

**STATE OF NEBRASKA**  
**STATEWIDE SINGLE AUDIT**  
**Year Ended June 30, 2007**

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**Issued on February 29, 2008**

STATE OF NEBRASKA

Basic Financial Statements and  
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2007

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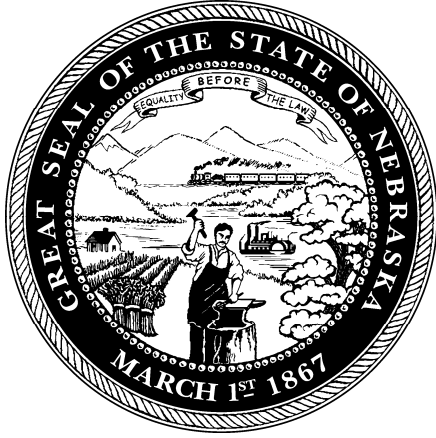
STATE OF NEBRASKA

Basic Financial Statements and  
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2007

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# FINANCIAL SECTION

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## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### 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, 2007, 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 13% and 19% 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, 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 54; the Information About Infrastructure Assets Reported Using the Modified Approach on page 55; and the Schedules of Funding Progress on page 46, 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 28, 2007



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, 2007. 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.

There were no new standards in 2007 required by the Governmental Accounting Standards Board (GASB) to be implemented by the State of Nebraska (State).

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, 2007 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, 2007 by \$10.5 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 were reported as \$998 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 2007 by \$688 million resulting in the increase in net assets. The increase in net assets was primarily a result of a \$165 million increase in investment earnings and a steady economy providing a moderate increase in taxes collected coupled with a less than budgeted increase of expenditures from 2006.

#### Fund Level:

General Fund receipts for 2007 were \$191 million above the original budgeted amount and above the final budget by \$47 million. Expenditures were \$205 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$285 million in excess revenues prior to \$6 million in other financing uses resulting in an ending fund balance on June 30, 2007 of \$972 million. Other governmental funds receipts exceeded expenditures by \$169 million; in addition, such funds received \$35 million in other financing sources (namely net transfers in) increasing such fund balances at June 30, 2007 to \$1,842 million.

The \$320 million of net assets of the Unemployment Insurance Fund represents eighty-nine percent of the proprietary funds. Such fund had a \$47 million increase in net assets for 2007 compared to a \$62 million increase in 2006, a \$15 million smaller increase. This was chiefly due to a \$27 million decrease in business assessment fees collected from employers (due to a lower rate being charged), offset by an \$8 million decrease in unemployment claims and a \$5 million increase in investment income.



## **Long-term Liabilities:**

Long-term liabilities shown on the government-wide financial statements totaled \$499 million at June 30, 2007, which is a slight decrease from the prior year. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due employees when they retire. After a retired employee reaches the age of 65, the State has no further obligation for other post employment benefits.

## **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 insurance 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 has 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 \$12,285 million at June 30, 2007 as compared to \$11,550 at June 30, 2006. As total liabilities only totaled \$1,769 million, net assets amounted to \$10,516 million as of June 30, 2007. As of June 30, 2006, these amounts were \$1,722 million and \$9,828 million, respectively. By far the largest portion of the State of Nebraska's net assets (71 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, dams, etc.). The State uses these capital assets to provide services to citizens; thus, 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 consist 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 insurance benefits.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and Other						
Non-current Assets	\$ 4,375	\$ 3,848	\$ 440	\$ 386	\$ 4,815	\$ 4,234
Capital Assets	7,464	7,310	6	6	7,470	7,316
<b>Total Assets</b>	<b>11,839</b>	<b>11,158</b>	<b>446</b>	<b>392</b>	<b>12,285</b>	<b>11,550</b>
Non-current Liabilities	447	456	52	53	499	509
Other Liabilities	1,234	1,185	36	28	1,270	1,213
<b>Total Liabilities</b>	<b>1,681</b>	<b>1,641</b>	<b>88</b>	<b>81</b>	<b>1,769</b>	<b>1,722</b>
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,428	7,269	6	6	7,434	7,275
Restricted	1,763	1,567	321	275	2,084	1,842
Unrestricted	967	681	31	30	998	711
<b>Total Net Assets</b>	<b>\$ 10,158</b>	<b>\$ 9,517</b>	<b>\$ 358</b>	<b>\$ 311</b>	<b>\$ 10,516</b>	<b>\$ 9,828</b>



Over 79% of the State's non-capital assets consist of cash and investments. It should be noted that \$512 million in 2007 and \$556 million in 2006 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 20% of the non-capital assets.

Liabilities largely reflect three groupings which represent 91% of total State liabilities, not including the obligations under securities lending explained in the above paragraph. These are operational payables, which consist of accounts payables and accrued liabilities of \$344 million (\$305 million in 2006); tax refunds payable of \$299 million (\$281 million in 2006); and long-term payables explained below.

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), which total only \$499 million (\$509 million in 2006). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling \$138 million for 2007 (\$140 million for 2006), Medicaid claims for \$192 million (\$197 million in 2006) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$118 million in 2007 (\$113 million for 2006). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds (See Note 7 to the Financial Statements). 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). Such debt related to capital assets totaled \$37 million at June 30, 2007. There was also \$14 million of obligations under other financing arrangements (See Note 9 to the Financial Statements).

The change in net assets of Governmental Activities, other than an increase of \$159 million in capital assets, was due to the \$287 million increase in unrestricted net assets and the \$196 million increase in restricted net assets. This was the result of increased taxes collected, a significant jump in investment income and lower spending than expected.

At the end of June 30, 2007, 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 2007, 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 516	\$ 492	\$ 263	\$ 291	\$ 779	\$ 783
Operating Grants and Contributions	2,218	2,152	-	-	2,218	2,152
Capital Grants and Contributions	8	4	-	-	8	4
General Revenues						
Taxes	3,871	3,777	-	-	3,871	3,777
Unrestricted Investment Earnings	250	93	18	10	268	103
Miscellaneous	1	-	-	-	1	-
<b>Total Revenues</b>	<u>6,864</u>	<u>6,518</u>	<u>281</u>	<u>301</u>	<u>7,145</u>	<u>6,819</u>
<b>EXPENSES</b>						
General Government	355	309	-	-	355	309
Conservation of Natural Resources	119	100	-	-	119	100
Culture - Recreation	27	27	-	-	27	27
Economic Development and Assistance	89	87	-	-	89	87
Education	1,369	1,318	-	-	1,369	1,318
Higher Education - Colleges and Universities	529	482	-	-	529	482
Health and Social Services	2,650	2,594	-	-	2,650	2,594
Public Safety	360	289	-	-	360	289
Regulation of Business and Professions	156	152	-	-	156	152
Transportation	615	697	-	-	615	697
Interest on Long-term Debt	2	3	-	-	2	3
Unemployment Insurance	-	-	94	101	94	101
Lottery	-	-	86	83	86	83
Excess Liability	-	-	14	12	14	12
Cornhusker State Industries	-	-	11	11	11	11
<b>Total Expenses</b>	<u>6,271</u>	<u>6,058</u>	<u>205</u>	<u>207</u>	<u>6,476</u>	<u>6,265</u>
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	593	460	76	94	669	554
Transfers	29	28	(29)	(28)	-	-
Contributions to Permanent Fund Principal	19	15	-	-	19	15
<b>Increase (Decrease) in Net Assets</b>	641	503	47	66	688	569
<b>Net Assets - Beginning</b>	9,517	9,014	311	245	9,828	9,259
<b>Net Assets - Ending</b>	<u>\$ 10,158</u>	<u>\$ 9,517</u>	<u>\$ 358</u>	<u>\$ 311</u>	<u>\$ 10,516</u>	<u>\$ 9,828</u>

## Governmental Activities

Governmental activities increased the State's net assets by \$641 million in 2007 (\$503 million in 2006). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,742 million and were used to partially offset program expenses of \$6,271 million, leaving net expenses of \$3,529 million. Only 6% of total expenses were spent on general government expenses. General taxes, investment earnings, contributions to the permanent fund principal and transfers all totaling \$4,170 million were used to more than cover the remaining costs of the governmental activities' programs as shown below.

Program revenues only increased 3% from 2006. Tax revenues were up \$94 million, which was a little short of offsetting the increase in program expenditures, net of revenues. However, investment earnings increased \$157 million, as opposed to a \$25 million decrease in 2006. This increase in investment earnings was the result of more funds being invested at higher interest rates and large, positive market value increases. These two revenue items were the chief reasons net assets increased \$138 million more than in 2006.

Program expenditures, net of revenue, increased by \$119 million in 2007, as shown by the following table:

### GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenditures, Net of Revenue	2007	2006
General Government	\$ (254)	\$ (203)
Conservation of Natural Resources	(38)	(24)
Culture - Recreation	(7)	(8)
Economic Development and Assistance	(30)	(23)
Education	(1,043)	(1,027)
Higher Education - Colleges and University	(529)	(482)
Health and Social Services	(1,101)	(1,063)
Public Safety	(214)	(195)
Regulation of Business and Professions	(35)	(37)
Transportation	(276)	(345)
Interest on Long-Term Debt	(2)	(3)
<b>Subtotal</b>	<b>(3,529)</b>	<b>(3,410)</b>
<b>General Revenues</b>		
Taxes	3,871	3,777
Unrestricted Investment Earnings	250	93
Miscellaneous	1	-
<b>Transfers</b>	<b>29</b>	<b>28</b>
<b>Contributions to Permanent Fund Principal</b>	<b>19</b>	<b>15</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 641</b>	<b>\$ 503</b>

Four functional areas of the State comprise 82% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. The first three areas comprise 76% of the increase in program expenditures, net of revenue. Education expenditures were up \$51 million chiefly due to planned budgetary increases providing more school aid to the K-12 school systems in Nebraska. Health and Social Services was up \$56 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 \$47 million. Transportation net expenses were down \$69 million due to less projects being worked on due to lower federal funds available and anticipation of future reduced federal funding.

## **Business-type Activities**

The business-type activities increased the State's net assets by \$47 million for 2007, which was net of a \$29 million transfer to the governmental activities. Most of the \$263 million of business-type activities' program revenues was related to the business assessment fees in the Unemployment Insurance Fund and Lottery Fund revenues. The Unemployment Insurance Fund had operating income of \$33 million in 2007. This income, when combined with the \$14 million in investment income, produced \$47 million of net revenue. Lottery revenues of \$114 million generated net revenue of \$29 million, which was offset by the \$29 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 unreserved balances are designated, they are unreserved only within the confines of the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in designated funds.) At June 30, 2007, the State's Governmental Funds reported combined ending fund balances of \$2,813 million. The total unreserved balances amounted to \$2,153 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 \$291 million. Such refunds payable are \$11 million less than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by \$961 million.

On June 30, 2006, the General Fund had a positive fund balance of \$692 million. While both revenues and expenditures increased in 2007, revenues again exceeded expenditures which increased the fund balance \$285 million in 2007, which was about equal to the \$289 million increase that occurred in 2006. This operating increase in 2007, when coupled with the \$6 million of net transfers out, caused the General Fund balance to increase by \$279 million, ending with a fund balance of \$972 million.

Revenues in 2007 were more than anticipated and were up \$131 million over 2006 chiefly due to (1) an increase in income tax revenue of \$58 million (a 3% increase) over 2006 and (2) increased investment income of \$57 million due to more funds being invested at higher interest rates. Sales taxes from increased retail sales were up 1.5% over last year. 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. No such need existed in 2007. The Cash Reserve Fund was at \$177 million at the beginning of 2006. Due to the fact that 2005 revenues exceeded the forecast, a statutory requirement caused a \$262 million transfer from the General Fund cash account to the Cash Reserve Fund in fiscal year 2006 in July 2005. Offsetting this large transfer was a \$146 million payment made on August 1, 2005 from the Cash Reserve Fund to settle a lawsuit against the State related to a low-level radioactive waste site. There were also other transfers out of the Fund of \$19 million, leaving a Cash Reserve Fund balance at June 30, 2006 of \$274 million. The statutory transfer for excess receipts for FY 2006 of \$260 million was made in July, 2006. There were transfers out of the reserve of \$18 million, leaving a balance of \$516 million at June 30, 2007.

### *Other Governmental Funds*

Other governmental fund balances totaled \$1,842 million at June 30, 2007; \$660 million of such fund balances is reserved to indicate that such dollars are not available for new spending because such funds (1) are represented by endowment principal (\$406 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$237 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 (\$9 million).

Of the non-General Fund unreserved fund balances of \$1,182 million, \$88 million represents permanent school funds which can be used only for support of public schools. \$1,014 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-eight million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Fifty-two 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 \$667 million. Of this balance, \$656 million is classified as unreserved, but which are restricted in the government-wide statements, indicating 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 \$204 million. The fund balances of the following funds increased: the Highway Fund (\$56 million), the Health and Social Service Fund (\$72 million), the Permanent School Fund (\$53 million) and other Nonmajor Funds (\$33 million). The Federal Fund decreased by \$10 million.

The Highway Fund had an \$11 million decrease in federal funds. However, increases in other revenues, namely taxes (\$24 million) and investment income (\$6 million), and a significant decrease in operating expenses of \$75 million were the major reasons the Highway Fund had a \$56 million increase in fund balance in 2007 as opposed to a \$41 million decrease in 2006.

The Federal Fund received \$82 million more in federal grants and contracts, a 4% increase from 2006. Such increased revenues allowed for increased expenditures in accordance with the terms of the grants and contracts of \$101 million. This \$19 million in increased net spending was somewhat offset by other items, namely an increase in charges for services of \$6 million and an increase in investment income of

\$4 million so that at the end of 2007 there was a net decrease in the fund of \$10 million, compared to a \$5 million decrease in 2006.

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 2007 of \$33 million (mostly due to the increase in interest rates), and when coupled with a \$4 million increase of miscellaneous receipts (including a \$2 million increase in tobacco settlement funds) partially offset the \$5 million reduction in charges for services and a \$7 million reduction in Intergovernmental Trust receipts. The increased revenues of \$26 million, when coupled with a \$5 million decrease in expenditures, resulted in a \$31 million larger increase in net revenues when compared to 2006. In the year 2006 the fund balance was increased \$41 million, whereas in 2007 the fund balance was increased by \$72 million.

The Permanent School Funds had a \$36 million increase in revenue, chiefly due to a \$33 million increase in investment income, and when combined with a \$12 million increase in expenditures, caused the fund balance to increase \$53 million in 2007 in comparison with a \$29 million increase in 2006.

The Nonmajor Funds revenues increased \$49 million from 2006 to 2007, chiefly due to increases in investment earnings (\$24 million) licenses, fees and permits (\$14 million) and charges for services (\$7 million). Expenditures also increased, but only by \$18 million during 2007, mainly due to an increase in spending on capital projects for higher education (\$13 million). Thus, net revenues increased \$31 million, which was offset somewhat by a decrease in net transfers of \$13 million (in 2006 there was a one-time \$15 million transfer from the General Fund to Economic Development). The resulting \$18 million increase in 2007 was larger than the \$15 million increase in 2006, resulting in a 2007 fund balance increase of \$33 million.

## **Proprietary Funds**

The State's proprietary funds provide the same type of information discussed earlier in the government-wide financial statements under Business-type Activities, but in more detail. The State's one major proprietary fund, the Unemployment Insurance Fund, had reported net assets of \$320 million at the end of 2007. This fund's net assets increased \$47 million in 2007, mainly due to business assessment fees which exceeded the unemployment claims paid out by \$33 million (which in effect helped rebuild the cash reserves of the fund) and investment earnings of \$14 million. 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 \$29 million prior to a \$29 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 \$1,320 million to \$9,102 million in 2007 due primarily to a strong market in 2007, which provided \$1,185 million in appreciation of investments. Investment income in 2007 was \$147 million versus \$141 million in 2006. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by only \$1 million. In another trust fund, \$435 million of participant contributions 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 \$1,643 million.



## ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2007, the State continued to benefit from of an improved economy in the Midwest. Forecasted revenues, upon which the State's budgeted General Fund expenses were based, were anticipated to be basically flat in 2007 due to some changes in the sales tax base. Because the revenues continued to exceed expectations, the State's Forecasting Board made three new forecasts throughout the year, each time increasing the expected revenues. The total forecasted net revenues increased \$144 million from the original revenue forecast of \$3,106 million. However, the State even slightly exceeded the revised projected tax revenues of \$3,250 million by \$47 million, realizing actual tax revenues, net of refunds, of \$3,297 million on a budgetary basis. Additionally, agencies continued to watch their General Fund expenditures and ended spending \$193 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2007 with \$274 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 2007, the State had invested \$7.5 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 2007 totaled \$40 million, compared to \$47 million for 2006.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 519	\$ 508	\$ -	\$ -	\$ 519	\$ 508
Buildings and Equipment	344	348	6	6	350	354
Infrastructure	6,525	6,395	-	-	6,525	6,395
<b>Subtotal</b>	<b>7,388</b>	<b>7,251</b>	<b>6</b>	<b>6</b>	<b>7,394</b>	<b>7,257</b>
Construction in Progress	76	59	-	-	76	59
<b>Total</b>	<b>\$ 7,464</b>	<b>\$ 7,310</b>	<b>\$ 6</b>	<b>\$ 6</b>	<b>\$ 7,470</b>	<b>\$ 7,316</b>

Infrastructure (roads, bridges, dams, etc.) is by far the largest group of assets owned by the State. 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.

In assessing the condition of State roads, the State's goal is to maintain at least an overall system rating of 72 or above using the Nebraska Serviceability Index. The most recent condition assessment, completed for calendar year 2006, indicated an overall system rating of 83, a rating that has been very consistent over the past six years.

For 2007, it was estimated that the State needed to spend \$148 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$167 million on roads in 2007, compared to \$214 million in 2006. For 2008, it is estimated that the State needs to spend \$155 million, a slight reduction from 2007 and considerably less than the previous three years. However, past history indicates the State typically spends more than estimated.

The State also spent \$145 million on capitalized infrastructure and land purchases in 2007 (\$147 million in 2006), most notably reconstructing (a) Highway 6 in Omaha, (b) Interstate 80 between Omaha and Lincoln, (c) Highway 50 around Springfield, and (d) Highway 275 around Waterloo. Major land purchases included areas south of Omaha, in east Lincoln and land purchased for the new Yankton bridge. At June 30, 2007, the State had contractual commitments of \$453 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 3 to the financial statements.)

During 2007, the State added \$38 million of new depreciable capital assets, namely new equipment. An additional \$35 million of governmental funds were spent on capital projects in 2007 compared to \$23 million in 2006. Major spending on capital projects included debt service payments for certain educational facilities and the Capitol renovation project. The State's General Fund capital outlay budget provides authority to spend \$8 million on capital projects in 2008, in addition to the \$4 million of unspent capital outlay authorizations that existed on June 30, 2007.

## 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 7 and 8 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2007	2006
<b><u>Bonds Payable:</u></b>		
Nebraska State Building Corporation	\$ 1	\$ 2
NETC Leasing Corp	14	17
	15	19
 <b><u>Capitalized Leases:</u></b>	 \$ 22	 \$ 23

There were no new bonds issued in 2007 or 2006. There was only one capitalized lease added in 2007 (three leases were added in 2006). 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 2008, Medicaid aid is projected to increase only \$18 million, which is considerably less than in past years. This increase, when added to the appropriated increase in aid to education for K-12 schools and special education of \$57 million, represents almost two-thirds of the appropriated increase in General Fund aid of \$115 million for 2008. Net General Fund revenues for 2008 are currently projected to only exceed 2007 revenues by \$50 million, as some recent tax legislation has reduced the expected tax revenues which will tend to offset normal inflationary increases in tax revenues. As a result, the current 2008 budget, after including all planned transfers out, anticipates only a \$16 million increase in the General Fund balance, which will be considerably less than the \$279 million increase in 2007.

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, 2007 through June 30, 2009 and then \$12.125 million annually from July 1, 2009 through June 30, 2020, for a total of \$146.625 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, 2007, this Fund had a \$516 million balance. One hundred ninety-one million was transferred from the General Fund in July 2007 to the Cash Reserve Fund as statutorily required. From the Cash Reserve Fund there were \$93 million of other statutory disbursements in July 2007, resulting in a balance of \$614 million at July 31, 2007. Future significant statutory disbursements from this fund in the next two years include \$123 million to be transferred to the General Fund, \$10 million to be transferred to the Job Training Fund and \$10 million transferred to the Nebraska Capital Construction Fund.

## **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 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, 11<sup>th</sup> Floor State Capitol, Lincoln, NE 68509-4605, (402) 471-2505.



State of Nebraska  
**STATEMENT OF NET ASSETS**  
 June 30, 2007

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
(Dollars in Thousands)				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 151,498	\$ 299,976	\$ 451,474	\$ 271,189
Receivables, net of allowance				
Taxes	348,051	-	348,051	-
Due from Federal Government	257,624	-	257,624	-
Other	96,713	38,928	135,641	218,725
Internal Balances	(502)	502	-	-
Due from Primary Government	-	-	-	896
Investments	2,744,157	86,592	2,830,749	1,787,610
Loans Receivable	237,299	-	237,299	38,319
Investment in Joint Venture	-	-	-	208,965
Other Assets	18,860	2,031	20,891	37,305
Restricted Assets:				
Cash and Cash Equivalents	19,197	-	19,197	298,862
Other	-	1,599	1,599	1,474
Securities Lending Collateral	502,263	10,043	512,306	-
Capital assets:				
Land	518,781	315	519,096	58,600
Infrastructure	6,525,148	-	6,525,148	-
Construction in Progress	76,182	-	76,182	90,839
Land Improvements	-	-	-	128,120
Buildings and Equipment	813,420	10,498	823,918	1,638,409
Less Accumulated Depreciation	(469,100)	(4,735)	(473,835)	(640,943)
Total Capital Assets, net of depreciation	<u>7,464,431</u>	<u>6,078</u>	<u>7,470,509</u>	<u>1,275,025</u>
Total Assets	<u>\$ 11,839,591</u>	<u>\$ 445,749</u>	<u>\$ 12,285,340</u>	<u>\$ 4,138,370</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 322,948	\$ 20,724	\$ 343,672	\$ 143,580
Tax Refunds Payable	298,899	-	298,899	-
Due to Other Governments	62,042	-	62,042	-
Deposits	10,015	-	10,015	12,435
Due to Component Units	896	-	896	-
Unearned Revenue	36,300	5,280	41,580	86,573
Obligations under Securities Lending	502,263	10,043	512,306	-
Noncurrent Liabilities:				
Due within one year	236,170	21,064	257,234	85,504
Due in more than one year	211,562	30,460	242,022	541,341
Total Liabilities	<u>\$ 1,681,095</u>	<u>\$ 87,571</u>	<u>\$ 1,768,666</u>	<u>\$ 869,433</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	\$ 7,428,729	\$ 5,763	\$ 7,434,492	\$ 841,892
Restricted for:				
Education	14,012	-	14,012	1,434,522
Health and Social Services	525,696	-	525,696	-
Conservation of Natural Resources	348,736	-	348,736	-
Transportation	164,164	-	164,164	-
Licensing and Regulation	57,331	-	57,331	-
Other Purposes	123,099	1,599	124,698	267,607
Unemployment Insurance Benefits	-	319,797	319,797	-
Debt Service and Construction	8,397	-	8,397	172,680
Permanent Trusts:				
Nonexpendable	405,513	-	405,513	-
Expendable	115,901	-	115,901	-
Unrestricted	966,918	31,019	997,937	552,236
Total Net Assets	<u>\$ 10,158,496</u>	<u>\$ 358,178</u>	<u>\$ 10,516,674</u>	<u>\$ 3,268,937</u>

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

State of Nebraska  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2007

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General Government	\$ 354,737	\$ 86,746	\$ 7,092	\$ 6,402
Conservation of Natural Resources	119,286	34,578	46,745	378
Culture – Recreation	27,031	16,823	3,509	-
Economic Development and Assistance	89,310	5,043	54,083	-
Education	1,369,110	26,180	300,313	76
Higher Education - Colleges and University	528,861	-	-	-
Health and Social Services	2,649,535	115,036	1,433,249	-
Public Safety	359,755	24,348	120,022	1,281
Regulation of Business and Professions	155,692	118,119	2,825	-
Transportation	614,919	89,358	249,693	-
Interest on Long-term Debt	2,337	-	-	-
Total governmental activities	<u>6,270,573</u>	<u>516,231</u>	<u>2,217,531</u>	<u>8,137</u>
Business-type activities:				
Unemployment Insurance	93,939	127,340	-	-
Lottery	85,895	114,489	-	-
Excess Liability	13,731	12,474	-	-
Cornhusker State Industries	11,690	9,341	-	-
Total business-type activities	<u>205,255</u>	<u>263,644</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 6,475,828</u>	<u>\$ 779,875</u>	<u>\$ 2,217,531</u>	<u>\$ 8,137</u>
<b>COMPONENT UNITS:</b>				
University of Nebraska	\$ 1,523,794	\$ 633,215	\$ 361,649	\$ -
State Colleges	83,382	27,564	9,645	1,354
Total Component Units	<u>\$ 1,607,176</u>	<u>\$ 660,779</u>	<u>\$ 371,294</u>	<u>\$ 1,354</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  
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	
\$ (254,497)	\$ -	\$ (254,497)	\$ -
(37,585)	-	(37,585)	-
(6,699)	-	(6,699)	-
(30,184)	-	(30,184)	-
(1,042,541)	-	(1,042,541)	-
(528,861)	-	(528,861)	-
(1,101,250)	-	(1,101,250)	-
(214,104)	-	(214,104)	-
(34,748)	-	(34,748)	-
(275,868)	-	(275,868)	-
(2,337)	-	(2,337)	-
<u>(3,528,674)</u>	<u>-</u>	<u>(3,528,674)</u>	<u>-</u>
-	33,401	33,401	-
-	28,594	28,594	-
-	(1,257)	(1,257)	-
<u>-</u>	<u>(2,349)</u>	<u>(2,349)</u>	<u>-</u>
<u>-</u>	<u>58,389</u>	<u>58,389</u>	<u>-</u>
<u>(3,528,674)</u>	<u>58,389</u>	<u>(3,470,285)</u>	<u>-</u>
-	-	-	(528,930)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,819)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(573,749)</u>
1,859,467	-	1,859,467	-
1,441,743	-	1,441,743	-
326,795	-	326,795	-
137,525	-	137,525	-
68,771	-	68,771	-
36,832	-	36,832	-
250,175	18,308	268,483	103,956
730	-	730	228,701
-	-	-	528,861
18,800	-	18,800	-
29,266	(29,266)	-	-
<u>4,170,104</u>	<u>(10,958)</u>	<u>4,159,146</u>	<u>861,518</u>
641,430	47,431	688,861	287,769
<u>9,517,066</u>	<u>310,747</u>	<u>9,827,813</u>	<u>2,981,168</u>
<u>\$ 10,158,496</u>	<u>\$ 358,178</u>	<u>\$ 10,516,674</u>	<u>\$ 3,268,937</u>

State of Nebraska  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

June 30, 2007

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
<b>ASSETS:</b>							
Cash and Cash Equivalents	\$ 42,608	\$ 6,125	\$ 2,128	\$ 829	\$ 6,931	\$ 21,798	\$ 80,419
Cash on Deposit with Fiscal Agents	-	-	-	-	-	19,197	19,197
Investments	1,069,389	150,525	58,021	505,764	515,882	444,576	2,744,157
Securities Lending Collateral	264,741	37,264	15,334	53,681	30,026	101,217	502,263
Receivables, net of allowance							
Taxes	301,596	46,229	-	-	-	226	348,051
Due from Federal Government	-	25,017	232,067	-	-	540	257,624
Loans	6	-	2,748	709	-	233,836	237,299
Other	24,594	6,093	15,276	31,592	5,227	11,785	94,567
Due from Other Funds	90,057	625	892	4,901	19	4,359	100,853
Inventories	378	7,564	4,220	161	-	-	12,323
Prepaid Items	54	11	8	2	-	92	167
Other	4,276	-	-	-	-	844	5,120
<b>TOTAL ASSETS</b>	<b>\$ 1,797,699</b>	<b>\$ 279,453</b>	<b>\$ 330,694</b>	<b>\$ 597,639</b>	<b>\$ 558,085</b>	<b>\$ 838,470</b>	<b>\$ 4,402,040</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Accounts Payable and Accrued Liabilities \$	78,180	\$ 57,985	\$ 67,801	\$ 7,657	\$ 50,009	\$ 25,461	\$ 287,093
Tax Refunds Payable	290,949	7,950	-	-	-	-	298,899
Due to Other Governments	19,222	12,797	29,869	-	-	154	62,042
Deposits	4,282	1,216	2,102	486	134	1,795	10,015
Due to Other Funds	51,601	6,236	91,611	10,847	22	9,796	170,113
Due to Component Units	896	-	-	-	-	-	896
Obligations under Securities Lending	264,741	37,264	15,334	53,681	30,026	101,217	502,263
Claims Payable	98,578	-	90,525	-	-	-	189,103
Deferred Revenue	17,607	-	28,074	18,657	4,022	-	68,360
<b>TOTAL LIABILITIES</b>	<b>826,056</b>	<b>123,448</b>	<b>325,316</b>	<b>91,328</b>	<b>84,213</b>	<b>138,423</b>	<b>1,588,784</b>
<b>FUND BALANCES:</b>							
Reserved for:							
Long-Term Receivables	6	-	2,748	709	-	233,836	237,299
Inventories and Prepaid Items	432	7,575	8	163	-	92	8,270
Debt Service	-	-	-	-	-	8,705	8,705
Endowment Principal	-	-	-	-	385,956	19,557	405,513
Unreserved, reported in:							
General Fund	971,205	-	-	-	-	-	971,205
Special Revenue Funds	-	148,430	2,622	505,439	-	358,088	1,014,579
Permanent Funds	-	-	-	-	87,916	27,985	115,901
Capital Projects Fund	-	-	-	-	-	51,784	51,784
<b>TOTAL FUND BALANCES</b>	<b>971,643</b>	<b>156,005</b>	<b>5,378</b>	<b>506,311</b>	<b>473,872</b>	<b>700,047</b>	<b>2,813,256</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,797,699</b>	<b>\$ 279,453</b>	<b>\$ 330,694</b>	<b>\$ 597,639</b>	<b>\$ 558,085</b>	<b>\$ 838,470</b>	<b>\$ 4,402,040</b>

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, 2007

(Dollars in Thousands)

**Total fund balances for governmental funds** \$ 2,813,256

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	518,781	
Infrastructure	6,525,148	
Construction in progress	76,182	
Other capital assets	754,992	
Accumulated depreciation	<u>(432,733)</u>	7,442,370

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 33,007

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. 53,995

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	(15,240)	
Accrued interest on bonds	(308)	
Capital leases	(14,258)	
Obligations under other financing arrangements	(13,805)	
Compensated absences	(113,495)	
Claims and judgments	<u>(27,026)</u>	<u>(184,132)</u>

**Net assets of governmental activities** \$ 10,158,496

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, 2007

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
<b>REVENUES:</b>							
Income Taxes	\$ 1,856,987	\$ -	\$ -	\$ 3,725	\$ -	\$ -	\$ 1,860,712
Sales and Use Taxes	1,294,255	140,473	-	-	-	3,266	1,437,994
Petroleum Taxes	-	313,847	-	-	2,695	12,948	329,490
Excise Taxes	76,177	-	-	8,191	-	51,081	135,449
Business and Franchise Taxes	50,946	-	-	-	-	17,825	68,771
Other Taxes	28,740	2,887	-	-	-	5,205	36,832
Federal Grants and Contracts	204	232,879	1,955,670	1,060	-	35,855	2,225,668
Licenses, Fees and Permits	19,023	72,247	26	5,814	2,641	111,416	211,167
Charges for Services	2,878	13,528	15,489	28,653	-	31,822	92,370
Investment Income	70,360	7,050	4,726	68,388	58,292	37,937	246,753
Rents and Royalties	-	342	32	650	24,011	24,933	49,968
Surcharge	-	-	-	-	-	51,395	51,395
Other	3,275	5,558	1,166	66,142	13,855	32,557	122,553
<b>TOTAL REVENUES</b>	<b>3,402,845</b>	<b>788,811</b>	<b>1,977,109</b>	<b>182,623</b>	<b>101,494</b>	<b>416,240</b>	<b>6,869,122</b>
<b>EXPENDITURES:</b>							
Current:							
General Government	249,196	-	4,631	-	-	57,497	311,324
Conservation of Natural Resources	37,891	-	31,882	-	-	49,760	119,533
Culture - Recreation	5,353	-	3,279	-	-	17,618	26,250
Economic Development and Assistance	5,803	-	61,108	-	-	22,529	89,440
Education	1,009,875	-	301,064	-	48,680	6,711	1,366,330
Higher Education - Colleges and University	502,700	-	-	-	-	26,161	528,861
Health and Social Services	1,093,238	-	1,454,576	109,599	-	1,797	2,659,210
Public Safety	209,770	-	120,195	-	-	29,549	359,514
Regulation of Business and Professions	3,933	-	2,513	-	-	148,749	155,195
Transportation	18	742,509	-	-	-	21,380	763,907
Capital Projects	-	-	-	-	-	27,494	27,494
Debt Service:							
Principal	-	-	-	-	-	6,575	6,575
Interest	-	-	-	-	-	1,666	1,666
<b>TOTAL EXPENDITURES</b>	<b>3,117,777</b>	<b>742,509</b>	<b>1,979,248</b>	<b>109,599</b>	<b>48,680</b>	<b>417,486</b>	<b>6,415,299</b>
Excess of Revenues Over (Under) Expenditures	285,068	46,302	(2,139)	73,024	52,814	(1,246)	453,823
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers In	38,391	18,892	97	918	-	96,970	155,268
Transfers Out	(44,289)	(9,153)	(7,789)	(1,874)	-	(62,897)	(126,002)
Proceeds from Capital Leases	234	-	-	-	-	-	234
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,664)</b>	<b>9,739</b>	<b>(7,692)</b>	<b>(956)</b>	<b>-</b>	<b>34,073</b>	<b>29,500</b>
Net Change in Fund Balances	279,404	56,041	(9,831)	72,068	52,814	32,827	483,323
<b>FUND BALANCES, JULY 1</b>	<b>692,239</b>	<b>99,964</b>	<b>15,209</b>	<b>434,243</b>	<b>421,058</b>	<b>667,220</b>	<b>2,329,933</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 971,643</b>	<b>\$ 156,005</b>	<b>\$ 5,378</b>	<b>\$ 506,311</b>	<b>\$ 473,872</b>	<b>\$ 700,047</b>	<b>\$ 2,813,256</b>

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, 2007

(Dollars in Thousands)

Net change in fund balances—total governmental funds \$ 483,323

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	185,258	
Depreciation expense	<u>(33,557)</u>	151,701

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. (234)

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	4,195	
Other financing arrangement payments	2,380	
Capital lease payments	<u>3,944</u>	10,519

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. (3,985)

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. 2,535

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	74	
Increase in compensated absences	(4,771)	
Decrease in claims and judgments	<u>2,268</u>	<u>(2,429)</u>

Change in net assets of governmental activities \$ 641,430

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

State of Nebraska  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2007

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 267,716	\$ 32,260	\$ 299,976	\$ 71,748
Receivables, net of allowance	32,748	6,173	38,921	2,013
Due from Other Funds	-	690	690	55,208
Inventories	-	1,691	1,691	196
Prepaid Items	-	340	340	1,054
<b>TOTAL CURRENT ASSETS</b>	<u>300,464</u>	<u>41,154</u>	<u>341,618</u>	<u>130,219</u>
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,599	1,599	-
Long-Term Investments	30,474	56,118	86,592	-
Securities Lending Collateral	7,544	2,499	10,043	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	809	9,689	10,498	58,428
Less Accumulated Depreciation	(575)	(4,160)	(4,735)	(36,367)
Total Capital Assets, net	<u>234</u>	<u>5,844</u>	<u>6,078</u>	<u>22,061</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>38,252</u>	<u>66,060</u>	<u>104,312</u>	<u>22,061</u>
<b>TOTAL ASSETS</b>	<u>\$ 338,716</u>	<u>\$ 107,214</u>	<u>\$ 445,930</u>	<u>\$ 152,280</u>
<b>LIABILITIES AND NET ASSETS</b>				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 2,438	\$ 18,286	\$ 20,724	\$ 16,545
Due to Other Funds	2	179	181	5,988
Capital Lease Obligations	-	-	-	1,993
Claims, Judgments and Compensated Absences	8,688	12,376	21,064	27,531
Unearned Revenue	-	5,280	5,280	947
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,128</u>	<u>36,121</u>	<u>47,249</u>	<u>53,004</u>
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	5,821
Claims, Judgments and Compensated Absences	13	30,447	30,460	39,460
Obligations under Securities Lending	7,544	2,499	10,043	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>7,557</u>	<u>32,946</u>	<u>40,503</u>	<u>45,281</u>
<b>TOTAL LIABILITIES</b>	<u>18,685</u>	<u>69,067</u>	<u>87,752</u>	<u>98,285</u>
NET ASSETS:				
Invested in Capital Assets, net of related debt	234	5,529	5,763	14,247
Restricted for:				
Lottery Prizes, Noncurrent	-	1,599	1,599	-
Unemployment Insurance Benefits	319,797	-	319,797	-
Unrestricted	-	31,019	31,019	39,748
<b>TOTAL NET ASSETS</b>	<u>320,031</u>	<u>38,147</u>	<u>358,178</u>	<u>53,995</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 338,716</u>	<u>\$ 107,214</u>	<u>\$ 445,930</u>	<u>\$ 152,280</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, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 127,340	\$ 136,078	\$ 263,418	\$ 301,983
Other	-	226	226	2,480
<b>TOTAL OPERATING REVENUES</b>	<b>127,340</b>	<b>136,304</b>	<b>263,644</b>	<b>304,463</b>
<b>OPERATING EXPENSES:</b>				
Personal Services	89	5,456	5,545	33,499
Services and Supplies	45	26,655	26,700	104,011
Lottery Prizes	-	65,398	65,398	-
Unemployment Claims	93,406	-	93,406	-
Insurance Claims	-	13,335	13,335	171,153
Depreciation	399	451	850	5,215
<b>TOTAL OPERATING EXPENSES</b>	<b>93,939</b>	<b>111,295</b>	<b>205,234</b>	<b>313,878</b>
Operating Income (Loss)	33,401	25,009	58,410	(9,415)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment Income	13,575	4,733	18,308	3,422
Gain (Loss) on Sale of Capital Assets	-	(21)	(21)	72
Other	-	-	-	1,936
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>13,575</b>	<b>4,712</b>	<b>18,287</b>	<b>5,430</b>
Income (Loss) Before Transfers	46,976	29,721	76,697	(3,985)
Transfers Out	-	(29,266)	(29,266)	-
Change in Net Assets	46,976	455	47,431	(3,985)
<b>NET ASSETS, JULY 1</b>	<b>273,055</b>	<b>37,692</b>	<b>310,747</b>	<b>57,980</b>
<b>NET ASSETS, JUNE 30</b>	<b>\$ 320,031</b>	<b>\$ 38,147</b>	<b>\$ 358,178</b>	<b>\$ 53,995</b>

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, 2007

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash Received from Customers	\$ 134,223	\$ 127,642	\$ 261,865	\$ 15,296
Cash Received from Interfund Charges	-	6,594	6,594	293,539
Cash Paid to Employees	(89)	(5,393)	(5,482)	(33,411)
Cash Paid to Suppliers	(61)	(24,358)	(24,419)	(94,775)
Cash Paid for Lottery Prizes	-	(64,797)	(64,797)	-
Cash Paid for Insurance Claims	(95,428)	(12,635)	(108,063)	(172,007)
Cash Paid for Interfund Services	(8)	(1,653)	(1,661)	(9,621)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>38,637</u>	<u>25,400</u>	<u>64,037</u>	<u>(979)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cigarette Tax Proceeds	-	-	-	2,076
Transfers Out	-	(29,266)	(29,266)	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(29,266)</u>	<u>(29,266)</u>	<u>2,076</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and Construction of Capital Assets	(381)	(432)	(813)	(3,615)
Proceeds from Sale of Capital Assets	-	245	245	797
Principal Paid on Capital Leases	-	-	-	(2,434)
Interest Paid on Capital Leases	-	-	-	(140)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(381)</u>	<u>(187)</u>	<u>(568)</u>	<u>(5,392)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of Investment Securities	(804)	(165,134)	(165,938)	-
Proceeds from Sale of Investment Securities	-	166,956	166,956	-
Interest and Dividend Income	12,740	2,184	14,924	3,311
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>11,936</u>	<u>4,006</u>	<u>15,942</u>	<u>3,311</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,192	(47)	50,145	(984)
CASH AND CASH EQUIVALENTS, JULY 1	<u>217,524</u>	<u>32,307</u>	<u>249,831</u>	<u>72,732</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 267,716</u>	<u>\$ 32,260</u>	<u>\$ 299,976</u>	<u>\$ 71,748</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, 2007

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>				
<b>FLAWS FROM OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$ 33,401	\$ 25,009	\$ 58,410	\$ (9,415)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	399	451	850	5,215
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	6,883	(490)	6,393	157
(Increase) Decrease in Due from Other Funds	-	(316)	(316)	4,495
(Increase) Decrease in Inventories	-	208	208	10
(Increase) Decrease in Prepaid Items	-	13	13	(15)
(Increase) Decrease in Long-Term Deposits	-	135	135	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(26)	940	914	118
Increase (Decrease) in Due to Other Funds	2	12	14	(410)
Increase (Decrease) in Claims Payable	(2,022)	700	(1,322)	(854)
Increase (Decrease) in Unearned Revenue	-	(1,262)	(1,262)	(280)
Total Adjustments	5,236	391	5,627	8,436
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 38,637</u>	<u>\$ 25,400</u>	<u>\$ 64,037</u>	<u>\$ (979)</u>

**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	\$ -	\$ -	\$ -	\$ 5,252
Change in Fair Value of Investments	-	2,522	2,522	-
Total Noncash Transactions	<u>\$ -</u>	<u>\$ 2,522</u>	<u>\$ 2,522</u>	<u>\$ 5,252</u>

State of Nebraska  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2007

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 7,343	\$ 24,578	\$ 95,653
Investments:			
U.S. Treasury Notes and Bonds	32,610	-	-
U.S. Treasury Bills	5,745	-	-
U.S. Treasury Strips	425	-	-
Government Agency Securities	46,311	-	-
Corporate Bonds	380,159	-	-
International Bonds	54,051	-	-
Equity Securities	1,101,733	-	-
Private Equity	18,862	-	-
Options	(23)	-	-
Mortgages	825,535	-	-
Private Real Estate	279,895	-	-
Asset Backed Securities	112,380	-	-
Municipal Bonds	2,244	-	-
Commingled Funds	6,179,719	1,638,591	-
Guaranteed Investment Contracts	127,142	-	-
Short Term Investments	159,149	5,477	-
Total Investments	<u>9,325,937</u>	<u>1,644,068</u>	<u>-</u>
Securities Lending Collateral	385,640	-	-
Receivables:			
Contributions	18,535	-	-
Interest and Dividends	12,402	1,475	760
Other	153,498	2	460
Total Receivables	<u>184,435</u>	<u>1,477</u>	<u>1,220</u>
Due from Other Funds	19,671	-	-
Capital Assets:			
Buildings and Equipment	16,434	-	-
Less Accumulated Depreciation	(10,695)	-	-
Total Capital Assets, net	<u>5,739</u>	<u>-</u>	<u>-</u>
Other Assets	-	10,292	-
<b>TOTAL ASSETS</b>	<u><b>\$ 9,928,765</b></u>	<u><b>\$ 1,680,415</b></u>	<u><b>\$ 96,873</b></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES:</b>			
Accounts Payable and Accrued Liabilities	\$ 432,462	\$ 2,554	17,650
Due to Other Governments	1,720	-	51,004
Deposits	-	35	-
Due to Other Funds	121	19	-
Obligations under Securities Lending	385,640	-	-
Capital Lease Obligations	6,873	-	-
Accrued Compensated Absences	245	-	-
Other Liabilities	-	-	28,219
<b>TOTAL LIABILITIES</b>	<u><b>827,061</b></u>	<u><b>2,608</b></u>	<u><b>96,873</b></u>
<b>NET ASSETS:</b>			
Held in Trust for:			
Pension Benefits	9,101,704	-	-
College Savings Plan	-	1,643,255	-
Other Purposes	-	34,552	-
<b>TOTAL NET ASSETS</b>	<u><b>9,101,704</b></u>	<u><b>1,677,807</b></u>	<u><b>-</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 9,928,765</b></u>	<u><b>\$ 1,680,415</b></u>	<u><b>\$ 96,873</b></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, 2007

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
<b>ADDITIONS:</b>		
Contributions:		
Participant Contributions	\$ 156,296	\$ 435,107
Client Contributions	-	225
State Contributions	74,879	-
Political Subdivision Contributions	107,595	-
Court Fees	3,144	-
Total Contributions	<u>341,914</u>	<u>435,332</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,185,189	134,863
Interest and Dividend Income	147,119	49,490
Securities Lending Income	14,605	-
Total Investment Income	<u>1,346,913</u>	<u>184,353</u>
Investment Expenses	12,507	10,290
Securities Lending Expenses	14,078	-
Total Investment Expense	<u>26,585</u>	<u>10,290</u>
Net Investment Income	<u>1,320,328</u>	<u>174,063</u>
Escheat Revenue	-	11,195
Other Additions	764	9,806
TOTAL ADDITIONS	<u>1,663,006</u>	<u>630,396</u>
<b>DEDUCTIONS:</b>		
Benefits	324,502	216,209
Refunds	11,453	-
Amounts Distributed to Outside Parties	-	14,709
Administrative Expenses	7,197	1,807
TOTAL DEDUCTIONS	<u>343,152</u>	<u>232,725</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	1,319,854	-
College Savings Plan	-	391,923
Other Purposes	-	5,748
<b>NET ASSETS-BEGINNING OF YEAR</b>	<u>7,781,850</u>	<u>1,280,136</u>
<b>NET ASSETS-END OF YEAR</b>	<u>\$ 9,101,704</u>	<u>\$ 1,677,807</u>

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

State of Nebraska  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**

June 30, 2007

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 255,209	\$ 15,980	\$ 271,189
Receivables, net of allowance			
Loans	35,660	2,659	38,319
Other	215,965	2,760	218,725
Due from Primary Government	-	896	896
Investments	1,753,884	33,726	1,787,610
Investment in Joint Venture	208,965	-	208,965
Other Assets	32,878	4,427	37,305
Restricted Assets:			
Cash and Cash Equivalents	263,444	35,418	298,862
Investments Held by Trustee	-	1,474	1,474
Capital assets:			
Land	57,970	630	58,600
Land Improvements	111,305	16,815	128,120
Construction in Progress	81,558	9,281	90,839
Buildings and Equipment	1,501,962	136,447	1,638,409
Less Accumulated Depreciation	(580,198)	(60,745)	(640,943)
Total Capital Assets, net of depreciation	<u>1,172,597</u>	<u>102,428</u>	<u>1,275,025</u>
Total Assets	<u>\$ 3,938,602</u>	<u>\$ 199,768</u>	<u>\$ 4,138,370</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 134,212	\$ 9,368	\$ 143,580
Deposits	11,966	469	12,435
Deferred Revenue	86,285	288	86,573
Noncurrent Liabilities:			
Due within one year	81,333	4,171	85,504
Due in more than one year	493,859	47,482	541,341
Total Liabilities	<u>\$ 807,655</u>	<u>\$ 61,778</u>	<u>\$ 869,433</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, net of related debt	\$ 769,459	\$ 72,433	\$ 841,892
Restricted for:			
Education	1,403,379	31,143	1,434,522
Other Purposes	261,762	5,845	267,607
Construction and Debt Service	160,150	12,530	172,680
Unrestricted	536,197	16,039	552,236
Total Net Assets	<u>\$ 3,130,947</u>	<u>\$ 137,990</u>	<u>\$ 3,268,937</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, 2007

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
<b>Operating Expenses:</b>			
Compensation and benefits	\$ 902,143	\$ 51,414	\$ 953,557
Supplies and materials	234,604	5,097	239,701
Contractual services	94,332	3,776	98,108
Repairs and maintenance	34,772	2,011	36,783
Utilities	29,950	3,915	33,865
Communications	13,738	1,064	14,802
Depreciation	74,393	4,060	78,453
Scholarships and fellowships	126,543	694	127,237
Other	13,319	11,351	24,670
Total Operating Expenses	<u>1,523,794</u>	<u>83,382</u>	<u>1,607,176</u>
<b>Program Revenues:</b>			
Charges for Services	633,215	27,564	660,779
Operating Grants and Contributions	361,649	9,645	371,294
Capital Grants and Contributions	-	1,354	1,354
Total Program Revenues	<u>994,864</u>	<u>38,563</u>	<u>1,033,427</u>
Net (Expense) Revenue	<u>(528,930)</u>	<u>(44,819)</u>	<u>(573,749)</u>
<b>General Revenue:</b>			
Interest and investment earnings	100,087	3,869	103,956
Payments from the State of Nebraska	480,035	48,826	528,861
Miscellaneous	224,067	4,634	228,701
Total General Revenues	<u>804,189</u>	<u>57,329</u>	<u>861,518</u>
Change in Net Assets	275,259	12,510	287,769
Net Assets - Beginning	<u>2,855,688</u>	<u>125,480</u>	<u>2,981,168</u>
Net Assets - Ending	<u>\$ 3,130,947</u>	<u>\$ 137,990</u>	<u>\$ 3,268,937</u>

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



# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(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 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 UNMC Physicians, 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 \$2,084,245 of restricted net assets, of which \$1,224,418 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, except agency funds. 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 insurance 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 Insurance Fund.** This fund accounts for the State's unemployment insurance 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 but not after, 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, 2007, 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).
- 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 240 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, 2007, 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, 2007, the carrying amounts of the State's deposits were \$90,395 and the bank balances were \$119,973. 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 \$41,563 at June 30, 2007.

**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, 2006. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2007.

The primary government's investments at June 30, 2007, 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, 2007

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	\$ 460,509	3.22	\$ 32,610	13.16
U.S. Treasury Bills	86,042	0.17	5,745	0.19
U.S. Treasury Strips	-		425	17.55
Government Agency Securities	1,133,067	3.13	46,311	4.58
Corporate Bonds	682,156	3.45	380,159	4.76
International Bonds	5,396	9.64	54,051	7.02
Mortgages	112,649	9.29	825,535	6.03
Asset Backed Securities	12,844	4.54	112,380	2.01
Commingled Funds	138,096	4.15	945,205	4.72
Municipal Bonds	-		2,244	1.83
Guaranteed Investment Contracts	2,226	4.32	127,142	4.32
Short Term Investments	263,456	0.06	164,626	0.08
	<u>2,896,441</u>		<u>2,696,433</u>	
Other Investments				
Equity Securities	88,111		1,101,733	
Private Equity	214		18,862	
Commingled Funds	479,089		6,873,105	
Options	-		(23)	
Private Real Estate			279,895	
U.S. Treasury Investment Pool	265,806		-	
Less: Component Unit Investment in State Investment Pool	<u>(391,062)</u>		<u>-</u>	
Total Investments	<u>3,338,599</u>		<u>10,970,005</u>	
Securities Lending Short-term Collateral Investment Pool	<u>512,306</u>		<u>385,640</u>	
Total	<u>\$ 3,850,905</u>		<u>\$ 11,355,645</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 minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. The primary government's rated debt investments as of June 30, 2007, 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, 2007**

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 1,133,067	\$ 1,133,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	682,156	336,225	228,811	83,025	15,687	7,109	7,611	3,688
International Bonds	5,396	27	-	308	1,058	3,463	12	528
Mortgages	112,649	52,868	-	-	-	-	-	59,781
Asset Backed Securities	12,844	1,784	-	-	-	-	-	11,060
Commingled Funds	138,096	-	-	-	-	-	-	138,096
Short Term Investments	263,456	-	-	-	-	-	-	263,456

**FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2007**

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 45,467	\$ 42,601	\$ -	\$ -	\$ 558	\$ 1,832	\$ 476	\$ -
Corporate Bonds	433,340	54,889	92,003	66,803	48,070	60,495	67,370	43,710
International Bonds	51,212	301	402	4,620	7,494	24,897	3,607	9,891
Mortgages	849,344	578,579	1,209	-	120	-	647	268,789
Asset Backed Securities	135,447	122,645	298	290	148	-	-	12,066
Commingled Funds	972,308	-	-	-	-	-	-	972,308
Short Term Investments	188,128	-	-	-	-	-	-	188,128
Municipal Bonds	2,244	1,311	933	-	-	-	-	-

**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, 2007, 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 (7 percent), Federal Home Loan Bank (7 percent), Federal Home Loan Mortgage Corporation (8 percent), and Federal National Mortgage Corporation (8 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, sovereign debt rated A or better, 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 43 and 68 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.

**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.

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2007, is as follows:

**Disclosure Regarding Deposits and Investments:**

Total Investments	\$ 15,206,550
Carrying amount of Deposits	90,395
<b>Total</b>	<b>\$ 15,296,945</b>

**Statement of Net Assets:**

Cash and Cash Equivalents	\$ 451,474
Investments	2,830,749
Restricted Cash and Cash Equivalents	19,197
Securities Lending Collateral	512,306

**Statement of Fiduciary Net Assets:**

Cash and Cash Equivalents	127,574
Investments	10,970,005
Securities Lending Collateral	385,640
<b>Total</b>	<b>\$ 15,296,945</b>

**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, 2007**

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	\$ -	\$ 849	\$ -
Brazilian Real	-	-	167
Canadian Dollar	10	120	60
Danish Krone	-	183	-
Euro Currency	40	5,986	-
Hong Kong Dollar	2	27	-
Iceland Krona	-	-	320
Indonesian Rupiah	-	144	-
Israeli Shekel	4	117	-
Japanese Yen	20	2,083	-
Malaysian Ringgit	-	-	265
Mexican Peso	15	374	455
New Zeland Dollar	-	99	87
Polish Zloty	-	5	-
Pound Sterling	120	2,234	-
Singapore Dollar	-	399	257
South Korean Won	19	1,032	234
Swedish Krona	2	616	-
Swiss Franc	-	1,492	-
Thailand Baht	-	329	-
<b>Total</b>	<b>\$ 232</b>	<b>\$ 16,089</b>	<b>\$ 1,845</b>

**FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2007**

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Argentine Peso	\$ 15	\$ -	\$ 43
Australian Dollar	267	7,864	-
Brazilian Real	22	600	1,423
Canadian Dollar	69	709	477
Danish Krone	-	369	-
Euro Currency	394	108,407	859
Hungarian Forint	3	-	-
Iceland Krona	-	-	1,922
Indonesian Rupiah	11	1,006	-
Israeli Shekel	16	1,492	-
Japanese Yen	6,363	34,119	6,482
Malaysian Ringgit	-	-	1,808
Mexican Peso	3,912	6,694	8,320
New Zeland Dollar	-	139	574
Norwegian Krone	-	294	-
Philippine Peso	-	119	-
Polish Zloty	40	-	-
Pound Sterling	702	37,242	-
Singapore Dollar	593	2,449	1,929
South Korean Won	-	17,143	935
Swedish Krona	6	10,208	-
Swiss Franc	7	25,187	-
Thailand Baht	-	2,045	-
<b>Total</b>	<b>\$ 12,420</b>	<b>\$ 256,086</b>	<b>\$ 24,772</b>

### 3. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 508,138	\$ 13,745	\$ 3,102	\$ 518,781
Infrastructure	6,394,382	130,766	-	6,525,148
Construction in progress	59,079	19,900	2,797	76,182
Total capital assets, not being depreciated	<u>6,961,599</u>	<u>164,411</u>	<u>5,899</u>	<u>7,120,111</u>
Capital assets, being depreciated:				
Buildings and improvements	453,341	3,102	1,617	454,826
Equipment	351,393	33,960	26,759	358,594
Total capital assets, being depreciated	<u>804,734</u>	<u>37,062</u>	<u>28,376</u>	<u>813,420</u>
Less accumulated depreciation for:				
Buildings and improvements	211,164	10,493	904	220,753
Equipment	245,366	28,279	25,298	248,347
Total accumulated depreciation	<u>456,530</u>	<u>38,772</u>	<u>26,202</u>	<u>469,100</u>
Total capital assets, being depreciated, net	<u>348,204</u>	<u>(1,710)</u>	<u>2,174</u>	<u>344,320</u>
Governmental activities capital assets, net	<u>\$ 7,309,803</u>	<u>\$ 162,701</u>	<u>\$ 8,073</u>	<u>\$ 7,464,431</u>
<b>Business-type activities:</b>				
<b>Unemployment Insurance</b>				
Equipment, being depreciated	\$ 428	\$ 381	\$ -	\$ 809
Less accumulated depreciation	<u>176</u>	<u>399</u>	<u>-</u>	<u>575</u>
Total Unemployment Insurance, net	<u>252</u>	<u>(18)</u>	<u>-</u>	<u>234</u>
<b>Nonmajor Enterprise Funds</b>				
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	5,195	-	-	5,195
Equipment	4,388	430	324	4,494
Total capital assets, being depreciated	<u>9,583</u>	<u>430</u>	<u>324</u>	<u>9,689</u>
Less accumulated depreciation for:				
Buildings and improvements	1,120	130	-	1,250
Equipment	2,649	320	59	2,910
Total accumulated depreciation	<u>3,769</u>	<u>450</u>	<u>59</u>	<u>4,160</u>
Total capital assets, being depreciated, net	<u>5,814</u>	<u>(20)</u>	<u>265</u>	<u>5,529</u>
Total Nonmajor Enterprise, net	<u>6,129</u>	<u>(20)</u>	<u>265</u>	<u>5,844</u>
Business-type activities capital assets, net	<u>\$ 6,381</u>	<u>\$ (38)</u>	<u>\$ 265</u>	<u>\$ 6,078</u>

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

<b>Governmental activities:</b>	
General Government	\$ 9,340
Conservation of Natural Resources	1,754
Culture – Recreation	1,474
Economic Development and Assistance	356
Education	1,148
Health and Social Services	861
Public Safety	9,709
Regulation of Business and Professions	254
Transportation	13,876
Total depreciation expense -	
Governmental activities	<u>\$ 38,772</u>

**Construction Commitments.** At June 30, 2007, the State had contractual commitments of approximately \$453,313 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 88,483
State funds	348,389
Local funds	16,441
	<u>\$ 453,313</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.

**4. Interfund Balances**

Due To/From Other Funds at June 30, 2007, consists of the following:

DUE FROM	DUE TO									TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ 122	\$ 100	\$ 650	\$ -	\$ 995	\$ 89	\$ 30,510	\$ 19,135	\$ 51,601
Highway Fund	-	-	229	4	19	34	449	5,501	-	6,236
Federal Fund	81,482	9	-	4,247	-	2,238	80	3,555	-	91,611
Health and Social Services	-	4	561	-	-	764	16	9,502	-	10,847
Permanent School Fund	13	-	-	-	-	-	-	9	-	22
Nonmajor Governmental Funds	3,985	29	-	-	-	36	41	5,169	536	9,796
Unemployment Fund	-	-	-	-	-	-	1	1	-	2
Nonmajor Enterprise Funds	-	21	-	-	-	-	-	158	-	179
Internal Service Funds	4,577	440	2	-	-	259	7	703	-	5,988
Fiduciary Funds	-	-	-	-	-	33	7	100	-	140
<b>TOTALS</b>	<b>\$ 90,057</b>	<b>\$ 625</b>	<b>\$ 892</b>	<b>\$ 4,901</b>	<b>\$ 19</b>	<b>\$ 4,359</b>	<b>\$ 690</b>	<b>\$ 55,208</b>	<b>\$ 19,671</b>	<b>\$ 176,422</b>

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 \$40,400 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, 2007, consist of the following:

TRANSFERRED FROM:	TRANSFERRED TO:					TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 44,289	\$ 44,289
Highway Fund	-	-	-	-	9,153	9,153
Federal Fund	-	-	-	-	7,789	7,789
Health & Social Services Fund	1,455	-	-	-	419	1,874
Nonmajor Governmental Funds	36,936	18,892	97	130	6,842	62,897
Nonmajor Enterprise Funds	-	-	-	788	28,478	29,266
<b>TOTALS</b>	<b>\$ 38,391</b>	<b>\$ 18,892</b>	<b>\$ 97</b>	<b>\$ 918</b>	<b>\$ 96,970</b>	<b>\$ 155,268</b>

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.



## 5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2007, consists of the following:

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Governmental Funds	Other Funds	Unemployment Insurance	Nonmajor Enterprise Funds	TOTALS
Payroll and Withholdings	\$ 13,992	\$ 6,791	\$ 3,806	\$ 760	\$ -	\$ 1,941	\$ 1,810	\$ 5	\$ 298	\$ 29,403
Payables and Accruals	64,188	51,194	63,995	6,897	50,009	23,434	13,702	2,401	17,901	293,721
Due to Fiduciary Funds *	-	-	-	-	-	-	19,671	-	-	19,671
Miscellaneous	-	-	-	-	-	86	672	32	87	877
<b>TOTALS</b>	<b>\$ 78,180</b>	<b>\$ 57,985</b>	<b>\$ 67,801</b>	<b>\$ 7,657</b>	<b>\$ 50,009</b>	<b>\$ 25,461</b>	<b>\$ 35,855</b>	<b>\$ 2,438</b>	<b>\$ 18,286</b>	<b>\$ 343,672</b>

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

## 6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2007, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<b>Governmental Activities:</b>					
Claims Payable	\$ 284,532	\$ 1,591,487	\$ 1,597,183	\$ 278,836	\$ 216,336
Bonds Payable	19,435	-	4,195	15,240	4,405
Capital Lease Obligations	22,964	5,486	6,378	22,072	6,246
Obligations Under Other Financing Arrangements	16,185	-	2,380	13,805	940
Compensated Absences	112,885	15,226	10,332	117,779	8,243
<b>Totals</b>	<b>\$ 456,001</b>	<b>\$ 1,612,199</b>	<b>\$ 1,620,468</b>	<b>\$ 447,732</b>	<b>\$ 236,170</b>
<b>Business-type Activities:</b>					
<b>Unemployment Insurance:</b>					
Claims Payable	\$ 10,706	\$ 93,409	\$ 95,428	\$ 8,687	\$ 8,687
Compensated Absences	15	2	3	14	1
<b>Totals for Unemployment Insurance</b>	<b>10,721</b>	<b>93,411</b>	<b>95,431</b>	<b>8,701</b>	<b>8,688</b>
<b>Nonmajor Enterprise Funds:</b>					
Claims Payable	41,500	13,335	12,635	42,200	12,332
Compensated Absences	582	82	41	623	44
<b>Totals for Nonmajor Enterprise Funds</b>	<b>42,082</b>	<b>13,417</b>	<b>12,676</b>	<b>42,823</b>	<b>12,376</b>
<b>Totals for Business-type Activities</b>	<b>\$ 52,803</b>	<b>\$ 106,828</b>	<b>\$ 108,107</b>	<b>\$ 51,524</b>	<b>\$ 21,064</b>

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.

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, 2007, 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

## 7. 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

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, 2007 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, 2007 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.

BONDS PAYABLE	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2007
<b>PRIMARY GOVERNMENT</b>				
NETC Leasing Corporation Issue	2000,2002	Through 2010	2.70%-6.00%	\$ 13,710
Nebraska State Building Corporation Issue	2002	Through 2009	1.50%-3.85%	1,530
Primary Government Total				<u>\$ 15,240</u>
<b>COMPONENT UNITS</b>				
University of Nebraska	1998-2006	Through 2038	2.15%-5.25%	\$ 492,410
Nebraska State Colleges	1999-2007	Through 2028	1.60%-5.05%	48,320
Component Units Total				<u>\$ 540,730</u>

**PRIMARY GOVERNMENT  
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2008	4,405	808	5,213
2009	5,985	584	6,569
2010	4,850	291	5,141
Total	<u>\$ 15,240</u>	<u>\$ 1,683</u>	<u>\$ 16,923</u>

**COMPONENT UNITS  
DEBT SERVICE REQUIREMENTS TO MATURITY**

YEAR	PRINCIPAL	INTEREST	TOTAL
2008	28,500	24,756	53,256
2009	34,235	23,446	57,681
2010	40,810	21,916	62,726
2011	36,430	20,230	56,660
2012	42,115	18,589	60,704
2013-2017	147,370	71,324	218,694
2018-2022	111,290	37,844	149,134
2023-2027	48,040	18,156	66,196
Thereafter	51,940	14,474	66,414
Total	<u>\$ 540,730</u>	<u>\$ 250,735</u>	<u>\$ 791,465</u>

**8. 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 (principle and interest) and the present value of future minimum payments for capital leases as of June 30, 2007 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2008	\$ 7,044
2009	6,821
2010	4,331
2011	2,128
2012	1,306
2013-2017	2,655
2018-2022	289
Total Minimum Payments	24,574
Less: Interest and executory costs	<u>2,502</u>
Present value of net minimum payments	<u>\$ 22,072</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, 2007:

GOVERNMENTAL ACTIVITIES	
Buildings	\$ 7,070
Equipment	38,392
Less: accumulated depreciation	<u>(21,138)</u>
Carrying value	<u>\$ 24,324</u>

The minimum annual lease payments for operating leases as of June 30, 2007 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2008	\$ 9,595
2009	6,117
2010	5,595
2011	4,019
2012	1,643
2013-2017	4,136
2018-2022	<u>823</u>
Total	<u>\$ 31,928</u>

Primary Government operating lease payments for the year ended June 30, 2007 totaled \$13,973.

**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, 2007, the State owned approximately 1.3 million acres of land that was under lease. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of \$27,150 were received under these and other lease agreements for the year ended June 30, 2007.

**9. 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 2.15 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2008	940	606	1,546
2009	985	568	1,553
2010	1,035	528	1,563
2011	1,070	485	1,555
2012	1,125	438	1,563
2013-2017	6,605	1,315	7,920
2018-2022	<u>2,045</u>	<u>171</u>	<u>2,216</u>
Total	<u>\$ 13,805</u>	<u>\$ 4,111</u>	<u>\$ 17,916</u>

**10. Receivables**

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2007:

<b>Governmental Activities:</b>	
General Fund	\$ 10,303
Federal Fund	14,186
Health and Social Services Fund	<u>9,426</u>
Total Governmental Activities	<u>\$ 33,915</u>
<b>Business-type Activities:</b>	
Unemployment Insurance	<u>\$ 6,675</u>
Total Business-type Activities	<u>\$ 6,675</u>

Of the taxes and other receivables, \$14,350 and \$18,657, 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. Non-protested unpaid taxes deemed uncollectible and not included in the receivables or allowances total \$62,400. The majority of the loans receivable balance is not expected to be collected in the next year.



## 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, 2006.

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, 2006, there were 15,495 active members and 2,977 inactive members. Members contributed \$25,029 and the State contributed \$39,083 during the year ended December 31, 2006, 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, 2006.

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, 2006, there were 6,734 active members and 1,361 inactive members. Members contributed \$8,595 and counties contributed \$12,699 during the year ended December 31, 2006, 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 7.98 percent of their total pay from September 1, 2005 through August 31, 2006 and 7.83 percent from September 1, 2006 through August 31, 2007. 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
<b>State Cash Balance</b>						
12/31/2006	\$ 392,442	\$ 379,735	\$ 12,707	103.3 %	\$ 323,983	3.9 %
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
<b>Judges'</b>						
6/30/2007	\$ 111,006	\$ 103,704	\$ 7,302	107.04%	\$ 17,004	42.9 %
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)
<b>State Patrol</b>						
6/30/2007	\$ 254,663	\$ 265,847	\$ (11,184)	95.8 %	\$ 26,073	(42.9)%
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)

	STATE CASH BALANCE	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2006	6/30/2007	6/30/2007
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	29 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%	4.5%	4.5% to 9.0%

\*\* 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
<b>State Cash Balance</b>			
12/31/2006	\$ 16,672	100%	\$ -
12/31/2005	14,885	100%	-
12/31/2004	13,171	100%	-
<b>County Cash Balance</b>			
12/31/2006	\$ 6,245	100%	\$ -
12/31/2005	5,521	100%	-
12/31/2004	4,869	100%	-
<b>School</b>			
6/30/2007	\$ 15,220	100%	\$ -
6/30/2006	28,057	100%	-
6/30/2005	29,817	90%	14,928
<b>Judges'</b>			
6/30/2007	\$ 3,208	100%	\$ -
6/30/2006	3,120	100%	-
6/30/2005	2,719	84%	434
<b>State Patrol</b>			
6/30/2007	\$ 5,059	100%	\$ -
6/30/2006	5,082	100%	-
6/30/2005	3,869	82%	698

## 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 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 \$250,000 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, but do not include non-incremental claims adjustment expenses.

The liability for workers' compensation is recorded as a claims payable of \$49,384 at a discounted rate of 3.5 percent (\$9,126).



Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2007, and 2006, were as follows:

	Fiscal Year	
	2007	2006
Beginning Balance	\$ 63,561	\$ 64,211
Current Year Claims and Changes in Estimates	171,153	165,558
Claim Payments	(172,007)	(166,208)
Ending Balance	<u>\$ 62,707</u>	<u>\$ 63,561</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, 2007 totaling \$17,983. 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 2007.

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 College of Medicine that further the mission and objectives of NMC. During the year ended June 30, 2007, the University received approximately \$23,230 of support in connection with the agreement.

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

State of Nebraska  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended June 30, 2007

(Dollars in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ 3,105,942	\$ 3,250,047	\$ 3,297,379	\$ 47,332
Federal Grants and Contracts	256	256	256	-
Sales and Charges	21,499	21,499	21,499	-
Other	50,120	50,120	50,120	-
<b>TOTAL REVENUES</b>	<b>3,177,817</b>	<b>3,321,922</b>	<b>3,369,254</b>	<b>47,332</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	250,741	252,594	239,275	13,319
Conservation of Natural Resources	52,203	55,203	39,817	15,386
Culture – Recreation	6,128	6,138	5,882	256
Economic Development and Assistance	8,856	8,856	6,409	2,447
Education	1,530,415	1,529,762	1,501,813	27,949
Health and Social Services	1,223,149	1,206,593	1,090,238	116,355
Public Safety	223,955	224,319	207,539	16,780
Regulation of Business and Professions	4,116	4,116	3,761	355
Transportation	19	19	18	1
<b>TOTAL EXPENDITURES</b>	<b>3,299,582</b>	<b>3,287,600</b>	<b>3,094,752</b>	<b>192,848</b>
Excess of Revenues Over (Under) Expenditures	(121,765)	34,322	274,502	240,180
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	314,501	314,501	314,501	-
Transfers Out	(319,808)	(319,808)	(319,808)	-
Other	180	180	180	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,127)</b>	<b>(5,127)</b>	<b>(5,127)</b>	<b>-</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(126,892)	29,195	269,375	240,180
<b>FUND BALANCES, JULY 1</b>	<b>837,427</b>	<b>837,427</b>	<b>837,427</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 710,535</b>	<b>\$ 866,622</b>	<b>\$ 1,106,802</b>	<b>\$ 240,180</b>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2007, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2007	
General	\$ 590,714
Cash Reserve	516,088
Budgetary fund balances	1,106,802
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	301,596
Record tax refund liability	(290,949)
Record State contributions due pension funds	(19,135)
Record claims payable	(98,578)
Record other net accrued receivables and liabilities	(28,093)
GAAP fund balance, June 30, 2007	\$ 971,643

See independent auditors' report

State of Nebraska

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
CASH FUNDS**

For the Year Ended June 30, 2007

(Dollars in Thousands)

	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ 103,829	\$ 103,829	\$ 103,829	\$ -
Federal Grants and Contracts	290,544	290,544	290,544	-
Sales and Charges	401,217	401,217	401,217	-
Other	210,287	210,287	210,287	-
<b>TOTAL REVENUES</b>	<u>1,005,877</u>	<u>1,005,877</u>	<u>1,005,877</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	91,655	93,711	57,906	35,805
Conservation of Natural Resources	82,585	84,385	45,216	39,169
Culture – Recreation	28,449	28,592	19,344	9,248
Economic Development and Assistance	62,611	62,621	20,179	42,442
Education	387,932	394,176	298,142	96,034
Health and Social Services	161,980	162,017	108,150	53,867
Public Safety	43,183	43,278	26,686	16,592
Regulation of Business and Professions	189,989	189,988	149,171	40,817
Transportation	773,689	779,689	583,279	196,410
Capital Projects	62,296	62,296	16,272	46,024
<b>TOTAL EXPENDITURES</b>	<u>1,884,369</u>	<u>1,900,753</u>	<u>1,324,345</u>	<u>576,408</u>
Excess of Revenues Over (Under) Expenditures	<u>(878,492)</u>	<u>(894,876)</u>	<u>(318,468)</u>	<u>576,408</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	912,716	912,716	912,716	-
Transfers Out	(486,557)	(486,557)	(486,557)	-
Other	10,868	10,868	10,868	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>437,027</u>	<u>437,027</u>	<u>437,027</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(441,465)</u>	<u>(457,849)</u>	<u>118,559</u>	<u>576,408</u>
<b>FUND BALANCES, JULY 1</b>	<u>601,893</u>	<u>601,893</u>	<u>601,893</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 160,428</u>	<u>\$ 144,044</u>	<u>\$ 720,452</u>	<u>\$ 576,408</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2007, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2007

Cash	\$ 720,452
Construction	3,753
Federal	72,283
Revolving	176,346

Budgetary fund balances

972,834

DIFFERENCES DUE TO BASIS OF ACCOUNTING AND NONMAJOR FUNDS:

168,732

GAAP fund balance, June 30, 2007

\$ 1,141,566

Actual Fund Balances of Major Funds, June 30, 2007

Highway	\$ 156,005
Federal	5,378
Health and Social Services	506,311
Permanent School	473,872

GAAP fund balance, June 30, 2007

\$ 1,141,566

See independent auditors' report



State of Nebraska  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CONSTRUCTION FUNDS**  
For the Year Ended June 30, 2007

(Dollars in Thousands)

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	290	290	290	-
<b>TOTAL REVENUES</b>	<u>290</u>	<u>290</u>	<u>290</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	22,426	22,439	18,991	3,448
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	23,296	23,694	16,403	7,291
<b>TOTAL EXPENDITURES</b>	<u>45,722</u>	<u>46,133</u>	<u>35,394</u>	<u>10,739</u>
Excess of Revenues Over (Under) Expenditures	<u>(45,432)</u>	<u>(45,843)</u>	<u>(35,104)</u>	<u>10,739</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	31,372	31,372	31,372	-
Transfers Out	-	-	-	-
Other	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>31,372</u>	<u>31,372</u>	<u>31,372</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(14,060)</u>	<u>(14,471)</u>	<u>(3,732)</u>	<u>10,739</u>
<b>FUND BALANCES, JULY 1</b>	<u>7,485</u>	<u>7,485</u>	<u>7,485</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (6,575)</u>	<u>\$ (6,986)</u>	<u>\$ 3,753</u>	<u>\$ 10,739</u>

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State of Nebraska

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FEDERAL FUNDS**

For the Year Ended June 30, 2007

(Dollars in Thousands)

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,109,839	2,109,839	2,109,839	-
Sales and Charges	14,801	14,801	14,801	-
Other	3,576	3,576	3,576	-
<b>TOTAL REVENUES</b>	<u>2,128,216</u>	<u>2,128,216</u>	<u>2,128,216</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	7,484	7,973	3,931	4,042
Conservation of Natural Resources	64,065	68,764	36,641	32,123
Culture – Recreation	4,869	5,111	2,602	2,509
Economic Development and Assistance	109,877	113,833	61,570	52,263
Education	916,739	927,596	555,591	372,005
Health and Social Services	1,789,462	1,430,673	1,334,132	96,541
Public Safety	68,286	165,793	122,916	42,877
Regulation of Business and Professions	1,990	4,024	2,623	1,401
Transportation	-	-	-	-
Capital Projects	11,148	11,148	6,871	4,277
<b>TOTAL EXPENDITURES</b>	<u>2,973,920</u>	<u>2,734,915</u>	<u>2,126,877</u>	<u>608,038</u>
Excess of Revenues Over (Under) Expenditures	<u>(845,704)</u>	<u>(606,699)</u>	<u>1,339</u>	<u>608,038</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	6,925	6,925	6,925	-
Transfers Out	(7,391)	(7,391)	(7,391)	-
Other	13	13	13	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(453)</u>	<u>(453)</u>	<u>(453)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(846,157)</u>	<u>(607,152)</u>	<u>886</u>	<u>608,038</u>
<b>FUND BALANCES, JULY 1</b>	<u>71,397</u>	<u>71,397</u>	<u>71,397</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (774,760)</u>	<u>\$ (535,755)</u>	<u>\$ 72,283</u>	<u>\$ 608,038</u>

See independent auditors' report

State of Nebraska

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
REVOLVING FUNDS**

For the Year Ended June 30, 2007

(Dollars in Thousands)

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	3,366	3,366	3,366	-
Sales and Charges	415,280	415,280	415,280	-
Other	157,396	157,396	157,396	-
<b>TOTAL REVENUES</b>	<u>576,042</u>	<u>576,042</u>	<u>576,042</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	228,491	228,674	156,458	72,216
Conservation of Natural Resources	-	-	-	-
Culture - Recreation	-	-	-	-
Economic Development and Assistance	495	495	451	44
Education	446,294	488,230	396,636	91,594
Health and Social Services	-	-	-	-
Public Safety	19,957	21,606	13,946	7,660
Regulation of Business and Professions	-	-	-	-
Transportation	1,000	1,000	-	1,000
Capital Projects	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>696,237</u>	<u>740,005</u>	<u>567,491</u>	<u>172,514</u>
Excess of Revenues Over (Under) Expenditures	<u>(120,195)</u>	<u>(163,963)</u>	<u>8,551</u>	<u>172,514</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	32,606	32,606	32,606	-
Transfers Out	(47,589)	(47,589)	(47,589)	-
Other	892	892	892	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(14,091)</u>	<u>(14,091)</u>	<u>(14,091)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(134,286)</u>	<u>(178,054)</u>	<u>(5,540)</u>	<u>172,514</u>
<b>FUND BALANCES, JULY 1</b>	<u>181,886</u>	<u>181,886</u>	<u>181,886</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 47,600</u>	<u>\$ 3,832</u>	<u>\$ 176,346</u>	<u>\$ 172,514</u>

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## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2007

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### 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 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, so the General Fund is the only major fund that has a budget.

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

**Cash Reserve Fund.** This is part of the General Fund, and is used to account for financial resources to be 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 2007, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2007, 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, 2007

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 NSI system rating of 72 or above.

### Assessed Condition

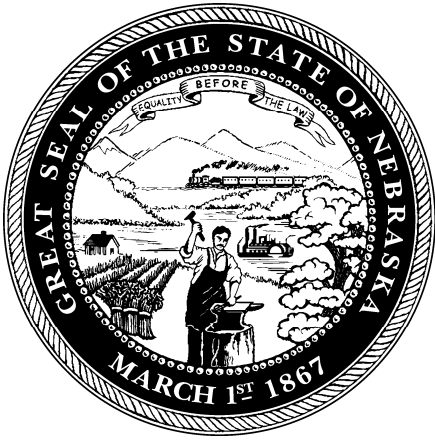
The State assesses conditions on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Very Good”, “Good”, “Fair”, and “Poor”. This condition index is used to classify roads in very good (90-100), good (70-89), fair (50-69), and poor (0-49).

<u>Calendar Year</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Very Good	42%	39%	39%	40%	38%	48%
Good	38%	46%	46%	44%	43%	36%
Fair	19%	12%	12%	14%	16%	13%
Poor	1%	3%	3%	2%	3%	3%
Overall System Rating	83	84	83	83	83	84

### 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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Estimated	\$ 155	\$ 148	\$ 125	\$ 123	\$ 179	\$ 174
Actual		167	214	221	200	199
Difference		19	89	98	21	25



# SINGLE AUDIT SECTION

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Agriculture, U.S. Department of</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$ 1,762,489
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025	260,278
Livestock Assistance Program	Agriculture, Department of	10.066	3,627,091
Wetlands Reserve Program	Game and Parks Commission	10.072	227,903
Federal-State Marketing Improvement Program	Corn Board	10.156	17,000
Grants for Agricultural Research - Competitive Research Grants	Corn Board	10.206	89,341
State Mediation Grants	Agriculture, Department of	10.435	165,786
Rural Community Development Initiative	Economic Development, Department of	10.446	287,392
Food Donation	Health and Human Services System	10.550 ^	8,399,255
Food Stamp Cluster:			
Food Stamps	Health and Human Services System	10.551 * ^	126,571,682
State Administrative Matching Grants for Food Stamp Program	Health and Human Services System	10.561 * ^	15,392,146
Child Nutrition Cluster:			
School Breakfast Program	Education, Department of	10.553	9,262,263
National School Lunch Program	Education, Department of	10.555	42,692,886
Special Milk Program for Children	Education, Department of	10.556	60,749
Summer Food Service Program for Children	Education, Department of	10.559	975,645
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services System	10.557	24,841,176
Child and Adult Care Food Program	Education, Department of	10.558	23,842,159
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,085,671
State Administrative Expenses for Child Nutrition	Health and Human Services System	10.560	113,571
Commodity Supplemental Food Program	Health and Human Services System	10.565 ^	2,901,785
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Health and Human Services System	10.568	217,556
Emergency Food Assistance Program (Food Commodities)	Health and Human Services System	10.569 ^	815,640
Team Nutrition Grants	Education, Department of	10.574	35,928
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576	209,826
Emerging Markets Program	Corn Board	10.603	33,745
Soil and Water Conservation	Natural Resources, Department of	10.902	(20,373)
Soil and Water Conservation	Game and Parks Commission	10.902	10,000
Environmental Quality Incentives Program	Corn Board	10.912	11,026
National Rural Development Partnership	Rural Development Commission	43-3157-8-RDP03	7,360
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A	134,665
FSIS/FERN Lab	Agriculture, Department of	FSIS - C-38-2005	29,827
<b>Total U.S. Department of Agriculture</b>			<b>\$ 264,061,468</b>

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Commerce, U.S. Department of</b>			
Public Telecommunications Facilities Planning and Construction	Educational Telecommunications Commission	11.550	\$ 38,046
Manufacturing Extension Partnership	Economic Development, Department of	11.611 *	451,571
<b>Total U.S. Department of Commerce</b>			<u>\$ 489,617</u>
<b>Corporation for National and Community Service</b>			
State Commissions	Health and Human Services System	94.003	\$ 120,125
Learn and Serve America - School and Community Based Programs	Education, Department of	94.004	106,431
Americorps	Health and Human Services System	94.006	1,204,205
Planning and Program Development Grants	Health and Human Services System	94.007	21,078
Training and Technical Assistance	Health and Human Services System	94.009	72,363
<b>Total Corporation for National and Community Service</b>			<u>\$ 1,524,202</u>
<b>Defense, U.S. Department of</b>			
Military Construction, National Guard	Military Department	12.400	\$ 1,284,567
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401 *	11,825,307
National Guard Civilian Youth Opportunities	Military Department	12.404	293,810
Defense Environmental Restoration Program	Environmental Quality, Department of	NE-03-01	157,975
US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	1,675,521
<b>Total U.S. Department of Defense</b>			<u>\$ 15,237,180</u>
<b>Education, U.S. Department of</b>			
Adult Education - State Grant Program	Education, Department of	84.002	\$ 2,626,369
Title 1 Grants to Local Educational Agencies	Education, Department of	84.010 *	49,492,570
Migrant Education - State Grant Program	Education, Department of	84.011	4,739,315
Title 1 Program for Neglected and Delinquent Children	Education, Department of	84.013	228,685
Special Education Cluster:			
Special Education - Grants to States	Education, Department of	84.027	68,810,201
Special Education - Preschool Grants	Education, Department of	84.173	2,155,467
Vocational Education - Basic Grants to States	Education, Department of	84.048	7,473,153
Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069	578,665
Rehabilitation Services - Vocational Rehabilitation Grants to States	Blind and Visually Impaired Commission	84.126 *	2,604,755

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\* - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Education, U.S. Department of, Continued:</b>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, Department of	84.126 *	15,428,800
Rehabilitation Services - Client Assistance Program	Education, Department of	84.161	89,507
Independent Living - State Grants	Blind and Visually Impaired Commission	84.169	45,966
Independent Living - State Grants	Education, Department of	84.169	362,863
Paul Douglas Teacher Scholarships	Education, Department of	84.176	(32,823)
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired Commission	84.177	227,307
Special Education - Grants for Infants and Families with Disabilities	Education, Department of	84.181	2,884,588
Byrd Honors Scholarships	Education, Department of	84.185	238,500
Safe and Drug-Free Schools and Communities - State Grants	Education, Department of	84.186	1,727,081
Safe and Drug-Free Schools and Communities - State Grants	Health and Human Services System	84.186	460,289
Supported Employment Services for Individuals with Severe Disabilities	Blind and Visually Impaired Commission	84.187	1,841
Supported Employment Services for Individuals with Severe Disabilities	Education, Department of	84.187	103,311
Education for Homeless Children and Youth	Education, Department of	84.196	262,010
Star Schools	Education, Department of	84.203	10,391
Even Start - State Educational Agencies	Education, Department of	84.213	758,160
Fund for the Improvement of Education	Education, Department of	84.215	58,982
Assistive Technology	Education, Department of	84.224	647,341
Tech-Prep Education	Education, Department of	84.243	448,758
National Institute for Literacy	Education, Department of	84.257	3,901
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired Commission	84.265	27,431
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	30,657
Twenty-First Century Community Learning Centers	Education, Department of	84.287	4,381,836
Foreign Language Assistance	Education, Department of	84.293	136,685
State Grants for Innovative Programs	Education, Department of	84.298	998,805
Education Technology State Grants	Education, Department of	84.318	2,477,870
Special Education - State Personnel Development	Education, Department of	84.323	357,854
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	359,575
Advanced Placement Program	Education, Department of	84.330	5,000
Grants to States for Incarcerated Youth Offenders	Corrections, Department of	84.331	36,929
Comprehensive School Reform Demonstration	Education, Department of	84.332	1,118,346
Vocational Education - Occupational and Employment Information State Grants	Education, Department of	84.346	16,866
Transition to Teaching	Education, Department of	84.350	117,935
Reading First State Grants	Education, Department of	84.357	4,376,949

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Education, U.S. Department of, Continued:</b>			
Rural Education	Education, Department of	84.358	91,726
English Language Acquisition Grants	Education, Department of	84.365	2,249,435
Mathematics & Science Partnerships	Education, Department of	84.366	726,665
Improving Teacher Quality State Grants	Education, Department of	84.367 *	16,027,866
Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367 *	393,836
Grants for State Assessments and Related Activities	Education, Department of	84.369	4,692,966
Special Education - Technical Assistance on State Data Collection	Education, Department of	84.373	242,790
Hurricane Education Recovery	Education, Department of	84.938	411,840
<b>Total U.S. Department of Education</b>			<u>\$ 201,715,815</u>
<b>Election Assistance Commission</b>			
Help America Vote Act Requirements Payments	Secretary of State	90.401 *	\$ 932,075
<b>Total Election Assistance Commission</b>			<u>\$ 932,075</u>
<b>Energy, U.S. Department of</b>			
National Energy Information Center	Governor	81.039	\$ 6,000
State Energy Program	Governor	81.041	345,144
Weatherization Assistance for Low-Income Persons	Governor	81.042	2,405,244
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Governor	81.117	25,244
State Energy Program Special Projects	Governor	81.119	124,441
<b>Total U.S. Department of Energy</b>			<u>\$ 2,906,073</u>
<b>Environmental Protection Agency, U.S.</b>			
State Indoor Radon Grants	Health and Human Services System	66.032	\$ 147,878
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	287,419
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Health and Human Services System	66.034	14,294
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	66,677
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	Health and Human Services System	66.424	14,000
State Public Water System Supervision	Health and Human Services System	66.432	1,120,084
State Underground Water Source Protection	Environmental Quality, Department of	66.433	102,329
State Underground Water Source Protection	Oil and Gas Commission	66.433	97,306

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Environmental Protection Agency, U.S., Continued:</b>			
Targeted Watersheds Grants	Environmental Quality, Department of	66.439	26,668
Water Quality Management Planning	Environmental Quality, Department of	66.454	85,193
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	4,424,300
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	3,963,807
Regional Wetland Program Development Grants	Game and Parks Commission	66.461	102,517
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	71,074
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467	30,364
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	4,358,458
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Health and Human Services System	66.471	64,666
Water Protection Grants to the States	Health and Human Services System	66.474	24,720
State and Tribal Underground Storage Tanks Program	Fire Marshal	66.804	107,017
Performance Partnership Grants	Environmental Quality, Department of	66.605	3,560,586
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608	184,967
Environmental Information Exchange Network Grant Program and Related Assistance	Health and Human Services System	66.608	82,149
Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700	691,408
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services System	66.707	250,291
Pollution Prevention Grants Program	Environmental Quality, Department of	66.708	111,781
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	Environmental Quality, Department of	66.802	339,541
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	Health and Human Services System	66.802	8,577
Leaking Underground Storage Tank Trust Fund Program	Environmental Quality, Department of	66.805	495,256
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	161,077
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	479,133
<b>Total U.S. Environmental Protection Agency</b>			<u>\$ 21,473,537</u>
<b>Equal Employment Opportunity Commission, U.S.</b>			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	\$ 596,657
<b>Total U.S. Equal Employment Opportunity Commission</b>			<u>\$ 596,657</u>
<b>General Services Administration</b>			
Donation of Federal Surplus Personal Property	Corrections, Department of	39.003	\$ 1,033,948
<b>Total General Services Administration</b>			<u>\$ 1,033,948</u>

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services, U.S. Department of</b>			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services System	93.006	\$ 142,043
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	14,990
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	Health and Human Services System	93.042	102,042
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	Health and Human Services System	93.043	114,208
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 *	2,107,376
Special Programs for the Aging - Title III, Part C - Nutrition Services	Health and Human Services System	93.045 *	3,819,116
Nutrition Services Incentive Program	Health and Human Services System	93.053 *	1,234,395
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	Health and Human Services System	93.048	179,290
Alzheimer's Disease Demonstration Grants to States	Health and Human Services System	93.051	131,926
National Family Caregiver Support	Health and Human Services System	93.052	1,123,423
Food and Drug Administration - Research	Agriculture, Department of	93.103	4,658
Maternal and Child Health Federal Consolidated Programs	Health and Human Services System	93.110	449,424
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services System	93.116	186,711
Emergency Medical Services for Children	Health and Human Services System	93.127	76,433
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services System	93.130	157,319
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services System	93.136	366,824
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services System	93.150	284,108
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	80,077
Family Planning - Services	Health and Human Services System	93.217	1,819,768
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services System	93.230	2,079,247
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	132,239
Abstinence Education Program	Health and Human Services System	93.235	189,480
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	Health and Human Services System	93.238	75,478
State Rural Hospital Flexibility Program	Health and Human Services System	93.241	545,004
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Health and Human Services System	93.243	1,117,841
Universal Newborn Hearing Screening	Health and Human Services System	93.251	137,572
State Planning Grant Health Care Access for the Uninsured	Health and Human Services System	93.256	65,326
Rural Access to Emergency Devices Grant	Health and Human Services System	93.259	144,848

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Immunization Grants	Health and Human Services System	93.268 ^	12,911,093
Drug Abuse and Addiction Research Programs	Health and Human Services System	93.279	26,744
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Health and Human Services System	93.283 *	15,394,401
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Labor, Department of	93.283 *	34,312
Small Rural Hospital Improvement Grant Program	Health and Human Services System	93.301	589,644
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	242,128
Promoting Safe and Stable Families	Health and Human Services System	93.556	2,000,404
Temporary Assistance for Needy Families	Health and Human Services System	93.558 * ^	30,197,651
Child Support Enforcement	Health and Human Services System	93.563 ^	28,831,818
Child Support Enforcement Research	Health and Human Services System	93.564	12,844
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services System	93.566	572,789
Low-Income Home Energy Assistance	Health and Human Services System	93.568 *	17,461,804
Low-Income Home Energy Assistance	Governor	93.568 *	3,922,342
Community Services Block Grant	Health and Human Services System	93.569	4,361,761
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	Health and Human Services System	93.571	19,157
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services System	93.575 * ^	21,183,696
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services System	93.596 * ^	22,716,602
Refugee and Entrant Assistance - Discretionary Grants	Health and Human Services System	93.576	216,429
Empowerment Zones Program	Health and Human Services System	93.585	4,000
State Court Improvement Program	Supreme Court, Nebraska	93.586	201,952
Grants to States for Access and Visitation Programs	Health and Human Services System	93.597	84,614
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services System	93.599	792,430
Head Start	Education, Department of	93.600	107,806
Adoption Incentive Payments	Health and Human Services System	93.603	352,000
Voting Access for Individuals with Disabilities - Grants to States	Secretary of State	93.617	85,744
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	470,685
Children's Justice Grants to States	Health and Human Services System	93.643	175,310
Child Welfare Services - State Grants	Health and Human Services System	93.645	1,443,946
Social Services Research and Demonstration	Health and Human Services System	93.647	110,747
Foster Care - Title IV-E	Health and Human Services System	93.658 * ^	24,397,966
Adoption Assistance	Health and Human Services System	93.659 * ^	8,267,441

^ - 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, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Social Services Block Grant	Health and Human Services System	93.667 *	10,802,496
Child Abuse and Neglect State Grants	Health and Human Services System	93.669	151,963
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	Health and Human Services System	93.671	939,976
Chafee Foster Care Independence Program	Health and Human Services System	93.674	1,127,397
State Children's Insurance Program (SCHIP)	Health and Human Services System	93.767 * ^	18,654,407
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services System	93.768	558,685
Medicaid Cluster:			
State Medicaid Fraud Control Units	Attorney General	93.775 *	495,603
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services System	93.777 * ^	3,607,236
Medical Assistance Program (Medicaid)	Health and Human Services System	93.778 * ^	949,696,491
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services System	93.779	615,775
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779	358,219
Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780	1,428,110
National Bioterrorism Hospital Preparedness Program	Health and Human Services System	93.889	3,191,708
Grants to States for Operation of Offices of Rural Health	Health and Human Services System	93.913	132,250
HIV Care Formula Grants	Health and Human Services System	93.917	1,679,097
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938	125,406
HIV Prevention Activities - Health Department Based	Health and Human Services System	93.940	1,178,975
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services System	93.944	144,116
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services System	93.945	319,013
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services System	93.946	107,442
Block Grants for Community Mental Health Services	Health and Human Services System	93.958	1,900,411
Block Grants for Prevention and Treatment of Substance Abuse	Education, Department of	93.959 *	61,312
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services System	93.959 *	7,215,134
Preventive Health Services - Sexually Transmitted Diseases Control Grants	Health and Human Services System	93.977	468,356
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services System	93.988	301,282
Preventive Health and Health Services Block Grant	Health and Human Services System	93.991	1,703,507
Maternal and Child Health Services Block Grant to The States	Health and Human Services System	93.994	3,477,325
National Center for Health Statistics	Health and Human Services System	200-2000-07227	251,697
Food/Grain Warehouse Inspection	Agriculture, Department of	HHSF223200540035P	71,199

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Feed Establishment & BSE Inspection Contract	Agriculture, Department of	HHSF223200640123P	107,062
FDA Partnership Agreement	Agriculture, Department of	N/A	7,568
<b>Total U.S. Department of Health and Human Services</b>			<u>\$ 1,225,170,644</u>
<b>Homeland Security, U.S. Department of</b>			
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	Military Department	97.004 *	\$ 7,511,057
Homeland Security Grant Program	Military Department	97.067 *	9,140,201
Boating Safety Financial Assistance	Game and Parks Commission	97.012	326,604
Pre-Disaster Mitigation (PDM) Competitive Grants	Military Department	97.017	83,902
Pre-Disaster Mitigation (PDM) Competitive Grants	Natural Resources, Department of	97.017	83,577
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	57,783
Crisis Counseling	Health and Human Services System	97.032	293,973
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036	66,060,931
Hazard Mitigation Grant	Military Department	97.039	296,965
National Dam Safety Program	Natural Resources, Department of	97.041	141,542
Emergency Management Performance Grants	Military Department	97.042	1,602,525
State Fire Training Systems Grants	Fire Marshal	97.043	22,900
Cooperating Technical Partners	Natural Resources, Department of	97.045	331,563
Pre-Disaster Mitigation	Military Department	97.047	155,000
Map Modernization Management Support	Natural Resources, Department of	97.070	91,757
Buffer Zone Protection Program (BZPP)	Military Department	97.078	407,303
<b>Total U.S. Department of Homeland Security</b>			<u>\$ 86,607,583</u>
<b>Housing &amp; Urban Development, U.S. Department of</b>			
Community Development Block Grants/State's Program	Economic Development, Department of	14.228	\$ 11,105,652
Emergency Shelter Grants Program	Health and Human Services System	14.231	657,814
HOME Investment Partnerships Program	Economic Development, Department of	14.239	4,186,224
Housing Opportunities for Persons with AIDS	Health and Human Services System	14.241	348,690
Fair Housing Assistance Program-State and Local	Equal Opportunity Commission	14.401	240,368
Healthy Homes Demonstration Grants	Health and Human Services System	14.901	(24,346)
Manufactured Homes	Public Service Commission	DV100K900016698	2,169
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<u>\$ 16,516,571</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Interior, U.S. Department of</b>			
Water Reclamation and Reuse Program	Game and Parks Commission	15.504	\$ 436,465
Cultural Resources Management	Historical Society	15.511	213,876
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Game and Parks Commission	15.605	3,353,252
Wildlife Restoration	Game and Parks Commission	15.611	3,981,980
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	41,170
Fish and Wildlife Management Assistance	Historical Society	15.608	81,552
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	220,155
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	25,320
Sportfishing and Boating Safety Act	Game and Parks Commission	15.622	499,848
Wildlife Conservation and Restoration	Game and Parks Commission	15.625	24,159
Landowner Incentive Program	Game and Parks Commission	15.633	553,420
State Wildlife Grants	Game and Parks Commission	15.634	611,875
Challenge Cost Share	Game and Parks Commission	15.642	12,780
U.S. Geological Survey - Research and Data Collection	Game and Parks Commission	15.808	4,409
Domestic Travel Promotion	Economic Development, Department of	15.901	6,426
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	508,809
Outdoor Recreation - Acquisition, Development and Planning	Game and Parks Commission	15.916	800,774
Reclamation States Emergency Drought Relief	Natural Resources, Department of	03FC601826	23,798
<b>Total U.S. Department of Interior</b>			<b>\$ 11,400,068</b>
<b>Justice, U.S. Department of</b>			
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Military Department	16.007 *	\$ 225,207
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections, Department of	16.202	536,242
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523	387,085
Juvenile Justice and Delinquency Prevention - Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	802,298
Missing Children's Assistance	State Patrol	16.543	181,033
Title V Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548	95,000
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550	55,611
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	802,336
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	374,967

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2007

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Justice, U.S. Department of, Continued:</b>			
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,584,989
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	40,658
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579	2,049,129
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	State Patrol	16.580	385,721
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Corrections, Department of	16.586	698,542
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	1,123,910
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Attorney General	16.590	215,337
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	48,477
State Criminal Alien Assistance Program	Corrections, Department of	16.606	43,871
Bulletproof Vest Partnership Program	State Patrol	16.607	13,426
Community Prosecution and Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission for	16.609	195,944
Public Safety Partnership and Community Policing Grants	State Patrol	16.710	160,932
Enforcing Underage Drinking Laws Program	Motor Vehicles, Department of	16.727	481,688
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Corrections, Department of	16.735	90,839
Gang Resistance Education and Training	State Patrol	16.737	9,975
High Intensity Drug	State Patrol	IG-02-0104, I5PMWP634Z	831,770
Misc Federal Funds	Law Enforcement and Criminal Justice, Commission for	N/A	2,250
<b>Total U.S. Department of Justice</b>			<u>\$ 12,437,237</u>
<b>Labor, U.S. Department of</b>			
Labor Force Statistics	Labor, Department of	17.002	\$ 875,179
Compensation and Working Conditions	Workers' Compensation Court	17.005	35,520
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	7,229,796
Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	272,508
Local Veterans' Employment Representative Program	Labor, Department of	17.804	588,653
Unemployment Insurance - Federal	Labor, Department of	17.225	2,210,237
Unemployment Insurance - State	Labor, Department of	17.225	82,464,202
Unemployment Insurance - Admin	Labor, Department of	17.225	16,833,418
Senior Community Service Employment Program	Health and Human Services System	17.235	581,808
Trade Adjustment Assistance	Labor, Department of	17.245	1,507,472
Workforce Investment Act Cluster:			
WIA - Adult Program	Labor, Department of	17.258	3,644,856
WIA - Youth Activities	Labor, Department of	17.259	2,134,391

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\* - Represents major programs.

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Labor, U.S. Department of, Continued:</b>			
WIA - Dislocated Workers	Labor, Department of	17.260	1,621,904
Work Incentive Grants	Labor, Department of	17.266	156,928
Incentive Grants - WIA Section 503	Labor, Department of	17.267	891,644
Work Opportunity Tax Credit Program	Labor, Department of	17.271	98,851
Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273	125,478
Consultation Agreements	Labor, Department of	17.504	702,810
Veterans' Employment Program	Labor, Department of	17.802	369,432
Transition Assistance Program	Labor, Department of	17.807	9,688
<b>Total U.S. Department of Labor</b>			<u>\$ 122,354,775</u>
<b>National Archives and Records Administration</b>			
National Historical Publications and Records Grants	Historical Society	89.003	\$ 1,154
<b>Total National Archives and Records Administration</b>			<u>\$ 1,154</u>
<b>National Foundation on the Arts and the Humanities</b>			
Promotion of the Arts - Grants to Organizations and Individuals	Arts Council	45.024	\$ 42,000
Promotion of the Arts - Partnership Agreements	Arts Council	45.025	609,572
Museums for America	Historical Society	45.301	16,949
Grants to States	Library Commission	45.310	1,445,444
National Leadership Grants	Historical Society	45.312	94,689
Laura Bush 21st Century Librarian Program	Library Commission	45.313	56,244
<b>Total National Foundation on the Arts and the Humanities</b>			<u>\$ 2,264,898</u>
<b>Social Security Administration</b>			
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Education, Department of	96.001	\$ 8,920,585
Supplemental Security Income	Education, Department of	96.006	47,330
Supplemental Security Income	Blind and Visually Impaired Commission	96.006	125,583
<b>Total Social Security Administration</b>			<u>\$ 9,093,498</u>
<b>Transportation, U.S. Department of</b>			
Airport Improvement Program	Aeronautics, Department of	20.106	\$ 16,900,402
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Game and Parks Commission	20.205 *	1,094,210
Highway Planning and Construction	Roads, Department of	20.205 *	227,842,717

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STATE OF NEBRASKA  
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<b>Transportation, U.S. Department of, Continued:</b>			
Motor Carrier Safety	Motor Vehicles, Department of	20.217	104,220
National Motor Carrier Safety	Motor Vehicles, Department of	20.218	24,965
National Motor Carrier Safety	State Patrol	20.218	2,868,674
Commercial Driver License State Programs	Motor Vehicles, Department of	20.232	215,650
Federal Transit - Metropolitan Planning Grants	Roads, Department of	20.505	284,442
Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	3,376,379
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	826,058
Highway Safety Cluster:			
State and Community Highway Safety	Law Enforcement and Criminal Justice, Commission for	20.600	128,214
State and Community Highway Safety	Motor Vehicles, Department of	20.600	1,617,174
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Motor Vehicles, Department of	20.601	1,033,685
Occupant Protection	Motor Vehicles, Department of	20.602	742,123
Federal Highway Safety Data Improvements Incentive Grants	Motor Vehicles, Department of	20.603	38,113
Safety Incentive Grants for Use of Seatbelts	Motor Vehicles, Department of	20.604	113,778
Safety Incentive Grants for Use of Seatbelts	Roads, Department of	20.604	106,775
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Roads, Department of	20.605	952,407
State Traffic Safety Information System Improvement Grants	Motor Vehicles, Department of	20.610	78,607
Incentive Grant Program to Increase Motorcyclist Safety	Motor Vehicles, Department of	20.612	25,925
Pipeline Safety	Fire Marshal	20.700	33,046
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	118,823
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-76	52,790
<b>Total U.S. Department of Transportation</b>			<u>\$ 258,579,177</u>
<b>U.S. Forest Service</b>			
USFS T&E and Sensitive Species	Game and Parks Commission	N/A	\$ 2,579
<b>Total U.S. Forest Service</b>			<u>\$ 2,579</u>
<b>Veterans Affairs, U.S. Department of</b>			
Grants to States for Construction of State Home Facilities	Health and Human Services System	64.005 *	\$ 6,794,702
Veterans State Domiciliary Care	Health and Human Services System	64.014 ^	994,230
Veterans State Nursing Home Care	Health and Human Services System	64.015 ^	8,636,949
<b>Total U.S. Department of Veterans Affairs</b>			<u>\$ 16,425,881</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 2,270,824,637</u>

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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>2007 Expenditures</u>
<b>Aeronautics, Department of</b>			
Airport Improvement Program	Transportation, U.S. Department of	20.106	\$ 16,900,402
<b>Total Department of Aeronautics</b>			<u>\$ 16,900,402</u>
<b>Agriculture, Department of</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 1,762,489
Livestock Assistance Program	Agriculture, U.S. Department of	10.066	3,627,091
State Mediation Grants	Agriculture, U.S. Department of	10.435	165,786
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	209,826
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700	691,408
Food and Drug Administration - Research	Health and Human Services, U.S. Department of	93.103	4,658
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	242,128
Food/Grain Warehouse Inspection	Health and Human Services, U.S. Department of	HHSF223200540035P	71,199
Feed Establishment & BSE Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200640123P	107,062
FSIS/FERN Lab	Agriculture, U.S. Department of	FSIS - C-38-2005	29,827
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	134,665
FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	7,568
<b>Total Department of Agriculture</b>			<u>\$ 7,053,707</u>
<b>Arts Council</b>			
Promotion of the Arts - Grants to Organizations and Individuals	National Foundation on the Arts and the Humanities	45.024	\$ 42,000
Promotion of the Arts - Partnership Agreements	National Foundation on the Arts and the Humanities	45.025	609,572
<b>Total Arts Council</b>			<u>\$ 651,572</u>
<b>Attorney General</b>			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Justice, U.S. Department of	16.590	\$ 215,337
Medicaid Cluster:			
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775 *	495,603
<b>Total Attorney General</b>			<u>\$ 710,940</u>
<b>Blind and Visually Impaired Commission</b>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126 *	\$ 2,604,755
Independent Living - State Grants	Education, U.S. Department of	84.169	45,966
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	227,307

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<b>Blind and Visually Impaired Commission, Continued:</b>			
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	1,841
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	27,431
Disability Insurance/SSI Cluster:			
Supplemental Security Income	Social Security Administration	96.006	125,583
<b>Total Blind and Visually Impaired Commission</b>			<u>\$ 3,032,883</u>
<b>Corn Board</b>			
Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156	\$ 17,000
Grants for Agricultural Research - Competitive Research Grants	Agriculture, U.S. Department of	10.206	89,341
Emerging Markets Program	Agriculture, U.S. Department of	10.603	33,745
Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912	11,026
<b>Total Corn Board</b>			<u>\$ 151,112</u>
<b>Corrections, Department of</b>			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Justice, U.S. Department of	16.202	\$ 536,242
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Justice, U.S. Department of	16.586	698,542
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	43,871
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Justice, U.S. Department of	16.735	90,839
Donation of Federal Surplus Personal Property	General Services Administration	39.003	1,033,948
Grants to States for Incarcerated Youth Offenders	Education, U.S. Department of	84.331	36,929
<b>Total Department of Corrections</b>			<u>\$ 2,440,371</u>
<b>Economic Development, Department of</b>			
Rural Community Development Initiative	Agriculture, U.S. Department of	10.446	\$ 287,392
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611 *	451,571
Community Development Block Grants/State's Program	Housing & Urban Development, U.S. Department of	14.228	11,105,652
HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	4,186,224
Domestic Travel Promotion	Interior, U.S. Department of	15.901	6,426
<b>Total Department of Economic Development</b>			<u>\$ 16,037,265</u>

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<b>Education, Department of</b>			
Child Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	\$ 9,262,263
National School Lunch Program	Agriculture, U.S. Department of	10.555	42,692,886
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	60,749
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	975,645
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	23,842,159
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,085,671
Team Nutrition Grants	Agriculture, U.S. Department of	10.574	35,928
Adult Education - State Grant Program	Education, U.S. Department of	84.002	2,626,369
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010 *	49,492,570
Migrant Education - State Grant Program	Education, U.S. Department of	84.011	4,739,315
Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013	228,685
Special Education Cluster:			
Special Education - Grants to States	Education, U.S. Department of	84.027	68,810,201
Special Education - Preschool Grants	Education, U.S. Department of	84.173	2,155,467
Vocational Education - Basic Grants to States	Education, U.S. Department of	84.048	7,473,153
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126 *	15,428,800
Rehabilitation Services - Client Assistance Program	Education, U.S. Department of	84.161	89,507
Independent Living - State Grants	Education, U.S. Department of	84.169	362,863
Paul Douglas Teacher Scholarships	Education, U.S. Department of	84.176	(32,823)
Special Education - Grants for Infants and Families with Disabilities	Education, U.S. Department of	84.181	2,884,588
Byrd Honors Scholarships	Education, U.S. Department of	84.185	238,500
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	1,727,081
Supported Employment Services for Individuals with Severe Disabilities	Education, U.S. Department of	84.187	103,311
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	262,010
Star Schools	Education, U.S. Department of	84.203	10,391
Even Start - State Educational Agencies	Education, U.S. Department of	84.213	758,160
Fund for the Improvement of Education	Education, U.S. Department of	84.215	58,982
Assistive Technology	Education, U.S. Department of	84.224	647,341
Tech-Prep Education	Education, U.S. Department of	84.243	448,758
National Institute for Literacy	Education, U.S. Department of	84.257	3,901
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	30,657
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	4,381,836

^ - 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, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Education, Department of, Continued:</b>			
Foreign Language Assistance	Education, U.S. Department of	84.293	136,685
State Grants for Innovative Programs	Education, U.S. Department of	84.298	998,805
Education Technology State Grants	Education, U.S. Department of	84.318	2,477,870
Special Education - State Personnel Development	Education, U.S. Department of	84.323	357,854
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	359,575
Advanced Placement Program	Education, U.S. Department of	84.330	5,000
Comprehensive School Reform Demonstration	Education, U.S. Department of	84.332	1,118,346
Vocational Education - Occupational and Employment Information State Grants	Education, U.S. Department of	84.346	16,866
Transition to Teaching	Education, U.S. Department of	84.350	117,935
Reading First State Grants	Education, U.S. Department of	84.357	4,376,949
Rural Education	Education, U.S. Department of	84.358	91,726
English Language Acquisition Grants	Education, U.S. Department of	84.365	2,249,435
Mathematics & Science Partnerships	Education, U.S. Department of	84.366	726,665
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367 *	16,027,866
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	4,692,966
Special Education - Technical Assistance on State Data Collection	Education, U.S. Department of	84.373	242,790
Hurricane Education Recovery	Education, U.S. Department of	84.938	411,840
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	132,239
Head Start	Health and Human Services, U.S. Department of	93.600	107,806
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	125,406
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959 *	61,312
Learn and Serve America - School and Community Based Programs	Corporation For National and Community Service	94.004	106,431
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Social Security Administration	96.001	8,920,585
Supplemental Security Income	Social Security Administration	96.006	47,330
<b>Total Department of Education</b>			<u>\$ 284,795,206</u>
<b>Educational Telecommunications Commission</b>			
Public Telecommunications Facilities Planning and Construction	Commerce, U.S. Department of	11.550	\$ 38,046
<b>Total Educational Telecommunications Commission</b>			<u>\$ 38,046</u>

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\* - Represents major programs.

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Environmental Quality, Department of</b>			
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	\$ 287,419
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	66,677
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	102,329
Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439	26,668
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	85,193
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	4,424,300
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	3,963,807
Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463	71,074
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467	30,364
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	4,358,458
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	3,560,586
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	184,967
Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708	111,781
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	339,541
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	495,256
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	161,077
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	479,133
Defense Environmental Restoration Program	Defense, U.S. Department of	NE-03-1	157,975
<b>Total Department of Environmental Quality</b>			<u>\$ 18,906,605</u>
<b>Equal Opportunity Commission</b>			
Fair Housing Assistance Program - State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 240,368
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002	596,657
<b>Total Equal Opportunity Commission</b>			<u>\$ 837,025</u>
<b>Fire Marshal</b>			
Pipeline Safety	Transportation, U.S. Department of	20.700	\$ 33,046
State and Tribal Underground Storage Tanks Program	Environmental Protection Agency, U.S.	66.804	107,017
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	22,900
<b>Total Fire Marshal</b>			<u>\$ 162,963</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Game and Parks Commission</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 260,278
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	227,903
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	10,000
Water Reclamation and Reuse Program	Interior, U.S. Department of	15.504	436,465
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Interior, U.S. Department of	15.605	3,353,252
Wildlife Restoration	Interior, U.S. Department of	15.611	3,981,980
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	41,170
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	220,155
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	25,320
Sportfishing and Boating Safety Act	Interior, U.S. Department of	15.622	499,848
Wildlife Conservation and Restoration	Interior, U.S. Department of	15.625	24,159
Landowner Incentive Program	Interior, U.S. Department of	15.633	553,420
State Wildlife Grants	Interior, U.S. Department of	15.634	611,875
Challenge Cost Share	Interior, U.S. Department of	15.642	12,780
U.S. Geological Survey - Research and Data Collection	Interior, U.S. Department of	15.808	4,409
Outdoor Recreation - Acquisition, Development and Planning	Interior, U.S. Department of	15.916	800,774
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205 *	1,094,210
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	102,517
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	326,604
US Army Corps of Engineers	Defense, U.S. Department of	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	1,675,521
USFS T&E and Sensitive Species	U.S. Forest Service	N/A	2,579
<b>Total Game and Parks Commission</b>			<b>\$ 14,265,219</b>
<b>Governor</b>			
National Energy Information Center	Energy, U.S. Department of	81.039	\$ 6,000
State Energy Program	Energy, U.S. Department of	81.041	345,144
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	2,405,244

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\* - Represents major programs.

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Governor, Continued:</b>			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Energy, U.S. Department of	81.117	25,244
State Energy Program Special Projects	Energy, U.S. Department of	81.119	124,441
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568 *	3,922,342
<b>Total Governor</b>			<u>\$ 6,828,415</u>
<b>Health and Human Services System</b>			
Food Donation	Agriculture, U.S. Department of	10.550 ^	\$ 8,399,255
Food Stamp Cluster:			
Food Stamps	Agriculture, U.S. Department of	10.551 * ^	126,571,682
State Administrative Matching Grants for Food Stamp Program	Agriculture, U.S. Department of	10.561 * ^	15,392,146
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	24,841,176
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	113,571
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565 ^	2,901,785
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	217,556
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569 ^	815,640
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	657,814
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	348,690
Healthy Homes Demonstration Grants	Housing & Urban Development, U.S. Department of	14.901	(24,346)
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	581,808
Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005 *	6,794,702
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014 ^	994,230
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015 ^	8,636,949
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	147,878
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	14,294
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	Environmental Protection Agency, U.S.	66.424	14,000
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	1,120,084
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471	64,666
Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474	24,720
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	82,149
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	250,291

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services System, Continued:</b>			
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	8,577
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	460,289
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006	142,043
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	14,990
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	102,042
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	Health and Human Services, U.S. Department of	93.043	114,208
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 *	2,107,376
Special Programs for the Aging - Title III, Part C - Nutrition Services	Health and Human Services, U.S. Department of	93.045 *	3,819,116
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053 *	1,234,395
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	Health and Human Services, U.S. Department of	93.048	179,290
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, U.S. Department of	93.051	131,926
National Family Caregiver Support	Health and Human Services, U.S. Department of	93.052	1,123,423
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	449,424
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	186,711
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	76,433
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130	157,319
Injury Prevention and Control Research and State And Community Based Programs	Health and Human Services, U.S. Department of	93.136	366,824
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	284,108
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	80,077
Family Planning - Services	Health and Human Services, U.S. Department of	93.217	1,819,768
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services, U.S. Department of	93.230	2,079,247
Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	189,480
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	Health and Human Services, U.S. Department of	93.238	75,478
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	545,004
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	1,117,841
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	137,572

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STATE OF NEBRASKA  
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For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services System, Continued:</b>			
State Planning Grant Health Care Access for the Uninsured	Health and Human Services, U.S. Department of	93.256	65,326
Rural Access to Emergency Devices Grant	Health and Human Services, U.S. Department of	93.259	144,848
Immunization Grants	Health and Human Services, U.S. Department of	93.268 ^	12,911,093
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	26,744
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283 *	15,394,401
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	589,644
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	2,000,404
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558 * ^	30,197,651
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563 ^	28,831,818
Child Support Enforcement Research	Health and Human Services, U.S. Department of	93.564	12,844
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services, U.S. Department of	93.566	572,789
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568 *	17,461,804
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	4,361,761
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	Health and Human Services, U.S. Department of	93.571	19,157
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575 * ^	21,183,696
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596 * ^	22,716,602
Refugee and Entrant Assistance - Discretionary Grants	Health and Human Services, U.S. Department of	93.576	216,429
Empowerment Zones Program	Health and Human Services, U.S. Department of	93.585	4,000
Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	84,614
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599	792,430
Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603	352,000
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	470,685
Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	175,310
Child Welfare Services - State Grants	Health and Human Services, U.S. Department of	93.645	1,443,946
Social Services Research and Demonstration	Health and Human Services, U.S. Department of	93.647	110,747
Foster Care - Title IV-E	Health and Human Services, U.S. Department of	93.658 * ^	24,397,966
Adoption Assistance	Health and Human Services, U.S. Department of	93.659 * ^	8,267,441
Social Services Block Grant	Health and Human Services, U.S. Department of	93.667 *	10,802,496
Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	151,963

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**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Health and Human Services System, Continued:</b>			
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	939,976
Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674	1,127,397
State Children's Insurance Program (SCHIP)	Health and Human Services, U.S. Department of	93.767 * ^	18,654,407
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768	558,685
Medicaid Cluster:			
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777 * ^	3,607,236
Medical Assistance Program (Medicaid)	Health and Human Services, U.S. Department of	93.778 * ^	949,696,491
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	615,775
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	3,191,708
Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913	132,250
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917	1,679,097
HIV Prevention Activities - Health Department Based	Health and Human Services, U.S. Department of	93.940	1,178,975
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944	144,116
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945	319,013
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946	107,442
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	1,900,411
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959 *	7,215,134
Preventive Health Services - Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	468,356
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988	301,282
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,703,507
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	3,477,325
State Commissions	Corporation For National and Community Service	94.003	120,125
AmeriCorps	Corporation For National and Community Service	94.006	1,204,205
Planning and Program Development Grants	Corporation For National and Community Service	94.007	21,078
Training and Technical Assistance	Corporation For National and Community Service	94.009	72,363
Crisis Counseling	Homeland Security, U.S. Department of	97.032	293,973
National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227	251,697
<b>Total Health and Human Services System</b>			<b>\$ 1,418,926,334</b>

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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>2007 Expenditures</u>
<b>Historical Society</b>			
Cultural Resources Management	Interior, U.S. Department of	15.511	\$ 213,876
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	81,552
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	508,809
Museums for America	National Foundation on the Arts and the Humanities	45.301	16,949
National Leadership Grants	National Foundation on the Arts and the Humanities	45.312	94,689
National Historical Publications and Records Grants	National Archives and Records Administration	89.003	1,154
<b>Total Historical Society</b>			<u>\$ 917,029</u>
<b>Insurance, Department of</b>			
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	Health and Human Services, U.S. Department of	93.779	\$ 358,219
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	1,428,110
<b>Total Department of Insurance</b>			<u>\$ 1,786,329</u>
<b>Labor, Department of</b>			
Labor Force Statistics	Labor, U.S. Department of	17.002	\$ 875,179
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	7,229,796
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	272,508
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	588,653
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	2,210,237
Unemployment Insurance - State	Labor, U.S. Department of	17.225	82,464,202
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	16,833,418
Trade Adjustment Assistance	Labor, U.S. Department of	17.245	1,507,472
Workforce Investment Act Cluster:			
WIA Adult Program	Labor, U.S. Department of	17.258	3,644,856
WIA Youth Activities	Labor, U.S. Department of	17.259	2,134,391
WIA Dislocated Workers	Labor, U.S. Department of	17.260	1,621,904
Work Incentive Grants	Labor, U.S. Department of	17.266	156,928
Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267	891,644
Work Opportunity Tax Credit Program	Labor, U.S. Department of	17.271	98,851
Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	125,478
Consultation Agreements	Labor, U.S. Department of	17.504	702,810

^ - 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, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Labor, Department of, Continued:</b>			
Veterans' Employment Program	Labor, U.S. Department of	17.802	369,432
Transition Assistance Program	Labor, U.S. Department of	17.807	9,688
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283 *	34,312
<b>Total Department of Labor</b>			<u>\$ 121,771,759</u>
<b>Law Enforcement and Criminal Justice, Commission for</b>			
Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	\$ 387,085
Juvenile Justice and Delinquency Prevention - Allocation to States	Justice, U.S. Department of	16.540	802,298
Title V Delinquency Prevention Program	Justice, U.S. Department of	16.548	95,000
State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	55,611
Crime Victim Assistance	Justice, U.S. Department of	16.575	2,584,989
Crime Victim Compensation	Justice, U.S. Department of	16.576	40,658
Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	2,049,129
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,123,910
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	48,477
Community Prosecution and Project Safe Neighborhoods	Justice, U.S. Department of	16.609	195,944
State and Community Highway Safety	Transportation, U.S. Department of	20.600	128,214
Misc Federal Funds	Justice, U.S. Department of	N/A	2,250
<b>Total Commission for Law Enforcement and Criminal Justice</b>			<u>\$ 7,513,565</u>
<b>Library Commission</b>			
Grants to States	National Foundation on the Arts and the Humanities	45.310	\$ 1,445,444
Laura Bush 21st Century Librarian Program	National Foundation on the Arts and the Humanities	45.313	56,244
<b>Total Library Commission</b>			<u>\$ 1,501,688</u>
<b>Military Department</b>			
Military Construction, National Guard	Defense, U.S. Department of	12.400	\$ 1,284,567
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401 *	11,825,307
National Guard Civilian Youth Opportunities	Defense, U.S. Department of	12.404	293,810
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Justice, U.S. Department of	16.007 *	225,207
State Domestic Preparedness Equipment Support Program	Homeland Security, U.S. Department of	97.004 *	7,511,057
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067 *	9,140,201

^ - 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, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Military Department, Continued:</b>			
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	118,823
Pre-Disaster Mitigation (PDM) Competitive Grants	Homeland Security, U.S. Department of	97.017	83,902
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	66,060,931
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039	296,965
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042	1,602,525
Pre-Disaster Mitigation Grant	Homeland Security, U.S. Department of	97.047	155,000
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078	407,303
<b>Total Military Department</b>			<u>\$ 99,005,598</u>
<b>Motor Vehicles, Department of</b>			
Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	\$ 481,688
Motor Carrier Safety	Transportation, U.S. Department of	20.217	104,220
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	24,965
Commercial Driver License State Programs	Transportation, U.S. Department of	20.232	215,650
Highway Safety Cluster:			
State and Community Highway Safety	Transportation, U.S. Department of	20.600	1,617,174
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Transportation, U.S. Department of	20.601	1,033,685
Occupant Protection	Transportation, U.S. Department of	20.602	742,123
Federal Highway Safety Data Improvements Incentive Grants	Transportation, U.S. Department of	20.603	38,113
Safety Incentive Grants for Use of Seatbelts	Transportation, U.S. Department of	20.604	113,778
State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	78,607
Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	25,925
<b>Total Department of Motor Vehicles</b>			<u>\$ 4,475,928</u>
<b>Natural Resources, Department of</b>			
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	\$ (20,373)
Pre-Disaster Mitigation (PDM) Competitive Grants	Homeland Security, U.S. Department of	97.017	83,577
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	57,783
National Dam Safety Program	Homeland Security, U.S. Department of	97.041	141,542
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045	331,563
Map Modernization Management Support	Homeland Security, U.S. Department of	97.070	91,757
Reclamations States Emergency Drought Relief	Interior, U.S. Department of	03FC601826	23,798
<b>Total Department of Natural Resources</b>			<u>\$ 709,647</u>

^ - 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, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Oil and Gas Commission</b>			
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	\$ 97,306
<b>Total Oil and Gas Commission</b>			<u>\$ 97,306</u>
<b>Postsecondary Education, Coordinating Commission for</b>			
Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069	\$ 578,665
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367 *	393,836
<b>Total Coordinating Commission for Postsecondary Education</b>			<u>\$ 972,501</u>
<b>Public Service Commission</b>			
Manufactured Homes	Housing & Urban Development, U.S. Department of	DU100K900016698	\$ 2,169
<b>Total Public Service Commission</b>			<u>\$ 2,169</u>
<b>Roads, Department of</b>			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205 *	\$ 227,842,717
Federal Transit-Metropolitan Planning Grants	Transportation, U.S. Department of	20.505	284,442
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	3,376,379
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	826,058
Highway Safety Cluster:			
Safety Incentive Grants for Use of Seatbelts	Transportation, U.S. Department of	20.604	106,775
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605	952,407
Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-763	52,790
<b>Total Department of Roads</b>			<u>\$ 233,441,568</u>
<b>Rural Development Commission</b>			
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	\$ 7,360
<b>Total Rural Development Commission</b>			<u>\$ 7,360</u>

^ - 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, 2007

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2007 Expenditures</u>
<b>Secretary of State</b>			
Help America Vote Act Requirements Payments	Election Assistance Commission	90.401 *	\$ 932,075
Voting Access for Individuals with Disabilities - Grants to States	Health and Human Services, U.S. Department of	93.617	85,744
<b>Total Secretary of State</b>			<u>\$ 1,017,819</u>
<b>State Patrol</b>			
Missing Children's Assistance	Justice, U.S. Department of	16.543	\$ 181,033
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	802,336
National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	374,967
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Justice, U.S. Department of	16.580	385,721
Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607	13,426
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	160,932
Gang Resistance Education and Training	Justice, U.S. Department of	16.737	9,975
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,868,674
High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z	831,770
<b>Total State Patrol</b>			<u>\$ 5,628,834</u>
<b>Supreme Court, Nebraska</b>			
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	\$ 201,952
<b>Total Nebraska Supreme Court</b>			<u>\$ 201,952</u>
<b>Worker's Compensation Court</b>			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	\$ 35,520
<b>Total Worker's Compensation Court</b>			<u>\$ 35,520</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 2,270,824,637</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, 2007

**(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, 2007.

Federal awards 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 award 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.

**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.



STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2007

(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; nonetheless, 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 benefits 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, 2007, the inventory balance of nonmonetary assistance for Food Commodities at the State level was \$1,479,210.

(4) **Commodity Supplemental Food Program and Childhood Immunization Grants**

As described in Note 2, expenditures for the Commodity Supplemental Food program included \$2,109,122 of nonmonetary federal assistance in the form of food commodities. The U.S. Department of Agriculture, upon direction from the Health and Human Services System, delivers the commodities directly to the subrecipients for distribution. The Childhood Immunization Grants included expenditures of \$11,045,393 of nonmonetary federal assistance in the form of vaccines.

STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2007

**(5) Surplus Property Program**

The State agency responsible for surplus property distributes federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property program. Donated federal surplus personal property was valued at the historical cost of \$6,892,985 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 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 for which the federal government imposes continuing compliance requirements (other than repayment of the loan) on the following outstanding balances:

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding Balance at June 30, 2007</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 145,033,060
66.468	Capitalization Grants for Drinking Water State Revolving Funds	68,881,850
84.176	Paul Douglass Teacher Scholarship Loan Program	35,621

New loans provided from these programs totaling \$7,725,041 are included as current year expenditures on the Schedule.

**(7) 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.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### **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, 2007, and have issued our report thereon dated December 28, 2007. Our report was modified to include a reference to 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. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Nebraska's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the State of Nebraska's financial statements that is more than inconsequential will not be prevented or detected by the State of Nebraska's internal control. We consider the following deficiencies described in the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting: findings #07-13-01, #07-16-01, #07-16-02, #07-23-01, #07-26-01, #07-65-01, #07-65-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State of Nebraska's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider findings #07-13-01 and #07-65-01 to be material weaknesses.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the State of Nebraska's 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 matters that we reported to the management of the various agencies of the State of Nebraska in separate letters.

The State of Nebraska's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Nebraska's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, others within the government of the State of Nebraska, 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  
December 28, 2007



Assistant Deputy Auditor





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### **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, 2007. 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, 2007. 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.

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.

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
90.401	Help America Vote Act Requirements Payments	Equipment	07-09-01
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	07-26-06
93.558	Temporary Assistance for Needy Families	Reporting	07-26-10
93.575, 93.596	Child Care and Development Fund Cluster	Allowability/Eligibility	07-26-12
93.775, 93.777, 93.778	Medicaid Cluster	Reporting	07-26-22
93.775, 93.777, 93.778	Medicaid Cluster	Special Tests and Provisions	07-26-23
97.004, 97.067	Homeland Security Grant Program	Reporting	07-31-03

## 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.

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
64.005	Grants to States for Construction of State Home Facilities	Davis-Bacon Act	07-26-02
93.667	Social Services Block Grant	Allowability	07-26-16

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, 2007.

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.

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions	07-13-02
93.044, 93.045, 93.053	Aging Cluster	Subrecipient Monitoring	07-26-03
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	07-26-04
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Reporting/Matching	07-26-05
93.558	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	07-26-07
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	07-26-08
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	07-26-09
93.568	Low-Income Home Energy Assistance Program	Activities Allowed/Eligibility	07-26-11
93.658	Foster Care Title IV-E	Allowability/Eligibility	07-26-13
93.658	Foster Care Title IV-E	Reporting	07-26-14

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
93.659	Adoption Assistance	Allowability/Eligibility	07-26-15
93.767	State Children's Insurance Program	Reporting	07-26-17
93.767	State Children's Insurance Program	Eligibility	07-26-18
93.778	Medicaid	Allowability/Matching/ Reporting	07-26-19
93.778	Medicaid	Allowability/Period of Availability	07-26-20
93.778	Medicaid	Allowable Costs/ Cost Principles	07-26-21
93.778	Medicaid	Special Tests and Provisions	07-26-24
93.778	Medicaid	Allowable Costs/Cost Principles	07-26-25
93.674, 93.778, 93.959	Chafee Foster Care Independence Program; Medicaid; Prevention and Treatment of Substance Abuse	Allowable Costs/Cost Principles	07-26-26
Various	All programs administered by the Agency	Allowable Costs/Cost Principles	07-26-27
93.575, 93.596, 93.658, 93.667, 93.777, 93.778	Child Care Cluster; Foster Care; Social Services Block Grant; Medicaid Cluster	Allowable Costs/Cost Principles	07-26-28
Various	Various	Allowable Costs/Cost Principles	07-26-29
12.401	National Guard Military Operations and Maintenance	Allowable Costs/Cost Principles	07-31-01
97.067	Homeland Security Grant Program	Reporting	07-31-02
Various	Various	Reporting	07-33-01
15.904	Historic Preservation	Reporting/Matching	07-54-01



<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
15.511	Cultural Resources Management	Allowable Costs/Cost Principles	07-54-02
15.608	Fish and Wildlife Management Assistance	Allowability/Cash Management	07-54-03
11.611	Manufacturing Extension Partnership	Allowability/Subrecipient Monitoring	07-72-01
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs/Cost Principles	07-81-01

### ***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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State of Nebraska’s internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity’s internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #07-09-01, #07-26-02, #07-26-03, #07-26-04, #07-26-05, #07-26-06, #07-26-07, #07-26-10, #07-26-11, #07-26-12, #07-26-13, #07-26-14, #07-26-15, #07-26-16, #07-26-18, #07-26-19, #07-26-22, #07-26-23, #07-31-02, #07-31-03, and #07-72-01 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items #07-09-01, #07-26-02, #07-26-03, #07-26-06, #07-26-10, #07-26-12, #07-26-16, #07-26-18, #07-26-23, and #07-31-03 to be material weaknesses.

The State of Nebraska's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Nebraska's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, others within the government of the State of Nebraska, 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 13, 2008

  
Assistant Deputy Auditor

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2007

**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) Significant deficiencies 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 #07-13-01, #07-16-01, #07-16-02, #07-23-01, #07-26-01, #07-65-01, and #07-65-02. We consider items #07-13-01 and #07-65-01 to be material weaknesses.
- c) The audit disclosed no instances of noncompliance which is material to the State's basic financial statements.
- d) Significant deficiencies 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 #07-09-01, #07-26-02, #07-26-03, #07-26-04, #07-26-05, #07-26-06, #07-26-07, #07-26-10, #07-26-11, #07-26-12, #07-26-13, #07-26-14, #07-26-15, #07-26-16, #07-26-18, #07-26-19, #07-26-22, #07-26-23, #07-31-02, #07-31-03, and #07-72-01.

We consider items #07-09-01, #07-26-02, #07-26-03, #07-26-06, #07-26-10, #07-26-12, #07-26-16, #07-26-18, #07-26-23, and #07-31-03 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 #	10.551 and 10.561	Food Stamp Cluster
CFDA #	11.611	Manufacturing Extension Partnership
CFDA #	12.401	National Guard Military Operations and Maintenance Projects
CFDA #	20.205	Highway Planning and Construction Cluster
CFDA #	64.005	Grants to States for Construction of State Home Facilities
CFDA #	84.010	Title I Grants to Local Educational Agencies
CFDA #	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA #	84.367	Improving Teacher Quality State Grants

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CFDA #	90.401	Help America Vote Act Requirements Payments
CFDA #	93.044, 93.045, and 93.053	Aging Cluster
CFDA #	93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance
CFDA #	93.558	Temporary Assistance for Needy Families
CFDA #	93.568	Low-Income Home Energy Assistance
CFDA #	93.575 and 93.596	Child Care and Development Fund Cluster
CFDA #	93.658	Foster Care – Title IV-E
CFDA #	93.659	Adoption Assistance
CFDA #	93.667	Social Services Block Grant
CFDA #	93.767	State Children’s Insurance Program (SCHIP)
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, 97.067, and 16.007	Homeland Security Cluster

- h) Dollar threshold used to distinguish between Type A and Type B programs:  
\$6,812,474
- i) The State did not qualify as a low-risk auditee.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
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**II. Findings Relating to the Financial statements which are Required to be Reported in Accordance with *Government Auditing Standards*:**

**DEPARTMENT OF EDUCATION**

**Finding #07-13-01**

**Incorrect Accrual Information**

Good internal control requires procedures to ensure payables reported to Administrative Services State Accounting Division (State Accounting) for the Comprehensive Annual Financial Report (CAFR) are accurate and supported by adequate documentation.

During our review of the amounts reported by the Agency as payables to State Accounting for the CAFR, we noted the following:

- The Agency had not considered reporting a payable for the Grants Management System (GMS) to State Accounting until after discussion with the APA. The payable recorded for fiscal year 2007 was \$29,284,674. No payable was reported for the fiscal year 2006 CAFR.
- The estimation of the 2007 GMS payable amount was incorrect. The original amount submitted was overstated by \$3,463,792. The Agency used the incorrect budget amount to estimate the payable and also used the incorrect payment amounts for 5 of 6 programs included in the payable. The Agency also did not include the Migrant Grant in the calculated payable amount; the estimate for the payable related to the grant was \$1,678,433.
- The Agency did not report to State Accounting, payables for the IDEA Enrollment/Poverty Allocation of \$584,085 and the Early Childhood Project of \$591,069.

Without proper controls to ensure amounts reported to State Accounting are accurate there is an increased risk expenditures and related payables are misstated.

We recommend the Agency implement procedures to ensure payables reported to State Accounting are accurate and supported by adequate documentation.

*Agency's Response: The Department will document all processes and procedures used to develop the accrual information for the CAFR. Prior to this audit the Department was not cognizant of a need for such information. The Department will also meet with DAS State Accounting to better understand their information needs for developing the CAFR. The meeting is tentatively scheduled for sometime in February 2008.*

STATE OF NEBRASKA  
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**DEPARTMENT OF REVENUE**

**Finding #07-16-01**

**Accrual Procedures**

Good internal control requires procedures to ensure receivables and payables reported to Administrative Services State Accounting Division (State Accounting) for the CAFR be accurate. Sound accounting practices require estimates be reasonable and adequately documented.

Accrual procedures for the Agency could be improved. The following are specific items related to accrual procedures noted while performing testing for the CAFR:

- The Agency reported accounts receivable of \$18,455,098 for Sales and Use, Withholding, Individual Income, and Corporate Income delinquent taxes. The estimation was generally based on prior collection experience of delinquent accounts. For delinquent Sales taxes, the Agency did not have prior collection information available and used actual collections for all taxes in the estimation. The Agency had no documentation to support a relationship between the percentage of collections for all delinquent taxes and the percentage of collection for delinquent Sales taxes. In addition, the Agency did not have receivable aging information available to aid in calculating the receivable amount for delinquent taxes. While there was a concern whether the delinquent receivable amounts were reasonably stated, the receivable amount reported was less than the fiscal year 2007 actual collections amount for active cases of \$21,363,826.
- The Agency had no documentation to support the percentages used to estimate tax year 2007 and 2006 collections of delinquent Withholding and Corporate Income taxes.
- The Agency reported accounts receivable of \$18,455,098 for Sales and Use, Withholding, Individual Income, and Corporate Income delinquent taxes. The amount reported is after reductions for protested audits and an estimate of the amount that will not be collected. The Agency's actual recorded receivables were \$120,036,266 which included \$40,813,360 of protested audit amounts. The Agency reported this information to State Accounting, but initially State Accounting did not record an allowance for doubtful accounts. After discussion with the auditor, an allowance for doubtful accounts of \$62,400,000 was booked. The allowance did not include the protested audits amount. In addition, the formula used to calculate Long-term Delinquent Accounts Receivable was incorrect, which resulted in the under-reporting of estimated long-term receivables by \$272,089.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2007

- The Agency did not originally report fiscal year 2007 accrual information for lodging taxes received in July, August, and September 2007 for May and June 2007 lodging taxes. Receivables were understated by \$1,933,452.
- The Agency used two different sources of information to estimate Corporate Tax Refunds related to fiscal year 2007. The Agency revised the amount originally reported to State Accounting by \$2,349,846 by using only the forecasted amount of refunds from the Agency's Research Division.
- There was no documentation to support the Agency's adjustment to the calculation of the five year average collection percentage for individual income tax refunds. The adjustment made resulted in estimated refunds being decreased by \$1,058,504.
- The Agency did not review actual collections of Individual Income Tax, Estate Tax, and Sales and Use Tax after August and report significant collections to State Accounting prior to the CAFR being issued in December to provide a more accurate receivable at June 30. September 2007 collections were \$748,789, \$939,387, and \$524,459 respectively.

When accrual amounts reported by the Agency are not accurate there is a risk the CAFR financial statements will not be correctly stated.

We recommend the Agency with the assistance of Administrative Services State Accounting Division, review the accrual estimation procedures. This review should include the estimate of delinquent receivables, procedures for delinquent accounts and allowance for doubtful accounts, lodging tax, corporate tax refunds, and the use of September collections as they relate to regular tax receivables.

*Agency's Response: The accrual amounts reported by our Agency include large dollar estimates which can be influenced not just by rate changes and the economy, but by factors such as: non-filers, late or delinquent returns, amended returns, refund claims, non or partial remittances, late remittances, audit assessments, and protested audits. Slight variances in the method of calculating various receivables or payables can substantially impact the result. For example, the \$1,058,504 mentioned in bullet point six resulted from just a 0.14% variance from the five year average favored by your auditor and our adjustment to that average to reflect the percentage of change between those five years. Our Agency does intend to comply with your recommendation to work with Administrative Services State Accounting Division in the review of our accrual estimation procedures. Toward that goal, our Agency has*

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*had discussions with State Accounting on whether to project September receivables or wait and report actual collections. Also, our Agency will report a receivable on protested audits even though, legally, protested audits remain proposed assessments and are not considered final due and owing until resolved.*

**Finding #07-16-02**

**Segregation of Duties Over GPS, Homestead, and Motor Fuels Applications**

Good internal control requires procedures to ensure no one individual has the authority to administer servers and also approve changes and promote those changes to production. If security is not implemented and configured according to business risk, access to critical system settings and data can be modified inappropriately, disclosed without authorization, and/or unavailable when necessary.

One individual had the ability to administer the Windows servers supporting the General Processing System (GPS), Homestead, and Motor Fuels applications as well as the ability to approve application changes and promote them to production processing, creating a segregation of duties issue.

Should a programmer choose to do so, they have the capability to create and approve an unauthorized change for movement to production processing.

We recommend access be segregated so a single user does not have the ability to approve changes, implement changes, and change system security configurations.

*Agency's Response: Our Agency is initiating a formal approval process which will segregate the authority to approve changes from the user that implements the changes.*



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**DEPARTMENT OF LABOR**

**Finding #07-23-01**

**Information Technology Controls**

Good internal control requires general and application controls for computer systems that support financial data to be in place and working effectively to reduce the risk of financial data being misstated due to error or fraudulent acts. Good internal control requires segregation of duties to ensure application developers cannot manipulate datasets without obtaining management approval for changes.

We noted the following during the testing of the Tax Management and Benefits Payment Systems:

- Sixty-two employees had the ability to prepare and approve claims within the Benefit Payment System. The Agency grants access to the system utilizing roles. During our review of the roles it was noted six roles within the system allowed users to initiate and approve claims.
- Two application developers maintained ALTER access to production datasets in the Tax Management System.

Failure to maintain segregation of duties between claims initiators and claims approvers increases the risk unintended and/or unauthorized unemployment claims may be paid.

Without adequate segregation of duties for access to production datasets there is a risk application developers could manipulate system data by circumventing the application and without creating an audit trail.

We recommend the Agency restrict application developers' access to the production datasets. In the event, access restriction is not feasible; monitoring controls should be implemented and documented to ensure modifications to datasets are approved. We also recommend the Agency separate the functions of initiating and approving unemployment insurance claims. At a minimum reviews and documentation of reviews should be performed on a continuous basis to determine claims prepared and approved by a single individual are in line with management's intentions.

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*Agency's Response: Though a perceived risk exists, the system controls substantially guard against real risk. The compounding variables present in the BPS system would all have to be aligned for any one individual to take a specific claim at a specific time, assignment to the specific group and specific adjudicator within that group. Management accepts risk of employees maintaining claims taking/adjudicating access, as such risk is mitigated by system processes. On a periodic basis a review of claims prepared and approved for subsequent processing will be implemented as an internal check. Our action plan will consist of quarterly reports of claims adjudicated to be requested on behalf of the Program Integrity (BAM/Internal Security). The Program Integrity personnel will review the results with the UI Benefits Field Manager. The reports will be ran the first business day following each quarter ending and the meeting to discuss the results will occur within five business days of that report.*

*There is a compensating control in place where application developers will only be in the ETSAPP1 and ETSAPP2 groups for 24 hours or how long it takes to make the change. This compensating control will be adhered to.*

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**HEALTH AND HUMAN SERVICES SYSTEM**

**Finding #07-26-01**

**Accrual Information**

As part of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State Agencies to determine and report payable and receivable amounts at the end of the fiscal year. Good internal control requires procedures to accurately report payables and receivables to State Accounting. Good internal control also requires procedures to ensure proper supporting documentation of the reported payables and receivables is maintained.

During our audit of the 2007 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- Estimated accounts receivable accruals for Third Party Liability (TPL) and Governmental Accounting Standards Board (GASB) 33 were overstated by \$9,516,035 and \$466,639, respectively. The original amounts reported included items that were not actual receivables at June 30, 2007.
- Estimated accounts receivable accruals for Medicaid Drug Rebates, Pending Refunds, and Patient and County Billings were understated by \$188,525, \$244,835, and \$4,291,083, respectively. The majority of the understatement of the Patient and County Billings Receivable was due to the exclusion of \$3.4 million in open accounts receivable from counties and third parties for the Beatrice State Development Center.
- Accounts payable accruals for NFOCUS and State Rx Drug Benefit Contributions were understated by \$1,086,706 and \$3,308,424, respectively. Amounts were incorrectly subtracted from the NFOCUS payable and the Drug Benefit Payable did not include amounts due for June 2007.
- Documentation was not on file to support various percentages, estimates, and adjustments used by the Agency to reduce their NFOCUS, TPL, Medicaid Drug Rebate, and Intergovernmental Accounts Receivables.

State accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). Similar findings have been noted in our previous audits.

Without proper controls to ensure amounts reported to State Accounting are accurate there is an increased risk the financial statements are misstated.

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We recommend the Agency work with State Accounting to ensure receivables and payables reported are accurate and supported by adequate documentation.

*Agency's Response: The Department agrees with the condition reported. For the first item, it was discovered that the report used to report TPL receivables has been historically incorrect. DHHS will work with the appropriate IS&T resources to develop a suitable report to accumulate the correct account balances. Items two and three were errors made by staff in compiling the balances to report, disciplinary action has already been taken. The last item is in regards to our documentation, and a procedure to more-fully document allowances and estimates is being implemented in time for the FY08 report.*



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**ADMINISTRATIVE SERVICES**

**Finding #07-65-01**

**Review of CAFR Information**

Good internal control requires an adequate review of information used to prepare the CAFR, including information provided by other agencies.

During our audit of the CAFR for fiscal year 2007, we noted numerous errors in the preparation of the CAFR. Specifically the following was noted:

- State Accounting did not have adequate procedures to ensure the amounts submitted by State agencies on the accrual response forms were correct. In addition, State Accounting did not always understand how some State agencies were preparing their accrual information. Errors in amounts reported to State Accounting were noted at the Department of Roads, the Department of Education, the Department of Revenue, and the Department of Health and Human Services and ranged from \$420,000 to \$29.2 million. State Accounting did make correcting entries for all material amounts as recommended by the APA. Management has indicated there was an inadequate amount of staff to perform this review. This was noted in our previous management letter.
- There were numerous errors noted on information prepared by State Accounting to support entries made to the financial statements. Errors included a transposition of numbers resulting in a \$9 million dollar overstatement and a \$2.9 million overstatement due to a workpaper not being updated for 2007. State Accounting did make the appropriate corrections for all material amounts as recommended by the APA.
- State Accounting did not have procedures to analyze documents processed as prior year obligations (P9s) by State agencies after September 30. APA noted \$33 million in P9s were processed from October 2006 to June 2007. Other entries were made to record the majority of the obligations.

Without adequate processes and procedures in place to ensure the accuracy of the CAFR there is a greater risk material misstatements may occur and remain undetected.

We recommend State Accounting obtain an understanding of how State agencies prepare key accrual information, and work with and train State agency personnel to ensure accrual information is supportable and has a sound accounting base. Once

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State agencies submit their information to State Accounting, State Accounting should have procedures in place to review and verify the information is supportable, reasonable, and accurate. We also recommend State Accounting ensure an adequate review of internally prepared documentation to ensure accuracy. Finally, we recommend State Accounting implement procedures to analyze historical prior year payments made after September to ensure payables recorded are complete.

*Agency's Response:*

- *State Accounting has and will continue to work with agencies to ensure that the amounts the agencies submit with the accrual questionnaires are correct. Prior to distribution of the financial reporting package, State Accounting met with the Department of Roads and the Department of Health and Human Services to discuss ways to improve the reporting of accruals for the CAFR. State Accounting also met with the Department of Revenue, and had discussions with the Department of Education during CAFR preparation. To improve our process, members from State Accounting are attending each exit conference to be a party to all discussions with the auditors and the agencies regarding this issue. Finally, State Accounting will meet with appropriate agencies again to refine reporting methods, and will develop other procedures to improve reporting.*
- *State Accounting has procedures to review workpapers before they are given to the auditor, but this year some workpapers were not reviewed beforehand in an effort to save time in order to meet auditor deadlines. In the future, State Accounting will ensure all workpapers are completely reviewed.*
- *State Accounting has analyzed accounts payable transactions recorded after our cutoff time in prior years, and determined that amounts were either immaterial or reflected in other CAFR accrual entries. Thus, this year no such review was performed and when the auditors performed such a review, they only found \$1.6 million of items that should have been recorded as applying to the previous year. This adjustment was passed. We will continue to do an overall review but maintain that a detailed review is not time-justified.*
- *However, we do not concur that these errors rise to the level of the possibility of material misstatements of the financial statements, especially when considering the amount of the questioned items and the fact that the State assets exceeded \$12 billion and the State expenses exceeded \$6 billion.*

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*Furthermore, prior to the release of the financial statements, State Accounting does a complete review of all reported amounts, compares them to the prior year and to budget amounts, and then researches all questionable amounts, which is a process designed to catch any possible misstatements.*

**Auditor's Response:** The APA followed Statement on Auditing Standards No. 112 *Communicating Internal Control Related Matters Identified in an Audit* when evaluating the identified control deficiencies to determine whether the deficiencies were significant deficiencies or material weaknesses. The significance of a control deficiency depends on the potential for a misstatement, not on whether a misstatement actually has occurred. The procedures noted above by the Agency, in and of themselves would not detect misstatements due to accruals which had never been reported by agencies and should have been.

**Finding #07-65-02**

**Reconciliation of Bank Records to Nebraska Information System (NIS)**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information.

During the audit of the CAFR of the State of Nebraska for the fiscal year ended June 30, 2007, we noted significant unknown variances between the State's accounting records and bank records with the bank records short compared to accounting records. Previous audits of the CAFR have noted similar issues. These variances occurred in periods prior to fiscal year 2007. For fiscal year 2007 cash activity for each month was reconciled. However, the old variances have not been completely identified in order to allow proper adjustments to the accounting records.

As of December 2007, the end of fieldwork for the CAFR, we noted the status of the State's reconciliation process to be as follows:

- State Accounting's June 2007 reconciliation, excluding the Child Support Payment Distribution Unit (SDU), was complete, showed bank records short compared to accounting records, and indicated a consistent variance of \$1,065,210. This variance had not changed since it was identified in June 2005.
- The SDU reconciliation at June 2007 showed no variance between the bank records compared to the accounting records; however, State Accounting made an adjustment of \$1,893,449 to the CAFR financial statements to account for prior years' bank transfers that have not yet been transferred from the State's bank account to the SDU bank account.
- State Accounting and the SDU continue to work on identifying the old variances to ensure proper adjustments to the general ledger.

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Until the old variances can be properly identified, the general ledger can not be corrected. Once corrected, the reconciling items can be removed from the monthly reconciliations.

We recommend the following:

- State Accounting and the SDU continue to work on identifying the old variances to ensure the general ledger is correct.
- State Accounting review the SDU reconciliation to determine the effect on the overall State reconciliation.
- When the old cash variances have been identified, State Accounting should work with the Governor and the Legislature to develop a plan to adjust the general ledger in order to resolve the shortage noted.

*Agency's Response: State Accounting will continue to work with the SDU in identifying all old variances in order to get the general ledger correct. We do not concur that this should be reported as a significant deficiency in the current year due to the fact that we are currently properly reconciling all balances and are only trying to resolve old unidentified balances. In addition, these old unidentified amounts are less than \$2 million, clearly not a material amount, and thus there is no likelihood these items could cause a material misstatement of the financial statements.*

**Auditor's Response: The APA followed Statement on Auditing Standards No. 112 *Communicating Internal Control Related Matters Identified in an Audit* when evaluating the identified control deficiencies to determine whether the deficiencies were significant deficiencies or material weaknesses.**

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**III. Findings and Questioned Costs Relating to Federal Awards:**

**SECRETARY OF STATE**

**Finding #07-09-01**

**Program:** CFDA 90.401 – Help America Vote Act Requirements Payments – Equipment

**Federal Grantor Agency:** Election Assistance Commission

**Grant Number & Year:** #BU9824588, April 2003

**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. Title 41 CFR 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 have written policies and procedures established for a periodic inventory of equipment. The Agency did not have all equipment properly inventoried, tagged, and entered into the Nebraska Information System (NIS) at June 30, 2007.

**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 State retains title to the equipment. On June 6, 2007, the Agency contracted with an individual to inventory and tag the equipment; however, the project was not completed as of December 31, 2007.

**Cause:** The Agency was in the process of contracting the project to a third party.

**Effect:** There is an increased risk of loss or misuse of funds when equipment is not adequately controlled.

**Recommendation:** We recommend the Agency implement written policies and procedures to manage equipment including a periodic physical inventory. We further recommend the Agency continue efforts to ensure all equipment is properly tagged and recorded.



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**Management Response:**

**Corrective Action Plan:** The Agency has completed the physical inventory and all equipment has been tagged. All corresponding information will be entered in NIS by February 29, 2008. Written policies and procedures for on-going annual equipment inventories of HAVA equipment will be completed by March 31, 2008, and will be included in the Agency's policy and procedure manual.

**Contact:** Suzie Hinzman, Deputy Secretary of State for Finance and Human Resources

**Anticipated Completion Date:** March 31, 2008

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**DEPARTMENT OF EDUCATION**

**Finding #07-13-02**

**Program:** CFDA 84.010 - Title I Grants to Local Educational Agencies - Special Tests and Provisions

**Grant Number & Year:** #S010A0000270, FFY2007

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

**Criteria:** Per Title 34 CFR 200.50 (a) (1) A State Educational Agency (SEA) must annually review the progress of each Local Educational Agency (LEA) that receives Title I funds to determine whether the LEA schools served under this part are making adequate yearly progress (AYP) and that the LEA is carrying out its responsibilities under this part with respect to school improvement. Title I, Section 1111(h)(2)(B) of the Elementary and Secondary Education Act (ESEA) requires that, in the case of a school, the State educational agency shall ensure that each local educational agency collects appropriate data and includes in the local educational agency's annual report information that shows how the school's students achievement on the statewide academic assessments and other indicators of adequate yearly progress. Good internal control requires procedures to ensure the accuracy of yearly progress data submitted by the schools.

**Condition:** The Agency did not have procedures in place for ensuring and monitoring the quality of assessment data reported at the school level.

**Questioned Costs:** None

**Context:** There were approximately 442 schools that received Title I funding during the 2005-06 school year and reported assessment data to the Agency. The Agency did not have procedures in place to ensure the AYP data submitted by the schools was accurate and properly reported.

**Cause:** Unknown

**Effect:** Noncompliance with Federal regulations.

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

**Management Response:**

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**Corrective Action Plan:** Nebraska's plan to ensure quality for all data submitted to the NDE includes dissemination of information and focused training. The NDE has already provided training sessions across the State using the "Forum Guide to Building A Culture of Quality Data." More than 600 administrators and teachers have attended these meetings.

The NDE has also secured a 3 year, 3 million dollar grant from the U. S. Department of Education. This grant will provide four additional trainers to be located throughout the State. The NDE and its policy partners, the Educational Service Units, Nebraska Council of School Administrators, the Nebraska Association of School Boards, and the Nebraska State Education Association have formed a Partnership for Data Quality to provide a coordinated, consistent, and statewide professional development and training. This will include:

A Data Quality conference to be hosted by the Partnership annually. The 2007-08 conference is scheduled for April 28, 2008, in Kearney, Nebraska.

Training will be provided using the Forum Curriculum for Improving Education Data from the National Forum on Education Statistics as the curriculum. The Forum Curriculum includes training on necessary policies and procedures, security and privacy issues, roles and responsibilities of staff, validating and auditing data, and using data in communications. Persons completing this curriculum can apply for certification from NCES.

Data coordinators have been identified in each reporting agency through the initial data collections in October 2007. The training, at a minimum, will be provided to the data coordinators but will also be made available to administrators, agency staff, and school board members throughout the State. The goal is to have a data coordinator in each district that has received training by the end of the 2008-09 school year.

A hard copy of The Forum Curriculum for Improving Education Data was sent to each agency in December 2007 and is available on-line at: <http://nces.ed.gov/forum/> and on a data quality link on the NDE homepage. Information on the U. S. Department of Education's guidelines on data quality will also be sent to all districts and a link will be posted on the training website.

Part II of The Nebraska-led Peer Review of STARS (NLPRS) includes the monitoring of the administration of assessment in STARS. Each district's policies/procedures are reviewed to ensure consistent and comparable administration of assessments across a district.

**Contact:** Marilyn Peterson, Federal Programs Administrator

**Anticipated Completion Date:** April 28, 2008.

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**HEALTH AND HUMAN SERVICES SYSTEM**

**Finding #07-26-02**

**Program:** CFDA 64.005 - Grants to States for Construction of State Home Facilities  
- Davis-Bacon Act

**Grant Number & Year:** #FAI31014NEVH, FFY 2004

**Federal Grantor Agency:** U.S. Department of Veterans Affairs

**Criteria:** Per the Davis-Bacon Act and Title 29 CFR Part 5, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141-3144, 3146, and 3147). Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). This reporting is often done using the Optional Form WH-347, which includes the required statement of compliance.

**Condition:** The Agency did not obtain certified payrolls from the contractor or subcontractor(s).

**Questioned Costs:** Unknown

**Context:** The project started in 2005 and the only certified payrolls obtained were in February 2007 for two subcontractors. These certified payrolls were obtained from the construction company upon request of the project manager.

**Cause:** The Agency decided the construction company would maintain all certified payroll.

**Effect:** When the Agency fails to obtain certified payrolls they are in noncompliance with the Davis-Bacon Act and there is an increased risk of possible loss of Federal funding.

**Recommendation:** We recommend the Agency implement procedures to ensure all certified payroll is received and maintained by the Agency for all contractors and subcontractors. Certified payroll should be kept on file for future review and to support compliance with the Davis-Bacon Act.

**Management Response:** The Department agrees with the condition reported.

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**Corrective Action Plan:** DAS has contacted Sampson Construction Company to have the payroll records transferred to our office as soon as possible. As of November 1, 2007, Sampson Construction Company has completed transferring the payroll records to our office.

**Contact:** Floyd H. Ladegard or Dan Albrecht

**Anticipated Completion Date:** Complete

**Finding #07-26-03**

**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 to 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."

OMB Circular A-133 Subpart D .400(d) states, "A pass-through entity shall perform the following for the Federal awards it makes: ... (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

Good internal control requires procedures to ensure all subrecipients submit a Single audit report as required. Good internal control also requires procedures to ensure management responds to all subrecipient corrective action plans.

**Condition:** Two of eight subrecipients did not have A-133 audits on file at the time of request. Three did not have management responses to audit findings or ensure the subrecipient took appropriate and timely corrective action.

**Questioned Costs:** None

**Context:** We tested all eight subrecipients of the Aging Cluster. Two subrecipient audits were not on file with the Agency when requested; the subrecipients received \$597,521 and \$1,033,991 of funding during the fiscal year, respectively. Both audits were obtained by the Agency after our request; however, the date received was after the limit set by OMB Circular A-133.



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Three of eight subrecipient A-133 audits tested contained reportable conditions. The reportable condition in all three audit reports was segregation of duties. The Agency did not send a management response within six months to the subrecipient's corrective action for the finding. The Agency did not ensure appropriate action was taken to mitigate the control deficiency. These subrecipients received Federal funding of \$678,643, \$607,004, and \$567,014 respectively during the fiscal year.

**Cause:** Unknown

**Effect:** Noncompliance with OMB A-133 requirements increases the risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency develop procedures to receive, review, and retain all Single audits from subrecipients. We also recommend the Agency respond to all subrecipient corrective action plans.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The Agency has modified the process for Agency's centralized audit review team to get notified that an audit is expected and has a process to identify when audits are due and to follow up when audits are not received. The Agency will obtain the corrective action plan developed by the subrecipient and issue a management decision for all findings that relate to awards the agency made to the subrecipient.

**Contact:** Larry Morrison

**Anticipated Completion Date:** Complete

**Finding #07-26-04**

**Program:** CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance - 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 to have a Single audit conducted for that year. 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." Good internal control requires timely follow up to ensure receipt of the A-133 audit when required.

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**Condition:** For one of three subrecipients that required an A-133 audit, the Agency did not receive their A-133 audit report.

**Questioned Costs:** Unknown

**Context:** The Federal Aid Administrator did not receive or follow up on the A-133 audit report for one subrecipient. The subrecipient received \$680,394 during fiscal year 2007.

**Cause:** Unknown

**Effect:** Without adequate monitoring of subrecipients there is an increased 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 within nine months after the end of the audit period.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The Agency has modified the process for Agency's centralized audit review team to get notified that an audit is expected and has a process to identify when audits are due and to follow up when audits are not received.

**Contact:** Larry Morrison

**Anticipated Completion Date:** Completed

**Finding #07-26-05**

**Program:** CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance - Reporting/Matching

**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. Good internal control requires reports be reconciled to the State's accounting system, the Nebraska Information System (NIS). Good internal control requires individuals preparing the Financial Status Reports (FSRs) ensure amounts are accurate. Good internal control also requires a supervisory review of all FSRs to ensure accuracy of the information reported on the FSRs.

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**Condition:** For all five FSRs tested, there was no supervisory review before the report was submitted to the Federal agency. For one FSR tested, an incorrect amount of State match was reported. Amount reported on the FSR was \$3,402,444, while amount reported on NIS was \$2,393,182, resulting in an overstatement of State match on the FSR of \$1,009,262. For another FSR tested, the total amount of expenditures reported on the FSR did not agree to NIS. Amount reported on the FSR was \$178,229, while amount reported on NIS was \$195,965 resulting in an understatement of \$17,736. Two FSRs tested included in-kind contributions; however, the amount of in-kind contributions were not verified by the individual preparing the FSR.

**Questioned Costs:** None

**Context:** The Federal Aid Administrator transfers NIS numbers to spreadsheets before reporting them on the FSR. The FSR containing the State match error was for grant 090CCU722780, for the period June 30, 2004, through June 30, 2005, filed on October 13, 2006. Auditor observed \$1,009,262 was reported twice on the FSR. The other FSR containing an error was for grant 090CCU721962, for the period June 30, 2005, through June 30, 2006, also filed on October 13, 2006. Auditor observed amounts reported on the FSR did not agree with the amounts recorded on NIS. Auditor also noted the Federal Aid Administrator relied on program managers and program administrators for in-kind contribution amounts not on NIS and did not obtain support for the numbers to verify the accuracy of amounts reported.

**Cause:** Lack of supervisory review and clerical errors.

**Effect:** Without procedures in place to ensure amounts reported on the FSRs are verified and reviewed there is an increased risk of inaccurate reporting.

**Recommendation:** We recommend the Agency review all FSRs, and document this review on the FSR. We also recommend the Agency implement procedures to ensure amounts reported on the FSR agree to NIS. We further recommend the Agency implement procedures to ensure in-kind contributions are verified and accurate.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The supervisor will review Financial Status Reports. A notice will be posted to program managers to define their responsibility to obtain and store documentation of the in-kind contributions.

**Contact:** Larry Morrison

**Anticipated Completion Date:** June 30, 2008

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**Finding #07-26-06**

**Program:** CFDA 93.558 - Temporary Assistance for Needy Families (TANF) - Allowability/ Eligibility

**Grant Number & Year:** #G0602NETANF, FFY 2006; #G0702NETANF, FFY 2007

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

**Criteria:** Per Title 42 U.S.C. 608(a)(1), a State which is receiving grant money under section 603 may not use the grant to provide assistance to a family unless that family has a minor child. Per Title 42 U.S.C. 608(a)(4) a State “shall not use any part of the grant to provide assistance to an individual who has not attained 18 years of age, is not married, has a minor child at least 12 weeks of age in his or her care, and has not successfully completed a high-school education (or its equivalent), if the individual does not participate in educational activities directed toward the attainment of a high school diploma or its equivalent; or an alternative educational or training program that has been approved by the State.” Per Title 42 U.S.C. 608(a)(5) a State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative.

Title 468 NAC 2-006.05 states, “If a relative payee(s) or a guardian conservator requests assistance for more than one child in the household, all children for whom assistance is requested must be included in a single grant unit. Since the household is living as a single family, it must be budgeted accordingly.”

Per Title 42 U.S.C. 608(a)(10) a State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days unless the State grants a good cause exception. The Nebraska State Plan for TANF states “Allowable absences include a child out of the home for a visit not to exceed three months.” Title 468 NAC 2-006.01C states “A child is still considered part of the household while s/he is out of the home for a visit not to exceed three months.” Per the State Plan, an individual may be exempt from Employment First for three months following the birth of a child.

Title 468 NAC 2-006 states the worker shall determine the ability of the parent to support each dependent child in whose behalf TANF is applied for or received. The 64 FR 17825 states a family may not receive assistance under the State’s TANF program unless the family is needy, the term needy for TANF purposes means financial deprivation, i.e., lacking adequate income and resources. Good internal control requires an independent verification of income to determine if the family is needy.

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The State Plan states the Separate State Program for Exempt Families will be funded with State dollars only and allows qualifying participants to be exempted from Employment First. Qualifying participants include “a parent ... of a child under the age of 12 weeks,” and “a pregnant woman beginning with the third trimester.”

Title 468 NAC 1-010 states, “The worker must redetermine eligibility for grant and medical assistance every six months.”

**Condition:** Nine of 45 TANF payments tested were not in compliance with Federal and State requirements.

**Questioned Costs:** \$751 known

**Context:** For one case tested, we noted the mother was the only person in the unit size of the household. Her child was not placed into the unit size because verification of the child’s date of birth had not been received. In addition, the mother was fifteen years old, unmarried, had a thirteen-month-old child, had not completed high school and was not going to school. Also, the mother was not living with a parent, legal guardian, or other adult relative. Therefore, the mother was not eligible to receive TANF benefits.

For one case tested, we noted the household consisted of the payee, payee’s daughter, and payee’s two grandchildren. The household was receiving TANF assistance for a unit size of one for the daughter, and was receiving additional TANF assistance for a unit size of two for the two grandchildren. This resulted in a monthly overpayment of \$151 to the household. The household should have been receiving one payment for a unit size of three.

For one case tested, the only minor child in the unit was out of the household for more than three months. In addition, the mother was exempt from Employment First for seven months following the birth of her child. An individual may only be exempt from Employment First for three months following the birth of a child.

For one case tested the mother was exempt from Employment First due to being in the third trimester of pregnancy and giving birth. The State Plan allows individuals exempt from Employment First to continue to receive assistance; however, this assistance must come from State-only funds. This payment was made from Federal and State funds.

One case tested did not have verification of the custodial parents’ income. The parents were ineligible immigrants per caseworker notes on NFOCUS and documentation in the case file. The mother had an interim social security number and the father had no social security number, so the State could not verify wage information using standard procedures. The mother self-reported no income, and the



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father self-reported construction income which was included in the budget for the grant. Since there was no verification of the parents' income, it could not be confirmed whether the family was "needy." The parents were not included in the unit size and no assistance was received for them. 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 four cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews ranged from three and seven months overdue.

Federal payment errors noted were \$751. The total Federal sample tested was \$7,420 and total TANF Federal cash assistance payments for the fiscal year 2007 were \$19,501,943. Based on the sample tested, the case error rate was 20% (9/45). The dollar error rate for the sample was 10.12% ( $\$751/\$7,420$ ) which estimates the potential dollars at risk for fiscal year 2007 to be \$1,973,597 (dollar error rate multiplied by population).

**Cause:** Inadequate procedures.

**Effect:** Increased risk for misuse of Federal funds.

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

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department partially agrees with the condition reported.

1. On one case the Auditors cited that DHHS cannot match the parents on the Income Eligibility and Verification System (IEVS) because neither parent has a Social Security Number, and thus cannot "verify" the parental income in order to determine whether the children can be considered "needy." This same issue has been cited in previous audits for similar households. The DHHS response to this issue on previous audits is that DHHS cannot require non-applicants to furnish to the Department either a Social Security Number or proof of their alien status. DHHS clearly recognizes that parental income & resources must be verified, and the Department believes that the self-employment ledgers completed met the requirement that the state develop an "alternative source" for verification of income. DHHS utilizes ledgers for verification of self-employment income for many households, including those where the wage earner does have a Social Security Number.

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The basis for the DHHS position is directive from the U.S. Department of Health and Human Services, Office of Civil Rights. These directives clearly indicate that states cannot require non-applicants to furnish to the Department proof of either their immigration status or their Social Security Numbers. Written information to this effect from OCR has been furnished to the Auditor's staff. One portion of the information from OCR was a Question & Answer section. Included in this Q & A was the following:

“Question: Will these policies restrict states’ abilities to verify income and combat fraud?”

Answer: No. We understand the importance of using available tools, such as data matches, to verify income, eliminate eligibility errors and combat fraud, and we support state efforts to use these tools and others to achieve these goals appropriately.

In pursuing these goals, however, we want to ensure that states do not violate existing laws or regulations, especially if these violations inappropriately discourage eligible individuals in immigrant families, such as children, from seeking needed assistance.

*(DHHS Emphasis) States will not be out of compliance with the Income and Eligibility Verification System in the Medicaid and TANF programs if they do not obtain the SSN of non-applicants or, in the case of TANF, persons who are not applicants because they have been excluded from the family (e.g., because their immigration status makes them ineligible for TANF benefits). States may use alternatives to the SSN to verify non-applicant income and resources when determining eligibility and benefit levels.”*

DHHS believes that it is not appropriate for the Auditor's staff to cite inability to furnish “an independent verification to determine if the family is needy” due to lack of a parental SSN as proof that the children in the family are not “needy.” The procedures used by DHHS to determine the father's income in the questioned case, i.e., self-employment income & expense ledgers, are no different than what would be used for any other similar case in like circumstances, even if the custodial parent did have an SSN. DHHS cannot obtain verification of self-employment earnings from any “standard procedures” such as computer matches, so unless the self-employment earnings are reported on a Federal Income Tax return, income & expense ledgers would be utilized for any household.

**Corrective Action Plan:** A memo will be sent to local office staff sharing the results of the audit and highlighting areas that need more review from local eligibility staff.

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The Department implemented a new supervisory case review system effective October 1, 2007. The system is called the Nebraska Economic Assistance Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The supervisory reviews are captured in the NEARS system and the results of this monitoring are used for corrective action and staff training. We anticipate that this monitoring will improve controls for TANF payments.

To assist DHHS staff to target error prone cases the TANF program has developed numerous monitoring reports.

1. An Employment First (EF) Case Activity Report was developed to assist the workers and supervisors to manage EF case work and identify problem areas.
2. A Monitoring EF Requirements Report was developed to assist the monitoring of Employment First regulations and procedures.
3. A Multiple Active Participation report was developed to identify individuals active in more than one ADC program case.
4. A listing of all assistance cases with an overridden budget—monitored by supervisors, administrators and Production Support Staff.
5. Case Review Report that identifies all ADC cases whose next review dates in NFOCUS are at least two months overdue.

ADC/Med Fund Code Reconciliation Report is a quarterly report used by FAPA to reconcile ADC/MED funding codes, based on the expenditure fund code and the ADC/MED fund code.

**Contact:** Trish Bergman

**Anticipated Completion Date:** The monitoring reports have already been developed and implemented. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

**Auditor's Response:** The extrapolation method is in accordance with auditing standards. We request a management decision from the Federal agency which indicates whether DHHS procedures solely utilizing self-employment ledgers without independent verification or alternate sources are acceptable in those cases where a Social Security number is not provided.

**Finding #07-26-07**

**Program:** CFDA 93.558 - Temporary Assistance for Needy Families - Allowable Costs/ Cost Principles

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**Grant Number & Year:** #G0602NETANF, FFY 2006

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

**Criteria:** OMB Circular A-87 states, "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." Good internal control requires adequate documentation and procedures to ensure costs are reasonable for proper and efficient administration of Federal awards.

**Condition:** For one payment tested, the Agency did not require receipts or other supporting documentation to ensure funds were used for allowable costs.

**Questioned Costs:** \$24,730 known

**Context:** The Agency contracted with a vendor to provide employment-related supportive services for eligible TANF recipients. Services include payments for gas, bus rides, and taxi rides. The vendor gave checks to recipients who then used them to purchase the services. When the checks were given to the recipients, they were already signed, dated, and had the payee, amount, and the memo filled out. To document the checks written to the recipients, the vendor completed a ledger. On a monthly basis, the vendor totaled the ledger and remitted it to the Agency with an invoice for the total amount expended. The Agency then reimbursed the vendor. To ensure recipients used the checks for the intended activity, the vendor put the allowed activity in the memo of the check. The memo stated what the payment was for (for example, the memo for a gas purchase stated, "Gas Only for Recipient's Name.") The vendor also educated the payees (for example, gas stations) that the checks should only be used for the activity stated in the memo. Without detailed receipts/invoices from the check payees, there is a significant risk the funds may be misused.

Federal payment error noted was \$24,730. Dollars at risk for all similar payments made to this vendor during fiscal year 2007 were \$402,352.

**Cause:** Unknown

**Effect:** Without adequate controls in place, recipients receiving checks could use the checks for unallowable costs.

**Recommendation:** We recommend the Agency implement adequate procedures to ensure vendor checks written to recipients are used for allowable costs.

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**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

**Corrective Action Plan:** Detailed receipts/invoices will be required for all payments whether vendor checks or NFOCUS service authorizations are utilized for supportive services. Each Service Area administrator will provide to the TANF Program Administrator written procedures to outline the processes for service approval, payment approval, and receipt/invoice handling.

**Contact:** Trish Bergman

**Anticipated Completion Date:** Procedures are to be in place no later than 3/1/2008.

**Auditor's Response:** **The dollars at risk is not based on an extrapolation, the dollars at risk represents similar payments to the vendor.**

**Finding #07-26-08**

**Program:** CFDA 93.558 - Temporary Assistance for Needy Families - Special Tests and Provisions

**Grant Number & Year:** All TANF grants open during State fiscal year 2007

**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. Per Title 42 U.S.C. Section 608(a)(2)(A), "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 for 4 of 34 cases tested.

**Questioned Costs:** \$326 known

**Context:** We tested 45 Child Support non-cooperation notices to determine if the TANF assistance payment was appropriately sanctioned and reduced and in a timely manner. Of the 45 tested, 34 received TANF assistance during the individual's non-cooperation time period. For 4 of the 34 cases, assistance was not reduced by at least



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25%. The reduction in assistance for 3 of 4 cases was eventually completed, but not in a timely manner. The sanction amount was imposed ranging from one to seven months after the appropriate assistance payment was to be reduced. The Agency did implement a control during fiscal year 2007 to review cases monthly that were in non-cooperation status but were not sanctioned. However, it appears additional procedures are still needed to ensure assistance payments are reduced in a timely manner.

**Cause:** Unknown

**Effect:** Without proper effective procedures in place to ensure assistance payments are reduced in a timely manner, there is an increased risk for the loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure all referrals are properly reduced or terminated in a timely manner.

**Management Response:** The Department agrees with the condition reported and feels that substantial improvement has occurred since the DHHS Corrective compliance plan was implemented. Strong internal controls have been developed and enhancements to the NFOCUS system have been made to further strengthen the procedures to ensure the assistance cases are properly reduced in a timely manner when CSE non-cooperation notices are received.

**Corrective Action Plan:** Compliance will continue to be monitored both through Supervisory Case Reads on the NEARS system as well as by Central Office staff monitoring the monthly CSE Sanction Report. If a case on the listing needs to be acted on, the Central Office Staff member will send an email to the worker, supervisor and administrator and track the completion of the needed action.

To assist supervisors to target error prone cases the following monitoring reports have been developed:

1. CSE Sanction Not Imposed Listing - The report identifies on a monthly basis those cases where an alert was created due to a non-cooperation begin date interfacing from CHARTS and no sanction has occurred.
2. Lifted Sanction with an Open Non-Cooperation Listing—This report identifies those cases where a non-cooperation row was received from CHARTS, the worker has lifted the sanction, but the non-cooperation row remains high-dated.

**Contact:** Trish Bergman

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**Anticipated Completion Date:** The corrective compliance plan has been in place since the last state audit. The additional monitoring reports have already been developed and implemented and the NFOCUS enhancements completed. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

**Finding #07-26-09**

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

**Grant Number & Year:** All TANF grants open during State fiscal year 2007

**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.” OMB 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 one case received greater than 60 months of Federal TANF payments. This case had also exceeded the State’s requirement of receiving more than 24 months of assistance in a continuous 48 month period of time.

**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 U.S. Department of Health & Human Services by the Governor of Nebraska stated “the 24-month period begins with the month following the completion of a self-sufficiency

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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.

For the case tested that received more than 60 months of Federal TANF payments, it could not be determined if the self-sufficiency contract was signed within 90 days of application. The application could not be found in the case file and there was no mention of the application in the case file or NFOCUS narratives. The case had been receiving assistance payments since February 2001 for a total of 63 payments. If a self-sufficiency contract had not been signed within 90 days of application, TANF assistance should have been closed. For calendar years 2003-2006, the case received 41 monthly payments in a continuous 48 month period.

**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.

**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. In the absence of written approval, the Agency should refrain from using Federal funds for individuals who have received five years of assistance.

**Management Response:** The Department partially agrees with the condition reported and with the passage of Legislative Bill 351 during the 2007 regular session of the Legislature, DHHS was mandated to eliminate the previous 24/48 Time Limit and adopt a 60-month lifetime Time Limit. Before the passage of LB351, DHHS had no authority in State Statute to impose a 60-month Time Limit. Change from the former 24/48 Time Limit to the current 60-month lifetime limit became effective with certification of regulations for October, 2007.

DHHS does wish to point out that Federal TANF regulations allow states to have up to 20% of their TANF caseload exceeding the 60-month Time Limit. One case which exceeded 60 months from a sample of 45 cases tested is slightly over two per cent of the sample.

**Corrective Action Plan:** Statewide training of Service Area TANF Eligibility Workers & Supervisors on the change to the 60-month Time Limit occurred during September, 2007. All ADC cases which are subject to the 60-month Time Limit must be reviewed once they have received 50 months of TANF. Cases which have received 50 or more months of TANF appear on a monthly EF Case Activity Report and are referred in to Central Office for review. The reviews are completed by Central Office TANF program staff and the results are returned to

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the Local Office Eligibility Worker. Appropriate action, including a Hardship Review as required by Federal Law and closure as appropriate must then occur. These Central Office reviews began in October, 2007 and continue.

**Contact:** Trish Bergman

**Anticipated Completion Date:** Because TANF cases will continue to approach 60 months, the review process described above is an ongoing process.

**Finding #07-26-10**

**Program:** CFDA 93.558 - Temporary Assistance for Needy Families - Reporting

**Grant Number & Year:** All TANF grants open during State fiscal year 2007

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

**Criteria:** Administration for Children and Families (ACF) instructions requires the ACF-199 report to correctly account for the countable months for which the head-of-household or the spouse of the head-of-household receives assistance and is not exempt from the Federal five year limit.

Good internal control requires review procedures or automated controls to verify data is being reported accurately and errors are corrected in a timely manner.

**Condition:** For an individual tested, NFOCUS data indicated three countable months of assistance, however, the data reported on the quarter ended March 2007 ACF-199 was 30 months of assistance. The Federal government had notified the Agency of an error on the 2006 ACF-199 report for the countable months for each recipient receiving assistance.

**Questioned Costs:** None

**Context:** The Agency formats TANF recipient case data from their NFOCUS system and transfers the data to a Federal government reporting system. During State fiscal year 2007 the data for countable months for each recipient receiving assistance was incorrectly formatted. When the Federal government received the data, the countable months reported included an additional zero for the actual months. The Agency received back text files of data that contained warning flags after each quarterly report was sent but did not always document their review. The Agency submitted a revised quarter ended March 2007 ACF-199 report in January 2008.

**Cause:** Unknown

**Effect:** Increased risk of significant information for the ACF-199 report being reported incorrectly which could result in Federal sanctions.

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**Recommendation:** We recommend the Agency document the review of warning flags for possible errors and follow up on errors in a timely manner. We further recommend the Agency review the submitted report to individual case information on a sample basis to ensure the accuracy of the ACF-199 report.

**Management Response:** The Department only partially agrees with the condition reported. We recognize that the first submission of the sampled report did have the formatting problem. The formatting error was discovered by ACF and reported to the state. The error was identified and fixed within hours. Because of the file format and volume of data, direct review of formatted data is virtually impossible. We will continue to rely on reviews of the ACF flags along with using samples of data for testing and verification. DHHS has to amend and resubmit the 2007 ACF-199 report due to the Deficit Reduction Act and policy changes that have occurred and had to be reflected in the data. These amendments and resubmissions are not only permitted by the final TANF regulations, but are encouraged as the federal government recognizes that “states often receive data from a variety of sources that require correction of submitted quarterly data and they want states to provide them with complete and accurate data.”

**Corrective Action Plan:** ACF-199 error flag warnings will be reviewed and corrected as appropriate and necessary.

DHHS will begin a random quarterly pull of 10 sample cases and compare data on the ACF-199 to NFOCUS data for the same cases to assure both that the data has been formatted correctly and that it is correct in content.

DHHS will continue to work with the ACF Region VII Office to resolve any ACF-199 or ACF-209 errors or issues as they occur.

**Contact:** Trish Bergman

**Anticipated Completion Date:** The ACF-199 report is submitted quarterly and with each submission error flag warnings are received. These will be reviewed and corrected on an ongoing basis.

**Finding #07-26-11**

**Program:** CFDA 93.568 - Low-Income Home Energy Assistance Program (LIHEAP) - Activities Allowed & Eligibility

**Grant Number & Year:** #0G07B1NELIEA, FFY 07

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



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**Criteria:** Per 42 USC 8624 States shall use funds to provide assistance to low income households in meeting their home energy costs, particularly those with the lowest incomes that pay a high proportion of household income for home energy and to intervene in energy crisis situations.

Per 45 CFR 96.30 a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant. Regulations for LIHEAP are included in the State Plan and Chapter 476 NAC. Per 476 NAC 1-011, "Case records must be retained for three years from the date of application and are subject to state and federal audit."

Good internal control requires procedures to ensure adequate records are maintained to support payments were for the proper amount and for eligible individuals.

**Condition:** During our testing of 45 payments, we noted one payment did not have adequate documentation and one individual was overpaid \$198.

**Questioned Costs:** \$396 known

**Context:** For one payment of \$198 the case file could not be located. For another payment the individual was paid the single family dwelling rate; however, per the application lived in a multi-family dwelling and therefore was overpaid \$198.

Federal payment errors noted were \$396. The total Federal sample tested was \$7,304 and total Federal assistance payments for fiscal year 2007 were \$15,339,368. Based on the sample tested, the case error rate was 4.44% (2/45). The dollar error rate for the sample was 5.42% (\$396/\$7,304) which estimates the potential dollars at risk for fiscal year 2007 to be \$831,394 (dollar error rate multiplied by population).

**Cause:** Unknown

**Effect:** Increased risk for loss or misuse of funds.

**Recommendation:** We recommend the Agency implement procedures to maintain adequate supporting documentation and ensure all payments are in accordance with State and Federal regulations.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the conditions reported.

**Corrective Action Plan:** There were two different conditions that resulted in the total error.

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Condition One: The error was \$198 as the household should have received a payment of \$198 instead of a payment of \$396.

Effective October 1, 2007, DHHS has started to do a review of LIHEAP case files through the Nebraska Economic Assistance Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The information from the supervisory reviews are captured in the NEARS system and the results of this monitoring are to be used for corrective action and staff training. We anticipate that this monitoring will provide adequate controls to ensure that payments are allowable and adequately supported. The factors that are reviewed during a NEARS review are:

- A. Current application;
- B. vulnerability is properly determined;
- C. appropriate household members are included;
- D. households containing ineligible aliens have been identified as a “mixed household;”
- E. resources, income and PA or NA status identified;
- F. living arrangement (single or multiple); and
- G. IM-7 completed on NA case, payment designated to household or provider, crisis need is documented, payment amount is correct, LIHEAP C1 fields are correctly entered, copy of IM-8 in file if action is “other;” LIHEAP approved, and SUA is allowed in FS.

Condition Two: This error was \$198 because the Omaha local office energy unit cannot find this file. This person and SSN do not appear on NFOCUS so energy was the only type of assistance received by the individual.

- A. Omaha started a tracking process of all Energy Assistance or Emergency Assistance requests in July 2007. This process tracks the date of application, the staff member that is handling the request (ongoing worker, intake worker, or energy worker), and a narrative is entered into the NFOCUS cases. A flow chart is included in attachments. This tracking process will provide adequate controls to ensure that the households are receiving assistance, who acted on the request, what actions were taken by the Omaha staff, and what worker will have the case in their record files.

DHHS plans to add the LIHEAP program to its primary eligibility system called NFOCUS in 2010. This addition will enhance case trace and benefit accuracy.

**Contact:** Mike Harris, George Kahlandt, Mike Kelly

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**Anticipated Completion Date:** Completion dates are identified in the above corrective action.

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-12**

**Program:** CFDA 93.575 and 93.596 Child Care and Development Fund Cluster - Allowability and Eligibility

**Grant Number & Year:** #OG0601NECCDF, FFY2006; #OG0701NECCDF, FFY 2007

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

**Criteria:** Title 392 NAC 5-001.01 states, "Before furnishing any service, each provider must sign Form CC-9B agreeing: (2) To provide service only as authorized, in accordance with the Department's standards." Good internal control requires procedures be in place to ensure every provider agreement indicates what type of child care services are being provided in order to ensure standards are being followed. Title 392 NAC 3-005.01D states that individuals whose income exceeds the maximum limit to be considered a low income family are eligible for child care through the low income sliding fee schedule and must pay a fee as shown in the fee schedule. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations. Per 42 USC 9858k no financial assistance shall be expended for any services provided to students during the regular school day. Good internal control requires procedures be in place to ensure billings are accurately calculated and charged to the client.

**Condition:** During review of child care payments we noted 11 of 45 claims tested did not have adequate documentation and/or were not in compliance with State and Federal regulations.

**Questioned Costs:** \$558 known

**Context:** During testing we noted four cases had parent income above the income limit and should have been responsible to pay a copay; one case was not charged the appropriate copay amount; one provider was underpaid for services provided; one provider was paid for 18 days of services during regular school days; and five providers were overpaid for hours/days worked. These providers had numerous clerical errors on the billing documents which were not detected, including one provider that over-charged 11 days on the monthly attendance sheet.

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Federal payment errors noted were \$558. The total Federal sample tested was \$3,303 and total Child Care Federal assistance payments for fiscal year 2007 were \$29,262,752. Based on the sample tested, the case error rate was 24.44% (11/45). The dollar error rate for the sample was 16.89% (\$558/\$3,303) which estimates the potential dollars at risk for fiscal year 2007 to be \$4,942,479 (dollar error rate multiplied by population).

**Cause:** Ineffective review.

**Effect:** Without adequate controls and supporting documentation, there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

**Corrective Action Plan:** A memo will be sent to local office staff sharing the results of the audit and highlighting areas that need more review. This will be targeted for February, 2008.

The Department included Child Care Subsidy cases in a supervisory review system effective October 1, 2007. The system is called the Nebraska Economic Assistance Review System (NEARS). Supervisory staff are required to review and monitor a targeted number of cases each month. The supervisory reviews are captured in the NEARS system and the results of this monitoring are used for corrective action and staff training. We anticipate that this monitoring will improve controls for child care payments.

To assist supervisors to target error prone cases:

1. We will design a report that will list cases where there is a child care case and a related Food Stamp, Aid to Dependent Children, or Medical case with income. This will be targeted for April, 2008. This will be used by workers and supervisors in case reviews.

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2. We will design a report that will list cases where the income is at or above 100% of the Federal Poverty Level and the Customer Obligation checkbox is not checked on the Service Authorization screen. This will be targeted for April, 2008. This will be used by workers and supervisors in case reviews to target copay errors for current cases and then make corrections.

We will pursue a change to NFOCUS to default to a check in the customer obligation box; this will apply to new authorizations and is intended to address the issue of providers and child care clients not being notified of a child care copay. This will be targeted for March, 2008.

We will plan to convert Child Care Subsidy into the expert system in NFOCUS. This change would improve income calculation and consideration of income across assistance programs. This will be targeted for July, 2008.

A training module is being developed by the Department Training Unit that will be a self-directed training piece on Service Authorizations that will be available to workers and supervisors. This will be targeted for June, 2008.

We will make a revision to the Child Care Provider Agreement to redefine a daily unit to reflect rounding practices. This will be targeted for September, 2008.

**Contact:** Betty Medinger

**Anticipated Completion Date:** Dates are included above.

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-13**

**Program:** CFDA 93.658 - Foster Care Title IV-E - Allowability & Eligibility

**Grant Number & Year:** #0G0601NE1401, FFY 2006; #0G0701NE1401, FFY 2007

**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. Foster Care maintenance payments are allowable only if the foster child was removed from the home of a relative specified in section 406(a) of the Social Security Act, and placed in foster care by means of a judicial determination that indicates continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child, as defined in 42 USC 672(a)(2), or pursuant to a voluntary placement agreement. Per 42 USC 671(a)(10) and 672(c) the provider, whether a foster home or



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a child-care institution must be fully licensed by the proper State Foster Care licensing authority. 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 45 Foster Care payments tested were not allowable as not all eligibility requirements were met.

**Questioned Costs:** \$976 known

**Context:** We noted the following during our testing:

- For five daycare payments tested, the child was not in a licensed foster home; therefore, child care was not an allowable expense.
- For one daycare payment, the child was living with parents at the time of service; therefore, child care was not an allowable expense.
- One payment noted foster care maintenance was paid for the month of September 2006; however, the child was adopted July 31, 2006, per review of court order.

Federal payment errors noted were \$976. The total Federal sample tested was \$20,064 and total Foster Care Title IV-E assistance payments for fiscal year 2007 were \$5,096,978. Based on the sample tested, the case error rate was 15.56% (7/45). The dollar error rate for the sample was 4.86% (\$976/\$20,064) which estimates the potential dollars at risk for fiscal year 2007 to be \$247,713 (error rate multiplied by population).

**Cause:** Inadequate controls over processing claims.

**Effect:** Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments are an allowable expense, on behalf of eligible children, and in accordance with Federal regulations.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

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The Department agrees with the condition reported.

**Corrective Action Plan:** Related to the first five errors noted: Corrective action at the systems level was initiated 10-31-2006 to change NFOCUS coding so that child care would be claimed as a I-VE expenditure only when the foster home in which the child was placed was licensed. This change was released into NFOCUS on 11-12-2007. Corrective action related to the specific payments on these five cases: Notice was sent by Child Welfare to Finance and Support on 11/21/07 to unclaim the federal share of these payments. Finance and Support will include this request to unclaim in its next federal quarterly report. Corrective action at the systems level: Results of the audit will be shared with appropriate administrative staff of all service areas, including Service Area Administrators, with a reminder as to the importance of timely reporting of information on NFOCUS and then timely action by the Income Maintenance-Foster Care Worker. Also, a system of Quality Assurance Review will be put in place by January 1, 2009, to include performance accountability standards for Income Maintenance staff. Corrective action at the case level: Notice will be sent by Child Welfare to Finance and Support to unclaim the federal share of these payments. This notice will be sent prior to January 31, 2008. Finance and Support will include the request to unclaim in the next federal quarterly report.

**Contact:** Ruth Grosse, Margaret Bitz, or Larry Morrison

**Anticipated Completion Date:** December 2008

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-14**

**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 assets. Good internal control also requires adequate review of adjustments made to the quarterly report to ensure accuracy and allowability.

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**Condition:** Adjustments reported on the quarterly FSR for September 30, 2006, in the amount of \$7,765 (Federal share) were found to be previously reported. Nine of fifteen individuals tested were found to be previously claimed as IV-E. The total Federal share of adjustments reported on the September 30, 2006, FSR was \$1,391,047.

**Questioned Costs:** \$7,765 known

**Context:** The adjustment reviewed during fiscal year 2007 was claiming expenses that were previously thought by the Agency to not be an allowable expense. During our review of this adjustment, we found nine of the fifteen individuals tested were previously claimed; therefore, resulting in double reporting of \$7,765 (Federal share).

**Cause:** Inadequate review of adjustments.

**Effect:** Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments are an allowable expense and in accordance with Federal regulations.

**Management Response:** The Department agrees with the condition reported. DHHS also wishes to state that the circumstances surrounding the claiming for these payments were extremely unusual and very unlikely to occur in the future. Prior to the Federal Title I-VE review in 2006, DHHS was given an interpretation by the Region VII Department of Health and Human Services Office regarding non-acceptability of certain court order language for purposes of I-VE eligibility. Using that interpretation, DHHS submitted a request to unclaim I-VE payments for hundreds of children. As a result of discussions during the Federal Title I-VE review, DHHS was given the interpretation from Department of Health and Human Services Central Office in Washington, D.C., that the language indeed was acceptable to establish I-VE eligibility. DHHS then reviewed all cases that had been unclaimed due to the interpretation and submitted a claim to retrieve the federal funds for the previously unclaimed payments when appropriate and when resubmission was allowable due to the parameters of claiming within 8 federal quarters. Claiming for payments for other children also was included in this resubmission. As a result, errors were made in time frames related to unclaiming and then reclaiming.

**Corrective Action Plan:** Corrective Action Plan at the Systems Level: Prior to June 30, 2008 Child Welfare and Finance and Support will collaborate and develop procedures to assure that claims for payment of federal funds are not duplicated. Corrective Action at the Case Level: Before January 31, 2008, Child Welfare will review all payments reclaimed on the 9 cases and report any errors to

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Finance and Support. Finance and Support will include the corrections on the next federal quarterly report. The corrections will include both underclaiming and overclaiming.

In the future, Finance and Support will notify Child Welfare when the actual Title IV-E claims have been submitted to the Region VII Federal Office in Kansas City.

**Contact:** Ruth Grosse, Margaret Bitz, or Larry Morrison

**Anticipated Completion Date:** April, 2008

**Finding #07-26-15**

**Program:** CFDA 93.659 - Adoption Assistance - Allowability & Eligibility

**Grant Number & Year:** #0G0601NE1407, FFY 2006; #0G0701NE1407, FFY 2007

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

**Criteria:** 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 ... and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement) ... However, in no case may the amount of the adoption assistance payment ... exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home."

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 (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, which are not incurred in violation of State or Federal law, and which have not been reimbursed from other sources or other funds."

Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

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." Good internal control requires adoption agreements be maintained and properly signed and dated.

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**Condition:** We noted 7 of 45 Adoption Assistance payments tested were not in accordance with State and Federal requirements.

**Questioned Costs:** \$571 known

**Context:** We noted the following:

- Four payments tested did not agree with the amount specified on the adoption agreement. One payment was for legal fees. The other three payments were for adoption subsidy.
- For two payments tested, the adoption subsidy exceeded the foster care maintenance amount.
- For one case tested, the Agency was unable to provide the adoption agreement.

Federal payment errors noted were \$571. The total Federal sample tested was \$13,496 and total Adoption Assistance payments for fiscal year 2007 were \$6,997,779. Based on the sample tested, the case error rate was 15.56% (7/45). The dollar error rate for the sample was 4.23% ( $\$571/\$13,496$ ) which estimates the potential dollars at risk for fiscal year 2007 to be \$296,006 (error rate multiplied by population).

**Cause:** Inadequate controls over processing claims.

**Effect:** Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments are an allowable expense, on behalf of eligible children, and in accordance with Federal regulations.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

**Corrective Action Plan:** In all cases with an error, the worker(s), supervisor(s), and administrator(s) involved will receive specific information regarding the error, including a reminder of specific policies that were not followed and what those policies would have allowed for or required, and any action that must or can be taken in the field to correct the error.



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Information regarding all errors found will be shared in writing with appropriate administrators statewide, including Service Area Administrators. This information will include policy references. Discussion will be held regarding actions to be taken statewide or within service areas to assure that the errors are not made in the future.

By February 15, 2008, Child Welfare Unit will provide information to Finance & Support to unclaim whatever funds were inappropriately claimed. Finance & Support will include these corrections in the next quarterly federal report.

By February 28, 2008, policy will be reviewed to determine if changes will more clearly provide direction to field staff. Resulting changes will be drafted and presented for public hearing or issued as guidebook material, whichever is appropriate.

Findings from the Audit were presented to field staff on the Bi-Monthly Adoption Call on January 29, 2008. Discussion included citing policies that are applicable, and the opportunity for field staff to receive clarifications, if any are needed. (This corrective action was completed on 1/29. Participants on the call included Resource Development, Income Maintenance-Foster Care, and Protection and Safety staff.)

By March 31, 2008, Child Welfare Unit will review relevant portions of the New Worker and Specialized Adoption curricula to determine if changes are needed.

By December 31, 2008, a Quality Assurance process will be in place to reduce the risk of errors, and, if they are made, to correct them quickly.

**Contact:** Mary Dyer or Margaret Bitz

**Anticipated Completion Date:** See individual dates for specific actions. Total corrective action plan is anticipated to be completed by December 31, 2008.

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-16**

**Program:** CFDA 93.667 - Social Services Block Grant (SSBG) - Allowability

**Grant Number & Year:** All open grants

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

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**Criteria:** Title 45 CFR 96.30 (a) states, "... a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds." Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. Title 473 NAC 3-001.06 Service Provider Agreements states, "Each provider must have a service provider agreement in effect before service can be authorized for purchase." Title 473 NAC 3-002.02 states, "Before furnishing any service, each provider shall sign Form DSS-9, agreeing to ... Submit Form DSS-5B, 'Social Services Billing Document,' after service is provided and within 90 days." Title 473 NAC 2-007.03B Resource Development states, "When the worker assigned resource development responsibilities and a provider negotiate a rate that exceeds the maximum unit rate the worker shall - 2. Initiate Form DSS-2A requesting a specific unit rate exceeding the maximum." Title 473 NAC 3-001.10 Rate Negotiation states, "The worker shall negotiate all terms in Section I of Forms DSS-8 and DSS-9. The rates negotiated must - 3. Not exceed the service's maximums without prior Central Office approval." Good internal control requires paying the rate negotiated and stated per the Provider Agreement. Good internal control also requires adequate supporting documentation be retained for services provided. Good internal control further requires adequate policies and procedures to ensure the claims submitted by the providers are accurate and valid.

**Condition:** We noted 41 of 44 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations.

We also noted the Agency did not have policies or procedures to ensure the provider submitted billings for payment were adequately supported or accurate. For example, transportation providers were not required to submit detailed logs and did not require client signatures. Chore providers were not required to submit detailed timesheets with client signatures.

**Questioned Costs:** \$3,062 known

**Context:** For one claim the Agency was unable to provide a signed Provider Agreement. The Agency was unable to provide the Billing Document for four claims related to transportation services.

For three claims tested, the rate paid did not agree with the rate negotiated and stated per the Provider Agreement. These three claims related to transportation services. The Provider Agreement for one claim stated the rate was 95% of published rate. The Agency was unable to provide information on how they calculated the rate; therefore, we were unable to determine if the rate was 95% of the published rate. For the second claim, the rate negotiated per the Provider Agreement was \$13.20 per one-way trip; however, the rate paid was \$14.52 per one-way trip, a difference of \$1.32 per one-way trip. The claim was for 39 one-way trips, resulting in an overpayment of

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\$51.48. For the third claim tested, the rate paid was not included in the Provider Agreement. The Provider Agreement referenced to an attachment; however, the Agency was unable to provide the attachment.

For 14 claims tested there was not adequate supporting documentation for the services provided. Seven of the claims were for transportation related services. Information was not provided as to what the transportation was for or destination of the travel. Three of the claims were related to chore services. The Agency was unable to provide timesheets for the chore services provided. Four of the claims were for meals; logs or other documentation to support which days meals were provided were not on file.

Thirty-six claims tested did not comply with the rates and procedures per 473 NAC. Per 473 NAC, rates may be negotiated that exceed what is referenced; however, approval must be given from the Central Office. For these 36 claims, the Agency was unable to provide documentation which showed the Central Office approved the rate. Nineteen of the claims related to transportation services. Five claims tested were for In-Home Day Services or Day Services. Seven claims tested were for meals, either congregate or home delivered. Five claims tested related to chore services. For chore services 473 NAC states the maximum hour unit rate to be used is the Federal minimum wage. The Federal minimum wage at the time of service for the claims tested was \$5.15 per hour; however, all five claims tested were paid at \$6.50 per hour.

Federal payment errors noted, excluding rates not in accordance with NAC, were \$3,062. The total Federal sample tested was \$11,941 and total SSBG Federal assistance payments for fiscal year 2007 were \$3,367,833. Based on the sample tested the case error rate was 93.18% (41/44). The dollar error rate for the sample, excluding rates not in accordance with NAC, was 25.64% (\$3,062/\$11,941) which estimates the potential dollars at risk for fiscal year 2007 to be \$863,512 (dollar error rate multiplied by population). Total claims tested with errors, including NAC rates, was \$10,480 of the \$11,941 sample.

**Cause:** Unknown

**Effect:** Without adequate controls and supporting documentation, there is an increased risk of loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

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The Department agrees with the conditions reported.

**Corrective Action Plan:**

Adult Day Care, Chore, and Meals (Home Delivered and Congregate):

Regulations will be revised and rates and services codes for all SSBG services will be removed from 473 NAC. Revised regulations will specify that all Chore timesheets include provider and consumer signatures and dates and time of service provided, and that all required documentation be maintained by provider for six years. Revised regulations will specify that agencies providing Meal services document consumer name when the meal is delivered, and that provider and consumer signatures are recorded to verify meal delivery.

Worker training will be provided when regulations have been revised and promulgated. Central Office will review a sampling of files from each Service Area to ensure required documentation is present.

Transportation:

Transportation regulations were revised and became effective August 20, 2007. Rates and service codes were removed from the regulations at that time.

A memorandum will be provided to staff to clarify protocols on Provider Agreements, rate exceptions, documentation of transportation claims and the DHHS retention schedule.

A Provider Bulletin will be issued reminding providers of the requirement that they have an active, current and accurate provider agreement and their obligation to retain claims documentation in their files and provide it the Department upon request.

A post-pay review of Department and Provider files will be conducted within six months of issuance of the memorandum and Provider Bulletin, to insure the audit findings have been corrected

**Contact:** Joni Thomas & Roxie Cillessen

**Anticipated Completion Date:** Adult Day Care, Chore, Meals: June 30, 2008;  
Transportation: March 1, 2008

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-17**

**Program:** CFDA 93.767 - State Children's Insurance Program (SCHIP) - Reporting

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**Grant Number & Year:** All open grants

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

**Criteria:** Title 45 CFR 92.20(a) requires fiscal control and accounting procedures to permit preparation of required reports and to permit tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable statutes. Good internal control requires reconciliation of amounts reported to amounts recorded in the State accounting system.

**Condition:** Expenditures reported in the quarter ended June 30, 2007, CMS-64 report could not be traced to NIS, the official accounting system of the State.

**Questioned Costs:** \$29,129

**Context:** During the testing of the CMS-64 for the quarter ended June 30, 2007, we noted expenditures reported were \$11,656,681; however, the expenditures recorded on NIS were only \$11,615,391 resulting in a variance of \$41,289 of which \$29,129 was Federal funding.

**Cause:** Unknown

**Effect:** Noncompliance with Federal regulations increases the risk for errors to occur and the loss or misuse of State funds. Without adequate reconciliation of amounts reported to the accounting system there is risk expenditures are not reported accurately.

**Recommendation:** We recommend the Agency implement procedures to ensure amounts reported reconcile to the State accounting system.

**Management Response:** The Department partially disagrees with the condition reported. The amounts reported on the CMS-64 were correct.

**Corrective Action Plan:** The Department will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the CMS-64 reports.

**Contact:** Kim Collins

**Anticipated Completion Date:** April 30, 2008. (The January – March, 2008 quarterly report)

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**Finding #07-26-18**

**Program:** CFDA 93.767 - State Children's Insurance Program (SCHIP) - Eligibility

**Grant Number & Year:** All open grants

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

**Criteria:** Title 477 NAC 4-001.04 states, "The worker must redetermine eligibility every six months. Eligibility may be redetermined in less than six months to coordinate review dates for more than one program." Title 45 CFR 92.20(a) states, "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds." Good internal control requires redeterminations be performed periodically to ensure recipients remain eligible for assistance.

**Condition:** For 7 of 45 SCHIP claims tested, eligibility redeterminations were not performed every six months.

**Questioned Costs:** None

**Context:** For 7 of 45 claims tested, redeterminations were not performed every six months. The determinations were performed from 10 to 17 months after the prior determination.

**Cause:** Unknown

**Effect:** The Agency is not in compliance with State Rules and Regulations. Failure to complete required redeterminations every six months increases the risk ineligible recipients may receive assistance.

**Recommendation:** We recommend the Agency ensure required SCHIP redeterminations are performed to ensure only eligible recipients receive assistance.

**Management Response:** DHHS would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Department agrees with the condition reported.

**Corrective Action Plan:** Effective 10-01-07 DHHS has started to do reviews of State Children's Insurance Program (SCHIP) case files through the Nebraska Economic Review System (NEARS). Supervisory staffs are required to review and monitor a targeted number of cases each month. The information from the



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supervisory reviews are captured in the NEARS system and the results of the monitoring are to be used for corrective action and staff training. We anticipate that this monitoring will provide adequate controls to ensure that payments are allowable and adequately supported. The factors that are reviewed during a NEARS review are:

- A. Application
- B. Citizenship
- C. Non-Financial
- D. Earned Income
- E. Self- Employment
- F. Unearned Income
- G. Deductions
- H. Miscellaneous

NFOCUS Reports (InfoView) have Case Activity Summary Reports and Case Review Reports to assist eligibility workers in managing their caseloads for reviews that are due and overdue. Supervisors have reports available to monitor staff completion of reviews that are still due and overdue. These reports are adequate controls to monitor caseloads.

NFOCUS creates alerts which are posted to each eligibility workers position of Reviews Due, to assist in managing required action.

**Contact:** Mike Harris, George Kahlandt

**Anticipated Completion Date:** Completion dates are identified in the above corrective action.

**Auditor's Response:** The extrapolation method is in accordance with auditing standards.

**Finding #07-26-19**

**Program:** CFDA 93.778 - Medicaid - Allowability/Matching/Reporting

**Grant Number & Year:** #050605NE5028, FFY 2006; #050705NE5028, FFY 2007

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

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**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 92.22 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. 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 \$3,031,549 on the September and December 2006 quarterly CMS reports for Developmental Disability provider match; these costs were never paid to providers and were not recorded on NIS. 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. For January through June 2007, the Agency did not include the provider match in the total reported for Developmental Disabilities; however, NIS was not changed to reflect the correct Federal/State split. Therefore Federal funds were overcharged \$4,913,973.

**Questioned Costs:** \$4,913,973

**Context:** The Agency paid providers of developmental disability services at 90% of Agency determined rates. For July through December 2006, the Agency then reported the 10% not paid as match. 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. For January through June 2007, the Agency did not report the provider match in the total reported; however, the Federal/State share paid was not corrected, and Federal funds were overcharged.

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	<u>7/1/06-9/30/06</u>		<u>10/1/06-6/30/07</u>		<u>Total</u>
<b>Actual Paid Per NIS</b>					
State	\$ 12,049,218	35.31%	\$ 39,580,857	37.19%	\$ 51,666,221
Federal	22,071,015	64.69%	66,857,960	62.81%	88,981,830
Total NIS	<u>\$ 34,120,233</u>		<u>\$ 106,438,817</u>		<u>\$ 140,648,051</u>
<b>Claimed Per Report</b>					
State*	\$ 14,494,327	40.32%	\$ 45,471,498	42.07%	\$ 59,965,825
Federal	21,454,027	59.68%	62,613,830	57.93%	84,067,857
Total Report	<u>\$ 35,948,354</u>		<u>\$ 108,085,328</u>		<u>\$ 144,033,682</u>
<b>Variance</b>					
State (under matched)					\$ (8,299,604)
Federal (over charged)					\$ 4,913,973

\*Reported amount includes \$3,031,549 uncertified provider match July through December 2006.

**Cause:** This was a prior finding and the Agency did not make corrections to the accounting system during fiscal year 2007. The Agency indicated changes would be made starting August 2007.

**Effect:** Noncompliance with Federal regulations.

**Recommendation:** We recommend the Agency implement procedures to ensure matching funds are from an allowable source, costs are charged at the proper Federal medical assistance percentage, and amounts reported reconcile to NIS.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** Beginning August 2007 the Department no longer claims or reports the 10% of funds planned on from Public Providers. The Department is in the process of reconciling these amounts with the CMS Regional office in Kansas City.

**Contact:** Willard Bouwens

**Anticipated Completion Date:** February 29, 2008

**Finding #07-26-20**

**Program:** CFDA 93.778 - Medicaid - Allowability & Period of Availability

**Grant Number & Year:** #050705NE5028, FFY 2007

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**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.” Good internal control requires timely, periodic reviews of State disability recipients to determine if they qualify for Medicaid.

Title 471 NAC 3-002.01B states, “The Department shall pay claims within 12 months of the date of receipt of the claim. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations.

Good internal control requires claims to be charged in a timely manner.

**Condition:** Fiscal year 2007 grant funds were used to pay for fiscal year 2006 and 2005 expenditures. Also, the Agency charged Medicaid for claims paid more than 12 months after the claim was received.

**Questioned Costs:** \$1,725,051

**Context:** Recipients of State Disability may become qualified for Medicaid if they are expected to be or are disabled for more than 12 months. When it is determined by the Agency that recipients of State Disability qualified for Medicaid in a prior period, the Agency creates a journal entry to charge the costs to Medicaid. The Agency made an adjustment in April 2007 to transfer eligible expenditures from State Disability to Medicaid. The Agency charged all the expenditures to the 2007 grant, even though some of the obligations originated during July through September 2006, which falls under the 2006 Federal fiscal year. In addition, the Agency applied the FFY 2006 Federal Medical Assistance Percentage (FMAP) for the expenditures occurring in FFY 2006 even though they charged all expenditures to the FFY 2007 grant. The Federal share of July through September expenditures charged to the 2007 grant was \$708,366.

Targeted case management involves cases where services are provided to Medicaid eligible clients by Agency caseworkers. Services were for assessing and coordinating a client’s case by the caseworker from the office, community, or recipient’s home. The claims for the services were sent monthly to the central office. On June 19, 2007, the Agency created a journal entry that charged Medicaid \$1,285,605 for services provided. Included in the amount charged was \$776,311 and \$240,374 of services provided for FFY 2006 and FFY 2005 respectfully, but were charged to a FFY 2007 grant. Also, \$801,241 of these claims were received more than 12 months before the payment.

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**Cause:** The Agency considers the expenditure not incurred by Medicaid until the State disabled client is identified as Medicaid eligible. However, after 12 months of disability the Agency has all of the information needed to identify the client as Medicaid eligible. The auditors believe the expenditure is incurred at that time. Otherwise the Agency would have the ability to manipulate which grant was charged. The Agency did not have procedures to ensure case management services were charged in a timely manner.

**Effect:** Untimely charges increase the risk of ineligible claims.

**Recommendation:** We recommend the Agency implement procedures to process journal entries in a timely manner and comply with Federal and State regulations.

**Management Response:** The Department partially agrees with the condition reported.

**Corrective Action Plan:** The Department agrees to submit journal entries in a timely manner. The Department does not agree with the condition that grant finals were charged to the incorrect year. DHHS follows protocols established by CMS, the federal agency charged with administering the Medicaid program in partnership with the States. According to this protocol, adjustments from prior periods are to be reported on the current quarterly CMS-64 claim and identified as such. Reconciliation to the correct federal fiscal year match rate is accomplished on an annual basis.

**Contact:** Kim Collins, Ginger Goomis

**Anticipated Completion Date:** On-going

**Finding #07-26-21**

**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:** OMB Circular A-87 requires Federal costs to be authorized or not prohibited under State or local laws or regulations; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; and be the net of all applicable credits. When individuals receive services at the Regional Centers, Beatrice State Developmental Center (BSDC), or receive community-based developmental disability (DD) services, the patient and his or her relatives shall be liable for the cost of services, as prescribed

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by Neb. Rev. Stat. Sections 83-227.01, 83-363 through 83-379, and 83-1211. In situations where the ability-to-pay assessment for a Medicaid eligible child is applied to the parent's income (or responsible relative), the parent's ability-to-pay is considered a third party liability for Medicaid.

States must have a system to identify medical services that are the legal obligation of third parties. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR Sections 433.135 through 433.154).

Per 42 CFR 433.140 (c) if the State receives Federal participation in Medicaid payments for which it receives third party reimbursement, the State must pay the Federal government a portion of the reimbursement determined in accordance with the Federal matching participation for the State.

Good internal control requires procedures to ensure third party liabilities are collected and the Federal share is properly remitted.

**Condition:** During the fiscal year the Agency did not credit Medicaid for parental liability amounts collected for Medicaid clients.

**Questioned Costs:** Unknown

**Context:** For the fiscal year ended June 30, 2007, the Agency reported total client accounts receivables for the CAFR of \$21,239,564 and net receivables after allowances of \$9,639,902 at June 30, 2007. We were unable to determine the amount of accounts receivables and collections related specifically to parental liability for Medicaid clients. We also noted collection procedures should be improved.

**Cause:** Misinterpretation of requirements.

**Effect:** The Federal government may not be receiving all the funds due from parental liability.

**Recommendation:** We recommend the Agency implement procedures to ensure accounts receivable are collected and that collections from parents for Medicaid children are properly credited to the Federal government for their share of the reimbursement.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** DHHS has begun to credit the Federal Government for all payments from parents on behalf of Medicaid clients.

**Contact:** Willard Bouwens

**Anticipated Completion Date:** September 30, 2007



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**Finding #07-26-22**

**Program:** CFDA 93.775, 93.777 & 93.778 - Medicaid Cluster - Reporting

**Grant # & 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. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires accurate reconciliations between required reports and the accounting system. Good internal control also requires supervisory review of work performed.

**Condition:** The Agency utilized the Medicaid Management Information System (MMIS), NFOCUS, and NIS to prepare the Quarterly Medicaid Statement of Expenditures Report. A quarterly reconciliation between the report and the NIS application was performed; however, we noted many discrepancies in the reconciliation. We also noted there was no supervisory review of the reconciliation.

**Questioned Costs:** Unknown

**Context:** During the testing of the reconciliation it was noted: 1) amounts recorded in the NIS portion of the reconciliation could not be traced to NIS, 2) some amounts recorded in the NIS portion of the reconciliation were not obtained from NIS, and 3) amounts from NIS for expenditures of State and/or Federal funds only were split utilizing the match rate in the reconciliation. Of the 15 items tested from one quarterly reconciliation, we noted variances in 13 of the items ranging from (\$6,275,153) to \$7,857,459.

**Cause:** The methodology to reconcile reports to NIS was developed in fiscal year 2006 and was first implemented in fiscal year 2007.

**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 ensure quarterly reconciliations of Federal reports to the State accounting system are accurately performed with explanations of all discrepancies.

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**Management Response:** The Department disagrees in part with the condition reported that the amounts recorded in NIS do not reconcile to the Quarterly Medicaid Statement of Expenditures Report. The NIS amounts reconcile in total, the only difference is in the State and Federal fund split.

**Corrective Action Plan:** The Department will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the Quarterly Medicaid Statement of Expenditures.

**Contact:** Kim Collins

**Anticipated Completion Date:** April 30, 2008. (The January – March, 2008 quarterly report)

**Auditor’s Response:** We disagree with the Agency that “NIS amounts reconcile in total, the only difference is in the State and Federal fund split.” Our procedures also noted amounts recorded in the NIS portion of the reconciliation did not agree to NIS, and some amounts were not obtained from NIS.

**Finding #07-26-23**

**Program:** CFDA 93.775, 93.777 & 93.778 - Medicaid Cluster - Special Tests and Provisions

**Grant Number & Year:** All open grants

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

**Criteria:** Title 45 CFR 95.621(f)(2)(iii) states, “State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur.”

Per Title 45 CFR 95.621(f)(3) State agencies shall review the Automated Data Processing (ADP) system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Title 45 CFR 95.621(f)(5) states, “The security requirements of this section apply to all ADP systems used by State and local governments to administer programs covered under 45 CFR part 95, subpart F.”

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Title 45 CFR 95.621(f)(6) states, "The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review."

Good internal control requires reviews for access to computerized systems be completed timely. Further, good internal control requires security reviews be adequately documented.

**Condition:** The required biennial risk analysis review for the Medicaid payment processing application (NIS) was not completed. The required biennial review for access to the Medicaid eligibility determination application (NFOCUS), Medicaid claims processing application (MMIS), and payment processing application (NIS) were not completed.

**Questioned Costs:** None

**Context:** The Agency did not complete a risk analysis or system security review for NIS within the past two years. NIS is the official accounting system of the State, as prescribed by Administrative Services. The Medicaid claims processing application (MMIS) interfaces with NIS for the payment of claims.

The Agency did not complete a role based access review for the Medicaid claims processing application (MMIS). The position responsible for completing the review was vacant during the time the review is normally completed. The last biennial role based access review was completed for the MMIS security report dated December 31, 2004.

The Agency did not complete a role based access review for the Medicaid eligibility determination system (NFOCUS). The Agency did not have procedures in place to complete the review; however, was developing procedures for a detailed review at the time of the audit.

**Cause:** The risk analysis and security review for the NIS application was not completed as NIS is a statewide system which the Agency felt was the responsibility of Administrative Services. The role based access reviews for the MMIS and NFOCUS applications were not completed due to reorganization within the Agency.

**Effect:** The Agency is not in compliance with Federal regulations. Failure to complete biennial risk assessments and security reviews on all systems involved in the administration of the Medicaid program increases the risk unauthorized access to systems will go undetected.

**Recommendation:** We recommend the Agency ensure all the required risk assessments, system security reviews, and role based access reviews are completed for all required ADP systems.

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**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The Department has requested confirmation that the Nebraska Information System (NIS) has had an appropriate audit and all risks related to Medicaid claims processing, interfaces, financial fund code and payment processing have been addressed satisfactorily for Fiscal Year 2007; and requests that all future reviews be confirmed and validated with check lists provided by the Department.

**Contact:** Allan Albers

**Anticipated Completion Date:** February 15, 2008

**Finding #07-26-24**

**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 states, “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.”

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.”

Good internal control requires written procedures and documentation of sampling and profiling methods.

**Condition:** The Agency did not have adequate written procedures regarding the methods and procedures used to perform the profiling and evaluating of misutilization practices. The review process did not include recipient utilization profiles or exceptions criteria. Sampling was not completed using exception reports.

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**Questioned Costs:** None

**Context:** In response to our prior audit finding, the Agency developed the following written procedures:

*“Each quarter the Survey and Utilization Review Services (SURS) reports, as indicated on the schedule that follows, will be run by Medstat. These comprise roughly one quarter of the providers for review each quarter. In this fashion, a provider has a higher probability of being reviewed over the span of a year. These profile reports are available on the Custom SURS tab and will also be sent on CD to us. The CD version is much faster to pull up and it is suggested that it be used over the on-line version. Any of the reports can be run at any time (and will run on the most current months’ data).*

*Each quarter, the sample of reports run is to be reviewed for high ranking providers and clients and may be the basis for starting a review. Additionally, when working a review started from another source, or from another Medstat report, the ranking summary profiles can be reviewed to supplement the information already obtained.*

*The ‘Service Rendering Provider Template,’ the ‘Summary Profile – Provider Template,’ and the ‘Summary Profile – Recipient Template’ are also available to run for a quick snapshot of the entity’s Medicaid and Medicare activity.*

*While there is no requirement to pick a certain number of reviews from these Ranking reports, they do make great supplemental information and the sample reports can be reviewed each quarter.”*

As noted, these procedures do not address recipient utilization or exception criteria. In addition, the provider Ranking Reports used did not define exception criteria and were rarely used to sample payments for utilization review. The Program Integrity unit relies on referrals and uses the Ranking reports as a comparison tool to compare a questionable provider to the normal activity of similar providers.

**Cause:** The Agency feels it is more efficient to rely on referrals for review.

**Effect:** Increased risk of undetected errors or fraud related to Medicaid provider payments.

**Recommendation:** We recommend the Agency develop adequate written procedures to sample payments for review considering recipient utilization profiles, provider service profiles, and the use of exception criteria.

**Management Response:** The Department agrees with the condition reported.

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**Corrective Action Plan:** The Medicaid Program Integrity/SURS written Methods and Procedures used for sampling of provider utilization review profiles will be revised to include sampling of recipient profiles. The sampling plan will specify a number of cases to be sampled each quarter, the exception criterion required for a provider or recipient to be selected, the method of uniquely identifying cases and the documentation required for the sample reviews. The sample criteria will be reviewed periodically and adjusted, as necessary.

For clarification, there are other methods of on-going sampling. One is the Payment Error Rate Measurement (PERM) a federally required sampling of both clients and claims. Over the federal fiscal year 2007, approximately 1000 claims are reviewed and approximately 1400 clients. The reviews of claims include data review (did the claim pay in accordance with MMIS and policy) and medical record review obtained from providers reviewed for medical necessity and correct coding. To date, one provider case has been opened based on a PERM finding. The client review involves review by our contractor of eligibility files to determine appropriate eligibility determinations and, therefore, payments. In addition to PERM, there are monthly reports that sample high volume claims and high volume prescription/pharmacy/physician users for potential lock-in.

**Contact:** Kris Azimi or Karen Cheloha

**Anticipated Completion Date:** The Written Methods and Procedures have been revised and include the criteria for sample selection. A sample of providers and recipients will be selected for the quarter January through March 2008, after March 31, 2008.

**Finding #07-26-25**

**Program:** 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:** 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." 42 U.S.C. 1396r-8(a)(7)(A) states, "In order for payment to be available under section 1903(a) for a covered outpatient drug that is a single source drug that is physician administered under this title (as determined by the Secretary), and that is administered on or after January 1, 2006, the



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State shall provide for the collection and submission of such utilization data and coding (such as J-codes and National Drug Code numbers) for each such drug as the Secretary may specify as necessary to identify the manufacturer of the drug in order to secure rebates under this section for drugs administered for which payment is made under this title.” Good internal control requires that all drugs which are paid for by Medicaid and eligible for manufacturer rebate are submitted to the manufacturer for rebate.

**Condition:** Practitioner claims for injections Medicaid recipients receive by a physician are being reviewed, but have not yet been submitted to the drug manufacturers for rebate.

**Questioned Costs:** Unknown

**Context:** Rebates for injectable drugs administered by a physician are reported to Medicaid on a Practitioner Claim instead of a Drug Claim. Drug Claims are monitored by Affiliated Computing Services (ACS) and the total of each drug is compiled for Nebraska Medicaid to submit to the appropriate manufacturer for rebate. A crosswalk was developed for high-dollar injectable drugs to allow the injectable drugs into the ACS system so they could be processed for rebate. This crosswalk is retroactive to January 1, 2005, but will not be billed until November 2007. If the billing goes smoothly, the Nebraska Medicaid unit plans on adding more injectable drugs to the rebate list to be billed in subsequent quarters.

**Cause:** Practitioner claims were not previously monitored for injectable drugs administered by a physician.

**Effect:** Possible loss of funds.

**Recommendation:** We recommend the Agency continue with its plan to bill drug manufacturers for injectable drugs administered by a physician.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The corrective action is complete.

During November of 2007, the Department invoiced drug manufacturers for rebates for physician administered drugs with dates of service beginning in 2004. The Department will add additional drugs and continue to use this as an ongoing process.

**Contact:** Gary Cheloha

**Anticipated Completion Date:** Completed November 2007

STATE OF NEBRASKA  
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**Finding #07-26-26**

**Program:** CFDA 93.674 - Chafee Foster Care Independence Program; CFDA 93.778 - Medicaid; CFDA 93.959 - Prevention and Treatment of Substance Abuse - Allowable Costs/ Cost Principles

**Grant Number & Year:** Various

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

**Criteria:** OMB Circular A-87 states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. There 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:** The Agency did not have procedures for the certification of payroll for individuals whose hours were charged to a single Federal program.

**Questioned Costs:** Unknown

**Context:** During the prior audit, it was noted there were no procedures for the certification of payroll for employees whose hours were charged to a single Federal program. We reviewed three employees with hours directly charged to a single program and noted the Agency still did not have procedures for payroll certification. Agency staff indicated the certification was going to be imbedded into a new timekeeping system which was being developed; however, the system was not complete. The monthly salary and program charged for the three employees were as follows: \$3,990, CFDA 93.674; \$2,631, CFDA 93.778; and \$3,501, CFDA 93.959.

**Cause:** The Agency's timekeeping system had not been developed.

**Effect:** The Agency was not in compliance with OMB Circular A-87. Also, there is an increased risk employees could charge hours to the wrong Federal program.

**Recommendation:** We recommend procedures be developed to periodically certify the time of employees whose hours are directly charged to a single Federal program.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** All DHHS employees will be required to use a new time reporting system by the end of the year. The certification will be incorporated into the new time reporting system.

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**Contact:** Linda Gerner and Larry Morrison

**Anticipated Completion Date:** December 31, 2008

**Finding #07-26-27**

**Program:** All programs administered by the Agency - Allowable Costs/Cost Principles

**Grant Number & Year:** All open grants

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

**Criteria:** OMB Circular A-133 requires the auditee maintain internal control over Federal programs. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

**Condition:** During our review of batch management for the Agency, we noted 24 people who could prepare and approve their own documents.

**Questioned Costs:** Unknown

**Context:** NIS is the official accounting system of the State and all transactions are processed through NIS. NIS utilizes batch management to allow documents to be prepared and approved. A relationship between two users must be established for batch management to work correctly. If a relationship is established properly, batch management can segregate duties prior to a document being processed.

**Cause:** The Agency gave employees the ability to prepare and approve their own documents.

**Effect:** There is an increased risk of loss or misappropriation of State assets when employees are able to prepare, approve, and post their own documents on NIS.

**Recommendation:** We recommend the Agency implement procedures to ensure employees are not able to prepare and approve their own documents on NIS.

**Management Response:** The Department agrees with the condition as presented with the exception of two individuals who manage department fixed assets.

**Corrective Action Plan:** Of the 24 individuals identified as having batch management authority, 22 are corrected to have preparation or approval authority only. The remaining two are under review at this time because of their fixed asset duties required at fiscal year end.

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**Contact:** Dick Kohel

**Anticipated Completion Date:** Completed January 2008

**Finding #07-26-28**

**Program:** Various, CFDA 93.575 and 93.596 - Child Care Cluster, CFDA 93.658 - Foster Care, CFDA 93.667 - Social Services Block Grant, and CFDA 93.777 and 93.778 - Medicaid Cluster - Allowable Costs/Cost Principles

**Grant Number & Year:** Various

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

**Criteria:** The approved Cost Allocation Plan states, "The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the HHSS Resource Developers in the cost center."

**Condition:** We tested the SM – Resource Development cost pool for the quarter ended June 30, 2007. Eight of twenty Resource Developers tested did not turn in time and effort reports for part or all of the quarter, or hours used for the allocation were not supported by time and effort reports. One of twenty Resource Developers tested had incorrect hours used in the allocation calculation.

**Questioned Costs:** Unknown

**Context:** The SM – Resource Development cost pool was allocated to benefiting programs based on hours reported by Resource Developers from weekly time and effort reports for the quarter. The cost pool allocated \$1,786,626 of costs to benefiting programs for the quarter. We tested 20 of 68 Resource Developers in the quarter and noted the following:

- Six Resource Developers did not turn in all weekly time and effort reports for the quarter. There were from one to thirteen reports missing.
- One Resource Developer did not turn in one weekly time and effort report and an additional week's hours used in the allocation calculation for the quarter were not supported by a time and effort report.
- One Resource Developer's hours used in the allocation calculation were not supported by a time and effort report.
- One Resource Developer had 20 hours coded to vacation/sick/etc. on their time and effort report, but the hours were incorrectly included with Foster Care hours for the allocation calculation.

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**Cause:** Unknown

**Effect:** Increased risk of inaccurate allocations of costs to Federal programs.

**Recommendation:** We recommend the Agency implement procedures to ensure all Resource Developers time and effort reports are submitted and maintained to support the cost pool allocation.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The Cost Accounting Office will complete follow-up process including contacts with supervisors to ensure all Resource Developers complete time reports.

**Contact:** Larry Morrison

**Anticipated Completion Date:** January 31, 2008

**Finding #07-26-29**

**Program:** Various - Allowable Costs/Cost Principles

**Grant Number & Year:** Various

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

**Criteria:** OMB Circular A-87 states, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

The Agency uses a Cost Allocation Plan (CAP) to distribute expenditures to the appropriate programs. Good internal control requires procedures to ensure the expenditures are correctly charged to the appropriate programs.

**Condition:** We tested 25 administrative expenditures. For 4 of 25 tested the coding was incorrect, causing cost pools to be misstated.

**Questioned Costs:** Unknown

**Context:** The Agency received a billing each month for records management services. For two expenditures tested the entire amount was charged to the MS – Claims Process cost pool, which is for costs associated with Medicaid. The Agency did this because the majority of the records management service costs were for Medicaid; however, the costs should have been allocated to all benefiting programs. Total records management services charged to the cost pool for May 2007 was \$23,810.

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One expenditure tested for \$91 was for a classified advertisement regarding TANF Caseload Reduction Credit. The cost was charged to a Food Stamps cost pool instead of a TANF cost pool.

The CAP allocates expenditures, not receipts. One receipt for \$10 was erroneously coded as expenditure, and therefore, was improperly included in the CAP.

**Cause:** Unknown

**Effect:** Incorrect coding can result in Federal programs being charged incorrect amounts.

**Recommendation:** We recommend the Agency implement procedures to ensure costs are coded correctly.

**Management Response:** The Department agrees with the condition reported.

**Corrective Action Plan:** The Medicaid and Food Stamp financial reports for the next quarter will be adjusted for the items reported by the auditors.

**Contact:** Larry Morrison

**Anticipated Completion Date:** April 30, 2008



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**MILITARY DEPARTMENT**

**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.

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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

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**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

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**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.

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**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.

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**GAME AND PARKS COMMISSION**

**Findings #07-33-01**

**Program:** Various – Reporting

**Grant Number & Year:** Various

**Federal Grantor Agency:** U.S. Department of Interior

**Criteria:** OMB Circular A-133 part 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 (SEFA) 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 SEFA is properly presented.

**Condition:** The Agency did not accurately report Federal expenditures by CFDA. We informed Administrative Services and the Agency of the errors 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
15.605	\$11,105,603	\$3,353,252	\$7,752,351
15.611	\$10,045,483	\$3,981,980	\$6,063,503
15.615	\$1,923,472	\$220,155	\$1,703,317
15.622	\$930,692	\$499,848	\$430,844
15.625	\$53,000	\$24,159	\$28,841
15.633	\$3,465,000	\$553,420	\$2,911,580
15.634	\$6,056,660	\$611,875	\$5,444,785

**Cause:** Inadequate review.



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**Effect:** Noncompliance with Federal regulations.

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

**Management Response:** Expenditures reported were too high. The variance on the SEFA resulted from two issues and two corrective action plans follow:

**Corrective Action Plan:**

1. Information for the single audit was taken from the wrong column from the federal aid report. The full federal appropriation was reported instead of the federal expenditures. The Corrective Action Plan for this issue is that the Federal Aid staff providing the expenditures will be consulted with prior to completing the CAFR information.
2. Prior year grant expenditures were not included in the CAFR report. The Corrective Action Plan (completed) was to work with the Auditors to set up tracking to include prior year expenditures in the current and future reports.

**Contact:** Connie Kubat, Budget and Fiscal and Marilyn Tabor, Federal Aid

**Anticipated Completion Date:** November 2007

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**HISTORICAL SOCIETY**

**Finding #07-54-01**

**Program:** CFDA 15.904 – Historic Preservation – Reporting/Matching

**Grant Number & Year:** #31-06-21530, FFY 2006; #31-05-20429, FFY 2005

**Federal Grantor Agency:** U.S. Department of Interior

**Criteria:** Title 43 CFR 12.60 requires fiscal control and accounting procedures of the State must be sufficient to – (1) Permit preparation of reports required by this part and the statutes authorizing the grant, 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. In addition, the grant agreement states the Agency is required to provide 40% of nonfederal match.

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 the Historic Preservation Grants and the accounting system.

**Condition:** For both annual reports submitted for the two grants open during the State fiscal year, we could not trace amounts reported to the Federal government to amounts recorded on NIS. Nonfederal match is provided from two different sources including State expenditures on NIS and local match; the amount of match used for NIS expenditures could not be verified.

The variance between the Historic Preservation expenditures reported compared to the expenditures noted on NIS was as follows:

<u>Aid Expenditures</u>	<u>Federal</u>	<u>Nonfederal</u>
Per Report	\$ 576,490	\$ 413,983
Per NIS	544,445	322,127
Local		<u>151,789</u>
Variance	\$ 32,045	\$ (59,933)

(All figures are based on a Federal fiscal year, October 1, 2005, thru September 30, 2006.)

**Questioned Costs:** Unknown

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**Context:** The Historic Preservation grant is a reimbursable grant. The Agency submitted a draw down request to the Federal grantor requesting reimbursement for the Federal expenditures they had incurred. The Agency requested \$618,158 from the Federal grantor agency during Federal fiscal year 2006; however, this amount did not agree to the Federal expenditures on NIS or the amount on the Federal report.

The Agency did not utilize separate business units on NIS for each new grant; therefore, expenditures could not be tracked within the accounting system for each grant separately. Also, if a cost was initially paid for with Federal funds but later determined to be an ineligible cost, no journal entry was done to transfer the Federal expenditures out of the Federal Fund on NIS. The Agency did not have a process to reconcile actual grant expenditures to amounts reimbursed by the Federal government.

**Cause:** The Agency did not utilize separate business units on NIS to account for the nonfederal match.

**Effect:** Without adequate controls, there is an increased risk for misuse of funds and inaccurate reporting.

**Recommendation:** We recommend the Agency ensure the expenditures reported for the Historic Preservation grants reconcile to NIS.

**Management Response:** All operational expenditures are split 60/40 at time of payment as reflected in NIS. Project contracts require contractor and/or the Certified Local Government to provide and document match, but there is no provision in NIS to record those specific amounts. Therefore, it is not possible for the entire amount of match to be reported in NIS, although supporting hard copy documentation is in Nebraska State Historical Society files.

**Corrective Action Plan:** Historic Preservation is reconciling expenditures to the state accounting system on a monthly basis. Separate business units will be utilized for the new Federal FY08 grant.

**Contact:** Michelle Furby, Accountant

**Anticipated Completion Date:** July 1, 2007

**Finding #07-54-02**

**Program:** CFDA 15.511 – Cultural Resources Management – Allowable Costs/Cost Principles

**Grant Number & Year:** #04FC601910, FFY 2006

**Federal Grantor Agency:** U.S. Department of Interior

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**Criteria:** OMB Circular A-87, Attachment B, Section 11, Subsection h(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries 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:** Employees’ time worked on a Federal grant was not certified for two of three employees tested who were paid from the Cultural Resources Management Bureau of Reclamation grant.

**Questioned Costs:** Unknown

**Context:** The employee’s timesheets did not show 100% of their time was spent working on the Cultural Resources Management Bureau of Reclamation grant. The two employee’s annual salaries were \$22,216 and \$22,214. There were five employees who were paid from this grant during the State’s fiscal year 2007.

**Cause:** Unknown

**Effect:** Without a certification of hours worked on a Federal grant there is an increased risk of misuse of Federal and State monies.

**Recommendation:** We recommend the Agency comply with Circular A-87.

**Management Response:** Signatures by employee and supervisor certify that timesheets are true and accurate reflection of hours worked. Additional documentation will be provided by having time worked certified semi-annually for all employees paid with federal funds.

**Corrective Action Plan:** Program managers will certify time worked at the end of pay periods closest to January 1 and June 30 of each year as is currently done for the Federal Historic Preservation Grant. Certification will be added to master project files maintained by Nebraska State Historical Society Accounting.

**Contact:** Michelle Furby, Accountant

**Anticipated Completion Date:** July 1, 2007

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**Finding #07-54-03**

**Program:** CFDA 15.608 – Fish and Wildlife Management Assistance – Allowability/Cash Management

**Grant Number & Year:** #301816J122, FFY 2006

**Federal Grantor Agency:** U.S. Department of Interior

**Criteria:** Section VII, subsection E of Cooperative Agreement No. 301816J122 between the U.S. Fish and Wildlife Service and the Nebraska State Historical Society states “Reimbursable payments will be made by electronic transfer on a quarterly basis.” Section VII, subsection H, states “... The Center agrees to furnish the following information in support of each invoice: 1. The period of the performance for the itemized costs claimed. 2. Number of artifacts treated.” Title 43 CFR 12.60 requires fiscal control and accounting procedures of the State must be sufficient to 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 review of agreements to ensure the Agency had complied with written agreements.

**Condition:** The Agency requested funds from the Federal grantor agency on an advance rather than on a reimbursable basis as required by the cooperative agreement. The Agency did not have adequate documentation that expenditures were in accordance with the grant.

**Questioned Costs:** \$40,452

**Context:** The Agency had a cooperative agreement with the U.S. Fish and Wildlife Service in the amount of \$81,552. The Agency requested \$61,164 in reimbursement, during fiscal year 2007, from the U.S. Fish and Wildlife Service but had only recorded \$20,712 in expenses for the project, an excessive request of \$40,452. The Agency requested reimbursement from the Federal agency in four quarterly payments of \$20,388. The amount requested for reimbursement did not agree to the expenditures recorded on NIS. We also noted invoices for the work performed did not include itemized costs claimed.

**Cause:** The Agency indicated the expenditures were made from the cash fund instead of the Federal fund. The Federal expenditures were not separately identified in the cash fund.

**Effect:** Increased risk of noncompliance with grant agreements and possible loss or misuse of Federal funds.

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**Recommendation:** We recommend the Agency comply with the cooperative agreement and only request funds on a reimbursement basis. We further recommend the Agency review invoices to ensure compliance with agreements and maintain supporting documentation for invoices submitted for reimbursement.

**Management Response:** Cooperative agreement with the US Fish and Wildlife Service was negotiated on the basis of a project proposal that resulted in an agreement to conserve a specific number of objects at a specific cost. Permission was granted from the US Fish and Wildlife Service contracting officer to invoice in four quarterly billings.

**Corrective Action Plan:** Future invoices to the US Fish and Wildlife Service will itemize the number of artifacts or group treated per billing period including the negotiated indirect costs.

**Contact:** Michelle Furby, Accountant

**Anticipated Completion Date:** These will be ongoing procedures through the term of the cooperative agreement.



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**DEPARTMENT OF ECONOMIC DEVELOPMENT**

**Finding #07-72-01**

**Program:** CFDA 11.611 – Manufacturing Extension Partnership – Allowability/  
Subrecipient Monitoring

**Grant Number & Year:** #70NANB5H1129, FFY2007

**Federal Grantor Agency:** U.S. Department of Commerce

**Criteria:** Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A-133 section 400(d) (5) states, the pass-through entity shall issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Good internal control requires procedures be in place to ensure reimbursement requests are for allowable activities prior to payment.

**Condition:** The Agency did not require detailed supporting documentation for expenses from the subrecipients before reimbursement.

**Questioned Costs:** Unknown

**Context:** The Agency reviewed financial information on a test basis when they performed annual on-site reviews. However, there was not a detailed account of the financial information reviewed. This was an after-the-fact review and would not detect an unallowable activity or cost prior to reimbursement. One subrecipient did submit detailed documentation and the other two subrecipients submitted detailed support after requested by the auditors. Subrecipients were reimbursed \$362,371 during fiscal year 2007. This finding was also noted by auditors in a 2006 report.

**Cause:** Inadequate reimbursement procedures.

**Effect:** Increased risk of unallowable expenditures.

**Recommendation:** We recommend the Agency implement procedures to ensure expenditures are allowable by reviewing detail supporting documentation before reimbursing the subrecipient.

**Management Response:** While there were no questioned costs cited in the audit, we acknowledge that the report's recommendation (to obtain further substantiating documentation prior to reimbursing partners/subrecipients) is a prudent step, which will further strengthen our review of the reimbursement requests received from our partners/subrecipients. We have previously instituted a practice of reviewing various types of reimbursement substantiating documentation at our

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2007

annual, on-site monitoring of partners/subrecipients, but of course we recognize such reviews are after-the-fact auditing reviews, rather than pre-disbursement reviews. We will also continue with our previously established practice of reviewing budgeted vs. actual expenditures reports from the partners/subrecipients, used as another measure of verification in our monitoring.

**Corrective Action Plan:** We will require of partners/subrecipients that they provide us with further substantiation of their claimed expenditures, and we will require them to provide such to us before we will disburse reimbursement payments to them. The additional substantiation required will mandate that partners/subrecipients produce, and provide to us, copies of documentation generated directly from their internal accounting systems and reports, which documentation must correlate with, and verify, the expenditure amounts claimed on the reimbursement requests submitted by them. This requirement will apply to substantiating all expenses, including those for which direct reimbursement is sought, as well as those claimed as matching expenses by the partners/subrecipients.

**Contact:** Neoma Parks

**Anticipated Completion Date:** Implementation of the requirement of receiving (from the partner/subrecipient requesting reimbursement) their correlating/verifying internal accounting system reports, will begin immediately with applicability to the quarterly reimbursement period of January 1, 2008, through March 31, 2008.

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Year Ended June 30, 2007

**COMMISSION FOR THE BLIND AND VISUALLY IMPAIRED**

**Finding #07-81-01**

**Program:** CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States – Allowable Costs/Cost Principles

**Grant Number & Year:** #H126A0700407, FFY07

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

**Criteria:** OMB Circular A-87, Section E.2, states “Typical direct costs chargeable to Federal awards are: a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.” OMB Circular A-87, Attachment B, Section 8h 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 ... Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.” Good internal control requires a reasonable method of allocation of salaries, wages, and benefits and documenting the method used.

**Condition:** The Agency charged 100% of the salaries, wages, and benefits of three employees to Vocational Rehabilitation. The Agency is not 100% funded by Vocational Rehabilitation. These three employees were the Director, Business Manager, and Personnel Officer of the Agency. It does not appear reasonable that individuals in those positions did not have time devoted to areas other than Vocational Rehabilitation.

**Questioned Costs:** Unknown

**Context:** The Agency receives funding from State general fund appropriations, cash funds, and other Federal awards. The positions of these three employees would require some of their time be allocated to areas other than Vocational Rehabilitation. Annual salaries for the three employees totaled \$153,637.

**Cause:** Unknown

**Effect:** Noncompliance with Federal regulations.

**Recommendation:** We recommend the Agency review their salary allocation to ensure compliance with Federal regulations.

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**Management Response:** A corrective action plan was implemented on January 21, 2008 to address the issues raised.

**Corrective Action Plan:** The Agency has implemented a new Time Distribution Record form for all FLSA exempt employees, which includes the three employees noted in the finding. This form allows for daily recording of hours worked for the Agency's federal grants. Agency personnel will fill out the form based on the grant worked on during their work day. We have been advised by our federal partners that this format will fulfill their needs for time distribution identification.

**Contact:** Bill Brown, Business Manager

**Anticipated Completion Date:** January 21, 2008

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**Nebraska Secretary of State**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-09-01	90.401	Help America Vote Act Equipment	Corrective action is in progress. In process of inventorying and tagging the equipment property of the State of Nebraska at the State's 93 counties. Once all the equipment has been tagged and inventoried, the applicable information will be entered into NIS fixed assets. The anticipated completion date is December 2007.	Repeated with changes Finding 07-09-01

**Nebraska State Treasurer**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-12-01	93.563	Child Support Enforcement Special Tests and Provisions	Corrective action is in progress. Working hard to determine the final resolution of the old variance. The Treasurer's Office is completing a daily as well as a monthly reconciliation and making any necessary adjustments to their accounts.	Repeated with changes Finding 07-65-02
06-12-02	93.563	Child Support Enforcement Special Tests and Provisions	Corrective action plan has been implemented.	No current finding

**Nebraska Department of Education**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-13-01	10.556	Special Milk Program for Children Subrecipient Monitoring	Corrective action plan has been implemented.	No current finding

**STATE OF NEBRASKA**  
**Summary Schedule of Prior Audit Findings**

**Nebraska Department of Education (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-13-02	84.027 84.173 84.048	Special Education Cluster  Vocational Education- Basic Grants to States Special Tests	Corrective action plan has been implemented.	No current finding
06-13-03	84.027 84.173	Special Education Cluster Earmarking	Corrective action plan has been implemented.	No current finding

**Nebraska Health and Human Services System**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-01	10.550	Food Donation Subrecipient Monitoring	Corrective action plan has been implemented.	No current finding
06-26-02	10.561  93.674  93.959	State Administrative Matching Grants for Food Stamp Chafee Foster Care Independence Block Grants for Prevention & Treatment of Substance Abuse Allowable Costs/Cost Principles	Corrective action plan has not been completed. Research to determine a method to identify and complete the certification process was placed on hold during the conversion to the detailed time reporting system Kronos by the agency. It will be determined if the agency's conversion to a one time reporting product can be used to satisfy the certification requirement.	Repeated Finding 07-26-26

STATE OF NEBRASKA  
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**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-03 05-65-02	93.558	Temporary Assistance for Needy Families (TANF)	Corrective action plan has been implemented. Access was reviewed and access was removed that was not required for primary job duties. Agency continues to maintain that it is necessary for operational support personnel that are on call to have access to production. However, there are compensating controls, such as removing access, if not on call.	Partially corrected; however, programmers still have access. See management letter
	93.778	Medicaid		
	93.575	Child Care Cluster		
	93.596	Adoption Assistance		
	93.659	Foster Care		
06-26-04 05-26-01	93.658	Foster Care	Corrective action plan has been implemented.	Repeated with changes Finding 07-26-28
	93.575	Child Care Cluster		
	93.596	Medicaid Cluster		
	93.777	Medicaid Cluster		
	93.778	TANF		
	93.558	Adoption Assistance		
	93.659	Allowable Costs/Cost Principles		
06-26-05	93.658	Foster Care	Corrective action plan has been implemented. The variances identified in this audit will be included in the June 30, 2007, financial status reports that are due in July and August 2007.	No current finding
	93.575	Child Care Cluster		
	93.596	Medicaid Cluster		
	93.777	Medicaid Cluster		
	93.778	TANF		
	93.558	Adoption Assistance		
	93.659	Cost Allocation Plan Allowable Costs/Cost Principles		



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**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-06	93.778	Medicaid Period of Availability	Corrective action plan has been implemented and is ongoing as the agency ensures that all expenditures are charged to the correct grant year.	Repeated with changes Finding 07-26-20
06-26-07	93.778	Medicaid Reporting	Corrective action plan has been implemented.	Repeated with changes Finding 07-26-22
06-26-08	93.778	Medicaid Allowable Costs/Cost Principles/Reporting/ Matching	Corrective action plan has been completed.	Repeated with changes Finding 07-26-19
06-26-09	93.778	Medicaid Allowable Costs/Cost Principles/Reporting/ Matching	A corrective action plan has been implemented. Outline of procedure for disproportionate share hospital (DSH) payments was sent to Centers for Medicare and Medicaid (CMS) for approval. Expecting approval for procedure in next couple of weeks.	No current finding
06-26-10	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action is in progress. The crosswalks and other steps that allow invoicing for the rebates of injectable drugs administered in physician's offices is in the process of being built. Invoicing is expected to occur in November 2007.	Repeated with changes Finding 07-26-25
06-26-11 05-26-11	93.778	Medicaid Eligibility	Corrective action plan has been implemented.	No current finding
06-26-12	93.778	Medicaid Special Tests and Provisions	Corrective action plan has been implemented. The Survey and Utilization Review Services (SURS) Unit, which is now Program Integrity has documented "Methods and Procedures", which include the sampling plan and other procedures for the unit. All staff have copies of this document. It is a living document that will be revised as needed.	Repeated with changes Finding 07-26-24

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**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-13	93.778	Medicaid Allowable Costs/Cost Principles	<p>Action was taken at the local supervisory level to ensure hours paid were actually worked. Supervisory meeting was held on June 28, 2006 to present the aged and disabled waiver findings. Discussion was held about the types of errors found and potential remedial steps that could be taken.</p> <p>A Web-based aged and disabled waiver training was developed with the University of Nebraska Medical Center to be used by new workers and those needing a refresher course. The Resource Development Module includes a section on "Monitoring Waiver Service Billings". Supervisory trainings were held on August 24, 2006, October 12, 2006, and November 6, 2006.</p> <p>In addition to the above, a supervisory local level review oversight procedure was implemented to ensure payments are proper, accurate, reasonable, and necessary. The supervisor is responsible to review a 10% random sample yearly. The authorizations/timesheets/billings must be reviewed for all of the providers authorized who submitted claims for service to the selected client during the sample month. Based on the results of the review, supervisors will determine if any follow up action will need to be taken with the Services Coordinator or Resource Developer.</p>	No current finding
06-26-14 05-26-03 04-26-05	93.575 93.596	Child Care Cluster Allowable Costs/Cost Principles and Eligibility	Corrective action plan is complete.	No current finding
06-26-15	93.044 93.045 93.053	Aging Cluster Subrecipient Monitoring	Corrective action plan is complete.	Repeated Finding 07-26-03

**STATE OF NEBRASKA**  
**Summary Schedule of Prior Audit Findings**

**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-16	93.044 93.045 93.053	Aging Cluster Cash Management	Corrective action plan is in progress. Written procedures will be completed to minimize the time between area agencies on aging receiving and spending federal dollars. Anticipated completion date is October 2007.	No current finding
06-26-17 05-26-08	93.959	Block Grants for Prevention & Treatment of Substance Abuse Subrecipient Monitoring	Corrective action plan has been implemented. A substance abuse subrecipient monitoring form has been developed and is in use.	No current finding
06-26-18	93.959	Block Grants for Prevention & Treatment of Substance Abuse Allowability	Corrective action plan has been implemented.	No current finding
06-26-19	93.959	Block Grants for Prevention & Treatment of Substance Abuse Special Tests	Corrective action plan has been implemented. Contracted to have peer review services performed.	No current finding

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**Summary Schedule of Prior Audit Findings**

**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-20 05-26-15 05-26-14 04-26-07	93.558	TANF Allowability/Eligibility	<p>In April 2006, Nebraska implemented a comprehensive supervisory case review system to monitor caseworkers to ensure compliance with Federal and State regulations. From April 2006 through June 2007, approximately 4,043 TANF cases have been reviewed. A web based review system will be implemented in September 2007, which will simplify the case read process and will provide more comprehensive reports for additional monitoring capabilities.</p> <p>In addition to the case reviews, a report was developed to further monitor the Citizenship/Identification requirement. The expectation is that all active case records have citizenship and identity verified and entered on the NFOCUS system by August 31, 2007.</p> <p>The agency contracted for a statewide review and analysis of TANF cases and training of staff (Phase I and II), which was completed in April 2007. A third phase will take place starting January 2008 to measure improvement from Phase I and II and to monitor compliance of new federal Deficit Reduction Act rules and new state regulations.</p>	Repeated with changes Finding 07-26-06

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**Summary Schedule of Prior Audit Findings**

**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-21 05-26-20	93.558	TANF Special Tests and Provisions	<p>Corrective action has been implemented. A Child Support Enforcement (CSE) Sanction Report is run on a monthly basis to provide an ongoing monitoring tool for workers and supervisors. This report is also monitored each month by the TANF unit in the Central Office.</p> <p>NFOCUS enhancements were completed in March 2007 to better support the referral and sanction processes. A web based review system will be implemented in September 2007, which will simplify the case read process and will provide more comprehensive reports for additional monitoring capabilities.</p> <p>In April 2006, Nebraska implemented a comprehensive supervisory case review system to monitor caseworkers to ensure compliance with Federal and State regulations. From April 2006 through June 2007 approximately 4,043 TANF cases have been reviewed. Additionally, the agency contracted for a statewide review and analysis of TANF cases by an independent consultant.</p>	Repeated with changes Finding 07-26-08
06-26-22 05-26-17	93.558	TANF Eligibility/Allowability	<p>Corrective action has occurred. Multiple reports are provided monthly to monitor Employment First requirements. These reports are utilized by Service Area Administrators, Supervisors, Workers, and Central Office Staff.</p> <p>State Legislation was passed in 2007 to adopt the federal 60 month time limit and to end the 24/48 month state time limit. Training will be provided to staff in early fall 2007.</p> <p>NFOCUS tracks the 60 month time limit automatically and a report is provided to alert case managers when a participant is approaching their lifetime limit.</p>	Repeated with changes Finding 07-26-09

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**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-23	93.558	TANF Allowability	Corrective action plan has been implemented.	No current finding
06-26-24 05-26-18	93.558	TANF Reporting	Corrective action plan has been implemented.	No current finding
06-26-25 05-26-07 04-26-02 03-26-04	93.563	Child Support Enforcement Subrecipient Monitoring	Corrective action will be complete when the cooperative agreements for Clerks of the District Court and County Attorneys are renewed. Clerk of the District Court agreement will be renewed July 1, 2011. County Attorney agreement will be renewed October 1, 2008.	Estimated completion July 1, 2011
06-26-26	93.563	Child Support Enforcement Allowability	Corrective action has been implemented. The State Treasurer's staff working on multiple programs are currently reporting their time worked in each program on a monthly time sheet. The State's Child Support Enforcement and the State Treasurer are working with Federal Office of Child Support Enforcement on a substitute system for some direct costs.	No current finding
06-26-27 05-26-06	93.658	Foster Care Reporting	Corrective action plan has been implemented. The variances identified in this audit will be included in the June 30, 2007 financial status reports that are due in July 2007.	Repeated with changes Finding 07-26-14
06-26-28 05-26-04 04-26-01 03-26-01	93.658	Foster Care Allowability and Eligibility	Corrective action plan has been implemented. On 2-14-2007, HHS submitted a report to Finance and Accounting to extract federal funding on six cases that payments were made in error. In April and May 2007, training and one-on-one mentoring was provided to identified workers.  HHS still disagrees on one case finding. Evidence was submitted and payments were in accordance with federal regulations.	Repeated with changes Finding 07-26-13

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**Summary Schedule of Prior Audit Findings**

**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-29	93.659	Adoption Assistance Activities Allowed or Unallowed and Eligibility	Corrective action has been implemented. A meeting was held on 4-18-2007 with the service area, specifically Protection and Safety Administrator and supervisors to brief them on the findings of the single audit. In June 2007, phone conversations were held, about the audit findings, with the HHSS training unit. These conversations are so training will cover the issues.	No current finding
06-26-30	93.659	Adoption Assistance Activities Allowed or Unallowed and Eligibility	Corrective action has been implemented. A meeting was held on 4-18-2007 with the service area, specifically the Protection and Safety Administrator and supervisors on the issue of signatures before finalization. In addition, HHS has submitted a report on 2-14-2007 to unclaim claims on two case errors. In NFOCUS, on 2-9-2007, the funding was changed from federal to state.	No current finding
06-26-31	93.659	Adoption Assistance Activities Allowed or Unallowed and Matching	HHS disagreed with this finding. Our regional federal representative confirmed that respite can be included in the maintenance payment in an adoption assistance payment. It is allowable even when the agreement shows the respite amount separately, as long as HHS does not provide one check for "maintenance" and one for "respite," and as long as HHS is defining respite as part of the overall maintenance payment. Therefore, no corrective action is being taken.	No current finding



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**Summary Schedule of Prior Audit Findings**

**Nebraska Health and Human Services System (Continued)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-32	93.659	Adoption Assistance Eligibility	On 2-14-2007, HHS submitted a report to Finance and Accounting to unclaim 3 case errors specifically due to age 18 and disability requirements. HHS continues to disagree with the auditor's recommendation of ceasing to pay adoption assistance after the child's 18 <sup>th</sup> birthday. Federal regulations clearly allow title I-VE claiming for 18 year olds, when they are disabled. If HHS were to transfer all 18 year olds to state adoption assistance, it would be using all state general fund dollars rather than taking advantage of federal financial participation. Instead, HHS is assuring that eligible children are continued on title I-VE adoption assistance and transferring only those who are not disabled over to state subsidy. Lists are being sent to IM-FC staff to assure that they are checking for disability when a youth on title I-VE adoption assistance is reaching the age of 18, and taking appropriate action if the youth is not disabled.	No current finding
06-26-33	93.659	Adoption Assistance Allowable Costs/Cost Principles and Matching	On 2-14-2007, HHS submitted a report to unclaim four case errors for legal fees claimed at the federal financial participation rate instead of the administrative rate. Additional reports have been submitted to claim at the appropriate rate. The dates these reports were submitted to Finance and Accounting are: 4-10-07 5-14-07, 6-5-07, and 7-3-07. The computer system fix for this error is targeted for the November NFOCUS release. Will continue to send reports to Finance and Accounting until the NFOCUS change is completed.	No current finding

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**Nebraska Health and Human Services System (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-26-34 05-26-13 04-26-08 02-26-08	93.994	Maternal and Child Health Services Block Grant Earmarking	<p>Corrective action plan implemented as follows:</p> <p>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. The timeline for completion is March 31, 2008.</p> <p>(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.)</p> <p>Part II: A coding methodology will be developed and prospectively implemented for the 2007 grant to record expenditures of earmark categories by grant. The timeline for completion of Part II was March 1, 2007 and was completed in June 2007. The new coding procedures are in effect beginning July 1, 2007.</p>	<p>Part I Estimated completion March 31, 2008</p> <p>Part II No current finding</p>

**Nebraska Department of Military**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-31-01 05-31-05	12.401	National Guard Operations and Maintenance Cash Management	United States Property and Fiscal Officer (USPFO) management decision was obtained and it was concluded that this finding is not sustained.	No current finding

STATE OF NEBRASKA  
**Summary Schedule of Prior Audit Findings**

**Nebraska Department of Military (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-31-02 06-31-03 05-31-01 04-31-01 04-31-02 03-31-01	12.401 97.042 97.004/ 16.007	National Guard Operations and Management Emergency Management Performance Group State Domestic Preparedness Equipment Support	<u>06-31-02</u> Corrective action plan has been implemented.  Supervisors currently approve individual employee time records in NIS utilizing the time entry approval function.	Repeated with changes Finding 07-31-01
	97.067	Homeland Security Allowable Cost/Cost Principles	<u>06-31-03</u> Corrective action plan has been implemented. All employees are now required to specify and certify on time sheets what programs were worked.	No current finding
06-31-04	97.067	Homeland Security Reporting	Corrective action plan has been completed. The business manager will closely monitor the coding of documents and ensure corrections are made in a timely manner.	Repeated with changes Finding 07-31-02
06-31-05	97.036	Public Assistance Cash Management	Corrective action has been taken and procedures have been implemented to insure no advance payments are made to subgrantees.	No current finding
06-31-06	97.036	Public Assistance Reporting	Corrective action has been taken and a procedure is in place to transfer contingency funds from closed grants to the Governors Emergency Fund, thereby showing correct expenditures from grants at close.	No current finding

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**Summary Schedule of Prior Audit Findings**

**Nebraska Commission on Law Enforcement and Criminal Justice**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
06-78-01	16.523 16.540 16.548 16.550 16.575 16.579 16.588	Juvenile Accountability Juvenile Justice and Delinquency Prevention Title V Delinquency Prevention State Justice Statistics Crime Victim Assistance Edward Byrne Memorial Violence Against Women Allowable Costs/Cost Principles	Corrective action plan was changed to allocate salaries based on actual activity instead of obtaining approval for an alternate method. The actual time worked on a grant will be recorded and charged to the grant. The electronic system is being modified to track payroll costs for a grant. The anticipated completion date is January 2008.	Modifications in progress, estimated completion January 2008