT
Year Ended June 30, 2006

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Issued on March 7, 2007

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2006

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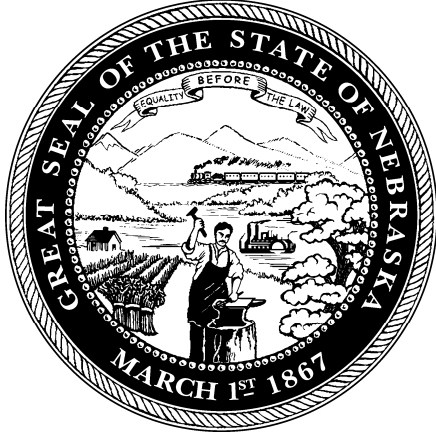
STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2006

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FINANCIAL SECTION

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Independent Auditors' Report

The Honorable Governor,
Members of the Legislature and
Citizens of the State of Nebraska:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2006, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nebraska State College System's foundations, the University of Nebraska, the College Savings Plan, and the NETC Leasing Corporation. The State College System's foundations and the University of Nebraska represent 96% of both the assets and revenues of the aggregate discretely presented component units' information. The College Savings Plan and the NETC Leasing Corporation represent 12% and 20% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nebraska State College System's foundations, the University of Nebraska, the College Savings Plan, and the NETC Leasing Corporation is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Nebraska State College System's foundations, the College Savings Plan, and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As described in note 15 to the financial statements, the State of Nebraska adopted in 2006 the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASBS No. 44, *Economic Condition Reporting: The Statistical Section---an amendment of NCGA Statement 1*; GASBS No. 46, *Net Assets Restricted by Enabling Legislation---an amendment of GASB Statement No. 34*; and GASBS No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of the State of Nebraska's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 16, the Budgetary Comparison Schedules on pages 49 through 53; the Information About Infrastructure Assets Reported Using the Modified Approach on page 55; and the Schedules of Funding Progress and Three-Year Trend Information on pages 46 and 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements.

Lincoln, Nebraska
December 21, 2006


Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented four new standards in 2006 required by the Governmental Accounting Standards Board (GASB): Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which has no immediate effect; Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which resulted in significant changes to the statistical information presented at the end of the CAFR; Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which caused more assets to be disclosed as restricted, and Statement No. 47, *Accounting for Termination Benefits*, which does not affect our reporting because the State does not provide such benefits.

A comparative analysis of government-wide data for the last two years is presented in this analysis. Additionally, we are presenting an analysis of activity in the State's funds for the fiscal year ended June 30, 2006 along with an analysis of the State's capital assets and long-term debt related to capital assets.

FINANCIAL HIGHLIGHTS

Government-Wide:

The assets of the State exceeded its liabilities at June 30, 2006 by \$9.8 billion (presented as "net assets" in the CAFR). The majority of the net assets are represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, unrestricted net assets was reported as \$711 million, most of which is available to be used to fund future needs of the State. The primary government's net revenues exceeded net expenses for 2006 by \$568 million resulting in an increase in net assets. The increase in net assets was primarily a result of a continually improving economy providing an increase in taxes collected coupled with a less than budgeted increase of expenditures from 2005.

Fund Level:

General Fund receipts for 2006 were \$260 million above the original budgeted amount and above the final budget by \$74 million. Expenditures were \$154 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$289 million in excess revenues prior to \$6 million in other financing uses resulting in an ending fund balance on June 30, 2006 of \$692 million. Other governmental funds expenditures almost equaled receipts; however, such funds received \$40 million in other financing sources (namely net transfers in) increasing such fund balances at June 30, 2006 to \$1,638 million.

The \$273 million of net assets of the Unemployment Compensation Fund represents eighty-eight percent of the proprietary funds. Such fund had a \$62 million increase in net assets for 2006 (compared to a \$28 million increase in 2005) due to a \$14 million decrease in unemployment claims, and a \$21 million increase in charges for services due to a rate increase and a 14% increase in the taxable wage base.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled \$509 million at June 30, 2006, which is a significant decrease from the prior year, chiefly due to the settlement payment of a \$146 million claim related to a low-level waste lawsuit. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, unemployment compensation, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due employees when they retire.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This CAFR also contains other supplementary information (e.g., budgetary schedules and combining financial statements) in addition to the basic financial statements. These components are described below:

Government-Wide Financial Statements

These statements provide a broad view of the State's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the State's financial position. The statements are prepared using the accrual basis of accounting. This means all revenues and expenses related to the fiscal year are recorded in the statements, even if cash has not been received or paid. If taxes are owed to the State but not yet received, such transaction is recorded as an asset (a receivable) and revenue to the State. Likewise, if the State owes for vacation time, but has not yet paid the worker for such vacation earned, then the liability and payroll expense is recorded. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents all the State's assets and liabilities with the difference between the two reported as "Net Assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units. Fiduciary Funds, which include the Pension Funds, are not included in the Government-wide Financial Statements.

Primary Government

GOVERNMENTAL ACTIVITIES – Activities in this section are mostly supported by taxes and federal grants. All General Fund activity is included here. Governmental activities represent over 96% of all activity of the primary government. It includes general government; education; health and human services; public safety; transportation; regulatory services; and economic development and assistance.

BUSINESS-TYPE ACTIVITIES – Functions reported in this section include those activities whereby the State charges fees and other charges to external users of the State’s services and purchasers of State’s goods in order to recover all or a significant portion of the State’s operating costs related to these activities, much like a private business. Such activities are unemployment compensation services, lottery tickets, premium surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

DISCRETELY PRESENTED COMPONENT UNITS – These are separate organizations for which the State has financial accountability but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State’s only two discretely presented component units. While presented in this report, each of these two units have separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State’s operations. As previously noted, these Statements are commonly referred to as GAAP Fund Statements, as they are prepared in accordance with generally accepted accounting principles. The Fund Financial Statements provide detailed information about the State’s major funds. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. The State’s funds are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. It is important to note that each of these three fund categories use different accounting approaches and should be analyzed differently.

Governmental Funds Financial Statements – Most of the basic services provided by the State are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, the Governmental Funds Financial Statements use modified accrual accounting, which limits assets to cash and all other financial assets that can readily be converted into cash. This is different from the governmental activities recorded in the government-wide financial statements that use full accrual accounting. These fund statements provide a detailed short-term view of the State’s finances that assist the reader in determining whether or not there will be adequate financial resources to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader can better understand the long-term impact of the State’s near-term financing decisions. To aid the reader in such analysis, reconciliations are provided between the Government-wide Financial Statements and the Governmental Funds Financial Statements.

The State of Nebraska’s governmental funds include five major funds: the General Fund, the Highway Fund, the Federal Fund, the Health and Social Services Fund and the Permanent School Fund. Non-major special revenue, capital project and other permanent funds are also included in the governmental funds.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Thus, when the State charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds consist of both Enterprise Funds (services provided to outside customers) and Internal Service Funds (services provided to other State agencies). Proprietary funds utilize accrual accounting, the same method used by private businesses. Therefore, the net assets reported in these statements as Enterprise Funds will be identical to the net assets reported in the net assets for business-type activities in the Government-wide Financial Statements. However, because the Internal Service Funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements.

Fiduciary Funds Financial Statements – Whenever the State receives funds on behalf of others, it is acting in a fiduciary capacity or trustee of those funds belonging to others. Thus, assets in these funds are restricted as to use and do not represent discretionary assets that the State could use to finance its operations. They are presented in these statements only for the purpose to indicate that the State has responsibility for these assets. For that reason, such assets are not included in the government-wide financial statements. Fiduciary funds are reported on the accrual basis of accounting.

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for state employees, county employees and public school employees (see Note 11 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions.

Component Units Financial Statements

As mentioned in the discussion of the Government-wide Financial Statements, the State has included the net assets and activities of the University of Nebraska and the Nebraska State College System in a single column of such statements, labeling them as discretely presented component units. We have provided separate, but brief, component unit statements to allow the reader to analyze each of these two units separately.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements.

Required Supplementary Information

Following the basic financial statements, and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the fund balances determined by GAAP used in the Fund Financial Statements for the General Fund, Cash Funds, Construction Funds, Federal Funds, and Revolving Funds. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes the combining statements for non-major governmental, proprietary and fiduciary funds. These funds are summarized by fund type and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the Governmental Fund Financial Statements. Also presented is a statistical section providing State data.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$11,550 million at June 30, 2006 as compared to \$11,026 at June 30, 2005. As total liabilities only totaled \$1,722 million, net assets amounted to \$9,828 million as of June 30, 2006. As of June 30, 2005, these amounts were \$1,767 million and \$9,259 million, respectively. By far the largest portion of the State of Nebraska's net assets (74 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, etc.). The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future spending.

For Governmental Activities other than capital assets, the majority of the restricted net assets consists of the Permanent School Trust, the Tobacco Settlement Trust, the Intergovernmental Trust and the loans to political subdivisions for drinking water and clean water projects.

The net assets for business-type activities represents chiefly cash set aside for future unemployment compensation benefits.

STATE OF NEBRASKA Net Assets as of June 30 (in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and Other						
Non-current Assets	\$ 3,848	\$ 3,539	\$ 386	\$ 324	\$ 4,234	\$ 3,863
Capital Assets	7,310	7,156	6	7	7,316	7,163
Total Assets	11,158	10,695	392	331	11,550	11,026
Non-current Liabilities	456	604	53	54	509	658
Other Liabilities	1,185	1,077	28	32	1,213	1,109
Total Liabilities	1,641	1,681	81	86	1,722	1,767
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,269	7,110	6	6	7,275	7,116
Restricted	1,567	1,100	275	213	1,842	1,313
Unrestricted	681	804	30	26	711	830
Total Net Assets	\$ 9,517	\$ 9,014	\$ 311	\$ 245	\$ 9,828	\$ 9,259

Over 77% of the State's non-capital assets consist of cash and investments. It should be noted that \$556 million in 2006 and \$489 million in 2005 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.) Receivables, chiefly from taxes and the federal government, represent 22% of the non-capital assets.

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, unemployment compensation, employee health insurance (\$140 million for 2006 and \$290 million for 2005), Medicaid claims for \$197 million (\$181 million in 2005) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$113 million in 2006 (\$111 million for 2005). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 9 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds. Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements). Debt related to capital assets totaled \$42 million at June 30, 2006.

The change in net assets of Governmental Activities, other than capital assets, was due chiefly to a \$467 million increase in restricted net assets. Much of this was due to a reclassification of certain special revenue funds from unrestricted to restricted. Additionally, there was a large increase in unrestricted net assets, prior to the reclassification, due to the large increase in revenues over expenses.

At the end of June 30, 2006, the State is able to report positive balances in all of the three categories of net assets.

Changes in Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year. Following that table is management's analysis of the changes in net assets for 2006, analyzing both the governmental activities and the business-type activities.

STATE OF NEBRASKA
CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 492	\$ 528	\$ 291	\$ 258	\$ 783	\$ 786
Operating Grants and Contributions	2,152	2,121	-	-	2,152	2,121
Capital Grants and Contributions	4	12	-	-	4	12
General Revenues						
Taxes	3,777	3,566	-	-	3,777	3,566
Unrestricted Investment Earnings	93	118	10	13	103	131
Miscellaneous	-	6	-	-	-	6
Total Revenues	<u>6,518</u>	<u>6,351</u>	<u>301</u>	<u>271</u>	<u>6,819</u>	<u>6,622</u>
EXPENSES						
General Government	309	321	-	-	309	321
Conservation of Natural Resources	100	95	-	-	100	95
Culture - Recreation	27	29	-	-	27	29
Economic Development and Assistance	87	80	-	-	87	80
Education	1,318	1,225	-	-	1,318	1,225
Higher Education - Colleges and Universities	482	451	-	-	482	451
Health and Social Services	2,594	2,495	-	-	2,594	2,495
Public Safety	289	282	-	-	289	282
Regulation of Business and Professions	152	139	-	-	152	139
Transportation	697	716	-	-	697	716
Interest on Long-term Debt	3	3	-	-	3	3
Unemployment Compensation	-	-	101	114	101	114
Lottery	-	-	83	77	83	77
Excess Liability	-	-	12	2	12	2
Cornhusker State Industries	-	-	11	11	11	11
Total Expenses	<u>6,058</u>	<u>5,836</u>	<u>207</u>	<u>204</u>	<u>6,265</u>	<u>6,040</u>
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	460	515	94	67	554	582
Transfers	28	26	(28)	(26)	-	-
Contributions to Permanent Fund Principal	15	16	-	-	15	16
Increase (Decrease) in Net Assets	503	557	66	41	569	598
Net Assets - Beginning	9,014	8,457	245	204	9,259	8,661
Net Assets - Ending	<u>\$ 9,517</u>	<u>\$ 9,014</u>	<u>\$ 311</u>	<u>\$ 245</u>	<u>\$ 9,828</u>	<u>\$ 9,259</u>

Governmental Activities

Governmental activities increased the State's net assets by \$503 million in 2006 (\$557 million in 2005). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,648 million and were used to partially offset program expenses of \$6,058 million, leaving net expenses of \$3,410 million. Only 5% of total expenses were spent on general government expenses. General taxes, investment earnings, contributions to the permanent fund principal and transfers of \$3,913 million were used to more than cover the remaining costs of the programs as shown below.

Program revenues basically remained unchanged from 2005. Tax revenues were up \$211 million, which was just short of offsetting the increase in program expenditures, net of revenues. Investment earnings decreased \$25 million due to \$13 million of investment losses (chiefly unrealized losses on long-term investments), as opposed to a \$45 million gain in 2005. This \$58 million turnaround more than offset the \$33 million gain in investment income, which was the result of more funds being invested at higher interest rates. These were the chief reasons net assets increased \$54 million less than in 2005.

Program expenditures, net of revenue, increased by \$235 million in 2006, as shown by the following table:

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	2006	2005
General Government	\$ (203)	\$ (247)
Conservation of Natural Resources	(24)	(21)
Culture - Recreation	(8)	(9)
Economic Development and Assistance	(23)	(14)
Education	(1,027)	(927)
Higher Education - Colleges and University	(482)	(451)
Health and Social Services	(1,063)	(1,001)
Public Safety	(195)	(180)
Regulation of Business and Professions	(37)	(14)
Transportation	(345)	(308)
Interest on Long-Term Debt	(3)	(3)
Subtotal	(3,410)	(3,175)
General Revenues		
Taxes	3,777	3,566
Unrestricted Investment Earnings	93	118
Miscellaneous	-	6
Transfers	28	26
Contributions to Permanent Fund Principal	15	16
Increase (Decrease) in Net Assets	\$ 503	\$ 557

Four functional areas of the State comprise 85% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Together they also comprise 97% of the increase in program expenditures, net of revenue. Education expenditures were up \$100 million chiefly due to legislation providing more school aid to the K-12 school systems in Nebraska. Health and Social Services was up \$62 million because of increased aid for Medicaid and other aid

programs. Higher Education was up as the appropriation to the University of Nebraska was increased \$31 million. Transportation net expenses were up \$37 million due to normal inflationary operating costs and the recognition of \$12 million in expenses related to lawsuits.

Business-type Activities

The business-type activities increased the State's net assets by \$66 million for 2006, which was net of a \$28 million transfer to the governmental activities. Most of the \$291 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Compensation Fund and Lottery Fund revenues. The Unemployment Compensation Fund had operating income of \$53 million in 2006. This income, when combined with the \$10 million in investment income, produced \$63 million of revenue. Lottery revenues of \$113 million generated net revenue of \$30 million, which was offset by the \$28 million transfer to the Governmental Activities. The lottery transfer was used primarily for education and environmental studies.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be designated or undesignated. If they are designated, they are unreserved only as long as they are used for the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in designated funds.) At the end of 2006, the State's Governmental Funds reported combined ending fund balances of \$2,330 million. The total unreserved balances amounted to \$1,710 million.

General Fund

The General Fund is the chief operating fund of the State. The major General Fund liability is the estimated tax refunds payable of \$274 million. Such refunds payable are \$22 million less than the expected taxes owed the State. Other assets of the General Fund available to pay near-term liabilities exceed such liabilities by \$670 million.

On June 30, 2005, the General Fund had a positive fund balance of \$409 million. While both revenues and expenditures increased in 2006, revenues were greater than expenditures which resulted in an increase in fund balance of \$289 million in 2006, which was greater than the \$173 million increase that occurred in 2005. The operating increase in 2006, when coupled with \$6 million decrease of other financing sources, caused the General Fund balance to increase by \$283 million, ending with a fund balance of \$692 million.

Revenues in 2006 were more than anticipated and were up \$186 million over 2005 chiefly due to (1) continued increase in corporate income tax revenue because of increased corporate profits as a result of the improved economy and (2) increased individual income tax revenue resulting from the effect of more capital gains being reported and increased salaries being paid. Sales taxes from increased retail sales were offset somewhat by legislation that decreased the sales tax base, causing only a slight increase in

sales taxes collected. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending.

To compensate for any downturns in revenues, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in the General Fund cash account to do so. Such reserve was at \$87 million at the beginning of 2005. Due to the fact that 2005 revenues exceeded the forecast, a statutory requirement caused a \$109 million transfer from the General Fund cash account to the Cash Reserve Fund in July 2005. Cigarette and tobacco products tax revenues of \$8 million were placed into the Cash Reserve in 2005 and \$27 million was transferred to the General Fund cash account and other funds, leaving a Cash Reserve Fund balance at the end of 2005 of \$177 million. In July, 2005 the statutory transfer for excess receipts for FY 2006 was \$262 million. Offsetting this large transfer was a \$146 million payment made on August 1, 2005 from the Cash Reserve to settle a lawsuit against the State related to a low-level radioactive waste site. There were transfers out of the reserve of \$19 million, leaving a balance of \$274 million at the end of 2006. Again, because 2006 revenues exceeded the forecast, a \$260 million transfer was made from the General Fund into the Cash Reserve Fund in July, 2006. As a result, at the end of July, 2006, the Cash Reserve Fund had \$534 million.

Other Governmental Funds

Other governmental fund balances totaled \$1,638 million at June 30, 2006; \$619 million of such fund balances is reserved to indicate that they are not available for new spending because such funds (1) are represented by endowment principal (\$386 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$214 million), (3) have been expended for other assets, chiefly inventories (\$8 million) and thus the funds are not available, or (4) have been committed for debt service (\$11 million).

Of the non-General Fund unreserved fund balances of \$1,018 million, \$54 million represents permanent school funds which can be used only for support of public schools. \$893 million is represented by special revenue funds which while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered "restricted" on the government-wide financial statements). Twenty-four million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Forty-seven million dollars is in the Capital Projects Fund, which, while unreserved, must be spent on a capital projects.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of \$549 million. Of this balance, \$538 million is classified as unreserved, but which are restricted in the government-wide statements in that the funds are unreserved only within the confines of such funds.

Governmental funds other than the General Fund saw an increase in fund balances of \$39 million. The fund balances of the following funds increased: the Health and Social Service Fund (\$41 million), the Permanent School Fund (\$29 million) and other Nonmajor Funds (\$15 million). The following funds decreased: the Highway Fund (\$41 million) and the Federal Fund (\$5 million).

The Highway Fund had a \$54 million decrease in federal funds. This lower funding, along with \$10 million less in investment income, charges for services and other income forced an \$8 million decrease in

operating expenses. These were the major reasons the Highway Fund had a \$41 million decrease in fund balance in 2006 as opposed to a \$12 million increase in 2005.

The Federal Fund received \$76 million more in federal grants and contracts, a 4% increase from 2005. Such increased revenues allowed for increased expenditures in accordance with the terms of the grants and contracts of \$77 million. Due to this and lower other income, net of transfers, of \$5 million, at the end of 2006 there was a net decrease in the fund of \$5 million, a \$6 million swing from the \$1 million increase in the fund in 2005.

The Health and Social Services Fund consists of the Intergovernmental Trust Fund and the Tobacco Settlement Trust Fund, in addition to various cash funds. Such cash funds receive transfers from such trust funds, income from charges for services, and some tax revenue, among other income. All funds had an increase in investment income in 2006 of \$8 million (mostly due to the increase in interest rates) and \$4 million more in charges for services, which partially offset the \$16 million reduction in IGT receipts and a \$3 million decrease in tobacco settlement funds. The lower than expected receipts caused a \$7 million decrease in expenditures chiefly due to \$6 million less spent on protection and safety of children, which, when added to a increase in other revenue of \$1 million, resulted in a \$2 million larger increase in net revenues when compared to 2005. In the year 2005 the fund balance was increased \$38 million, whereas in 2006 the fund balance was increased by \$41 million.

The Permanent School Funds had an \$8 million impairment of revenue, chiefly due to a \$5 million reduction of investment income, and when combined with a small \$3 million increase in expenditures, caused the fund balance to increase only \$29 million in 2006 in comparison with a \$40 million increase in 2005.

The Nonmajor Funds revenues were mostly stable from 2005 to 2006, with only a slight decrease. Expenditures, however, increased \$36 million during 2006, mainly due to increases in regulation (\$15 million), public safety (\$6 million), economic development (\$5 million) and general government (\$8 million). In 2005 the Fund balance increased \$24 million; in 2006 it increased only \$15 million. The smaller increase was chiefly due to the fact that the increase in net transfers and financing proceeds of \$28 million (chiefly \$15 million from the General Fund for economic development and \$5 million for capital construction) was not enough to offset the increase in expenditures and slight decrease in revenues.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements under Business-type Activities, but in more detail. The State's one major proprietary fund, the Unemployment Compensation Fund, had reported net assets of \$273 million at the end of 2006. This fund's net assets increased \$62 million in 2006, mainly due to charges to customers which exceeded the unemployment claims paid out by \$53 million, in an effort to rebuild the cash reserves of the fund. Other proprietary or enterprise funds – the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$31 million prior to a \$28 million transfer from the Lottery to governmental funds. Such transfer was used primarily for education and environmental studies.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Funds net assets increased \$719 million to \$7,782 million in 2006 due primarily to a strong market in 2006, which

provided \$551 million in appreciation of investments. Investment income in 2006 was \$141 million versus \$117 million in 2005. Contributions to the plans exceeded benefits, refunds and related administrative expenses by \$36 million. In another trust fund, \$393 million was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in the College Savings Plan now total \$1,251 million.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2006, the State continued to reap the benefits of the improved national economy. Forecasted revenues, upon which the State's budgeted General Fund expenses were based, had anticipated a steady, measured growth after the healthy increase in 2005. However, the State exceeded the revised projected tax revenues of \$3,178 million by \$74 million, realizing actual tax revenues, net of refunds, of \$3,252 million. Because the revenues continued to exceed expectations, the State's Forecasting Board made two new forecasts throughout the year, each time increasing the expected revenues. The total forecasted net revenues increased \$186 million from the original revenue forecast of \$2,992 million. As the year unfolded, revenues continued to pick up and the end result was that actual revenues again exceeded the annual forecast. Additionally, agencies continued to watch their spending and General Fund spending ended up \$151 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2006 with \$411 million of General Fund revenues in excess of expenditures on a budgetary basis, prior to net transfers out.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the State had invested \$7.3 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation expense for 2006 totaled \$47 million, compared to \$58 million for 2005.

CAPITAL ASSETS AS OF JUNE 30
(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 508	\$ 494	\$ -	\$ -	\$ 508	\$ 494
Buildings and Equipment	348	334	6	7	354	341
Infrastructure	6,395	6,262	-	-	6,395	6,262
Subtotal	7,251	7,090	6	7	7,257	7,097
Construction in Progress	59	66	-	-	59	66
Total	\$ 7,310	\$ 7,156	\$ 6	\$ 7	\$ 7,316	\$ 7,163

GASB Statement No. 34 requires the State to select one of two methods to account for its infrastructure assets. One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the

State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

The State has consistently maintained a high level of the assessed condition of roads over the past five years. The State’s goal is to maintain at least an overall system rating of 72 percent or above. The most recent condition assessment, completed for calendar year 2005, indicated an overall system rating of 84%, the same rating from the prior year.

For 2006, it was estimated that the State needed to spend \$125 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$214 million on roads in 2006, compared to \$221 million in 2005. For 2007, it is estimated that the State needs to spend \$148 million, a considerable reduction from the past three years. However, past history indicates the State typically spends more than estimated.

During 2006, the State added \$65 million of new depreciable capital assets. The State spent \$147 million on infrastructure and land purchases in 2006 (\$128 million in 2005), most notably reconstructing (a) Highways 6 and 133 in Omaha, (b) Highway 81 north of Norfolk, (c) Interstate 680 in west Omaha, (d) Highway 30 around Blair, and (e) Highway 71 around Scottsbluff. Major land purchases included areas west and south of Omaha, in southwest Lincoln and around Hooper. Twenty million of governmental funds were spent on capital projects in 2006 compared to twenty-two million in 2005. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project.

At June 30, 2006, the State had contractual commitments of \$467 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the financial statements.)

The State’s General Fund capital outlay budget authorized spending \$32 million on capital projects in 2007, in addition to \$5 million of unspent capital outlay authorizations that existed on June 30, 2006.

Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated. For further detail and analysis of long-term debt, see Notes 8 and 9 to the financial statements.

CERTAIN LONG-TERM DEBT AS OF JUNE 30
(in millions of dollars)

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2006</u>	<u>2005</u>
<u>Bonds Payable:</u>		
Nebraska State Building Corporation	\$ 2	\$ 2
NETC Leasing Corp	17	21
	<u>19</u>	<u>23</u>
 <u>Capitalized Leases:</u>		
	<u>\$ 23</u>	<u>\$ 25</u>

There were no new bonds issued in 2006 or 2005. There were only three small capitalized leases added in 2006 (three leases were also added in 2005), and such additional debt was more than offset by debt repayments. Bonds and Certificates of Participation for leases issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's. Standard and Poor's has issued an AA+ rating for the State as a whole.

FACTORS THAT WILL AFFECT THE FUTURE

Nebraska's economy has continued with steady growth, with no large upswings anticipated. How the State reacts to increased pressure to continue the recent annual increases in Medicaid spending is critical to the future cash position of the State. In 2007, Medicaid aid is projected to increase \$51 million. This increase, when added to the appropriated increase in aid to education and public assistance, totals almost two-thirds of the projected increase in General Fund aid of \$153 million for 2007. Net General Fund revenues for 2007 are currently projected to about equal 2006 revenues, as some recent tax legislation has reduced the expected tax revenues which will offset normal inflationary increases in tax revenues. As a result, the current 2007 budget plans for only a \$110 million increase in the General Fund balance, which will be considerably less than the \$283 million increase in 2006.

One of the reasons aid to education is forecasted to increase is the result of legislation that provides General Fund support for the maintenance, repair and renovation of buildings and facility replacement construction on the campuses of the University and state colleges. The State will spend \$6.625 million annually from July 1, 2006 through June 30, 2009 and then \$12.125 million annually from July 1, 2009 through June 30, 2020, for a total of \$153.25 million. Both the University and the state colleges have secured debt financing for such repairs, renovation and construction and these State funds will be used for debt service on the bonds which will be paid off in 2020.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2006, this Fund had a \$274 million balance. Two hundred sixty million was transferred from the General Fund in July 2006 to the Cash Reserve Fund as statutorily required, resulting in a balance of \$534 million at July 31, 2006. Future statutory disbursements from this fund include \$15 million to be transferred to the General Fund and \$2 million transferred to a veteran's home in 2007 plus \$60 million and \$55 million to be transferred to the General fund in 2008 and 2009, respectively.

CONTACTING THE STATE ACCOUNTING OFFICE

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional information, contact the State Accounting Division of the Department of Administrative Services, Suite 1309 State Capitol, Lincoln, NE 68509-4664, (402) 471-2581.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component units. For the University of Nebraska, contact the University of Nebraska, Director of University Accounting, 209 Varner Hall, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2191. For the State College System, contact the Nebraska State College System, Fiscal and Facilities Management, 11th Floor State Capitol, Lincoln, NE 68509-4605, (402) 471-2505.

State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2006

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 151,121	\$ 249,831	\$ 400,952	\$ 238,582
Receivables, net of allowance				
Taxes	337,708	-	337,708	-
Due from Federal Government	211,559	-	211,559	-
Other	111,035	44,002	155,037	212,909
Internal Balances	(207)	207	-	-
Due from Primary Government	-	-	-	388
Investments	2,236,228	76,484	2,312,712	1,471,816
Loans Receivable	213,896	-	213,896	37,873
Investment in Joint Venture	-	-	-	193,982
Other Assets	21,835	2,252	24,087	37,371
Restricted Assets:				
Cash and Cash Equivalents	20,529	-	20,529	247,305
Other	-	1,734	1,734	1,420
Securities Lending Collateral	544,697	10,931	555,628	-
Capital assets:				
Land	508,138	315	508,453	56,020
Infrastructure	6,394,382	-	6,394,382	-
Construction in Progress	59,079	-	59,079	107,346
Land Improvements	-	-	-	123,216
Buildings and Equipment	804,734	10,011	814,745	1,521,725
Less Accumulated Depreciation	(456,530)	(3,945)	(460,475)	(582,656)
Total Capital Assets, net of depreciation	<u>7,309,803</u>	<u>6,381</u>	<u>7,316,184</u>	<u>1,225,651</u>
Total Assets	<u>\$ 11,158,204</u>	<u>\$ 391,822</u>	<u>\$ 11,550,026</u>	<u>\$ 3,667,297</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 293,811	\$ 10,799	\$ 304,610	\$ 119,131
Tax Refunds Payable	280,774	-	280,774	-
Due to Other Governments	16,973	-	16,973	-
Deposits	11,745	-	11,745	8,869
Due to Component Units	388	-	388	-
Unearned Revenue	36,749	6,542	43,291	77,479
Obligations under Securities Lending	544,697	10,931	555,628	-
Noncurrent Liabilities:				
Due within one year	246,086	24,012	270,098	54,588
Due in more than one year	209,915	28,791	238,706	426,062
Total Liabilities	<u>\$ 1,641,138</u>	<u>\$ 81,075</u>	<u>\$ 1,722,213</u>	<u>\$ 686,129</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 7,269,102	\$ 6,066	\$ 7,275,168	\$ 808,501
Restricted for:				
Education	10,885	-	10,885	122,382
Health and Social Services	461,598	-	461,598	-
Transportation	108,459	-	108,459	-
Licensing and Regulation	88,787	-	88,787	-
Other Purposes	422,074	1,734	423,808	1,425,082
Unemployment Compensation Benefits	-	272,803	272,803	-
Debt Service and Construction	10,360	-	10,360	139,131
Permanent Trusts:				
Nonexpendable	386,703	-	386,703	-
Expendable	77,768	-	77,768	-
Unrestricted	<u>681,330</u>	<u>30,144</u>	<u>711,474</u>	<u>486,072</u>
Total Net Assets	<u>\$ 9,517,066</u>	<u>\$ 310,747</u>	<u>\$ 9,827,813</u>	<u>\$ 2,981,168</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 308,567	\$ 73,624	\$ 31,859	\$ 39
Conservation of Natural Resources	100,476	24,332	51,461	520
Culture – Recreation	27,174	15,977	2,822	-
Economic Development and Assistance	87,299	3,195	60,636	-
Education	1,318,123	23,346	268,193	8
Higher Education - Colleges and University	482,229	-	-	-
Health and Social Services	2,593,692	120,526	1,410,489	-
Public Safety	288,659	26,183	63,702	3,894
Regulation of Business and Professions	151,853	113,418	1,852	-
Transportation	697,210	90,951	260,803	-
Interest on Long-term Debt	2,556	-	-	-
Total governmental activities	<u>6,057,838</u>	<u>491,552</u>	<u>2,151,817</u>	<u>4,461</u>
Business-type activities:				
Unemployment Compensation	101,433	154,413	-	-
Lottery	83,440	113,108	-	-
Excess Liability	12,551	12,903	-	-
Cornhusker State Industries	10,552	10,851	-	-
Total business-type activities	<u>207,976</u>	<u>291,275</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 6,265,814</u>	<u>\$ 782,827</u>	<u>\$ 2,151,817</u>	<u>\$ 4,461</u>
COMPONENT UNITS:				
University of Nebraska	\$ 1,447,859	\$ 589,975	\$ 341,655	\$ 1,956
State Colleges	77,344	25,097	9,675	1,087
Total Component Units	<u>\$ 1,525,203</u>	<u>\$ 615,072</u>	<u>\$ 351,330</u>	<u>\$ 3,043</u>

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
 Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning as restated
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (203,045)	\$ -	\$ (203,045)	\$ -
(24,163)	-	(24,163)	-
(8,375)	-	(8,375)	-
(23,468)	-	(23,468)	-
(1,026,576)	-	(1,026,576)	-
(482,229)	-	(482,229)	-
(1,062,677)	-	(1,062,677)	-
(194,880)	-	(194,880)	-
(36,583)	-	(36,583)	-
(345,456)	-	(345,456)	-
(2,556)	-	(2,556)	-
<u>(3,410,008)</u>	<u>-</u>	<u>(3,410,008)</u>	<u>-</u>
-	52,980	52,980	-
-	29,668	29,668	-
-	352	352	-
-	299	299	-
<u>-</u>	<u>83,299</u>	<u>83,299</u>	<u>-</u>
<u>(3,410,008)</u>	<u>83,299</u>	<u>(3,326,709)</u>	<u>-</u>
-	-	-	(514,273)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,485)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(555,758)</u>
1,803,670	-	1,803,670	-
1,410,980	-	1,410,980	-
312,809	-	312,809	-
134,406	-	134,406	-
79,723	-	79,723	-
35,369	-	35,369	-
92,892	10,110	103,002	84,681
39	(423)	(384)	259,292
-	-	-	482,229
15,582	-	15,582	-
27,602	(27,602)	-	-
<u>3,913,072</u>	<u>(17,915)</u>	<u>3,895,157</u>	<u>826,202</u>
503,064	65,384	568,448	270,444
9,014,002	245,363	9,259,365	2,710,724
<u>\$ 9,517,066</u>	<u>\$ 310,747</u>	<u>\$ 9,827,813</u>	<u>\$ 2,981,168</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2006

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 28,418	\$ 3,148	\$ 3,572	\$ 61	\$ 6,758	\$ 37,104	\$ 79,061
Cash on Deposit with Fiscal Agents	-	-	-	-	-	20,529	20,529
Investments	798,472	93,184	60,390	439,687	422,851	421,644	2,236,228
Securities Lending Collateral	262,575	30,643	20,716	60,712	43,316	126,735	544,697
Receivables, net of allowance							
Taxes	295,987	41,527	-	-	-	194	337,708
Due from Federal Government	-	30,751	180,075	-	-	733	211,559
Loans	-	-	3,042	698	-	210,156	213,896
Other	22,868	9,120	21,807	35,437	4,015	15,610	108,857
Due from Other Funds	72,986	780	1,108	2,936	-	2,915	80,725
Inventories	439	7,410	6,072	409	-	-	14,330
Prepaid Items	43	13	5	-	-	141	202
Other	5,220	-	-	-	-	838	6,058
TOTAL ASSETS	\$ 1,487,008	\$ 216,576	\$ 296,787	\$ 539,940	\$ 476,940	\$ 836,599	\$ 3,853,850
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 74,264	\$ 55,790	\$ 65,010	\$ 11,475	\$ 7,852	\$ 29,691	\$ 244,082
Tax Refunds Payable	273,685	7,089	-	-	-	-	280,774
Due to Other Governments	674	15,546	-	-	-	\$ 753	16,973
Deposits	5,250	1,002	3,302	264	106	1,821	11,745
Due to Other Funds	63,813	6,542	72,240	14,595	18	10,379	167,587
Due to Component Units	388	-	-	-	-	-	388
Obligations under Securities Lending	262,575	30,643	20,716	60,712	43,316	126,735	544,697
Claims Payable	98,671	-	93,006	-	-	-	191,677
Deferred Revenue	15,449	-	27,304	18,651	4,590	-	65,994
TOTAL LIABILITIES	794,769	116,612	281,578	105,697	55,882	169,379	1,523,917
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	-	-	3,042	698	-	210,156	213,896
Inventories and Prepaid Items	482	7,423	5	409	-	141	8,460
Debt Service	-	-	-	-	-	10,742	10,742
Endowment Principal	-	-	-	-	367,156	19,547	386,703
Unreserved, reported in:							
General Fund	691,757	-	-	-	-	-	691,757
Special Revenue Funds	-	92,541	12,162	433,136	-	355,697	893,536
Permanent Funds	-	-	-	-	53,902	23,866	77,768
Capital Projects Fund	-	-	-	-	-	47,071	47,071
TOTAL FUND BALANCES	692,239	99,964	15,209	434,243	421,058	667,220	2,329,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,487,008	\$ 216,576	\$ 296,787	\$ 539,940	\$ 476,940	\$ 836,599	\$ 3,853,850

The accompanying notes are an integral part of the financial statements.

State of Nebraska

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2006

(Dollars in Thousands)

Total fund balances for governmental funds \$ 2,329,933

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	508,138	
Infrastructure	6,394,382	
Construction in progress	59,079	
Other capital assets	749,647	
Accumulated depreciation	<u>(420,577)</u>	7,290,669

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 30,472

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 57,980

Certain long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(19,435)	
Accrued interest on bonds	(382)	
Capital leases	(17,968)	
Obligations under other financing arrangements	(16,185)	
Compensated absences	(108,724)	
Claims and judgments	<u>(29,294)</u>	<u>(191,988)</u>

Net assets of governmental activities \$ 9,517,066

The accompanying notes are an integral part of the financial statements.

State of Nebraska
**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2006

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$ 1,798,515	\$ -	\$ -	\$ 3,646	\$ -	\$ -	\$ 1,802,161
Sales and Use Taxes	1,273,812	134,332	-	-	-	3,008	1,411,152
Petroleum Taxes	315	295,529	-	-	3,010	13,955	312,809
Excise Taxes	75,273	-	-	7,727	-	49,348	132,348
Business and Franchise Taxes	62,577	-	-	-	-	17,146	79,723
Other Taxes	26,603	3,093	-	-	-	5,673	35,369
Federal Grants and Contracts	34	243,454	1,873,380	1,087	-	38,323	2,156,278
Licenses, Fees and Permits	19,495	74,386	2	4,185	1,279	97,619	196,966
Charges for Services	132	13,766	9,426	33,637	-	25,171	82,132
Investment Income	13,294	1,225	320	35,709	24,957	14,383	89,888
Rents and Royalties	-	327	24	410	22,399	22,791	45,951
Surcharge	-	-	-	-	-	54,217	54,217
Other	2,080	2,755	2,937	70,597	14,118	25,841	118,328
TOTAL REVENUES	3,272,130	768,867	1,886,089	156,998	65,763	367,475	6,517,322
EXPENDITURES:							
Current:							
General Government	233,264	-	2,872	-	-	60,073	296,209
Conservation of Natural Resources	26,427	-	29,731	-	-	47,960	104,118
Culture – Recreation	5,576	-	2,348	-	-	18,468	26,392
Economic Development and Assistance	5,162	-	63,963	-	-	18,337	87,462
Education	999,375	-	275,262	-	36,548	7,600	1,318,785
Higher Education - Colleges and University	468,961	-	-	-	-	13,268	482,229
Health and Social Services	1,050,995	-	1,437,782	114,854	-	1,771	2,605,402
Public Safety	189,659	-	64,830	-	-	33,246	287,735
Regulation of Business and Professions	3,979	-	742	-	-	147,129	151,850
Transportation	17	817,543	-	-	-	20,236	837,796
Capital Projects	-	-	-	-	-	25,101	25,101
Debt Service:							
Principal	-	-	-	-	-	4,660	4,660
Interest	-	-	-	-	-	1,742	1,742
TOTAL EXPENDITURES	2,983,415	817,543	1,877,530	114,854	36,548	399,591	6,229,481
Excess of Revenues Over (Under) Expenditures	288,715	(48,676)	8,559	42,144	29,215	(32,116)	287,841
OTHER FINANCING SOURCES (USES):							
Transfers In	44,285	14,670	88	3,487	-	109,451	171,981
Transfers Out	(51,275)	(7,091)	(13,757)	(4,671)	-	(67,585)	(144,379)
Proceeds from Other Financing Arrangements	-	-	-	-	-	5,420	5,420
Proceeds from Capital Leases	1,211	-	-	-	-	-	1,211
TOTAL OTHER FINANCING SOURCES (USES)	(5,779)	7,579	(13,669)	(1,184)	-	47,286	34,233
Net Change in Fund Balances	282,936	(41,097)	(5,110)	40,960	29,215	15,170	322,074
FUND BALANCES, JULY 1	409,303	141,061	20,319	393,283	391,843	652,050	2,007,859
FUND BALANCES, JUNE 30	\$ 692,239	\$ 99,964	\$ 15,209	\$ 434,243	\$ 421,058	\$ 667,220	\$ 2,329,933

The accompanying notes are an integral part of the financial statements.

State of Nebraska

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

(Dollars in Thousands)

Net change in fund balances—total governmental funds **\$ 322,074**

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. Sales of capital assets are reported as revenues. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay, net of gains or losses	192,854	
Depreciation expense	<u>(39,494)</u>	153,360

Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Other financing arrangements	<u>(5,420)</u>	(5,420)
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Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (1,211)

Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:

Bond principal retirement	3,995	
Other financing arrangement payments	665	
Capital lease payments	<u>3,724</u>	8,384

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 9,271

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Unearned revenues increased by this amount this year. 2,076

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	70	
Increase in compensated absences	(2,397)	
Decrease in claims and judgments	797	
Decrease in pension benefit obligation	<u>16,060</u>	<u>14,530</u>

Change in net assets of governmental activities **\$ 503,064**

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 217,524	\$ 32,307	\$ 249,831	\$ 72,732
Receivables, net of allowance	38,796	5,206	44,002	2,059
Due from Other Funds	-	374	374	59,703
Inventories	-	1,899	1,899	206
Prepaid Items	-	353	353	1,039
TOTAL CURRENT ASSETS	<u>256,320</u>	<u>40,139</u>	<u>296,459</u>	<u>135,739</u>
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,734	1,734	-
Long-Term Investments	29,670	46,814	76,484	-
Securities Lending Collateral	9,756	1,175	10,931	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	428	9,583	10,011	55,087
Less Accumulated Depreciation	(176)	(3,769)	(3,945)	(35,953)
Total Capital Assets, net	<u>252</u>	<u>6,129</u>	<u>6,381</u>	<u>19,134</u>
TOTAL NONCURRENT ASSETS	<u>39,678</u>	<u>55,852</u>	<u>95,530</u>	<u>19,134</u>
TOTAL ASSETS	<u>\$ 295,998</u>	<u>\$ 95,991</u>	<u>\$ 391,989</u>	<u>\$ 154,873</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 2,466	\$ 8,333	\$ 10,799	\$ 16,550
Due to Other Funds	-	167	167	6,398
Capital Lease Obligations	-	-	-	2,435
Claims, Judgments and Compensated Absences	10,708	13,304	24,012	25,766
Unearned Revenue	-	6,542	6,542	1,227
TOTAL CURRENT LIABILITIES	<u>13,174</u>	<u>28,346</u>	<u>41,520</u>	<u>52,376</u>
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	2,561
Claims, Judgments and Compensated Absences	13	28,778	28,791	41,956
Obligations under Securities Lending	9,756	1,175	10,931	-
TOTAL NONCURRENT LIABILITIES	<u>9,769</u>	<u>29,953</u>	<u>39,722</u>	<u>44,517</u>
TOTAL LIABILITIES	<u>22,943</u>	<u>58,299</u>	<u>81,242</u>	<u>96,893</u>
NET ASSETS:				
Invested in Capital Assets, net of related debt	252	5,814	6,066	14,138
Restricted for:				
Lottery Prizes, Noncurrent	-	1,734	1,734	-
Unemployment Compensation Benefits	272,803	-	272,803	-
Unrestricted	-	30,144	30,144	43,842
TOTAL NET ASSETS	<u>273,055</u>	<u>37,692</u>	<u>310,747</u>	<u>57,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 295,998</u>	<u>\$ 95,991</u>	<u>\$ 391,989</u>	<u>\$ 154,873</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Charges for Services	\$ 154,413	\$ 136,860	\$ 291,273	\$ 300,285
Other	-	2	2	2,316
TOTAL OPERATING REVENUES	154,413	136,862	291,275	302,601
OPERATING EXPENSES:				
Personal Services	58	4,986	5,044	32,431
Services and Supplies	127	24,963	25,090	94,301
Lottery Prizes	-	63,722	63,722	-
Unemployment Claims	101,129	-	101,129	-
Insurance Claims	-	12,052	12,052	165,558
Depreciation	119	820	939	5,207
TOTAL OPERATING EXPENSES	101,433	106,543	207,976	297,497
Operating Income (Loss)	52,980	30,319	83,299	5,104
NONOPERATING REVENUES (EXPENSES):				
Investment Income	8,644	1,466	10,110	3,004
Gain (Loss) on Sale of Capital Assets	-	(423)	(423)	(788)
Other	-	-	-	1,951
TOTAL NONOPERATING REVENUES (EXPENSES)	8,644	1,043	9,687	4,167
Income (Loss) Before Transfers	61,624	31,362	92,986	9,271
Transfers In	-	-	-	1,100
Transfers Out	-	(27,602)	(27,602)	(1,100)
Change in Net Assets	61,624	3,760	65,384	9,271
NET ASSETS, JULY 1	211,431	33,932	245,363	48,709
NET ASSETS, JUNE 30	\$ 273,055	\$ 37,692	\$ 310,747	\$ 57,980

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 148,758	\$ 127,311	\$ 276,069	\$ 12,148
Cash Received from Interfund Charges	-	9,561	9,561	290,842
Cash Paid to Employees	(58)	(4,862)	(4,920)	(32,007)
Cash Paid to Suppliers	(127)	(23,669)	(23,796)	(85,018)
Cash Paid for Lottery Prizes	-	(62,871)	(62,871)	-
Cash Paid for Insurance Claims	(104,060)	(10,552)	(114,612)	(166,208)
Cash Paid for Interfund Services	(6)	(962)	(968)	(8,310)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>44,507</u>	<u>33,956</u>	<u>78,463</u>	<u>11,447</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cigarette Tax Proceeds	-	-	-	2,058
Transfers In	-	-	-	1,100
Transfers Out	-	(27,602)	(27,602)	(1,100)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(27,602)</u>	<u>(27,602)</u>	<u>2,058</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	(254)	(939)	(1,193)	(6,925)
Proceeds from Sale of Capital Assets	-	-	-	2,930
Principal Paid on Capital Leases	-	-	-	(2,178)
Interest Paid on Capital Leases	-	-	-	(107)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(254)</u>	<u>(939)</u>	<u>(1,193)</u>	<u>(6,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(962)	(170,140)	(171,102)	-
Proceeds from Sale of Investment Securities	-	170,477	170,477	-
Interest and Dividend Income	8,300	3,412	11,712	2,813
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>7,338</u>	<u>3,749</u>	<u>11,087</u>	<u>2,813</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,591	9,164	60,755	10,038
CASH AND CASH EQUIVALENTS, JULY 1	<u>165,933</u>	<u>23,143</u>	<u>189,076</u>	<u>62,694</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 217,524</u>	<u>\$ 32,307</u>	<u>\$ 249,831</u>	<u>\$ 72,732</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2006

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT COMPENSATION	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME TO NET CASH				
FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 52,980	\$ 30,319	\$ 83,299	\$ 5,104
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	119	820	939	5,207
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(5,655)	(2)	(5,657)	939
(Increase) Decrease in Due from Other Funds	-	(358)	(358)	(5,621)
(Increase) Decrease in Inventories	-	296	296	79
(Increase) Decrease in Prepaid Items	-	53	53	45
(Increase) Decrease in Long-Term Deposits	-	10	10	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(6)	820	814	750
Increase (Decrease) in Due to Other Funds	-	128	128	5,087
Increase (Decrease) in Claims Payable	(2,931)	1,500	(1,431)	(650)
Increase (Decrease) in Unearned Revenue	-	370	370	507
Total Adjustments	(8,473)	3,637	(4,836)	6,343
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 44,507	\$ 33,956	\$ 78,463	\$ 11,447

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 2,729
Change in Fair Value of Investments	-	(2,064)	(2,064)	-
Total Noncash Transactions	\$ -	\$ (2,064)	\$ (2,064)	\$ 2,729

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS:			
Cash and Cash Equivalents	\$ 4,040	\$ 17,564	\$ 87,678
Investments:			
U.S. Treasury Securities	92,644	-	-
Government Agency Securities	472,446	-	-
Corporate Bonds	247,521	-	-
Equity Securities	862,551	-	-
Options	(716)	-	-
Municipal Bonds	18,691	-	-
Real Estate Investment Trust	57,166	-	-
Pooled Investment Contracts	122,701	-	-
Collateral Mortgage Obligations	136,824	-	-
Asset Backed Securities	117,299	-	-
Repurchase Agreements	3,247	-	-
Mutual Funds	798,243	1,251,991	-
Pooled Funds	4,449,431	-	-
Commercial Paper, Money Market, and Foreign Currency	442,390	-	-
Total Investments	<u>7,820,438</u>	<u>1,251,991</u>	<u>-</u>
Securities Lending Collateral	202,926	-	-
Receivables:			
Contributions	17,538	-	-
Interest and Dividends	11,630	1,437	551
Other	36,053	2	559
Total Receivables	<u>65,221</u>	<u>1,439</u>	<u>1,110</u>
Due from Other Funds	33,469	-	-
Capital Assets:			
Buildings and Equipment	16,435	-	-
Less Accumulated Depreciation	(8,692)	-	-
Total Capital Assets, net	<u>7,743</u>	<u>-</u>	<u>-</u>
Other Assets	-	12,270	-
TOTAL ASSETS	<u>\$ 8,133,837</u>	<u>\$ 1,283,264</u>	<u>\$ 88,788</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Liabilities	\$ 139,524	\$ 2,260	17,326
Due to Other Governments	-	-	44,088
Deposits	-	855	-
Due to Other Funds	106	13	-
Obligations under Securities Lending	202,926	-	-
Capital Lease Obligations	9,176	-	-
Accrued Compensated Absences	255	-	-
Other Liabilities	-	-	27,374
TOTAL LIABILITIES	<u>351,987</u>	<u>3,128</u>	<u>88,788</u>
NET ASSETS:			
Held in Trust for:			
Pension Benefits	7,781,850	-	-
Other Purposes	-	1,280,136	-
TOTAL NET ASSETS	<u>7,781,850</u>	<u>1,280,136</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,133,837</u>	<u>\$ 1,283,264</u>	<u>\$ 88,788</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 149,643	\$ 392,844
Client Contributions	-	178
State Contributions	85,876	-
Political Subdivision Contributions	102,086	-
Court Fees	3,071	-
Total Contributions	<u>340,676</u>	<u>393,022</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	551,034	48,782
Interest and Dividend Income	141,004	31,862
Securities Lending Income	10,143	-
Total Investment Income	<u>702,181</u>	<u>80,644</u>
Investment Expenses	9,718	7,798
Securities Lending Expenses	9,699	-
Total Investment Expense	<u>19,417</u>	<u>7,798</u>
Net Investment Income	<u>682,764</u>	<u>72,846</u>
Escheat Revenue	-	9,270
Other Additions	115	4,814
TOTAL ADDITIONS	<u>1,023,555</u>	<u>479,952</u>
DEDUCTIONS:		
Benefits	285,700	163,195
Refunds	11,797	-
Amounts Distributed to Outside Parties	-	17,716
Administrative Expenses	7,504	2,301
TOTAL DEDUCTIONS	<u>305,001</u>	<u>183,212</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	718,554	-
Other Purposes	-	296,740
NET ASSETS-BEGINNING OF YEAR	<u>7,063,296</u>	<u>983,396</u>
NET ASSETS-END OF YEAR	<u>\$ 7,781,850</u>	<u>\$ 1,280,136</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 223,195	\$ 15,387	\$ 238,582
Receivables, net of allowance			
Loans	35,109	2,764	37,873
Other	210,594	2,315	212,909
Due from Primary Government	-	388	388
Investments	1,442,072	29,744	1,471,816
Investment in Joint Venture	193,982	-	193,982
Other Assets	33,915	3,456	37,371
Restricted Assets:			
Cash and Cash Equivalents	235,122	12,183	247,305
Investments Held by Trustee	-	1,420	1,420
Capital assets:			
Land	55,340	680	56,020
Land Improvements	106,982	16,234	123,216
Construction in Progress	98,787	8,559	107,346
Buildings and Equipment	1,392,543	129,182	1,521,725
Less Accumulated Depreciation	(525,183)	(57,473)	(582,656)
Total Capital Assets, net of depreciation	<u>1,128,469</u>	<u>97,182</u>	<u>1,225,651</u>
Total Assets	<u>\$ 3,502,458</u>	<u>\$ 164,839</u>	<u>\$ 3,667,297</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 112,710	\$ 6,421	\$ 119,131
Deposits	8,426	443	8,869
Deferred Revenue	77,152	327	77,479
Noncurrent Liabilities:			
Due within one year	49,673	4,915	54,588
Due in more than one year	398,809	27,253	426,062
Total Liabilities	<u>\$ 646,770</u>	<u>\$ 39,359</u>	<u>\$ 686,129</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 741,018	\$ 67,483	\$ 808,501
Restricted for:			
Education	122,382	-	122,382
Other Purposes	1,391,945	33,137	1,425,082
Construction and Debt Service	128,763	10,368	139,131
Unrestricted	471,580	14,492	486,072
Total Net Assets	<u>\$ 2,855,688</u>	<u>\$ 125,480</u>	<u>\$ 2,981,168</u>

The accompanying notes are an integral part of the financial statements.

State of Nebraska
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2006

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 852,178	\$ 48,707	\$ 900,885
Supplies and materials	218,705	4,339	223,044
Contractual services	86,040	2,504	88,544
Repairs and maintenance	40,492	1,659	42,151
Utilities	32,096	3,649	35,745
Communications	13,844	903	14,747
Depreciation	60,374	3,742	64,116
Scholarships and fellowships	120,834	721	121,555
Other	23,296	11,120	34,416
Total Operating Expenses	<u>1,447,859</u>	<u>77,344</u>	<u>1,525,203</u>
Program Revenues:			
Charges for Services	589,975	25,097	615,072
Operating Grants and Contributions	341,655	9,675	351,330
Capital Grants and Contributions	1,956	1,087	3,043
Total Program Revenues	<u>933,586</u>	<u>35,859</u>	<u>969,445</u>
Net (Expense) Revenue	<u>(514,273)</u>	<u>(41,485)</u>	<u>(555,758)</u>
General Revenue:			
Interest and investment earnings	82,520	2,161	84,681
Payments from the State of Nebraska	439,203	43,026	482,229
Miscellaneous	255,299	3,993	259,292
Total General Revenues	<u>777,022</u>	<u>49,180</u>	<u>826,202</u>
Change in Net Assets	262,749	7,695	270,444
Net Assets - Beginning as restated	<u>2,592,939</u>	<u>117,785</u>	<u>2,710,724</u>
Net Assets - Ending	<u>\$ 2,855,688</u>	<u>\$ 125,480</u>	<u>\$ 2,981,168</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

(dollars expressed in thousands)

1. Summary of Significant Accounting Policies

A. Basis of Presentation. The accompanying financial statements of the State of Nebraska (the "State") and its component units have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services. Additional data has been derived from audited financial statements of certain entities and from reports prescribed by the State Accounting Administrator and prepared by various State agencies and departments based on independent or subsidiary accounting systems maintained by them.

B. Reporting Entity. In determining its financial reporting entity, the State has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State, or the significance of their relationship with the State are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

As required by GAAP, these financial statements present the State and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. Complete financial statements of the individual component units that issue separate financial statements, as noted below, can be obtained from their respective administrative offices.

Blended Component Units. The following component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased

to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

Nebraska State Building Corporation. The Nebraska State Building Corporation (NSBC) is a nonprofit corporation formed by the State in 1987 to finance the acquisition of property to be used by the State. Even though it is legally separate, the NSBC is reported as if it were part of the State because it provides services entirely to the State.

Discretely Presented Component Units. The following component units are entities that are legally separate from the State, but are financially accountable to the State, or their relationships with the State are such that their exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State and governed by separate boards.

Nebraska State College System. The Board of Trustees of the Nebraska State Colleges governs Chadron State College, Peru State College and Wayne State College. The Board of Trustees is also the Board of Directors of the Nebraska State Colleges Facilities Corporation, a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State Colleges. The Board of Trustees consists of the Commissioner of Education and six members appointed by the Governor. Chadron State, Peru State and Wayne State Foundations are tax-exempt nonprofit corporations whose purpose is to provide financial support for the Nebraska State College System. Audit reports have been issued under separate cover.

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The University's financial reporting entity also consists of the following units: the University of Nebraska Facilities Corporation, a nonprofit corporation

organized to finance the construction and repair of buildings and hold them in trust for the University of Nebraska; the University Medical Associates, organized for the purpose of billing medical service fees generated by university clinicians; UNeMed, organized to develop and market biomedical technologies for the university; the University Dental Associates, organized for the purpose of billing dental service fees generated by university dentists; the Nebraska Utility Corporation, formed to purchase, lease, construct and finance activities relating to energy requirements of the University of Nebraska-Lincoln; the Peter Kiewit Institute Technology Development Corporation, a nonprofit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research; and the University of Nebraska Foundation, a tax-exempt nonprofit corporation whose purpose is to provide financial support for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State. Audit reports have been issued under separate cover.

The university and colleges are funded chiefly through State appropriations, tuition, federal grants, private donations and grants, and auxiliary operations.

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Finance Authority, Nebraska Investment Finance Authority, Research and Development Authority, and Wyuka Cemetery.

C. Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the State as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a

significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted Net Assets. This category results when constraints are externally imposed on net asset use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

It is the policy of the State to spend restricted net assets only when unrestricted net assets are insufficient or unavailable.

The Statement of Net Assets reports \$1,841,171 of restricted net assets, of which \$1,075,851 is restricted by enabling legislation.

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Administrative overhead charges of internal service funds are included in direct expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment; and 3) investment earnings of permanent funds that are legally restricted for a specific program. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 60 days, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment compensation taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

General Fund. This is the State's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Highway Fund. This fund accounts for the maintenance and preservation of State highways financed with sales tax on motor vehicles, gas taxes, federal aid and other highway user fees.

Federal Fund. This fund accounts for substantially all federal monies received by the State, except those received by the Highway Fund.

Health and Social Services Fund. This fund accounts for activities of agencies, boards, and commissions providing health care and social services financed primarily by user fees and tobacco settlement proceeds.

Permanent School Fund. This fund receives proceeds from any sale of the school lands held in trust for public education; payments for easements and rights-of-way over these lands; royalties and severance taxes paid on oil, gas and minerals produced from this lands; escheats; unclaimed property and other items provided by law. Income is distributed to public schools.

The State reports the following major enterprise fund:

Unemployment Compensation Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Capital Projects Fund. Reflects transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities.

Permanent Funds. Reflects transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens, such as veterans, state airports and others.

Proprietary Fund Types:

Enterprise Funds. Reflect transactions used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing, and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private Purpose Trust Funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals, and assets held for clients and inmates.

Agency Funds. These funds account for assets held by the State pending distribution to other governments and individuals.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- E. Cash and Cash Equivalents.** In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2006, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the

State's Investment Council that maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

- F. Investments.** Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. The State Treasurer is the custodian of all funds for the State; however, investments are under the responsibility of the Nebraska Investment Council or other administrative bodies as determined by law.
- G. Receivables.** Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.
- H. Inventories.** Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).
- Food stamps and commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Food stamp inventory is reported at face value and commodities are reported at fair values established by the federal government at the date received.
- I. Restricted Assets.** Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.
- J. Capital Assets.** Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These collections are not capitalized by the State because they are (1) held for public exhibition, education or research in furtherance of public service, rather than financial gain, (2) protected, kept unencumbered, cared for and preserved, and (3) subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

Generally, equipment that has a cost in excess of \$5 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100 are capitalized. Building improvements and renovations in excess of \$100 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings and equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: commit to maintaining and preserving affected assets at or above a condition level established by the State; maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Roads are accounted for using the modified approach. Infrastructure acquired prior to June 30, 1980, is reported.

K. Compensated Employee Absences. All permanent employees earn sick and annual leave. Temporary and intermittent employees and Board and Commis-

sion members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 220 days (or 180 days for non-union employees). Sick leave is not vested except upon death or upon reaching the age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime.

The government-wide, proprietary, and fiduciary fund financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

M. Interfund Transactions. Interfund services provided and used are accounted for as revenues, expenditures or expenses in the funds involved. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The effect of interfund activity has been eliminated from the government-wide financial statements.

N. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2006, basic financial statements. All securities purchased or held must either be in the custody of the State or deposited with an agent in the State's name.

Deposits. At June 30, 2006, the carrying amounts of the State's deposits were \$109,563 and the bank balances were \$152,131. All bank balances were covered by federal depository insurance or by collateral held by the State's agent in the State's name.

State Statutes require that the aggregate amount of collateral securities deposited by a bank with the State Treasurer shall be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. The State Treasurer had compensating balance agreements with various banks totaling \$41,417 at June 30, 2006.

Investments. State Statute Section 72-1239.01 authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the State. Certain State entities are also allowed by statute to invest in real estate and other investments.

The investment amounts for some funds presented in the fiduciary fund financial statements reflected audited financial statements for the period ended December 31, 2005. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2006.

The primary government's investments at June 30, 2006, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

PRIMARY GOVERNMENT INVESTMENTS AT JUNE 30, 2006

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	\$ 609,384	3.43	\$ 79,973	5.18
U.S. Treasury Bills	35,120	0.10	7,510	0.23
U.S. Treasury Strips	-		5,161	15.44
Government Agency Securities	958,201	3.42	472,446	4.68
Corporate Bonds	521,605	3.67	247,521	4.04
Collateral Mortgage Obligations	25,248	4.49	136,824	4.31
Asset Backed Securities	5,549	1.74	117,299	1.37
Repurchase Agreements	-		3,247	2.67
Commercial Paper	202,416	0.43	88,608	1.64
Money Market Funds	69,408	1.37	345,008	4.76
Municipal Bonds	4,593	10.38	18,691	11.68
	<u>2,431,524</u>		<u>1,522,288</u>	
Other Investments				
Equity Securities	70,546		862,551	
Pooled Funds	326,998		4,449,431	
Mutual Funds	37,948		2,050,234	
Options	(116)		(716)	
Foreign Currency	182		8,774	
Real Estate Investment Trust	-		57,166	
Investment Contracts	1,900		122,701	
U.S. Treasury Investment Pool	215,450		-	
Less: Component Unit Investment in State Investment Pool	<u>(350,520)</u>		<u>-</u>	
Total Investments	2,733,912		9,072,429	
Securities Lending Short-term Collateral Investment Pool	<u>555,628</u>		<u>202,926</u>	
Total	<u>\$ 3,289,540</u>		<u>\$ 9,275,355</u>	

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will

not fulfill its obligations. The State has contracts with investment managers that set the minimum average quality ratings for an account at an A. The primary government's rated debt investments as of June 30, 2006, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES INVESTMENTS AT JUNE 30, 2006

	FAIR VALUE	QUALITY RATINGS							
		AAA	AA	A	BBB	BB	B	A-1	UNRATED
Govt Agency Securities	\$ 958,201	\$ 941,551	\$ -	\$ 308	\$ 1,016	\$ 2,497	\$ -	\$ -	\$ 12,829
Corporate Bonds	521,605	232,357	198,544	68,633	7,158	1,804	2,666	-	10,443
Collateral Mortgage Obligations	25,248	22,025	231	306	691	193	174	-	1,628
Asset Backed Securities	5,549	3,531	161	182	191	-	-	-	1,484
Commercial Paper	202,416	-	-	-	-	-	-	-	202,416
Money Market Funds	69,408	-	-	-	-	-	-	-	69,408
Municipal Bonds	4,593	3,796	-	-	797	-	-	-	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2006

	FAIR VALUE	QUALITY RATINGS							
		AAA	AA	A	BBB	BB	B	A-1	UNRATED
Govt Agency Securities	\$ 490,222	\$ 339,379	\$ 2,845	\$ 1,232	\$ 10,498	\$ 20,817	\$ 2,271	\$ -	\$ 113,180
Corporate Bonds	294,472	32,788	85,124	87,571	22,800	25,727	25,020	-	15,442
Collateral Mortgage Obligations	147,111	139,594	1,865	-	-	-	849	-	4,803
Asset Backed Securities	146,750	129,894	722	1,005	220	351	1,725	-	12,833
Commercial Paper	88,608	-	-	-	-	-	-	7,791	80,817
Money Market Funds	223,259	-	-	-	-	-	-	-	223,259
Municipal Bonds	19,858	18,695	902	-	261	-	-	-	-

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages and non-U.S. sovereign issuers, to 5 percent of the total account.

At June 30, 2006, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent or more of total investments in Federal Farm Credit Bank (6 percent), Federal Home Loan Bank (8 percent), Federal Home Loan Mortgage Corporation (7 percent), and Federal National Mortgage Corporation (9 percent). Fiduciary funds had no investments that exceeded 5 percent or more of total investments.

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary

custodial bank administers the securities lending program and receives cash, United States government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 38 and 50 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State does not have a formal policy to limit foreign currency risk. Primary Government exposure to foreign currency risk is presented on the following tables.

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOREIGN CURRENCY AT JUNE 30, 2006**

	CASH	EQUITY SECURITIES	DEBT SECURITIES
Currency			
Australian Dollar	\$ -	\$ 522	\$ -
Canadian Dollar	13	162	47
Euro Currency	-	4,810	-
Hong Kong Dollar	-	492	-
Indonesian Rupiah	-	40	-
Japanese Yen	129	1,772	-
Mexican Peso	9	-	178
Polish Zloty	-	111	-
Pound Sterling	20	2,420	118
Singapore Dollar	4	77	-
South Korean Won	-	533	-
Swedish Krona	2	388	-
Swiss Franc	5	1,099	-
Thailand Baht	-	51	-
Total	<u>\$ 182</u>	<u>\$ 12,477</u>	<u>\$ 343</u>

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2006

	CASH	EQUITY SECURITIES	DEBT SECURITIES
Currency			
Argentine Peso	\$ 3	\$ -	\$ 207
Australian Dollar	12	7,661	-
Canadian Dollar	69	1,285	248
Danish Krone	-	220	-
Euro Currency	1,484	80,993	6,856
Hong Kong Dollar	37	7,356	-
Indonesian Rupiah	-	647	-
Japanese Yen	6,892	28,970	-
Mexican Peso	151	-	2,520
Polish Zloty	-	1,504	-
Pound Sterling	80	36,743	588
Singapore Dollar	-	1,823	-
South Korean Won	2	7,933	-
Swedish Krona	26	5,611	-
Swiss Franc	16	22,141	-
Thailand Baht	2	870	-
Total	<u>\$ 8,774</u>	<u>\$ 203,757</u>	<u>\$ 10,419</u>

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates or financial indices. Over 75% of all such instruments are pension trust investments; the remaining are endowment investments. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives

Policy. The State invests in futures contracts, options and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. Government or Government Agency obligations and based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. At June 30, 2006, the State held futures contracts with a notional value of \$(428,200) and a market value of \$0. In addition, the State held options with a notional value of \$(15,319) and a market value of \$(845) and swaps with a notional value of \$10,300 and a market value of \$(1,962).

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2006, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 12,564,895
Carrying amount of Deposits	109,563
Total	<u>\$ 12,674,458</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 400,952
Investments	2,312,712
Restricted Cash and Cash Equivalents	20,529
Securities Lending Collateral	555,628

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	109,282
Investments	9,072,429
Securities Lending Collateral	202,926
Total	<u>\$ 12,674,458</u>

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2006:

Governmental Activities:

General Fund	\$ 11,453
Federal Fund	17,270
Health and Social Services Fund	17,263
Total Governmental Activities	<u>\$ 45,986</u>

Business-type Activities:

Unemployment Compensation	\$ 6,529
Total Business-type Activities	<u>\$ 6,529</u>

Of the taxes and other receivables, \$11,846 and \$18,626, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund.

4. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 494,067	\$ 14,071	\$ -	\$ 508,138
Infrastructure	6,261,582	132,800	-	6,394,382
Construction in progress	65,884	18,457	25,262	59,079
Total capital assets, not being depreciated	<u>6,821,533</u>	<u>165,328</u>	<u>25,262</u>	<u>6,961,599</u>
Capital assets, being depreciated:				
Buildings and improvements	429,140	25,202	1,001	453,341
Equipment	335,853	38,561	23,021	351,393
Total capital assets, being depreciated	<u>764,993</u>	<u>63,763</u>	<u>24,022</u>	<u>804,734</u>
Less accumulated depreciation for:				
Buildings and improvements	199,995	11,725	556	211,164
Equipment	230,816	34,753	20,203	245,366
Total accumulated depreciation	<u>430,811</u>	<u>46,478</u>	<u>20,759</u>	<u>456,530</u>
Total capital assets, being depreciated, net	<u>334,182</u>	<u>17,285</u>	<u>3,263</u>	<u>348,204</u>
Governmental activities capital assets, net	<u>\$ 7,155,715</u>	<u>\$ 182,613</u>	<u>\$ 28,525</u>	<u>\$ 7,309,803</u>
Business-type activities:				
Unemployment Compensation				
Equipment, being depreciated	\$ 373	\$ 254	\$ 199	\$ 428
Less accumulated depreciation	<u>256</u>	<u>119</u>	<u>199</u>	<u>176</u>
Total Unemployment Compensation, net	<u>117</u>	<u>135</u>	<u>-</u>	<u>252</u>
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>
Capital assets, being depreciated:				
Buildings and improvements	6,094	-	899	5,195
Equipment	4,523	939	1,074	4,388
Total capital assets, being depreciated	<u>10,617</u>	<u>939</u>	<u>1,973</u>	<u>9,583</u>
Less accumulated depreciation for:				
Buildings and improvements	1,621	398	899	1,120
Equipment	2,878	422	651	2,649
Total accumulated depreciation	<u>4,499</u>	<u>820</u>	<u>1,550</u>	<u>3,769</u>
Total capital assets, being depreciated, net	<u>6,118</u>	<u>119</u>	<u>423</u>	<u>5,814</u>
Total Nonmajor Enterprise, net	<u>6,433</u>	<u>119</u>	<u>423</u>	<u>6,129</u>
Business-type activities capital assets, net	<u>\$ 6,550</u>	<u>\$ 254</u>	<u>\$ 423</u>	<u>\$ 6,381</u>

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General Government	\$ 15,174
Conservation of Natural Resources	1,752
Culture – Recreation	1,571
Economic Development and Assistance	371
Education	1,207
Health and Social Services	985
Public Safety	10,572
Regulation of Business and Professions	288
Transportation	14,558
Total depreciation expense - Governmental activities	<u>\$ 46,478</u>

Construction Commitments. At June 30, 2006, the State had contractual commitments of approximately \$467,409 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 77,844
State funds	372,690
Local funds	16,875
	<u>\$ 467,409</u>

Most of these commitments will not be reflected as capital asset increases when they are paid because the State is using the modified approach to account for infrastructure. Under this method, capital asset additions are only reflected when improvements expand the capacity or efficiency of an asset.

5. Interfund Balances

Due To/From Other Funds at June 30, 2006, consists of the following:

DUE FROM	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ 75	\$ 23	\$ 78	\$ 361	\$ 106	\$ 30,256	\$ 32,914	\$ 63,813
Highway Fund	-	-	-	-	-	136	6,406	-	6,542
Federal Fund	64,519	7	-	2,805	1,362	121	3,426	-	72,240
Health and Social Services	-	2	600	-	920	-	13,073	-	14,595
Permanent School Fund	13	-	-	-	-	-	5	-	18
Nonmajor Governmental Funds	3,794	20	480	53	26	8	5,443	555	10,379
Nonmajor Enterprise Funds	-	14	-	-	-	-	153	-	167
Internal Service Funds	4,660	662	5	-	197	3	871	-	6,398
Fiduciary Funds	-	-	-	-	49	-	70	-	119
TOTALS	\$ 72,986	\$ 780	\$ 1,108	\$ 2,936	\$ 2,915	\$ 374	\$ 59,703	\$ 33,469	\$ 174,271

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for \$47,400 due from the General Fund, Highway Fund, Health and Social Services, and Nonmajor Governmental Funds to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2006, consist of the following:

TRANSFERRED FROM:	TRANSFERRED TO:						TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ -	\$ 87	\$ -	\$ 51,188	\$ -	\$ 51,275
Highway Fund	-	-	-	-	7,091	-	7,091
Federal Fund	606	-	-	-	13,151	-	13,757
Health & Social Services Fund	1,553	-	-	-	3,118	-	4,671
Nonmajor Governmental Funds	42,126	14,670	1	2,716	8,072	-	67,585
Nonmajor Enterprise Funds	-	-	-	771	26,831	-	27,602
Internal Service Funds	-	-	-	-	-	1,100	1,100
TOTALS	\$ 44,285	\$ 14,670	\$ 88	\$ 3,487	\$ 109,451	\$ 1,100	\$ 173,081

Transfers are used to (1) move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) move profits from the State Lottery Fund as required by law.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2006, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Compensation	Nonmajor Enterprise Funds	TOTALS
Payroll and Withholdings	\$ 13,634	\$ 6,687	\$ 3,312	\$ 851	\$ -	\$ 1,903	\$ 1,842	\$ 4	\$ 276	\$ 28,509
Payables and Accruals	60,630	49,103	61,698	10,624	7,852	27,756	13,745	2,440	7,985	241,833
Due to Fiduciary Funds *	-	-	-	-	-	-	33,469	-	-	33,469
Miscellaneous	-	-	-	-	-	32	673	22	72	799
TOTALS	\$ 74,264	\$ 55,790	\$ 65,010	\$ 11,475	\$ 7,852	\$ 29,691	\$ 49,729	\$ 2,466	\$ 8,333	\$ 304,610

* This amount represents amounts due to fiduciary funds, which were classified as external payables on the government-wide Statement of Net Assets.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2006, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 417,683	\$ 1,550,787	\$ 1,683,938	\$ 284,532	\$ 216,845
Bonds Payable	23,430	-	3,995	19,435	4,195
Capital Lease Obligations	24,927	3,940	5,903	22,964	6,379
Obligations Under Other Financing Arrangements	11,430	5,420	665	16,185	2,380
Compensated Absences	110,246	19,834	17,195	112,885	16,287
Pension Benefit Obligation	16,060	-	16,060	-	-
Totals	\$ 603,776	\$ 1,579,981	\$ 1,727,756	\$ 456,001	\$ 246,086
Business-type Activities:					
Unemployment Compensation:					
Claims Payable	\$ 13,088	\$ 101,678	\$ 104,060	\$ 10,706	\$ 10,706
Compensated Absences	15	47	47	15	2
Totals for Unemployment Compensation	13,103	101,725	104,107	10,721	10,708
Nonmajor Enterprise Funds:					
Claims Payable	40,000	12,052	10,552	41,500	13,220
Compensated Absences	497	157	72	582	84
Totals for Nonmajor Enterprise Funds	40,497	12,209	10,624	42,082	13,304
Totals for Business-type Activities	\$ 53,600	\$ 113,934	\$ 114,731	\$ 52,803	\$ 24,012

The amount of claims payable reported in the fund financial statements are due and payable at fiscal year end. Claims payable, compensated absences and capital lease obligations typically have been liquidated in the general, special revenue and internal service funds. Bonds payable and obligations under other financing arrangements have been liquidated in the special revenue funds.

8. Bonds Payable

Article XIII of the State's Constitution prohibits the State from incurring debt in excess of one hundred

thousand dollars. However, there is a provision in the State's Constitution that permits the issuance of revenue bonds for: (1) construction of highways; and (2) construction of water conservation and management structures. At June 30, 2006, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May

2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2006 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations

outstanding at June 30, 2006 are collateralized by the revenues of the NSBC, which consist primarily of building rental paid by the State.

The component units issue bonds for various purposes including student housing, parking facilities and special event centers. Net revenues from student housing and dining facilities, special student fees and parking facilities fees are pledged to secure the appropriate issues.

All outstanding bond issues of the University of Nebraska Facilities Corporation and the Nebraska State College Facilities Corporation are general obligations of these corporations. They are separate legal entities that are not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2006 are collateralized by a special allocation of a portion of the State cigarette tax.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2006
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000,2002	Through 2010	2.70%-6.00%	\$ 17,350
Nebraska State Building Corporation Issue	2002	Through 2009	1.50%-3.85%	2,085
Primary Government Total				<u>\$ 19,435</u>
COMPONENT UNITS				
University of Nebraska	1998-2006	Through 2038	1.05%-5.80%	\$ 374,220
Nebraska State Colleges	1999-2003	Through 2028	1.60%-5.05%	29,515
Component Units Total				<u>\$ 403,735</u>

PRIMARY GOVERNMENT DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2007	4,195	1,014	5,209
2008	4,405	808	5,213
2009	5,985	584	6,569
2010	4,850	291	5,141
Total	<u>\$ 19,435</u>	<u>\$ 2,697</u>	<u>\$ 22,132</u>

COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2007	25,515	18,492	44,007
2008	25,845	17,403	43,248
2009	30,080	16,214	46,294
2010	31,070	14,879	45,949
2011	14,925	13,634	28,559
2012-2016	102,310	55,339	157,649
2017-2021	61,025	35,756	96,781
2022-2026	55,795	20,607	76,402
Thereafter	57,170	17,277	74,447
Total	<u>\$ 403,735</u>	<u>\$ 209,601</u>	<u>\$ 613,336</u>

Bond Defeasances – Component Units

On July 6, 2005, the University of Nebraska Board of Regents issued \$26,925 of Revenue and Refunding Bonds to construct a multi-level parking garage for an approximate cost of \$8,200 and to refund \$18,885 of outstanding 2000 Series Revenue Bonds. The refunding reduced total debt service payments by approximately \$3,099 and resulted in an economic gain of \$1,438.

On July 1, 2005, the University of Nebraska Board of Regents issued \$6,085 of Series 2005 Refunding Bonds to refund \$5,895 of outstanding Series 2000 Revenue Refunding Bonds. The Series 2000 Revenue Refunding Bonds were called on August 16, 2005. The refunding reduced total debt service payments by approximately \$857 and resulted in an economic gain of approximately \$549.

On July 10, 2005, the University of Nebraska Board of Regents authorized the redemption of the Series 1966 Student Fees and Facilities Revenue Bonds maturing on July 1, 2006 from surplus funds held for the Revenue Bonds. The early redemption on July 10, 2005 of the Series 1966 Bonds resulted in net interest savings of approximately \$10.

9. Lease Commitments

Capital and Operating Leases. The State leases land, office facilities, equipment, and other assets under both capital and operating leases. Although the lease terms may vary, all leases are subject to annual appropriation by the Legislature.

The minimum annual lease payments and the present value of future minimum payments for capital leases as of June 30, 2006 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2007	\$ 7,183
2008	5,728
2009	5,512
2010	3,010
2011	823
2012-2016	2,657
2017-2021	818
Total Minimum Payments	25,731
Less: Interest and executory costs	2,766
Present value of net minimum payments	<u>\$ 22,965</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2006:

	GOVERNMENTAL ACTIVITIES
Buildings	\$ 7,070
Equipment	36,230
Less: accumulated depreciation	(19,035)
Carrying value	<u>\$ 24,265</u>

The minimum annual lease payments for operating leases as of June 30, 2006 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2007	\$ 7,173
2008	3,327
2009	3,202
2010	3,174
2011	1,989
2012-2016	904
2017-2021	427
Total	<u>\$ 20,196</u>

Primary Government operating lease payments for the year ended June 30, 2006 totaled \$13,470.

Lessor Transactions. The State also is a lessor of property, primarily farm land leased by the Board of Educational Lands and Funds to farmers and ranchers.

At June 30, 2006, the State owned approximately 1.5 million acres of land that was under lease, with a cost and carrying amount of \$3,000. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$27,268 were received under these and other lease agreements for the year ended June 30, 2006.

10. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority (NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 1.85 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 2,380	\$ 816	\$ 3,196
2008	940	606	1,546
2009	985	568	1,553
2010	1,035	528	1,563
2011	1,070	485	1,555
2012-2016	6,815	1,632	8,447
2017-2021	2,960	294	3,254
Total	<u>\$ 16,185</u>	<u>\$ 4,929</u>	<u>\$ 21,114</u>

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

The Public Employees Retirement Board (the Board), which consists of eight members, was created in 1971 to administer the Nebraska retirement plans then in existence. Those plans were the School, State Employees', Judges' and State Patrol plans. In October of 1973, the Board assumed the administration of the Nebraska Counties Retirement System. The plans have been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Contribution and benefit provisions are established by State law and may only be amended by the State Legislature.

The Board prepares separate reports for the defined contribution plans and for the defined benefit plans. Copies of these reports that include financial statements and required supplementary information for the plans may be obtained by writing to Public Employees Retirement Systems, P.O. Box 94816, Lincoln, NE 68509-4816, or by calling 402-471-2053.

Basis of Accounting. The financial statements of the plans are prepared using the accrual basis of accounting, and are included as pension trust funds in the accompanying financial statements. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Plan Description and Funding Policy. By State law, there is to be an equitable allocation of expenses among the retirement systems administered by the Board, and all expenses shall be provided from the investment income earned by the various retirement funds. Following is a summary of each of these plans:

State Employees' Retirement. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2005.

Participation in the plan is required for all permanent full-time employees upon completion of 12 months

of continuous service. Each member contributes 4.33 percent of their compensation until \$864 (not in thousands) has been paid and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2005, there were 15,351 active members and 2,133 inactive members. Members contributed \$24,262 and the State contributed \$37,927 during the year ended December 31, 2005, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. This multiple-employer plan covers employees of 91 of the 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees by State law. Prior to January 1, 2003, the plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2005.

Participation in the plan is required of all full-time employees upon the completion of 12 months of continuous service and of all full-time elected officials. Full-time or part-time employees (working less than one-half of regularly scheduled hours) may elect voluntary participation upon reaching age 20 and completing a total of 12 months service within a five-year period. Part-time elected officials may exercise the option to join. County employees and elected officials contribute four and one half percent and commissioned law enforcement personnel (for participating counties with an excess of 85,000 inhabitants) contribute five and one half percent of their total compensation. The counties match a member's contribution at a rate of 150 percent. The State is not required to contribute to this plan.

As of December 31, 2005, there were 6,727 active members and 1,006 inactive members. Members contributed \$8,220 and counties contributed \$12,074 during the year ended December 31, 2005, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 280 participating school districts.

All regular public school employees in Nebraska, other than those who have their own retirement plan, are members of the system. The benefits are based on both service and contributions.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 7.25 percent of their total pay to August 31, 2005, and 7.98 percent through August 31, 2006. The school district's contribution is 101 percent of the employees' contribution.

Judges' Retirement. The Judges' Retirement System is a single-employer defined benefit pension system. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Court, Workers' Compensation Court, County Court, and Juvenile Court. Benefits are based on both service and final average salary. Benefits vest when the judge takes office.

Members' contributions, a portion of court fees collected, and the State's contribution, which is

based on an annual actuarial valuation, fund the plan. The judges contribute between four and eight percent of their salary.

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit pension system for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the average salary. Participation is mandated upon employment.

Members are required to contribute thirteen percent of their monthly salary, and State Patrol contributes fifteen percent. The State's contribution is based on an annual actuarial valuation.

The following tables provide the schedules of funding progress and the primary actuarial assumptions used in the most recent actuarial reports for the single-employer defined benefit plans:

**UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(a-b) Excess of Assets over AAL (Unfunded AAL)	(a/b) Funded Ratio	(c) Covered Payroll	((a-b)/c) Excess/UAAL as a Percentage of Covered Payroll
State Cash Balance						
12/31/2005	\$ 342,730	\$ 300,852	\$ 41,878	113.9 %	\$ 238,874	17.5 %
12/31/2004	297,573	272,300	25,273	109.3	192,619	13.1
12/31/2003	254,176	241,192	12,984	105.4	171,324	7.6
Judges'						
6/30/2006	\$ 100,566	\$ 101,438	\$ (872)	99.1 %	\$ 16,423	(5.3)%
6/30/2005	94,923	98,513	(3,590)	96.4	16,285	(22.0)
6/30/2004	92,811	95,671	(2,860)	97.0	16,655	(17.2)
State Patrol						
6/30/2006	\$ 231,741	\$ 245,373	\$ (13,632)	94.4 %	\$ 24,058	(56.7)%
6/30/2005	219,831	236,026	(16,195)	93.1	22,882	(70.8)
6/30/2004	216,423	222,162	(5,739)	97.4	22,641	(25.3)

	STATE CASH BALANCE	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2005	6/30/2006	6/30/2006
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Amount Closed	Level Amount Closed	Level Amount Closed
Amortization Period	25 Years	30 Years	30 Years
Mortality	1994 Group Annuity Table	1994 Group Annuity Table	1994 Group Annuity Table
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return **	7.6%	8.0%	8.0%
Projected Salary Increases **	4.5% to 9.1%	5.0%	4.5% to 12.0%

** Includes assumed inflation of 3.5% per year.

THREE - YEAR TREND INFORMATION			
YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance			
12/31/2005	\$ 14,885	100%	\$ -
12/31/2004	13,171	100%	-
12/31/2003	11,226	100%	-
County Cash Balance			
12/31/2005	\$ 5,521	100%	\$ -
12/31/2004	4,869	100%	-
12/31/2003	4,093	100%	-
School			
6/30/2006	\$ 30,717	100%	\$ -
6/30/2005	29,817	90%	14,928
6/30/2004	14,155	100%	-
Judges'			
6/30/2006	\$ 3,120	100%	\$ -
6/30/2005	2,719	84%	434
6/30/2004	2,074	100%	-
State Patrol			
6/30/2006	\$ 5,082	100%	\$ -
6/30/2005	3,869	82%	698
6/30/2004	3,018	96%	112

12. Contingencies and Commitments

Grants and Contracts. The State participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State.

All State agencies including institutions of higher education are required to comply with various federal regulations issued by the U.S. Office of Management and Budget if such agency or institution is a recipient of federal grants, contracts, or other sponsored agreements. Certain agencies or institutions may not be in total compliance with these regulations. Failure to comply may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. Management believes that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the State.

Litigation. The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the

State for these proceedings. It is the State's opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State's financial position.

The State also has been named as a party in legal proceedings that occur outside of the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State for all of these proceedings. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

The State is a party to a lawsuit relating to \$37,000 of tobacco settlement money the State received in April 2004. It is not possible at the present time to determine the outcome of this lawsuit or its implications for potential similar future lawsuits.

13. Risk Management

Through the Department of Administrative Services, Divisions of Risk Management and State Personnel, the State maintains insurance and self-insurance programs. Workers' compensation, health care, employee liability and general liability are generally self-insured. However, the State does carry surety bonds for constitutional officers and limited general liability on two buildings. Motor vehicle liability is insured with a \$5,000 limit and a \$300 retention per occurrence (the self-insured retention for vehicular pursuit is \$1,000) and employee dishonesty is insured with a \$1,000 limit with a \$25 retention per incident. The State insures against property damage, maintaining a policy with a \$100,000 limit and a \$200 retention per occurrence. The State also carries some insurance for personal property damage. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. The Division of State Personnel provides life insurance for eligible State employees. These activities are reported in the Risk Management Internal Service Fund.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liability for workers' compensation is recorded at a discounted rate of three percent (\$8,023), which resulted in a liability of \$50,826.

Changes in the balances of claims liabilities during the years ended June 30, 2006, and 2005, were as follows:

	Fiscal Year	
	2006	2005
Beginning Balance	\$ 64,211	\$ 60,329
Current Year Claims and Changes in Estimates	165,558	152,259
Claim Payments	<u>(166,208)</u>	<u>(148,377)</u>
Ending Balance	<u>\$ 63,561</u>	<u>\$ 64,211</u>

14. Joint Venture

The Board of Regents of the University of Nebraska and Bishop Clarkson Memorial Hospital (Clarkson) entered into a Joint Operating Agreement in 1997 forming the Nebraska Health System, a Nebraska nonprofit corporation doing business as the Nebraska Medical Center (NMC). A Board of Directors comprised of six members appointed by Clarkson and six members appointed by the Board of Regents govern NMC. Upon dissolution of NMC, the University and Clarkson will share equally in the remaining net assets. Because the University has an ongoing financial interest in NMC, the University is accounting for the joint venture under the equity method. The University has recorded fifty percent equity in the change in net assets of NMC for the year ended June 30, 2006 totaling approximately \$43,898. In addition, to the extent that sufficient funds are available as determined by the NMC Board of Directors, the University will receive an annual capital distribution. A distribution of \$3,000 was declared and paid out for fiscal year 2006.

In conjunction with the Joint Operating Agreement, the Board of Regents also entered into an Academic Affiliation Agreement for Education and Research with NMC. In connection with this agreement, NMC has agreed to financially support certain educational, research, operational and clinical activities of the University that further the mission and objectives of NMC. During the year ended June 30, 2006, the University received approximately \$22,273 of support in connection with the agreement.

Separate financial statements of NMC can be obtained from the Nebraska Medical Center, 42nd Street and Dewey Avenue, Omaha NE 68105.

15. Accounting Changes

The Chadron State Foundation, a component unit of the Nebraska State College System, increased beginning Net Assets for previously unreported receivables. Accordingly, the Beginning Net Assets of the State Colleges, Component Unit were increased by \$3,459.

GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*, were implemented during fiscal year 2006. As a result, the disclosures related to restricted net assets in Note 1.C. were expanded to include the amount of net assets restricted by enabling legislation and the Statistical Section was revised.

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2006

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 2,992,355	\$ 3,178,097	\$ 3,252,285	\$ 74,188
Federal Grants and Contracts	35	35	35	-
Sales and Charges	21,963	21,963	21,963	-
Other	32,545	32,545	32,545	-
TOTAL REVENUES	<u>3,046,898</u>	<u>3,232,640</u>	<u>3,306,828</u>	<u>74,188</u>
EXPENDITURES:				
Current:				
General Government	220,887	224,650	211,088	13,562
Conservation of Natural Resources	42,618	42,667	26,447	16,220
Culture – Recreation	5,791	5,844	5,507	337
Economic Development and Assistance	6,878	6,894	5,207	1,687
Education	1,461,157	1,467,038	1,433,720	33,318
Health and Social Services	1,092,267	1,092,035	1,020,220	71,815
Public Safety	215,750	204,127	190,144	13,983
Regulation of Business and Professions	3,782	3,798	3,631	167
Transportation	18	18	17	1
TOTAL EXPENDITURES	<u>3,049,148</u>	<u>3,047,071</u>	<u>2,895,981</u>	<u>151,090</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,250)</u>	<u>185,569</u>	<u>410,847</u>	<u>225,278</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	306,454	306,454	306,454	-
Transfers Out	(458,816)	(458,816)	(458,816)	-
Other	5	5	5	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(152,357)</u>	<u>(152,357)</u>	<u>(152,357)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(154,607)</u>	<u>33,212</u>	<u>258,490</u>	<u>225,278</u>
FUND BALANCES, JULY 1	<u>578,937</u>	<u>578,937</u>	<u>578,937</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 424,330</u>	<u>\$ 612,149</u>	<u>\$ 837,427</u>	<u>\$ 225,278</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2006, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2006	
General	\$ 563,810
Cash Reserve	273,617
Budgetary fund balances	837,427
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	295,987
Record tax refund liability	(273,685)
Record State contributions due pension funds	(32,203)
Record claims payable	(98,671)
Record other net accrued receivables and liabilities	(36,616)
GAAP fund balance, June 30, 2006	<u>\$ 692,239</u>

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State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2006

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 101,664	\$ 101,664	\$ 101,664	\$ -
Federal Grants and Contracts	302,626	302,626	302,626	-
Sales and Charges	342,118	342,118	342,118	-
Other	202,850	202,850	202,850	-
TOTAL REVENUES	<u>949,258</u>	<u>949,258</u>	<u>949,258</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	220,058	222,167	200,661	21,506
Conservation of Natural Resources	76,512	77,008	45,852	31,156
Culture – Recreation	24,376	24,526	18,166	6,360
Economic Development and Assistance	52,316	52,324	17,343	34,981
Education	336,489	354,399	284,895	69,504
Health and Social Services	158,950	159,438	114,049	45,389
Public Safety	37,536	41,854	30,295	11,559
Regulation of Business and Professions	160,497	172,170	143,612	28,558
Transportation	730,650	748,903	669,366	79,537
Capital Projects	50,658	50,660	11,116	39,544
TOTAL EXPENDITURES	<u>1,848,042</u>	<u>1,903,449</u>	<u>1,535,355</u>	<u>368,094</u>
Excess of Revenues Over (Under) Expenditures	<u>(898,784)</u>	<u>(954,191)</u>	<u>(586,097)</u>	<u>368,094</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	1,041,065	1,041,065	1,041,065	-
Transfers Out	(489,482)	(489,482)	(489,482)	-
Other	2,751	2,751	2,751	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>554,334</u>	<u>554,334</u>	<u>554,334</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(344,450)</u>	<u>(399,857)</u>	<u>(31,763)</u>	<u>368,094</u>
FUND BALANCES, JULY 1	<u>633,656</u>	<u>633,656</u>	<u>633,656</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 289,206</u>	<u>\$ 233,799</u>	<u>\$ 601,893</u>	<u>\$ 368,094</u>
A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2006, follows (dollars in thousands):				
Actual Fund Balances, budgetary basis, June 30, 2006				
Cash			\$ 601,893	
Construction			7,485	
Federal			71,397	
Revolving			181,886	
Budgetary fund balances			862,661	
DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS:				
GAAP fund balance, June 30, 2006			<u>\$ 970,474</u>	
Actual Fund Balances of Major Funds, June 30, 2006				
Highway			\$ 99,964	
Federal			15,209	
Health and Social Services			434,243	
Permanent School			421,058	
GAAP fund balance, June 30, 2006			<u>\$ 970,474</u>	

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State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	339	339	339	-
TOTAL REVENUES	<u>339</u>	<u>339</u>	<u>339</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	14	14	-	14
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	11,973	11,973	8,350	3,623
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	25,197	25,197	15,099	10,098
TOTAL EXPENDITURES	<u>37,184</u>	<u>37,184</u>	<u>23,449</u>	<u>13,735</u>
Excess of Revenues Over (Under) Expenditures	<u>(36,845)</u>	<u>(36,845)</u>	<u>(23,110)</u>	<u>13,735</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	28,457	28,457	28,457	-
Transfers Out	-	-	-	-
Other	490	490	490	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>28,947</u>	<u>28,947</u>	<u>28,947</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(7,898)</u>	<u>(7,898)</u>	<u>5,837</u>	<u>13,735</u>
FUND BALANCES, JULY 1	<u>1,648</u>	<u>1,648</u>	<u>1,648</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (6,250)</u>	<u>\$ (6,250)</u>	<u>\$ 7,485</u>	<u>\$ 13,735</u>

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State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS
For the Year Ended June 30, 2006

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,034,615	2,034,615	2,034,615	-
Sales and Charges	13,444	13,444	13,444	-
Other	9,930	9,930	9,930	-
TOTAL REVENUES	<u>2,057,989</u>	<u>2,057,989</u>	<u>2,057,989</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	4,585	5,170	3,613	1,557
Conservation of Natural Resources	56,542	60,673	42,617	18,056
Culture – Recreation	4,070	5,971	2,368	3,603
Economic Development and Assistance	102,412	103,736	62,363	41,373
Education	832,809	843,036	534,603	308,433
Health and Social Services	1,558,272	1,556,094	1,318,223	237,871
Public Safety	89,696	98,788	67,725	31,063
Regulation of Business and Professions	1,314	1,693	1,083	610
Transportation	-	-	-	-
Capital Projects	16,049	16,049	4,842	11,207
TOTAL EXPENDITURES	<u>2,665,749</u>	<u>2,691,210</u>	<u>2,037,437</u>	<u>653,773</u>
Excess of Revenues Over (Under) Expenditures	<u>(607,760)</u>	<u>(633,221)</u>	<u>20,552</u>	<u>653,773</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	7,348	7,348	7,348	-
Transfers Out	(7,813)	(7,813)	(7,813)	-
Other	(472)	(472)	(472)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(937)</u>	<u>(937)</u>	<u>(937)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(608,697)</u>	<u>(634,158)</u>	<u>19,615</u>	<u>653,773</u>
FUND BALANCES, JULY 1	<u>51,782</u>	<u>51,782</u>	<u>51,782</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (556,915)</u>	<u>\$ (582,376)</u>	<u>\$ 71,397</u>	<u>\$ 653,773</u>

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State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2006

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,906	2,906	2,906	-
Sales and Charges	404,521	404,521	404,521	-
Other	142,435	142,435	142,435	-
TOTAL REVENUES	<u>549,862</u>	<u>549,862</u>	<u>549,862</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	187,441	191,118	144,032	47,086
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	444	446	404	42
Education	379,066	419,074	374,795	44,279
Health and Social Services	-	-	-	-
Public Safety	16,751	16,774	12,856	3,918
Regulation of Business and Professions	-	-	-	-
Transportation	500	500	-	500
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	<u>584,202</u>	<u>627,912</u>	<u>532,087</u>	<u>95,825</u>
Excess of Revenues Over (Under) Expenditures	<u>(34,340)</u>	<u>(78,050)</u>	<u>17,775</u>	<u>95,825</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	31,864	31,864	31,864	-
Transfers Out	(37,255)	(37,255)	(37,255)	-
Other	660	660	660	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,731)</u>	<u>(4,731)</u>	<u>(4,731)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(39,071)</u>	<u>(82,781)</u>	<u>13,044</u>	<u>95,825</u>
FUND BALANCES, JULY 1	<u>168,842</u>	<u>168,842</u>	<u>168,842</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 129,771</u>	<u>\$ 86,061</u>	<u>\$ 181,886</u>	<u>\$ 95,825</u>

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2006

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, all State agencies, including the university and colleges, must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Governor reviews the agency requests, establishes priorities, and presents the Legislature with one or more pieces of legislation covering the biennium. The Legislature holds hearings on the Governor's proposed budget, adopts changes and presents final legislation to the Governor. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The approved appropriations set spending limits by fund type for programs within each agency. These limits may include up to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the State Accounting Division of the Department of Administrative Services.

Appropriations are made for each fiscal year of the biennium; balances at the end of the first fiscal year are carried over into the second fiscal year, unless directed otherwise by the Legislature. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the State differ from those presented in the basic financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources. Of these seven fund types, only the first five are subject to the spending limits set by the appropriations bills. The General Fund is the only major fund that corresponds to a budgetary fund type.

General Fund. To account for activities funded by general tax dollars, primarily sales and income taxes.

Cash Reserve Fund. To account for financial resources used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations. The Cash Reserve Fund is part of the budgetary basis fund balance.

Cash Funds. To account for the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis, and to account for the revenues and expenditures related to highway construction.

Construction Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities.

Federal Funds. To account for the financial resources related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts, except for federal highway monies accounted for in the Cash Funds.

Revolving Funds. To account for the financing of goods or services provided by one State agency to another State agency on a cost-reimbursement basis.

Trust Funds. To account for assets held in a trustee capacity.

Distributive Funds. To account for assets held as an agent for individuals, private organizations, and other governments and/or other funds.

The accompanying basic financial statements were prepared by converting budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2006, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2006, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

**REQUIRED SUPPLEMENTARY INFORMATION
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH**

For the Year Ended June 30, 2006

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of highway and bridges the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Measurement Scale

The Nebraska Department of Roads uses the Nebraska Serviceability Index (NSI) to measure and monitor pavement conditions. The NSI is a numerical pavement rating scale used to monitor the condition on a scale ranging from 0 to 100 with 0 being the worst and 100 being the best. NSI represents the condition of the pavement at the time of measurement and is based on pavement’s surface distresses. Surface distresses include cracking, patching, roughness, rutting, and faulting.

Established Condition Level

It is the policy of the Nebraska Department of Roads to maintain at least an overall system rating of 72 percent or above.

Assessed Condition

The State assesses conditions on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Very Good”, “Good”, “Fair”, and “Poor”. This condition index is used to classify roads in very good (90-100), good (70-89), fair (50-69), and poor (0-49).

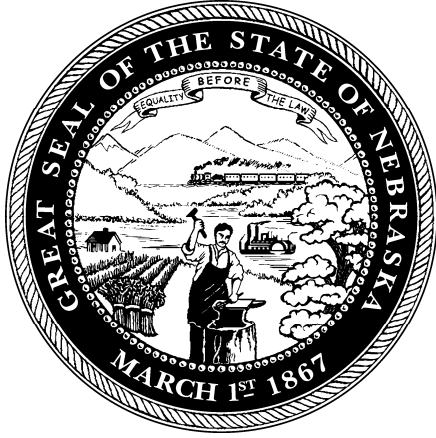
<u>Calendar Year</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Very Good	39%	39%	40%	38%	48%	50%
Good	46%	46%	44%	43%	36%	35%
Fair	12%	12%	14%	16%	13%	13%
Poor	3%	3%	2%	3%	3%	2%
Overall System Rating	84.0%	83.0%	83.0%	83.0%	84.0%	84.0%

Estimated and Actual Costs to Maintain

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, the actual cost of system preservation is greater than estimated as a result of maintaining the system at a NSI level higher than the base level established for GASB-34 purposes (72 base versus 84 actual).

<u>Fiscal Year</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Estimated	\$ 148	\$ 125	\$ 123	\$ 179	\$ 174	\$ 169
Actual		214	221	200	199	194
Difference		89	98	21	25	25

See independent auditors’ report



SINGLE AUDIT SECTION

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Agriculture, U.S. Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$ 1,045,145
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025	144,319
Wetlands Reserve Program	Game and Parks Commission	10.072	227,037
Market Protection and Promotion	Agriculture, Department of	10.163	24,888
State Mediation Grants	Agriculture, Department of	10.435	111,618
Rural Community Development Initiative	Economic Development, Department of	10.446	173,988
Food Donation	Health and Human Services System	10.550	* ^ 8,140,152
Food Stamp Cluster:			
Food Stamps	Health and Human Services System	10.551	^ 123,571,045
State Administrative Matching Grants for Food Stamp Program	Health and Human Services System	10.561	^ 16,132,923
Child Nutrition Cluster:			
School Breakfast Program	Education, Department of	10.553	* 8,644,102
National School Lunch Program	Education, Department of	10.555	* 39,906,981
Special Milk Program for Children	Education, Department of	10.556	* 82,821
Summer Food Service Program for Children	Education, Department of	10.559	* 839,179
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services System	10.557	24,555,771
Child and Adult Care Food Program	Education, Department of	10.558	23,343,421
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,077,142
State Administrative Expenses for Child Nutrition	Health and Human Services System	10.560	162,975
Commodity Supplemental Food Program	Health and Human Services System	10.565	^ 4,345,643
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Health and Human Services System	10.568	250,118
Emergency Food Assistance Program (Food Commodities)	Health and Human Services System	10.569	^ 1,098,907
Team Nutrition Grants	Education, Department of	10.574	50,064
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576	178,001
Soil and Water Conservation	Natural Resources, Department of	10.902	26,341
National Rural Development Partnership	Rural Development Commission	43-3157-8-RDP03	19,926
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A	165,569
FSIS/FERN Lab	Agriculture, Department of	FSIS - C-38-2005	66,295
Total U.S. Department of Agriculture			\$ 254,384,371
Commerce, U.S. Department of			
Public Telecommunications Facilities-Planning and Construction	Educational Telecommunications Commission	11.550	\$ 46,807
Manufacturing Extension Partnership	Economic Development, Department of	11.611	520,819
Total U.S. Department of Commerce			\$ 567,626

^ - Amounts taken from financial status reports.

* - Represents major programs.

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Corporation for National and Community Service			
State Commissions	Health and Human Services System	94.003	\$ 154,132
Learn and Serve America - School and Community Based Programs	Education, Department of	94.004	78,732
Americorps	Health and Human Services System	94.006	1,012,773
Planning and Program Development Grants	Health and Human Services System	94.007	15,701
Training and Technical Assistance	Health and Human Services System	94.009	78,483
Total Corporation for National and Community Service			\$ 1,339,821
Defense, U.S. Department of			
Military Construction, National Guard	Military Department	12.400	\$ 3,727,967
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	* 11,015,773
National Guard Civilian Youth Opportunities	Military Department	12.404	259,362
Defense Environmental Restoration Program	Environmental Quality, Department of	NE-03-01	136,146
US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	1,396,940
Total U.S. Department of Defense			\$ 16,536,188
Education, U.S. Department of			
Adult Education - State Grant Program	Education, Department of	84.002	\$ 2,572,635
Title I Grants to Local Educational Agencies	Education, Department of	84.010	49,379,063
Migrant Education - State Grant Program	Education, Department of	84.011	5,853,763
Title I Program for Neglected and Delinquent Children	Education, Department of	84.013	214,041
Special Education Cluster:			
Special Education - Grants to States	Education, Department of	84.027	* 65,348,088
Special Education - Preschool Grants	Education, Department of	84.173	* 2,346,551
Vocational Education - Basic Grants to States	Education, Department of	84.048	* 6,941,200
Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069	573,348
Rehabilitation Services - Vocational Rehabilitation Grants to States	Blind and Visually Impaired Commission	84.126	2,406,722
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, Department of	84.126	14,551,388
Rehabilitation Services - Client Assistance Program	Education, Department of	84.161	133,235
Independent Living-State Grants	Blind and Visually Impaired Commission	84.169	26,188
Independent Living-State Grants	Education, Department of	84.169	325,459
Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired Commission	84.177	221,076

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STATE OF NEBRASKA
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For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Education, U.S. Department of, Continued:			
Special Education-Grants for Infants and Families with Disabilities	Education, Department of	84.181	1,838,111
Safe and Drug-Free Schools and Communities-National Programs	Education, Department of	84.184	16,764
Byrd Honors Scholarships	Education, Department of	84.185	240,000
Safe and Drug-Free Schools and Communities - State Grants	Education, Department of	84.186	1,936,520
Safe and Drug-Free Schools and Communities - State Grants	Health and Human Services System	84.186	390,287
Supported Employment Services for Individuals with Severe Disabilities	Blind and Visually Impaired Commission	84.187	52,683
Supported Employment Services for Individuals with Severe Disabilities	Education, Department of	84.187	270,000
Education for Homeless Children and Youth	Education, Department of	84.196	205,484
Star Schools	Education, Department of	84.203	5,530
Even Start - State Educational Agencies	Education, Department of	84.213	840,380
Fund for the Improvement of Education	Education, Department of	84.215	36,677
Assistive Technology	Education, Department of	84.224	582,529
Rehabilitation Services Demonstration and Training Programs	Blind and Visually Impaired Commission	84.235	115,903
Tech-Prep Education	Education, Department of	84.243	693,474
National Institute for Literacy	Education, Department of	84.257	592
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired Commission	84.265	34,395
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	28,569
Eisenhower Professional Development State Grants	Postsecondary Education, Coordinating Commission for	84.281	23,287
Twenty-First Century Community Learning Centers	Education, Department of	84.287	3,604,892
Foreign Language Assistance	Education, Department of	84.293	34,400
State Grants for Innovative Programs	Education, Department of	84.298	1,625,603
Education Technology State Grants	Education, Department of	84.318	3,063,576
Special Education - State Personnel Development	Education, Department of	84.323	272,970
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	234,524
Advanced Placement Program	Education, Department of	84.330	5,000
Grants to States for Incarcerated Youth Offenders	Corrections, Department of	84.331	83,525
Comprehensive School Reform Demonstration	Education, Department of	84.332	1,116,203
Vocational Education Occupational and Employment Information State Grants	Education, Department of	84.346	116,212
Transition to Teaching	Education, Department of	84.350	144,813
Reading First State Grants	Education, Department of	84.357	3,716,924
Rural Education	Education, Department of	84.358	22,429
English Language Acquisition Grants	Education, Department of	84.365	2,017,454
Mathematics & Science Partnerships	Education, Department of	84.366	221,504
Improving Teacher Quality State Grants	Education, Department of	84.367	12,391,964

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Education, U.S. Department of, Continued:			
Improving Teacher Quality State Grants	Post Secondary Education Commission	84.367	419,979
Grants for State Assessments and Related Activities	Education, Department of	84.369	4,188,516
Hurricane Education Recovery	Education, Department of	84.938	444,586
Total U.S. Department of Education			\$ 191,929,016
Election Assistance Commission			
Help America Vote Act Requirements Payments	Secretary of State	90.401	* \$ 11,905,676
Total Election Assistance Commission			\$ 11,905,676
Energy, U.S. Department of			
National Energy Information Center	Governor	81.039	\$ 6,000
State Energy Program	Governor	81.041	443,442
Weatherization Assistance for Low-Income Persons	Governor	81.042	2,569,017
Regional Biomass Energy Programs	Governor	81.079	28,315
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Governor	81.117	56,496
State Energy Program Special Projects	Governor	81.119	87,112
Total U.S. Department of Energy			\$ 3,190,382
Environmental Protection Agency, U.S.			
State Indoor Radon Grants	Health and Human Services System	66.032	\$ 156,736
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	56,775
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Health and Human Services System	66.034	1,974
Water Pollution Control - State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	13,442
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	Environmental Quality, Department of	66.424	2,569
State Public Water System Supervision	Health and Human Services System	66.432	1,296,480
State Underground Water Source Protection	Environmental Quality, Department of	66.433	86,188
State Underground Water Source Protection	Oil and Gas Commission	66.433	84,130
Targeted Watersheds Grants	Environmental Quality, Department of	66.439	1,015
Water Quality Management Planning	Environmental Quality, Department of	66.454	130,605
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	* 5,467,300
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	4,087,248

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Environmental Protection Agency, U.S., Continued:			
Nonpoint Source Implementation Grants	Game and Parks Commission	66.460	169,493
Regional Wetland Program Development Grants	Game and Parks Commission	66.461	96,186
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	65,132
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467	50,826
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	8,536,448
Hardship Grant Program Rural Communities	Environmental Quality, Department of	66.470	120,520
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Health and Human Services System	66.471	58,310
Water Protection Grants to the States	Health and Human Services System	66.474	72,553
State and Tribal Underground Storage Tanks Program	Fire Marshal	66.804	213,054
Performance Partnership Grants	Environmental Quality, Department of	66.605	4,472,431
Surveys, Studies, Investigations, and Special Purpose Grants	Environmental Quality, Department of	66.606	227,959
Training and Fellowships for the Environmental Protection Agency	Environmental Quality, Department of	66.607	4,317
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608	57,846
Environmental Information Exchange Network Grant Program and Related Assistance	Health and Human Services System	66.608	58,030
Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700	716,006
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	Health and Human Services System	66.707	342,383
Pollution Prevention Grants Program	Environmental Quality, Department of	66.708	59,769
Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	Environmental Quality, Department of	66.802	381,832
Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	Health and Human Services System	66.802	1,323
Leaking Underground Storage Tank Trust Fund Program	Environmental Quality, Department of	66.805	603,912
Superfund State and Indian Tribe Core Program Cooperative Agreements (Superfund)	Environmental Quality, Department of	66.809	200,279
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	566,654
Total U.S. Environmental Protection Agency			\$ <u>28,459,725</u>
Equal Employment Opportunity Commission, U.S.			
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	\$ <u>473,415</u>
Total U.S. Equal Employment Opportunity Commission			\$ <u>473,415</u>
General Services Administration			
Donation of Federal Surplus Personal Property	Corrections, Department of	39.003	\$ 1,922,067
Election Reform Payments	Secretary of State	39.011	<u>335,527</u>
Total General Services Administration			\$ <u>2,257,594</u>

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services, U.S. Department of			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services System	93.006	26,625
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services System	93.041	23,283
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	Health and Human Services System	93.042	94,685
Special Programs for the Aging - Title III, Part D- Disease Prevention and Health Promotion Services	Health and Human Services System	93.043	118,916
Special Programs for the Aging Cluster:			
Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers	Health and Human Services System	93.044	2,412,856 *
Special Programs for the Aging - Title III, Part C-Nutrition Services	Health and Human Services System	93.045	3,510,694 *
Nutrition Services Incentive Program	Health and Human Services System	93.053	1,319,849 *
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	Health and Human Services System	93.048	142,240
Alzheimer's Disease Demonstration Grants to States	Health and Human Services System	93.051	255,943
National Family Caregiver Support	Health and Human Services System	93.052	1,174,839
Food and Drug Administration-Research	Agriculture, Department of	93.103	5,870
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services System	93.104	237,445
Maternal and Child Health Federal Consolidated Programs	Health and Human Services System	93.110	382,636
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services System	93.116	198,025
Emergency Medical Services for Children	Health and Human Services System	93.127	57,923
Primary Care Services - Resource Coordination and Development-Primary Care Offices	Health and Human Services System	93.130	113,248
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services System	93.136	391,291
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services System	93.150	307,489
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	Health and Human Services System	93.197	184,490
Family Planning - Services	Health and Human Services System	93.217	1,745,948
Consolidation Knowledge Development and Application Program	Health and Human Services System	93.230	2,690,665
Traumatic Brain Injury-State Demonstration Grant Program	Education, Department of	93.234	144,470
Abstinence Education Program	Health and Human Services System	93.235	273,816
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	Health and Human Services System	93.238	21,981
State Rural Hospital Flexibility Program	Health and Human Services System	93.241	700,433
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Health and Human Services System	93.243	449,480
Universal Newborn Hearing Screening	Health and Human Services System	93.251	82,932
State Planning Grant Health Care Access for the Uninsured	Health and Human Services System	93.256	106,550

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STATE OF NEBRASKA
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For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services, U.S. Department of, Continued:			
Rural Access to Emergency Devices Grant	Health and Human Services System	93.259	155,069
Immunization Grants	Health and Human Services System	93.268	* ^ 9,360,678
Drug Abuse and Addiction Research Programs	Health and Human Services System	93.279	8,737
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services System	93.283	15,776,782
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Labor, Department of	93.283	118,372
Small Rural Hospital Improvement Grant Program	Health and Human Services System	93.301	616,440
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	178,779
Promoting Safe and Stable Families	Health and Human Services System	93.556	1,233,776
Temporary Assistance for Needy Families	Health and Human Services System	93.558	* ^ 54,144,021
Child Support Enforcement	Health and Human Services System	93.563	* ^ 29,158,618
Child Support Enforcement Research	Health and Human Services System	93.564	39,142
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services System	93.566	654,286
Low-Income Home Energy Assistance	Health and Human Services System	93.568	24,788,898
Low-Income Home Energy Assistance	Governor	93.568	2,667,535
Community Services Block Grant	Health and Human Services System	93.569	4,319,493
Community Services Block Grant Formula and Discretionary Awards-Community Food and Nutrition Programs	Health and Human Services System	93.571	10,054
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services System	93.575	* ^ 25,305,632
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services System	93.596	* ^ 18,630,479
Refugee and Entrant Assistance-Discretionary Grants	Education, Department of	93.576	155,466
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services System	93.576	42,524
Empowerment Zones Program	Health and Human Services System	93.585	256,531
State Court Improvement Program	Supreme Court, Nebraska	93.586	194,166
Grants to States for Access and Visitation Programs	Health and Human Services System	93.597	81,249
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services System	93.599	656,808
Head Start	Education, Department of	93.600	255,573
Voting Access for Individuals with Disabilities Grants to States	Secretary of State	93.617	103,843
Basic Center Grant	Health and Human Services System	93.623	220,000
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services System	93.630	451,474
Children's Justice Grants to States	Health and Human Services System	93.643	68,064
Child Welfare Services - State Grants	Health and Human Services System	93.645	2,836,101
Social Services Research and Demonstration	Health and Human Services System	93.647	236,516
Foster Care - Title IV-E	Health and Human Services System	93.658	* ^ 17,570,213
Adoption Assistance	Health and Human Services System	93.659	* ^ 6,946,272

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For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services, U.S. Department of, Continued:			
Social Services Block Grant	Health and Human Services System	93.667	10,151,284
Child Abuse and Neglect State Grants	Health and Human Services System	93.669	100,376
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	Health and Human Services System	93.671	931,544
Chafee Foster Care Independence Program	Health and Human Services System	93.674	1,600,798
State Children's Insurance Program (CHIP)	Health and Human Services System	93.767	^ 36,927,998
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services System	93.768	443,976
Medicare-Supplementary Medical Insurance	Health and Human Services System	93.774	^ 1,568,908
Medicaid Cluster:			
State Medicaid Fraud Control Units	Attorney General	93.775	* 463,168
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services System	93.777	* ^ 3,624,316
Medical Assistance Program (Medicaid)	Health and Human Services System	93.778	* ^ 937,165,889
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services System	93.779	851,750
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779	284,515
Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780	87,486
National Bioterrorism Hospital Preparedness Program	Health and Human Services System	93.889	4,586,502
Grants to States for Operation of Offices of Rural Health	Health and Human Services System	93.913	155,471
HIV Care Formula Grants	Health and Human Services System	93.917	1,406,282
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938	99,404
HIV Prevention Activities - Health Department Based	Health and Human Services System	93.940	1,175,471
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services System	93.944	158,276
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services System	93.945	306,616
Trauma Care Systems Planning and Development	Health and Human Services System	93.952	52,785
Block Grants for Community Mental Health Services	Health and Human Services System	93.958	1,866,403
Block Grants for Prevention and Treatment of Substance Abuse	Education, Department of	93.959	* 75,965
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services System	93.959	* 7,390,434
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services System	93.977	405,753
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services System	93.988	307,308
Preventive Health and Health Services Block Grant	Health and Human Services System	93.991	1,749,715
Maternal and Child Health Services Block Grant to The States	Health and Human Services System	93.994	3,995,536
National Center for Health Statistics	Health and Human Services System	200-2000-07227	218,380

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STATE OF NEBRASKA
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Health and Human Services, U.S. Department of, Continued:			
Tissue Residue Inspections	Agriculture, Department of	223-04-4007	18
Medicated Feed Inspection	Agriculture, Department of	HHSF223200540031P	60,969
Food/Grain Warehouse Inspection	Agriculture, Department of	HHSF223200540035P	43,712
FDA Partnership Agreement	Agriculture, Department of	N/A	19
Total U.S. Department of Health and Human Services			\$ 1,252,673,240
Homeland Security, U.S. Department of			
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	Military Department	97.004	* \$ 9,851,354
Homeland Security Grant Program	Military Department	97.067	* 7,826,096
Boating Safety Financial Assistance	Game and Parks Commission	97.012	493,426
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	89,928
Flood Mitigation Assistance	Natural Resources, Department of	97.029	11,625
Crisis Counseling	Military Department	97.032	35,054
Crisis Counseling	Health and Human Services System	97.032	217,040
Public Assistance Grants	Military Department	97.036	* 6,014,381
Hazard Mitigation Grant	Military Department	97.039	224,719
National Dam Safety Program	Natural Resources, Department of	97.041	90,585
Emergency Management Performance Grants	Military Department	97.042	356,368
State Fire Training Systems Grants	Fire Marshal	97.043	34,851
Cooperating Technical Partners	Natural Resources, Department of	97.045	648,054
Pre-Disaster Mitigation	Military Department	97.047	1,176
Emergency Operations Centers	Military Department	97.052	65,649
Map Modernization Management Support	Natural Resources, Department of	97.070	157,586
Buffer Zone Protection Plan (BZPP)	Military Department	97.078	137,348
Total U.S. Department of Homeland Security			\$ 26,255,240
Housing & Urban Development, U.S. Department of			
Community Development Block Grants/State's Program	Economic Development, Department of	14.228	* \$ 14,383,101
Emergency Shelter Grants Program	Health and Human Services System	14.231	502,322
HOME Investment Partnerships Program	Economic Development, Department of	14.239	5,333,152
Housing Opportunities for Persons with AIDS	Health and Human Services System	14.241	417,588
Fair Housing Assistance Program-State and Local	Equal Opportunity Commission	14.401	237,309
Healthy Homes Demonstration Grants	Health and Human Services System	14.901	867,069

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Housing & Urban Development, U.S. Department of, Continued:			
Manufactured Homes	Public Service Commission	DV100K900016698	3,153
Total U.S. Department of Housing & Urban Development			\$ 21,743,694
Interior, U.S. Department of			
Water Reclamation and Reuse Program	Game and Parks Commission	15.504	\$ 184,486
Fish and Wildlife Cluster:			
Sport Fish Restoration	Game and Parks Commission	15.605	* 3,416,815
Wildlife Restoration	Game and Parks Commission	15.611	* 3,930,412
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	29,148
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	201,956
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	301,316
Wildlife Conservation and Restoration	Game and Parks Commission	15.625	20,826
Landowner Incentive	Game and Parks Commission	15.633	386,718
State Wildlife Grants	Game and Parks Commission	15.634	1,341,518
National Spatial Data Infrastructure Cooperative Agreements Program	Natural Resources, Department of	15.809	49,097
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	806,413
Outdoor Recreation Acquisition, Development and Planning	Game and Parks Commission	15.916	759,813
Reclamation States Emergency Drought Relief	Natural Resources, Department of	03FC601826	350,489
Total U.S. Department of Interior			\$ 11,779,007
Justice, U.S. Department of			
Law Enforcement Assistance-Undefined	Military Department	16.000	\$ 457,226
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Military Department	16.007	* 2,866,107
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections, Department of	16.202	520,434
Juvenile Accountability Incentives Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523	804,722
OVW Technical Assistance Initiative	Law Enforcement and Criminal Justice, Commission for	16.526	186,871
Juvenile Justice and Delinquency Prevention - Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	772,095
Missing Children's Assistance	State Patrol	16.543	236,993
Title V Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548	100,000
Part E State Challenge Activities	Law Enforcement and Criminal Justice, Commission for	16.549	31,671
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550	75,576
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	588,897
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	330,518
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,517,397

^ - Amounts taken from financial status reports.

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Justice, U.S. Department of, Continued:			
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	51,325
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579	2,547,184
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	State Patrol	16.580	673,918
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Corrections, Department of	16.586	341,890
Violence Against Women Formula Grants	Attorney General	16.588	107,529
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	1,016,746
Violence Against Women Formula Grants	State Patrol	16.588	8,219
Local Law Enforcement Block Grant Program	Law Enforcement and Criminal Justice, Commission for	16.592	18,550
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	227,199
State Criminal Alien Assistance Program	Corrections, Department of	16.606	331,618
Community Prosecution and Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission for	16.609	269,828
Public Safety Partnership and Community Policing Grants	State Patrol	16.710	305,214
Enforcing Underage Drinking Laws Program	Motor Vehicles, Department of	16.727	496,384
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Corrections, Department of	16.735	5,483
Gang Resistance Education and Training	State Patrol	16.737	14,136
High Intensity Drug	State Patrol	IG-02-0104, 15PMWP634Z	607,639
Misc Federal Funds	Law Enforcement and Criminal Justice, Commission for	N/A	2,565
Total U.S. Department of Justice			\$ 16,513,934
Labor, U.S. Department of			
Labor Force Statistics	Labor, Department of	17.002	\$ 907,742
Compensation and Working Conditions	Worker's Compensation Court	17.005	31,241
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	* 7,227,052
Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	* 310,666
Local Veterans' Employment Representative Program	Labor, Department of	17.804	* 616,055
Unemployment Insurance - Federal	Labor, Department of	17.225	* 2,639,123
Unemployment Insurance - State	Labor, Department of	17.225	* 89,113,603
Unemployment Insurance - Admin	Labor, Department of	17.225	* 18,467,116
Senior Community Service Employment Program	Health and Human Services System	17.235	544,323
Trade Adjustment Assistance	Labor, Department of	17.245	1,441,553
Workforce Investment Act Cluster:			
WIA - Adult Program	Labor, Department of	17.258	* 3,594,629
WIA - Youth Activities	Labor, Department of	17.259	* 1,934,976

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2006

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Labor, U.S. Department of, Continued:			
WIA - Dislocated Workers	Labor, Department of	17.260	2,242,152
WIA Pilots, Demonstrations, and Research Projects	Economic Development, Department of	17.261	125,224
Work Incentive Grants	Labor, Department of	17.266	175,813
Incentive Grants WIA Section 503	Labor, Department of	17.267	724,008
Work Opportunity Tax Credit Program (WOTC) and Welfare-to-Work Tax Credit (WtWTC)	Labor, Department of	17.271	74,995
Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273	111,707
Consultation Agreements	Labor, Department of	17.504	460,219
Transition Assistance Program	Labor, Department of	17.807	6,975
Total U.S. Department of Labor			\$ 130,749,172
National Archives and Records Administration			
National Historical Publications and Records Grants	Historical Society	89.003	\$ 1,452
Total National Archives and Records Administration			\$ 1,452
National Foundation of Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	Arts Council	45.025	\$ 641,409
Conservation Project Support	Historical Society	45.303	297
Grants to States (State Library Program)	Library Commission	45.310	1,324,505
National Leadership Grants	Historical Society	45.312	2,597
Laura Bush 21st Century Librarian Program	Library Commission	45.313	62,933
Total National Foundation of Arts and the Humanities			\$ 2,031,741
Social Security Administration			
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Education, Department of	96.001	\$ 8,884,652
Supplemental Security Income	Education, Department of	96.006	7,454
Supplemental Security Income	Blind and Visually Impaired Commission	96.006	42,279
Total Social Security Administration			\$ 8,934,385
Transportation, U.S. Department of			
Airport Improvement Program	Aeronautics, Department of	20.106	\$ 17,430,704
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Game and Parks Commission	20.205	1,004,200
Highway Planning and Construction	Roads, Department of	20.205	261,502,617

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Transportation, U.S. Department of, Continued:			
Highway Training and Education	Law Enforcement and Criminal Justice, Commission for	20.215	43,252
Motor Carrier Safety	Motor Vehicles, Department of	20.217	601,165
National Motor Carrier Safety	Motor Vehicles, Department of	20.218	63,105
National Motor Carrier Safety	State Patrol	20.218	2,545,166
Federal Transit-Metropolitan Planning Grants	Roads, Department of	20.505	184,531
Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	2,914,858
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	77,283
Highway Safety Cluster:			
State and Community Highway Safety	Law Enforcement and Criminal Justice, Commission for	20.600	1,145,371
State and Community Highway Safety	Motor Vehicles, Department of	20.600	2,077,513
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Motor Vehicles, Department of	20.601	238,836
Occupant Protection	Motor Vehicles, Department of	20.602	277,488
Federal Highway Safety Data Improvements Incentive Grants	Motor Vehicles, Department of	20.603	125,094
Safety Incentive Grants for Use of Seatbelts	Motor Vehicles, Department of	20.604	295,347
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Roads, Department of	20.605	668,371
Pipeline Safety	Fire Marshal	20.700	72,662
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	104,870
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-76	50,881
Total U.S. Department of Transportation			\$ 291,423,314
Treasury, U.S. Department of			
Investigative Forfeiture	Revenue, Department of	N/A	\$ 40
Total Treasury, U.S. Department of			\$ 40
Veterans Affairs, U.S. Department of			
Grants to States for Construction of State Home Facilities	Health and Human Services System	64.005	\$ 4,747,551
Veterans State Domiciliary Care	Health and Human Services System	64.014	^ 870,156
Veterans State Nursing Home Care	Health and Human Services System	64.015	^ 8,734,068
Total U.S. Department of Veterans Affairs			\$ 14,351,775
TOTAL FEDERAL AWARDS			\$ 2,287,500,808

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2006

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Aeronautics, Department of			
Airport Improvement Program	Transportation, U.S. Department of	20.106	\$ 17,430,704
Total Department of Aeronautics			<u>\$ 17,430,704</u>
Agriculture, Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 1,045,145
State Mediation Grants	Agriculture, U.S. Department of	10.435	111,618
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	178,001
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700	716,006
Food and Drug Administration-Research	Health and Human Services, U.S. Department of	93.103	5,870
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	178,779
Tissue Residue Inspections	Health and Human Services, U.S. Department of	223-04-4007	18
Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200540031P	60,969
Food/Grain Warehouse Inspection	Health and Human Services, U.S. Department of	HHSF223200540035P	43,712
Market Protection and Promotion	Agriculture, U.S. Department of	10.163	24,888
FSIS/FERN Lab	Agriculture, U.S. Department of	FSIS - C-38-2005	66,295
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	165,569
FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	19
Total Department of Agriculture			<u>\$ 2,596,889</u>
Arts Council			
Promotion of the Arts - Partnership Agreements	National Foundation of Arts and the Humanities	45.025	\$ 641,409
Total Arts Council			<u>\$ 641,409</u>
Attorney General			
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	\$ 107,529
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	* 463,168
Total Attorney General			<u>\$ 570,697</u>
Blind and Visually Impaired Commission			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	\$ 2,406,722
Independent Living - State Grants	Education, U.S. Department of	84.169	26,188
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	221,076
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	52,683
Rehabilitation Services Demonstration and Training Programs	Education, U.S. Department of	84.235	115,903

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Blind and Visually Impaired Commission, Continued:			
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	34,395
Disability Insurance/SSI Cluster:			
Supplemental Security Income	Social Security Administration	96.006	42,279
Total Blind and Visually Impaired Commission			\$ <u>2,899,246</u>
Corrections, Department of			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Justice, U.S. Department of	16.202	\$ 520,434
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Justice, U.S. Department of	16.586	341,890
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	331,618
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Justice, U.S. Department of	16.735	5,483
Donation of Federal Surplus Personal Property	General Services Administration	39.003	1,922,067
Grants to States for Incarcerated Youth Offenders	Education, U.S. Department of	84.331	83,525
Total Department of Corrections			\$ <u>3,205,017</u>
Economic Development, Department of			
Rural Community Development Initiative	Agriculture, U.S. Department of	10.446	\$ 173,988
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	520,819
Community Development Block Grants/State's Program	Housing & Urban Development, U.S. Department of	14.228	* 14,383,101
HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	5,333,152
WIA Pilots, Demonstrations, and Research Projects	Department of Labor	17.261	125,224
Total Department of Economic Development			\$ <u>20,536,284</u>
Education, Department of			
Child Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	* \$ 8,644,102
National School Lunch Program	Agriculture, U.S. Department of	10.555	* 39,906,981
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	* 82,821
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	* 839,179
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	23,343,421
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,077,142
Team Nutrition Grants	Agriculture, U.S. Department of	10.574	50,064
Adult Education - State Grant Program	Education, U.S. Department of	84.002	2,572,635
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	49,379,063
Migrant Education - State Grant Program	Education, U.S. Department of	84.011	5,853,763

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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Education, Department of, Continued:			
Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013	214,041
Special Education Cluster:			
Special Education - Grants to States	Education, U.S. Department of	84.027	* 65,348,088
Special Education - Preschool Grants	Education, U.S. Department of	84.173	* 2,346,551
Vocational Education - Basic Grants to States	Education, U.S. Department of	84.048	* 6,941,200
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	14,551,388
Rehabilitation Services - Client Assistance Program	Education, U.S. Department of	84.161	133,235
Independent Living-State Grants	Education, U.S. Department of	84.169	325,459
Special Education-Grants for Infants and Families with Disabilities	Education, U.S. Department of	84.181	1,838,111
Safe and Drug-Free Schools and Communities-National Programs	Education, U.S. Department of	84.184	16,764
Byrd Honors Scholarships	Education, U.S. Department of	84.185	240,000
Safe and Drug-Free Schools and Communities-State Grants	Education, U.S. Department of	84.186	1,936,520
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	270,000
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	205,484
Star Schools	Education, U.S. Department of	84.203	5,530
Even Start - State Educational Agencies	Education, U.S. Department of	84.213	840,380
Fund for the Improvement of Education	Education, U.S. Department of	84.215	36,677
Assistive Technology	Education, U.S. Department of	84.224	582,529
Tech-Prep Education	Education, U.S. Department of	84.243	693,474
National Institute for Literacy	Education, U.S. Department of	84.257	592
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	28,569
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	3,604,892
Foreign Language Assistance	Education, U.S. Department of	84.293	34,400
State Grants for Innovative Programs	Education, U.S. Department of	84.298	1,625,603
Education Technology State Grants	Education, U.S. Department of	84.318	3,063,576
Special Education - State Personnel Development	Education, U.S. Department of	84.323	272,970
Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	234,524
Advanced Placement Program	Education, U.S. Department of	84.330	5,000
Comprehensive School Reform Demonstration	Education, U.S. Department of	84.332	1,116,203
Vocational Education-Occupational and Employment Information State Grants	Education, U.S. Department of	84.346	116,212
Transition to Teaching	Education, U.S. Department of	84.350	144,813
Reading First State Grants	Education, U.S. Department of	84.357	3,716,924

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Education, Department of, Continued:			
Rural Education	Education, U.S. Department of	84.358	22,429
English Language Acquisition Grants	Education, U.S. Department of	84.365	2,017,454
Mathematics & Science Partnerships	Education, U.S. Department of	84.366	221,504
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	12,391,964
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	4,188,516
Hurricane Education Recovery	Education, U.S. Department of	84.938	444,586
Traumatic Brain Injury-State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	144,470
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services, U.S. Department of	93.576	155,466
Head Start	Health and Human Services, U.S. Department of	93.600	255,573
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Health and Human Services, U.S. Department of	93.938	99,404
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	75,965
Learn and Serve America - School and Community Based Programs	Corporation For National and Community Service	94.004	78,732
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Social Security Administration	96.001	8,884,652
Supplemental Security Income	Social Security Administration	96.006	7,454
Total Department of Education			\$ <u><u>271,227,049</u></u>
Educational Telecommunications Commission			
Public Telecommunications Facilities-Planning and Construction	Commerce, U.S. Department of	11.550	\$ <u>46,807</u>
Total Educational Telecommunications Commission			\$ <u><u>46,807</u></u>
Environmental Quality, Department of			
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	\$ 56,775
Water Pollution Control - State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	13,442
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	Environmental Protection Agency, U.S.	66.424	2,569
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	86,188
Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439	1,015
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	130,605
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	5,467,300
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	4,087,248
Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463	65,132
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467	50,826

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Environmental Quality, Department of, Continued:			
Capitalization Grants for Drinking Water State Revolving Fund	Environmental Protection Agency, U.S.	66.468	8,536,448 *
Hardship Grant Program Rural Communities	Environmental Protection Agency, U.S.	66.470	120,520
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	4,472,431
Surveys, Studies, Investigations, and Special Purpose Grants	Environmental Protection Agency, U.S.	66.606	227,959
Training and Fellowships for the Environmental Protection Agency	Environmental Protection Agency, U.S.	66.607	4,317
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	57,846
Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708	59,769
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	381,832
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	603,912
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	200,279
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	566,654
Defense Environmental Restoration Program	Defense, U.S. Department of	NE-03-1	136,146
Total Department of Environmental Quality			\$ 25,329,213
Equal Opportunity Commission			
Fair Housing Assistance Program-State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 237,309
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002	473,415
Total Equal Opportunity Commission			\$ 710,724
Fire Marshal			
Pipeline Safety	Transportation, U.S. Department of	20.700	\$ 72,662
State and Tribal Underground Storage Tanks Program	Environmental Protection Agency, U.S.	66.804	213,054
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	34,851
Total Fire Marshal			\$ 320,567
Game and Parks Commission			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 144,319
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	227,037
Water Reclamation and Reuse Program	Interior, U.S. Department of	15.504	184,486
Fish and Wildlife Cluster:			
Sport Fish Restoration	Interior, U.S. Department of	15.605	3,416,815 *
Wildlife Restoration	Interior, U.S. Department of	15.611	3,930,412 *

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Game and Parks Commission, Continued:			
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	29,148
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	201,956
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	301,316
Wildlife Conservation and Restoration	Interior, U.S. Department of	15.625	20,826
Landowner Incentive	Interior, U.S. Department of	15.633	386,718
State Wildlife Grants	Interior, U.S. Department of	15.634	1,341,518
Outdoor Recreation-Acquisition, Development and Planning (Land and Water Conservation Fund Grants)	Interior, U.S. Department of	15.916	759,813
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205	1,004,200
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	169,493
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	96,186
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	493,426
US Army Corps of Engineers	Defense, U.S. Department of		1,396,940
		DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	
Total Game and Parks Commission			\$ <u><u>14,104,609</u></u>
Governor			
National Energy Information Center	Energy, U.S. Department of	81.039	\$ 6,000
State Energy Program	Energy, U.S. Department of	81.041	443,442
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	2,569,017
Regional Biomass Energy Programs	Energy, U.S. Department of	81.079	28,315
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Energy, U.S. Department of	81.117	56,496
State Energy Program Special Projects	Energy, U.S. Department of	81.119	87,112
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	2,667,535
Total Governor			\$ <u><u>5,857,917</u></u>
Health and Human Services System			
Food Donation	Agriculture, U.S. Department of	10.550	* ^ \$ 8,140,152
Food Stamp Cluster:			
Food Stamps	Agriculture, U.S. Department of	10.551	^ 123,571,045
State Administrative Matching Grants for Food Stamp Program	Agriculture, U.S. Department of	10.561	^ 16,132,923

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2006

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services System, Continued:			
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	24,555,771
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	162,975
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	4,345,643
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	250,118
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	1,098,907
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	502,322
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	417,588
Healthy Homes Demonstration Grants	Housing & Urban Development, U.S. Department of	14.901	867,069
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	544,323
Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005	4,747,551
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	870,156
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	8,734,068
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	156,736
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	1,974
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	1,296,480
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471	58,310
Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474	72,553
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	58,030
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	342,383
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	1,323
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	390,287
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006	26,625
Special Programs for the Aging - Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services, U.S. Department of	93.041	23,283
Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	Health and Human Services, U.S. Department of	93.042	94,685
Special Programs for the Aging - Title III, PartD- Disease Prevention and Health Promotion Services	Health and Human Services, U.S. Department of	93.043	118,916
Special Programs for the Aging Cluster: Special Programs for the Aging - Title III, Part B-Grants for Supportive Services and Senior Centers	Health and Human Services, U.S. Department of	93.044	2,412,856

^ - Amounts taken from financial status reports.

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2006

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services System, Continued:			
Special Programs for the Aging - Title III, Part C-Nutrition Services	Health and Human Services, U.S. Department of	93.045	* 3,510,694
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053	* 1,319,849
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	Health and Human Services, U.S. Department of	93.048	142,240
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, U.S. Department of	93.051	255,943
National Family Caregiver Support	Health and Human Services, U.S. Department of	93.052	1,174,839
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services, U.S. Department of	93.104	237,445
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	382,636
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	198,025
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	57,923
Primary Care Services - Resource Coordination and Development-Primary Care Offices	Health and Human Services, U.S. Department of	93.130	113,248
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services, U.S. Department of	93.136	391,291
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	307,489
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	Health and Human Services, U.S. Department of	93.197	184,490
Family Planning - Services	Health and Human Services, U.S. Department of	93.217	1,745,948
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services, U.S. Department of	93.230	2,690,665
Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	273,816
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	Health and Human Services, U.S. Department of	93.238	21,981
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	700,433
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	449,480
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	82,932
State Planning Grant Health Care Access for the Uninsured	Health and Human Services, U.S. Department of	93.256	106,550
Rural Access to Emergency Devices Grant	Health and Human Services, U.S. Department of	93.259	155,069
Immunization Grants	Health and Human Services, U.S. Department of	93.268	* ^ 9,360,678
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	8,737
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	15,776,782
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	616,440
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,233,776
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	* ^ 54,144,021
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	* ^ 29,158,618
Child Support Enforcement Research	Health and Human Services, U.S. Department of	93.564	39,142
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services, U.S. Department of	93.566	654,286

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STATE OF NEBRASKA
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For the Fiscal Year Ended June 30, 2006

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Health and Human Services System, Continued:			
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	24,788,898
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	4,319,493
Community Services Block Grant Formula and Discretionary Awards-Community Food and Nutrition Programs	Health and Human Services, U.S. Department of	93.571	10,054
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	* ^ 25,305,632
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	* ^ 18,630,479
Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services, U.S. Department of	93.576	42,524
Empowerment Zones Program	Health and Human Services, U.S. Department of	93.585	256,531
Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	81,249
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599	656,808
Basic Center Grant	Health and Human Services, U.S. Department of	93.623	220,000
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630	451,474
Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	68,064
Child Welfare Services - State Grants	Health and Human Services, U.S. Department of	93.645	2,836,101
Social Services Research and Demonstration	Health and Human Services, U.S. Department of	93.647	236,516
Foster Care - Title IV-E	Health and Human Services, U.S. Department of	93.658	* ^ 17,570,213
Adoption Assistance	Health and Human Services, U.S. Department of	93.659	* ^ 6,946,272
Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	10,151,284
Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	100,376
Family Violence Prevention and Services/Grants for Battered Women's Shelters- Grants to States and Indian Tribes	Health and Human Services, U.S. Department of	93.671	931,544
Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674	1,600,798
State Children's Insurance Program (CHIP)	Health and Human Services, U.S. Department of	93.767	^ 36,927,998
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768	443,976
Medicare-Supplementary Medical Insurance	Health and Human Services, U.S. Department of	93.774	^ 1,568,908
Medicaid Cluster:			
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777	* ^ 3,624,316
Medical Assistance Program (Medicaid)	Health and Human Services, U.S. Department of	93.778	* ^ 937,165,889
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	851,750
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	4,586,502
Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913	155,471
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917	1,406,282

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Health and Human Services System, Continued:			
HIV Prevention Activities - Health Department Based	Health and Human Services, U.S. Department of	93.940	1,175,471
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944	158,276
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945	306,616
Trauma Care Systems Planning and Development	Health and Human Services, U.S. Department of	93.952	52,785
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	1,866,403
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	7,390,434 *
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	405,753
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988	307,308
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,749,715
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	3,995,536
State Commissions	Corporation For National and Community Service	94.003	154,132
AmeriCorps	Corporation For National and Community Service	94.006	1,012,773
Planning and Program Development Grants	Corporation For National and Community Service	94.007	15,701
Training and Technical Assistance	Corporation For National and Community Service	94.009	78,483
Crisis Counseling	Homeland Security, U.S. Department of	97.032	217,040
National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227	218,380
Total Health and Human Services System			\$ 1,446,530,726
Historical Society			
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	\$ 806,413
Conservation Project Support	National Foundation of Arts and the Humanities	45.303	297
National Leadership Grants	National Foundation of Arts and the Humanities	45.312	2,597
National Historical Publications and Records Grants	National Archives and Records Administration	89.003	1,452
Total Historical Society			\$ 810,759
Insurance, Department of			
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	Health and Human Services, U.S. Department of	93.779	\$ 284,515
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	87,486
Total Department of Insurance			\$ 372,001

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Labor, Department of			
Labor Force Statistics	Labor, U.S. Department of	17.002	\$ 907,742
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	* 7,227,052
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	* 310,666
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	* 616,055
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	* 2,639,123
Unemployment Insurance - State	Labor, U.S. Department of	17.225	* 89,113,603
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	* 18,467,116
Trade Adjustment Assistance	Labor, U.S. Department of	17.245	1,441,553
Workforce Investment Act Cluster:			
WIA Adult Program	Labor, U.S. Department of	17.258	* 3,594,629
WIA Youth Activities	Labor, U.S. Department of	17.259	* 1,934,976
WIA Dislocated Workers	Labor, U.S. Department of	17.260	* 2,242,152
Work Incentive Grants	Labor, U.S. Department of	17.266	175,813
Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267	724,008
Work Opportunity Tax Credit Program (WOTC) and Welfare-to-Work Tax Credit (WtWTC)	Labor, U.S. Department of	17.271	74,995
Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	111,707
Consultation Agreements	Labor, U.S. Department of	17.504	460,219
Transition Assistance Program	Labor, U.S. Department of	17.807	6,975
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	118,372
Total Department of Labor			\$ 130,166,756
Law Enforcement and Criminal Justice, Commission for			
Juvenile Accountability Incentive Block Grants	Justice, U.S. Department of	16.523	\$ 804,722
OVW Technical Assistance Initiative	Justice, U.S. Department of	16.526	186,871
Juvenile Justice and Delinquency Prevention - Allocation to States	Justice, U.S. Department of	16.540	772,095
Title V Delinquency Prevention Program	Justice, U.S. Department of	16.548	100,000
Part E State Challenge Activities	Justice, U.S. Department of	16.549	31,671
State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	75,576
Crime Victim Assistance	Justice, U.S. Department of	16.575	2,517,397
Crime Victim Compensation	Justice, U.S. Department of	16.576	51,325
Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	2,547,184
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,016,746

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Law Enforcement and Criminal Justice, Commission for, Continued:			
Local Law Enforcement Block Grant Program	Justice, U.S. Department of	16.592	18,550
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	227,199
Community Prosecution and Project Safe Neighborhoods	Justice, U.S. Department of	16.609	269,828
Highway Training and Education	Transportation, U.S. Department of	20.215	43,252
State and Community Highway Safety	Transportation, U.S. Department of	20.600	1,145,371
Misc Federal Funds	Justice, U.S. Department of	N/A	2,565
Total Commission for Law Enforcement and Criminal Justice			\$ 9,810,352
Library Commission			
Grants to States (State Library Program)	National Foundation of Arts and the Humanities	45.310	\$ 1,324,505
Laura Bush 21st Century Librarian Program	National Foundation of Arts and the Humanities	45.313	62,933
Total Library Commission			\$ 1,387,438
Military Department			
Military Construction, National Guard	Defense, U.S. Department of	12.400	\$ 3,727,967
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	* 11,015,773
National Guard Civilian Youth Opportunities	Defense, U.S. Department of	12.404	259,362
Law Enforcement Assistance-Undefined	Justice, U.S. Department of	16.000	457,226
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Justice, U.S. Department of	16.007	* 2,866,107
State Domestic Preparedness Equipment Support Program	Homeland Security, U.S. Department of	97.004	* 9,851,354
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	* 7,826,096
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	104,870
Crisis Counseling	Homeland Security, U.S. Department of	97.032	35,054
Public Assistance Grants	Homeland Security, U.S. Department of	97.036	* 6,014,381
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039	224,719
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042	356,368
Pre-Disaster Mitigation Grant	Homeland Security, U.S. Department of	97.047	1,176
Emergency Operations Centers	Homeland Security, U.S. Department of	97.052	65,649
Buffer Zone Protection Plan (BZPP)	Homeland Security, U.S. Department of	97.078	137,348
Total Military Department			\$ 42,943,450

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STATE OF NEBRASKA
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Motor Vehicles, Department of			
Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	\$ 496,384
Motor Carrier Safety	Transportation, U.S. Department of	20.217	601,165
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	63,105
Highway Safety Cluster:			
State and Community Highway Safety	Transportation, U.S. Department of	20.600	2,077,513
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Transportation, U.S. Department of	20.601	238,836
Occupant Protection	Transportation, U.S. Department of	20.602	277,488
Federal Highway Safety Data Improvements Incentive Grants	Transportation, U.S. Department of	20.603	125,094
Safety Incentive Grants for Use of Seatbelts	Transportation, U.S. Department of	20.604	295,347
Total Department of Motor Vehicles			\$ 4,174,932
Natural Resources, Department of			
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	\$ 26,341
National Spatial Data Infrastructure Cooperative Agreements Program	Interior, U.S. Department of	15.809	49,097
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	89,928
Flood Mitigation Assistance	Homeland Security, U.S. Department of	97.029	11,625
National Dam Safety Program	Homeland Security, U.S. Department of	97.041	90,585
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045	648,054
Map Modernization Management Support	Homeland Security, U.S. Department of	97.070	157,586
Reclamations States Emergency Drought Relief	Interior, U.S. Department of	03FC601826	350,489
Total Department of Natural Resources			\$ 1,423,705
Oil and Gas Commission			
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	\$ 84,130
Total Oil and Gas Commission			\$ 84,130
Postsecondary Education, Coordinating Commission for			
Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069	\$ 573,348
Eisenhower Professional Development State Grants	Education, U.S. Department of	84.281	23,287
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	419,979
Total Coordinating Commission for Postsecondary Education			\$ 1,016,614
Public Service Commission			
Manufactured Homes	Housing & Urban Development, U.S. Department of	DU100K900016698	\$ 3,153
Total Public Service Commission			\$ 3,153

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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
Revenue, Department of			
Investigative Forfeiture	Treasury, U.S. Department of	N/A	\$ 40
Total Department of Revenue			<u>\$ 40</u>
Roads, Department of			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205	\$ 261,502,617
Federal Transit-Metropolitan Planning Grants	Transportation, U.S. Department of	20.505	184,531
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	2,914,858
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	77,283
Highway Safety Cluster:			
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605	668,371
Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-763	50,881
Total Department of Roads			<u>\$ 265,398,541</u>
Rural Development Commission			
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	\$ 19,926
Total Rural Development Commission			<u>\$ 19,926</u>
Secretary of State			
Election Reform Payments	General Services Administration	39.011	335,527
Help America Vote Act Requirements Payments	Election Assistance Commission	90.401	* \$ 11,905,676
Voting Access for Individuals with Disabilities Grants to States	Health and Human Services, U.S. Department of	93.617	103,843
Total Secretary of State			<u>\$ 12,345,046</u>
State Patrol			
Missing Children's Assistance	Justice, U.S. Department of	16.543	\$ 236,993
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	588,897
National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	330,518
Edward Byrne Memorial State and Local Law Enforcement Assistance			
Discretionary Grants Program	Justice, U.S. Department of	16.580	673,918
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	8,219
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	305,214
Gang Resistance Education and Training	Justice, U.S. Department of	16.737	14,136
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,545,166

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2006

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2006 Expenditures</u>
State Patrol, Continued:			
High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z	607,639
Total State Patrol			\$ <u>5,310,700</u>
Supreme Court, Nebraska			
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	\$ 194,166
Total Nebraska Supreme Court			\$ <u>194,166</u>
Worker's Compensation Court			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	\$ 31,241
Total Worker's Compensation Court			\$ <u>31,241</u>
TOTAL FEDERAL AWARDS			\$ <u>2,287,500,808</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all Federal awards programs of the State of Nebraska (the State), except as noted in note 2 below. The State's reporting entity is defined in note 1(b) to the State's financial statements. Federal awards received directly from Federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective Federal agency. Due to the decentralized operations of the State, the accumulation of amounts passed to subrecipients by the State is not practical.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The State's reporting entity is defined in note 1(b) to the financial statements. The accompanying Schedule includes the Federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2006.

Federal awards, if any, for the following discretely presented component units of the State are reported upon separately:

University of Nebraska
Nebraska State College System

(b) Basis of Presentation

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA), whenever possible.

Federal Awards—Pursuant to OMB Circular A-133, Federal awards are defined as assistance provided by a Federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary Federal awards, including food stamps, food commodities, food vouchers, surplus property, and vaccines, are included as Federal awards and are reported on the Schedule. Federal awards do not include direct Federal cash assistance to individuals.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Major Programs—In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are considered major programs.

(c) ***Basis of Accounting***

The accompanying Schedule was prepared on the cash basis of accounting, except for certain amounts reported by the Health and Human Services System (HHSS). The amounts for HHSS denoted with a caret (^) were taken from the Federal financial status reports.

Grants Between State Agencies—Certain primary recipient State agencies pass grant money through to subrecipient State agencies. These transactions are only shown in the primary recipient's expenditures on the accompanying Schedule to avoid overstating the aggregate level of Federal awards expended by the State; however, purchases of services between State agencies using Federal monies are reported as expenditures by the purchasing agency and as revenue for services by the providing agency in the State's basic financial statements.

Matching Costs—The Schedule does not include matching expenditures from general revenues of the State.

Nonmonetary Assistance—The Schedule contains amounts for nonmonetary assistance programs. The Food Stamp program is presented at the dollar value of food stamp coupons disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The Childhood Immunization vaccines are presented at the value assigned by the U.S. Department of Health and Human Services.

Fixed-Price Contracts—Certain Federal awards programs are reimbursed based on a fixed price for a service and not the actual expenditure made by the State. Under these circumstances, the amounts shown on the Schedule represent the amount of assistance received from the Federal government, not the amount expended by the State.

(3) **Nonmonetary Assistance Inventory**

As described in note 2, nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2006, the following inventories of nonmonetary assistance at the State level existed:

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<u>Assistance</u>	<u>Inventory Balance at June 30, 2006</u>
Food Commodities	\$ 1,854,347
Vaccines	1,498,668

(4) Commodity Supplemental Food Program and Childhood Immunization Grants

As described in note 2, included in expenditures for the Commodity Supplemental Food program are \$3,670,854 of nonmonetary Federal assistance in the form of food commodities. The U.S. Department of Agriculture, upon direction from HHSS, delivers the commodities directly to the subrecipients for distribution. Included in the expenditures for the Childhood Immunization Grants is \$7,403,405 of nonmonetary Federal assistance in the form of vaccines.

(5) Surplus Property Program

The State Agency for Surplus Property distributes Federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property program. Donated Federal Surplus Personal Property totaled \$12,813,777 valued at the historical cost as assigned by the Federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule of Expenditures of Federal Awards is 15% of the historical cost, which approximates the fair market value of the property.

(6) Federal Loans Outstanding

The State administers the following loan programs with outstanding balances as noted:

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding Balance at June 30, 2006</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 123,474,688
66.468	Capitalization Grants for Drinking Water State Revolving Fund	67,135,621
84.176	Paul Douglass Teacher Scholarship Loan Program	44,322

New loans from these programs in the amount of \$12,844,798 are included as current year expenditures on the Schedule. The Federal government does not impose continuing compliance requirements for the Capitalization Grants other than repayment of the loan.

STATE OF NEBRASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

(7) Oil Overcharge Settlement Funds

The Nebraska Energy Office has committed various Oil Overcharge Settlement funds for use in a revolving loan program. Funds which have been loaned and repaid are available for new loans. Outstanding loan balances of Oil Overcharge Settlement funds are not included in the determination of major Federal award programs since the Federal government does not impose continuing compliance requirements on these loans. The amounts included as expenditures on the Schedule include only new loans made from any current years Oil Overcharge Settlement funds received by the State.

(8) Airport Improvement Program

The Nebraska Department of Aeronautics acts as an agent for the various Airport Improvement Program grants funded through the Federal Aviation Administration. The grants represent agreements between the Federal Aviation Administration and various cities, counties, and airport authorities. The Department of Aeronautics' primary responsibilities are processing of requests for reimbursement and reviewing the requests to determine allowability of program expenditures. The amount of reimbursements passed through to the respective cities, counties, or airport authorities are included as expenditures on the Schedule.

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

**Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Governor,
Members of the Legislature, and
Citizens of the State of Nebraska:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. Our report was modified to include a reference to other auditors and the implementation of new accounting standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Nebraska State College System's foundations, the University of Nebraska, the College Savings Plan, and the NETC Leasing Corporation, as described in our report on the State of Nebraska's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Nebraska State College System's foundations, the College Savings Plan, and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements 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 State of Nebraska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items #06-65-01 and #06-65-02.

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 statements being audited 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 State of Nebraska's basic financial statements are 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit 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 matters that we have reported to the management of the respective State agencies in separate letters.

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

Lincoln, Nebraska
December 21, 2006


Assistant Deputy Auditor

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

The Honorable Governor,
Members of the Legislature, and
Citizens of the State of Nebraska:

Compliance

We have audited the compliance of the State of Nebraska with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. The State of Nebraska's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State of Nebraska's management. Our responsibility is to express an opinion on the State of Nebraska's compliance based on our audit.

The basic financial statements of the State of Nebraska include the operations of component units, which received Federal awards during the year ended June 30, 2006. Our audit, described below, did not include the operations of the component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material

effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska’s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska’s compliance with those requirements.

Qualifications

As identified by the finding number and described in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with certain compliance requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major Federal programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
93.778	Medicaid	Period of Availability	06-26-06
93.044, 93.045 & 93.053	Aging Cluster	Subrecipient Monitoring	06-26-15
93.959	Block Grants for Prevention & Treatment of Substance Abuse	Subrecipient Monitoring	06-26-17
12.401	National Guard Military Operation and Maintenance	Allowable Costs/ Cost Principles	06-31-02
97.067	Homeland Security Grant Program	Reporting	06-31-04

Adverse

As identified by the finding number and described in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with the compliance requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
93.959	Block Grants for Prevention & Treatment of Substance Abuse	Special Tests and Provisions	06-26-19
93.658	Foster Care Title IV-E	Reporting	06-26-27
93.658	Foster Care Title IV-E	Allowability/ Eligibility	06-26-28
12.401	National Guard Military Operation and Maintenance	Cash Management	06-31-01

In our opinion, because of the effects of the noncompliance described in the preceding paragraph the State of Nebraska did not comply, in all material respects, with the requirements applicable to the programs identified in the preceding paragraph. Also, in our opinion, except for noncompliance described in the second preceding paragraph, the State of Nebraska complied, in all material respects, with the requirements referred to above that are applicable to each of its other major Federal programs for the year ended June 30, 2006.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, applicable to Federal programs as listed below.

CFDA #	Federal Program	Compliance Requirement	Finding #
93.563	Child Support Enforcement	Special Tests	06-12-01
93.563	Child Support Enforcement	Special Tests	06-12-02
10.556	Special Milk Program for Children	Subrecipient Monitoring	06-13-01
84.027 & 84.173; 84.048	Special Education Cluster; Vocational Education-Basic Grants to States	Special Tests	06-13-02
84.027 & 84.173	Special Education Cluster	Earmarking	06-13-03
10.550	Food Distribution	Subrecipient Monitoring	06-26-01
10.561; 93.674; 93.959	State Administrative Matching Grants for Food Stamp Programs; Chafee Foster Care Independence Program; Block Grants for Prevention and Treatment of Substance Abuse	Allowable Costs/Cost Principles	06-26-02
93.778	Medicaid	Allowable Costs/Cost Principles/Reporting/ Matching	06-26-08
93.778	Medicaid	Allowable Costs/Cost Principles/Reporting/ Matching	06-26-09
93.778	Medicaid	Allowable Costs/Cost Principles	06-26-10
93.778	Medicaid	Eligibility	06-26-11
93.778	Medicaid	Special Tests & Provisions	06-26-12

CFDA #	Federal Program	Compliance Requirement	Finding #
93.575 & 93.596	Child Care Cluster	Allowable Costs/Cost Principles/Eligibility	06-26-14
93.959	Block Grants for Prevention & Treatment of Substance Abuse	Allowability	06-26-18
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	06-26-20
93.558	Temporary Assistance for Needy Families	Special Tests	06-26-21
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	06-26-22
93.558	Temporary Assistance for Needy Families	Reporting	06-26-24
93.563	Child Support Enforcement	Subrecipient Monitoring	06-26-25
93.563	Child Support Enforcement	Allowability	06-26-26
93.659	Adoption Assistance	Allowability/Eligibility	06-26-30
93.659	Adoption Assistance	Allowability/Matching	06-26-31
93.659	Adoption Assistance	Eligibility	06-26-32
93.659	Adoption Assistance	Allowable Costs/Cost Principles/Matching	06-26-33
93.994	Maternal and Child Health Services Block Grant	Earmarking	06-26-34
97.004 & 16.007; 97.042; 97.067	State Domestic Preparedness Equipment Support; Emergency Management Performance Grants; Homeland Security Grant Program	Allowable Costs/Cost Principles	06-31-03
97.036	Public Assistance	Cash Management	06-31-05
97.036	Public Assistance	Reporting	06-31-06
16.523; 16.540; 16.548; 16.550; 16.575; 16.579; 16.588	Juvenile Accountability Incentive Block Grants; Juvenile Justice and Delinquency Prevention Allocation to States; Title V Delinquency Prevention Program; State Justice Statistics Program for Statistical Analysis Centers; Crime Victim Assistance; Edward Byrne Memorial Formula Grant Program; Violence Against Women Formula Grants	Allowable Costs/Cost Principles	06-78-01

Internal Control Over Compliance

The management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Nebraska's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the State of Nebraska's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items #06-09-01, #06-26-03, #06-26-04, #06-26-05, #06-26-07, #06-26-08, #06-26-09, #06-26-10, #06-26-11, #06-26-13, #06-26-14, #06-26-15, #06-26-16, #06-26-17, #06-26-20, #06-26-21, #06-26-23, #06-26-24, #06-26-27, #06-26-28, #06-26-29, and #06-31-04.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited 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 compliance 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, of the reportable conditions described above, we consider items #06-09-01, #06-26-07, #06-26-21, #06-26-27, and #06-26-28 to be material weaknesses.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Lincoln, Nebraska
February 6, 2007


Assistant Deputy Auditor

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

I. Summary of Auditors' Results

- a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unqualified.
- b) Reportable conditions in internal control were disclosed by the audit of the financial statements and are included in the schedule of findings and questioned costs in Part II as items #06-65-01 and #06-65-02. These findings were not considered to be material weaknesses.
- c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.
- d) Reportable conditions in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as items #06-09-01, #06-26-03, #06-26-04, #06-26-05, #06-26-07, #06-26-08, #06-26-09, #06-26-10, #06-26-11, #06-26-13, #06-26-14, #06-26-15, #06-26-16, #06-26-17, #06-26-20, #06-26-21, #06-26-23, #06-26-24, #06-26-27, #06-26-28, #06-26-29, and #06-31-04.

We consider items #06-09-01, #06-26-07, #06-26-21, #06-26-27, and #06-26-28 to be material weaknesses in internal control over the major programs.

- e) Type of report issued on compliance for major programs: Qualified and Adverse.
- f) The audit disclosed audit findings, which are required to be reported in accordance with section .510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III.
- g) The following table shows programs that are considered to be major programs:

CFDA #	10.550	Food Donation
CFDA #	10.553, 10.555, 10.556, and 10.559	Nutrition Cluster
CFDA #	12.401	National Guard Military Operations and Maintenance Projects
CFDA #	14.228	Community Development Block Grants/State's Program
CFDA #	15.605 and 15.611	Fish and Wildlife Cluster
CFDA #	17.207, 17.801, and 17.804	Employment Services Cluster
CFDA #	17.225	Unemployment Insurance

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

CFDA #	17.258, 17.259, and 17.260	WorkForce Investment Act Cluster
CFDA #	66.458	Capitalization Grants for Clean Water State Revolving Fund
CFDA #	66.468	Capitalization Grants for Drinking Water State Revolving Fund
CFDA #	84.027 and 84.173	Special Education Cluster
CFDA #	84.048	Vocational Education - Basic Grants to States
CFDA #	90.401	Help America Vote Act Requirements Payments
CFDA #	93.044, 93.045, and 93.053	Aging Cluster
CFDA #	93.268	Immunization Grants
CFDA #	93.558	Temporary Assistance for Needy Families
CFDA #	93.563	Child Support Enforcement
CFDA #	93.575 and 93.596	Child Care Cluster
CFDA #	93.658	Foster Care – Title IV-E
CFDA #	93.659	Adoption Assistance
CFDA #	93.775, 93.777, and 93.778	Medicaid Cluster
CFDA #	93.959	Block Grants for Prevention and Treatment of Substance Abuse
CFDA #	97.004, 16.007 and 97.067	Homeland Security Cluster
CFDA #	97.036	Public Assistance Grants

- h) Dollar threshold used to distinguish between Type A and Type B programs: \$6,862,502
- i) The State did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #06-65-01

Reconciliation of Bank Records to Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, we noted the lack of a timely and complete reconciliation between the State Treasurer's bank statements and the accounting records on the Nebraska Information System (NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. Our previous comments noted monthly reconciliations were not completed in a timely

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

manner and showed significant unknown variances with bank records short compared to accounting records. Although State Accounting continues to work on the reconciliation of bank records to NIS accounting records, we continue to note areas where improvement is needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, we noted the status of the reconciliation process as of December 2006, the end of fieldwork for the CAFR, to be as follows:

- State Accounting's June 2006 reconciliation, excluding the Child Support Payment Distribution Unit (SDU), was complete and indicated a consistent variance of \$1,065,210. This variance of \$1,065,210 was believed to be from prior fiscal years. State Accounting's reconciliation shows bank records short compared to accounting records.
- State Accounting had completed the reconciliation for July and August of 2006; however, these reconciliations were not completed in a timely manner. The APA did not receive the completed August reconciliation until December 19, 2006. The variance for these months was consistent with June 2006.
- Previous reconciliations for the SDU as of June 2006, showed a variance of \$1,592,201. SDU staff have gone back to the beginning of the SDU in December 2001 and explained the entire variance noted. This work was completed in December 2006. State Accounting had not completed its review of the SDU reconciliation to determine the effect on the overall State reconciliation as of December 2006, and as such the APA has not reviewed the SDU reconciliation in detail.

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 NIS accounting records, there is a greater risk for fraud or errors to occur and to remain undetected.

We recommend the following:

- State Accounting continue the reconciliation process to ensure all financial information is correct on NIS and work to complete the reconciliations in a more timely manner.
- State Accounting review the SDU reconciliation to determine the effect on the overall State reconciliation.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

- When a consistent cash variance between bank records and accounting records is obtained, State Accounting should submit the shortage amount to the Governor and the Legislature. The Governor and the Legislature should then develop a plan to correct NIS accounting records and resolve the shortage noted.

Department's Response: We will continue to work on completing the bank reconciliation in a timely manner and will adjust the cash balances when the old variance balance is known.

Finding # 06-65-02

General Computer Controls - Mainframe Operating System

Administrator Access

Good internal control requires a segregation of duties restricting programmers' ability to grant themselves and others access to the application production environment. Good internal control also requires individuals with the ability to make security changes not be allowed to audit those changes.

The Department of Administrative Services Information Technology Services Division granted SPECIAL access privileges to 34 individuals to administer security within their designated agency. The SPECIAL attribute enables employees to modify the security access of individuals, including themselves. Seventeen of the users were programmers who had been granted the ability to administer security for their designated application.

In addition, certain individuals who had the SPECIAL attribute also had the AUDITOR attribute. The AUDITOR attribute allows the individual to audit changes in security settings. Two system programmers who had the SPECIAL attribute also had the AUDITOR attribute. This finding was noted in the prior audit report.

Allowing access to the SPECIAL attribute could result in inappropriate changes to access for the individual and other individuals in their group. Allowing users both SPECIAL and AUDITOR attributes increases the risk security changes will not be reviewed.

We recommend SPECIAL access be removed for all end users and application developers. Access to the SPECIAL attribute should be limited to the Security Administrator to ensure appropriate segregation of

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

duties. We also recommend the SPECIAL and AUDITOR functions be performed by separate individuals to ensure security changes are subject to review.

Department's Response: Effective August 2006, in response to the outside consultant's report, the Office of the Chief Information Officer changed the access to the SPECIAL attribute and removed it for all end users and application developers. The z/OS team of the CIO's Office are the only people with SPECIAL access. Additionally, all AUDITOR functions were removed for all users EXCEPT the State Security Officer of the Office of the CIO. We believe these changes will meet all future internal control issues identified in this report.

Programmer Access to Production

Good internal control requires the ability to update code and data within production environments be limited to personnel whose job does not include programming responsibilities. Application programmers had ALTER access which allows direct access to the production environment. This finding was noted in the prior audit report.

Allowing programmers ALTER access increases the risk unauthorized or untested changes could be migrated to the production environment and intentionally or unintentionally corrupt data or processing.

We recommend ALTER access be removed for all application programmers and limited to employees whose responsibilities do not include programming.

Department's Response: Application programmers with ALTER access is a decision made by the agency owning the program. The reasons for these decisions by each agency were documented in their responses to the outside consultant's report. The Office of the Chief Information Officer will continue to work with agencies to take appropriate corrective action regarding this audit point.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

III. Findings and Questioned Costs Relating to Federal Awards:

SECRETARY OF STATE

Finding #06-09-01

Program: CFDA 90.401 Help America Vote Act – Equipment

Federal Grantor Agency: Election Assistance Commission

Criteria: OMB Circular A-133 requires the auditee to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. CFR Title 41, Volume 3, Section 105-71.132 requires a State to use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires each agency to annually make or cause to be made an inventory of all property belonging to the State of Nebraska. In addition, each State agency shall tag, mark, or stamp all such property belonging to the State of Nebraska.

Condition: The Agency did not properly tag the equipment purchased under the Help America Vote Act (HAVA) Title II as property of the State of Nebraska; there were no policies or procedures established for a periodic inventory of the property; and the equipment was not properly recorded on the Nebraska Information System (NIS) as capital assets.

Questioned Costs: None.

Context: The Agency purchased approximately \$10 million in equipment during fiscal year 2006. The equipment was purchased by the State and distributed to the counties; however, the Agency indicated the State retained title to the equipment.

Cause: The equipment was purchased less than one year ago and the Agency had not yet established policies and procedures for control of the property.

Effect: There is an increased risk of loss or misuse of State and Federal monies when equipment is not properly controlled.

Recommendation: We recommend the Agency establish policies and procedures for a periodic inventory of equipment and ensure equipment is properly tagged and recorded on NIS.

Management Response: The Agency has developed a plan to inventory and tag all vote tabulation equipment with State Property identification tags. We anticipate tagging this equipment beginning February 2007.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Corrective Action Plan: Location visits during 2007 will include application of State Property identification tags.

Contact: Neal Erickson, Deputy Secretary of State for Elections

Anticipated Completion Date: September 2007

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

STATE TREASURER

Finding #06-12-01

Program: CFDA 93.563 Child Support Enforcement - Special Tests and Provisions

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. Good internal control requires procedures to ensure bank records agree to NIS, the State's accounting system.

Summary: The audit finding #06-65-01 included in Part II of this report regarding reconciliation of bank records relates to both the financial statements and Federal awards. The IV-D Support Payment Distributive – SDU Fund (Fund 72640) is under the authority of the Nebraska Health and Human Services System (HHSS) and is used by the State Disbursement Unit (SDU) and HHSS to administer the process of collecting and distributing child support payments. The SDU's reconciliation between the NIS Fund 72640 balance and the bank balance have a variance of \$1,592,201 at June 30, 2006, with the bank being short compared to NIS. SDU staff have gone back to the beginning of the SDU in December 2001 and explained the entire variance noted. This work was completed in December 2006. State Accounting had not completed its review of the SDU reconciliation to determine the effect on the overall State reconciliation as of December 2006, and as such we have not reviewed the SDU reconciliation in detail.

Management Response:

Corrective Action Plan: The Treasurer's Office, with the assistance of State Accounting, has now completed the bank-to-NIS reconciliation from inception to June 30, 2006. With the reconciliation complete, the Treasurer's Office is working closely with State Accounting to determine the final resolution of any variance and reconciling items that will need to be adjusted.

Contact: Char Scott

Anticipated Completion Date: June 1, 2007

Finding #06-12-02

Program: CFDA 93.563 Child Support Enforcement - Special Tests and Provisions

Grant Number & Year: Various

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 section 300 requires the auditee to maintain internal control over Federal programs. Good internal control requires the Agency ensure computer systems cannot be accessed by outside parties.

Condition: In June 2006, a computer hacker was able to access the Agency's child support payment center server (KidCARE).

Questioned Costs: N/A

Context: Per investigation, the hacker did not disrupt or use any of the information maintained on KidCARE. The Agency has contracted with an outside firm to review their internet security. This review was performed subsequent to the fiscal year.

Cause: Unknown.

Effect: By not ensuring all computer systems cannot be accessed by outside parties, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency review security on a periodic basis to prevent system access by outside parties.

Management Response:

Corrective Action Plan: The Agency has worked closely with the Office of the CIO to make certain our servers are adequately protected on the State's network. As stated above, a third party company performed an external and internal scan on the network. The Agency has addressed all of the findings of the external report and nearly all of the critical findings of the internal report. We will continue to address these issues until they have been resolved. To date, there has been no verified case of fraud relating to the backup server breach.

Contact: Charles Luginbill

Anticipated Completion Date: Complete.

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Year Ended June 30, 2006

DEPARTMENT OF EDUCATION

Finding #06-13-01

Program: CFDA 10.556 Special Milk Program for Children – Subrecipient Monitoring.

Grant Number & Year: #IN109943, FFY05; #IN109943, FFY06

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per Title 7 CFR § 215.11(b)(2), "... Each State agency, or FNSRO where applicable, shall provide Program assistance, as follows: ...Visits to participating schools and child-care institutions to ensure compliance with Program regulations ...” Good internal control also requires a systematic approach to ensure all schools are visited in a timely manner.

Condition: Nebraska Department of Education Nutrition Services does not have a system to adequately monitor School Food Authorities that participate in the Special Milk Program for Children and not the National School Lunch Program.

Questioned Costs: None.

Context: There were 45 schools that received \$43,872 from the Special Milk program during School Year 2005-2006 which did not receive additional funding from the National School Lunch Program. We noted 25 schools had not had an on-site visit in over five years. The last visits for these 25 schools ranged from 1999 back to 1986.

Cause: Unknown.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency develop policies and procedures to ensure compliance with Federal regulations.

Management Response: USDA has provided the following information. "Under 7 CFR 215.11(b)(2) which is under the title Special responsibilities of State agencies - Program assistance, it says "Visits to participating schools and child care institutions to ensure compliance with Program regulations and with the Department's nondiscrimination regulations (part 15 of this title), issued under Title VI of the Civil Rights Act of 1964. State agencies shall conduct reviews of schools participating in the Program for compliance with this part when such schools are being reviewed under the provisions identified under 210.18(i) of this title."

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

See also 215.11(e) Investigations, which requires responsive actions but not necessarily on-site reviews, and 215.10(b) on reimbursement procedures, which requires reimbursement claims to have "data in sufficient detail to justify the reimbursement claimed . . ."

Again, no specific requirement on the frequency of on-site visits/reviews, with the only specifics tied to CRE, and, in that case, only to follow-up reviews."

The email from USDA with this response is available upon request.

Corrective Action Plan: The web-based reporting system will be used to document all Special Milk Reviews and the web-based scheduling module will be modified to ensure a 10 year review rotation for Special Milk participants. In fiscal year 2007 there will be 23 schools and camps participating in the Special Milk Program. USDA has confirmed no specific requirement on the frequency of on-site reviews is found in regulations. Three reviews will be done between July 1, 2006, and June 30, 2007.

Contact: Connie Stefkovich, Nutrition Services Administrator, at 471-3566 or email connie.stefkovich@nde.ne.gov.

Anticipated Completion Date: Scheduling module will be modified by January 31, 2007. Fiscal year 2007 reviews will be completed by June 30, 2007, to begin the 10 year review rotation.

Finding #06-13-02

Program: CFDA 84.027, 84.173 Special Education Cluster, and 84.048 Vocational Education-Basic Grants to States – Special Tests.

Grant Number & Year: All IDEA and Vocational Education grants open during the State's fiscal year 2006.

Federal Grantor Agency: U.S. Department of Education.

Criteria: Per 34 CFR Ch. II § 200.29 (e), "Each State must—(1) Encourage schools to consolidate funds from other Federal, State, and local sources in their schoolwide programs; and (2) Modify or eliminate State fiscal and accounting barriers so that schools can easily consolidate funds from other Federal, State, and local sources in their schoolwide programs."

STATE OF NEBRASKA

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Year Ended June 30, 2006

Condition: The Agency did not notify its Local Education Agencies (LEAs) of the authority to consolidate Federal, State, and local funds in schoolwide programs in a timely manner, and did not examine its fiscal and accounting procedures to remove any barriers preventing such consolidation of funds for the fiscal year audited.

Questioned Costs: None

Context: Per discussion with the Federal Programs Administrator, the U.S. Department of Education did not provide guidance for consolidating funds in schoolwide programs until May 30, 2006, via the May 2006 policy guidance document, *Fiscal Issues: Title I, Part A, Non-Regulatory Guidance*. The Agency sent an email to all LEAs on June 8, 2006, regarding guidance being available for consolidating funds in schoolwide programs.

Cause: The Agency states they did not have sufficient guidance to implement the requirement for the fiscal year being audited.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency develop policies and procedures to ensure compliance with Federal requirements.

Management Response: See the corrective action plan below.

Corrective Action Plan: The Department will use the guidance from the U. S. Department of Education *Fiscal Issues: Title I, Part A, Non-Regulatory Guidance (May 2006)* to study current practices and procedures that may present fiscal or accounting barriers and to identify procedural options for districts to use in consolidating funds in schoolwide programs during the 2006-2007 school year. The procedures will be developed by an internal committee representing Federal programs in the Elementary and Secondary Education Act (ESEA), Individuals with Disabilities Education Act (IDEA) and the Applied Vocational and Technical Education Act Basic Grants (PERKINS).

Efforts and guidance have already been provided for consolidating and integrating funds under the flexibility allowed in Title VI of NCLB in the formula grant programs' consolidated application in the web based Grants Management System. The system eliminates barriers for consolidation and transferability for programs and can serve as the basis for schools that have schoolwide programs focusing on Title I. The citation from the CFR 34 200.27, b(3) *Development of a schoolwide program plan*.

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Year Ended June 30, 2006

"If appropriate, the school must develop the comprehensive plan in coordination with other programs, including those carried out under Reading First, Early Reading First, Even Start, the Carl D. Perkins Vocational and Technical Education Act of 1998, and the Head Start Act."

The aspects of encouraging, and in some cases requiring, coordination have been occurring for many years in Nebraska even beyond the aspects of schoolwide Title I programs. The coordination versus consolidation procedures will be a key focus of the internal committee, which addresses this topic.

Contact: Dr. Marilyn Peterson, Federal Programs Administrator, at (402) 471-3504.

Anticipated Completion Date: August 31, 2007

Finding #06-13-03

Program: CFDA 84.027, 84.173 Special Education Cluster - Earmarking

Grant Number & Year: #H027A030079A, FFY04

Federal Grantor Agency: U.S. Department of Education

Criteria: 20 USC 1411(f)(2)(B) requires any funds the State Educational Agency (SEA) does not retain for administration and other State-level activities shall be distributed to eligible Local Educational Agencies (LEAs) in the State. An SEA must distribute to each eligible LEA the amount that LEA would have received under this section for the base year ... after making allocations for the base year, the State shall allocate 85 percent of any remaining funds to LEAs based upon the relative numbers of children enrolled in public and private elementary and secondary schools within the LEA's jurisdiction; and allocate 15 percent of those remaining funds to those LEAs in accordance with their relative numbers of children living in poverty, as determined by the SEA.

Condition: The Nebraska Department of Education did not correctly allocate \$892,643 in Federal aid according to the prescribed formula.

Questioned Costs: None.

Context: The \$892,643 was allocated to LEAs relative to their base year allocation, and not according to enrollment and poverty levels as required. The total grant award was \$58,742,248. The required base allocation amount to be distributed by the Agency was \$22,507,423, not the \$23,400,066 that was allocated by the Agency. The Agency allocated \$29,370,724 based on enrollment and poverty, but should have allocated \$30,263,367 based on enrollment and poverty levels.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Cause: Unknown.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency develop and implement policies and procedures to ensure formula subgrants to LEAs are allocated correctly.

Management Response: The Agency agrees with the auditors' comments.

Corrective Action Plan: The Nebraska Department of Education (NDE) will implement procedures to correctly distribute IDEA Part B funds not retained for administration and other State-level activities to eligible Local Educational Agencies (LEAs) in the state. The NDE will allocate 85 percent of any such remaining funds to LEAs based upon the relative number of children enrolled in public and private elementary and secondary schools within the LEA's jurisdiction and allocate 15 percent of any such remaining funds to LEAs in accordance with their relative number of children living in poverty, as determined by the NDE.

For the fiscal year ended June 30, 2006, the \$892,643 distributed to LEAs relative to their base year allocation has been recalculated according to enrollment and poverty levels. The net effect of the recalculation is LEAs were either over or under funded by \$86,098. The 2006-2007 IDEA Part B fiscal year allocation of funds to LEAs according to enrollment and poverty levels will be adjusted to correct the allocation for the fiscal year ending June 30, 2006.

Contact: Greg Prochazka at 471-4314 or email greg.prochazka@nde.ne.gov or Gary Sherman at 471-2471 or email gary.sherman@nde.ne.gov.

Anticipated Completion Date: Adjustments to correct the IDEA Part B fiscal year allocation ending June 30, 2006, will be finalized by October 31, 2006.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

HEALTH AND HUMAN SERVICES SYSTEM

Finding #06-26-01

Program: CFDA 10.550 Food Donation – Subrecipient Monitoring

Grant Number & Year: All Food Donation grants open during State fiscal year 2006

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per OMB Circular A-133, a pass through entity is responsible for identifying to the subrecipient the Federal Award information (e.g. CFDA title and number, award name, name of Federal Agency) and applicable compliance requirements.

Condition: None of the 25 subrecipients tested had documentation of award notification detailing the CFDA number.

Questioned Costs: None.

Context: Food Donation had 508 subrecipients for fiscal year 2006. The CFDA title and Federal agency were identified to the subrecipient, but the CFDA number was not.

Cause: The Agency was unaware of this compliance requirement and did not have procedures in place to ensure the subrecipients were provided with essential award information.

Effect: Proper documentation of the award information ensures that subrecipients are fully informed of their award and granting agency.

Recommendation: We recommend the Agency provide subrecipients the required Federal award information. The CFDA number could be applied to the application form and the Food Distribution handbook.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: The CFDA Number has been added to all contract masters for any agency that may come on to the program from this point forward. Also, a letter has been sent to all current contract holders to inform them of the correct number and a copy of this letter has been filed in each recipient Agency file.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Contact: Julia West, Program Coordinator

Anticipated Completion Date: October 2006

Finding #06-26-02

Program: CFDA 10.561 State Administrative Matching Grants for Food Stamp Programs; 93.674 Chafee Foster Care Independence Program; 93.959 Block Grants for Prevention and Treatment of Substance Abuse – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Departments of Agriculture and Health and Human Services

Criteria: Office of Management and Budget (OMB) Circular A-87 requires charges for salaries and wages for employees who work solely on a single Federal award or cost objective, be supported by periodic certifications the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: We noted 3 of 50 employees tested worked on a single Federal award or cost objective. These 3 employees did not have periodic certifications as required by Circular A-87.

Questioned Costs: \$9,227

Context: The total payroll charged to Federal programs for the 3 employees for the month tested was \$9,227. Total payroll charged to those Federal programs for State fiscal year 2006 was:

<u>CFDA</u>	<u>Payroll Charged</u>
10.561	\$ 12,938,110
93.674	\$ 63,436
93.959	\$ 360,367

Cause: Unknown.

Effect: Increased risk for unallowable costs to be charged to the Federal grant.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Recommendation: We recommend the Department implement procedures to ensure employees who work solely on a single Federal award have periodic certifications in accordance with Circular A-87.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Employees working on one Federal program will complete periodic certifications.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-03

Program: CFDA 93.558 Temporary Assistance for Needy Families, 93.778 Medicaid, 93.575 and 93.596 Child Care Cluster, 93.659 Adoption Assistance Title IV-E, and 93.658 Foster Care Title IV-E - Allowability/Eligibility

Grant Number & Year: All grants open during State fiscal year 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires access to the system to be limited to users who need access to complete their job responsibilities. Good internal control and sound business practice requires a reconciliation to be completed between NFOCUS and the Nebraska Information System (NIS) prior to posting transactions on NIS.

Condition: Three on-call Support Mainframe Programmers were permitted access to the mainframe production environment. This access was formally approved by the Technical Applications Manager and/or the IS&T Business Applications Manager. However, programmer access creates a segregation of duties issue as application programmers could circumvent existing change control procedures.

The Health and Human Services Finance Department did not reconcile the data sent from NFOCUS to NIS. In addition, the following segregation of duty issues were identified: 1) Two individuals had the ability to set up a case, make eligibility adjustments to that case, and create/approve claims payments for those cases. 2) Four individuals had the ability to create and approve claims payments, but do not need this access to complete their job responsibilities.

Notification of termination for 18 of 25 terminations tested was sent after the employee's termination date. User termination requests were not processed in a timely manner.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Questioned Costs: N/A

Process Description: NFOCUS supports an integrated service delivery platform to determine a family's eligibility for multiple programs and/or services from a single point. It provides an interactive expert system with rule based processing. NFOCUS also interfaces with NIS to pay claims such as Temporary Assistance to Needy Families, Foster Care, and Child Care. NFOCUS sends NIS PTF files of volume vouchers, financial numbers based on claims paid, and journal entries.

Context: Procedures were performed to evaluate the design and operating effectiveness of application specific controls for NFOCUS. This included performing procedures related to edit checks, validation checks, segregation of duties, and interface controls. The procedures commonly consisted of a combination of inquiry, corroboration, observation, and re-performance.

Cause: Unknown.

Effect: There is an increased risk the changes made to production data may not be properly authorized, and users may have excessive access to the system. There is also an increased risk for invalid claims payments because there is no reconciliation between NFOCUS and NIS being completed and there is a lack of segregation of duties.

Recommendation: We recommend the Agency implement the following:

- Procedures to ensure the ability to update code within the production environment is limited to personnel whose job does not include programming responsibilities. Also, changes made should be done utilizing a change control tool to check code in and out of production.
- Procedures to ensure access to the system is limited to users who need access to complete their job responsibilities and terminated employee's access is deactivated.
- Perform reconciliation between NFOCUS and NIS prior to posting transactions on NIS.

Management Response: This issue is not exclusively a TANF issue. The item has been cited for the IT area for several program audits and the Agency last responded to these findings in August of 2005. The Agency has made corrections by limiting the number of development individuals who have access to the database and production environment.

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Year Ended June 30, 2006

Corrective Action Plan:

- The mainframe production programmers referenced in the condition cited are On-Call Production Support Shift Analysts. Their primary job function requires access to the mainframe production environment to address production issues on a 24/7 basis. In reviewing access, it was determined that two of the individuals identified no longer needed mainframe production access to Agency applications and their access was terminated. The remaining individuals identified will retain their access to the production environment to perform their primary job function and support the Agency's critical applications.
- All access was removed in May 2006 during the Deloitte review for the four individuals cited in the 'segregation of duties' finding related to create/approve claims payments.
- The finance unit has developed a process to reconcile the data sent from NFOCUS to NIS.

Contact: Margo Gamet, Application Services Manager, Information Systems and Technology; Dian Carroll, NFOCUS Business Manager; Allan Albers, HHSS Security Officer.

Anticipated Completion Date: Completed.

Auditor's Response: No programmer should be permitted access to the mainframe production environment.

Finding #06-26-04

Programs: Various CFDA's, 93.658 Foster Care, 93.575 and 93.596 Child Care Cluster, 93.777 and 93.778 Medicaid Cluster, 93.558 Temporary Assistance for Needy Families, and 93.659 Adoption Assistance – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires procedures to ensure charges are allocated in accordance with the approved Public Assistance Cost Allocation Plan (Plan).

The Plan Allocation Methodology for HR Staff Development states "The cost center will be allocated to the benefiting cost centers and programs based on time and effort reports maintained by the training staff."

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

The Plan Allocation Methodology for SM – Resource Development (009,010,011) states “The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the Resource Development staff.”

Condition: For the quarter ended March 31, 2006, we tested two cost pools utilizing Time and Effort allocation methodology.

Cost pool HR Staff Development had employees who recorded time and effort to two time codes, TANF/EF Employment First and Veterans Homes, which were not properly included in the calculations to allocate costs from this cost pool.

Cost pool SM – Resource Development had labor costs for 13 of 72 employees with the NIS Job Code Description ‘HHSS Resource Developer’ charged to 3 other cost pools. Additionally, 8 of 72 employees with Job Code ‘HHSS Resource Developer’ did not complete time and effort reports, and their time and effort was not included in the calculation to allocate costs.

Questioned Costs: Unknown.

Context: Two employees recorded 174.50 hours to TANF/EF Employment First, and one employee recorded 37 hours to Veterans Homes. These hours should have been included in the calculation used to determine allocation amounts. Costs of \$456,527 were allocated from HR Staff Development Pool for the quarter ended March 31, 2006.

There were 125 employees that had their labor distribution included in the SM-Resource Development Pool. There were 13 additional employees that should have had their labor distribution included in this cost pool. The Agency is in the process of clarifying the plan so that it reflects the intention of having only the 72 Resource Developers time and effort reports used to allocate the costs from this pool. Per Discussion with the Cost Accounting Manager, this clarification has been submitted to the US DHHS Division of Cost Allocation. However, there were still 8 of 72 Resource Developers that did not complete time and effort reports as required. Costs of \$1,639,305 were allocated from the SM – Resource Development Pool for the quarter ended March 31, 2006.

Cause: Cost allocation layers were not properly updated when additional time codes were added to time and effort recording. The Agency did not utilize human resources/payroll system to compile listing of employees with job title ‘HHSS Resource Developer’.

Effect: Incorrect allocation of direct and indirect costs may lead to misstatement of Federal claims for reimbursement.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Recommendation: We recommend the Agency develop and implement policies and procedures to ensure all costs are allocated in accordance with the approved Public Assistance Cost Allocation Plan.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Cost Allocation Source Setup on NIS will be reviewed each quarter to confirm that all variable statistic updates are accounted for in the setup. As mentioned above, a plan amendment was submitted to the US DHHS Division of Cost Allocation to clarify that the Resource Development cost center allocation base is time and effort reported by Resource Developers. The list of Resource Developers is periodically extracted from the human resources/payroll system on NIS. Responsible staff will make timely follow up with individual employee's delinquent time and effort reports.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-05

Program: Various CFDA's, 93.658 Foster Care, 93.575 and 93.596 Child Care Cluster, 93.777 and 93.778 Medicaid Cluster, 93.558 Temporary Assistance for Needy Families, and 93.659 Adoption Assistance – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires procedures to ensure charges are allocated in accordance with the approved Public Assistance Cost Allocation Plan (Plan).

Plan Appendix C-3 "Random Moment Time Study Implementation Plan," states the sample size is "2,706 per quarter." Appendix C-3 also states, "At the end of each fiscal quarter the percentages of total responses are computed for each program listed in Section II of the Observation Form ... These percentages are forwarded to NHHS' Finance and Support Department for quarterly cost allocations of state and federal funded programs."

Condition: For the quarter ended March 31, 2006, we tested two cost pools utilizing Random Moment Time Study allocation methodology.

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Year Ended June 30, 2006

The statistical reports from the Random Moment Time Study (RMTS) program did not include complete samples, which altered the actual allocation amounts. Cost allocation pools were not properly allocated based upon the percentages developed from the complete RMTS samples.

Questioned Costs: Unknown.

Context: Only 1,806 of the Service Management – 4 (PSW) samples and 1,811 of the Service Management – 3 (SSW) samples were included in the RMTS report. The correct amount should have been 2,709 for PSW and 2,715 for SSW. This caused costs to be incorrectly allocated. Using the correct sample, significant recalculated allocation variances are as follows:

SSW Over (Under) Allocations		PSW Over (Under) Allocations	
State	\$ 16,591	Adoption Assistance	\$ 34,813
Med Handicapped Children	26,058	Foster Care (Title IV-E)	(58,198)
LIHEAP	(27,454)	Food Stamps	15,326
Foster Care (Title IV-E)	64,906	SSBG (Title XX)	22,495
TANF (AFDC)	16,203	Other Cost Pools	(14,436)
TANF Work Activities	(23,138)	Net Difference	<u>\$ 0</u>
Food Stamps	(44,691)		
Medicaid Title XIX 50%	(23,803)		
Child Care	1,308		
Other Cost Pools	(5,980)		
Net Difference	<u>\$ 0</u>		

Costs of \$12,905,829 and \$6,118,997 were allocated from the Service Management 3 (SSW) Pool and the Service Management 4 (PSW) Pool for the quarter ended March 31, 2006.

Cause: Dashes were used in the date (to get the period needed) instead of slashes so the program did not run properly.

Effect: Incorrect allocation of direct and indirect costs may lead to misstatement of Federal claims for reimbursement.

Recommendation: We recommend the Department develop and implement policies and procedures to ensure that all costs are allocated in accordance with the approved Public Assistance Cost Allocation Plan.

Management Response: We agree with the Auditor’s finding.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Corrective Action Plan: The total number of samples included on the RMS reports will be reviewed by the responsible staff to confirm the total sample number is equal to or exceeds the required sample size, 2,706. The reporting program in the RMS application was updated to only accept the required format. The variances identified by the Auditor will be incorporated into the next quarterly financial reports to the Federal agencies.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-06

Program: CFDA 93.778 Medicaid – Period of Availability

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per 45 CFR 92.23 “a grantee may charge to the award only costs resulting from obligations of the funding period.”

Condition: Fiscal year 2006 grant funds were used to pay for fiscal year 2004 and 2005 expenditures.

Questioned Costs: None.

Context: The Agency charged \$18,557,995 to the fiscal year 2006 grant for expenditures related to the fiscal year 2004 and 2005 grants. The 2004 and 2005 grants are fully expended. The Agency corrected \$1,986,279 in May 2006 and \$16,571,715 in June 2006.

Cause: Negative grant award in February 2006 due to error reported in prior fiscal year.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency comply with Federal regulations and charge grants only for obligations of the funding period.

Management Response: The Agency agrees with the Auditor’s finding.

Corrective Action Plan: The Agency will ensure that all expenditures are charged to the correct grant year.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Contact: Willard Bouwens

Anticipated Completion Date: December 31, 2006

Finding #06-26-07

Program: CFDA 93.778 Medicaid – Reporting

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. The Nebraska Information System (NIS) is the official accounting system of the State and all expenditures are generated from NIS. Good internal control requires timely, periodic reconciliations between required reports and the accounting system.

Condition: The Agency utilizes the Medicaid Management Information System (MMIS), the NFOCUS system, and NIS to prepare the quarterly Federal reports to the Centers for Medicare and Medicaid Services (CMS). The Agency reconciles MMIS to NIS monthly; however, no reconciliation is performed between the Federal reports to NIS.

Questioned Costs: Unknown.

Context: Our review of Medicaid aid expenditures for the quarter ended March 31, 2006, reported compared to NIS noted:

<u>Aid Expenditures</u>	<u>Federal</u>	<u>State</u>
Per Report to CMS	\$ 211,270,587	\$140,991,617
Per NIS	205,040,323	139,789,959
Variance	\$ 6,230,264	\$ (1,201,658)

The Agency prepares the Federal report using total expenditures and multiplies by the applicable Federal percentage to report the allocation between Federal and State funds. There is no reconciliation to ensure the Federal reports agree to NIS. Our cursory review of federal aid expenditures by quarter also noted variances in other quarters, including, the quarter ended June 30, 2006:

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

<u>Aid Expenditures</u>	<u>Federal</u>
Per Report to CMS	\$ 215,870,749
Per NIS	199,661,847
Variance	\$ 16,208,902

Cause: In May 2006, the Agency began developing a methodology to reconcile CMS reports to NIS; however, no quarterly reports had yet been reconciled.

Effect: Without adequate controls there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency perform a quarterly reconciliation of Medicaid aid expenditures per NIS to the CMS report.

Management Response: The Agency agrees.

Corrective Action Plan: As noted above, the development of reconciliation methodology was initiated earlier this year. However, there are barriers to a successful development of a fully automated process. Variances occur because a number of NIS accounts do not match MMIS or NFOCUS accounts and because there are different month end and year end transaction cutoff dates and a very complex array of fund, business unit, grant, and program numbers affecting reportable expenditures. To address this problem, sources of each variance will be identified and explained on the quarterly reconciliation report. This change should be fully implemented beginning with the reporting period of October 1, 2006 – December 31, 2006.

Contact: Jim Piazza

Anticipated Completion Date: December 31, 2006

Finding #06-26-08

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles/Reporting/Matching

Grant Number & Year: #050605NE5028, #050505NE5028, #050405NE5028; FFY 2006, 2005, 2004

Federal Grantor Agency: U.S. Department of Health and Human Services

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Year Ended June 30, 2006

Criteria: To be allowable, Medicaid costs for medical services must be paid to eligible providers, and paid at the rate allowed by the State plan. Per OMB Circular A-87, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized under State laws or regulations. Title 45 CFR 92.20 requires the State expend and 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 permit preparation of required reports and 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. The Nebraska Information System (NIS) is the official accounting system of the State of Nebraska. Title 42 CFR 433.10 provides “for payments to States, on the basis of a Federal medical assistance percentage.” Title 42 CFR 433.51 allows public funds to be considered as the State's share in claiming Federal participation if the public funds are appropriated directly to the local Medicaid agency, or certified by the contributing public agency as representing expenditures eligible for Federal participation; and the public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

Condition: The Agency reported an adjustment of \$7,742,848 on the March 31, 2006, quarterly CMS report for Developmental Disability services from October 2004 through December 2005; these costs were never paid to providers and were not recorded on NIS. The Federal share of these costs was \$4,618,444. The Agency did not have documentation to support these were allowable costs; or if allowable, that the costs were provided by public funds in accordance with Federal requirements.

Questioned Costs: \$4,618,444

Context: The Agency pays providers of developmental disability services at 90% of Agency determined rates. The Agency then reported an adjustment to claim the 10% not paid to public providers. The Agency did not have adequate documentation to support the amount paid was 90% of costs or that 10% was provided by Public funds. Further, the Public funds were not appropriated directly to the local provider, and were not certified as representing expenditures eligible for Federal participation.

The Agency reconciliation of allowable expenditures for fiscal year 2005 indicated providers were reimbursed 95%. This reconciliation used an unsupported administration allocation, without the unsupported allocation the providers were reimbursed 111%. In addition, the amount per Agency records provided by county funds was only 3%.

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Year Ended June 30, 2006

<u>Public Providers</u>	<u>Actual Paid per NIS</u>		<u>Claimed per Report</u>	
October 2004 - September 2005				
State Funds	\$ 25,064,852	35.16%	\$ 31,286,743	40.36%
Federal Funds	46,232,442	64.84%	46,232,443	59.64%
subtotal	<u>71,297,294</u>		<u>77,519,186</u>	
October 2005 -December 2005				
State Funds	6,512,376	35.39%	8,033,331	40.32%
Federal Funds	11,890,606	64.61%	11,890,607	59.68%
subtotal	<u>18,402,982</u>		<u>19,923,938</u>	
Total				
State Funds	31,577,228	35.20%	39,320,074	40.35%
Federal Funds	58,123,048	64.80%	58,123,050	59.65%
Total	<u>\$ 89,700,276</u>		<u>\$ 97,443,124</u>	

Cause: The Agency indicated they had verbal approval from CMS.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency obtain written approval certifying these adjustments are allowable. We further recommend the Agency maintain adequate support to document rates paid are 90% of costs; all Federal charges and State matching costs be recorded on NIS; and public matching funds be certified by the public provider as representing expenditures eligible for Federal participation.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: This was approved during the quarterly CMS 64 review. The Agency does maintain support for all expenditures eligible for Federal Reimbursement.

Contact: Willard Bouwens

Anticipated Completion Date: May 2006

Finding #06-26-09

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles/Reporting/ Matching

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Criteria: Title 471 NAC 10-010.03H2 details the calculation for DSH payments and states, "Disproportionate share payments will be made one time for each federal fiscal year (FFY) following receipt of all required data by the Department." Title 45 CFR 92.20 requires the State expend and 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 permit preparation of required reports and 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: Payments during the State fiscal year ended June 30, 2006, for 2004 and 2005 DSH allotments were not in accordance with NAC regulations. One provider's pool calculation for 2004 DSH was \$1,613,101; the provider was paid \$962,699 but the \$1,613,101 was claimed on the Federal report.

Questioned Costs: \$388,160

Context: Payments for 2004 DSH allotment were not made one time but were made June, August, September, November 2005 and June 2006. The first payment for 2005 DSH was made June 2006 but not all payments were made because other calculations for 2005 DSH were not complete as not all information had been received. The questioned costs \$388,160 is the Federal share of the amount over-reported for the 2004 DSH. ($\$1,613,101 - \$962,699 \times 59.68\%$)

Cause: Unknown.

Effect: Noncompliance with State and Federal regulations increases the risk for errors to occur and the loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure DSH payments comply with State and Federal regulations. We further recommend procedures to ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

Management Response: We disagree with the auditor's findings.

Corrective Action Plan: The Department acknowledges the recommendation that procedures be implemented to ensure DSH payments comply with State and Federal regulations. However, the Department has procedures to ensure DSH payments comply with State and Federal regulations. Further, procedures are in place to ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

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The Department has complied with State and Federal regulations regarding DSH payments. Disproportionate Share Hospitals payments have been subject to annual site visits by federal officials and they have accepted Nebraska's procedures and reports.

It is the Department's position that the formula for DSH calculations was followed; that the calculations were accurate; and the calculations were in compliance with federal guidelines. The current language is intended to allow specific hospital payment as data and calculations are completed. This is particularly important in the instance where one facility may receive payment under more than one calculation and assures the hospital's specific upper payment limit is not exceeded.

One provider's pool calculation for 2004 DSH was \$1,613,101; the provider was paid the federal share of \$962,699 and the State share of \$388,160 was made via an intergovernmental transfer. The hospital in this case received and retained the full amount of the total computable payment. The payment is supported and consistent with the provider's financial records. The ability to make intergovernmental transfers as the basis for federal matching is currently defined to mean the State, city, county, or other governmental unit in the State. The Centers for Medicare and Medicaid (CMS) would determine compliance by examining any associated transactions that are related to the provider's total computable payment to ensure the State's claimed expenditure, which serves as the basis for Federal Financial Participation, is equal to the State's net expenditure, and that the full amount of the non-Federal share of the payment is satisfied.

Contact: Cec Brady, Deputy Administrator

Anticipated Completion Date: The Department will continue current procedures to ensure compliance with State and Federal regulations regarding DSH payments. The Department will also ensure Federal reports are accurate and costs claimed are adequately supported and agree to accounting records.

Auditor's Response: **The Agency did not have adequate documentation to support the State share of \$388,160 was made via an intergovernmental transfer. Region VI did receive various payments from the State during the fiscal year; however, we were unable to determine from the information provided that any of the payments were for the State share of the DSH payment, or that Region VI subsequently paid the hospital for DSH. Furthermore, if the Region did pay the hospital for the State share of DSH, the Agency would also need documentation to support the matching funds were from an allowable source in accordance with 42 CFR 433.51.**

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Finding #06-26-10

Program: CFDA 93.778 Medicaid - Allowable Costs/Cost Principles

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Social Security Act of 1927 [42 U.S.C. 1396r-8] (b) (2) states: "Each State agency under this subchapter shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form and strength and package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, and shall promptly transmit a copy of such report to the Secretary." Good internal control requires that all drugs which are paid for by Medicaid and are eligible for manufacturer rebate are submitted to the manufacturer for rebate.

Condition: Practitioner claims for injections Medicaid recipients receive in a physician's office are not being reviewed and submitted to the drug manufacturers for rebate.

Questioned Costs: Unknown.

Context: Rebates for injectible drugs administered in a physician's office are reported to Medicaid on a Practitioner Claim instead of a Drug Claim. Drug Claims are monitored by ACS (Affiliated Computing Services) and the total of each drug is compiled for Nebraska Medicaid to submit to the appropriate manufacturer for rebate. Practitioner claims were not monitored for injectible drugs.

Cause: Practitioner claims were not monitored for injectible drugs.

Effect: Possible loss of funds.

Recommendation: We recommended the Agency implement procedures to ensure all drugs paid for by Medicaid, which are eligible for rebate, are submitted to the appropriate manufacturer for rebate.

Management Response: The Agency agrees with the Auditor's Finding.

Corrective Action Plan: The agency has invoiced for rebates for injectible drugs using a manual process. This covered two strengths of one drug for 9 calendar quarters. Subsequent to that and in lieu of that manual process, a

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computerized crosswalk between the J, Q CPT and other injectable drug codes used to bill for practitioner-administered drug, to the appropriate National Drug Code (NDC) number is in the process of being constructed. A second part of that crosswalk construction involves converting the units under which drugs are paid as J, Q, CPT or other codes to the units required for the rebate system. Some J, Q, CPT or other injectable codes on practitioner claims, convert to more than one NDC and one rebate quantity. When that is required, an allocation of the dollars paid for the drug to each of the NDCs is required and is a third part of the crosswalk that must be built.

Rebates for injectable drugs administered by practitioners will be invoiced for services covered back to the first calendar quarter of 2004 as a one time catchup. Subsequent to that, all claims paid during a calendar quarter will be invoiced each quarter.

Contact: Gary Cheloha 471-0800

Anticipated Completion Date: May 15, 2007

Finding #06-26-11

Program: CFDA 93.778 Medicaid – Eligibility

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 480 NAC 2-006 Client Eligibility Criteria states, “To be eligible for waiver services, the client must . . . Have documentation of a physical exam current within one year (may be waived with written documentation from the physician.)” Good internal control requires that documentation of each individual’s yearly physical be maintained in the case file. Title 480 NAC 2-001.02 Individual Program Plan (IPP) requires “A written plan specifying agreed-upon goals, methods to assist in achieving those goals, and services to be provided to address identified client strengths, needs, and preferences.” Good internal control requires staff sign the IPP which indicates they were in attendance during the review of the recipient’s plan.

Condition: Two of forty-five Developmental Disability Waiver Claims tested did not have documentation that yearly physicals were completed and for one claim tested the recipients Individual Program Plan was not signed.

Questioned Costs: \$1,987 known, \$2,118,491 extrapolated.

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Context: Two payments tested did not have a physical in fiscal year 2006; they did have a March 2005 physical but did not have a physical in 2004 or a March 2006 physical. The Federal share for these two payments tested totaled \$1,987. The extrapolated error based on the sample was \$2,118,491 for the fiscal year. One individual has a current IPP on file, but the IPP was not signed by the individuals attending the IPP meeting.

Cause: Unknown.

Effect: Increased risk for improper payments.

Recommendation: We recommend the Agency implement procedures to ensure all Medicaid Developmental Disabilities Waiver recipients receive a yearly physical and have a signed IPP on file.

Management Response: Management agrees that 3 files were out of compliance for not maintaining an annual medical evaluation in two case files and for implementing a client's Individual Program Plan (IPP) that was not signed by the IPP team members.

Corrective Action Plan:

1. Health and Human Services (HHS) Developmental Disabilities (DD) service coordination staff will obtain the most recent medical evaluation and maintain it in the case file, as part of the IPP. Service coordination staff was notified verbally and in writing of this requirement on June 26, 2006. Current medical evaluations must be in the case file, by September 1, 2006, and thereafter, as annual medical evaluations are completed.
2. Supervisory staff will complete a 100% review of IPPs to ensure the most recent medical evaluation is included in the IPP documents.
3. Supervisory staff will review IPPs to ensure that all required signatures are in place.
4. The Supervisor has individually spoken to the Service Coordinator responsible for the unsigned IPP.
5. When completing annual Medicaid Waiver eligibility and IPP reviews, HHS Disability Services Specialists will inform Supervisory staff of missing documents or overdue medical evaluations and take corrective action when indicated.

Contact:

1. Cindy Brinker, Administrator, Developmental Disabilities Service Coordination, HHS Eastern Service Area.
2. Kay Rehtus, Administrator, Developmental Disabilities Service Coordination, HHS Central Service Area.

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3. Pam Hovis, Program Manager, HHS Developmental Disabilities System Central Office.

Anticipated Completion Date: This is an ongoing plan of improvement. Above steps were implemented by October 1, 2006.

Finding #06-26-12

Program: CFDA 93.778 Medicaid - Special Tests and Provisions

Grant Number & Year: All open Medicaid grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 42 CFR 456.4-456.5 regarding utilization control requires “The agency must 1) Monitor the statewide utilization control program; ... 3) Establish methods and procedures to implement this section; 4) Keep copies of these methods and procedures on file and 5) Give copies of these methods and procedures to all staff involved in carrying out the utilization control program . . . The agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services.”

Title 42 CFR 456.22-456.23 further states, “To promote the most effective and appropriate use of available services and facilities the Medicaid agency must have procedures for the ongoing evaluation on a sample basis, of the need for and the quality and timeliness of Medicaid services. The agency must have a post-payment review process that--(a) Allows State personnel to develop and review--(1) Recipient utilization profiles; (2) Provider service profiles; and (3) Exceptions criteria; and (b) Identifies exceptions so that the agency can correct misutilization practices of recipients and providers.”

A key component of the utilization control and post-payment review process of the Agency is the Survey and Utilization Review Services (SURS) Unit. Good internal control requires written procedures and documentation of sampling and profiling procedures.

Condition: The SURS Unit does not maintain adequate documentation regarding the methods and procedures used to perform the sampling and profiling of misutilization practices.

Questioned Costs: None.

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Context: The SURS Unit has procedures to evaluate possible misutilization practices, but written copies of these methods and procedures are not available. Cases are selected for review from Medstat SURS profile and data mining reports and from referrals. SURS Computer Profiling system automatically generates the profiling of claims each quarter on an “Exception Report.” Exception reports are used as a starting point for further data mining in most cases. The SURS Unit does not maintain or document how many of these MedStat Reports have been generated in a year, only the number of cases subsequently opened. All “Referrals” are investigated and entered into the Unit’s Log system or referred on to a more appropriate area. The Agency does not have a written sampling plan detailing the profiling cases to be reviewed.

Cause: Unknown.

Effect: Increased risk for errors and fraud to occur and not be detected.

Recommendation: We recommend the SURS Unit establish written procedures and methods used by the SURS Unit in conducting sampling and profiling of possible misutilization practices; and distribute copies to staff of the SURS Unit.

Management Response:

Corrective Action Plan: The SURS Unit is compiling written methods and procedures to be distributed to and used by the staff of the Unit.

Contact: Kris L. Azimi

Anticipated Completion Date: March 1, 2007

Finding #06-26-13

Program: CFDA 93.778 Medicaid – Allowable Costs/Cost Principles

Grant Number & Year: #050605NE5028; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-87 states, “Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices . . . To be allowable under Federal awards, costs must . . . Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . Be adequately documented.” OMB Circular A-87 further states, “A cost is reasonable if, in its nature and amount, it does not exceed

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that which would be incurred by a prudent person . . . In determining reasonableness of a given cost, consideration shall be given to whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.” Good internal control requires adequate documentation and procedures to ensure costs are reasonable for proper and efficient administration of Federal awards.

Condition: Two of five provider claims tested did not list the start and stop times for chore services provided.

Questioned Costs: Unknown.

Context: We tested 5 provider claims for chore services totaling \$12,231 with a Federal share of \$7,300; total Federal expenditures for chore services for fiscal year 2006 were \$14,551,725. Two of the providers tested did not list start and stop times; therefore, we were unable to determine if they worked more than 5 hours per day required for the partial day rate. The Federal share for these two claims totaled \$3,616.

Cause: Inadequate monitoring of chore provider contracts and claims.

Effect: Increased risk for unreasonable and excessive claims to be paid.

Recommendation: We recommend the Agency implement policies and procedures to ensure claims for chore services are adequately documented and rates paid are reasonable and prudent.

Management Response: At present, H & CB Services 480 NAC 5000 regulations regarding billing procedures required of Waiver Chore Service Providers contain no requirements to submit billings in a “time of day” format, and HHSS does not require it at this time.

Corrective Action Plan: Aged and Disabled Waiver Supervisory meetings were held this past Fall which included waiver billing procedures. The meeting discussed the need for hours to be recorded on billing documents. We will remind staff on a periodic basis and have included billing procedures in the A & D Waiver Web Based training.

Contact: Linda J. Shandera

Anticipated Completion Date: Completed Fall of 2006

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Auditor's Response: Without start and stop times there is no documentation the providers worked enough hours to qualify for the partial day rate and there is a significant risk for fraud or errors to occur. We strongly recommend the Agency require billings to include actual times worked.

Finding #06-26-14

Program: CFDA 93.575 & 93.596 - Child Care Cluster - Allowable Costs/Cost Principles and Eligibility

Grant Number & Year: #0601NECCDF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Agency policy, parent or guardian signatures on the attendance sheets are required for in-home daycare providers. Good internal control requires proper supporting documentation in the case files to determine allowability of payments to appropriate parties.

Condition: Two of twenty-four in-home provider payments tested did not have attendance sheets signed by the parent or guardian.

Questioned Costs: \$279 known.

Context: Two payments of \$391 and \$78 (\$279 Federal share) did not have the parent or guardian sign the attendance sheets. Total Federal sample tested was \$4,111 and total Child Care assistance payments for fiscal year 2006 were \$28,016,300. Based on this information, an extrapolated error of \$1,907,373 was calculated. A similar finding was noted in the prior audit.

Cause: Agency's review process did not identify errors.

Effect: Increased risk for errors or fraud to occur.

Recommendation: We recommend the Agency review its policies and procedures to ensure proper supporting documentation is on file regarding attendance sheets.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: Currently, different staff in each area review payments for signed attendance sheets. We have requested all areas provide their current process and then this will be reviewed and implemented as our best practice. We will communicate with local office Resource and Development staff to emphasize the importance of checking attendance calendars for parent signatures.

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Contact: Betty Medinger

Anticipated Completion Date: March 1, 2007

Finding #06-26-15

Program: CFDA 93.044, 93.045, & 93.053, Aging Cluster - Subrecipient Monitoring.

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 Subpart B .200(a) requires entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. OMB Circular A-133 Subpart B .235(c)(1) states, "The audit shall be completed and the reporting required by ... nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide."

Condition: One of four audits selected for testing was not on file. Another audit was not received within the 9 month requirement set forth by OMB Circular A-133.

Questioned Costs: None.

Context: We tested four of eight subrecipients. One audit was never received by the Agency; this subrecipient received \$1,823,039 during fiscal year 2006. Another subrecipient audit was not on file but was received after we requested the audit. This audit was received three months after the limit set by OMB Circular A-133. This subrecipient received \$1,007,265 during the fiscal year.

Cause: Unknown.

Effect: Inadequate subrecipient monitoring increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to review all subrecipient audits and to ensure all audits are received in a timely manner.

Management Response: We agree with the Auditor's finding.

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Corrective Action Plan: The central staff responsible for receipt and review of subrecipient audits and representatives of program offices issuing Federal subgrants has begun to develop a System wide procedure to ensure that A-133 audits are received and reviewed in a timely manner. This procedure will include sending written information to all eight Area Agencies on Aging informing them of their need to submit timely audit reports.

Contact: Larry Morrison, Grants and Cost Management and Joann Weis, Administrator-HHSS State Unit on Aging

Anticipated Completion Date: June 30, 2007

Finding #06-26-16

Program: CFDA 93.044 Special Programs for the Aging – Title III, Part B - Grants for Supportive Services and Senior Centers. CFDA 93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services. CFDA 93.053 Nutrition Services Incentive Program - Cash Management.

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 states, “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.” Title 31 CFR 205.11 requires a State to limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. Title 31 CFR 205.33 states, “States should exercise sound cash management in funds transfers to subgrantees.”

Condition: The Agency did not have written procedures or established guidelines regarding cash advances to subrecipients. Both cash advances tested appeared excessive.

Questioned Costs: None.

Context: We tested one cash request each for two of eight subrecipients. One Area Agency had a Federal cash balance of \$59,233 and estimated expenditures for the next two months were \$65,000; the Area Agency was advanced an additional \$33,000 Federal funds. Another Area Agency had a Federal cash balance of \$42,495 and estimated expenditures for the next two months were \$20,785; the Area Agency was advanced an additional \$30,000 Federal funds.

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Cause: Unknown.

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement written procedures to minimize the time between the Area Agencies on Aging receiving and spending Federal dollars.

Management Response: The Agency agrees with the need to monitor Federal Funds advanced.

Corrective Action Plan: We will continue to monitor monthly as we have in the past and will look at implementing written procedures with the Area Agencies on Aging to limit excessive advance requests. Regardless of the Area Agency request, we monitor advances based on the need of the subgrantee. All funds are accounted for and balanced against reported expenditures at least quarterly.

Contact: Joann Weis, Administrator

Anticipated Completion Date: On-going monthly monitoring by our office and written notices to the Area Agencies on Aging regarding requested amounts. There are many check points on a monthly basis to monitor cash flow.

Finding #06-26-17

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Subrecipient Monitoring

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, Subpart D, requires a pass through entity to monitor the subrecipient's use of Federal awards to provide reasonable assurance the subrecipient administers the Federal award in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved.

Condition: Subrecipient monitoring procedures should be improved. Our review of 3 of the 6 regional governing boards and 5 of 51 providers noted the following:

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- Regional governing boards and providers were required to file three audits for each contract period; a financial audit, a program fidelity audit, and 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.
- One regional governing board and two provider financial audits were not received by the Program within nine months after the end of the provider's fiscal year. The audits were one, two, and eight months late.
- One regional governing board financial audit did not report Block Grant Fund expenditures separately for all Mental Health and Substance Abuse services.
- One regional governing board and one service provider did not have a Service Purchased and Program Fidelity Audit on file with the Agency.

Questioned Costs: None.

Context: The Program operates under six regional governing boards which administer or contract with local community health facilities to provide services. The Agency has centralized monitoring procedures related to subrecipient audits, but did not receive all necessary reports and did not properly document the review of reports. The Agency passed through \$5,549,193 to the Regions in the fiscal year ended June 30, 2006. This was a prior year finding. The Agency indicated the status on the Schedule of Prior Year Audit Findings as corrected; however, deficiencies still exist.

Cause: Unknown.

Effect: When audits are not performed or adequately reviewed, there is an increased risk of loss or misuse of funds.

Recommendation: We recommend the Agency review their procedures to ensure compliance with contracts and regulations relating to audits of regions and other providers.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: A form will be developed by March 30, 2007 to review Services Purchased and Program Fidelity Audits: form will be used for FY 2007 audits. Field reps will ensure a review form is completed on each audit submitted. If audits are not received by due date, regions will be notified and requested to withhold payments until agencies audits are received.

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Contact: Robert Bussard, BH Division Field Rep Supervisor

Anticipated Completion Date: March 2007

Finding #06-26-18

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Allowability

Grant Number & Year: #2C06B1NESAPT; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permits the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires adequate supporting documentation to ensure expenditures are proper.

Condition: One journal entry tested did not have adequate documentation to support expenses charged to the Federal Grant. The journal entry totaled \$1,174,430 and the amount not supported was \$86,583.

Questioned Costs: \$86,583

Context: The Agency paid the Regions with State funds for January and February 2006 substance abuse services. In April, the Agency prepared a journal entry to transfer the cost from State to Federal Funds. The amount transferred for one region was \$157,323; however, the substance abuse claim amount was only \$58,231. The transfer for another region was for \$44,994; however, the claim amount was \$57,503.

Cause: Agency stated they did not receive Federal funds until after expenditures had been made.

Effect: Increased risk Federal funds were not expended on allowable activities.

Recommendation: We recommend the Agency ensure transactions are adequately supported with detailed documentation to ensure payments are in accordance with Federal requirements.

Management Response: The Agency agrees with the Auditor's finding.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Corrective Action Plan: The Agency will maintain support for all journal entry transactions.

Contact: Dan Ransdell

Anticipated Completion Date: Immediately, if such borrowing needed in the current fiscal year.

Finding #06-26-19

Program: CFDA 93.959 Block Grants for Prevention & Treatment of Substance Abuse – Special Tests

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 96.136(a) states, “The State shall for the fiscal year for which the grant is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved, and ensure that at least 5 percent of the entities providing services in the State under such program are reviewed. The programs reviewed shall be representative of the total population of such entities.”

Condition: The Agency did not have a peer review performed during fiscal year 2006.

Questioned Costs: None.

Context: The last peer review was performed in September 2004.

Cause: The Agency was initially under the impression the peer review requirement was to be eliminated; then during fiscal year 2006 the Agency attempted to contract for a peer review but was not successful.

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure a peer review is completed each fiscal year as required.

Management Response: The Agency agrees with the Auditor’s finding.

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Year Ended June 30, 2006

Corrective Action Plan: Contract established with Nebraska Association of Behavioral Health Organizations to conduct peer review on at least five percent (5%) of entities providing services in Nebraska. Contract established will be continuous in support of federal funding requirements.

Contacts: Primary - Renee Faber, Contract Manager. Secondary – Robert Bussard, Substance Abuse Block Grant Manager.

Anticipated Completion Date: Completed. Contract implemented September 1, 2007.

Finding #06-26-20

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Allowability/Eligibility

Grant Number & Year: #G0602NETANF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Title 42 U.S.C. 608(a)(1), a State may not use the TANF grant to provide assistance to a family unless that family has a minor child.

Title 45 CFR Section 261.14(a) states, “if an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.”

Title 468 NAC 2-006 states “the worker shall determine the ability of the parent to support each dependent child in whose behalf ADC/MA is applied for or received.” Title 45 CFR Section 233.20(a)(3)(vi)(A) states, “In family groups living together, income of the spouse is considered available for his spouse and income of a parent is considered available for children under 21...” Title 64 F.R. 17825 states “A family may not receive “assistance” under the TANF program unless the family is needy ... the term “needy” for TANF and MOE purposes means financial deprivation, i.e., lacking adequate income and resources.” Title 45 CFR Section 205.55(d) states, “The Secretary may, based upon application from a State, permit a State to obtain and use income and eligibility information from an alternate source or sources ... The State agency must demonstrate to the Secretary that the alternate source or sources is as timely, complete and useful for verifying eligibility and benefit amounts.”

Title 468 NAC 1-010 requires the worker to “redetermine eligibility for grant and medical assistance every six months.”

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Year Ended June 30, 2006

Condition: We noted 5 of 45 TANF payments tested did not comply with Federal and State regulations.

Questioned Costs: \$446 Known, \$3,084,836 Extrapolated.

Context: Two payments tested did not have documentation verifying the child's date of birth to ensure the child was a minor. We noted for one of these payments the custodial parent was not required to participate in Employment First because the TANF caseworker stated the recipient was a victim of domestic violence. The case was reviewed by the caseworker's supervisor and no verification of domestic violence was provided. The supervisor placed the custodial parent in mandatory Employment First status. There were an additional four TANF assistance payments noted during the fiscal year where the custodial parent was not required to participate in Employment First.

One payment tested did not have verification of the custodial parent's income. The parent is an ineligible immigrant per the caseworker notes on NFOCUS and the notes in the case file. There was a verification of employment in the case file, but the caseworker had noted the custodial parent was working under another individual's name. The employment verification was outdated and did not state the custodial parents name because the individual was working under another name and social security number. Therefore, it could not be confirmed whether the family was "needy." The parent was not included in the unit size and no assistance was received for the parent. Per Title 468 NAC 1-004, the term "needy individual" means "one whose income and other resources for maintenance are found under assistance standards to be insufficient for meeting the basic requirements, and to be within the resource limits allowed an individual."

In two payments tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews were three and seven months overdue.

Total Federal payment errors noted during testing was \$446. Total Federal sample tested was \$3,667 and total TANF Federal assistance payments for fiscal year 2006 were \$25,363,436. The extrapolated error for fiscal year 2006 was \$3,084,836, (error rate multiplied by the total expenditures).

Cause: Unknown.

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal and State regulations.

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Management Response:

1. Missing birth certificates:
The missing verifications of birth in the two cases (four children) have been received and clearly establish that each child meets the definition of a minor child. Three of the birth certificates were requested timely by the caseworker from another state however, it took 13 months for the other state to return the documents.

2. Case cited as not having verification of the custodial parent's income:
HHS has written verification, documentation, and client responsibility guidelines. HHS believes these guidelines were followed in this case.

The Federal office of Administration for Children and Families (ACF) has confirmed with HHS that a state can use their own objective verification methods to substantiate eligibility and payment decisions.

Auditors have cited 45 CFR 205.55 as a basis for citing the exception in this case and similar cases in past audits. ACF has informed Nebraska that this CFR provision is not an appropriate basis for citing exceptions in this and similar cases in past audits.

3. HHS reviewed all 45 case review forms with audit staff. HHS appreciates the opportunity to work jointly with auditors during this review of all eligibility elements.

Corrective Action Plan: Nebraska initiated an aggressive TANF case review system in April 2006 to monitor caseworkers to ensure compliance with Federal and State regulations in response to the SFY 2005 single state audit that was released March 8, 2006. It should be noted the auditor's findings in this report (SFY 2006) are based on case actions before Nebraska's supervisory case review system was implemented. Following is a summary of Nebraska's corrective actions:

Case Review System:

In April 2006, Nebraska implemented a comprehensive TANF case review system to reduce and minimize at-risk TANF payment errors. During April through October, a total of 1,923 TANF cases were reviewed. The primary goals and objectives for these case reviews are:

- Ensure immediate, accurate and correct administration of cases through identification of errors;

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- Development of training, and best practices that are specifically targeted at the causal factors for errors;
- Identification of policy and procedures that require clarification.
- Prevent future errors through analysis.

All key eligibility elements are reviewed, including family membership, income verification, Employment First referral processes, and timeliness of reviews.

Phase one of the corrective action plan was completed in October 2006. Phase one established a baseline of performance metrics to measure improvement in Phase two. Phase two will be completed in February or March 2007. The TANF supervisory case review system will continue throughout calendar year 2007.

Citizenship/Identification:

- Effective July 1, 2006, the following policy was implemented: All TANF participants must provide satisfactory proof of citizenship or lawful alien status, such as a birth certificate, U.S. Passport, Certificate of Naturalization or appropriate USCIS documentation, before they will be approved for payment. While this requirement was mandated for Medicaid eligibility by the Deficit Reduction Act of 2005, because TANF eligibility bestows Medicaid eligibility on an individual in Nebraska, the same requirements apply to both programs. Local Office staff received video training on this requirement in June 2006 and a Manual Bulletin implementing this new requirement was issued on July 10, 2006.

The Agency authorized the hiring of twenty temporary supportive staff to assist in the procurement of birth certificates for all individuals for whom they are required.

TANF Work Requirements:

- Revision of TANF work requirements mandated by the Deficit Reduction Act of 2005 has required the Agency make a number of changes to the Employment First program. These changes, which are being implemented effective December 2006, expedite the assessment and component assignment of Employment First participants. Statewide video training on these changes was given to EF Case Managers and Contractors on October 18, 2006.

Contact: Mike Harris

Anticipated Completion Date: Phase one of the corrective action plan was completed in October 2006. Phase one established a baseline of performance metrics to measure improvement in Phase two. Phase two will be completed in April 2007. The TANF supervisory case review system will continue through calendar year 2007.

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Auditor's Response: The verification of income for the individual noted above was not adequate due to the circumstances stated in the Context. The Agency did not provide documentation that ACF informed Nebraska that 45 CFR 205.55 is not an appropriate basis. The HHS OIG Office of Audit Resolution recommends procedures be implemented to ensure: 1) income is properly verified in a timely manner and 2) valid social security numbers are obtained for all applicants.

Finding #06-26-21

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Special Tests

Grant Number & Year: All TANF grants open during State fiscal year 2006.

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Good internal control requires adequate procedures to ensure the recipient's assistance payments are properly reduced in a timely manner when notice of non-cooperation is received from Child Support Enforcement (CSE). Title 42 U.S.C. Section 608(a)(2)(A) states, "... the State shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance."

Condition: The TANF assistance was not properly reduced for Child Support non-cooperation in 9 of 28 cases tested.

Questioned Costs: \$1,272 Known.

Context: We tested 45 CSE sanctions to determine if the TANF assistance payment was properly reduced for non-cooperation and the reduction was applied in a timely manner. Of the 45 sanctions tested, 28 received TANF assistance during fiscal year 2006. A non-cooperating individual's assistance was not properly reduced by at least 25%, terminated, or, if not reduced the reason was documented and allowable, for 9 of the 28 applicable cases. The reduction in assistance for 2 of these 9 was eventually completed, but was not completed timely. The sanction amount was imposed from two to five months after the notice of non-cooperation form was sent to the TANF worker.

Cause: The Agency does not have a procedure in place to determine when a CSE-10 form has been sent to the TANF caseworker from CSE or to determine the total number of CSE sanctions at a given time.

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Effect: Without proper procedures in place to ensure assistance payments are reduced and reduced timely there is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement controls to ensure all CSE referrals are properly reduced or terminated.

Management Response: HHS agrees that internal controls need to be strengthened to monitor caseworker compliance to reduce appropriate TANF grants upon receipt of CSE notices of non-cooperation. Nebraska has implemented corrective compliance strategies starting in February through November 2006 that identifies all CSE referrals and monitors to ensure that TANF grants are reduced timely by caseworkers. It should be noted that all CSE errors identified in this audit occurred before February 2006 or before the HHS corrective compliance plan went into effect.

Corrective Action Plan: HHS has implemented a corrective compliance plan that includes supervisory case reviews, automated reports that identify all CSE referrals, and a monitoring system to ensure that all CSE referrals are acted on timely by caseworkers. The corrective compliance plan is outlined in an October 20, 2006, letter to the Regional ACF Administrator in Kansas City, Missouri. Included in this plan are:

- Complete analysis of why Nebraska did not meet this requirement;
- A detailed description of how Nebraska will correct errors in a timely manner;
- The time period in which the errors will be corrected; and
- The milestones, including interim processes and outcome goals Nebraska will achieve to assure it comes into compliance within the specified time period.

Contact: Mike Harris

Anticipated Completion Date: We anticipate full implementation of this monitoring plan will result in improvement to Nebraska's CSE Sanction process by December 31, 2007. In the interim, monitoring of improvement will occur:

1. As the result of the 2006 and 2007 Nebraska State Audit. We note improvement has already occurred since the 2006 State Audit identified no cases where the eligibility worker failed to impose a CSE Sanction following receipt of the CSE-10, Request to Sanction.

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2. From Policy Staff follow-up to the results of the CSE Sanction Report direction to eligibility staff. This monitoring of results will occur in February 2007.
3. By the Rushmore Group second phase case reviews. When they complete their reviews in Spring 2007, we will be able to identify any continuing issues with sanction implementation. We anticipate this review will reflect improved understanding of policy and processes relating to CSE Sanctions.

Finding #06-26-22

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Eligibility/Allowability

Grant Number & Year: All TANF grants open during State fiscal year 2006.

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per Title 45 CFR Section 264.1(a)(1), “no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received Federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive).” Neb. Rev. Stat. Section 68-1724 R.R.S. 2003 requires for those families receiving assistance for two years at a monthly payment level shall not receive further cash assistance for at least two years after the assistance period ends. Title 468 NAC 2-020.09B1 states, “Families subject to a time limit may receive or be eligible to receive a grant for a total of 24 months within a continuous 48-month period. The 48 months begin with the month a signed application is received in the local office. The 24 months begin on the first of the month following the month the Self-Sufficiency Contract is signed.” Title 468 NAC 2-010 states, “If a client does not cooperate in developing and completing a Self-Sufficiency Contract or Non-Time-Limited Assistance Agreement within 90 days, the unit is ineligible for an ADC grant and the adult(s) is ineligible for medical assistance.” Circular A-87 requires allowable Federal costs to be authorized or not prohibited under State laws or regulations and to be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Condition: We tested 45 cases and noted three cases received greater than 60 months of Federal TANF payments. One of the three cases had also exceeded the State’s requirement of receiving more than 24 months of assistance in a continuous 48 month period of time.

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Questioned Costs: Unknown.

Context: Prior to June 2003, the Agency had entered into Waiver Certifications approved by the Federal government. The waiver certification sent to the US Department of Health and Human Services by the Governor of Nebraska stated “the 24-month period begins with the month following the completion of a self-sufficiency contract or 90 days after a signed application is received in a Local Nebraska Department of Health and Human Services Local Office.” The waiver certification also stated the Federal 60 month time limit would be consistent in counting the applicable months as was stated in the State time limit regulation. The waiver certifications no longer applied after June 30, 2003.

Two of the case files that received more than 60 months of Federal TANF payments did not sign a self-sufficiency contract within 90 days of application. One of these cases received 76 assistance payments since September 1999, but did not sign a self-sufficiency contract until March 2005. The other case received 66 assistance payments since May 1998, but did not sign a self-sufficiency contract until May 2003. Therefore, their TANF assistance should have been closed for not completing the self-sufficiency contract within 90 days of application. The third case, which received 75 assistance payments, had completed a self-sufficiency contract, but the contract was not signed within 90 days of the date of application. The first 48 month period began in March 1998 and the self-sufficiency contract was not signed until August 1998. The second 48 month period began in March 2002 and the self-sufficiency contract was not signed until July 2003.

Cause: The Agency did not count TANF payments towards the 60 month time limit unless there was a self-sufficiency contract signed by the recipient. These TANF cases were not closed.

Effect: Increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency obtain specific guidance from the Federal regulatory agency regarding whether the 60 month time limit is applicable in these situations and if the payments are eligible for Federal financial participation given that the State was negligent in closing the cases.

Management Response: HHS agrees however that there were delays in signing the self-sufficiency contracts that were caused by the Agency.

Corrective Action Plan:

1. Case review system – this system monitors case managers to ensure timely completion of contracts (please see corrective action for Finding # 06-26-21).

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2. The Agency expanded Employment First contract services in the Eastern Service area to ensure all clients are able to be served.
3. Revision of TANF work requirements mandated by the Deficit Reduction Act of 2005 has required the Agency make a number of changes to the Employment First program. These changes, which are being implemented effective December 2006, expedite the assessment and component assignment of Employment First participants. Statewide video training on these changes was given to EF Case Managers and Contractors on October 18, 2006.

Contact: Mike Harris

Anticipated Completion Date: We anticipate full implementation of these corrective actions will result in improvement to Nebraska's delays in signing the self-sufficiency contracts by October 31, 2007.

Finding #06-26-23

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Allowability

Grant Number & Year: #G0602NETANF; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR Section 92.20 requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permits the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires adequate supporting documentation to ensure expenditures are proper.

Condition: Two journal entries tested transferred a total of \$7,000,000 of expenditures to Federal costs, which were originally paid with State funds. Detailed documentation was not available to determine if expenditures charged to the Federal grant were for allowable activities.

Questioned Costs: Unknown.

Context: The Agency used the same business unit (BU) on the Nebraska Information System for the Separate State Program benefit payments and State Maintenance of Effort (MOE) benefit payments. Because the two State expenditure types are accounted for in the same BU, but the Separate State Program would not be allowable Federal activities, the transfer of costs from the State BU to the Federal BU resulted in an inability to determine which of the costs transferred to Federal funds

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were from which type of State expenditure. We noted as of February 2006, the Agency began using a distinct BU for the Separate State Program expenditures. Per our estimation, it appeared there were sufficient allowable expenditures available for the transfer; however, detailed documentation was not available to test the underlying charges.

Cause: Agency did not utilize a separate business unit for the Separate State Program until February 2006.

Effect: Inability to trace expenditures to detailed payments to determine if expenditures charged to the Federal grant were allowable activities.

Recommendation: We recommend the Agency ensure transactions are adequately supported with detailed documentation to ensure payments are proper per Federal and State requirements. All transfers should have sufficient detail to trace to the original transactions.

Management Response: We agree with this finding and have put into place procedures to identify allowable expenditures.

Corrective Action Plan: The Separate State Program Business Unit, in place since February 2006, will ensure payments in this program are not made with Federal funds.

Contact: Ann Linneman, Program Analyst/Lead

Anticipated Completion Date: February 2006

Finding #06-26-24

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Reporting

Grant Number & Year: #G0501NETANF, FFY 2005; #G0602NETANF, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. Title 45 CFR Section 92.20(a) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports

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and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires periodic reconciliations between computerized information systems used.

Condition: The two ACF-196 reports tested did not correctly report Federal expenditures in the appropriate grant award year and the Federal and State expenditures reported on the FFY 2005 and FFY 2006 grants were not actual expenditures as reported on NIS. We were also unable to determine if the amount reported for Separate State Program expenditures was accurate because the Agency did not have procedures to ensure amounts reported agreed to NIS, the official accounting system of the State.

Questioned Costs: Unknown.

Context: The Agency uses a percentage calculation to determine the amount of cash assistance being reported for Federal and State MOE expenditures. The Agency totals Federal and State expenditures and then reports 60% of the total as Federal expenditures and 40% as State MOE. The ACF-196 report for the FFY 2005 grant for the quarter ended March 31, 2006, had \$5,219,176 less Federal expenditures reported than the report submitted for the quarter ended December 31, 2005; this amount was also over-reported for the FFY 2006 grant. We also noted the FFY 2006 grant report included some expenditures from the FFY 2005 grant in the cash assistance calculation. We further noted \$3,453,339 was reported twice on the FFY 2006 grant report. The amount was reported as Federal expenditures for work subsidies and it was used in the calculation to determine the cash assistance. The table below shows the amounts for cash assistance, administration, and work subsidies reported as of March 31, 2006, for both the FFY 2005 and FFY 2006 grants and the amounts as they are reported on NIS. The amount reported on the FFY 2005 grant for administration did not agree to the calculated administration amount from the Cost Allocation Plan (CAP).

FFY 2006 Grant

As reported March 31, 2006	Federal	State MOE	Separate State	Total State	Total Federal and State
Basic Assistance	\$ 20,671,457	\$ 13,099,770	\$ 6,355,376	\$ 19,455,146	\$ 40,126,603
Administration	2,389,925				2,389,925
Work Subsidies	8,125,683				8,125,683
	<u>31,187,065</u>	<u>13,099,770</u>	<u>6,355,376</u>	<u>19,455,146</u>	<u>50,642,211</u>
Expenditures per NIS/CAP					
Basic Assistance	6,709,737	11,700,723		11,700,723	18,410,460
Administration	2,389,925				2,389,925
Work Subsidies	2,979,974	4,453,339		4,453,339	7,433,313
	<u>12,079,636</u>	<u>16,154,062</u>	<u>-</u>	<u>16,154,062</u>	<u>28,233,698</u>
Variance (over)/under reported	(19,107,429)	3,054,292	(6,355,376)	(3,301,084)	(22,408,513)

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FFY 2005 Grant As reported March 31, 2006	Federal	State MOE	Separate State	Total State	Total Federal and State
Basic Assistance	20,188,007	16,704,412	7,259,824	23,964,236	44,152,243
Administration	3,958,308				3,958,308
Work Subsidies	12,828,500				12,828,500
	<u>36,974,815</u>	<u>16,704,412</u>	<u>7,259,824</u>	<u>23,964,236</u>	<u>60,939,051</u>
<u>Expenditures per NIS/CAP</u>					
Basic Assistance	19,997,026	20,009,982		20,009,982	40,007,008
Administration	3,662,145				3,662,145
Work Subsidies	11,573,368	4,422,385		4,422,385	15,995,753
	<u>35,232,539</u>	<u>24,432,367</u>	<u>-</u>	<u>24,432,367</u>	<u>59,664,906</u>
Variance (over)/under reported	\$ (1,742,276)	\$ 7,727,955	\$ (7,259,824)	\$ 468,131	\$ (1,274,145)

The Agency did not use a separate business unit (BU) on NIS for Separate State Program (SSP) benefit payments and State MOE benefit payments until February 2006. The Agency uses the NFOCUS system to enter eligibility information and determine benefit amounts. After the benefit has been approved for payment the NFOCUS system interfaces with NIS for payment. The Agency also utilizes a shadow database of NFOCUS information to report the SSP expenditures on the TANF ACF-196 report. We noted the reported SSP expenditures were also included in the total calculation to determine the Federal and State MOE cash assistance expenditures. Therefore, these expenditures were reported twice.

Cause: The Agency uses a percentage of the expenditures reported on NIS to report Federal and State cash assistance expenditures. The Agency wanted to establish an unexpended balance in the 2005 grant award to use these funds at a later date. In order to establish the unexpended balance in the 2005 grant the Agency over-reported Federal expenditures in the 2006 grant. In order to show a \$10 million dollar balance on the 2005 grant the Agency reported the \$5,219,176 on the ACF-196 for the 2006 grant as Federal expenditures. The Agency stated they wanted to get the reports to match the balance showing on NIS, the State's accounting system.

Effect: Federal reports do not agree with the State's accounting system, increased risk for errors or fraud to occur.

Recommendation: We recommend the Agency ensure the expenditures reported on the ACF-196 report are actual expenditures per NIS, the State's accounting system. We also recommend the Agency perform periodic reconciliations between NIS and NFOCUS until the separate BU for the Separate State Program can be utilized for reporting purposes.

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Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Coding was expanded to identify the Separate State Program. The practice of recording a standard split of the assistance was discontinued. Reported amounts are documented with NIS and the Public Assistance Cost Allocation Reports. Necessary changes will be reflected on NIS. A review of the 2005 and 2006 grant activity will be completed and revised financial reports prepared as necessary for the Federal agency. The revised reports will include the variances noted by the auditor.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-25

Program: CFDA 93.563 Child Support Enforcement – Subrecipient Monitoring

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D – Federal Agencies and Pass-Through Entities, Section 400(d) Pass-through entity responsibilities, states “A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.”

Condition: The Agency could not provide supporting documentation showing whether or not subrecipients were notified of the award information.

Questioned Costs: None.

Context: This was a prior audit finding. The Agency will be correcting this when the cooperative agreements are renewed.

Cause: Unknown.

Effect: When the Agency fails to notify their subrecipients of the award information, there is an increased risk of noncompliance with Federal laws and regulations and an increased risk of improper reporting.

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Recommendation: We recommend the Agency implement procedures to notify counties and other subrecipients of award information to ensure compliance with Federal laws and regulations.

Management Response:

Corrective Action Plan: We will implement procedures when Cooperative Agreement for Clerks of the District Court and County Attorneys are renewed.

Contact: Margaret Ewing

Anticipated Completion Date: Clerk of the District Court Agreement will be renewed July 1, 2011. County Attorney Agreement will be renewed October 1, 2008.

Finding #06-26-26

Program: CFDA 93.563 Child Support Enforcement - Allowability

Grant Number & Year: #0G0504NE4004, FFY 2005; #0G0604NE4004, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: The United States Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 8 (h)(4) states, "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation ... or other substitute system has been approved by the cognizant Federal agency."

Condition: For 1 of 8 employees tested, there was no written approval from the cognizant Federal agency for the substitute system used for the allocation of payroll costs for the Federal program. In addition, it was noted an additional employee did not have written approval for the allocation of payroll costs for the Federal program.

Questioned Costs: \$51,005

Context: These individuals worked on multiple programs (Treasury Management, State Disbursement Unit, College Savings Plan, and Unclaimed Property), but did not record the actual hours worked on each program on timesheets. The salaries of these employees were allocated based on the number of employees in each of the programs rather than actual time worked. Total Federal payroll charges for the two employees were \$51,005.

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Cause: The Treasurer was unaware the allocation method used for these employees was improper.

Effect: Without proper documentation of the actual hours worked on the Federal program or written approval from the cognizant Federal agency to use a substitute system, the Treasurer is in noncompliance with OMB Circular A-87.

Recommendation: We recommend the Treasurer allocate salaries based on actual activity reports or obtain written approval from the cognizant Federal agency for the system in use.

Management Response: (Treasurer) The Treasurer is a contractor of HHSS for the operation of the SDU. As a contractor, the Treasurer submits a reimbursement request to HHSS for eligible funds spent in the operation of the SDU. Upon HHSS's review and approval of the reimbursement request, HHSS releases federal grant monies to the Treasurer to offset operating costs. HHSS has approved the SDU's allocation approach. Any written approval from the cognizant Federal Agency for the substitute system currently in place to allocate the salaries of the Business Manager and the IT Manager should be requested by HHSS from the cognizant Federal Agency.

Corrective Action Plan: HHSS is in the process of contacting the Federal Office to see if a substitute system for allocating salaries and wages to this Federal grant may be used in place of activity reports for employees working multiple State Treasurer activities.

Contact: John Kwiatek

Anticipated Completion Date: June 30, 2007

Finding #06-26-27

Program: CFDA 93.658 Foster Care Title IV-E – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. NIS is the official accounting system for the State of Nebraska. Good internal control requires reports be reconciled to the accounting system.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Condition: Adjustments were not adequately supported, adjustments were not recorded on NIS, and expenditures were incorrectly reported.

Questioned Costs: Unknown.

Context: We tested two of four quarterly financial status reports (FSR) submitted during the fiscal year and noted:

- The March 2006 FSR reported current quarter maintenance expenditures of \$1,871,580; per review of supporting documentation \$1,933,573 should have been reported, a variance of \$61,993 with Federal share of \$36,997.
- The March 2006 FSR reported prior quarter adjustments to decrease maintenance expenditures \$1,030,662; per review of supporting documentation the decrease should have been \$1,050,863, a variance of \$20,201 with a Federal share of \$12,056. None of the prior quarter adjustments were recorded on NIS. Decreasing adjustments were also noted in other quarters and the agency indicated no prior quarter adjustments were recorded on NIS. Total Federal share of decreasing adjustments for prior quarters during the fiscal year was \$2,611,272.
- Expenditures for legal costs associated with terminating parental rights in order to expedite adoptions were reported as maintenance expenditures on the Foster Care report and should have been reported as Adoption Assistance administrative expenses. Therefore, Foster Care maintenance was overstated by \$39,027. The Federal share was overstated \$23,292.
- An adjustment in the amount of \$2,221 on the June FSR was recorded as a decreasing adjustment but should have been recorded as an increasing adjustment. As a result maintenance was under-reported by 4,442. The Federal share under-reported was \$2,651. This adjustment was not recorded on NIS.

Reporting errors for the two quarters total \$4,300 under reported, (\$12,056 + \$23,292 - \$2,651 - \$36,997). Adjustments not recorded on NIS for the fiscal year totaled \$2,608,621, (\$2,611,272 - \$2,651). The initial expenditures were charged on NIS to the Federal grant; however, as the adjustments were not recorded on NIS, the amounts were not paid back. The Agency indicated awards were adjusted quarterly to the actual claimed amount and adjustments will be reflected when the final quarterly awards are issued by the Federal agency.

Cause: Inadequate review of report to supporting documentation and State accounting system.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Effect: Federal reports are not accurate and do not agree with funding processed through NIS.

Recommendation: We recommend the Agency implement procedures to ensure Federal reports are accurate and agree to the Nebraska Information System.

Management Response: We agree with the Auditor's finding.

Corrective Action Plan: Reported amounts are documented with NIS and the Public Assistance Cost Allocation Reports. Necessary changes will be reflected on NIS. Corrections for the errors reported by the APA will be included in the next quarterly financial report to the Federal agency.

Contact: Larry Morrison, Grants and Cost Management

Anticipated Completion Date: June 30, 2007

Finding #06-26-28

Program: CFDA 93.658 Foster Care Title IV-E – Allowability and Eligibility

Grant Number & Year: #0G051NE1401, FFY 2005; #0G061NE1401, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per 42 USC 672 funds may be expended for Foster Care maintenance payments on behalf of eligible children. To be eligible for Foster Care benefits the requirements of 42 USC 672 and 45 CFR 1356.21 must be met. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement. A child's removal from the home must be the result of a judicial determination to the effect that continuation in the home would be contrary to the child's welfare. Within 60 days from the date of the removal from home there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent the removal. In addition, the provider must be fully licensed per 42 USC 671(a)(10) and 672(c). Unless the child is expected to graduate from a secondary educational, or an equivalent vocational or technical training, institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday (45 CFR Section 233.90(b)(3)). Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

Condition: We noted 7 of 50 Foster Care maintenance payments tested were not allowable as all eligibility requirements were not met.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Questioned Costs: \$11,485 known, \$971,120 extrapolated.

Context: The average number of Foster Care children during the fiscal year ended was 1,388. We tested 50 cases, 34 September 2005 payments and 16 April 2006 payments, and noted the following:

- Four payments tested the child was not in a licensed foster care home and an additional payment did not have documentation on file during testing to support the child was in an approved home. Cases files were requested August 28, 2006, and documentation was not received until January 24, 2007.
- One child had been in foster care, returned to the family, and then returned to foster care. Eligibility was not redetermined for the second episode and therefore the payment was not allowable.
- For one payment tested, the child was 18 years old and not a full-time student.

Total known questioned costs for payments tested was \$3,257; additional questioned costs for these cases during the fiscal year were \$8,228. Total Federal charges for the sample was \$17,577. Extrapolated questioned costs for errors for the fiscal year would be \$971,120. (18.53% \$ error for sample times \$5,240,800 population)

Cause: Inadequate control procedures.

Effect: Increased risk for errors and questioned costs.

Recommendation: We recommend the Agency implement procedures to ensure Foster Care payments are in accordance with Federal regulations.

Management Response: HHSS acknowledges and agrees with 6 of the error findings. HHSS disagrees with one of the error findings pertaining to a payment made for a child placed in a home which was not licensed. HHSS has secured and provided a copy of the license, issued by the Omaha Tribe of Nebraska. Therefore, the error finding clearly is incorrect and payment was made correctly.

HHSS disagrees with the "Questioned Costs" of Finding #06-26-28. Payments used in calculating the questioned costs include the alleged error case in which the license has been provided (see above). Additionally, cost date used to calculate errors includes both the Title IV-E portion of payments, and the State portion of the payments. The disallowance should be taken against only the Federal or IV-E portion.

The error rate used in the finding is inaccurate, as that rate included the case in which the license was provided. Therefore, the stated error rate of 18.53% is inaccurate. The correct rate would be 12%. (The Federal case error rate is to be

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

calculated using the total number of cases in error divided by the number of cases reviewed. HHSS has applied this Federal formula and determined the case error rate would be 6 divided by 50 equaling 12% vs. 18.53%.)

Based on use of an incorrect error rate and inclusion of the state portion of payments made for children in the sample and in the total amount paid for the year, we disagree with the questioned costs and the extrapolated costs.

Corrective Action Plan: The four payment errors are in relation to the Funding error of Child Care Cost. HHSS has initiated an electronic system fix in N-FOCUS with the target release date of 7-9-2007 to correct this system error.

One error is related to second episode with eligibility not determined. HHSS will provide written guidance and training to Protection and Safety and Income Maintenance-Foster Care staff to stress the importance of eligibility re-determination in relation to child returned home equal or greater than 6 months and subsequently removed and placed out of parental home again. Information from the Single Case Audit Findings will be shared with these staff. In addition, HHSS in conjunction with Nebraska Juvenile Justice System, is jointly working to improve judicial findings to meet required court determinations for Title IV-E eligibility.

One error is related to a ward age 18 and not attending school. HHSS will continue to stress the importance of ensuring that current school related information for each ward is communicated between all associated workers and will provide a written reminder and training to relevant HHSS staff to reinforce this requirement. HHSS will explore additional tools to assist all assigned workers. (It should be noted that only a single month's payment was made in error in conjunction with this eligibility requirement. Prior to the time that a second month's payment would have been made, the error had been corrected. No other services were paid from Title IV-E.)

HHSS is researching avenues to provide additional Quality Assurance for Title IV-E eligibility determinations. On-going training occurs with eligibility worker meetings. Supervisors or Protection and Safety and Income Maintenance-Foster Care had training on IV-E requirements at the Supervisors' Conference in 11-06. A similar training will occur at the Supervisors' Conference in 2007.

HHSS has already sent a report to ACF in Kansas City to extract Federal funding related to the 6 case errors for payment disallowance.

Contact: Ruth Grosse or Margaret Bitz

Anticipated Completion Date: December 2007

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Auditor's Response: Questioned costs and extrapolated costs were determined using the Federal share of payments and does not include State costs. The method for extrapolating costs is in accordance with auditing standards. The questioned costs for the license issued by the Omaha tribe was included due to documentation not being available in a timely manner. As indicated, documentation was requested August 28, 2006, and was not received until January 24, 2007

Finding #06-26-29

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. An Agency caseworker and supervisor review adoption subsidy agreement forms.

Condition: The adoption subsidy agreement forms were not reviewed by a supervisor.

Questioned Costs: None.

Context: Two of forty-five cases selected for testing were not signed by a supervisor. The adoption subsidy agreements were in October 2005 and March 2006. The agreements were signed and approved by a caseworker; however, there was no documented review by a supervisor.

Cause: Unknown.

Effect: Noncompliance with Agency's internal control policies increases the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency enforce the review policies and procedures in place to ensure all adoption subsidy agreements have a documented review by both a caseworker and a supervisor.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz

Anticipated Completion Date: June 30, 2007

Finding #06-26-30

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 479 NAC 8-001.02B5 states “The application and agreement for subsidy, specifying type, amount, purpose, and duration of subsidy must be completed and approved before the date of adoption finalization.”

Per 42 USC 675(3), “The term “adoption assistance agreement” means a written agreement, binding on the parties to the agreement, between the State agency, other relevant agencies, and the prospective adoptive parents of a minor child.”

OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. The Agency reviews the subsidized adoption agreements to verify the agreement was approved prior to adoption finalization.

Condition: The adoption subsidy agreements were not signed and in effect before the final decree of adoption.

Questioned Costs: \$454 known, \$224,776 extrapolated.

Context: During the testing of forty-five payments, we noted two agreements were not signed before the final decree of adoption. The adoption agreements were signed three weeks to three months after the final decree of adoption. Federal share of

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

payments for the two cases totaled \$454 and the total sample tested was \$14,030. Based on this information, an extrapolated error of \$224,776 was calculated (3.235923% error rate times total expenditures of \$6,946,272).

Cause: Unknown.

Effect: The Agency is not in compliance with State and Federal requirements which increase the risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency ensure all adoption subsidy agreements are signed prior to adoption finalization.

Management Response: The Agency agrees with the Auditor's finding.

Corrective Action Plan: HHSS will return the Federal Share of all claims paid on two of the error cases in which agreements were not signed prior to finalization. Additionally, these two adoption assistance cases have been changed in N-FOCUS, from federal to state subsidy so no future services will be paid from federal funds. HHSS has secured a revised agreement that reflects the increase and has all appropriate signatures.

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-31

Program: CFDA 93.659 Adoption Assistance – Activities Allowed or Unallowed and Matching

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

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Year Ended June 30, 2006

Criteria: Title 42 USC 673(a)(3) states “The amount of the payments to be made in any case ... shall be determined through agreement between the adoptive parents and the State or local agency administering the program ...”

The percentage of Title IV-E funding in adoption assistance subsidy payments will be the Federal Medical Assistance Program percentage. The Federal match rate for adoption subsidy payments in the State of Nebraska for the fiscal year was 59.68%.

Condition: Unallowed costs were noted including respite care and incorrect adoption subsidy payment amounts. Unallowed costs were included in determining the Federal match amounts.

Questioned Costs: \$523 known.

Context: During our testing of 45 cases, we noted for one case tested the amount paid exceeded the subsidy agreement by (Federal share) \$142. The caseworker recalculated the payment amount based on request for an increase in the adoption subsidy payment by the parent. The request was approved; however, the adoption subsidy agreement was not updated.

Also during testing we noted two families with payments for multiple siblings. Three of the siblings included respite care that was correctly paid with State funds; however, the Federal share was calculated including the respite care. Federal funds were over-charged by \$381 due to the improper matching computation.

Cause: Unknown.

Effect: Unallowable charges to Federal program and the Federal match requirements were not met.

Recommendation: We recommend the Agency establish procedures to ensure payments are in accordance with Federal regulations.

Management Response: HHSS disagrees with this finding. HHSS approved the increase in the Adoption Assistance payments prior to payment being rendered. Supporting documentation included the families request for an increase, FC Payment determination and electronic approval from the Protection and Safety Administer. A revised Adoption Agreement has now been completed to reflect the subsidy increase.

Corrective Action Plan: None Required

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Anticipated Completion Date: N/A

Finding #06-26-32

Program: CFDA 93.659 Adoption Assistance – Eligibility

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 479 NAC 8-001.02Q2 Deletion or Termination of Federal IV-E Subsidy states “A federal subsidy is terminated ... On the child’s 18th birthday if the child is not determined disabled by SSI determination or determination of the Department’s Medical Review Team. In this case, if the need for subsidy continues between the child’s 18th and 19th birthdays, the child can be transferred to the state maintenance program.”

Title 42 USC 673 (a)(4)(A) states “no payment may be made to parents with respect to any child who has attained the age of eighteen (or, where the State determines that the child has a mental or physical handicap which warrants the continuation of assistance, the age of twenty-one)...”

Condition: Benefits were not discontinued when period of eligibility expired.

Questioned Costs: \$2,956 known.

Context: During our testing of 45 cases, we noted eleven individuals who turned 18 during the fiscal year. Three of the eleven cases, had payments after the individual turned 18 and there was no documentation in the case files showing the child was disabled. Payments during the fiscal year after eligibility had expired for the three cases totaled \$2,956.

Cause: Unknown.

Effect: Increase risk that ineligible recipients will receive IV-E funding.

Recommendation: We recommend the Agency implement procedures to ensure that IV-E payments cease when eligibility expires.

Management Response: HHSS does agree with the three cases tested as not meeting all eligibility requirements as they were not determined to be disabled.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Corrective Action Plan: HHSS has initiated the process of unclaiming all Federal funding for services paid regarding the 3 error cases. HHSS had already changed the eligibility on all three youth prior to the audit. Inappropriate periods of eligibility included 3 months for one youth, 4 months for another youth, and 7 months for the third youth. HHSS is also exploring the development of a report to assist staff in their review of cases for on-going eligibility beyond a youth's 18th birthday.

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Margaret Bitz, Mary Dyer, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-33

Program: CFDA 93.659 Adoption Assistance – Allowable Costs/Cost Principles and Matching

Grant Number & Year: #0G0601NE1407; FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 1356.41(a) states: “The amount of the payment made for nonrecurring expenses of adoption shall be determined through agreement between the adopting parent(s) and the State agency administering the program. The agreement must indicate the nature and amount of the nonrecurring expenses to be paid.”

Title 45 CFR 1356.41(f)(1) states: “Funds expended by the State under an adoption assistance agreement, with respect to nonrecurring adoption expenses incurred by or on behalf of parents who adopt a child with special needs, shall be considered an administrative expenditure of the title IV-E Adoption Assistance Program. Federal reimbursement is available at a 50 percent matching rate, for State expenditures up to \$2,000, for any adoptive placement.”

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Title 45 CFR 1356.41(i) states: “The term “nonrecurring adoption expenses” means reasonable and necessary adoption fees, court costs, attorney fees and other expenses which are directly related to the legal adoption of a child with special needs.”

Condition: Legal fees were paid that exceeded the amount specified on the adoption subsidy agreement and legal fees were not matched at the correct rate.

Questioned Costs: \$9,726 likely.

Context: During testing of 45 cases, we noted 4 payments for legal fees. Two payments exceeded the legal fees authorized on the adoption agreement by a total of \$64. Total sample tested was \$1,812 for an extrapolated error of \$1,739 was calculated (3.532% error rate times total legal expenditures of \$49,241). All four legal expenses tested were matched at the incorrect rate. The payments were charged as aid rather than administrative costs and were matched at the Federal aid rate of 59.68% instead of the 50% match rate for administrative costs. Total legal expenditures for the fiscal year 2006 of \$82,508 were charged at 59.68% for \$49,241, but should have been charged at the 50% match rate for \$41,254. Based on this information, an extrapolated error of \$7,987 was calculated (\$49,241 amount calculated at the 59.68% aid rate less \$41,254 amount calculated at the 50% administrative rate). Likely questioned costs total \$9,726 (\$1,739 + \$7,987).

Cause: The Agency was not aware of the correct matching requirements and the Agency paid total legal fees requested instead of paying the amount authorized per the agreement.

Effect: Unallowable charges to Federal program.

Recommendation: We recommend the Agency implement procedures to ensure costs charged to Federal programs do not exceed allowable amounts. Additionally, procedures should be implemented to ensure matching requirements are met.

Management Response: HHSS does agree that two of the cases reviewed the legal fees did exceed the adoption agreement amount by \$64 in total.

Corrective Action Plan: HHSS found that the States FFP was claimed against the service type of Legal Fees instead of the 50% Administrative matching rate. A “fix” has been written for this to correct N-FOCUS so that all legal fees paid will be claimed at the Administrative rate of 50%. This correction is on target for completion by July 2007. HHSS is also taking corrective action to unclaim the inappropriate federal match rate applied against the cases identified through the audit and is reviewing procedures to ensure the paid amount does not exceed the subsidy agreement.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

HHSS will provide a verbal briefing and written reporting of the adoption audit review findings to all appropriate adoption staff. HHSS will also issue an Administrative Memorandum to Service Area Administrators, Protection and Safety Administrators and all Protection and Safety staff involved with adoption to: highlight the requirements for review; remind them that they can send Workers to the existing Adoption Assistance training as a refresher (training on Adoption Assistance is provided to each new Protection and Safety Worker) and; inform them that, at the request of the Service Area, the HHSS Training Unit will do a special presentation of the Adoption Assistance training.

Contact: Mary Dyer, Margaret Bitz, Ruth Grosse

Anticipated Completion Date: June 30, 2007

Finding #06-26-34

Program: CFDA 93.994 Maternal and Child Health Services Block Grant - Earmarking

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment amounts for preventive and primary care services for children (42 USC 705(a)(3)(A)). Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30% of payment amounts for services for children with special health care needs (42 USC 705(a)(3)(B)). A State may not use more than 10% of allotted funds for administrative expenses (42 USC 704(d)).

Condition: The Agency does not have adequate support to demonstrate earmarking requirements were met. MCH tracks expenditures based on the Federal fiscal year and not by the allotment/grant period. As expenditures from one Federal fiscal year could include funds from up to two allotments/grants, the program is not able to identify what types of expenditures, i.e. by earmark categories, were specifically spent from each allotment.

Questioned Costs: Unknown.

Context: Total grant expenditures for State fiscal year 2006 were \$3,995,536. The earmarking percentages as determined by the Agency by Federal fiscal year for 2005 and 2004 are as follows:

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Federal Fiscal Year	2004	2005
Includes Grants	2003 and 2004	2004 and 2005
Administration	3%	3%
Services for Children	29%	27%
Children with Special Needs	28%	29%

The Agency did not track expenditures by the allotment/grant year as required.

Cause: MCH tracks expenditures by the fiscal year because that is the format required in the maternal and Child Health Services Title V Block Grant Program “Guidance and Forms for Title V Application/Annual Report.” The allotment/grant (with 2-year period of availability) is the unit to be tested for earmarking compliance. The Agency has submitted recommendations to various Federal authorities in an effort to resolve this issue.

Effect: Without recording expenditures for each allotment/grant we are unable to determine if the Agency is in compliance with the earmarking requirements.

Recommendation: We recommend the Agency develop procedures to account for earmark expenditures by grant period.

Management Response: The Agency agrees with the Auditor’s finding.

Corrective Action Plan: Part I: Expenditures by earmark categories will be calculated for the 2006 grant using a retrospective methodology. The expenditures by earmarked categories, as reported by subrecipients, internal allocated units, and contractors in FY2006 and FY2007, will be applied to payment history for the 2006 grant. **Part II:** A coding methodology will be developed and prospectively implemented for the 2007 grant to record expenditures of earmark categories by grant.

Contact: Rayma Delaney

Anticipated Completion Date: December 31, 2007, (Part I) and March 1, 2007, (Part II). (**Note:** Because it uses a retrospective methodology, Part I relating to the 2006 grant will actually occur after the completion of Part II relating to the 2007 grant.)

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

MILITARY DEPARTMENT

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.

STATE OF NEBRASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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

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Year Ended June 30, 2006

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

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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.

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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

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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

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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

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Year Ended June 30, 2006

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

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COMMISSION ON LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding #06-78-01

Program: CFDA 16.523 Juvenile Accountability Incentive Block Grants, CFDA 16.540 Juvenile Justice and Delinquency Prevention Allocation to States, 16.548 Title V Delinquency Prevention Program, CFDA 16.550 State Justice Statistics Program for Statistical Analysis Centers, CFDA 16.575 Crime Victim Assistance, CFDA 16.579 Edward Byrne Memorial Formula Grant Program, and CFDA 16.588 Violence Against Women Formula Grants - Allowable Costs/Cost Principles.

Grant Number & Year: All grants were open during the fiscal year ended June 30, 2006, for the programs noted above.

Federal Grantor Agency: Department of Justice and Department of Transportation.

Criteria: Per OMB Circular No. A-87, Attachment B, Section 8(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a substitute system has been approved by the cognizant Federal agency.

Condition: Payroll costs charged to various grants was not based on personnel activity reports and the substitute system the Commission used had not been approved, in writing, by the cognizant Federal agency. The Commission indicated personnel from the Federal Department of Justice approved the system verbally; however, no written approval had been obtained. The Commission has been in the process of obtaining this written approval for the past several years.

Questioned Costs: \$414,147

Context: Without written documentation of the approval to use a substitute system, questions relating to the appropriateness of the substitute system may arise resulting in questioned costs and Federal sanctions. Payroll costs were charged during the fiscal year in the following amounts to the relevant CFDA's: \$20,526 (16.523), \$92,887 (16.540), \$5,000 (16.548), \$68,765 (16.550), \$48,743 (16.575), \$125,161 (16.579), and \$53,065 (16.588).

Cause: Unknown.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Commission allocate salaries based on actual activity reports or obtain written approval from the cognizant Federal agency for the system in use.

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Year Ended June 30, 2006

Management Response:

Corrective Action Plan: We utilize a system whereby employees paid with Federal monies periodically track their hours worked on particular Federal programs. They accomplish this by completing a time log for a two week period. We then compare the time log to the coding on our payroll and adjust the payroll coding as needed. We have found that any adjustments we make are minor in nature.

We have received verbal approval from our contact at the Office of the Comptroller to utilize the system. However, we have not received written approval. We will contact the cognizant Federal agency and request written approval for our time log system.

Contact: Bruce Ayers

Anticipated Completion Date: June 30, 2007

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Summary Schedule of Prior Audit Findings

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-13-01	10.553	Nutrition Cluster Eligibility	Beginning with the 2005-06 school year, began verifying the single site districts by comparing the numbers they reported with the actual free/reduced meals claimed. For the multiple site districts, check the reported numbers for each site during the USDA required Coordinated Review Effort (CRE) of the district.	No current finding

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-23-01	17.258 17.259 17.260	WIA Cluster Eligibility	The corrective action plan has been implemented	No current finding

Nebraska Health and Human Services System

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-26-01	Various	Cost Allocation Plan Allowable Costs/Cost Principles	Corrected	Letter regarding clarification sent 6/30/06—Repeated Finding 06-26-04, with changes
05-26-02	93.659	Adoption Assistance Reporting	Corrected	No current finding
05-26-03 04-26-05	93.575 93.596	Child Care Cluster Allowability/Eligibility	Changes made to calendars to stress the importance of proper signatures. Working on getting a regulation change for the requirement of a birth certificates or NFOCUS age verification.	Repeated Finding 06-26-14

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Summary Schedule of Prior Audit Findings

Nebraska Health and Human Services System (Continued)

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-26-04 04-26-01 03-26-01	93.658	Foster Care Title IV-E Eligibility	Anticipated Completion -August 2006	Repeated with changes, Finding 06-26-28
05-26-05	93.658	Foster Care Title IV-E Allowability	Completed	No current finding
05-26-06	93.658	Foster Care Title IV-E Reporting	Completed	Repeated with changes, Finding 06-26-27
05-26-07 04-26-02 03-26-04	93.563	Child Support Enforcement Subrecipient Monitoring	Completed	Completed for FY07, Repeated, Finding 06- 26-25
05-26-08	93.959	Block Grants for Prevention & Treatment of Substance Abuse Subrecipient Monitoring	Completed	Repeated with changes, Finding 06-26-17
05-26-09	10.550	Food Distribution Subrecipient Monitoring	Disagree with the finding	No current finding
05-26-10	10.550	Food Distribution Reporting	Corrective action taken	No current finding
05-26-11	93.777 93.778	Medicaid Cluster Eligibility	Corrective action implemented 9/30/05, ongoing	Repeated with changes, Finding 06-26-11
05-26-12	93.777 93.778	Medicaid Cluster Reporting	Corrective action implemented	No current finding for timeliness of adjustments

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Summary Schedule of Prior Audit Findings

Nebraska Health and Human Services System (Continued)

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-26-13 04-26-08 02-26-08	93.994	Maternal and Child Health Services Block Grant-- Earmarking	The current reporting requirement is that earmarking documentation be available by federal fiscal year, rather than by allotment. NHHS believes that a correct interpretation of the requirement is that the earmarking requirement may be met over the two year period of availability of funds and need not be met in each year. Action taken to change the reporting requirement includes 1. Comments and Recommendations submitted October 27, 2006 to Office of Management and Budget (OMB) Office of Federal Financial Management. 2. Comments and Recommendations submitted December 20, 2005 to HRSA Reports Clearance officer	Repeated, Finding 06-26-34
05-26-14 04-26-07	93.558	Temporary Assistance for Needy Families (TANF) Allowability/Eligibility	Plan has 3 sections: Sect. 1=Completed Sect. 2= CA in process. Milestones will be reached in 11/07. CA's will continue through ongoing case review process. Sect 3= Completed.	Repeated with changes, Finding 06-26-20
05-26-15	93.558	TANF Allowability/Eligibility	Plan has 2 sections: Sect 1= Completed Sect 2= CA in progress. Anticipated evaluation complete in 12/07.	Repeated with changes, Finding 06-26-20
05-26-16	93.558	TANF Eligibility	Corrective action plan in process, completion by Dec. 2006	No current finding
05-26-17	93.558	TANF Eligibility	Completed, Monitoring through ongoing case review process.	Repeated with changes, Finding 06-26-22

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Summary Schedule of Prior Audit Findings

Nebraska Health and Human Services System (Concluded)

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-26-18	93.558	TANF Reporting	Completed	Business Unit established in February 2006, Reporting issues still exist, Finding 06-26-24
05-26-19	93.558	TANF Allowability	Completed, Ongoing monitoring continuing through case review process.	No current finding
05-26-20	93.558	TANF Special Tests	Interim solution Completed; Automated system by Nov. 2006.	Repeated, Finding 06-26-21
05-26-21	93.558	TANF Special Tests	CA in progress. Review evaluation anticipated for Oct. 2006	No current finding

Nebraska Department of Military

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-31-01 04-31-01 04-31-02 03-31-01	12.401 97.042 97.004/ 16.007	National Guard Operations EMPG State Domestic Prepare. Equipment Support Allowable Cost/Cost Principles	Completed	Finding repeated with changes, Findings 06-31-02 and 06-31-03

STATE OF NEBRASKA

Summary Schedule of Prior Audit Findings

Nebraska Department of Military

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-31-02 04-31-04 03-31-02 02-31-01	97.042	Emergency Management Performance Grants Subrecipient Monitoring	Continue to monitor grant programs and reimbursement guidelines. All reimbursements of eligible costs will have to have proper documentation submitted by subrecipients.	No current finding
05-31-03	97.004/ 16.007 97.036/ 83.544	State Domestic Prepare. Equipment Support Public Assistance Subrecipient Monitoring	Continue the program to monitor all recipients passed through \$500,000 or more in federal awards. Each subrecipient receives a letter advising them of the A-133 audit requirement.	No current finding
05-31-04	97.036/ 83.544	Public Assistance Subrecipient Monitoring	Completed	No current finding
05-31-05	12.401	National Guard Operations Cash Management	Disputes audit finding regarding interpretation of language contained in the Cash Management Improvement Act (CMIA) agreement. Requested a federal ruling.	Repeated, Finding 06-31-01
05-31-06	97.036/ 83.544	Public Assistance Allowability/Cost Principles	Ongoing, Requested federal guidance, which have not received	No current finding

Nebraska Department of Administrative Services

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-65-02	Various	HHSS Grants Computer Controls	NIS issues identified in the previous years have been addressed in a manner that mitigates the risk. All NIS issues associated with the 2005 and 2003 audits are closed. NFOCUS/CHARTS Repeated. See finding 06-26-03	Repeated with changes, Finding 06-26-03

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Summary Schedule of Prior Audit Findings

Nebraska Department of Environmental Quality

Finding Number	Catalog Number	Grant/Finding	DAS/Department Response Status of Finding	APA Comments/ Current Finding
05-84-01 04-84-02 03-84-03	66.468 66.458	Capitalization Grants for Drinking Water State Revolving Funds Capitalization Grants for Clean Water State Revolving Funds Subrecipient Monitoring	Corrective action plan has been implemented	No current finding
05-84-02 04-84-04	66.468	Capitalization Grants for Drinking Water State Revolving Funds Reporting	Corrective action plan has been implemented	No current finding