



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 28, 2008

BG Timothy Kadavy, Adjutant General
Nebraska Military Department
1300 Military Road
Lincoln, Nebraska 68508-1090

Dear BG Kadavy:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Military Department (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

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

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

The following are our comments and recommendations for the year ended June 30, 2007.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #07-31-01

Program: CFDA 12.401 – National Guard Military Operations and Maintenance – Allowable Costs/Cost Principles

Grant Number & Year: #W91243-06-2-1024 ANG FIRE, FFY 06

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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

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 for July 2006 through December 2006.

Questioned Costs: Unknown

Context: Beginning January 2007 the National Guard implemented procedures to ensure compliance with Circular A-87. Auditor observed individual electronic timesheets with business units of programs worked which are approved every pay period by the supervisor.

Cause: Unknown

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

Recommendation: We recommend the Agency continue to ensure compliance with OMB Circular A-87.

Management Response: ANG-Firefighter employees are directly coded to one program (business unit), and therefore will be supported by periodic certifications in accordance with the 01-Feb-2007 memorandum to *Supervisors of State Employees working in Support of Federal Cooperative Agreements*, and instructions distributed as a result of the recommendations received in the Statewide Single Audit conducted on Agency expenditures through June 2006.

ANG Cooperative Agreements (Civil Engineering, Real Property, Firefighters and Security Forces) have completely transitioned to Employee Self Service for time entry in NIS. Time entry is entered utilizing appropriate business units as assigned to the Cooperative Agreement, and are verified and approved by the supervisors and individuals authorized to certify employee payroll records in NIS.

Because the testing cited in the Recommendation occurred during the period July 2006 and December 2006, this finding should be removed from the current Audit Report as current procedures ensure compliance with OMB Circular A-87.

Corrective Action Plan: Beginning January 2007, the National Guard implemented procedures to ensure further compliance with A-87.

Contact: Shawn D. Fitzgerald

Anticipated Completion Date: Implemented January 2007

Auditor's Response: The finding is included as the Agency was not in compliance with A-87 from July 2006 through December 2006, which is the first six months of the period audited.

Finding #07-31-02

Program: CFDA 97.067 - Homeland Security Grant Program - Reporting

Grant Number & Year: #2005-GE-T5-0020, FFY 05

Federal Grantor Agency: Department of Homeland Security

Criteria: The 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. It also requires procedures to ensure a person other than the preparer approve the report prior to submission.

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

Questioned Costs: None

Context: The State share of outlays reported was \$1,694,396, the amount per NIS was \$822,869 for the period ending December 31, 2006; a variance of \$871,527. The Federal share of outlays was correctly reported. Auditor noted the grant expenditures were corrected for the June 30, 2007, quarterly report. A similar finding was noted in our prior audit.

Cause: Clerical error and inadequate review.

Effect: Inaccurate reporting of expenditures.

Recommendation: We recommend the Agency implement procedures to ensure Federal reported expenditures agree to NIS. We strongly recommend a documented review of Federal reports by a second individual.

Management Response: DHS Grants Financial Management Guide, Chapter 9 states “matching contributions need not be applied at the exact time or in proportion to the obligation of federal funds unless stipulated by legislation. However, the full matching share must be obligated by the end of the period for which the federal funds have been made available for obligation under an approved program or project.” While it is the intent of NEMA to correctly show the match between State and Federal funds within NIS and subsequently on the quarterly Federal reports, the Requirements for Matching or Cost Share of grant funds give latitude to the State during the grant cycle. As sources of the match can either be a cash match or an in-kind match unless specified in the program guidance, regulation or statute, it is not until the end of the grant cycle that grant expenditures must match within NIS and the grant reporting system.

Corrective Action Plan: NEMA will initiate a second level of review within the Agency prior to the submittal of the quarterly report and adhere as closely as possible to matching grant expenditures within NIS.

Contact: Deb Kai and Al Berndt

Anticipated Completion Date: January 2008

Auditor’s Response: Our issue is not with whether the match was met, but rather that amounts reported to the Federal agency were not accurate. A similar finding was also noted in the prior audit. We strongly recommend the Agency implement effective controls to ensure accurate reporting, including a documented review of Federal reports by a second individual.

Finding #07-31-03

Program: CFDA 97.067 – Homeland Security Grant Program, CFDA 97.004 – State Domestic Preparedness Equipment Support Program – Reporting

Grant Number & Year: #2004-GE-T4-0048, FFY2004; #2005-GE-T5-0020, FFY2005; #2006-GE-T6-0016, FFY06

Federal Grantor Agency: Department of Homeland Security

Criteria: OMB Circular A-133 section 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include: the CFDA title and number, award number and year, name of the Federal agency. The State shall also prepare

the schedule of expenditures of Federal awards in accordance with section 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the Schedule of Federal Awards (SEFA) is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA to the auditor. We informed Administrative Services and the Agency of the error and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amounts reported were as follows:

CFDA #	Amount Initially Reported	Corrected SEFA Amount	Variance
97.004	\$6,840,562	\$7,511,057	\$ (670,495)
97.067	\$7,078,924	\$9,140,201	\$(2,061,277)
97.008	\$2,742,731	-0-	\$ 2,742,731

The auditor obtained written guidance from the Federal awarding agency in the prior audit; however, the Agency did not use this guidance in preparing the SEFA.

Cause: The Agency indicated they had verbal approval from the current Federal regulatory agency to report CFDA 97.008 separately; however, when contacted by the auditors, the individual indicated they did not have the authority to make that decision.

Effect: Noncompliance with Circular A-133.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with Circular A-133.

Management Response: Appendix VI Department of Homeland Security Programs Compliance Supplement gives guidance on the “consolidation and incorporation.” In accordance with instruction, a guidance chart was developed giving states a chart to manage their grants for reporting purposes. To quote, “Programs identified on the attached Migration Chart were administered by program offices in other Federal agencies. i.e. Federal Emergency Management Agency, Department of Health and Human Service and the Department of Justice. With the transfer of programs to DHS, the Agency’s pre-existing CFDA numbers were also transferred. During the first year of transition, legacy agency CFDA numbers were retired and new DHS CFDA numbers were assigned; but some grant awards remain active under the old CFDA numbers. Thus,

some programs may have dual CFDA numbers and should be audited accordingly. "Incorporation" means administrative steps taken to move formerly distinct and separate programs under a single program. "Incorporated" programs retain their distinct-separate, identity."

Corrective Action Plan: NEMA currently is tracking and reporting on individual grant programs under their separate and distinct CFDA numbers and feel we are in compliance with A-133. NEMA met with DAS-Accounting regarding the SEFA reporting and has implemented the following process:

For future SEFA reporting, DAS-Accounting will run a customized report for NEMA which will group all of the individual grants by grant number instead of by CFDA number. This will ensure the SEFA report is accurate, correct and reporting only for the CFDA number of the main grant.

Contact: Deb Kai and Al Berndt

Anticipated Completion Date: The Agency disagrees with the finding.


Auditor's Response: The awarding agency provided the CFDA number for each grant. For FY 2007 the Agency reported Urban Areas Security Initiative separately under CFDA 97.008. The Agency did not have any written documentation from the Federal agency to support this change. The auditor contacted the DHS Office of Grant Policy and Oversight; DHS did not support the decision by the Agency. However, Administrative Services did adjust the SEFA to properly reflect Homeland Security.

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

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

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


Pat Reding
Assistant Deputy Auditor


Don Dunlap
Assistant Deputy Auditor