STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2009

Issued on March 24, 2010

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2009

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FINANCIAL SECTION

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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, 2009, 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 College Savings Plan and the NETC Leasing Corporation, which represent 14% of the assets 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 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 College Savings Plan and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009, 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, 2009 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; and the Information About Infrastructure Assets Reported Using the Modified Approach on page 55, 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 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 taken as a whole.

Signed Original on File

Lincoln, Nebraska
December 28, 2009

Pat Reding, CPA, CFE
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, 2009. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented four new standards in 2009 required by the Governmental Accounting Standards Board (GASB): Statement No. 47, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which has no material effect on the State's financial statements; Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* which had no material effect on the financial statements; Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which established the priority of applying official pronouncements, and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporated three AICPA standards into state and local government accounting and financial reporting standards.

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, 2009 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, 2009 by $10.7 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 $1.1 billion, most of which is available to be used to fund future needs of the State. The primary government's net expenses exceeded net revenues for 2009 resulting in a decrease in net assets of $164 million. This decrease in net assets was a reversal of the $338 million increase in 2008, due to three main areas: (1) a $99 million decrease in investment earnings (a result of unrealized market losses) (2) an increase of expenses, net of program revenue, of $212 million, and (3) a decrease in tax revenues of $179 million.

Fund Level:

General Fund receipts for 2009 were $174 million below the original budgeted amount and below the final budget by $37 million. Expenditures were $392 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $12 million in excess revenues prior to a legislatively mandated property tax relief transfer of $115 million and $14 million in other financing uses, causing a reduction in fund balances of $117 million, and thereby reducing the fund balance on June 30, 2009 to $857 million. Other governmental funds expenditures exceeded revenues by $183 million, chiefly due to unrealized market losses and spending more on roads repair and infrastructure projects than the revenue provided. Offsetting these operating losses, such other funds received $51 million in other financing sources. This $132 million net reduction resulted in lowering such fund balances at June 30, 2009 to $1,834 million.

The $269 million of net assets of the Unemployment Insurance Fund represents eighty-three percent of the enterprise funds. Such fund had a $74 million decrease in net assets for 2009 compared to a $23 million increase in 2008, a $97 million turn around. This was due to unemployment insurance claims exceeding the business assessment fees collected from employers by $92 million, even though the State collected $47 million more in fees in 2009. This loss was only partially offset by $18 million in investment income.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $531 million at June 30, 2009, which is a $39 million increase 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, except for a very small number of employees.

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 entities for which the State has financial accountability (in which the State provides over one-fourth of their funding) 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 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.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled $12,670 million at June 30, 2009 as compared to $12,600 at June 30, 2008. As total liabilities only totaled $1,980 million, net assets amounted to $10,690 million as of June 30, 2009. As of June 30, 2008, these amounts were $1,746 million and $10,854 million, respectively. By far the largest portion of the State of Nebraska's net assets (72 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 general government 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	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Current and Other Non-current Assets	$ 4,491	$ 4,503	$ 427	$ 475	$ 4,918	$ 4,978
Capital Assets	7,746	7,616	6	6	7,752	7,622
Total Assets	12,237	12,119	433	481	12,670	12,600
Non-current Liabilities	460	444	71	48	531	492
Other Liabilities	1,411	1,219	38	35	1,449	1,254
Total Liabilities	1,871	1,663	109	83	1,980	1,746
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,719	7,588	6	6	7,725	7,594
Restricted	1,632	1,790	271	344	1,903	2,134
Unrestricted	1,015	1,078	47	48	1,062	1,126
Total Net Assets	$ 10,366	$ 10,456	$ 324	$ 398	$ 10,690	$ 10,854

Over 74% of the State's non-capital assets consist of cash and investments. It should be noted that $584 million in 2009 and $457 million in 2008 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 19% of the non-capital assets.

Liabilities largely reflect three groupings which represent 96% 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 $489 million ($403 million in 2008); tax refunds payable of $315 million ($310 million in 2008); and long-term payables explained next.

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 $531 million ($492 million in 2008). 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 2009 ($128 million for 2008), Medicaid claims for $223 million ($196 million in 2008) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of $127 million in 2009 ($123 million for 2008). 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 $27 million at June 30, 2009. There was also $16 million of obligations under other financing arrangements (See Note 9 to the Financial Statements).

The $90 million decrease in net assets of Governmental Activities, offset by an increase of $131 million in the net investment in capital assets, was due to the $63 million decrease in unrestricted net assets and the $158 million decrease in restricted net assets. The major causes of the decrease was a $179 million decrease in taxes collected and a $99 million decrease in investment earnings as a result of market losses.

At the end of June 30, 2009, 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 2009, 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)

	Governmental Activities		Business-type Activities		Total Primary Government	
REVENUES	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Program Revenues						
Charges for Services	$ 594	$ 549	$ 292	$ 246	$ 886	$ 795
Operating Grants and Contributions	2,490	2,235		-	2,490	2,235
Capital Grants and Contributions	25	21	-	-	25	21
General Revenues						
Taxes	3,787	3,966	-	-	3,787	3,966
Unrestricted Investment Earnings	15	114	23	23	38	137
Miscellaneous	-	4	-	-	-	4
Total Revenues	6,911	6,889	315	269	7,226	7,158
EXPENSES						
General Government	468	438	-	-	468	438
Conservation of Natural Resources	128	113	-	-	128	113
Culture - Recreation	29	26	-	-	29	26
Economic Development and Assistance	88	85	-	-	88	85
Education	1,563	1,450	-	-	1,563	1,450
Higher Education - Colleges and Universities	571	558	-	-	571	558
Health and Social Services	2,913	2,744	-	-	2,913	2,744
Public Safety	352	373	-	-	352	373
Regulation of Business and Professions	124	131	-	-	124	131
Transportation	797	714	-	-	797	714
Interest on Long-term Debt	2	2	-	-	2	2
Unemployment Insurance	-	-	242	98	242	98
Lottery	-	-	95	92	95	92
Excess Liability	-	-	12	(3)	12	(3)
Cornhusker State Industries	-	-	10	11	10	11
Total Expenses	7,035	6,634	359	198	7,394	6,832
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	(124)	255	(44)	71	(168)	326
Transfers	30	31	(30)	(31)	-	-
Contributions to Permanent Fund Principal	4	12	-	-	4	12
Increase (Decrease) in Net Assets	(90)	298	(74)	40	(164)	338
Net Assets - Beginning	10,456	10,158	398	358	10,854	10,516
Net Assets - Ending	$ 10,366	$ 10,456	$ 324	$ 398	$ 10,690	$ 10,854

Governmental Activities

Governmental activities decreased the State's net assets by $90 million in 2009 ($298 million in 2008). Governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were $3,109 million and were used to partially offset program expenses of $7,035 million, leaving net expenses of $3,926 million. Only 7% of total expenses were spent on general government expenses. General taxes, investment earnings, contributions to the permanent fund principal and transfers all totaling $3,836 million, fell $90 million short of covering the remaining costs of the governmental activities' programs as shown below.

Due to the recession, tax revenues were down $179 million (which is the opposite of the large increases recorded in the prior two years). Offsetting this decline, program revenues increased 11% from 2008, chiefly due to income from grants being up $255 million, some of which was due to the income received from the American Recovery and Reinvestment Act (ARRA). Most of the increase in grant income was, of course, spent on increased grant designated expenses. Two-thirds of the $401 million increase in program expenses was spent on grant-related projects. The loss of tax revenue and a decrease in investment earnings, coupled with a small increase in other program expenses, greatly exceeded the increase in program revenue and were the chief reasons the change in net assets was $388 million lower in 2009 than the $298 million increase recorded in 2008. The decrease in investment earnings was the result of unrealized market valuation losses on investments which was only offset somewhat by increased actual investment earnings received. While the General Fund has more investments than other programs, it maintains safer investments and actually showed a decrease in investment income in 2009 over 2008 of only $10 million.

Program expenses, net of revenue, increased by $97 million in 2009, as shown below:

GOVERNMENTAL ACTIVITIES
(in millions of dollars)

Program Expenses, Net of Revenue	**2009**	**2008**
General Government	$ (371)	$ (342)
Conservation of Natural Resources	(41)	(33)
Culture - Recreation	(8)	(7)
Economic Development and Assistance	(38)	(29)
Education	(1,206)	(1,122)
Higher Education - Colleges and University	(571)	(558)
Health and Social Services	(1,086)	(1,192)
Public Safety	(222)	(211)
Regulation of Business and Professions	12	(6)
Transportation	(393)	(327)
Interest on Long-Term Debt	(2)	(2)
Subtotal	(3,926)	(3,829)
General Revenues		
Taxes	3,787	3,966
Unrestricted Investment Earnings	15	114
Miscellaneous	-	4
Transfers	30	31
Contributions to Permanent Fund Principal	4	12
Increase (Decrease) in Net Assets	$ (90)	$ 298

Four functional areas of the State comprise 83% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. They also comprise 59% of the increase in program expenses, net of revenue. Education net expenses were up $84 million chiefly due to planned budgetary increases providing more school aid to the K-12 school systems in Nebraska. Health and Social Services was down $106 million mainly because increased aid from federal ARRA funds received of $82 million. Higher Education was up as appropriations from the State to the University of Nebraska and the state colleges were increased $13 million. Transportation net expenses were up $66 million chiefly due to increased highway construction. All the other functional areas had small variances in net expenses, except for General Government expenses, which increased $29 million, of which $10 million was an increase in the property tax relief provided to property owners in Nebraska.

Business-type Activities

Due to losses, the business-type activities reduced the State's net assets by $75 million for 2009, which was net of a $30 million transfer to the governmental activities. Most of the $292 million of business-type activities' program revenues were related to the business assessment fees in the Unemployment Insurance Fund and Lottery Fund revenues. The Unemployment Insurance Fund had an operating loss of $92 million in 2009, due to the recession and the State paying out $144 million in additional unemployment claims which greatly exceeded the additional $47 million in increased business assessment fees. This loss, when combined with the $18 million in investment income, produced $74 million of net loss for the Unemployment Insurance Fund. Lottery revenues of $123 million generated net revenue of $29 million, which was offset by the $30 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, 2009, the State's Governmental Funds reported combined ending fund balances of $2,690 million. The total unreserved balances amounted to $1,995 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 $308 million. However, such refunds payable are only $12 million more than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by $869 million.

On June 30, 2008, the General Fund had a positive fund balance of $974 million. While expenditures only increased $56 million, revenues decreased by $175 million in 2009. This $231 million downslide was a reversal of the $128 million increase that occurred in 2008, resulting in an operating decrease of the fund balance of $103 million in 2009. This operating decrease in 2009, when coupled with the $14 million of net transfers out, caused the General Fund balance to decrease by $117 million, ending with a fund balance of $857 million.

Revenues in 2009, significantly less than anticipated, were down $175 million over 2008 chiefly due to a decrease in income tax revenue of $160 million (a 8% decrease) over 2008. Investment income was down $10 million due to the declining interest rates. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending. Net increases in expenditures were caused chiefly in two areas. Budgeted increases in education expenditures caused Education and Higher Education to be up $112 million, which was greatly offset by reduced State spending for Medicaid, mainly due to the receipt of federal ARRA dollars of $82 million in 2009.

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. Even though the General Fund balance declined, no such need existed in 2009.

The Cash Reserve Fund was at $516 million at the beginning of 2008. Due to the fact that 2008 revenues exceeded the forecast, a statutory requirement caused a $191 million transfer from the General Fund cash account to the Cash Reserve Fund in 2008. In 2008 there was an $87 million transfer out to the General fund for capital construction. There were also other net transfers out of the Fund of $75 million, leaving a Cash Reserve Fund balance at June 30, 2008 of $545 million. The statutory transfer into the Fund for excess receipts for FY 2008 of $117 million was made in July, 2008. In 2009, there were also net transfers out of $87 million, leaving a Fund balance of $575 million at June 30, 2009.

Other Governmental Funds

Other governmental fund balances totaled $1,834 million at June 30, 2009; $695 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 ($421 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable ($256 million), (3) have been expended for other assets, chiefly inventories ($7 million) and thus the funds are not available, or (4) have been committed for debt service ($11 million).

Of the non-General Fund unreserved fund balances of $1,139 million, $997 million represents special revenue funds, 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-three million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. One hundred nineteen million dollars is in the Capital Projects Fund, which, while unreserved, must be spent on 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 $539 million. Of this balance, $531 million is classified as unreserved. The non-major special revenue fund balances totaled $732 million, of which $467 is unreserved.

Governmental funds other than the General Fund saw a decrease in fund balances of $132 million. The fund balances of the following funds increased: the Federal Fund ($2 million) and other Nonmajor Funds

($37 million). The Highway Fund decreased by $38 million, the Permanent School Fund decreased by $61 million and Health and Social Service Fund decreased by $72 million.

The Highway Fund had a $14 million increase in federal funds and a $9 million increase in tax revenue. However, $66 million of increases in operating expenses (namely highway construction) was the chief reason the Highway Fund had a $38 million decrease in its fund balance in 2009.

The activity in the Federal Fund represents federal funds received and each year's spending should generally approximate grant funds received. In 2009 the State received a large boost in federal grants and contracts of $248 million, charges for services increased $27 million and other revenue only decreased $2 million. Expenditures increased $276 million in 2009 due to Medicaid ($122 million - ARRA funding was $82 million), public assistance ($31 million), settlements of prior year issues ($37 million) and increases in yearend accruals. Expenditures were in line with the increase in revenue, leaving a net increase from operations of $9 million. Transfers out were only $7 million, so at the end of 2009 there was a net increase in the fund of $2 million, compared to a $1 million increase in 2008.

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. The funds had a $46 million decrease in investment income in 2009 (chiefly unrealized losses in the market value of investments) which was the main reason there was a $72 million decrease in the net change in fund balance in 2009, as opposed to a $23 million decrease in 2008.

The Permanent School Fund had a $42 million decrease in revenue, chiefly due to a $37 million decrease in investment income caused by unrealized losses in the market value of investments in 2009, as opposed to a $63 million investment income decrease in 2008 (when compared to 2007). Since expenditures increased $9 million in 2009, there was a $61 million decrease in fund balance in 2009 as opposed to only a $10 million decrease in 2008, a change of $51 million.

The Nonmajor Funds revenues and expenditures both remained about the same between 2008 and 2009 and revenues about equaled expenditures. However, there was only $32 million in net transfers in for the Nonmajor Funds in 2009 versus $153 million in 2008 (there were significant one-time transfers from the General Fund in 2008). As a result, the net change in fund balances increased only $37 million in 2009 as opposed to $155 million in 2008. The net change in fund balances in 2009 was very close to the $34 million increase in 2007.

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, reported net assets of $269 million at the end of 2009. This fund's net assets decreased $74 million in 2009, because unemployment claims paid out exceeded business assessment fees by $92 million, which was offset by investment earnings of $18 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 $30 million transfer from the Lottery's net income to governmental funds. Such transfer was used primarily for education and environmental studies. The Excess Liability Fund earned $4 million in investment earnings which more than offset the $3 million of actual claims paid that exceeded the fees collected from the physicians. Cornhusker State Industries essentially broke even.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net assets decreased $1,782 million to $6,945 million in 2009 due primarily to a declining market in 2009, which depreciated the market value of investments by $1,862 million. (In 2008 there was a $510 million depreciation of investments.) Interest and dividend income in 2009 was $134 million versus $194 million in 2008. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $45 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan only exceeded the benefits paid by $57 million. Due to $638 million in depreciation in the fair value of investments, the total net assets in the College Savings Plan dropped $538 million to under $1.5 billion dollars, compared to over $2 billion last year.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2009 the State began to feel the effects of the national recession. Forecasted revenues, upon which the State's budgeted General Fund expenditures are based, were anticipated to be basically flat in 2009 and equal to 2008 net tax revenue of $3,406 million. Because revenues showed a declining trend during 2009, the State's Forecasting Board made three new forecasts throughout the year. At the end, the forecasted net tax revenues were $138 million below the original forecast. However, that reduced forecast still exceeded the actual tax revenues of $3,231 million by $37 million, leaving the State with actual tax revenues, net of refunds, of $175 million less than the original budget on a budgetary basis. To offset this reduced revenue, agencies continued to watch their General Fund expenditures and spent $262 million less than the final appropriated amount. This reduction, when coupled with the reduced tax revenues, caused the State to finish 2009 with General Fund revenues equaling expenditures on a budgetary basis, prior to net transfers out. There was a net $129 million transferred out for specific purposes, causing the fund balance on a budgetary basis to drop from $1,126 million to $997 million in 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009, the State had invested $7.8 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 2009 totaled $50 million, compared to $45 million for 2008.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Land	$ 537	$ 527	$ -	$ -	$ 537	$ 527
Buildings and Equipment	362	370	6	6	368	376
Infrastructure	6,747	6,651	-	-	6,747	6,651
Subtotal	7,646	7,548	6	6	7,652	7,554
Construction in Progress	100	68	-	-	100	68
Total	$ 7,746	$ 7,616	$ 6	$ 6	$ 7,752	$ 7,622

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 2008, indicated an overall system rating of 82, a rating that has been very consistent over the past six years.

For 2009, it was estimated that the State needed to spend $206 million to preserve and maintain the roads at the abovementioned level. The State actually spent $239 million on roads in 2009, compared to $208 million in 2008. For 2010, it is estimated that the State needs to spend $211 million, a slight decrease from actual 2009 and about the same as the average of the previous five years. However, past history indicates the State typically spends more than estimated.

The State also spent $105 million on capitalized infrastructure and land purchases relating to roads in 2009 ($133 million in 2008), most notably reconstructing (a) Interstate 80 between the Missouri River and Lincoln, (b) I-80 westbound bridge over the Missouri River (c) Highway 71 from I-80 north to Kimball, and (d) Highway 275, South Omaha bridge. Major land purchases included land purchased near six State highways. At June 30, 2009, the State had contractual commitments of $941 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.) These commitments are $380 million greater than at June 30, 2008 as a result of all the highway construction and repair work being financed by the federal government, chiefly through ARRA.

During 2009, the State added $44 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 3 to the financial statements.

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 2009	2008
Bonds Payable:		
Nebraska State Building Corporation	$ -	$ 1
NETC Leasing Corp	5	10
	5	11
Capitalized Leases:	$ 22	$ 19

There were no new bonds issued in 2009 or 2008. Only one capitalized lease was added in 2009 (two leases were added in 2008). 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 been affected by the current national economic decline and Nebraska's economy has and will likely continue to impact the future net revenues of the State. Tax revenues continue to fall short of projections. If the stock market does not continue to improve, the State may also be required to provide additional State contributions to retirement plans. In addition, the State must continue to monitor the recent annual increases in State spending for Medicaid. This is critical to the future cash position of the State. The recent infusion of funds through ARRA has greatly helped the State in regards to Medicaid costs, but that is only a short-term solution. Another area of concern is the appropriated increase in aid to education for K-12 schools and special education. Net General Fund revenues for 2010 are currently projected to fall short of actual 2009 revenues by $73 million, as the recent downturn in economic conditions will offset normal inflationary increases in tax revenues. The Governor called a special session of the Legislature in November 2009 to address the declining revenues and the result was that the Legislature closed a reported $334 million General Fund shortfall for 2010 and 2011 through a combination of spending cuts and cash transfers from other funds. No taxes were increased.

The State passed legislation in 2006 that commits the State's General Fund to provide aid to education for maintenance, repair and renovation of buildings and facility replacement construction on the campuses of the University and state colleges. The total amount of the aid from 2008 through 2020 will total $153.25 million. To date the State has spent $19.875 million in both 2007 through 2009 and will spend $12.125 million annually from July 1, 2009 through June 30, 2020. As of June 30, 2009 the remaining commitment for the State through 2020 is $133 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, 2009, this Fund had a $575 million balance. From the Cash Reserve Fund there were $3 million of other statutory net disbursements in July 2009, resulting in a balance of $572 million at November 30, 2009. Future significant statutory disbursements from this fund in 2010 and 2011 include $246 million to be transferred to the General Fund and $10 million to the Roads Operations 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, 1115 K Street, Lincoln, NE 68509-4605, (402) 471-2505.

State of Nebraska

STATEMENT OF NET ASSETS

June 30, 2009

(Dollars in Thousands)	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 418,035	$ 273,209	$ 691,244	$ 276,456
Receivables, net of allowance				
Taxes	340,152	-	340,152	-
Due from Federal Government	335,463	-	335,463	-
Other	127,680	33,005	160,685	238,111
Internal Balances	(358)	358	-	-
Due from Primary Government	-	-	-	6,150
Investments	2,408,622	102,583	2,511,205	1,410,598
Loans Receivable	256,116	-	256,116	39,894
Investment in Joint Venture	-	-	-	230,369
Other Assets	13,785	2,513	16,298	40,539
Restricted Assets:				
Cash and Cash Equivalents	20,805	-	20,805	427,580
Other	-	1,896	1,896	104,369
Securities Lending Collateral	570,492	13,322	583,814	-
Capital assets:				
Land	536,561	315	536,876	63,467
Infrastructure	6,747,123	-	6,747,123	-
Construction in Progress	99,525	-	99,525	225,647
Land Improvements	-	-	-	150,406
Buildings and Equipment	889,165	11,664	900,829	1,952,804
Less Accumulated Depreciation	(526,732)	(5,696)	(532,428)	(725,798)
Total Capital Assets, net of depreciation	7,745,642	6,283	7,751,925	1,666,526
Total Assets	$ 12,236,434	$ 433,169	$ 12,669,603	$ 4,440,592
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 468,615	$ 20,673	$ 489,288	$ 177,301
Tax Refunds Payable	314,997	-	314,997	-
Due to Other Governments	11,145	-	11,145	-
Deposits	4,949	-	4,949	28,811
Due to Component Units	6,150	-	6,150	-
Unearned Revenue	34,232	4,559	38,791	99,083
Obligations under Securities Lending	570,492	13,322	583,814	-
Noncurrent Liabilities:				
Due within one year	266,749	47,917	314,666	117,297
Due in more than one year	193,337	22,939	216,276	658,009
Total Liabilities	$ 1,870,666	$ 109,410	$ 1,980,076	$ 1,080,501
NET ASSETS				
Invested in Capital Assets, net of related debt	$ 7,718,610	$ 6,283	$ 7,724,893	$ 953,788
Restricted for:				
Education	23,733	-	23,733	1,229,184
Health and Social Services	422,738	-	422,738	-
Conservation of Natural Resources	410,243	-	410,243	-
Transportation	101,182	-	101,182	-
Licensing and Regulation	62,942	-	62,942	-
Other Purposes	155,546	1,896	157,442	244,459
Unemployment Insurance Benefits	-	268,498	268,498	-
Debt Service and Construction	11,292	-	11,292	295,629
Permanent Trusts:				
Nonexpendable	421,213	-	421,213	-
Expendable	23,073	-	23,073	-
Unrestricted	1,015,196	47,082	1,062,278	637,031
Total Net Assets	$ 10,365,768	$ 323,759	$ 10,689,527	$ 3,360,091

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

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	$ 468,433	$ 87,575	$ 5,576	$ 4,634
Conservation of Natural Resources	127,677	35,324	47,963	3,278
Culture – Recreation	29,272	18,153	2,956	68
Economic Development and Assistance	88,520	2,259	47,694	-
Education	1,562,662	30,402	326,233	-
Higher Education - Colleges and University	571,268	-	-	-
Health and Social Services	2,912,708	148,971	1,677,877	-
Public Safety	351,673	25,363	87,348	17,272
Regulation of Business and Professions	123,579	132,771	2,816	-
Transportation	797,462	112,493	291,792	-
Interest on Long-term Debt	1,828	-	-	-
Total governmental activities	7,035,082	593,311	2,490,255	25,252
Business-type activities:				
Unemployment Insurance	242,201	149,937	-	-
Lottery	94,676	123,251	-	-
Excess Liability	12,430	9,267	-	-
Cornhusker State Industries	10,221	9,412	-	-
Total business-type activities	359,528	291,867	-	-
Total Primary Government	$ 7,394,610	$ 885,178	$ 2,490,255	$ 25,252
COMPONENT UNITS:				
University of Nebraska	$ 1,716,633	$ 732,932	$ 395,100	$ -
State Colleges	90,669	31,389	11,701	3,991
Total Component Units	$ 1,807,302	$ 764,321	$ 406,801	$ 3,991

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			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (370,648)	$ -	$ (370,648)	$ -
(41,112)	-	(41,112)	-
(8,095)	-	(8,095)	-
(38,567)	-	(38,567)	-
(1,206,027)	-	(1,206,027)	-
(571,268)	-	(571,268)	-
(1,085,860)	-	(1,085,860)	-
(221,690)	-	(221,690)	-
12,008	-	12,008	-
(393,177)	-	(393,177)	-
(1,828)	-	(1,828)	-
(3,926,264)	-	(3,926,264)	-
-	(92,264)	(92,264)	-
-	28,575	28,575	-
-	(3,163)	(3,163)	-
-	(809)	(809)	-
-	(67,661)	(67,661)	-
(3,926,264)	(67,661)	(3,993,925)	-
-	-	-	(588,601)
-	-	-	(43,588)
-	-	-	(632,189)
1,787,950	-	1,787,950	-
1,476,995	-	1,476,995	-
305,793	-	305,793	-
134,877	-	134,877	-
70,270	-	70,270	-
10,863	-	10,863	-
14,582	23,276	37,858	62,214
401	-	401	571,268
-	-	-	(117,971)
3,838	-	3,838	-
30,245	(30,245)	-	-
3,835,814	(6,969)	3,828,845	515,511
(90,450)	(74,630)	(165,080)	(116,678)
10,456,218	398,389	10,854,607	3,476,769
$ 10,365,768	$ 323,759	$ 10,689,527	$ 3,360,091

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2009

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	$ 164,271	$ 17,557	$ 13,666	$ 11,005	$ 5,028	$ 101,536	$ 313,063
Cash on Deposit with Fiscal Agents	-	-	-	-	-	20,805	20,805
Investments	872,376	93,616	76,507	389,759	435,459	540,905	2,408,622
Securities Lending Collateral	272,854	29,280	24,177	59,472	25,644	159,065	570,492
Receivables, net of allowance							
Taxes	295,618	44,342	-	-	-	192	340,152
Due from Federal Government	8	42,194	291,720	-	-	1,541	335,463
Loans	426	-	1,838	365	-	253,487	256,116
Other	29,388	8,544	29,537	35,263	8,714	13,422	124,868
Due from Other Funds	102,317	650	267	4,634	-	4,619	112,487
Inventories	617	5,957	2,502	66	-	-	9,142
Prepaid Items	19	10	9	3	-	130	171
Other	639	-	-	-	-	2,439	3,078
TOTAL ASSETS	$ 1,738,533	$ 242,150	$ 440,223	$ 500,567	$ 474,845	$ 1,098,141	$ 4,494,459
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	$ 106,229	$ 72,537	$ 152,148	$ 7,600	$ 41,455	$ 34,702	$ 414,671
Tax Refunds Payable	307,689	7,308	-	-	-	-	314,997
Due to Other Governments	4,462	6,127	-	-	-	556	11,145
Deposits	640	1,146	1,392	312	169	1,290	4,949
Due to Other Funds	56,966	5,641	107,821	1,624	23	10,031	182,106
Due to Component Units	6,150	-	-	-	-	-	6,150
Obligations under Securities Lending	272,854	29,280	24,177	59,472	25,644	159,065	570,492
Claims Payable	96,984	-	121,239	-	-	-	218,223
Deferred Revenue	29,955	-	25,608	20,491	5,182	-	81,236
TOTAL LIABILITIES	881,929	122,039	432,385	89,499	72,473	205,644	1,803,969
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	426	-	1,838	365	-	253,487	256,116
Inventories and Prepaid Items	636	5,967	9	69	-	130	6,811
Debt Service	-	-	-	-	-	11,425	11,425
Endowment Principal	-	-	-	-	401,648	19,565	421,213
Unreserved, reported in:							
General Fund	855,542	-	-	-	-	-	855,542
Special Revenue Funds	-	114,144	5,991	410,634	-	466,608	997,377
Permanent Funds	-	-	-	-	724	22,349	23,073
Capital Projects Fund	-	-	-	-	-	118,933	118,933
TOTAL FUND BALANCES	856,604	120,111	7,838	411,068	402,372	892,497	2,690,490
TOTAL LIABILITIES AND FUND BALANCES	$ 1,738,533	$ 242,150	$ 440,223	$ 500,567	$ 474,845	$ 1,098,141	$ 4,494,459

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, 2009

(Dollars in Thousands)

Total fund balances for governmental funds		$ 2,690,490
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	536,561	
Infrastructure	6,747,123	
Construction in progress	99,525	
Other capital assets	828,359	
Accumulated depreciation	(484,014)	7,727,554
Certain tax revenues and charges are earned but not available and therefore are deferred in the funds.		47,627
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.		60,633
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	(4,850)	
Accrued interest on bonds	(133)	
Capital leases	(9,574)	
Obligations under other financing arrangements	(15,660)	
Compensated absences	(121,999)	
Claims and judgments	(8,320)	(160,536)
Net assets of governmental activities		$ 10,365,768

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, 2009

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	$ 1,786,444	$ -	$ -	$ 3,581	$ -	$ -	$ 1,790,025
Sales and Use Taxes	1,322,817	148,755	-	-	-	3,662	1,475,234
Petroleum Taxes	-	292,253	-	-	3,833	13,540	309,626
Excise Taxes	77,879	-	-	6,966	-	50,032	134,877
Business and Franchise Taxes	53,430	-	-	-	-	16,840	70,270
Other Taxes	362	3,299	-	-	-	7,202	10,863
Federal Grants and Contracts	54	279,590	2,203,295	562	-	30,787	2,514,288
Licenses, Fees and Permits	20,428	75,152	689	50,627	1,412	120,509	268,817
Charges for Services	2,978	28,008	41,312	30,593	-	34,343	137,234
Investment Income	72,703	7,080	4,510	(64,264)	(41,991)	32,470	10,508
Rents and Royalties	-	382	32	372	27,387	26,376	54,549
Surcharge	-	-	-	-	-	55,817	55,817
Other	6,354	8,728	5,665	18,353	180	28,856	68,136
TOTAL REVENUES	3,343,449	843,247	2,255,503	46,790	(9,179)	420,434	6,900,244
EXPENDITURES:							
Current:							
General Government	365,608	-	4,897	-	-	69,109	439,614
Conservation of Natural Resources	39,336	-	31,905	-	-	56,321	127,562
Culture – Recreation	6,026	-	2,784	-	-	19,495	28,305
Economic Development and Assistance	7,222	-	50,195	-	-	31,407	88,824
Education	1,180,800	-	321,576	-	51,793	11,523	1,565,692
Higher Education - Colleges and University	546,507	-	-	-	-	24,761	571,268
Health and Social Services	1,068,994	-	1,730,209	119,458	-	1,811	2,920,472
Public Safety	227,442	-	102,808	-	-	40,355	370,605
Regulation of Business and Professions	4,086	-	2,273	-	-	117,117	123,476
Transportation	18	900,479	-	-	-	15,483	915,980
Capital Projects	-	-	-	-	-	25,333	25,333
Debt Service:							
Principal	-	-	-	-	-	7,625	7,625
Interest	-	-	-	-	-	1,256	1,256
TOTAL EXPENDITURES	3,446,039	900,479	2,246,647	119,458	51,793	421,596	7,186,012
Excess of Revenues Over (Under) Expenditures	(102,590)	(57,232)	8,856	(72,668)	(60,972)	(1,162)	(285,768)
OTHER FINANCING SOURCES (USES):							
Transfers In	35,494	29,260	247	1,215	-	104,986	171,202
Transfers Out	(49,975)	(10,102)	(7,425)	(531)	-	(72,924)	(140,957)
Proceeds from Other Financing Arrangements	-	-	-	-	-	2,515	2,515
Proceeds from Capital Leases	-	-	-	-	-	3,891	3,891
TOTAL OTHER FINANCING SOURCES (USES)	(14,481)	19,158	(7,178)	684	-	38,468	36,651
Net Change in Fund Balances	(117,071)	(38,074)	1,678	(71,984)	(60,972)	37,306	(249,117)
FUND BALANCES, JULY 1	973,675	158,185	6,160	483,052	463,344	855,191	2,939,607
FUND BALANCES, JUNE 30	$ 856,604	$ 120,111	$ 7,838	$ 411,068	$ 402,372	$ 892,497	$ 2,690,490

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, 2009

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ (249,117)
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	173,917	
Depreciation expense	(38,860)	135,057
Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
Other financing arrangements	(2,515)	(2,515)
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.		(3,891)
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	5,985	
Other financing arrangement payments	1,640	
Capital lease payments	4,380	12,005
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.		9,731
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 decreased by this amount this year.		(218)
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	96	
Increase in compensated absences	(4,181)	
Decrease in claims and judgments	12,583	8,498
Change in net assets of governmental activities		$ (90,450)

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

State of Nebraska

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2009

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	$ 249,581	$ 23,628	$ 273,209	$ 105,641
Receivables, net of allowance	23,722	9,283	33,005	2,742
Due from Other Funds	-	441	441	49,367
Inventories	-	2,157	2,157	189
Prepaid Items	-	356	356	1,205
TOTAL CURRENT ASSETS	273,303	35,865	309,168	159,144
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,896	1,896	-
Long-Term Investments	34,219	68,364	102,583	-
Securities Lending Collateral	10,703	2,619	13,322	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	870	10,794	11,664	60,806
Less Accumulated Depreciation	(837)	(4,859)	(5,696)	(42,718)
Total Capital Assets, net	33	6,250	6,283	18,088
TOTAL NONCURRENT ASSETS	44,955	79,129	124,084	18,088
TOTAL ASSETS	$ 318,258	$ 114,994	$ 433,252	$ 177,232
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	$ 603	$ 20,070	$ 20,673	$ 28,431
Due to Other Funds	-	83	83	6,085
Capital Lease Obligations	-	-	-	3,147
Claims, Judgments and Compensated Absences	38,406	9,511	47,917	28,604
Unearned Revenue	-	4,559	4,559	623
TOTAL CURRENT LIABILITIES	39,009	34,223	73,232	66,890
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	9,461
Claims, Judgments and Compensated Absences	15	22,924	22,939	40,248
Obligations under Securities Lending	10,703	2,619	13,322	-
TOTAL NONCURRENT LIABILITIES	10,718	25,543	36,261	49,709
TOTAL LIABILITIES	49,727	59,766	109,493	116,599
NET ASSETS:				
Invested in Capital Assets, net of related debt	33	6,250	6,283	5,480
Restricted for:				
Lottery Prizes, Noncurrent	-	1,896	1,896	-
Unemployment Insurance Benefits	268,498	-	268,498	-
Unrestricted	-	47,082	47,082	55,153
TOTAL NET ASSETS	268,531	55,228	323,759	60,633
TOTAL LIABILITIES AND NET ASSETS	$ 318,258	$ 114,994	$ 433,252	$ 177,232

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, 2009

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES:				
Charges for Services	$ 149,937	$ 141,741	$ 291,678	$ 340,828
Other	-	189	189	3,086
TOTAL OPERATING REVENUES	149,937	141,930	291,867	343,914
OPERATING EXPENSES:				
Personal Services	107	5,901	6,008	33,348
Services and Supplies	297	27,056	27,353	100,304
Lottery Prizes	-	71,861	71,861	-
Unemployment Claims	241,715	-	241,715	-
Insurance Claims	-	12,050	12,050	193,492
Depreciation	82	459	541	10,604
TOTAL OPERATING EXPENSES	242,201	117,327	359,528	337,748
Operating Income (Loss)	(92,264)	24,603	(67,661)	6,166
NONOPERATING REVENUES (EXPENSES):				
Investment Income	18,263	5,013	23,276	4,074
Gain (Loss) on Sale of Capital Assets	-	-	-	(198)
Other	-	-	-	(311)
TOTAL NONOPERATING REVENUES (EXPENSES)	18,263	5,013	23,276	3,565
Income (Loss) Before Transfers	(74,001)	29,616	(44,385)	9,731
Transfers Out	-	(30,245)	(30,245)	-
Change in Net Assets	(74,001)	(629)	(74,630)	9,731
NET ASSETS, JULY 1	342,532	55,857	398,389	50,902
NET ASSETS, JUNE 30	$ 268,531	$ 55,228	$ 323,759	$ 60,633

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, 2009

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	$ 151,647	$ 133,558	$ 285,205	$ 17,096
Cash Received from Interfund Charges	-	7,540	7,540	321,493
Cash Paid to Employees	(108)	(5,810)	(5,918)	(32,850)
Cash Paid to Suppliers	(173)	(26,233)	(26,406)	(91,798)
Cash Paid for Lottery Prizes	-	(70,962)	(70,962)	-
Cash Paid for Insurance Claims	(219,836)	(12,050)	(231,886)	(184,200)
Cash Paid for Interfund Services	(8)	(1,191)	(1,199)	(7,925)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(68,478)	24,852	(43,626)	21,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(30,245)	(30,245)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(398)	(398)	865
Proceeds from Sale of Capital Assets	-	-	-	433
Principal Paid on Capital Leases	-	-	-	(3,142)
Interest Paid on Capital Leases	-	-	-	(311)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	(398)	(398)	(2,155)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(1,302)	(383,123)	(384,425)	-
Proceeds from Sale of Investment Securities	-	390,150	390,150	-
Interest and Dividend Income	18,312	3,665	21,977	4,061
NET CASH FLOWS FROM INVESTING ACTIVITIES	17,010	10,692	27,702	4,061
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(51,468)	4,901	(46,567)	23,722
CASH AND CASH EQUIVALENTS, JULY 1	301,049	18,727	319,776	81,919
CASH AND CASH EQUIVALENTS, JUNE 30	$ 249,581	$ 23,628	$ 273,209	$ 105,641

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, 2009

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	$ (92,264)	$ 24,603	$ (67,661)	$ 6,166
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	82	459	541	10,604
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	1,710	(808)	902	(272)
(Increase) Decrease in Due from Other Funds	-	202	202	(4,980)
(Increase) Decrease in Inventories	-	(196)	(196)	2
(Increase) Decrease in Prepaid Items	-	175	175	(70)
(Increase) Decrease in Long-Term Deposits	-	(127)	(127)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	115	850	965	1,413
Increase (Decrease) in Due to Other Funds	-	(80)	(80)	(266)
Increase (Decrease) in Claims Payable	21,879	-	21,879	9,292
Increase (Decrease) in Unearned Revenue	-	(226)	(226)	(73)
Total Adjustments	23,786	249	24,035	15,650
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (68,478)	$ 24,852	$ (43,626)	$ 21,816

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:

	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Capital Assets acquired through Capital Leases	$ -	$ -	$ -	$ 6,304
Change in Fair Value of Investments	-	1,238	1,238	-
Total Noncash Transactions	$ -	$ 1,238	$ 1,238	$ 6,304

State of Nebraska

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2009

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 3,125	$ 20,898	$ 89,608
Investments:			
U.S. Treasury Notes and Bonds	54,540	-	-
U.S. Treasury Bills	904	-	-
Government Agency Securities	47,399	-	-
Corporate Bonds	438,607	-	-
International Bonds	39,052	-	-
Equity Securities	1,322,893	-	-
Private Equity	110,892	-	-
Options	9,253	-	-
Mortgages	841,662	-	-
Private Real Estate	116,848	-	-
Asset Backed Securities	63,768	-	-
Municipal Bonds	19,598	-	-
Commingled Funds	3,746,472	1,483,907	-
Guaranteed Investment Contracts	109,795	-	-
Short Term Investments	127,217	1,251	-
Total Investments	7,048,900	1,485,158	-
Securities Lending Collateral	373,324	-	-
Receivables:			
Contributions	18,562	-	-
Interest and Dividends	13,630	2,647	555
Other	243,720	2	606
Total Receivables	275,912	2,649	1,161
Due from Other Funds	26,049	-	-
Capital Assets:			
Buildings and Equipment	20,817	-	-
Less Accumulated Depreciation	(15,139)	-	-
Total Capital Assets, net	5,678	-	-
Other Assets	-	7,319	-
TOTAL ASSETS	$ 7,732,988	$ 1,516,024	$ 90,769
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 411,829	$ 2,377	$ 11,466
Due to Other Governments	-	-	52,664
Deposits	-	75	-
Due to Other Funds	58	12	-
Obligations under Securities Lending	373,324	-	-
Capital Lease Obligations	2,499	-	-
Accrued Compensated Absences	272	-	-
Other Liabilities	-	-	26,639
TOTAL LIABILITIES	$ 787,982	$ 2,464	$ 90,769
NET ASSETS			
Held in Trust for:			
Pension Benefits	$ 6,945,006	$ -	$ -
College Savings Plan	-	1,473,399	-
Other Purposes	-	40,161	-
TOTAL NET ASSETS	$ 6,945,006	$ 1,513,560	$ -

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, 2009

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	$ 171,246	$ 1,172,653
Client Contributions	-	194
State Contributions	90,022	-
Political Subdivision Contributions	110,029	-
Court Fees	3,419	-
Total Contributions	374,716	1,172,847
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(1,862,209)	(637,630)
Interest and Dividend Income	133,549	57,199
Securities Lending Income	9,212	-
Total Investment Income	(1,719,448)	(580,431)
Investment Expenses	12,921	13,192
Securities Lending Expenses	4,936	-
Total Investment Expense	17,857	13,192
Net Investment Income	(1,737,305)	(593,623)
Escheat Revenue	-	12,970
Other Additions	262	6,318
TOTAL ADDITIONS	(1,362,327)	598,512
DEDUCTIONS:		
Benefits	403,258	1,115,571
Refunds	9,705	-
Amounts Distributed to Outside Parties	-	16,969
Administrative Expenses	6,636	3,399
TOTAL DEDUCTIONS	419,599	1,135,939
Change in Net Assets Held in Trust for:		
Pension Benefits	(1,781,926)	-
College Savings Plan	-	(537,640)
Other Purposes	-	213
NET ASSETS-BEGINNING OF YEAR	8,726,932	2,050,987
NET ASSETS-END OF YEAR	$ 6,945,006	$ 1,513,560

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

State of Nebraska

STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2009

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 255,875	$ 20,581	$ 276,456
Receivables, net of allowance			
Loans	37,245	2,649	39,894
Other	234,576	3,535	238,111
Due from Primary Government	-	6,150	6,150
Investments	1,381,295	29,303	1,410,598
Investment in Joint Venture	230,369	-	230,369
Other Assets	37,132	3,407	40,539
Restricted Assets:			
Cash and Cash Equivalents	406,760	20,820	427,580
Investments Held by Trustee	104,113	256	104,369
Capital assets:			
Land	62,495	972	63,467
Land Improvements	131,121	19,285	150,406
Construction in Progress	202,163	23,484	225,647
Buildings and Equipment	1,797,487	155,317	1,952,804
Less Accumulated Depreciation	(657,477)	(68,321)	(725,798)
Total Capital Assets, net of depreciation	1,535,789	130,737	1,666,526
Total Assets	$ 4,223,154	$ 217,438	$ 4,440,592
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 167,970	$ 9,331	$ 177,301
Deposits	28,350	461	28,811
Deferred Revenue	98,647	436	99,083
Noncurrent Liabilities:			
Due within one year	113,524	3,773	117,297
Due in more than one year	617,567	40,442	658,009
Total Liabilities	$ 1,026,058	$ 54,443	$ 1,080,501
NET ASSETS			
Invested in Capital Assets, net of related debt	$ 863,298	$ 90,490	$ 953,788
Restricted for:			
Education	1,229,184	-	1,229,184
Other Purposes	200,426	44,033	244,459
Construction and Debt Service	282,613	13,016	295,629
Unrestricted	621,575	15,456	637,031
Total Net Assets	$ 3,197,096	$ 162,995	$ 3,360,091

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, 2009

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	$ 1,036,144	$ 56,492	$ 1,092,636
Supplies and materials	244,194	5,693	249,887
Contractual services	102,220	3,840	106,060
Repairs and maintenance	50,212	1,626	51,838
Utilities	35,972	4,135	40,107
Communications	13,909	921	14,830
Depreciation	70,102	4,725	74,827
Scholarships and fellowships	149,455	907	150,362
Other	14,425	12,330	26,755
Total Operating Expenses	1,716,633	90,669	1,807,302
Program Revenues:			
Charges for Services	732,932	31,389	764,321
Operating Grants and Contributions	395,100	11,701	406,801
Capital Grants and Contributions	-	3,991	3,991
Total Program Revenues	1,128,032	47,081	1,175,113
Net (Expense) Revenue	(588,601)	(43,588)	(632,189)
General Revenue:			
Interest and investment earnings	59,677	2,537	62,214
Payments from the State of Nebraska	518,391	52,877	571,268
Miscellaneous	(113,572)	(4,399)	(117,971)
Total General Revenues	464,496	51,015	515,511
Change in Net Assets	(124,105)	7,427	(116,678)
Net Assets - Beginning	3,321,201	155,568	3,476,769
Net Assets - Ending	$ 3,197,096	$ 162,995	$ 3,360,091

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

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, since the Nebraska Legislature controls the budget of the University. 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, 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 Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

The Statement of Net Assets reports $1,902,356 of restricted net assets, of which $1,163,724 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 these lands; escheats; unclaimed property and other items provided by law. Net appreciation on investments is not available for expenditure. 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, 2009, 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. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. 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. 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.

State of Nebraska (dollars expressed in thousands)

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	3-20 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 vacation leave. Temporary and intermittent employees and Board and Commission 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 vacation leave at a variable rate based on years of service. Generally, accrued vacation 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.

State of Nebraska (dollars expressed in thousands)

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, 2009, 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, 2009, the carrying amounts of the State's deposits were $361,164 and the bank balances were $424,401. 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 $332,642 at June 30, 2009.

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, 2007. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2009.

The primary government's investments at June 30, 2009, 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, 2009

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	$ 655,470	3.39	$ 54,540	6.73
U.S. Treasury Bills	12,052	0.86	904	0.07
Government Agency Securities	668,154	2.03	47,399	4.41
Corporate Bonds	857,613	4.23	438,607	4.60
International Bonds	1,522	6.11	39,052	4.67
Mortgages	130,052	3.10	841,662	3.02
Asset Backed Securities	5,158	0.99	63,768	2.16
Commingled Funds	114,581	4.18	747,234	3.93
Municipal Bonds	3,928	14.04	19,598	12.31
Guaranteed Investment Contracts	2,918	2.87	109,795	2.87
Short Term Investments	214,142	0.12	128,468	0.14
	2,665,590		2,491,027	
Other Investments				
Equity Securities	55,086		1,322,893	
Private Equity	5,227		110,892	
Commingled Funds	435,919		4,483,145	
Options	3,136		9,253	
Private Real Estate	-		116,848	
U.S. Treasury Investment Pool	241,237		-	
Less: Component Unit Investment in State Investment Pool	(430,474)		-	
Total Investments	2,975,721		8,534,058	
Securities Lending Short-term Collateral Investment Pool	583,814		373,324	
Total	$ 3,559,535		$ 8,907,382	

State of Nebraska (dollars expressed in thousands)

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, 2009, 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, 2009

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 668,154	$ 668,154	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	857,613	197,543	263,649	334,023	44,419	5,649	4,711	7,619
International Bonds	1,522	194	-	-	1,328	-	-	-
Mortgages	130,052	84,845	245	-	547	224	237	43,954
Asset Backed Securities	5,158	4,623	344	-	143	-	48	-
Commingled Funds	114,581	-	-	-	-	-	-	114,581
Short Term Investments	214,142	-	-	-	-	-	-	214,142
Municipal Bonds	3,928	2,227	1,295	293	113	-	-	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2009

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 55,887	$ 53,630	$ -	$ 199	$ -	$ 486	$ 286	$ 1,286
Corporate Bonds	495,017	69,732	58,400	169,726	98,006	37,754	35,869	25,530
International Bonds	40,586	4,774	11,767	2,698	12,554	8,554	71	168
Mortgages	848,541	570,535	2,096	5,836	9,913	1,618	5,509	253,034
Asset Backed Securities	72,168	61,738	2,093	2,343	1,169	-	361	4,464
Commingled Funds	749,574	-	-	-	-	-	-	749,574
Short Term Investments	119,956	-	-	-	-	-	-	119,956
Municipal Bonds	20,199	9,374	5,606	4,800	419	-	-	-

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, 2009, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (7 percent) and Federal Home Loan Bank (9 percent). At June 30, 2009, fiduciary funds had debt securities investments with more than 5 percent of total investments in Federal National Mortgage Association (5 percent).

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 46 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the

State of Nebraska (dollars expressed in thousands)

State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

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 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, 2009, is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 12,466,917
Carrying amount of Deposits	361,164
Total	$ 12,828,081
Statement of Net Assets:	
Cash and Cash Equivalents	$ 691,244
Investments	2,511,205
Restricted Cash and Cash Equivalents	20,805
Securities Lending Collateral	583,814
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	113,631
Investments	8,534,058
Securities Lending Collateral	373,324
Total	$ 12,828,081

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, 2009

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 13	$ 1,035	$ 164
Brazilian Real	(107)	30	143
Canadian Dollar	11	667	4
Danish Krone	2	-	-
Euro Currency	136	8,682	381
Hong Kong Dollar	-	861	-
Iceland Krona	-	-	71
Indonesian Rupiah	-	-	132
Japanese Yen	56	4,334	-
Mexican Peso	25	214	55
New Zeland Dollar	3	95	83
Polish Zloty	-	78	-
Pound Sterling	183	3,386	-
Singapore Dollar	-	746	256
South African Rand	2	126	-
South Korean Won	19	648	-
Swedish Krona	21	55	-
Swiss Franc	2	2,433	-
Thailand Baht	4	26	-
Total	$ 370	$ 23,416	$ 1,289

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2009

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Argentine Peso	$ 12	$ -	$ -
Australian Dollar	1	26,509	1,087
Brazilian Real	752	2,567	811
Canadian Dollar	13	15,965	44
Czech Koruna	66	-	-
Danish Krone	67	2,850	-
Euro Currency	1,723	231,238	5,224
Hong Kong Dollar	38	38,516	-
Iceland Krona	-	-	428
Indian Rupee	355	-	-
Indonesian Rupiah	2	717	328
Israeli Shekel	3	-	-
Japanese Yen	620	114,720	-
Mexican Peso	112	3,555	277
New Russian Ruble	381	-	-
New Taiwan Dollar	611	-	-
New Zeland Dollar	-	-	549
Norwegian Krone	-	35	-
Philippine Peso	2	-	-
Polish Zloty	-	1,821	-
Pound Sterling	1,190	110,443	2,171
Singapore Dollar	-	12,448	1,923
South African Rand	178	2,157	-
South Korean Won	796	16,390	-
Swedish Krona	8	1,264	-
Swiss Franc	74	80,034	-
Thailand Baht	7	4,404	-
Yuan Renminbi	976	-	-
Total	$ 7,987	$ 665,633	$ 12,842

State of Nebraska (dollars expressed in thousands)

3. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 526,453	$ 10,108	$ -	$ 536,561
Infrastructure	6,651,497	95,626	-	6,747,123
Construction in progress	68,017	41,728	10,220	99,525
Total capital assets, not being depreciated	7,245,967	147,462	10,220	7,383,209
Capital assets, being depreciated:				
Buildings and improvements	493,688	8,754	468	501,974
Equipment	374,263	34,433	21,505	387,191
Total capital assets, being depreciated	867,951	43,187	21,973	889,165
Less accumulated depreciation for:				
Buildings and improvements	231,875	13,712	191	245,396
Equipment	265,662	35,750	20,076	281,336
Total accumulated depreciation	497,537	49,462	20,267	526,732
Total capital assets, being depreciated, net	370,414	(6,275)	1,706	362,433
Governmental activities capital assets, net	$ 7,616,381	$ 141,187	$ 11,926	$ 7,745,642
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 885	$ -	$ 15	$ 870
Less accumulated depreciation	770	82	15	837
Total Unemployment Insurance, net	115	(82)	-	33
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	315	-	-	315
Capital assets, being depreciated:				
Buildings and improvements	5,751	-	-	5,751
Equipment	4,743	398	98	5,043
Total capital assets, being depreciated	10,494	398	98	10,794
Less accumulated depreciation for:				
Buildings and improvements	1,387	143	-	1,530
Equipment	3,111	316	98	3,329
Total accumulated depreciation	4,498	459	98	4,859
Total capital assets, being depreciated, net	5,996	(61)	-	5,935
Total Nonmajor Enterprise, net	6,311	(61)	-	6,250
Business-type activities capital assets, net	$ 6,426	$ (143)	$ -	$ 6,283

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

Governmental activities:	
General Government	$ 18,246
Conservation of Natural Resources	1,528
Culture – Recreation	1,326
Economic Development and Assistance	311
Education	1,111
Health and Social Services	807
Public Safety	9,252
Regulation of Business and Professions	286
Transportation	16,595
Total depreciation expense - Governmental activities	$ 49,462

Construction Commitments. At June 30, 2009, the State had contractual commitments of approximately $940,796 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$ 455,554
State funds	457,287
Local funds	27,955
	$ 940,796

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.

State of Nebraska (dollars expressed in thousands)

4. Interfund Balances

Due To/From Other Funds at June 30, 2009, consists of the following:

DUE FROM	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Pension Trust	TOTALS
General Fund	$ -	$ 135	$ 61	$ 670	$ 1,010	$ 191	$ 29,310	$ 25,589	$ 56,966
Highway Fund	-	-	175	1	110	82	5,273	-	5,641
Federal Fund	97,257	7	-	3,929	2,864	96	3,667	1	107,821
Health and Social Services	10	4	10	-	177	1	1,422	-	1,624
Permanent School Fund	15	-	-	-	-	-	8	-	23
Nonmajor Governmental Funds	432	28	14	12	267	70	8,749	459	10,031
Nonmajor Enterprise Funds	-	9	-	-	-	-	74	-	83
Internal Service Funds	4,603	467	7	22	191	1	794	-	6,085
Pension Trust	-	-	-	-	-	-	58	-	58
Private Purpose Trust	-	-	-	-	-	-	12	-	12
TOTALS	$ 102,317	$ 650	$ 267	$ 4,634	$ 4,619	$ 441	$ 49,367	$ 26,049	$ 188,344

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilites, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature, except for $32,400 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, 2009, consist of the following:

TRANSFERRED FROM:	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ -	$ -	$ -	$ 49,975	$ 49,975
Highway Fund	-	-	-	-	10,102	10,102
Federal Fund	-	-	-	-	7,425	7,425
Health & Social Services Fund	-	-	-	-	531	531
Nonmajor Governmental Funds	35,494	29,260	247	418	7,505	72,924
Nonmajor Enterprise Funds	-	-	-	797	29,448	30,245
TOTALS	$ 35,494	$ 29,260	$ 247	$ 1,215	$ 104,986	$ 171,202

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.

State of Nebraska (dollars expressed in thousands)

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2009, 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	$ 23,574	$ 8,793	$ 11,366	$ 1,084	$ -	$ 5,381	$ 2,213	$ 2	$ 369	$ 52,782
Payables and Accruals	82,655	56,069	140,782	6,516	41,455	29,318	25,679	566	19,701	402,741
Due to Fiduciary Funds *	-	-	-	-	-	-	26,049	-	-	26,049
Miscellaneous	-	7,675	-	-	-	3	3	35	-	7,716
TOTALS	$ 106,229	$ 72,537	$ 152,148	$ 7,600	$ 41,455	$ 34,702	$ 53,944	$ 603	$ 20,070	$ 489,288

* 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, 2009, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 276,554	$ 1,717,891	$ 1,703,591	$ 290,854	$ 246,508
Bonds Payable	10,835	-	5,985	4,850	4,850
Capital Lease Obligations	19,509	10,194	7,521	22,182	5,277
Obligations Under Other Financing Arrangements	14,785	2,515	1,640	15,660	1,255
Compensated Absences	122,212	16,200	11,872	126,540	8,859
Totals	$ 443,895	$ 1,746,800	$ 1,730,609	$ 460,086	$ 266,749
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 15,382	$ 242,858	$ 219,836	$ 38,404	$ 38,404
Compensated Absences	16	4	3	17	2
Totals for Unemployment Insurance	15,398	242,862	219,839	38,421	38,406
Nonmajor Enterprise Funds:					
Claims Payable	31,700	12,050	12,050	31,700	9,460
Compensated Absences	690	94	49	735	51
Totals for Nonmajor Enterprise Funds	32,390	12,144	12,099	32,435	9,511
Totals for Business-type Activities	$ 47,788	$ 255,006	$ 231,938	$ 70,856	$ 47,917

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.

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 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, 2009, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued $22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May 2002, the NETC Leasing Corporation issued $9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2009 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

State of Nebraska (dollars expressed in thousands)

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. There were no obligations outstanding at June 30, 2009.

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, 2009
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000	Through 2010	4.35%-6.00%	$ 4,850
COMPONENT UNITS				
University of Nebraska	1998-2009	Through 2043	2.00%-5.25%	$ 642,970
Nebraska State Colleges	1999-2006	Through 2028	1.60%-5.05%	39,485
Component Units Total				$ 682,455

PRIMARY GOVERNMENT
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$ 4,850	$ 291	$ 5,141

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$ 51,185	$ 30,659	$ 81,844
2011	44,030	28,972	73,002
2012	46,320	27,066	73,386
2013	28,870	25,230	54,100
2014	46,030	23,603	69,633
2015 - 2019	183,610	91,367	274,977
2020 - 2024	117,225	54,406	171,631
2025 - 2029	64,165	33,885	98,050
2030 - 2034	52,070	19,694	71,764
2035 - 2039	45,960	15,373	61,333
2040 - 2044	2,990	78	3,068
Total	$ 682,455	$ 350,333	$ 1,032,788

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, 2009 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2010	$ 5,858
2011	5,396
2012	4,005
2013	3,199
2014	1,611
2015-2019	4,391
Total Minimum Payments	24,460
Less: Interest and executory costs	2,278
Present value of net minimum payments	$ 22,182

State of Nebraska (dollars expressed in thousands)

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, 2009:

	GOVERNMENTAL ACTIVITIES
Buildings	$ 7,070
Equipment	44,521
Less: accumulated depreciation	(25,556)
Carrying value	$ 26,035

The minimum annual lease payments for operating leases as of June 30, 2009 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2010	$ 9,372
2011	2,992
2012	2,328
2013	2,056
2014	1,935
2015-2019	4,045
2020-2024	2,675
2025-2029	1,095
2030-2034	826
Total	$ 27,324

Primary Government operating lease payments for the year ended June 30, 2009 totaled $15,771.

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, 2009, 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 $31,898 were received under these and other lease agreements for the year ended June 30, 2009.

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 2.75 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$ 1,255	$ 685	$ 1,940
2011	1,295	635	1,930
2012	1,360	580	1,940
2013	1,410	521	1,931
2014	1,465	458	1,923
2015-2019	6,845	1,198	8,043
2020-2024	2,030	172	2,202
Total	$ 15,660	$ 4,249	$ 19,909

10. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2009:

Governmental Activities:	
General Fund	$ 67,978
Federal Fund	13,987
Health and Social Services Fund	4,522
Total Governmental Activities	$ 86,487
Business-type Activities:	
Unemployment Insurance	$ 9,053
Total Business-type Activities	$ 9,053

Of the taxes and other receivables, $27,145 and $20,482, 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. 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. Under the cash balance benefit, a member upon attainment of age 55, regardless of service, receives a retirement allowance equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment. Members have options on how to receive the payment. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2008.

Participation in the plan is required for all permanent full-time employees upon employment. Each member contributes 4.8 percent of their compensation. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2008, there were 17,200 active members and 4,122 inactive members. Members contributed $31,584 and the State contributed $49,123 during the year ended December 31, 2008, 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 cost-sharing 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. Under the cash balance benefit, a member upon attainment of age 55, regardless of service, receives a retirement allowance equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment. Members have options on how to receive the payment. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2008.

Participation in the plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. Part-time employees may elect voluntary participation upon reaching age 20. Part-time elected officials may exercise the option to join. County employees and elected officials contribute four and one half percent of their total compensation. Commissioned law enforcement personnel in participating counties with less than 85,000 inhabitants contribute an extra one percent, or a total of five and one half percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of 85,000 inhabitants contribute an extra two percent, or a total of six and one half percent of their total compensation. The counties match a member's contribution at a rate of 150 percent.

State of Nebraska (dollars expressed in thousands)

As of December 31, 2008, there were 7,711 active members and 1,703 inactive members. Members contributed $10,268 and counties contributed $15,172 during the year ended December 31, 2008, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 277 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 or salary.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 7.28 percent of their compensation. 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 Courts, Workers' Compensation Court, County Courts, and Juvenile Courts. 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, which present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits, and the primary actuarial assumptions used in the most recent actuarial reports for the defined benefit plans. Information presented for the cost-sharing plans is for the plan as a whole.

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL) (Excess of Assets over AAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll
State Cash Balance						
12/31/2008	$ 637,539	$ 658,249	$ 20,710	96.9 %	$ 433,397	4.8 %
12/31/2007	606,552	586,830	(19,722)	103.4	384,709	(5.1)
12/31/2006	392,442	379,735	(12,707)	103.3	323,983	(3.9)
County Cash Balance						
12/31/2008	$ 175,766	$ 175,294	$ (472)	100.3 %	$ 165,276	(0.3)%
12/31/2007	163,783	151,557	(12,226)	108.1	141,110	(8.7)
12/31/2006	116,379	110,630	(5,749)	105.2	113,468	(5.1)
School						
6/30/2009	$ 7,007,582	$ 8,092,339	$ 1,084,757	86.6 %	$ 1,481,568	73.2 %
6/30/2008	6,932,919	7,654,536	721,617	90.6	1,389,125	51.9
6/30/2007	6,396,337	7,070,309	673,972	90.5	1,325,616	50.8
Judges'						
6/30/2009	$ 120,993	$ 118,558	$ (2,435)	102.1 %	$ 18,373	(13.3)%
6/30/2008	119,962	114,251	(5,711)	105.0	17,990	(31.7)
6/30/2007	111,006	103,704	(7,302)	107.0	17,004	(42.9)
State Patrol						
6/30/2009	$ 274,120	$ 305,291	$ 31,171	89.8 %	$ 25,922	120.2 %
6/30/2008	273,394	291,997	18,603	93.6	26,980	69.0
6/30/2007	254,663	265,847	11,184	95.8	26,073	42.9

State of Nebraska (dollars expressed in thousands)

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2008	12/31/2008	6/30/2009	6/30/2009	6/30/2009
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed
Amortization Period	25 years	25 years	28 years	30 years	29 years
Asset Valuation Method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial Assumptions:					
Investment Rate of Return **	7.75%	7.75%	8.0%	8.0%	8.0%
Projected Salary Increases **	4.5% to 5.9%	5.5% to 15.0%	4.5% to 7.5%	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
State Cash Balance			
12/31/2008	$29,204	100%	$ -
12/31/2007	22,921	100%	-
12/31/2006	16,672	100%	-
County Cash Balance			
12/31/2008	$ 9,840	100%	$ -
12/31/2007	8,195	100%	-
12/31/2006	6,245	100%	-
School			
6/30/2009	$20,621	100%	$ -
6/30/2008	15,833	100%	-
6/30/2007	15,220	100%	-
Judges'			
6/30/2009	$ 3,491	100%	$ -
6/30/2008	3,353	100%	-
6/30/2007	3,208	100%	-
State Patrol			
6/30/2009	$ 5,385	100%	$ -
6/30/2008	4,856	100%	-
6/30/2007	5,059	100%	-

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 in non–binding arbitration with Kansas and Colorado relating to water usage in the Republican River Basin. It is alleged that Nebraska is consuming more water then is allowed under the Republican River Compact of 1942. It is not possible at the present time to determine the outcome of this water dispute.

State of Nebraska (dollars expressed in thousands)

13. Risk Management

Through Administrative Services, the State maintains insurance and self-insurance programs. Workers' compensation, employee health care, general liability and employee indemnification are generally self-insured. However, the State does carry surety bonds for constitutional officers and limited general liability on one building. 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. Administrative Services 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 \$49,221 at a discounted rate of 3.5 percent (\$9,310).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2009, and 2008, were as follows:

	Fiscal Year	
	2009	2008
Beginning Balance	$ 64,020	$ 62,707
Current Year Claims and Changes in Estimates	184,491	182,155
Claim Payments	(184,200)	(180,842)
Ending Balance	$ 64,311	$ 64,020

14. Subsequent Event

The Governor called a special session of the Legislature in November 2009 to address declining tax revenues due to current economic conditions. The Legislature closed a \$334 million General Fund shortfall for 2010 and 2011 through a combination of spending cuts and cash transfers from other funds.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2009

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 3,405,773	$ 3,268,027	$ 3,231,495	$ (36,532)
Federal Grants and Contracts	47	47	47	-
Sales and Charges	23,297	23,297	23,297	-
Other	66,525	66,525	66,525	-
TOTAL REVENUES	3,495,642	3,357,896	3,321,364	(36,532)
EXPENDITURES:				
Current:				
General Government	269,339	256,906	241,023	15,883
Conservation of Natural Resources	56,151	56,151	38,348	17,803
Culture – Recreation	6,792	6,792	5,955	837
Economic Development and Assistance	10,500	10,500	7,020	3,480
Education	1,741,786	1,743,315	1,702,581	40,734
Health and Social Services	1,383,799	1,256,369	1,095,951	160,418
Public Safety	240,441	248,144	226,026	22,118
Regulation of Business and Professions	4,616	4,616	4,050	566
Transportation	21	21	18	3
TOTAL EXPENDITURES	3,713,445	3,582,814	3,320,972	261,842
Excess of Revenues Over (Under) Expenditures	(217,803)	(224,918)	392	225,310
OTHER FINANCING SOURCES (USES):				
Transfers In	207,998	207,998	207,998	-
Transfers Out	(336,942)	(336,942)	(336,942)	-
Other	71	71	71	-
TOTAL OTHER FINANCING SOURCES (USES)	(128,873)	(128,873)	(128,873)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(346,676)	(353,791)	(128,481)	225,310
FUND BALANCES, JULY 1	1,125,582	1,125,582	1,125,582	-
FUND BALANCES, JUNE 30	$ 778,906	$ 771,791	$ 997,101	$ 225,310

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2009, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2009	
General	$ 421,409
Cash Reserve	575,692
Budgetary fund balances	997,101
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	295,618
Record tax refund liability	(307,689)
Record State contributions due pension funds	(25,589)
Record claims payable	(96,984)
Record other net accrued receivables and liabilities	(5,853)
GAAP fund balance, June 30, 2009	$ 856,604

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2009

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 105,242	$ 105,242	$ 105,242	$ -
Federal Grants and Contracts	330,344	330,344	330,344	-
Sales and Charges	436,329	436,329	436,329	-
Other	238,316	238,316	238,316	-
TOTAL REVENUES	1,110,231	1,110,231	1,110,231	-
EXPENDITURES:				
Current:				
General Government	214,443	221,374	192,236	29,138
Conservation of Natural Resources	118,606	117,677	54,813	62,864
Culture – Recreation	33,143	33,269	18,674	14,595
Economic Development and Assistance	80,992	82,291	29,354	52,937
Education	475,690	476,560	345,254	131,306
Health and Social Services	177,619	179,304	117,267	62,037
Public Safety	46,945	54,769	31,185	23,584
Regulation of Business and Professions	179,548	183,928	114,177	69,751
Transportation	756,743	797,983	726,325	71,658
Capital Projects	79,961	79,961	21,595	58,366
TOTAL EXPENDITURES	2,163,690	2,227,116	1,650,880	576,236
Excess of Revenues Over (Under) Expenditures	(1,053,459)	(1,116,885)	(540,649)	576,236
OTHER FINANCING SOURCES (USES):				
Transfers In	1,038,059	1,038,059	1,038,059	-
Transfers Out	(502,371)	(502,371)	(502,371)	-
Other	1,257	1,257	1,257	-
TOTAL OTHER FINANCING SOURCES (USES)	536,945	536,945	536,945	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(516,514)	(579,940)	(3,704)	576,236
FUND BALANCES, JULY 1	787,163	787,163	787,163	-
FUND BALANCES, JUNE 30	$ 270,649	$ 207,223	$ 783,459	$ 576,236

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2009, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2009	
Cash	$ 783,459
Construction	56,035
Federal	81,104
Revolving	252,488
Budgetary fund balances	1,173,086
Unbudgeted fund balances	1,239,995
Non-major fund balances	(1,070,236)
Differences due to basis of accounting	(401,456)
GAAP fund balance, June 30, 2009	$ 941,389
Actual Fund Balances of Major Funds, June 30, 2009	
Highway	$ 120,111
Federal	7,838
Health and Social Services	411,068
Permanent School	402,372
GAAP fund balance, June 30, 2009	$ 941,389

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2009

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	2,636	2,636	2,636	-
TOTAL REVENUES	2,636	2,636	2,636	-
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	22,193	22,193	15,122	7,071
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	35,645	35,645	16,513	19,132
TOTAL EXPENDITURES	57,838	57,838	31,635	26,203
Excess of Revenues Over (Under) Expenditures	(55,202)	(55,202)	(28,999)	26,203
OTHER FINANCING SOURCES (USES):				
Transfers In	18,729	18,729	18,729	-
Transfers Out	-	-	-	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	18,729	18,729	18,729	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(36,473)	(36,473)	(10,270)	26,203
FUND BALANCES, JULY 1	66,305	66,305	66,305	-
FUND BALANCES, JUNE 30	$ 29,832	$ 29,832	$ 56,035	$ 26,203

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2009

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,342,670	2,342,670	2,342,670	-
Sales and Charges	20,966	20,966	20,966	-
Other	(26,548)	(26,548)	(26,548)	-
TOTAL REVENUES	2,337,088	2,337,088	2,337,088	-
EXPENDITURES:				
Current:				
General Government	19,442	19,807	6,115	13,692
Conservation of Natural Resources	48,355	55,267	36,508	18,759
Culture – Recreation	2,925	6,550	2,755	3,795
Economic Development and Assistance	102,589	128,046	49,104	78,942
Education	696,985	721,469	617,178	104,291
Health and Social Services	1,756,122	1,767,483	1,486,577	280,906
Public Safety	94,298	157,615	105,927	51,688
Regulation of Business and Professions	2,418	2,805	2,328	477
Transportation	-	-	-	-
Capital Projects	443	768	768	-
TOTAL EXPENDITURES	2,723,577	2,859,810	2,307,260	552,550
Excess of Revenues Over (Under) Expenditures	(386,489)	(522,722)	29,828	552,550
OTHER FINANCING SOURCES (USES):				
Transfers In	9,215	9,215	9,215	-
Transfers Out	(10,155)	(10,155)	(10,155)	-
Other	(72)	(72)	(72)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,012)	(1,012)	(1,012)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(387,501)	(523,734)	28,816	552,550
FUND BALANCES, JULY 1	52,288	52,288	52,288	-
FUND BALANCES, JUNE 30	$ (335,213)	$ (471,446)	$ 81,104	$ 552,550

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2009

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	1,061	1,061	1,061	-
Sales and Charges	470,635	470,635	470,635	-
Other	153,848	153,848	153,848	-
TOTAL REVENUES	625,544	625,544	625,544	-
EXPENDITURES:				
Current:				
General Government	242,278	242,561	149,396	93,165
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	2,641	2,641	1,743	898
Education	596,360	596,588	421,848	174,740
Health and Social Services	-	-	-	-
Public Safety	25,546	25,546	13,162	12,384
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	866,825	867,336	586,149	281,187
Excess of Revenues Over (Under) Expenditures	(241,281)	(241,792)	39,395	281,187
OTHER FINANCING SOURCES (USES):				
Transfers In	59,302	59,302	59,302	-
Transfers Out	(54,584)	(54,584)	(54,584)	-
Other	950	950	950	-
TOTAL OTHER FINANCING SOURCES (USES)	5,668	5,668	5,668	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(235,613)	(236,124)	45,063	281,187
FUND BALANCES, JULY 1	207,425	207,425	207,425	-
FUND BALANCES, JUNE 30	$ (28,188)	$ (28,699)	$ 252,488	$ 281,187

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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 2009, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2009, 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, 2009

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).

Calendar Year	2008	2007	2006	2005	2004	2003
Very Good	32%	33%	42%	39%	39%	40%
Good	47%	49%	38%	46%	46%	44%
Fair	19%	17%	19%	12%	12%	14%
Poor	2%	1%	1%	3%	3%	2%
Overall System Rating	82	82	83	84	83	83

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 82 actual).

Fiscal Year	2010	2009	2008	2007	2006	2005
Estimated	$ 211	$ 206	$ 155	$ 148	$ 125	$ 123
Actual		239	208	167	214	221
Difference		33	53	19	89	98

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SINGLE AUDIT SECTION

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
	Agriculture, U.S. Department of				
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025		$ 934,062
	Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025		267,037
	Avian Influenza Indemnity Program	Game and Parks Commission	10.029		35,850
	Wetlands Reserve Program	Game and Parks Commission	10.072		272,745
	Market News	Agriculture, Department of	10.153		3,687
	Federal-State Marketing Improvement Program	Agriculture, Department of	10.156		8,347
	Market Protection and Promotion	Agriculture, Department of	10.163		60,278
	Specialty Crop Block Grant Program	Agriculture, Department of	10.169		71,929
	Grants for Agricultural Research_Competitive Research Grants	Corn Board	10.206		119,796
	State Mediation Grants	Agriculture, Department of	10.435		135,959
	Rural Community Development Initiative	Economic Development, Department of	10.446		90,606
	Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477		5,588
	Food Safety Cooperative Agreements	Agriculture, Department of	10.479		143,636
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program (SNAP)	Department of Health and Human Services	10.551	*^	169,345,478
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.561	*^	14,547,164
	Child Nutrition Cluster:				
	School Breakfast Program	Education, Department of	10.553	*	11,131,032
	National School Lunch Program	Education, Department of	10.555	*	48,998,986
	National School Lunch Program	Department of Health and Human Services	10.555	*	9,000,181
	Special Milk Program for Children	Education, Department of	10.556	*	50,673
	Summer Food Service Program for Children	Education, Department of	10.559	*	1,523,583
	Summer Food Service Program for Children	Department of Health and Human Services	10.559	*	42,473
	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health and Human Services	10.557	*	29,038,768
	Child and Adult Care Food Program	Education, Department of	10.558		27,706,107
	Child and Adult Care Food Program	Department of Health and Human Services	10.558		394,020
	State Administrative Expenses for Child Nutrition	Education, Department of	10.560		1,124,408
	State Administrative Expenses for Child Nutrition	Department of Health and Human Services	10.560		165,982
	Commodity Supplemental Food Program	Department of Health and Human Services	10.565	^	3,870,806
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Department of Health and Human Services	10.568	*	287,478
ARRA	ARRA - Emergency Food Assistance Program (Administrative Costs)	Department of Health and Human Services	10.568	*	98,317
	Emergency Food Assistance Program (Food Commodities)	Department of Health and Human Services	10.569	*^	1,297,802

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Agriculture, U.S. Department of, Continued:				
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		232,703
Fresh Fruit and Vegetable Program	Education, Department of	10.582		260,955
Forestry Research	Game and Parks Commission	10.652		5,323
Public Television Station Digital Transition Grant Program	Educational Telecommunications Commission	10.861		143,046
Soil and Water Conservation	Natural Resources, Department of	10.902		21,692
Environmental Quality Incentives Program	Corn Board	10.912		81,314
National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03		1,864
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		147,849
Total U.S. Department of Agriculture			$	321,667,524
Commerce, U.S. Department of				
Public Works and Economic Development Cluster:				
Economic Adjustment Assistance	Economic Development, Department of	11.307	$	100,000
Public Safety Interoperable Communications Grant Program	Military Department	11.555		414,398
Manufacturing Extension Partnership	Economic Development, Department of	11.611		450,285
Total U.S. Department of Commerce			$	964,683
Corporation for National and Community Service				
State Commissions	Department of Health and Human Services	94.003	$	139,695
Learn and Serve America_School and Community Based Programs	Education, Department of	94.004		103,296
Americorps	Department of Health and Human Services	94.006		988,017
Planning and Program Development Grants	Department of Health and Human Services	94.007		57,041
Training and Technical Assistance	Department of Health and Human Services	94.009		72,754
Volunteers in Service to America	Department of Health and Human Services	94.013		6,982
Total Corporation for National and Community Service			$	1,367,785
Defense, U.S. Department of				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	$	162,265
Military Construction, National Guard	Military Department	12.400		17,272,195
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401		13,903,214
National Guard Civilian Youth Opportunities	Military Department	12.404		259,864
US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P-0171, W912F-06-P-0101		1,455,029
Total U.S. Department of Defense			$	33,052,567

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
	Education, U.S. Department of				
	Adult Education - Basic Grants to States	Education, Department of	84.002		$ 2,565,437
	Title I , Part A Cluster:				
	Title I Grants to Local Educational Agencies	Education, Department of	84.010		46,760,199
	Migrant Education_State Grant Program	Education, Department of	84.011		4,745,715
	Title I Program for Neglected and Delinquent Children	Education, Department of	84.013		372,356
	Special Education Cluster:				
	Special Education_Grants to States	Education, Department of	84.027	*	68,993,294
	Special Education_Preschool Grants	Education, Department of	84.173	*	2,252,368
	Career and Technical Education -- Basic Grants to States	Education, Department of	84.048		5,870,810
	Career and Technical Education -- National Program	Education, Department of	84.051		59,481
	Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069		492,860
	Vocational Rehabilitation Cluster:				
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Blind and Visually Impaired Commission	84.126	*	2,980,234
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126	*	17,869,572
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, Department of	84.390	*	5,713
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Blind and Visually Impaired Commission	84.390	*	31,920
	Migrant Education_Coordination Program	Education, Department of	84.144		23,793
	Rehabilitation Services_Client Assistance Program	Education, Department of	84.161		126,180
	Independent Living_State Grants	Blind and Visually Impaired Commission	84.169		31,640
	Independent Living_State Grants	Education, Department of	84.169		202,002
	Paul Douglas Teacher Scholarships Program	Education, Department of	84.176		(12,721)
	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired Commission	84.177		245,926
	Early Intervention Services (IDEA) Cluster:				
	Special Education-Grants for Infants and Families	Education, Department of	84.181		2,598,707
	Byrd Honors Scholarships	Education, Department of	84.185		237,000
	Safe and Drug-Free Schools and Communities_State Grants	Education, Department of	84.186		1,174,230
	Safe and Drug-Free Schools and Communities_State Grants	Department of Health and Human Services	84.186		466,384
	Supported Employment Services for Individuals with Significant Disabilities	Blind and Visually Impaired Commission	84.187		50,123
	Supported Employment Services for Individuals with Significant Disabilities	Education, Department of	84.187		392,250
	Education for Homeless Children and Youth	Education, Department of	84.196		273,920
	Even Start_State Educational Agencies	Education, Department of	84.213		461,461
	Assistive Technology	Education, Department of	84.224		464,164
	Tech-Prep Education	Education, Department of	84.243		1,273,961

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Education, U.S. Department of, Continued:					
	National Institute for Literacy	Education, Department of	84.257		410
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired Commission	84.265		13,624
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265		32,747
	Twenty-First Century Community Learning Centers	Education, Department of	84.287		6,367,705
	Foreign Language Assistance	Education, Department of	84.293		104,448
	State Grants for Innovative Programs	Education, Department of	84.298		393,623
	Parental Information and Resource Centers	Education, Department of	84.310		17,076
	Education Technology State Grants	Education, Department of	84.318		1,544,339
	Special Education - State Personnel Development	Education, Department of	84.323		841,016
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326		95,183
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330		16,956
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Corrections, Department of	84.331		36,501
	Transition to Teaching	Education, Department of	84.350		248
	Reading First State Grants	Education, Department of	84.357		4,323,013
	Rural Education	Education, Department of	84.358		72,202
	English Language Acquisition Grants	Education, Department of	84.365		2,275,838
	Mathematics and Science Partnerships	Education, Department of	84.366		1,230,514
	Improving Teacher Quality State Grants	Education, Department of	84.367		13,599,705
	Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367		274,440
	Grants for State Assessments and Related Activities	Education, Department of	84.369		5,234,344
	Statewide Data Systems	Education, Department of	84.372		839,989
	Special Education_Technical Assistance on State Data Collection	Education, Department of	84.373		537,340
	School Improvement Grants	Education, Department of	84.377		565,885
	College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378		184,854
ARRA	Independent Living Services for Older Individuals Who are Blind, Recovery Act	Blind and Visually Impaired Commission	84.399		642
Total U.S. Department of Education					$ 199,611,621
Election Assistance Commission					
	Help America Vote Act Requirements Payments	Secretary of State	90.401	*	$ 2,128,804
Total Election Assistance Commission					$ 2,128,804

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See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
	Energy, U.S. Department of				
	National Energy Information Center	Energy Office	81.039		$ 6,000
	State Energy Program	Energy Office	81.041		325,321
	Weatherization Assistance for Low-Income Persons	Energy Office	81.042	*	2,587,382
ARRA	ARRA - Weatherization Assistance for Low-Income Persons	Energy Office	81.042	*	374,879
	State Energy Program Special Projects	Energy Office	81.119		12,360
	Total U.S. Department of Energy				$ 3,305,942
	Environmental Protection Agency, U.S.				
	State Indoor Radon Grants	Department of Health and Human Services	66.032		$ 143,052
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034		284,077
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Department of Health and Human Services	66.034		15,426
ARRA	State Clean Diesel Grant Program, Recovery Act	Environmental Quality, Department of	66.040		1,062
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419		118,764
	State Public Water System Supervision	Department of Health and Human Services	66.432		973,687
	State Underground Water Source Protection	Oil and Gas Commission	66.433		85,502
	Targeted Watersheds Grants	Environmental Quality, Department of	66.439		120,861
	Water Quality Management Planning	Environmental Quality, Department of	66.454		85,442
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458		3,415,700
	Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460		3,386,465
	Regional Wetland Program Development Grants	Game and Parks Commission	66.461		133,515
	Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467		13,421
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468		4,851,500
	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Department of Health and Human Services	66.471		233,970
	Water Protection Grants to the States	Department of Health and Human Services	66.474		86,164
	Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804		292,126
	Performance Partnership Grants	Environmental Quality, Department of	66.605		3,667,638
	Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608		224,841
	Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700		681,531
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Department of Health and Human Services	66.707		318,056
	Pollution Prevention Grants Program	Environmental Quality, Department of	66.708		92,669
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802		311,408

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Environmental Protection Agency, U.S., Continued:				
Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805		1,344,530
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809		207,332
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817		753,713
Environmental Education Grants	Game and Parks Commission	66.951		20,000
Total U.S. Environmental Protection Agency				$ 21,862,452
Equal Employment Opportunity Commission, U.S.				
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002		$ 423,797
Total U.S. Equal Employment Opportunity Commission				$ 423,797
General Services Administration				
Donation of Federal Surplus Personal Property	Corrections, Department of	39.003		$ 838,511
Total General Services Administration				$ 838,511
Health and Human Services, U.S. Department of				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Department of Health and Human Services	93.006		$ 171,830
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Department of Health and Human Services	93.041		21,421
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	Department of Health and Human Services	93.042		95,460
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Department of Health and Human Services	93.043		94,681
Aging Cluster:				
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Department of Health and Human Services	93.044		2,076,985
Special Programs for the Aging_Title III, Part C_Nutrition Services	Department of Health and Human Services	93.045		3,567,263
Nutrition Services Incentive Program	Department of Health and Human Services	93.053		1,218,423
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Department of Health and Human Services	93.048		158,203
Alzheimer's Disease Demonstration Grants to States	Department of Health and Human Services	93.051		119,511
National Family Caregiver Support, Title III, Part E	Department of Health and Human Services	93.052		910,732
Public Health Emergency Preparedness	Department of Health and Human Services	93.069	*	8,068,675
Food and Drug Administration_Research	Agriculture, Department of	93.103		1,595
Maternal and Child Health Federal Consolidated Programs	Department of Health and Human Services	93.110		561,650
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Department of Health and Human Services	93.116		213,512
Emergency Medical Services for Children	Department of Health and Human Services	93.127		68,577

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Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Health and Human Services, U.S. Department of, Continued:				
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Department of Health and Human Services	93.130		156,254
Injury Prevention and Control Research and State and Community Based Programs	Department of Health and Human Services	93.136		385,389
Projects for Assistance in Transition from Homelessness (PATH)	Department of Health and Human Services	93.150		287,912
Family Planning_Services	Department of Health and Human Services	93.217		1,947,459
Consolidated Knowledge Development and Application (KD&A) Program	Department of Health and Human Services	93.230		1
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234		97,402
Abstinence Education Program	Department of Health and Human Services	93.235		74,044
State Rural Hospital Flexibility Program	Department of Health and Human Services	93.241		770,330
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Department of Health and Human Services	93.243		1,380,818
Universal Newborn Hearing Screening	Department of Health and Human Services	93.251		174,714
Immunization Cluster:				
Immunization Grants	Department of Health and Human Services	93.268	*^	17,137,074
Drug Abuse and Addiction Research Programs	Department of Health and Human Services	93.279		27,428
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Department of Health and Human Services	93.283	*	9,315,988
Small Rural Hospital Improvement Grant Program	Department of Health and Human Services	93.301		575,406
Food Safety and Security Monitoring Project	Agriculture, Department of	93.448		19,102
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449		234,987
Promoting Safe and Stable Families	Department of Health and Human Services	93.556		1,640,738
TANF Cluster:				
Temporary Assistance for Needy Families	Department of Health and Human Services	93.558	*^	28,551,806
Child Support Enforcement	Department of Health and Human Services	93.563	*^	26,133,782
Child Support Enforcement Research	Department of Health and Human Services	93.564		24,395
Refugee and Entrant Assistance_State Administered Programs	Department of Health and Human Services	93.566		1,086,830
Low-Income Home Energy Assistance	Department of Health and Human Services	93.568		36,829,216
Low-Income Home Energy Assistance	Energy Office	93.568		3,387,591
CSBG Cluster:				
Community Services Block Grant	Department of Health and Human Services	93.569		4,595,198
Child Care and Development Fund Cluster:				
Child Care and Development Block Grant	Department of Health and Human Services	93.575	*^	27,299,958
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Department of Health and Human Services	93.596	*^	24,569,456
Refugee and Entrant Assistance_Discretionary Grants	Department of Health and Human Services	93.576		328,706
State Court Improvement Program	Supreme Court, Nebraska	93.586		415,614
Grants to States for Access and Visitation Programs	Department of Health and Human Services	93.597		176,393

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
	Health and Human Services, U.S. Department of, Continued:				
	Chafee Education and Training Vouchers Program (ETV)	Department of Health and Human Services	93.599		545,105
	Head Start Cluster:				
	Head Start	Education, Department of	93.600		141,097
	Adoption Incentive Payments	Department of Health and Human Services	93.603		378,201
	Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617		27,338
	Developmental Disabilities Basic Support and Advocacy Grants	Department of Health and Human Services	93.630		546,475
	Children's Justice Grants to States	Department of Health and Human Services	93.643		139,020
	Child Welfare Services_State Grants	Department of Health and Human Services	93.645		1,999,024
	Foster Care_Title IV-E	Department of Health and Human Services	93.658	*^	18,388,814
ARRA	ARRA - Foster Care_Title IV-E	Department of Health and Human Services	93.658	*^	525,010
	Adoption Assistance	Department of Health and Human Services	93.659	*^	10,717,001
ARRA	ARRA - Adoption Assistance	Department of Health and Human Services	93.659	*^	722,757
	Social Services Block Grant	Department of Health and Human Services	93.667	*	9,596,764
	Child Abuse and Neglect State Grants	Department of Health and Human Services	93.669		131,612
	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	Department of Health and Human Services	93.671		912,370
	Chafee Foster Care Independence Program	Department of Health and Human Services	93.674		1,527,261
	Children's Health Insurance Program	Department of Health and Human Services	93.767	*^	37,712,815
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Department of Health and Human Services	93.768		166,901
	Medicaid Cluster:				
	State Medicaid Fraud Control Units	Attorney General	93.775	*	598,094
	State Survey and Certification of Health Care Providers and Suppliers	Department of Health and Human Services	93.777	*^	3,973,349
	Medical Assistance Program	Department of Health and Human Services	93.778	*^	1,009,616,301
ARRA	ARRA Medical Assistance Program	Department of Health and Human Services	93.778	*^	64,885,401
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Department of Health and Human Services	93.779		162,355
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779		532,018
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780		1,106,264
	National Bioterrorism Hospital Preparedness Program	Department of Health and Human Services	93.889		3,052,744
	Money Follows the Person Rebalancing Demonstration	Department of Health and Human Services	93.791		1,059,472
	Grants to States for Operation of Offices of Rural Health	Department of Health and Human Services	93.913		125,712
	HIV Care Formula Grants	Department of Health and Human Services	93.917		1,858,391
	Cooperative Agreements to Support Comprehensive School Health Programs to	Education, Department of	93.938		270,113

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Health and Human Services, U.S. Department of, Continued:				
Prevent the Spread of HIV and Other Important Health Problems				
HIV Prevention Activities_Health Department Based	Department of Health and Human Services	93.940		1,115,666
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Department of Health and Human Services	93.944		176,201
Assistance Programs for Chronic Disease Prevention and Control	Department of Health and Human Services	93.945		15,595
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Department of Health and Human Services	93.946		135,851
Block Grants for Community Mental Health Services	Department of Health and Human Services	93.958		2,305,006
Block Grants for Prevention and Treatment of Substance Abuse	Department of Health and Human Services	93.959		7,870,674
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Department of Health and Human Services	93.977		518,898
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Department of Health and Human Services	93.988		310,394
Preventive Health and Health Services Block Grant	Department of Health and Human Services	93.991		1,208,931
Maternal and Child Health Services Block Grant to The States	Department of Health and Human Services	93.994		4,155,205
National Center for Health Statistics	Department of Health and Human Services	200-2000-07227		348,941
Tissue Residue Inspection Contract	Agriculture, Department of	HHSF223200840005I		3,442
Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C		9,307
Food Inspection	Agriculture, Department of	HHSF223200740130P		50,095
Feed Establishment & BSE Inspection Contract	Agriculture, Department of	HHSF223200840123C		107,096
FDA Partnership Agreement	Agriculture, Department of	N/A		1,100
Total U.S. Department of Health and Human Services				$ 1,394,722,690
Homeland Security, U.S. Department of				
Special Projects	Military Department	97.001		$ 55,846
Homeland Security Cluster:				
State Domestic Preparedness Equipment Support Program	Military Department	97.004		2,001
Homeland Security Grant Program	Military Department	97.067		8,642,807
Homeland Security Grant Program	Motor Vehicles, Department of	97.067		133,425
Boating Safety Financial Assistance	Game and Parks Commission	97.012		369,438
Pre-Disaster Mitigation Program	Military Department	97.017		167,300
Pre-Disaster Mitigation Program	Natural Resources, Department of	97.017		10,163
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023		40,217
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036	*	38,270,197
Hazard Mitigation Grant	Military Department	97.039		877,573
National Dam Safety Program	Natural Resources, Department of	97.041		107,941

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Federal Agency/Program Title	State Agency	CFDA or Grant #			2009 Expenditures
Homeland Security, U.S. Department of, Continued:					
Emergency Management Performance Grants	Military Department	97.042			2,580,758
State Fire Training Systems Grants	Fire Marshal	97.043			26,293
Emergency Operations Centers	Military Department	97.052			400,463
Map Modernization Management Support	Natural Resources, Department of	97.070			110,503
Buffer Zone Protection Program (BZPP)	Military Department	97.078			66,015
Total U.S. Department of Homeland Security				$	51,860,940
Housing & Urban Development, U.S. Department of					
CDBG - State-Administered Small Cities Program Cluster:					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Economic Development, Department of	14.228	*	$	10,797,296
Emergency Shelter Grants Program	Department of Health and Human Services	14.231			565,101
HOME Investment Partnerships Program	Economic Development, Department of	14.239			3,948,322
Housing Opportunities for Persons with AIDS	Department of Health and Human Services	14.241			512,383
Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401			244,014
Manufactured Homes	Public Service Commission	DU100K900016698			1,740
Total U.S. Department of Housing & Urban Development				$	16,068,856
Interior, U.S. Department of					
Water Reclamation and Reuse Program	Game and Parks Commission	15.504		$	61,690
Cultural Resources Management	Historical Society	15.511			266,017
Fish and Wildlife Cluster:					
Sport Fish Restoration Program	Game and Parks Commission	15.605	*		3,879,201
Wildlife Restoration	Game and Parks Commission	15.611	*		4,674,080
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608			63,128
Fish and Wildlife Management Assistance	Historical Society	15.608			90,678
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615			230,032
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617			6,395
Sportfishing and Boating Safety Act	Game and Parks Commission	15.622			34,209
Landowner Incentive Program	Game and Parks Commission	15.633			707,153
State Wildlife Grants	Game and Parks Commission	15.634			1,006,280
Challenge Cost Share	Game and Parks Commission	15.642			8,148
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904			507,829
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916			473,407
Save America's Treasures	Historical Society	15.929			56,981
Total U.S. Department of Interior				$	12,065,228

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	Federal Agency/Program Title	State Agency	CFDA or Grant #	2009 Expenditures
Justice, U.S. Department of				
	State and Local Domestic Preparedness Equipment Support Program	Military Department	16.007	$ (14,156)
	Antiterrorism Emergency Reserve	Law Enforcement and Criminal Justice, Commission for	16.321	1,794
	Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523	704,974
	Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	580,879
	Missing Children's Assistance	State Patrol	16.543	282,271
	Title V_Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548	65,385
	State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550	45,298
	National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	493,431
	National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	506,948
	Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,324,340
	Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	24,000
	Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579	778,969
	Edward Byrne Memorial Formula Grant Program	State Patrol	16.579	174,701
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Law Enforcement and Criminal Justice, Commission for	16.580	58,485
	Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	987,172
ARRA	ARRA - Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	346
	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Attorney General	16.590	224,771
	Local Law Enforcement Assistance Block Grant	Law Enforcement and Criminal Justice, Commission for	16.592	(18)
	Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	130,828
	State Criminal Alien Assistance Program	Corrections, Department of	16.606	63,605
	Bulletproof Vest Partnership Program	State Patrol	16.607	31,731
	Community Prosecution and Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission for	16.609	220,404
	Public Safety Partnership and Community Policing Grants	State Patrol	16.710	590,489
	Public Safety Partnership and Community Policing Grants	Law Enforcement and Criminal Justice, Commission for	16.710	387,691
	Enforcing Underage Drinking Laws Program	Motor Vehicles, Department of	16.727	350,000
	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Corrections, Department of	16.735	135,510
	Gang Resistance Education and Training	State Patrol	16.737	15,763
	Edward Byrne Memorial Justice Assistance Grant Program	State Patrol	16.738	159,522
	Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission for	16.738	463,031
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Department of Health and Human Services	16.745	25,000
	Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750	42,608

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Justice, U.S. Department of, Continued:					
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Law Enforcement and Criminal Justice, Commission for	16.803		2,698
	High Intensity Drug	State Patrol	IG-02-0104, I5PMWP634Z		999,597
Total U.S. Department of Justice					$ 10,858,067
Labor, U.S. Department of					
	Labor Force Statistics	Labor, Department of	17.002		$ 662,944
	Compensation and Working Conditions	Worker's Compensation Court	17.005		45,610
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	*	6,437,653
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	*	604,850
	Local Veterans' Employment Representative Program (LVER)	Labor, Department of	17.804	*	280,879
	Unemployment Insurance - Federal	Labor, Department of	17.225	*	50,107,139
ARRA	ARRA Unemployment Insurance - Federal	Labor, Department of	17.225	*	18,493,533
	Unemployment Insurance - State	Labor, Department of	17.225	*	156,002,849
	Unemployment Insurance - Admin	Labor, Department of	17.225	*	13,626,333
ARRA	ARRA - Unemployment Insurance - Admin	Labor, Department of	17.225	*	82,386
	Senior Community Service Employment Program	Department of Health and Human Services	17.235		737,523
	Trade Adjustment Assistance	Labor, Department of	17.245		645,578
	Workforce Investment Act (WIA) Cluster:				
	WIA Adult Program	Labor, Department of	17.258	*	2,875,394
ARRA	ARRA - WIA Adult Program	Labor, Department of	17.258	*	329
	WIA Youth Activities	Labor, Department of	17.259	*	2,012,761
ARRA	ARRA - WIA Youth Activities	Labor, Department of	17.259	*	324,893
	WIA Dislocated Workers	Labor, Department of	17.260	*	1,607,956
ARRA	ARRA - WIA Dislocated Workers	Labor, Department of	17.260	*	1,016
	Work Incentive Grants	Labor, Department of	17.266		(4,652)
	Incentive Grants - WIA Section 503	Labor, Department of	17.267		195,006
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271		147,322
	Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273		52,264
	Consultation Agreements	Labor, Department of	17.504		510,699
	WIA Dislocated Workers NAT RES - TAT	Labor, Department of	17.999		4,265
	Veterans' Employment Program	Labor, Department of	17.802		366,307
Total U.S. Department of Labor					$ 255,820,837
National Archives and Records Administration					
	National Historical Publications and Records Grants	Administrative Services	89.003		$ 27,440
Total National Archives and Records Administration					$ 27,440

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2009

Federal Agency/Program Title		State Agency	CFDA or Grant #		2009 Expenditures
National Foundation on the Arts and Humanities					
	Promotion of the Arts_Partnership Agreements	Arts Council	45.025		$ 750,547
	Grants to States	Library Commission	45.310		1,414,935
	National Leadership Grants	Historical Society	45.312		16,238
	Laura Bush 21st Century Librarian Program	Library Commission	45.313		103,345
Total National Foundation on the Arts and Humanities					$ 2,285,065
Social Security Administration					
	Disability Insurance / SSI Cluster:				
	Social Security_Disability Insurance	Education, Department of	96.001		$ 9,514,782
	Supplemental Security Income	Education, Department of	96.006		253,770
	Supplemental Security Income	Blind and Visually Impaired Commission	96.006		303,719
Total Social Security Administration					$ 10,072,271
Transportation, U.S. Department of					
	Airport Improvement Program	Aeronautics, Department of	20.106		$ 12,349,455
	Highway Research and Development Program	Education, Department of	20.200		81,207
	Highway Planning and Construction Cluster:				
	Highway Planning and Construction	Roads, Department of	20.205	*	255,673,538
ARRA	ARRA Highway Planning and Construction	Roads, Department of	20.205	*	1,987,049
	Highway Planning and Construction	Motor Vehicles, Department of	20.205	*	394,218
	Recreational Trails Program	Game and Parks Commission	20.219	*	1,066,272
	National Motor Carrier Safety	Motor Vehicles, Department of	20.218		61,377
	National Motor Carrier Safety	State Patrol	20.218		2,647,205
	Fuel Tax Evasion-Intergovernmental Enforcement Effort	State Patrol	20.240		5,360
	Federal Transit_Metropolitan Planning Grants	Roads, Department of	20.505		493,206
	Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509		3,114,584
	Transit Services Programs Cluster:				
	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513		1,836,100
	Highway Safety Cluster:				
	State and Community Highway Safety	Motor Vehicles, Department of	20.600		2,267,385
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Motor Vehicles, Department of	20.601		1,075,103
	Occupant Protection Incentive Grants	Motor Vehicles, Department of	20.602		301,636
	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Motor Vehicles, Department of	20.605		71,532
	State Traffic Safety Information System Improvement Grants	Motor Vehicles, Department of	20.610		470,017
	Incentive Grant Program to Prohibit Racial Profiling	Motor Vehicles, Department of	20.611		415,768

^ - Amounts taken from financial status reports.
* - Represents major programs.
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Federal Agency/Program Title	State Agency	CFDA or Grant #		2009 Expenditures
Transportation, U.S. Department of, Continued:				
Incentive Grant Program to Increase Motorcyclist Safety	Motor Vehicles, Department of	20.612		110,419
Pipeline Safety Program Base Grants	Fire Marshal	20.700		12,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703		217,144
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-763		52,020
Total U.S. Department of Transportation				$ 284,702,595
Treasury, U.S. Department of				
Investigative Forfeiture	Revenue, Department of	N/A		$ 21,186
Total U.S. Department of Treasury				$ 21,186
U.S. Forest Service				
USFS T&E and Sensitive Species	Game and Parks Commission	N/A		$ 2,521
Total U.S. Forest Service				$ 2,521
Veterans Affairs, U.S. Department of				
Grants to States for Construction of State Home Facilities	Department of Health and Human Services	64.005		$ 10,214
Veterans State Domiciliary Care	Department of Health and Human Services	64.014	^	1,428,607
Veterans State Nursing Home Care	Department of Health and Human Services	64.015	^	9,596,437
State Cemetery Grants	Department of Veterans' Affairs	64.203		770,896
Total U.S. Department of Veterans Affairs				$ 11,806,154
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 2,635,537,536

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See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2009

State Agency/Program Title	Federal Agency	CFDA or Grant #	2009 Expenditures
Administrative Services			
National Historical Publications and Records Grants	National Archives and Records Administration	89.003	$ 27,440
Total Administrative Services			$ 27,440
Aeronautics, Department of			
Airport Improvement Program	Transportation, U.S. Department of	20.106	$ 12,349,455
Total Department of Aeronautics			$ 12,349,455
Agriculture, Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$ 934,062
Market News	Agriculture, U.S. Department of	10.153	3,687
Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156	8,347
Market Protection and Promotion	Agriculture, U.S. Department of	10.163	60,278
Specialty Crop Block Grant Program	Agriculture, U.S. Department of	10.169	71,929
State Mediation Grants	Agriculture, U.S. Department of	10.435	135,959
Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477	5,588
Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479	143,636
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	232,703
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700	681,531
Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103	1,595
Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448	19,102
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	234,987
Tissue Residue Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200840005I	3,442
Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C	9,307
Food Inspection	Health and Human Services, U.S. Department of	HHSF223200740130P	50,095
Feed Establishment & BSE Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200840123C	107,096
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	147,849
FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	1,100
Total Department of Agriculture			$ 2,852,293
Arts Council			
Promotion of the Arts_Partnership Agreements	National Foundation on the Arts and Humanities	45.025	$ 750,547
Total Arts Council			$ 750,547

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2009

	State Agency/Program Title	Federal Agency	CFDA or Grant #			2009 Expenditures
	Attorney General					
	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Justice, U.S. Department of	16.590		$	224,771
	Medicaid Cluster:					
	State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	*		598,094
	Total Attorney General				$	822,865
	Blind and Visually Impaired Commission					
	Vocational Rehabilitation Cluster:					
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	*	$	2,980,234
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	*		31,920
	Independent Living_State Grants	Education, U.S. Department of	84.169			31,640
	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177			245,926
	Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187			50,123
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265			13,624
ARRA	Independent Living Services for Older Individuals Who are Blind, Recovery Act	Education, U.S. Department of	84.399			642
	Disability Insurance/SSI Cluster:					
	Supplemental Security Income	Social Security Administration	96.006			303,719
	Total Blind and Visually Impaired Commission				$	3,657,828
	Corn Board					
	Grants for Agricultural Research_Competitive Research Grants	Agriculture, U.S. Department of	10.206		$	119,796
	Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912			81,314
	Total Corn Board				$	201,110
	Corrections, Department of					
	State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606		$	63,605
	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Justice, U.S. Department of	16.735			135,510
	Donation of Federal Surplus Personal Property	General Services Administration	39.003			838,511
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Education, U.S. Department of	84.331			36,501
	Total Department of Corrections				$	1,074,127
	Economic Development, Department of					
	Rural Community Development Initiative	Agriculture, U.S. Department of	10.446		$	90,606
	National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03			1,864
	Public Works and Economic Development Cluster:					
	Economic Adjustment Assistance	Commerce, U.S. Department of	11.307			100,000

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
	Economic Development, Department of, Continued:				
	Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611		450,285
	CDBG - State-Administered Small Cities Program Cluster:				
	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Housing & Urban Development, U.S. Department of	14.228	*	10,797,296
	HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239		3,948,322
	Total Department of Economic Development				$ 15,388,373
	Education, Department of				
	Child Nutrition Cluster:				
	School Breakfast Program	Agriculture, U.S. Department of	10.553	*	$ 11,131,032
	National School Lunch Program	Agriculture, U.S. Department of	10.555	*	48,998,986
	Special Milk Program for Children	Agriculture, U.S. Department of	10.556	*	50,673
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	*	1,523,583
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		27,706,107
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		1,124,408
	Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582		260,955
	Highway Research and Development Program	Transportation, U.S. Department of	20.200		81,207
	Adult Education - Basic Grants to States	Education, U.S. Department of	84.002		2,565,437
	Title I , Part A Cluster				
	Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010		46,760,199
	Migrant Education_State Grant Program	Education, U.S. Department of	84.011		4,745,715
	Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013		372,356
	Special Education Cluster:				
	Special Education_Grants to States	Education, U.S. Department of	84.027	*	68,993,294
	Special Education_Preschool Grants	Education, U.S. Department of	84.173	*	2,252,368
	Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048		5,870,810
	Career and Technical Education -- National Program	Education, U.S. Department of	84.051		59,481
	Vocational Rehabilitation Cluster:				
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	*	17,869,572
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	*	5,713
	Migrant Education_Coordination Program	Education, U.S. Department of	84.144		23,793
	Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161		126,180
	Independent Living_State Grants	Education, U.S. Department of	84.169		202,002
	Paul Douglas Teacher Scholarships Program	Education, U.S. Department of	84.176		(12,721)
	Early Intervention Services (IDEA) Cluster:				

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See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2009

State Agency/Program Title	Federal Agency	CFDA or Grant #	2009 Expenditures
Education, Department of, Continued:			
Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	2,598,707
Byrd Honors Scholarships	Education, U.S. Department of	84.185	237,000
Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186	1,174,230
Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187	392,250
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	273,920
Even Start_State Educational Agencies	Education, U.S. Department of	84.213	461,461
Assistive Technology	Education, U.S. Department of	84.224	464,164
Tech-Prep Education	Education, U.S. Department of	84.243	1,273,961
National Institute for Literacy	Education, U.S. Department of	84.257	410
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	32,747
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	6,367,705
Foreign Language Assistance	Education, U.S. Department of	84.293	104,448
State Grants for Innovative Programs	Education, U.S. Department of	84.298	393,623
Parental Information and Resource Centers	Education, U.S. Department of	84.310	17,076
Education Technology State Grants	Education, U.S. Department of	84.318	1,544,339
Special Education - State Personnel Development	Education, U.S. Department of	84.323	841,016
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	95,183
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	16,956
Transition to Teaching	Education, U.S. Department of	84.350	248
Reading First State Grants	Education, U.S. Department of	84.357	4,323,013
Rural Education	Education, U.S. Department of	84.358	72,202
English Language Acquisition Grants	Education, U.S. Department of	84.365	2,275,838
Mathematics and Science Partnerships	Education, U.S. Department of	84.366	1,230,514
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	13,599,705
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	5,234,344
Statewide Data Systems	Education, U.S. Department of	84.372	839,989
Special Education_Technical Assistance on State Data Collection	Education, U.S. Department of	84.373	537,340
School Improvement Grants	Education, U.S. Department of	84.377	565,885
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	97,402
Head Start Cluster:			
Head Start	Health and Human Services, U.S. Department of	93.600	141,097

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Schedule of Expenditures of Federal Awards - By State Agency

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
	Education, Department of, Continued:				
	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		270,113
	Learn and Serve America_School and Community Based Programs	Corporation For National and Community Service	94.004		103,296
	Disability Insurance / SSI Cluster:				
	Social Security_Disability Insurance	Social Security Administration	96.001		9,514,782
	Supplemental Security Income	Social Security Administration	96.006		253,770
	Total Department of Education				$ 296,059,884
	Educational Telecommunications Commission				
	Public Television Station Digital Transition Grant Program	Agriculture, U.S. Department of	10.861		$ 143,046
	Total Educational Telecommunications Commission				$ 143,046
	Energy Office				
	National Energy Information Center	Energy, U.S. Department of	81.039		$ 6,000
	State Energy Program	Energy, U.S. Department of	81.041		325,321
	Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	*	2,587,382
ARRA	ARRA - Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	*	374,879
	State Energy Program Special Projects	Energy, U.S. Department of	81.119		12,360
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		3,387,591
	Total Energy Office				$ 6,693,533
	Environmental Quality, Department of				
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113		$ 162,265
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034		284,077
ARRA	State Clean Diesel Grant Program, Recovery Act	Environmental Protection Agency, U.S.	66.040		1,062
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		118,764
	Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439		120,861
	Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		85,442
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458		3,415,700
	Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		3,386,465
	Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467		13,421
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468		4,851,500
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		3,667,638

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
Environmental Quality, Department of, Continued:				
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608		224,841
Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708		92,669
Superfund State, Political Subdivision, and Indian Tribe Site_Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		311,408
Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805		1,344,530
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		207,332
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		753,713
Total Department of Environmental Quality				$ 19,041,688
Equal Opportunity Commission				
Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401		$ 244,014
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		423,797
Total Equal Opportunity Commission				$ 667,811
Fire Marshal				
Pipeline Safety Program Base Grants	Transportation, U.S. Department of	20.700		$ 12,000
Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804		292,126
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043		26,293
Total Fire Marshal				$ 330,419
Game and Parks Commission				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025		$ 267,037
Avian Influenza Indemnity Program	Agriculture, U.S. Department of	10.029		35,850
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072		272,745
Forestry Research	Agriculture, U.S. Department of	10.652		5,323
Water Reclamation and Reuse Program	Interior, U.S. Department of	15.504		61,690
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	Interior, U.S. Department of	15.605	*	3,879,201
Wildlife Restoration	Interior, U.S. Department of	15.611	*	4,674,080
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608		63,128
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615		230,032
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617		6,395
Sportfishing and Boating Safety Act	Interior, U.S. Department of	15.622		34,209
Landowner Incentive Program	Interior, U.S. Department of	15.633		707,153
State Wildlife Grants	Interior, U.S. Department of	15.634		1,006,280
Challenge Cost Share	Interior, U.S. Department of	15.642		8,148

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	Game and Parks Commission, Continued:				
	Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916		473,407
	Highway Planning and Construction Cluster:				
	Recreational Trails Program	Transportation, U.S. Department of	20.219	*	1,066,272
	Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461		133,515
	Environmental Education Grants	Environmental Protection Agency, U.S.	66.951		20,000
	Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012		369,438
	US Army Corps of Engineers	Defense, U.S. Department of	DACW99P0397,DACW4503P0076, W912F-04-P-0284, W9128F-05-P-0171, W912F-06-P-0101		1,455,029
	USFS T&E and Sensitive Species	U.S. Forest Service	N/A		2,521
	Total Game and Parks Commission				$ 14,771,453
	Department of Health and Human Services:				
	Child Nutrition Cluster:				
	National School Lunch Program	Agriculture, U.S. Department of	10.555	*	$ 9,000,181
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	*	42,473
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program (SNAP)	Agriculture, U.S. Department of	10.551	*^	169,345,478
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	*^	14,547,164
	Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	*	29,038,768
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		394,020
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		165,982
	Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	^	3,870,806
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	*	287,478
ARRA	ARRA - Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	*	98,317
	Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	*^	1,297,802
	Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231		565,101
	Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241		512,383
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Justice, U.S. Department of	16.745		25,000
	Senior Community Service Employment Program	Labor, U.S. Department of	17.235		737,523
	Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005		10,214
	Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	^	1,428,607
	Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	^	9,596,437

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
Department of Health and Human Services, Continued:				
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032		143,052
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034		15,426
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432		973,687
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471		233,970
Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474		86,164
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707		318,056
Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186		466,384
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006		171,830
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		21,421
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		95,460
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		94,681
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		2,076,985
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045		3,567,263
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053		1,218,423
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048		158,203
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, U.S. Department of	93.051		119,511
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052		910,732
Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069	*	8,068,675
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110		561,650
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116		213,512
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127		68,577
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130		156,254
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136		385,389
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150		287,912
Family Planning_Services	Health and Human Services, U.S. Department of	93.217		1,947,459
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services, U.S. Department of	93.230		1
Abstinence Education Program	Health and Human Services, U.S. Department of	93.235		74,044
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241		770,330

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
	Department of Health and Human Services, Continued:				
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243		1,380,818
	Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251		174,714
	Immunization Cluster:				
	Immunization Grants	Health and Human Services, U.S. Department of	93.268	*^	17,137,074
	Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279		27,428
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	*	9,315,988
	Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301		575,406
	Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556		1,640,738
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	*^	28,551,806
	Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	*^	26,133,782
	Child Support Enforcement Research	Health and Human Services, U.S. Department of	93.564		24,395
	Refugee and Entrant Assistance _ State Administered Programs	Health and Human Services, U.S. Department of	93.566		1,086,830
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		36,829,216
	CSBG Cluster:				
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569		4,595,198
	Child Care and Development Fund Cluster:				
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	*^	27,299,958
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	*^	24,569,456
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576		328,706
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597		176,393
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599		545,105
	Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603		378,201
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630		546,475
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643		139,020
	Child Welfare Services_State Grants	Health and Human Services, U.S. Department of	93.645		1,999,024
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	*^	18,388,814
ARRA	ARRA - Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	*^	525,010
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	*^	10,717,001
ARRA	ARRA - Adoption Assistance	Health and Human Services, U.S. Department of	93.659	*^	722,757
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	*	9,596,764
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669		131,612
	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		912,370

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
	Department of Health and Human Services, Continued:				
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674		1,527,261
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	*^	37,712,815
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768		166,901
	Medicaid Cluster:				
	State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777	*^	3,973,349
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	*^	1,009,616,301
ARRA	ARRA - Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	*^	64,885,401
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779		162,355
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		1,059,472
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889		3,052,744
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		125,712
	HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		1,858,391
	HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		1,115,666
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		176,201
	Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945		15,595
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		135,851
	Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		2,305,006
	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		7,870,674
	Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		518,898
	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988		310,394
	Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991		1,208,931
	Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994		4,155,205
	State Commissions	Corporation For National and Community Service	94.003		139,695
	AmeriCorps	Corporation For National and Community Service	94.006		988,017
	Planning and Program Development Grants	Corporation For National and Community Service	94.007		57,041
	Training and Technical Assistance	Corporation For National and Community Service	94.009		72,754
	Volunteers in Service to America	Corporation For National and Community Service	94.013		6,982
	National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227		348,941
	Total Department of Health and Human Services				$ 1,632,185,397

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	State Agency/Program Title	Federal Agency	CFDA or Grant #			2009 Expenditures
	Historical Society					
	Cultural Resources Management	Interior, U.S. Department of	15.511		$	266,017
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608			90,678
	Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904			507,829
	Save America's Treasures	Interior, U.S. Department of	15.929			56,981
	National Leadership Grants	National Foundation on the Arts and Humanities	45.312			16,238
	Total Historical Society				$	937,743
	Insurance, Department of					
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779		$	532,018
	Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780			1,106,264
	Total Department of Insurance				$	1,638,282
	Labor, Department of					
	Labor Force Statistics	Labor, U.S. Department of	17.002		$	662,944
	Employment Service Cluster:					
	Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	*		6,437,653
	Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	*		604,850
	Local Veterans' Employment Representative Program (LVER)	Labor, U.S. Department of	17.804	*		280,879
	Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	*		50,107,139
ARRA	ARRA Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	*		18,493,533
	Unemployment Insurance - State	Labor, U.S. Department of	17.225	*		156,002,849
	Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	*		13,626,333
ARRA	ARRA - Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	*		82,386
	Trade Adjustment Assistance	Labor, U.S. Department of	17.245			645,578
	Workforce Investment Act (WIA) Cluster:					
	WIA Adult Program	Labor, U.S. Department of	17.258	*		2,875,394
ARRA	ARRA - WIA Adult Program	Labor, U.S. Department of	17.258	*		329
	WIA Youth Activities	Labor, U.S. Department of	17.259	*		2,012,761
ARRA	ARRA - WIA Youth Activities	Labor, U.S. Department of	17.259	*		324,893
	WIA Dislocated Workers	Labor, U.S. Department of	17.260	*		1,607,956
ARRA	ARRA - WIA Dislocated Workers	Labor, U.S. Department of	17.260	*		1,016
	Work Incentive Grants	Labor, U.S. Department of	17.266			(4,652)
	Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267			195,006
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271			147,322

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2009 Expenditures
Labor, Department of, Continued:				
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	52,264
	Consultation Agreements	Labor, U.S. Department of	17.504	510,699
	WIA Dislocated Workers NAT RES - TAT	Labor, U.S. Department of	17.999	4,265
	Veterans' Employment Program	Labor, U.S. Department of	17.802	366,307
Total Department of Labor				$ 255,037,704
Law Enforcement and Criminal Justice, Commission for				
	Antiterrorism Emergency Reserve	Justice, U.S. Department of	16.321	$ 1,794
	Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	704,974
	Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540	580,879
	Title V_Delinquency Prevention Program	Justice, U.S. Department of	16.548	65,385
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	45,298
	Crime Victim Assistance	Justice, U.S. Department of	16.575	2,324,340
	Crime Victim Compensation	Justice, U.S. Department of	16.576	24,000
	Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	778,969
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Justice, U.S. Department of	16.580	58,485
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	987,172
ARRA	ARRA - Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	346
	Local Law Enforcement Assistance Block Grant	Justice, U.S. Department of	16.592	(18)
	Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	130,828
	Community Prosecution and Project Safe Neighborhoods	Justice, U.S. Department of	16.609	220,404
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	387,691
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	463,031
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	2,698
Total Commission for Law Enforcement and Criminal Justice				$ 6,776,276
Library Commission				
	Grants to States	National Foundation on the Arts and Humanities	45.310	$ 1,414,935
	Laura Bush 21st Century Librarian Program	National Foundation on the Arts and Humanities	45.313	103,345
Total Library Commission				$ 1,518,280

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2009

State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
Military Department				
Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555		$ 414,398
Military Construction, National Guard	Defense, U.S. Department of	12.400		17,272,195
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401		13,903,214
National Guard Civilian Youth Opportunities	Defense, U.S. Department of	12.404		259,864
State and Local Domestic Preparedness Equipment Support Program	Justice, U.S. Department of	16.007		(14,156)
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703		217,144
Special Projects	Homeland Security, U.S. Department of	97.001		55,846
Homeland Security Cluster:				
State Domestic Preparedness Equipment Support Program	Homeland Security, U.S. Department of	97.004		2,001
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		8,642,807
Pre-Disaster Mitigation Program	Homeland Security, U.S. Department of	97.017		167,300
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	*	38,270,197
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		877,573
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		2,580,758
Emergency Operations Centers	Homeland Security, U.S. Department of	97.052		400,463
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078		66,015
Total Military Department				$ 83,115,619
Motor Vehicles, Department of				
Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727		$ 350,000
Highway Planning and Construction Cluster:				
Highway Planning and Construction	Transportation, U.S. Department of	20.205	*	394,218
National Motor Carrier Safety	Transportation, U.S. Department of	20.218		61,377
Highway Safety Cluster:				
State and Community Highway Safety	Transportation, U.S. Department of	20.600		2,267,385
Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601		1,075,103
Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602		301,636
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605		71,532
State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610		470,017
Incentive Grant Program to Prohibit Racial Profiling	Transportation, U.S. Department of	20.611		415,768
Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612		110,419
Homeland Security Cluster:				
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		133,425
Total Department of Motor Vehicles				$ 5,650,880

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2009

State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
Natural Resources, Department of				
Soil and Water Conservation	Agriculture, U.S. Department of	10.902		$ 21,692
Pre-Disaster Mitigation Program	Homeland Security, U.S. Department of	97.017		10,163
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023		40,217
National Dam Safety Program	Homeland Security, U.S. Department of	97.041		107,941
Map Modernization Management Support	Homeland Security, U.S. Department of	97.070		110,503
Total Department of Natural Resources				$ 290,516
Oil and Gas Commission				
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433		$ 85,502
Total Oil and Gas Commission				$ 85,502
Postsecondary Education, Coordinating Commission for				
Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069		$ 492,860
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367		274,440
College Access Challenge Grant Program	Education, U.S. Department of	84.378		184,854
Total Coordinating Commission for Postsecondary Education				$ 952,154
Public Service Commission				
Manufactured Homes	Housing & Urban Development, U.S. Department of	DU100K900016698		$ 1,740
Total Public Service Commission				$ 1,740
Revenue, Department of				
Investigative Forfeiture	Treasury, U.S. Department of	N/A		$ 21,186
Total Department of Revenue				$ 21,186
Roads, Department of				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	Transportation, U.S. Department of	20.205	*	$ 255,673,538
ARRA ARRA Highway Planning and Construction	Transportation, U.S. Department of	20.205	*	1,987,049
Federal Transit_Metropolitan Planning Grants	Transportation, U.S. Department of	20.505		493,206
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509		3,114,584
Transit Services Programs Cluster:				
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513		1,836,100
Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-763		52,020
Total Department of Roads				$ 263,156,497

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2009

State Agency/Program Title	Federal Agency	CFDA or Grant #		2009 Expenditures
Secretary of State				
Help America Vote Act Requirements Payments	Election Assistance Commission	90.401	*	$ 2,128,804
Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617		27,338
Total Secretary of State				$ 2,156,142
State Patrol				
Missing Children's Assistance	Justice, U.S. Department of	16.543		$ 282,271
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554		493,431
National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560		506,948
Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579		174,701
Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607		31,731
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710		590,489
Gang Resistance Education and Training	Justice, U.S. Department of	16.737		15,763
Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738		159,522
Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750		42,608
National Motor Carrier Safety	Transportation, U.S. Department of	20.218		2,647,205
Fuel Tax Evasion-Intergovernmental Enforcement Effort	Transportation, U.S. Department of	20.240		5,360
High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z		999,597
Total State Patrol				$ 5,949,626
Supreme Court, Nebraska				
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586		$ 415,614
Total Nebraska Supreme Court				$ 415,614
Veterans' Affairs, Department of				
State Cemetery Grants	Veterans Affairs, U.S. Department of	64.203		$ 770,896
Total Department of Veterans' Affairs				$ 770,896
Worker's Compensation Court				
Compensation and Working Conditions	Labor, U.S. Department of	17.005		$ 45,610
Total Worker's Compensation Court				$ 45,610
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 2,635,537,536

^ - Amounts taken from financial status reports.
* - Represents major programs.
See accompanying notes to the Schedules of Expenditures of Federal Awards.

(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, 2009.

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 awards program in accordance with Office of Management and Budget (OMB) Circular A-l33, *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, 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.

(c) Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting, except for certain amounts reported by the Department of Health and Human Services (DHHS). The amounts for DHHS 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 Supplemental Nutrition Assistance Program (SNAP) 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. Surplus property is presented at approximated market value.

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

Nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2009, the inventory balance of nonmonetary assistance for Food Commodities at the State level was $2,415,062.

(4) Commodity Programs and Childhood Immunization Grants

Expenditures for the following programs included nonmonetary Federal assistance in the form of food commodities:

CFDA #	Program	Commodities
10.555	National School Lunch Program	$ 9,000,181
10.558	Child and Adult Care Food Program	394,020
10.559	Summer Food Service Program for Children	42,473
10.565	Commodity Supplemental Food Program	3,026,529

The U.S. Department of Agriculture, upon direction from the Nebraska Department of Health and Human Services, delivers the commodities directly to the subrecipients for distribution. The Childhood Immunization Grants included expenditures of $15,231,973 of nonmonetary Federal assistance in the form of vaccines.

(5) Supplemental Nutrition Assistance Program (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) CFDA 10.551 are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The mechanism used by USDA to make these funds available to States does not enable a State to validly disaggregate the regular and Recovery Act components of this figure. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

(6) 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 in 2009 was valued at the historical cost of $5,590,073 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.

(7) Federal Loans Outstanding

The State administers the following loan programs. The Federal government imposes continuing compliance requirements (other than repayment of the loan) on the outstanding balance of the Paul Douglas Teacher Scholarship Loan Program CFDA 84.176:

CFDA #	**Program**	**Outstanding Balance at June 30, 2009**
66.458	Capitalization Grants for Clean Water State Revolving Funds	$ 157,801,952
66.468	Capitalization Grants for Drinking Water State Revolving Funds	71,034,766
84.176	Paul Douglas Teacher Scholarship Loan Program	28,239

New loans provided from these programs totaling $7,125,937 are included as current year expenditures on the Schedule.

(8) Airport Improvement Program

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Independent Auditors' 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, 2009, which collectively comprise the State of Nebraska's basic financial statements and have issued our report thereon dated December 28, 2009. 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 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 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 #09-25-01 and #09-65-01.

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 entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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.

Signed Original on File

Lincoln, Nebraska — Pat Reding, CPA, CFE
December 28, 2009 — Assistant Deputy Auditor

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Independent Auditors' 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, 2009. 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 the University of Nebraska and State College System component units, which received Federal awards during the year ended June 30, 2009. Our audit, described below, did not include the operations of the University of Nebraska or the State College System because the component units engaged the auditors to perform separate audits in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-l33, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-l33 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.

Scope Limitations - Disclaimers

We were unable to obtain sufficient documentation regarding the compliance of the State of Nebraska with the major Federal programs listed below regarding the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State of Nebraska's compliance with those requirements by other auditing procedures.

CFDA #	**Federal Program**	**Compliance Requirement**	**Finding #**
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Period of Availability/ Earmarking	09-23-07
10.569	Emergency Food Assistance Program (Food Commodities)	Eligibility	09-25-27

Adverse

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

CFDA #	**Federal Program**	**Compliance Requirement**	**Finding #**
10.569	Emergency Food Assistance Program (Food Commodities)	Subrecipient Monitoring	09-25-28
10.569	Emergency Food Assistance Program (Food Commodities)	Special Tests and Provisions	09-25-29
10.555 and 10.559	National School Lunch Program, Summer Food Service Program for Children	Special Tests and Provisions	09-25-31

Qualifications

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

CFDA #	Federal Program	Compliance Requirement	Finding #
17.207, 17.801, and 17.804	Employment Services Cluster	Cash Management	09-23-04
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Reporting	09-23-05
17.225	Unemployment Insurance	Reporting	09-23-10
93.575 and 93.596	Child Care and Development Fund Cluster	Allowability/Eligibility	09-25-35
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	09-25-40
93.558	Temporary Assistance for Needy Families	Cash Management	09-25-43

Because of the noncompliance described in the third preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the compliance requirements applicable to the programs identified in the third preceding paragraph. In our opinion, because of the effects of the noncompliance described in the second preceding paragraph, the State of Nebraska did not comply, in all material respects, with the requirements applicable to the programs identified in the second preceding paragraph. Also, in our opinion, except for noncompliance described in the 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, 2009.

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

CFDA #	Federal Program	Compliance Requirement	Finding #
84.027 and 84.173	Special Education – Grants to States, Special Education – Preschool Grants	Subrecipient Monitoring	09-13-01
10.555 and 10.553	National School Lunch Program, School Breakfast Program	Eligibility	09-13-02
10.556	Special Milk Program for Children	Subrecipient Monitoring	09-13-03

CFDA #	Federal Program	Compliance Requirement	Finding #
Various	Various	Allowable Costs/Cost Principles	09-23-01
Various	Various	Allowable Costs/Cost Principles	09-23-02
Various	Various	Allowable Costs/Cost Principles	09-23-03
17.258, 17.259 and 17.260	Workforce Investment Act Cluster	Subrecipient Monitoring	09-23-06
17.258, 17.259 and 17.260	Workforce Investment Act Cluster	Allowability/Cash Management	09-23-08
17.225	Unemployment Insurance	Cash Management	09-23-09
17.225	Unemployment Insurance	Reporting	09-23-11
93.575, 93.596 and 93.778	Child Care and Development Fund Cluster, Medical Assistance Program	Allowable Costs/Cost Principles	09-25-02
93.575, 93.596 and 93.563	Child Care and Development Fund Cluster, Child Support Enforcement	Allowable Costs/Cost Principles	09-25-03
93.575, 93.596, 93.658, 93.667 and 93.778	Child Care and Development Fund Cluster, Foster Care Title IV-E, Social Services Block Grant, Medical Assistance Program	Allowable Costs/Cost Principles	09-25-04
93.767	Children’s Health Insurance Program	Reporting	09-25-05
93.778	Medical Assistance Program	Allowability/ Subrecipient Monitoring	09-25-07
93.778	Medical Assistance Program	Allowability	09-25-08
93.778	Medical Assistance Program	Matching	09-25-09
93.778	Medical Assistance Program	Allowability	09-25-11

CFDA #	Federal Program	Compliance Requirement	Finding #
93.563	Child Support Enforcement	Suspension and Debarment	09-25-13
93.563	Child Support Enforcement	Subrecipient Monitoring/ Matching	09-25-14
93.667	Social Services Block Grant	Allowability	09-25-15
93.667	Social Services Block Grant	Allowability	09-25-16
93.667	Social Services Block Grant	Allowability	09-25-17
93.658	Foster Care Title IV-E	Activities Allowed/ Eligibility	09-25-18
93.658	Foster Care Title IV-E	Matching	09-25-19
93.069	Public Health Emergency Preparedness	Reporting	09-25-20
93.069	Public Health Emergency Preparedness	Allowable Costs/Cost Principles	09-25-21
93.069	Public Health Emergency Preparedness	Subrecipient Monitoring	09-25-22
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Matching	09-25-23
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Reporting	09-25-24
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	09-25-25
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability	09-25-26
93.268	Immunization Grants	Reporting	09-25-32
93.268	Immunization Grants	Special Tests and Provisions	09-25-33

CFDA #	Federal Program	Compliance Requirement	Finding #
93.575 and 93.596	Child Care and Development Fund Cluster	Allowable Costs/Cost Principles	09-25-37
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring	09-25-38
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring/ Suspension and Debarment	09-25-39
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	09-25-41
93.558	Temporary Assistance for Needy Families	Allowability	09-25-42
20.205	Highway Planning and Construction	Subrecipient Monitoring	09-27-02
20.205	Highway Planning and Construction	Allowable Costs/Cost Principles	09-27-03
15.605 and 15.611	Fish and Wildlife Cluster	Reporting/Matching	09-33-01
81.042	Weatherization Assistance for Low-Income Persons	Reporting	09-71-01
84.126 and 84.390	Rehabilitation Services – Vocational Rehabilitation Grants to States; Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act	Allowability	09-81-01

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 #09-23-01, #09-23-02, #09-23-03, #09-23-04, #09-23-05, #09-23-06, #09-23-07, #09-23-08, #09-23-09, #09-23-10, #09-23-11, #09-25-06, #09-25-10, #09-25-12, #09-25-15, #09-25-18, #09-25-20, #09-25-27, #09-25-28, #09-25-29, #09-25-30, #09-25-31, #09-25-34, #09-25-35, #09-25-36, #09-25-39, #09-25-40, #09-25-42, #09-25-43, #09-27-01, #09-33-01, and #09-33-02 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 #09-23-04, #09-23-05, #09-23-07, #09-23-10, #09-25-27, #09-25-28, #09-25-29, #09-25-30, #09-25-31, #09-25-40, and #09-25-43 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.

Signed Original on File

Lincoln, Nebraska
March 23, 2010

Pat Reding, CPA, CFE
Assistant Deputy Auditor

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 #09-25-01 and #09-65-01. These findings were not considered to be material weaknesses.

c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.

d) 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 #09-23-01, #09-23-02, #09-23-03, #09-23-04, #09-23-05, #09-23-06, #09-23-07, #09-23-08, #09-23-09, #09-23-10, #09-23-11, #09-25-06, #09-25-10, #09-25-12, #09-25-15, #09-25-18, #09-25-20, #09-25-27, #09-25-28, #09-25-29, #09-25-30, #09-25-31, #09-25-34, #09-25-35, #09-25-36, #09-25-39, #09-25-40, #09-25-42, #09-25-43, #09-27-01, #09-33-01, and #09-33-02.

   We consider items #09-23-04, #09-23-05, #09-23-07, #09-23-10, #09-25-27, #09-25-28, #09-25-29, #09-25-30, #09-25-31, #09-25-40, and #09-25-43 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Qualified, Disclaimer, 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	Supplemental Nutrition Assistance Program Cluster
CFDA	10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster
CFDA	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA	10.568 and 10.569	Emergency Food Assistance Cluster
CFDA	14.228	Community Development Block Grant

CFDA	15.605 and 15.611	Fish & Wildlife Cluster
CFDA	17.207, 17.801 and 17.804	Employment Services Cluster
CFDA	17.225	Unemployment Insurance
CFDA	17.258, 17.259, and 17.260	Workforce Investment Act Cluster
CFDA	20.205 and 20.219	Highway Planning and Construction Cluster
CFDA	81.042	Weatherization Assistance for Low-Income Persons
CFDA	84.027 and 84.173	Special Education Cluster
CFDA	84.126 and 84.390	Vocational Rehabilitation Cluster
CFDA	90.401	Help America Vote Act Requirements Payments
CFDA	93.069	Public Health Emergency Preparedness
CFDA	93.268	Immunization Cluster
CFDA	93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance
CFDA	93.558	Temporary Assistance for Needy Families
CFDA	93.563	Child Support Enforcement
CFDA	93.575 and 93.596	Child Care Cluster
CFDA	93.658	Foster Care – Title IV-E
CFDA	93.659	Adoption Assistance
CFDA	93.667	Social Services Block Grant
CFDA	93.767	Children’s Health Insurance Program (CHIP)
CFDA	93.775, 93.777, and 93.778	Medicaid Cluster
CFDA	97.036	Disaster Grants – Public Assistance

h) Dollar threshold used to distinguish between Type A and Type B programs: $7,906,613

i) The State did not qualify as a low-risk auditee.

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #09-25-01

Accrual Information

As part of the Department 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 on an accrual response form. A good internal control plan requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the fiscal year 2009 Comprehensive Annual Financial Report (CAFR), we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Agency did not use the enhanced Federal Medical Assistance Percentage (FMAP) under the American Recovery and Reinvestment Act (ARRA) of 2009 for reporting the split between Federal Fund and State Fund portions of the accruals. This resulted in the following misstatements:
  - The federal portion was understated and the State portion was overstated for the Medicaid short and long term payables by a total of $9,994,831.
  - The federal portion was understated and the State portion was overstated for the Medicaid Drug Rebates, Third Party Liability, Medicaid Estate Recovery, and Medicaid Pending Refunds receivables by a total of $1,948,437.
  - An understatement of the Patient and County billings receivable of $134,148 as the Federal portion included in the receivable was not calculated using the enhanced FMAP percentage.

- The Agency did not report payables to two vendors which were estimated at $6,385,321. An invoice had not been received as of June 30, 2009; however, the liability was expected and incurred for the period of March through May 2009.

- $2.9 million in payments made after June 30, 2009, were incorrectly recorded as fiscal year 2010 expenditures when they should have been recorded as fiscal year 2009 payables.

- Estimated accounts receivable accruals for Medicaid Drug Rebates were understated by a total of $2,166,095. The understatement was due to the allowance calculation not properly reflecting the current year collections of billed amounts and the inclusion of an amount that was not a true receivable at June 30, 2009.

- The Third Party Liability (TPL) accounts receivable was understated by $1,203,190 due to the use of an incorrect allowance for uncollectible accounts percentage.

- Intergovernmental accounts payable and accounts receivable accruals were understated by $810,055 and $49,889 respectively, due to two federal programs not being included in the amounts reported to State Accounting.

- The Medicaid Estate Recovery Receivable was understated by $684,425 due to various errors in the calculation of the receivable. These included amounts for payment plans not being included and the exclusion of amounts expected to be collected after the end of the next fiscal year.

- The Patient and County billings receivable was understated by $242,279 due to the net effect of allowances for uncollectible accounts being overstated and the duplication of amounts due from counties.

- The Cost Allocation Plan Amendment Payable did not include adjustments for Social Service Workers for the quarter ended June 2005. The net effect on the payable was an overstatement of $40,216.

- Allowances for uncollectible accounts were not determined for some receivables or were not adequately supported as noted:
  - The Agency did not calculate an allowance for uncollectible accounts for the Children Have a Right to Support (CHARTS), child support overpayment accounts receivable.
  - The calculation of the allowance for uncollectible amounts for the Nebraska Family Online Client User System (NFOCUS), client/provider overpayment receivables did not appear reasonable as the Agency used percentages based on the amount sent to the State Claims Board during fiscal year 2008 and did not consider the collectibility of NFOCUS receivables based on aging of amounts due.
  - The Agency had no documentation of the history of collection of the Non-Probate cases for the Medicaid Estate Recovery Receivable to support the uncollectible percentage.
  - The calculation of the allowance for Medicaid Drug Rebate receivables was not based on sampling of actual receivables and was not supported by historical information.

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 of financial statement misstatements not being detected and corrected in a timely manner.

> We recommend the Agency implement procedures to ensure receivable and payable amounts reported are complete and accurate, including properly recorded allowance for uncollectible accounts.

Management Response: The Agency established written instructions in July 2009 for the completion of all accrual items to be reported. The Agency will implement any additional procedures necessary to address the current years identified misstatements.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #09-65-01

Review of CAFR Information

A good internal control plan requires an adequate review of information used to prepare the Comprehensive Annual Financial Report (CAFR), including the information provided by other agencies.

During our audit of the CAFR, we noted the following errors in its preparation:

- The Department of Administrative Services State Accounting Division (State Accounting) did not have adequate procedures to ensure the amounts submitted by State agencies on accrual response forms were correct. Significant errors, ranging from $448,410 to $9,994,831 were noted in amounts reported by the Department of Health and Human Services, State Treasurer, and the Department of Roads. State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). A similar finding was noted in previous reports.

- There were numerous errors noted on information prepared by State Accounting to support entries made to the financial statements. The errors ranged from $11,108 to $13,057,076. State Accounting did make correcting entries for all material amounts as recommended by the APA. A similar finding was noted in previous reports.

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 continue to 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 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 is performed to ensure accuracy.

Management 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 many of the larger agencies to discuss this issue. Members from State Accounting are continuing to attend each exit conference and be a party to all discussions with the auditors and the agencies regarding this issue. Finally, State Accounting continues to meet with appropriate agencies to improve reporting methods.

- State Accounting has procedures to review work papers before they are given to the auditor. This year all work papers were reviewed by State Accounting employees, but some errors were still not discovered. In the future, we will again put strong emphasis on making our work papers correct.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

Finding #09-13-01

Programs: CFDA 84.027 – Special Education – Grants to States (IDEA, Part B), CFDA 84.173 – Special Education – Preschool Grants (IDEA Preschool) – Subrecipient Monitoring

Grant Number & Year: All open IDEA grants

Federal Grantor Agency: U.S. Department of Education

Criteria: Per OMB Circular A-87 Attachment A § C 1. to be allowable under Federal awards, costs must meet the following general criteria: be necessary and reasonable for proper and efficient performance and administration of Federal awards; be allocable to Federal awards under the provisions of this Circular; be authorized or not prohibited under State or local laws and regulations; be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; and be adequately documented.

Condition: Based on Ogallala Public School Districts (OPSD) general ledger coding of expenditures, the allocation of Alternative Learning Lane, Inc. (ALL) payment to various cost centers, particularly Special Education, were not in relation to the disabled populations being served. Additionally, ALL is not an approved service agency by the Agency and expenditures with ALL are not allowable to be reimbursed.

Questioned Costs: $128,006

Context: In school year 2007-08, a total of 1,080 academic credit hours were earned by students being served through ALL; 105, or 9.7%, of those hours were earned by Special Education students, yet $226,070, or 73.7% of the total $306,795 paid to ALL in school year 2007-08, was coded/assigned by OPSD to State Special Education and/or Federal Individuals with Disabilities Education Act (IDEA) accounts. APA noted January 22, 2010, letter to OPSD from the Agency indicating ALL was an unauthorized service agency and reimbursement for expenditures to them were unallowable. IDEA funds disbursed to OPSD for expenditures to ALL totaled $128,006.

Cause: Coding was assigned based on percentage allocations which had not been reviewed by OPSD or the Agency in several years.

Effect: Special Education grants were overcharged.

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

Management Response: The Agency has developed guidance to assist agencies or organizations that receive grants from the State. The specific guidance is State and Federal Grant Management Requirements and Guidance located at http://www.nde.state.ne.us/gms2/pdf/Grants%20Management%20Guidance%20Guidance%20July%202009.pdf and Program Budgeting, Accounting, and Reporting System for Nebraska School Districts located at http://ess.nde.state.ne.us/SchoolFinance/AFR/UsersManual.htm. Compliance with guidance is the responsibility of the school district's management. The Agency is in the process of reviewing internal control fiscal procedures for special education including IDEA applications and payments.

Corrective Action Plan: As part of the review, the Agency intends to strengthen procedures for IDEA application approval and for reimbursements.

Contact: Pete Biaggio

Anticipated Completion Date: June 30, 2010

Finding #09-13-02

Program: CFDA 10.555 – National School Lunch Program; CFDA 10.553 – School Breakfast Program – Eligibility

Grant Number & Year: 2009IN109943, FFY 09

Federal Grantor Agency: U. S. Department of Agriculture

Criteria: 7 CFR § 210.10(n) (January 1, 2008) states, "Eligible schools operating afterschool care programs may be reimbursed for one meal supplement served to an eligible child (as defined in § 210.2) per day. (1) Eligible schools mean schools that: (i) Operate school lunch programs under the National School Lunch Act; (ii) Sponsor afterschool care programs as defined in § 210.2; and (iii) Were participating in the Child and Adult Care Food Program as of May 15, 1989." 7 CFR § 210.2 (January 1, 2008) states, "*Afterschool care program* means a program providing organized child care services to enrolled school-age children afterschool hours for the purpose of care and supervision of children. Those programs shall be distinct from any extracurricular programs organized primarily for scholastic, cultural or athletic purposes." 7 CFR § 220.9(d) (January 1, 2008) states, "The State Agency… shall determine whether a school is in severe need." 7 CFR § 220.13(b) (January 1, 2008) states, "Each State agency shall maintain Program records as necessary to support the reimbursement payments made to School Food Authorities under § 220.9…"

Condition: For all 7 School Food Authorities (SFAs) tested which were approved to claim After School Snack reimbursements, verification of compliance with program requirements was not documented during the Coordinated Review Effort (CRE). The Agency did not have adequate documentation to support recipient SFAs were eligible for After School Snack reimbursement. For all 10 payees tested for Severe Need Breakfast reimbursement rates, verification of qualification was not documented during the CRE. The Agency did not have adequate documentation to support recipient SFAs were eligible for Severe Need Breakfast reimbursement rates.

Questioned Costs: $4,124, After School Snacks; $6,492, Severe Need Breakfast

Context: Per discussion with the Agency, staff interview SFAs via telephone to obtain sufficient information about the program to determine if it meets all requirements. The CRE review form does not include specific questions for documentation of qualifying for the After School Snack Program and no written documentation of the verification was noted on the CREs reviewed during testing.

Additionally, in order to receive the additional Severe Need Breakfast assistance, the school must qualify under the following two items:

1. The school is participating in or desiring to initiate a breakfast program; and
2. 40% or more of the lunches served to students at the school in the 2nd preceding school year under the National School Lunch Program (NSLP) were served free or at a reduced price.

Beginning in State fiscal year 2006, individual sites have requirement #2 certified on their annual applications. Eligibility for individual sites is verified during the CRE. All SFAs participating in the School Breakfast Program are subject to a CRE once every five years as part of subrecipient monitoring. During a CRE, Agency staff review Severe Need Breakfast eligibility for the individual sites qualifying by requesting the SFA provide site records documenting the 40% status. This method of verifying and reviewing Severe Need Breakfast eligibility was approved by the USDA via an email. However, the CRE review form does not include specific questions related to qualifying for the additional Severe Need Breakfast reimbursement and no written documentation of the verification was noted on the CREs reviewed during testing.

Federal payments for After School Snack assistance errors noted were $4,124. The total Federal sample tested was $677,005 and the total Child Nutrition Cluster payments for fiscal year 2009 were $61,663,066. Based on the sample tested the case error rate was 100% (7/7). The dollar error rate for the sample was 0.61% ($4,124/$677,005) which estimates the potential dollars at risk for fiscal year 2009 to be $376,144 (error rate multiplied by population).

Federal payments for Severe Need Breakfast assistance errors noted were $6,492. The total Federal sample tested was $677,005 and the total Child Nutrition Cluster payments for fiscal year 2009 were $61,663,066. Based on the sample tested the case error rate was 100% (10/10). The dollar error rate for the sample was 0.96% ($6,492/$677,005) which estimates the potential dollars at risk for fiscal year 2009 to be $591,965 (error rate multiplied by population).

Cause: Documentation of the verification of the After School Snack and Severe Need Breakfast eligibility is not being maintained.

Effect: When eligibility determinations are not documented, there is an increased risk monies may be provided to ineligible SFAs.

Recommendation: We recommend the Agency ensure CRE documentation for determining eligibility and compliance with Federal regulations is maintained in the SFA's file for subsequent review.

Management Response: Reviews of Severe Need Breakfast and the After School Snack Program were being conducted during the CRE reviews of the school lunch programs; however, documentation of the Severe Need Breakfast program and/or the After School Snack Program reviews was not included on the CRE review form.

Corrective Action Plan: For the remainder of school year 2009-10, the consultants will document on the CRE review form on either pages SFA1 or SFA2 the review of the Severe Need Breakfast, if applicable. Starting in fiscal year 2011, future CRE review letters to programs up for review will inform the SFA the Severe Need Breakfast will be reviewed and the data from the second previous year used to qualify for the Severe Need Breakfast feeding site(s) must be available at the CRE review. For fiscal year 2011 two questions will be added to the CRE review form in the General Areas section: 1. Does the SFA have Severe Need Breakfast sites? Yes/No. 2. Did a review of school data from the second previous school year confirm each site's eligibility to participate? Yes/No.

For the remainder of school year 2009-10, the consultants will document on the CRE review form on either pages SFA1 or SFA2 the review of the After School Snack Program, if applicable. For fiscal year 2011 two questions will be added to the CRE review form in the General Areas section: 1. Does the SFA have After

School Snack Program sites? Yes/No. 2. Are the After School Snack Program sites in compliance with applicable federal regulations including supervised educational/enrichment activities? Yes/No.

Contact: Beverly Benes, Director Nutrition Services

Anticipated Completion Date: July 1, 2010

Finding #09-13-03

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

Grant Number & Year: 2009IN109943, FFY 09; 2008IN109943, FFY 08

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 215.11 (b)(1) (January 1, 2008) requires each State Agency "…provide Program assistance, as follows:…Visits to participating schools and child-care institutions to ensure compliance with Program regulations…" A good internal control plan also requires a systematic approach to ensure School Food Authorities (SFAs) are visited in a timely manner.

Condition: For 2 of 15 payees tested which participated in the Special Milk Program (SMP) and not the NSLP, a CRE was not conducted within the appropriate timeframe. The Agency does not have a system to adequately monitor SFAs that only participate in the SMP.

Questioned Costs: $2,946

Context: There were 15 SFAs that participated in the SMP for fiscal year 2009 that did not receive additional funding from the NSLP. Institutions participating in only the SMP program are not mandated to be reviewed on a specific basis per the USDA, but the Agency has adopted a ten year rotation schedule. We tested 100 percent of these SFAs and noted 2 received $2,946 in funding during fiscal year 2009 and had not had an on-site visit in over ten years. The last visits for these 2 schools were in 1992 and 1997.

Cause: Unknown

Effect: When subrecipients are not being reviewed within an appropriate timeframe there is an increased risk monies may be provided to ineligible SFAs.

Recommendation: We recommend the Agency develop policies and procedures to ensure all SFAs have site visits within appropriate timeframes.

Management Response: Federal regulations do not specify a required frequency for SMP reviews. Nutrition Services has established a 10-year review cycle for Special Milk Program sites. SMP reviews are scheduled by the consultant according to the 10-year cycle and when another Nutrition Services review is scheduled in the same area. One of the SMP's has now been reviewed and the second SMP will be reviewed during the fiscal year 2011 review cycle.

Corrective Action Plan: The current spreadsheet for the SMP review cycles will continue to be used to monitor scheduling and completion of SMP reviews. In addition, the SMP review cycle will be added to the CNP online database management system (Colyar).

Contact: Beverly Benes, Director Nutrition Services

Anticipated Completion Date: July 1, 2010

DEPARTMENT OF LABOR

Finding #09-23-01

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act (WIA) and ARRA WIA Cluster; CFDA 17.207, 17.801, & 17.804 – Employment Services (ES) Cluster; CFDA 17.225 – Unemployment Insurance (UI) Admin and ARRA UI Admin; due to the cross-cutting nature of this finding all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-87 Attachment B § 8(h)(4) and (5) state, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports…Personnel activity reports or equivalent documentation must meet the following standards …They must account for the total activity for which each employee is compensated…" Per OMB Circular A-87 Attachment A § C(3)(b) and (c), all activities which benefit from the governmental unit's indirect cost will receive an appropriate allocation of indirect costs. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Additionally, OMB Circular A-87 Attachment A § F(3)(b) states, "Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation." Also, per OMB Circular A-87 Attachment B § 8(d)(5), fringe benefits must be equitably allocated to all related activities; therefore, the Agency must allocate to State programs using the same method as Federal programs.

The Agency's cost allocation plan states:

- Indirect costs will be allocated to the various fund sources based upon each fund source's proportional share of all time charged directly to a fund source in the month in which the indirect cost is incurred.
- If a subledger has multiple functions or fund sources, such employee benefits shall be directly charged to each fund source providing financial support to the subledger based upon the proportion of total hours worked charged to that fund source within the subledger during the month that the employee benefit charge was incurred.
- All funding streams (grants, contracts, awards) will be reconciled on a monthly basis. Reconciliation reports of each funding stream shall be prepared and

submitted to appropriate individuals (Commissioner, Executive Directors and Directors) within seven working days following the last day of the previous month.

A good internal control plan requires the Agency to follow the policies and procedures outlined in their approved cost allocation plan. A good internal control plan also requires policies and procedures to ensure all indirect costs are allocated to the proper programs. Additionally, good internal control requires all indexed indirect cost allocation percentages be supported. Furthermore, good internal control requires a segregation of duties such that no one person is in charge of preparing, proofing, and running allocations.

Condition: The Nebraska Information System (NIS) is the State's official accounting system and is used to record all State expenditures and revenues. The Agency enters all accounting transactions into NIS in order to record and make payments from Federal funds received. On August 25, 2008, the Federal government provisionally accepted and authorized the Agency to use NIS to allocate indirect costs per their Cost Allocation Plan (CAP). During the fiscal year ended June 30, 2009, the Agency used 15 business units to collect indirect costs. Nine of these business units allocated costs using a variable monthly rate while six of these business units allocated costs using a fixed indexed percentage. For the fiscal year ended June 30, 2009, the Auditor of Public Accounts (APA) selected two months to recalculate allocations based on the Agency's allocation methodologies; several compliance and control issues were noted. Our prior audit also noted expenditures not in compliance with OMB Circular A-87.

Questioned Costs: Unknown

Context: When testing the December 2008 and May 2009 indirect cost allocations, we noted the following:

- The Agency does not have written policies and procedures concerning the allocation process.
- Currently, only one Agency employee knows how to perform allocations in NIS. This individual is responsible for updating the allocation templates which tell NIS the criteria for performing the allocations, running the proof of these allocations, correcting any errors the proof identifies, and running the final allocation calculations. If this individual changes template criteria, a second individual's review or approval of these changes is not required.
- Business units for general overhead, facility, desktop, and WIA for the Greater Nebraska (GN) area costs both allocate costs and accept cost allocations. Allocations to these business units are not re-allocated back out until the following month using the following month's time charges. The current CAP submitted and accepted by the U.S. Department of Labor does not mention or allow for a month lag in re-allocating costs using a different month's time charges.

- The Agency's current CAP states that monthly reconciliations will be done between estimated allocation expenditure amounts used to drawdown funds weekly and actual monthly allocation expenditure amounts; however, for the fiscal year ended June 30, 2009, these reconciliations were not being performed. After June 30, 2009, the Agency only performed reconciliations between the estimated and actual expenditures for the period October 1, 2008 to June 30, 2009, for the Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representative Program (LVER) 2009 grants; however, the Agency has not adjusted their drawdowns for the variances noted in these reconciliations. Reconciliations have not been performed for any of the other Federal programs.
- Each month, once allocation templates have been updated, the prior month's template criteria is lost and cannot be retrieved. Historic template data criteria may be obtained from the final NIS allocation reports; however, this data is not as clear or concise as the template format and will not indicate if data was purposely excluded or was excluded due to a lack of activity for that particular month.
- Allocations involving general overhead, benefits, and termination leave payout costs were based on hours charged to various programs during the month; however, this hour basis excluded overtime exempt hours which were coded to the Agency's programs for salaried workers. Total overtime exempt hours for December and May were 309 and 217 respectively.
- One subledger was erroneously set up to allocate holiday leave expense using dollars as the basis instead of hours.
- When testing the December benefit allocations, APA noted three subledgers which did not include holiday leave costs in the allocation amount, one subledger which did not include sick leave costs in the allocation amount, one subledger which did not include vacation costs in the allocation amount, and one subledger which did not include FICA costs in the allocation amount. Total costs which were excluded from the allocations amounted to $13,068.
- One subledger was not allocating the total benefit costs charged to it due to an incorrect business unit being used. This incorrect business unit was not set up to be a part of the NIS allocation for this particular subledger. The benefits coded to this subledger which were not allocated totaled $1,021 for December and $695 for May.
- Benefit costs were not allocated to all programs within one subledger. Programs which did not receive a share of the subledger's benefit costs were Occupational Safety and Health Administration (OSHA) and Contractor's Resignation.
- The May benefit allocation included $546 of benefits coded to a subledger which was not set up to allocate costs; therefore, these costs were never allocated. This subledger should not have had benefits or any other salary costs coded to it.
- A fixed percentage used to allocate facility costs to the Unemployment Insurance (UI) program was incorrect. This incorrect percentage over allocated 1.8% of facility costs. Over allocation for December totaled $387 and for May totaled $293.

- The indirect cost allocation for the general Labor Market Information business unit did not include all the costs charged to it. The December allocation excluded $201 in costs while the May allocation excluded $164.
- The Agency could not support the fixed percentages used to allocate Central Office postage costs.
- The Agency's calculation of fixed percentages for the allocation of desktop computers, Alien Labor Certification (ALC) program, GN program, and WIA Administration costs did not agree to the support provided.
- Fixed allocation percentages should have been reviewed on a periodic basis and then changed as necessary to more accurately reflect the split between projects with a grant; however, this review was not being performed.
- All general overhead costs were not allocated out. Credits totaling $95 for December and $48 for May were not allocated.
- The final NIS general overhead allocations report ran for May allocations included error messages for certain object accounts. Due to these uncorrected error messages, costs totaling $2,165 were not allocated out to the proper programs.
- The Reed Act – Job Link business unit was excluded from taking a share of the general overhead, benefits, or termination leave payout cost allocations despite having hours coded to it.
- The Desktop Fee, Work Opportunity Tax Credit (WOTC), Trade Adjustment Assistance (TAA), UI Exchange Reimbursables, Exchange Reimbursables, and Worker Profiling and Reemployment Services (WPRS) business units had hours coded in December and May but did not have termination leave payout costs allocated to them.
- The Wellness Training and American Recovery and Reinvestment Act (ARRA) Facility Program Project business units did not have general overhead or termination leave payout costs allocated to them despite having hours coded to them.

We calculated the following over/(under) allocation of indirect costs by CFDA based on the issues noted above:

DECEMBER 2008 VARIANCES

CFDA	APA Allocated Amount To	NIS Allocated Amount To	Variance Overallocated To/ (Underallocated To)
10.561	$ 5,607	$ 5,613	$ 6
17.002	29,206	28,969	(237)
17.207	188,670	189,233	563
17.225	324,604	316,964	(7,640)
17.245	1,262	1,263	1
17.258	49,105	49,730	625

DECEMBER 2008 VARIANCES (Continued)

CFDA	APA Allocated Amount To	NIS Allocated Amount To	Variance Overallocated To/ (Underallocated To)
17.259	7,818	9,780	1,962
17.260	25,341	22,334	(3,007)
17.271	7,583	6,887	(696)
17.273	1,618	2,033	415
17.504	18,520	14,631	(3,889)
17.801	23,146	22,955	(191)
17.802	4,751	4,787	36
17.804	5,245	5,224	(21)
None (Note 1)	84,312	83,253	(1,059)
Allocating (Note 2)	82,659	81,981	(678)
Total	$ 859,447	$ 845,637	$ (13,810)

MAY 2009 VARIANCES

CFDA	APA Allocated Amount To	NIS Allocated Amount To	Variance Overallocated To/ (Underallocated To)
10.561	$ 2,966	$ 2,999	$ 33
17.002	16,120	16,063	(57)
17.207	95,364	97,248	1,884
17.225	182,689	177,642	(5,047)
17.245	1,294	1,307	13
17.258	25,519	26,978	1,459
17.259	5,621	7,127	1,506
17.260	18,139	15,394	(2,745)
17.271	2,436	2,446	10
17.273	748	743	(5)
17.504	7,872	7,668	(204)
17.801	12,121	12,249	128
17.802	2,464	2,494	30
17.804	2,580	2,573	(7)
None (Note 1)	36,429	36,290	(139)
Allocating (Note 2)	44,274	44,185	(89)
Total	$ 456,636	$ 453,406	$ (3,230)

Note 1: Where CFDA indicates “None;” the amounts allocated were to business units that were not associated with a specific CFDA number, but rather associated only with State general or cash funds.

Note 2: Where CFDA indicates “Allocating;” the amount shown as allocated was to business units which both allocate costs and accept cost allocations. These costs will then be allocated out of the business unit when the following month’s allocation is completed.

Cause: A separate allocation template exists for each general overhead and termination leave payout object account which needs to be allocated. Additionally, a separate allocation template exists for each subledger and object account within a subledger for benefit cost allocations. Therefore, hundreds of allocation templates exist for the Agency which must be updated monthly to perform allocations for the prior month’s activity. Due to the sheer volume of templates, the possibility to miss updating a template or overlook input errors is increased. The Agency must also hand enter each template document number into NIS to run proof reports and final allocations. Once again, due to the large number of document numbers to enter, the possibility to miss entering or incorrectly enter a document number is increased. Furthermore, the Agency does not have any procedures to ensure that all costs coded to an allocating business unit are allocated out.

Effect: Indirect costs were over allocated for some programs and under allocated for other programs. Additionally, noncompliance with regulations could result in Federal sanctions. Furthermore, when one individual is responsible for all aspects of the allocation process, there is an increased risk error or fraud could go undetected.

Recommendation: We recommend the Agency have procedures to ensure costs are allocated in accordance with the approved cost allocation plan and Circular A-87. Additionally, we recommend the Agency implement policies and procedures to ensure no one individual can prepare, proof, and run allocations.

Management Response: Management agrees with the findings for the most part. Several of the items seem to be limitations on the way the NIS system handles the allocations, for those the Agency cannot mandate a time for the fix, since it is not in a position to carry out the implementation. The Agency does have a concern on the allocation of leave impacting Reed Act, the dollars being charged are for a specific project and should not absorb hits from personnel leave not directly related to the approved project and who may not be related to UI/ES program. Management will review the possibility of charging directly to the ES program for the ongoing costs of the original Reed Act project, therefore no hours will be charged against Reed Act for this project.

Corrective Action Plan: Management will put into effect, a process whereby allocations will be reviewed prior to posting; this will be an intensive review of all allocations templates, effective with the March allocation postings. A 2nd employee will review the proof. Reviews for those costs already allocated in the current year will be performed by a 2nd person and corrections will be performed.

Although a true reconcilement (comparing what the draws were based on) to actual cash will not be performed, draws will use actual allocations when available which in essence will allow the draws to be adjusted to actual allocated costs. NIS upgrade will allow Agency finance to streamline our cost allocation process and allow us to have a more manageable system.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2010

Finding #09-23-02

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act and ARRA WIA Cluster; CFDA 17.207, 17.801, & 17.804 – Employment Services Cluster; CFDA 17.225 – Unemployment Insurance Admin and ARRA UI Admin; due to the cross-cutting nature of this finding, all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Labor

Criteria: According to OMB Circular A-87 Attachment B § 8(h)(5)(a), personnel activity reports or equivalent documentation must reflect an after the fact distribution of the actual activity of each employee.

OMB Circular A-87 Attachment A § A(2)(a)(1) states, "Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices."

OMB Circular A-133 § 300 states, "The auditee shall:…(b) 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..."

A good internal control plan requires an independent review of the final NIS payroll register to the input and pre-payroll register be documented, that the payroll totals report be reviewed to ensure payroll is correct, and NIS access be limited to those who perform the regular functions of the Agency.

Condition: For 2 of 25 employee timesheets tested, the timesheets did not reflect an after the fact distribution of the actual activity of the employee. We also noted during other testing, an additional employee's timesheet whose timesheet did not reflect an after the fact distribution of the actual activity of the employee.

For 3 of 8 pay periods tested, we were unable to determine if the payroll totals report was reviewed by an appropriate level of management.

During review of payroll procedures, it was noted that there is no review of the payroll input and pre-payroll report to the final payroll report.

During review of NIS security, it was noted there were 4 employees who had access to process payroll but were not involved in the payroll process and did not require access.

Questioned Costs: Unknown

Context: We noted the following for employee timesheets which did not reflect an after the fact distribution of the actual activity of the employee:

- One timesheet was submitted by the employee on Sunday May 3, 2009, and was approved by their supervisor on Monday May 4, 2009, when the last business day of the pay period was Friday May 8, 2009. The timesheet does not show that the employee was on vacation or sick leave during this time. Total amount paid on the employee's paycheck for the period was $2,275.
- One timesheet was submitted by the employee Tuesday May 5, 2009, and was approved by their supervisor on the same day when the last business day of the pay period was Friday May 8, 2009. The timesheet does not show that the employee was on vacation or sick leave during this time. Total amount paid on the employee's paycheck for the period was $1,576.
- It was noted during other testing, one employee's timesheet for the pay period ended Sunday, September 14, 2008, was submitted and approved by their supervisor on Wednesday, September 10, 2008, when the last business day of the pay period was Friday September 12, 2008.

Each pay period, once all timesheets are submitted and hours are entered into NIS, two individuals at the Agency review the pre-payroll report for any changes in pay, new hires, or terminations. A payroll totals report is then ran for review of any unusual hours. The Agency could not find the payroll totals report for the three pay periods tested; therefore, we were unable to verify these reports were reviewed.

Once the payroll totals report is reviewed, another individual approves the journal entries and notifies the Department of Administrative Services (DAS) for posting. After DAS posts payroll, there is no review of the final payroll report to the pre-payroll report or to input to ensure no unauthorized changes were made.

Additionally, during review of NIS security, we noted 10 individuals in the Agency who had access to the payroll function in NIS. After discussion with the Agency's Personnel Manager, it was determined that 4 of these 10 individuals were not involved in the payroll process and did not require access to the payroll function in NIS.

Cause: Inadequate procedures.

Effect: Noncompliance with regulations could result in Federal sanctions. Without proper controls in place, there is an increased risk payroll is incorrect and/or an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all timesheets reflect after the fact distribution of the actual activity of each employee. Additionally, we recommend the Agency implement procedures to ensure the payroll totals report is reviewed each pay period. Furthermore, we recommend the Agency compare payroll input and the pre-payroll register to the final payroll report. Finally, we recommend the Agency review the employees with NIS security access.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will be reminded of the necessity of reviewing and signing timesheets in a proper fashion, to avoid after the fact distributions. HR will review the procedures to allow for additional time, for signatures to be obtained, thus alleviating the need for signatures obtained in advance. Finance will compare the Final Pre-payroll Register and any other payroll source documents to the Administrative Services Final Payroll Report to ensure no unauthorized changes were made. Finance will undertake a review of all NIS security access not just in the area of payroll, to ensure that all access rationale is documented and appropriate.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: June 2010

Finding #09-23-03

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act and ARRA WIA Cluster; CFDA 17.225 – Unemployment Insurance Admin and ARRA UI Admin; CFDA 17.207, 17.801, & 17.804 – Employment Services Cluster; due to the cross-cutting nature of this finding, all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Labor

Criteria: According to OMB Circular A-87 Attachment A § C (3)(a), "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."

OMB Circular A-87 Attachment A § C (1)(c), (e), (i), and (j) requires costs charged to Federal programs 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; be net of all applicable credits; and be adequately documented.

Furthermore, 29 CFR 97.36 (July 1, 2008) states, "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds."

Condition: We tested 104 expenditures and noted:

- 45 expenditures were not charged or assigned to such cost objective in accordance with relative benefits received.
- 4 expenditures did not have adequate supporting documentation on file.
- 3 expenditures were not in accordance with State policies and procedures.

Questioned Costs: $2,757 known

Context: The Agency has several locations throughout Nebraska. These locations are used to administer multiple programs such as WIA, ES, and UI. Charges relating to the use of the buildings are allocated among the multiple programs using a Rent, Utility, and Communication (RUC) calculation. At the beginning of the fiscal year, the Agency used the number of full time equivalents (FTEs) in each program at each location to calculate the RUC. This RUC percentage was then used to allocate the costs relating to the building. In September 2008, the Agency started using a variety of methods to calculate RUCs for the Agency locations. According to the Agency, the RUCs may have been calculated by using program wages or hours for an entire fiscal year, a quarter, or just one month. It appears the Agency does not have consistent procedures in place to calculate the RUCs nor is adequate support maintained for RUC calculations. When discussing with Agency staff, it was difficult for them to remember what the RUCs were based on, whether it was program hours, FTEs, or wages. If wages or hours were used they were uncertain how many months of program wages or hours were used for the calculation. Furthermore, when provided with supporting documentation for the RUC allocations, we could not recalculate the RUCs based upon this documentation.

For the 45 expenditures which were not charged or assigned to such cost objectives in accordance with relative benefits received, we noted the following:

- For 19 expenditures tested, the Agency did not keep documentation to support the RUC percents used to allocate these expenditures. Questioned costs related to these expenditures totaled $654.
- For 2 expenditures, the RUCs were calculated from January 2009 project wage amounts. For 1 expenditure the RUC was calculated from December 2008 project

wage amounts. We were unable to recalculate RUC percents based on support as some wage amounts were mistakenly left out of the Agency's calculation. Questioned costs related to these expenditures totaled $73.

- For 16 expenditures, the RUCs were based off of hours listed on a time and wage report from NIS that was imported into an Access database. During review of this database, we noted there were hours listed without projects; there were adjustments to hours with no supporting documentation to support the changes; and hours not included at all; therefore, the Access database was not a reliable source for calculation of RUC percentages. Questioned costs related to these expenditures totaled $720.
- For 3 expenditures that were not charged or assigned to such cost objectives in accordance with relative benefits received, the Agency did provide support and it did agree; the method used to allocate the costs was based on wages, but this method was not consistent during the year. Questioned costs related to these expenditures totaled $296.
- For 2 expenditures, the RUCs were based off of a time and wage report from NIS for July 1, 2007, to June 30, 2008. We were able to recalculate the percent of expenditures coded to the Greater Nebraska allocation based upon the wage report; however, we were unable to recalculate the other percents used to split expenditures to the other projects. Questioned costs related to these expenditures totaled $42.
- For expenditures that cannot be split based upon number of FTEs, wages, or hours because they are unrelated, the Agency typically uses a Direct Expense Allocation form to allocate costs among projects. This form is completed by the Office Manager at the location of the expenditure and is reviewed and approved by the Regional Manager. This form has a list of projects in which the Office Manager will place a percentage of costs by relevant projects. This form is then attached to the expenditure when paid in order to determine the correct coding. For 1 expenditure, the Agency did not have documentation to support the split for paper purchased at the Agency's Norfolk location. Costs were split between WIA and ES using a Direct Expense Allocation form which was based upon management discretion. Questioned costs for this expenditure were $119.
- For 1 expenditure, the Agency stated the allocation was based on actual copies; however, the allocation percent was not calculated correctly. Questioned costs related to this expenditure were $11.

Federal payment errors for the 45 RUC expenditures tested were $1,915. Total RUC expenditures for the fiscal year were as follows: WIA Cluster $239,417; Employment Services Cluster $894,456; and Unemployment Insurance $2,220,700.

We also noted the Agency could not locate 4 documents; therefore, we were unable to test these expenditures for allowability. Questioned costs related to these expenditures totaled $779.

In addition, 3 expenditures tested were not in accordance with State policies and procedures. The State has a contract with the United Parcel Service (UPS) to receive services at discounted rates as noted in the contract. The Agency was unfamiliar with the process that was to be followed in order to mail items via UPS and receive the contract prices. For 3 expenditures tested, the statewide UPS contract was not used. The Agency mailed items via Commercial Ground. The Agency was charged $129 for these mailings. According to the Statewide contract with UPS, the price of these mailings should have been $66. Total questioned costs related to this expenditure were $63.

Cause: Adequate documentation to support the RUC percentages was not kept. The Agency was unfamiliar with the process that was to be followed in order to mail items via UPS and receive the contract prices.

Effect: Some programs could be overcharged and others could be undercharged.

Recommendation: We recommend the Agency maintain adequate support for expenditures including documentation to support costs are allocated in accordance with relative benefits received. Additionally, we recommend the Agency ensure all Federal expenditures are in accordance with Federal and State policies and procedures.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Finance will review all RUC's and as soon as it is feasible will bring this area of calculation back into the Finance area. For the remainder of the current year, we will work with program personnel and will ensure that we have backup for the RUC's which will be used for the remainder of the current year.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2010

Finding #09-23-04

Program: CFDA 17.207, 17.801, & 17.804 – Employment Services Cluster – Cash Management

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 CFR § 205.11(b) (July 1, 2008), "A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs." Per 31 CFR § 205.33(a) (July 1, 2008), "The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs." A good internal control plan requires monthly reconciliations between estimated allocations and actual allocations. If a variance is noted, the cash draw should be adjusted appropriately. A good internal control plan also requires an adequate and timely review of Federal report 9130 to ensure receipts reported agree with the official State accounting system, NIS.

Condition: When the Agency performs their weekly cash draws, a portion of the draw is an estimated amount for allocated costs. They perform the actual allocations at a later date, for one month at a time. For all 10 cash draws tested, the estimated allocation portion of the cash draw was not adjusted appropriately to the actual allocation amount. For 4 of these 10 cash draws, the estimated allocated portion of the cash draw was reconciled by the Agency and they identified a variance between the estimated allocation and the actual allocation; however, they did not make an adjustment for this variance during the fiscal year. Also, on a quarterly basis the Agency received from the Federal government, the total amount of Federal funds remitted to the Agency. The Agency reviewed this amount and traced it to NIS. However, for 2 of 4 quarterly reports tested, these amounts did not agree to NIS nor were they reconciled.

Questioned Costs: Unknown

Context: After June 30, 2009, the Agency performed a reconciliation for project codes 202, 203, and 204 which are Disabled Veterans' Outreach Program (DVOP – CFDA 17.801) and Local Veterans' Employment Representative (LVER – CFDA 17.804) Program for the 2009 grant only, for the months of October 2008 through June 2009 which showed the Agency overdrew these funds by $51,599 during this period; however, they did not make an adjustment for this variance during the fiscal year.

For 9 of the 10 cash draws tested, the Agency included in the draw amount an estimated amount for anticipated allocations. These estimated amounts ranged from ($499) to $46,704.

We performed a reconciliation between the estimated allocation amount per the Agency and the actual allocation per NIS for two months, December 2008 and May 2009 for all open grants for the ES Cluster. The reconciliation of these two months showed the Agency overdrew by $36,476 for CFDA 17.207, overdrew by $11,822 for CFDA 17.801 and underdrew by $1,276 for CFDA 17.804. In total the Agency overdrew by $47,022 for the ES Cluster for the two months tested.

We also reviewed all 4 of the 9130 reports and noted on 2 of 4 reports, the receipts reported from the Federal government did not agree with NIS. The 9130 report for March 31, 2009, showed receipts of $3,104,038. NIS showed receipts at March 31, 2009, of $3,731,760, a difference of $627,722. The 9130 report for June 30, 2009, showed receipts of $4,933,097. NIS showed receipts at June 30, 2009, of $5,547,871, a difference of $614,774.

Cause: The Agency did not perform an adequate and timely reconciliation of the Federal funds received by NIS.

Effect: When Federal receipts are not reconciled to expenditures and reports there is an increased risk for misuse of funds. Also, noncompliance with regulations could result in Federal sanctions.

Recommendation: We recommend the Agency perform monthly reconciliations between the estimated allocations and the actual allocations. Any necessary adjustments to the cash draw should be done in a timely manner. We also recommend this reconciliation be reviewed by management and maintained for future review. We further recommend the Agency perform an adequate and timely review of Federal funds received per the 9130 report to ensure agreement with the NIS General Ledger and any variances be investigated and resolved.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will ensure an adjustment is performed between the estimated allocation and the actual allocations. Management has already started the process of reconciling the 9130 to ensure agreement with NIS General Ledger. However until the '08 issues are resolved and the entry can be booked the general ledger will not agree to the 9130's.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: December 2010

<u>Finding #09-23-05</u>

Program: CFDA 17.258, 17.259 & 17.260 – Workforce Investment Act and ARRA WIA Cluster – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Title 29 CFR § 97.20(a) (July 1, 2008) 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. A good internal control plan requires procedures to reconcile the accounting system to the submitted reports.

Title 29 CFR § 92.70(b) (July 1, 2008) requires subgrantees maintain records and adequately identify the source and application of funds provided for financially-assisted activities. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The regulations also require accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant and accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Title 29 CFR § 97.40(a) (July 1, 2008) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." A good internal control plan requires procedures to ensure amounts paid to subrecipients agree to amounts reported by the subrecipients.

Condition: We noted the Agency did not have adequate procedures to ensure amounts reported by one of three local areas, agreed to accounting records. We also noted the cumulative amounts reported by all three local areas did not agree to accounting records.

Questioned Costs: Unknown

Context: The Agency indicated the 9130 reports were prepared from information provided by the local areas that provide WIA services. One of the local areas was independent from the Agency and maintained their own accounting system to record expenditures. Local area staff were responsible for preparing and submitting a monthly expenditure report to the Agency. The other two local areas contracted with the Agency to perform their accounting functions which were maintained in the State Accounting System, NIS. Agency staff were responsible for preparing a monthly expenditure report from the NIS information. Once the monthly expenditure reports were prepared, the cumulative amounts from reports were accumulated in the 9130 report.

The monthly reports utilized to prepare the required 9130 reports were not reliable. For the period July 2008 to February 2009 and April 2009 the independent local area did not provide supporting documentation for the monthly expenditure reports. For March, May, and June 2009, the independent local area submitted documentation; however, the documentation for May and June was not adequate. The independent local area manually prepared and submitted a spreadsheet of detailed expenditures. However, the related summary of costs and accruals was not submitted to the Agency. We noted the documentation submitted by the independent local area was not subject to adequate review by Agency staff. We also noted Agency staff attempted to reconcile the monthly expenditures to the Federal funds paid to the local area, but was comparing requests including administration costs to program expenditures only, and the reconciliation was not being completed timely.

The monthly reports prepared by the Agency for the other two local areas were prepared from a NIS report which was sorted by business unit. Business units were used to identify the expenditures by funding source and local area; however, the Agency did not properly utilize business units. Without the grant funding year identified by the business unit, the Agency was forced to rely upon internally prepared spreadsheets to track expenditures and available funding in each grant rather than utilizing the cumulative totals from the reports. This resulted in Agency staff needing to manually split current month expenditures between the monthly expenditure reports for new grants and fully expended older grants on numerous occasions. In the current year we were able to trace the current month amounts from the monthly expenditure reports to NIS reports and/or manual calculations; however, we could not determine which grant the expenditures were made from as expenditures for differing grant years were made from the same business unit. In the prior year we noted the current month amounts from the monthly expenditure reports could not be traced to NIS and/or manual calculations, so the cumulative amounts included in current year monthly reports would not be reliable as they were misstated in the prior year.

As stated above, during the current year we were able to trace current month amounts from the monthly expenditure reports to the NIS reports; however, we could not consistently trace the current month expenditures from the monthly expenditure reports to the 9130 reports. For the reports tested we obtained the three monthly expenditure reports (e.g. April, May, June) for each local area and totaled the current month expenditures from all to arrive at the current quarterly expenditures. For 5 of 6 reports tested, the current expenditures from the monthly reports did not agree to the current expenditures on the 9130 report. We noted variances ranging from $4,180 to $24,496. For all six reports tested the cumulative expenditures on the 9130 report did not agree to supporting documentation because the business units used to record expenditures were not tied to specific grant funds.

We also noted 1 of 7 9130 reports tested were not prepared in accordance with the required basis of accounting. The accrual basis of accounting is required; however, the amounts reported did not include the accrued expenditures. This omission affected the total expenditures reported as well as the administrative expenditures reported.

Additionally, we noted a $32,695 expenditure that was reported twice on a 9130 report tested.

It was also noted in our prior audit report that reported amounts did not agree to supporting documentation.

Cause: The Agency uses the business units to reflect the fiscal year the expenditure was made rather than being tied to a particular grant year.

Effect: Without adequate procedures to ensure amounts reported reconcile to the accounting system there is a risk amounts reported are incorrect. Failure to require subrecipients to send adequate supporting documentation also increases the risk for reporting errors.

Recommendation: We recommend the Agency develop procedures to ensure amounts reported are reconciled to supporting documentation. We further recommend the Agency require the independent local area to send complete supporting documentation with reported expenditures.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will adopt a policy to ensure the adequacy of documentation it receives from the local areas. Management will also ensure that the reports from finance are tied to proper documentation and support. Management will review the accounting structure of the Agency and streamline the structure and the amount of accounts. Finance will use the notice of obligations as the start for the grant and set up business units appropriately.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2010

Finding #09-23-06

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act and ARRA WIA Cluster – Subrecipient Monitoring

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133 § 400(d)(3) requires that pass-through entities "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." A good internal control plan requires that a reconciliation be performed between a subrecipient's reported expenditures and Federal receipts to ensure Federal funds are being used properly. OMB Circular A-133 § 400(d) states, "A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency."

Condition: Monitoring of expenditures was inadequate for one subrecipient tested. Additionally, this subrecipient was not properly notified of Federal award information.

Questioned Costs: Unknown

Context: The Agency has three local areas. In two of these local areas, the programs are administered by the Agency. The other local area is administered by a subrecipient. The subrecipient reported expenditures monthly to the Agency and periodically submitted a request for funds. In March 2009, the subrecipient started submitting documentation to support the monthly reports; however, there was no support remitted for the April 2009 monthly reports, and the support remitted for the May 2009 and June 2009 monthly reports was not complete. Additionally, no supporting documentation was submitted with the request for funds. The Agency previously did not reconcile the amount of Federal funds provided to the subrecipient to the monthly expenditure reports nor to the subrecipient's Single audit. In April 2009, the Agency attempted to reconcile the local area monthly expenditures to the local area's request for funds. However, this reconciliation was inadequate as it did not reconcile appropriate amounts, it did not include ARRA funds, and it was not kept current.

Additionally, award information provided to this subrecipient did not include the Federal awarding agency for both ARRA funds and non-ARRA funds. The amount of Federal funds paid to this subrecipient during State fiscal year 2009 was $939,100. A similar finding was noted in our prior audit report.

Cause: Unknown

Effect: Without adequate monitoring of subrecipients there is an increased risk of misuse of Federal funds. Without notification of award information there is increased risk for errors at the subrecipient level.

Recommendation: We recommend the Agency implement procedures to ensure documentation supporting the monthly expenditures is reviewed. Additionally, we recommend the Agency reconcile the Federal funds paid to the subrecipient to the expenditures on the subrecipient reports. Furthermore, we recommend the Agency include all required information on subrecipient award documents.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will adopt a policy to ensure the adequacy of documentation it receives from the local areas. Management will reconcile the Federal funds paid to the subrecipient, to the expenditures the subrecipient reports.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: June 2010

Finding #09-23-07

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Period of Availability and Earmarking

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Title 20 CFR § 667.107(a) (April 1, 2008) states, "Funds allotted to States under WIA sections 127(b) and 132(b) for any program year are available for expenditure by the State receiving the funds only during that program year and the two succeeding program years."

Title 29 CFR § 97.20(a) (July 1, 2008) 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. A good internal control plan requires that adequate documentation be maintained to support expenditures.

Condition: The business units used to record the WIA expenditures were not tied to a particular grant number and year, thus expenditures could not be tied to which grant funds were expended. Additionally, we noted the Agency did not have adequate supporting documentation to ensure earmarking levels were met.

Question Costs: Unknown

Context: NIS utilizes business units to identify the source and expenditure of funds. In NIS, a business unit is a separate entity within a fund used to track revenues and expenditures. The Agency did not properly utilize the business units to identify the source of funds for WIA transactions. Rather, the business units for WIA transactions in previous years typically reflected the fiscal year the expenditure was made. It was noted new business units were also not implemented at the beginning of State fiscal year 2009. Since the Agency did not utilize the business units to separately identify each grant year, we were unable to determine if the expenditures tested met the period of availability requirements.

Due to the business unit setup, the Agency was unable to track earmarking requirements in NIS. We tested the grant that was closed during State fiscal year 2009 (PY06/FY07) and noted that several of the earmarks were not supported by adequate documentation. In reviewing the spreadsheets the Agency prepares and utilizes to show the earmarks, it appears the requirements have been met. However, the earmark requirements for 10% local area administrative costs and 30% out-of-school youth activity funds were supported by the local areas' monthly expenditure reports. Two of the local areas were managed by the Agency and the monthly reports were prepared by the Agency. The Agency indicated the monthly reports were prepared utilizing financial information from the GA-17 reports from NIS. During testing we were unable to trace the cumulative amounts from the monthly expenditure reports to the supporting information or NIS due to the business unit setup. Additionally, one local area prepared monthly expenditure reports which were sent to the Agency with no supporting documentation. The Agency did not have procedures in place to ensure these monthly reports were accurate for the grant tested. The earmark requirements for 15% State Reserve, 5% State administrative costs, and 25% rapid response were supported by expenditure reports from NIS. However, the expenditures could not be tied to which grant funds were expended because of the business unit setup. The tracking of these earmarking requirements by grant in NIS was not possible without Agency handwritten cumulative amounts. We were unable to trace these cumulative amounts to supporting information. A similar finding was noted in our prior audit report.

Cause: The business units reflect the fiscal year the expenditure was made rather than being tied to a particular grant.

Effect: Unable to determine compliance with the period of availability requirements. Without adequate supporting documentation we could not determine whether earmarking requirements were met.

Recommendation: We recommend the Agency set up NIS business units to properly identify the source and use of Federal funds. Each grant should have a separate and unique business unit in order to ensure earmarking and period of availability requirements are met. Additionally, we recommend the Agency maintain supporting documentation to ensure earmarking requirements are met.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will review the accounting structure of the Agency and streamline the structure and the amount of accounts. Finance will use the notice of obligations as the start for the grant and set up business units appropriately.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: October 2010

Finding #09-23-08

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act and ARRA WIA Cluster – Allowability and Cash Management

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: 31 CFR § 205.33(a) (July 1, 2008) states, "The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs." Per OMB Circular A-87 § C(1), "To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards." Per 29 CFR § 97.20(a) (July 1, 2008), "Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to… (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." A good internal control plan also requires monthly reconciliations of cash draws to actual allocations. If a variance is noted, the cash draw should be adjusted accordingly.

Condition: The Agency drew funds from the WIA Cluster and then performed a journal entry to transfer the funds to another Federal program. In addition, we noted for 5 of 6 draws tested, the Agency drew additional funds under the WIA Cluster that were not for WIA activity. We also noted for all 6 draws tested, the Agency did not perform a reconciliation between the cash draws to the actual allocations.

Questioned Costs: $130,752

Context: As noted in our prior audit, on May 2, 2007, a U.S. DOL employee sent the Agency an email showing the Employment Services and Unemployment Insurance Administration grants were overdrawn by $8,190,181. To cover these grant overdrafts, the Agency drew funds from WIA. We determined the Agency made three journal entries transferring $7,522,047 from WIA to cover the other grants. Of this amount, one transaction occurred in fiscal year 2008 for $827,010 and transferred funds from WIA to Unemployment Insurance CFDA 17.225. The transactions for the other $6,695,037 occurred in June 2007. First, the Agency drew the funds from WIA, and then they performed a journal entry to transfer the funds to the other grants. At the end of fiscal year 2008, the Agency repaid $1,932,268 as follows: $1,612,351 was drawn from Unemployment Insurance and repaid to WIA and $319,917 was transferred from Employment Services to WIA, leaving $5,589,779 that has not been repaid.

During testing of cash draws, we also noted the following:

- For 5 of 6 draws tested, the Agency drew additional funds under the WIA Cluster that were not for WIA activity. Funds were deposited into the Supplemental Nutrition Assistance Program (SNAP) and Workfare. The Agency has a contract for both of these programs with the Nebraska Department of Health and Human Services (DHHS) to provide employment services. The Agency was effectively borrowing from WIA to cover these program expenses until reimbursed by DHHS. For the 5 draws tested, the Agency drew $31,898 for SNAP and $98,854 for Workfare.

- For all 6 draws tested, the Agency did not perform a reconciliation between the cash draw and the actual allocations.

Cause: Inadequate reconciliation procedures in current and prior years. The Agency drew funds from WIA to pay expenses for other grants.

Effect: The Agency misused WIA Federal funds. Funds are due to the Federal government.

Recommendation: We recommend the Agency ensure all funds drawn under the WIA Cluster are for WIA activity only. Funds drawn under WIA should not be supporting other grants. We also recommend the Agency perform monthly reconciliations between cash draws and actual allocations. Any necessary adjustments to the cash draws should be made in a timely manner. We further recommend the Agency continue to work with the Federal government to resolve the remaining balance due to the Federal government.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will remove the draw process from Finance and move to Treasury. Finance will review and enter the draw information into the general ledger. All draws will be reconciled. Actual allocations will be used when possible and if estimates are used in the interim, they will be replaced once the actual allocation is available and draws will subsequently adjusted. Management will put a system in place where draw review is more formalized and where there is a backup to the draw person. Management will continue to work on the appeal process with the federal government, and will adjust the general ledger as needed.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: December 2010

Finding #09-23-09

Program: CFDA 17.225 – Unemployment Insurance Federal, and UI Admin – Cash Management

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 CFR § 205.11(b) (July 1, 2008), "A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs." Per 31 CFR § 205.33(a) (July 1, 2008), "The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs." A good internal control plan requires monthly reconciliations between estimated allocations drawn and actual allocations. If a variance is noted, the cash draw should be adjusted appropriately.

A good internal control plan also requires adequate controls over cash draws to ensure no one individual is able to both perpetrate and/or conceal errors or irregularities and to ensure the amounts drawn are accurate and in accordance with Federal regulations.

Condition: Cash draws for administrative expenses include an estimated amount for indirect costs allocated between programs. The estimated allocation portion of the cash draws were not adjusted to the actual amount allocated to the Unemployment Insurance program.

The Agency did not have adequate controls over cash draws for benefit payments. There was no review performed by a second individual to ensure the accuracy of the cash draws and ensure they were in accordance with Federal regulations.

Questioned Costs: $1,302

Context: When the Agency performs their weekly cash draws a portion of their draw is an estimated amount for operating expenses allocated to various programs. The actual allocations were performed monthly. The estimated allocation portion of the cash draws were not adjusted to the actual amount allocated to the program. In 4 of the 6 cash draws tested, the Agency included in the draw amount an estimated amount for anticipated allocations. These estimated amounts ranged from $7,295 to $194,473.

We also tested 18 benefit cash draws from the Trust Fund and noted the following:

- One cash draw included benefit payments for Emergency Unemployment Compensation 2008 (EUC08) of $538,476. However, when the Agency requested the draw through the Automated Standard Application For Payment (ASAP) system they entered $358,476, a difference of $180,000.

- One cash draw included benefit payments for UI and Trade Readjustment Allowances (TRA) of $999,563. This draw also included a “correction” of $1,302 which was added to the draw. This amount could not be traced to the Benefit Payment System (BPS) nor could the Agency support why this amount was included in the draw.

The total Federal sample tested for benefit drawdowns was $20,670,195 and the total Federal benefit cash draws from the Trust Fund for the fiscal year were $67,358,918.

Cause: Inadequate procedures and controls.

Effect: Without adequate procedures and controls there is an increased risk of loss or misuse of Federal funds as well as noncompliance with Federal regulations.

Recommendation: We recommend the Agency perform monthly reconciliations between the estimated allocations and the actual allocations. Any necessary adjustments to the cash draw should be made in a timely manner. This reconciliation should be reviewed by management and maintained on file. We also recommend the

Agency implement controls over the Federal benefit cash draws which are drawn from the Trust Fund. These controls should include a review by a second individual to ensure the accuracy of the draw and to ensure they are within Federal regulations.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Management will ensure cash draws are adjusted in a timely manner, by using the actual allocation in the process. Finance will be preparing the general ledger for the UI unit, which will reconcile the benefit payments and the tax payment systems.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2010

<u>Finding #09-23-10</u>

Program: CFDA 17.225 – Unemployment Insurance Federal, ARRA UI Federal, UI State, and UI Admin – Reporting

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State shall prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with § 310 including total Federal awards expended for each individual Federal program and the CFDA number. A good internal control plan requires adequate procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA. We informed the Department of Administrative Services (DAS) and the Agency of the errors and the SEFA was subsequently adjusted. A similar finding was noted in the prior audit.

Questioned Costs: None

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

	Originally Reported	Corrected SEFA Amount	Variance
UI - Federal	$ 1,892,018	$ 50,107,139	$ 48,215,121
ARRA UI - Federal	$ 10,466,900	$ 18,493,533	$ 8,026,633
UI - State	$ 147,665,785	$ 156,002,849	$ 8,337,064
UI - Administration	$ 14,084,552	$ 13,626,333	$ (458,219)
ARRA UI – Administration	$ 82,386	$ 82,386	$ 0
Total	$ 174,191,641	$ 238,312,240	$ 64,120,599

Cause: Inadequate review.

Effect: Noncompliance with Federal regulations which could result in sanctions.

Recommendation: We recommend the Agency implement adequate procedures to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: DAS will be alerted that all numbers for the SEFA must have sign off from the Controller.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: June 2010

Finding #09-23-11

Program: CFDA 17.225 – Unemployment Insurance Federal, ARRA UI Federal, and UI State – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Title 29 CFR § 97.20(a) (July 1, 2008) 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.

OMB Circular A-133 § 300 states, "The auditee shall: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received… (b) 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. (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

The Unemployment Insurance Program Letter No. 11-09, dated February 23, 2009, Attachment A, Section F – Reporting Instructions – 1. ETA 2112 (OMB 1205-0154) states, "Transactions involving FAC benefits must be reported in the aggregate on the electronic ETA 2112 report. Information reflecting FAC transactions must be reported as follows: (2) Line 42a Temporary Federal Compensation. Report on line 42a column F the net amount of FAC paid."

A good internal control plan requires adequate procedures to reconcile reports to the accounting system and ensure amounts reported are accurate and in accordance with Federal regulations.

Condition: The Agency did not have adequate controls over the ETA 2112 and ETA 581 reports to ensure they were in accordance with Federal regulations.

All four ETA 2112 reports tested did not agree to supporting documentation.

Questioned Costs: Unknown

Context: The Agency prepares a series of Excel spreadsheets (referred to as "treasury spreadsheets") from original source documentation from the Tax Management System (TMS) for deposits and Benefit Payments System (BPS) for disbursements. These spreadsheets include daily activity tabs that are accumulated in the summary tabs for each spreadsheet. One of the spreadsheet tabs is a summary for the 2112 report.

We noted the treasury spreadsheets are not locked or finalized as of a certain date but may be edited at any time. We further noted there is no hard copy of the spreadsheets used to prepare a 2112 report. We also noted there is no review of the treasury spreadsheets to ensure the data that is manually entered is accurate.

Also, we noted there is no review of the 2112 report prior to submission to the Federal government.

We tested monthly 2112 reports for September 2008, February 2009, May 2009, and June 2009 and noted the following:

- The Unemployment Trust Fund balance per the September 2112 report had a variance of $8,912 compared to the supporting documentation provided. The Unemployment Trust Fund balance per the February, May, and June 2112 reports had a variance of $3,107,213. This was the result of a deposit received in February 2009 for the Modernization Act that was not reported on the 2112 reports. The ending balance for the Unemployment Trust Fund Account was over reported by $8,912 in September and underreported by $3,107,213 in February, May, and June.
- The Benefit Payment Account balance had variances from the supporting documentation provided. The beginning balance on the September report was underreported by $386. The ending balance on the September report of $694,340 agreed to one reconciliation the Agency provided. However, a second Agency reconciliation had a variance of $120,595 with the report. There was no support or explanation for why the Agency had two separate reconciliations or why there was a variance between the two reconciliations. The ending balance on the February report was underreported by $262.
- The amount reported as Net UI Contributions in the Clearing Account was a calculated amount and not supported by documentation.
- The amount reported as Net UI Benefits was a calculated amount and not supported by documentation.
- It was also noted during testing the amounts intended to be drawn for Unemployment Compensation for Ex-service members (UCX) was incorrectly drawn from the Unemployment Compensation for Federal Employees (UCFE) in May and June. The amounts were $14 and $258 respectively. Per review of the BPS Daily Accounting Journal these amounts were to be drawn from UCX. The amounts were reported on the 2112 reports as UCX.
- The amount reported for Temporary Federal Compensation (FAC) disbursement in the Benefit Payment Account was net of benefits and does not include the amount of Federal withholding. The 2112 was underreported by $136,215 in May 2009 and $176,703 in June 2009.
- The $2,331,250 reported for FAC deposits in the Benefit Payment Account on the June 2009 report was not correct. Per review of the supporting documentation provided the amount should have been $2,991,639.
- The Emergency Unemployment Compensation (EUC08) benefits paid on the June 2009 report was underreported by $28,066.
- The Agency did not provide support for the daily activity for June 3. Therefore, we could not verify the daily activity for this day for the Total Deposits in the Clearing Account, EUC08, FAC deposits, EUC08 disbursements, and FAC disbursements in the Benefit Payment Account.
- The February 2009 Unemployment Trust Fund included a transfer of $29,711 from UI benefits to Emergency Unemployment Compensation (EUC), however; there was no supporting documentation for this transfer. There was an adjustment of $172,407 to the UI Payroll Account on the June 2009 Treasury Spreadsheets

that had no supporting documentation. Auditor could not determine whether or not these amounts were reported on the respective February and June 2009 reports.

The ETA 2112 and the ETA 581 reports were not reviewed by a second individual other than the preparer to ensure the accuracy of the report.

Cause: Use of unprotected spreadsheets, clerical errors, and inadequate review.

Effect: Without adequate controls, there is an increased risk of loss or misuse of Federal funds as well as noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement adequate controls to ensure Federal expenditures are properly reported in accordance with Federal regulations.

Management Response: The Agency accepts the findings and the recommendations of the APA.

Corrective Action Plan: Finance will provide the backup and the general ledger for the UI functions. All items will be reviewed by at least two qualified finance personnel. The 2112 will be signed off by the Controller, in the same manner as the 9130. Program personnel will sign off on the 581 and check for errors, between previous quarter and this quarter. The Program personnel will include UI tax field manager, UI tax manager, TPS lead analyst and UI tax administrator. Finance will review the 581 to verify any financial information on the UI 581. It will tie back to a system of record.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: October 2010

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #09-25-02

Program: CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster; CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles

Grant Number & Year: Various

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

Criteria: The Cost Allocation Plan Methodology for Public Health Division Director's Office states "The cost center will be allocated to all other cost centers in the division based on the labor hours, LH, in each cost center." A good internal control plan requires changes to the cost allocation template be documented and reviewed by a separate individual.

Condition: For 1 of 10 cost pools tested for the Public Health Division Director's office cost center, the labor hours from the cost allocation ledger could not be traced to the NIS Time and Pay Detail records.

Questioned Costs: $21,482

Context: Business Unit 25550558 is included in the 25C25210 cost pool; however, for the entry tested the hours were assigned to the 25C24170 cost pool. Therefore, the 25C24170 cost pool had 2,343.24 hours assigned. However, the Time and Pay History report and the Job Status inquiry for the 25C24170 cost pool only shows a total of 903.24 hours. The difference is the 1,440.00 hours in Business Unit 25550558 which are not supposed to be assigned to the 25C24170 cost pool. As a result, the Child Care and Development Fund Cluster was undercharged and the Medical Assistance Program was overcharged a total of $42,964 (Federal share $21,482) for the quarters ended March 31, and June 30, 2009.

Cause: Clerical errors by an employee making changes.

Effect: Costs were not properly charged to Federal programs.

Recommendation: We recommend the Agency ensure costs are allocated in accordance with the Cost Allocation Plan. We further recommend the Agency implement procedures to ensure any changes are authorized and reviewed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Cost allocation procedures require that any changes to NIS cost allocation setup be reviewed with other cost allocation staff and the manger prior to any changes being made in NIS. This procedure ensures that the change will accomplish its intended purpose and will not affect other parts of the plan. All staff has been reminded of these procedures. The Medicaid and Child Care Development Grant reports will be corrected.

Contact: Larry Morrison

Anticipated Completion Date: January 30, 2010

Finding #09-25-03

Program: CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster; CFDA 93.563 – Child Support Enforcement – 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 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: We noted the Agency did not have procedures for the certification of payroll for individuals whose time was charged to a single Federal program. This was also noted in our 2006, 2007, and 2008 audit reports.

Questioned Costs: $6,613

Context: The Agency had 6,504 employees at June 2009. We tested one biweekly pay check date from the fiscal year for 25 employees and noted 3 employees who worked on a single Federal program did not have payroll certifications. The total amount of payroll expenditures tested was $44,106; of this amount 2 employees tested directly charged the Child Care and Development Fund Cluster for $2,161 and $1,921 and 1 employee directly charged Child Support Enforcement for $2,531.

Cause: The Agency had not completed implementation of a time keeping system which will address the issue.

Effect: The Agency was not in compliance with OMB Circular A-87. There is an increased risk for payroll costs to be improperly charged to Federal programs.

Recommendation: We recommend the Agency comply with Federal regulations and ensure all employees whose hours are directly charged to a single Federal program have periodic certifications.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Effective June 30, 2009, all staff report work time electronically, which includes an electronic certification.

Contact: Larry Morrison and Linda Gerner

Anticipated Completion Date: Completed June 30, 2009

Finding #09-25-04

Program: CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster; CFDA 93.658 – Foster Care Title IV-E; CFDA 93.667 – Social Services Block Grant; and CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles

Grant Number & Year: Various

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

Criteria: The Cost Allocation Plan states, "The cost center will be allocated to the benefiting programs based on time and effort reports prepared by DHHS Resource Developers in the cost center." OMB Circular A-87 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: (d) They must be signed by the employee." A good internal control plan requires procedures to ensure all employees and hours are correctly included in the time and effort allocation calculations.

Condition: The time and effort reports utilized to allocate costs of the Service Area – Resource Development cost center for the quarter ended June 30, 2009, were not correctly accumulated to arrive at the allocation percentage. A similar finding was noted in our 2005, 2006, 2007, and 2008 audit reports.

Questioned Costs: Unknown

Context: There were 73 employees hours included in the Resource Development Allocation and costs of $1,271,091 were allocated from this cost pool for the quarter ended June 30, 2009. We tested 10 employees from the Time Summary Report and 10 employees from the weekly Time Study Forms for a total of 20 employees tested. We noted 4 of 10 employees on the Time Summary Report did not agree to the weekly Time Study Forms; 4 of 10 employees traced on the weekly Time Study Forms did not agree to the Time Summary Report; 1 employee tested reported an extra 2.25 hours per week for three weeks; and 1 employee tested did not sign their weekly Time Study Forms. We also noted 1 of 73 resource developers had time charged to the wrong business unit and therefore indexed to the incorrect cost pool. A detailed description by employee is noted below:

- One employee did not have a weekly Time Study Form for the week ending 5/31/09.

- One employee recorded 8 hours of vacation and 8 hours of Foster Care-Recruiting & Other on 5/13/09 and there should only be 8 hours in total. The employee recorded 38 hours to Foster Care-Recruiting & Other and 8 hours of vacation; however, on the Time Summary Report, there were 38 hours to Foster Care-Recruiting & Other and no hours coded to vacation for the week ended May 17, 2009.

- One employee had time miscoded on the Time Summary Report for the weeks ended April 5, 2009, April 19, 2009, April 26, 2009, June 21, 2009, and June 28, 2009, from what was reported on their weekly Time Study Forms. For the week ended April 5, 2009, they recorded 4 hours to Child Care, 2.5 hours to Adult Services and 7 hours to Medicaid. However, the Time Summary Report had 4 hours to Adult Services, 2.5 hours to Medicaid and 7 hours to Other State Programs. For the week ended April 19, 2009, they recorded 6 hours on a blank line, 5 hours to Child Care, and 2 hours to Medicaid. However, the Time Summary Report had 6 hours to Child Care, 5 hours to Adult Services, and 2 hours to Other State Programs. For the week ended April 26, 2009, they recorded 7 hours to Child Care and 7.75 hours to Medicaid. However, the Time Summary Report had 7 hours to Adult Services and 7.75 hours to Other State Programs. For the week ended June 21, 2009, they recorded 5 hours to Child Care and 1 hour to Adult Services. However, the Time Summary Report had 5 hours to Adult Services and 1 hour to Medicaid. For the week ended June 28, 2009, they recorded 11.75 hours to Child Care and 2.25 hours to Adult Services. However, the Time Summary Report had 11.75 hours to Adult Services and 2.25 hours to Medicaid.

- One employee had time miscoded on the Time Summary Report for the weeks ended April 12, 2009, May 10, 2009, and May 24, 2009. For the week ended April 12, 2009, they recorded 16.3 hours to Community Based Programs;

however, the Time Summary Report had 16.25 hours. For the week ended May 10, 2009, they recorded 12.75 hours to each Community Based Programs and Adult Services and 10.5 hours to Administration. However, the Time Summary Report had 15.25 hours to each Community Based Programs and Adult Services and 6 hours to Administration. For the week ended May 24, 2009, they recorded 16.25 hours to Adult Services; however, the Time Summary Report had 15.75 hours.

- One employee had 42.25 hours coded each of the weeks ended April 5, 2009, April 12, 2009, and April 19, 2009; which included 2.25 Vacation/Sick/Holiday hours. It appears the employee miscoded their time on the weekly Time Study Forms.

- One employee recorded 8 hours to Foster Care-Recruiting & Other on a Saturday June 13, 2009 (for the week ended June 14, 2009) and then recorded 8 hours as an adjustment under Vacation/Sick/Holiday/etc. on Monday June 15 (for the week ended June 21, 2009) to show the comp. time earned from June 13, 2009. They actually only worked 32 hours for the week ended June 21, 2009, but the Time Summary Report had 40 hours.

- One employee recorded 44.5 hours for the week ended June 21, 2009; however, the Time Summary Report only had 44 hours.

- One employee recorded 1 hour to Other State Programs and 5 hours to Administration for the week ended June 28, 2009; however, the Time Summary Report had 1 hour to Administration and 5 hours to Vacation/Sick/Holiday.

- One employee recorded 15.5 hours to Child Care and 14 hours to Adult Services for the week ended June 14, 2009; however, the Time Summary Report had 15.5 hours to Adult Services and 14 hours to Medicaid.

- One employee's time paid was split between BU 25C21910 Administration and BU 25C21940 Resource Development; all of their pay should be from BU 25C21940 Resource Development.

- Weekly Time Study Forms were not signed by one employee.

Cause: Clerical errors.

Effect: Failure to correctly record employees' time increases the risk of incorrect allocations to benefiting programs.

Recommendation: We recommend the Agency ensure Resource Developers submit signed weekly Time Study Forms, and also ensure the time and effort amounts be recorded correctly on the Time Summary Reports which are used to prepare allocations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The paper reporting and the clerical process that led to the items noted were discontinued in September 2009. All Resource Developers time and effort reporting was incorporated into the Agency's electronic time reporting system.

Contact: Larry Morrison

Anticipated Completion Date: Completed September 30, 2009

Finding #09-25-05

Program: CFDA 93.767 – Children's Health Insurance Program (CHIP) – Reporting

Grant Number & Year: #050805NEMSEA, FFY 2008; #050905NE5021, FFY 2009

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

Criteria: Title 45 CFR § 92.20 (October 1, 2008) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. The Nebraska Information System (NIS) is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. A good internal control plan requires procedures to reconcile the accounting system to the reports required to be submitted.

Condition: The Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

Questioned Costs: Unknown

Context: We noted the amount of CHIP aid expenditures recorded in the NIS General Ledger from March 1, 2009, to June 30, 2009, were $13,350,464 and the amount of expenditures reported on the CMS-64 report were $12,216,020 for a variance of $1,134,444. The Agency was able to explain $75,296 of the variance; however, $1,059,148 of the variance was not explained. The finding was formally discussed with the Agency on November 3, 2009. On December 2, 2009, the Agency provided additional information to explain $1,022,573 of the variance, for a remaining unexplained variance of $36,575. A similar finding was noted in the prior audit.

Cause: There has been repeated turnover in the staff responsible for the preparation of the reconciliation.

Effect: Without adequate procedures to reconcile NIS to the required periodic reports, there is a risk of misuse of funds and/or inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all reported amounts to NIS and explain any variances.

Management Response: The Agency partially agrees with the condition reported. The amounts reported on the CMS-64 were correct.

Corrective Action Plan: The Agency 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. A draft reconciliation process/proposal will be submitted to the Centers for Medicaid and Medicare Services (CMS) on December 15, 2009.

Contact: Kim Collins

Anticipated Completion Date: December 15, 2009

<u>Finding #09-25-06</u>

Program: CFDA 93.778 – Medical Assistance Program and ARRA – Medical Assistance Program – Matching and Reporting

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR § 92.20 (October 1, 2008) 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. Title 42 CFR § 433.10 (October 1, 2008) provides for payments to states, on the basis of a Federal medical assistance percentage. The Nebraska Information System (NIS) is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. A good internal control plan requires procedures to reconcile submitted reports to the accounting system.

Condition: We noted the Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

Questioned Costs: Unknown

Context: The Agency prepared a reconciliation to compare the CMS-64 reported amount to the NIS General Ledger; however, the procedures were not adequate. We reviewed two quarterly reports and noted the following:

- The Agency reconciliation amount did not agree to the current quarter expenditures reported on the CMS-64 report. The period ended December 2008 reported current quarterly expenditures and collections of $390,306,527 and the reconciliation showed $389,962,888; the variance of $343,639 was not explained. The reconciliation for the quarter ended June 2009 had an unexplained variance of $33,303,249. On December 2, 2009 the Agency provided additional information to explain $25,761,741. On January 21, 2010 the Agency provided another reconciliation for the June 2009 quarter. This reconciliation noted seven items needing adjustment ranging from ($292,189) to $310,681 for a net total of $43,684. There was also a payment originally processed in June 2009 and corrected in August 2009, that has not yet been reported (Federal share $970,600). A remaining variance of ($434,475) was due to timing differences.

- The reconciliation noted where amounts were obtained from sources other than NIS to be included in the CMS-64 report; however, the amounts were not shown in the reconciliation, variances between NIS and reported amounts were not reconciled, and explanations were not documented. We also noted certain NIS amounts were excluded from the reconciliation (e.g. the expenses were not eligible for Federal funding); however, the amounts and explanations for the exclusions were not documented. The Agency should have written procedures and include adequate explanations for all reconciling items.

- The Agency utilized amounts from the NIS General Ledger, MMIS, NFOCUS, and other sources to prepare the quarterly CMS-64 report. It is necessary for the Agency to utilize MMIS and NFOCUS in order to report expenditures by service category as required; however, as all payments must be processed through the NIS General Ledger, the CMS-64 report should be reconciled to NIS. In addition, MMIS and NFOCUS only record the total expenditure, not the breakdown of Federal funds versus State match. Only the NIS General Ledger records the Federal/State funding source. The Agency prepares a monthly reconciliation of MMIS and NFOCUS; however, we reviewed the December 2008 reconciliations and noted a $224,325 variance of MMIS to NIS and a $4,483 variance of NFOCUS to NIS.

- The reconciliation was prepared for total Medicaid expenditures only, not separated by Federal funding and State match. Therefore, we could not determine if the Federal share reported agrees to Federal funds actually spent, or if State match requirements were met. The Agency's policy is to match each document paid to ensure requirements are met. Our testing of individual documents noted no exceptions.

A similar finding was noted in our 2006, 2007, and 2008 audit reports.

Cause: The methodology to reconcile reports to the NIS General Ledger was developed in fiscal year 2006 and first implemented in fiscal year 2007. Due to employee turnover in the position responsible for performing the reconciliation, there has been little progress in addressing the issues noted.

Effect: Without adequate reconciliation procedures 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 develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the General Ledger. This reconciliation should include a separate determination for Federal funds and State match.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency now has a documented methodology for reconciliation that will be used each quarter. The methodology includes a spreadsheet that shows 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: As of February 1, 2010 a completed reconciliation was performed on the April – June 2009 quarter. This reconciliation process will be completed on all subsequent quarters.

Finding #09-25-07

Program: CFDA 93.778 – Medical Assistance Program – Allowability and Subrecipient Monitoring

Grant Number & Year: #050805NE5048, FFY 2008; #050905NE5048, FFY 2009

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

Criteria: OMB Circular A-87 states that to be allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-133 §_.400(d) states, "A pass-through entity shall perform the following for Federal awards it makes: …(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved… (4)

Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year… (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

Condition: We noted the Agency did not have procedures to adequately monitor two subrecipients who received Medical Assistance Program funds and did not have adequate documentation to support the payments were for the correct amount.

Questioned Costs: Unknown

Context: The Medicaid School-Based Administrative Claiming Guide provided by the Centers for Medicare and Medicaid Services states, "The school setting provides a unique opportunity to enroll eligible children in the Medicaid program, and to assist children who are already enrolled in Medicaid to access the benefits available to them. Medicaid, a joint state-federal program, offers reimbursement for both the provision of covered medical services and for the costs of administrative activities, such as outreach, which support the Medicaid program." The Agency has agreements with two consortiums which distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by the school to enroll and assist children in Medicaid. The Agency reviews the claims to ensure the correct indirect cost rates and Medicaid Eligibility Rates are utilized; however, does not perform procedures to ensure total expenditure amounts claimed are correct. The Agency paid a total of $16,022,900 Federal funds to the Nebraska Schools Medicaid Consortium (NSMC) and the Nebraska Association of School Boards Medicaid Consortium during the year who distributed the funds to schools. The Agency receives three percent of the total claim back from the consortiums for administration.

There were not adequate procedures for monitoring the subrecipients to ensure the amounts paid were correct and the subrecipients did not submit A-133 audits to the Agency. This was also noted in our 2008 audit report.

Cause: The Agency did not request A-133 audits and did not utilize the three percent administration funds to perform on-site monitoring.

Effect: Without adequate procedures there is an increased risk for fraud or errors to occur.

Recommendation: We recommend the Agency implement procedures to ensure payments for school claims are accurate. The Agency should obtain and review A-133 audit reports. The Agency should also consider the need to perform on-site reviews on a sample basis, or obtain sufficient documentation from the consortiums to determine consortium procedures are adequate to ensure claims are proper.

Management Response: The Agency partially agrees with the condition reported.

Corrective Action Plan: Extensive time and effort has been spent by the Agency including its legal counsel to develop new contracts with each of the two (2) public schools consortiums. Provisions are included in these new contracts that require both consortiums "*…submit A-133 audits to the Agency…*" in order "*…to ensure the amounts paid are correct*." Additionally, we review ALL claims for the proper application of Indirect Cost Rates (IDCR) and Medicaid Eligibility Rates (MER). We also confirm the time-study percentage calculations that are applied to all claims made for each respective quarter.

Contact: Jon Sterns

Anticipated Completion Date: Complete and Ongoing

Finding #09-25-08

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #050905NE5028, FFY 2009

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

Criteria: OMB Circular A-87 requires costs be reasonable, necessary, and adequately documented. A good internal control plan requires procedures be in place to ensure amounts paid to providers are correct.

Condition: The amount paid to Hastings Regional Center (HRC) to adjust the daily interim rate to actual costs for State fiscal year 2008 was incorrect.

Questioned Costs: NA

Context: During the year HRC, a division of the Agency, is paid a daily rate for services provided to Medicaid clients. At the end of the year HRC sends cost reports to Financial Services and the Agency reimburses the difference between actual costs and what has already been paid via the interim per diem. A reimbursement for $2,740,046 and was made on June 23, 2009. There was no verification performed to ensure the cost report was correct before payment was made. During a monthly budget review Agency management suspected HRC's cash balance was too high, reviewed the cost report, and discovered HRC had been overpaid by $1,769,446. An adjusting journal entry was made on August 26, 2009.

Cause: The Agency does not review cost reports from regional centers before they are paid.

Effect: Overpayments to regional centers could occur and not be detected.

Recommendation: We recommend the Agency implement procedures to ensure cost reports that are relied upon to pay regional centers are correct.

> **Management Response:** The Agency does not agree with the cause and recommendation. The Agency did have a review of the cost report by a separate Division before payment was made and had an internal control process in place that detected this improper payment and corrected it in a timely manner.
>
> **Corrective Action Plan:** N/A
>
> **Contact:** Willard Bouwens, Finance Administrator
>
> **Anticipated Completion Date:** N/A

APA Response: The review of the cost report by a separate Division is not adequate to ensure the cost report relied upon to pay the regional center is correct. The Agency did not identify and correct the error until after the payment was made. Although, the monthly budget review did detect the $1,769,446 error and may be sufficient to detect material errors, we do not believe it is sufficient to detect less significant overpayments.

<u>Finding #09-25-09</u>

Program: CFDA 93.778 – Medical Assistance Program – Matching

Grant Number & Year: #050905NE5028, FFY 2009

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

Criteria: Per 42 CFR § 433.10 (October 1, 2008) "Sections 1903(a)(1), 1903(g), and 1905(b) provide for payments to States, on the basis of a Federal medical assistance percentage, for part of their expenditures for services under an approved State plan." The Federal Medical Assistance Percentage (FMAP) is used in determining the amount of Federal matching funds for assistance payments for State medical expenditures. The FMAP is calculated by the U.S. Department of Health and Human Services and the percentage changes each Federal fiscal year (FFY). A good internal control plan requires procedures be in place to ensure claims are paid at the correct FMAP.

Condition: The FFY 2009 FMAP was used to pay for FFY 2008 and FFY 2007 costs.

Questioned Costs: $55,933

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 costs to Medicaid. The Agency made an adjustment in May 2009 to transfer eligible expenditures from State Disability to Medicaid. The Agency charged all the expenditures using the FFY 2009 FMAP of 59.54%, even though some of the obligations originated during FFY 2008 and FFY 2007. The FFY 2008 and FFY 2007 rates of 58.02% and 57.93%, respectively, should be used for the claims originating in those periods. The Agency charged $3,697,651 to the FFY 2009 grant. Using the prior FMAP rates where applicable, the amount charged should have been $3,641,718 for a difference of $55,933. The claim amounts for FFY 2008 and FFY 2007 should be reported on the CMS-64 report as a prior period adjustment.

A similar finding was noted in our 2007 audit report.

Cause: The Agency believed their procedure was correct. The Agency considered the expenditure as not incurred by Medicaid until the State Disability recipient was identified as Medicaid eligible.

Effect: Federal funds were overcharged by $55,933.

Recommendation: We recommend the Agency use the FMAP rates for the time period when the State Disability claim originated, and report the amount on the CMS-64 report as a prior period adjustment.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A process for all future claiming of eligible expenditures from State Disability to Medicaid has been developed with CMS. The match rate used in future journal entries will be the match rate that was in effect at the time the claim originally processed. On the CMS-64 report, expenditures will be reported as prior period adjustments, identifying the time period being adjusted (and the match rate in effect at that time). A correcting entry was made to the July – September 2009 CMS-64 report for these expenditures originally reported in the April – June 2009 CMS-64.

Contact: Kim Collins

Anticipated Completion Date: Complete

Finding #09-25-10

Program: CFDA 93.778 – Medical Assistance Program and ARRA – Medical Assistance Program – Special Tests and Provisions

Grant Number & Year: All open grants

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

Criteria: Per Title 471 NAC 10-010.03U, the Agency periodically performs or receives cost report audits to monitor the accuracy of data used to set rates and audits should be performed as determined appropriate by the Agency. A good internal control plan requires reevaluation of inpatient hospital rates for non-critical access hospitals be performed timely.

Per Title 471 NAC 10.010.06, the effective date of the cost-to-charges ratio is the first day of the month following the Agency's receipt of the cost report.

A good internal control plan requires procedures be in place to ensure cost reports for all Medicaid hospitals are received, a second individual be involved in the hospital cost reports process, and that the review on MMIS of the annual inflationary increase to inpatient rates for non-critical access hospitals be documented.

Condition: During our testing of hospital inpatient and outpatient rates, we noted the following:

- The Agency did not have a timely study performed of inpatient rates for non-critical access hospitals;
- For 4 of 15 hospital cost reports tested, the cost report was not reviewed timely and the new outpatient cost rate was not entered into MMIS timely;
- The Agency did not have a procedure in place to ensure cost reports for all hospitals were received;
- There was a lack of segregation of duties over the hospital cost reports process;
- The review on MMIS of the annual inflationary increase to inpatient rates for non-critical access hospitals was not documented.

Questioned Costs: Unknown

Context: The Agency uses several methods to determine rates for hospital inpatient and outpatient services.

Inpatient rates are determined based on whether the hospital is designated a critical access or a non-critical access hospital. Being a critical access hospital is a special designation for approved rural hospitals. For these hospitals, inpatient rates are based on actual costs. For non-critical access hospitals, rates are determined based on which peer group the hospital is in (acute, rehabilitation, or psychiatric) and which service is provided. The base rates were determined based on a study performed by an independent contractor during State fiscal year 2001, and the rates have been updated for inflation each subsequent fiscal year.

Outpatient rates and critical access inpatient rates are determined based on the cost report each hospital files with the Agency each year. A calculation is performed by the Agency based on allowable costs in the cost reports to determine, for each individual hospital, what its outpatient rate will be.

During State fiscal year 2009, the Agency hired an independent contractor to evaluate and rebase inpatient rates for non-critical access hospitals. Since the previous study was not performed since State fiscal year 2001, it is likely actual costs for inpatient services of the non-critical access hospitals have changed significantly and certain hospitals and/or services have been overpaid or underpaid relative to actual costs incurred. The new rates will be effective for State fiscal year 2010. The inpatient rates for non-critical access hospitals are increased in MMIS each year for inflation. However, the review by a second individual to ensure the update was performed correctly was not documented.

Five months after the end of each hospital's fiscal year, their cost report is due to the Agency. During the audit period there was not a procedure in place to ensure all hospital cost reports were received and reviewed timely. Cost reports tested were reviewed for outpatient rates between one and nine months late. One person in the Agency was in charge of receiving the cost reports, calculating the cost-to-charge ratio for outpatient rates, adjusting inpatient rates for critical access hospitals, making the adjustments in MMIS, and correspondence with the hospital.

Cause: Unknown

Effect: Without a timely study, non-critical access hospitals could be paid for inpatient costs based on rates that are no longer representative of costs incurred. When outpatient rates are not updated timely in MMIS, there is an increased risk providers are being paid an outdated amount for outpatient services. When there are no procedures in place to ensure cost reports are being received, there is an increased risk cost reports will not be turned in, resulting in untimely reviews of the cost reports. When one person performs all duties related to the hospital cost report process, there is an increased risk error or abuse will occur and be undetected. Without documentation of the review of the annual inpatient rates increase for non-critical access hospitals, there is no accountability that the review was performed and performed correctly.

Recommendation: We recommend the Agency implement procedures to ensure reevaluation of inpatient rates for non-critical access hospitals are performed timely. We also recommend the Agency implement procedures to ensure all cost reports are being received, cost reports are reviewed timely, new rates are calculated timely, and a second individual review the process to ensure it is correct. Finally, we recommend the Agency document its review of the annual inpatient rate increase for non-critical access hospitals on MMIS to ensure it is correct.

Management Response: The Agency agrees with the conditions reported.

Corrective Action Plan: The Agency will continue to evaluate and rebase inpatient rates every three years.

A process has been put into place for the entry of the rates and validation of those rates. This process will also be documented in a workbook.

Contact: Margaret Booth, Medical Services Unit Manager

Anticipated Completion Date: Complete

Finding #09-25-11

Program: CFDA 93.778 – Medical Assistance Program and ARRA – Medical Assistance Program – Allowability

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations. Per Title 480 NAC 5-006, all home and community-based waiver providers shall bill only for services which are authorized and actually provided. A good internal control plan requires the Agency ensure providers are not being paid for unauthorized services. Good internal control also requires the Agency ensure supporting documentation submitted by providers for billings are mathematically correct.

Condition: For testing of the Aged and Disabled Waiver program, we tested 20 assisted living claims and 20 home-based claims. We noted three of 20 home-based payments were made for the incorrect amount. One of the payments was for services that exceeded prior authorization. For the other two payments, supporting documentation did not agree with the amount the provider requested for payment, due to mathematical errors.

Questioned Costs: $17

Context: The following issues were noted:

- One provider was authorized to provide 15 hours of chore service to the client each week. The provider billed and was paid for 16.25 hours in one week for a Federal overpayment of $12.

- One provider billed for an additional hour of chore service that was not supported by the client's records. The Federal overpayment was $5.

- One provider billed for 10.5 hours fewer than was actually provided per the supporting documentation. The Federal underpayment was $68.

Federal payment errors noted were $17 in overpayments and $68 in underpayments. The total Federal sample tested was $4,174 and total payments for the home-based Aged and Disabled Waiver program were $18,625,162. Based on the sample tested, the case error rate was 7.5% (3/40). The dollar error rate for the sample was 0.41% for overpayments ($17/$4,174) and 1.63% for underpayments ($68/$4,174) which estimates the potential dollars at risk for fiscal year 2009 to be $76,363 in overpayments and $303,590 in underpayments for a net effect of $227,227 in underpayments (dollar error rate multiplied by population).

Cause: Inadequate review of supporting documentation of claims submitted by providers.

Effect: Without an effective review of supporting documentation submitted by providers for payment, there is an increased risk providers will bill and be paid for unauthorized services or incorrect amounts.

Recommendation: We recommend the Agency implement procedures to ensure providers are not paid for unauthorized services, and they are paid the correct amount.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will share findings of the audit with contracted services coordination supervisors and will emphasize the importance of careful review of supporting documentation of claims submitted by providers and checking of mathematical calculations to ensure accurate payments. The Agency will direct supervisors to 1) analyze internal office processes to determine if procedural changes can be made to improve the integrity of the billing process and 2) submit their claims payment approval process in writing to the HCBS Waiver Services Unit for review and recommendations. In addition, the Agency will remind supervisors that service authorizations must be written to address the needs of the client, and may appropriately be written for periods longer than a one week timeframe, to allow for needed flexibility in providing timely services as a client's health condition fluctuates.

Contact: Kay Wenzl, Administrator, HCBS Waiver Services Unit

Anticipated Completion Date: March 30, 2010

Finding #09-25-12

Program: CFDA 93.778 – Medical Assistance Program and ARRA – Medical Assistance Program – Allowable Costs/Cost Principles

Grant Number & Year: All open grants

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

Criteria: States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Per 42 CFR § 433.138 (October 1, 2008), "the agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan." States are required to operate a Medicaid Eligibility Quality Control (Quality Control) system. Quality Control redetermines eligibility for individual sampled cases. Per OMB Circular A-87, to be allowable under Federal awards, costs must be the net of all applicable credits. A good internal control system requires procedures to ensure third party liability is properly identified. Third party liability information should agree within all financial systems utilized. A good internal control system also requires procedures to ensure any discrepancies noted are resolved and corrected in a timely manner.

Condition: The Agency did not perform adequate procedures to ensure third party liability information discrepancies were corrected.

Questioned Costs: Unknown

Context: As part of the State's Medicaid pilot program, Quality Control selected a sample of cases on a monthly basis and compared the number of health insurance policies entered in MMIS to the number of health insurance disregards allowed in the NFOCUS budget. Discrepancies between MMIS and NFOCUS were forwarded to the supervisor of the responsible case worker for appropriate corrective action. Further disputes over findings were forwarded to Medicaid staff for follow up.

During our testing of 25 cases, we noted Quality Control identified 5 unacceptable findings with third party liability discrepancies. We tested the 5 unacceptable findings to determine if corrective action had been taken on the errors noted. As of July 2009, corrective action had not been taken on 4 of the unacceptable findings tested. Per discussion with Agency staff, it was noted further follow-up procedures were not performed on Quality Control findings disputed by the case workers.

Cause: Inadequate follow up by Medicaid staff to ensure corrective actions were taken.

Effect: When proper corrective actions are not taken, there is an increased risk Federal funds will be spent on medical services covered under clients existing health insurance policies.

Recommendation: We recommend the Agency strengthen their procedures to ensure appropriate corrective actions are taken on all findings noted by Quality Control. Additional procedures should include a management-level review and follow up on all findings.

Management Response: The Agency agrees with the conditions reported.

Corrective Action Plan: Management has set up procedures that include a review and follow-up on all QC-1 findings.

Contact: Jeanette (Jeanie) Harris, Program Specialist

Anticipated Completion Date: Complete

<u>Finding #09-25-13</u>

Program: CFDA 93.563 – Child Support Enforcement – Suspension & Debarment

Grant Number & Year: All open grants

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

Criteria: Per 2 CFR § 180.300 (January 1, 2008), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. OMB Circular A-133 § 300 states the auditee shall "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."

Condition: We noted the Agency did not perform procedures to ensure one contractor tested was not suspended or debarred by the Federal government.

Questioned Costs: None

Context: New contractors are required to disclose their work history and whether any contracts have been terminated in the last five years. The Agency follows up on these leads before awarding contracts. However, the Agency does not specifically verify the contractor is not suspended or debarred by the Federal government. We tested one contractor who was paid $4,278,156 in Federal funds during the fiscal year and noted the Agency did not check the EPLS, collect a certification, or include a clause in the contract regarding suspension and debarment. The Agency has worked with the contractor for several years and the contractor was not on the EPLS, however, the Agency did not comply with 2 CFR § 180.300.

Cause: The Agency has a standard clause in their contract template; however, this contract was procured through the Department of Administrative Services and did not have the clause included. The Agency believed the Department of Administrative Services was checking the EPLS.

Effect: The Agency could be unaware that it is contracting with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure all contractors are not suspended or debarred by the Federal government.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Procedures have been put in place to ensure that all contractors have not been suspended or debarred by the Federal government. This will be accomplished by checking the contractors on the EPLS website to make this determination.

Contact: Byron Van Patten, Administrator Child Support Enforcement

Anticipated Completion Date: Completed October 1, 2009

Finding #09-25-14

Program: CFDA 93.563 – Child Support Enforcement – Subrecipient Monitoring & Matching

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 § 400(d) Pass-through entity responsibilities, states "A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award." OMB Circular A-87 requires match to not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award. A good internal control plan requires the Agency verify subrecipient match complies with Federal regulations.

Condition: The Agency could not provide documentation showing whether or not clerk of the district court subrecipients were notified of the award information. The Agency did not ensure match received from the subrecipients was from an allowable source.

Questioned Costs: N/A

Context: The non-communication of award information is a prior finding. The Agency corrected the finding for county attorney subrecipients when their contracts were renewed on October 1, 2008. The clerk of the district court subrecipients agreements will not be renewed until October 1, 2011.

When quarterly expense reimbursement documents were received, an Agency employee ensured all expenditures claimed were allowable expenditures. However, no procedure was performed to verify the subrecipients' matching funds were general funds and not Federal funds for other grants.

Cause: The Agency is planning to correct the award notification finding on October 1, 2011. The Agency felt it was already performing adequate procedures to verify subrecipient match.

Effect: When the Agency fails to notify the subrecipients of award information, there is an increased risk of noncompliance with Federal laws and regulations and an increased risk of improper reporting. When the subrecipient match is not verified to be from an allowable source, there is an increased risk for noncompliance.

Recommendation: We recommend the Agency notify the clerk of the district court subrecipients of required award information prior to October 2011. A letter with the required information could be sent to all subrecipients. We also recommend the Agency require its subrecipients to certify matching funds come from allowable, non-Federal sources.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Clerks of the District Courts (Clerks) were notified, in writing, on August 27, 2002, of Child Support's Grant Number and CFDA Number. Language explaining that the Agency will identify Federal awards by informing each subrecipient of the CFDA title and number, award name and number, award year, if the award is R&D, and name of the Federal Agency, will be included in the next cooperative agreement between the Agency and the Clerks as explained to the APA. The CFDA and Grant numbers given to the Clerks in August of 2002 has not changed. A letter will be sent to the Clerks in 2010 to remind them of this information. This information will also be included in the Agency's Cooperative Agreement with the Clerks in June of 2011.

Child Support Enforcement Finance will include a statement in the quarterly expense form submitted by the Clerks of the District Courts and County Attorneys' offices stating that matching funds were general funds and not Federal funds for other grants.

Contact: Byron Van Patten, Administrator, Child Support Enforcement

Anticipated Completion Date: Update form for use on expenses submitted for the quarter ending March 2010.

Finding #09-25-15

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

Grant Number & Year: #0G0801NESOSR, FFY08; #0G0901NESOSR, FFY 2009

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

Criteria: Title 45 CFR § 96.30 (a) (October 1, 2000) 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." 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 2-005.04B Client Relatives as Providers states, "The Department discourages authorization of providers who are related to the clients they serve. Before considering a relative provider, the worker shall determine that the provider would not donate his/her service to the client at no cost." Title 473 NAC 5-001.06 Maximum Rates and Allowable Units states that a chore task should be charged at a rate of $5.00/job, hourly chore housekeeper should be charged at the Federal minimum wage, and full-time chore housekeeper should be charged at $10.00/day. Title 473 NAC 5-002.06 Maximum Rates and Allowable Units states that day services at a center should be charged at $7.50/day. Title 473 NAC 5-018.06B4 Escort Providers states, "The mileage rate for escort providers must not exceed the state employee mileage rate … The hourly rate is set by DHHS Central office." Title 473 NAC 5-018.05E2 Utilization of Common Carrier states, "When transportation is provided by common carrier provider, the provider may not charge an extra cost for transporting the escort." A good internal control plan requires that supporting documents submitted for payment from the provider are signed by the client as evidence of services received.

Condition: We noted that 20 of 40 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations.

Questioned Costs: $91 known

Context: For eight claims tested, there was not adequate supporting documentation for the services provided. Four claims were not supported by a client signature as evidence of services received. Two claims did not have chore tasks adequately identified on the supporting documentation. One claim for meals delivered had no support other than the billing document and a claim for transportation did not have a signature by the client and no documentation other than the billing document to justify the expenditure.

Thirteen claims tested did not comply with the rates and procedures listed in Title 473 NAC. Of these, three claims were paid at rates which exceeded the Federal minimum wage, contrary to NAC regulations. One medical escort claim tested was not paid, per Title 473 NAC, at the rate established by DHHS Central office and another medical escort claim was not paid according to actual miles traveled. We also noted one claim tested included charges for two escorts transported by a common carrier provider. Seven other claims tested were paid at rates which exceeded Title 473 NAC; however, these were flat rates established in 1983 and 1992. As the costs for these claims appeared reasonable and the NAC rate was clearly outdated, no questioned costs were accumulated for the flat rate exceptions; however, the Agency needs to have the NAC manual updated and approved as soon as possible. The Agency was unable to provide a signed HHS-2A Exception Form to approve an exceeding rate for these claims.

In addition, three claims tested had a relative of the client as the service provider. Per Title 473 NAC, support should be maintained to document that the relative would not donate his/her service to the client at no cost. However, the Agency was unable to produce the needed documentation for these three claims.

Total Federal questioned costs noted during testing were $91. The total Federal sample tested was $590 and total SSBG Federal assistance payments for fiscal year 2009 were $1,460,302. Based on the sample tested, the case error rate was 50% (20/40). The dollar error rate for the sample was 15.42% ($91/$590) which estimates the potential dollars at risk for fiscal year 2009 to be $225,179 (dollar error rate multiplied by aid amount). Similar errors were noted in our prior audit reports.

Cause: Repeated turnover in staff and numerous delays in efforts to update the NAC manual.

Effect: Noncompliance with the NAC manual and inadequate supporting documentation increases the risk of loss and/or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are made in compliance with State and Federal regulations and are supported by adequate documentation. We further recommend the Agency implement procedures to update NAC regulations as needed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan:

1) Update 473 NAC regulations. Regulations will include mechanism for determining rates but not name actual rates; revised regulations will also clarify transportation policies and procedures.

2) The Agency has determined that centralized management of Non-Emergency Transportation (NET) services would result in program efficiencies and is in process to secure services of a Non-Emergency Transportation Broker.

3) The Agency will issue a memo regarding Chore Services provider time sheets, stating that the updated time sheet (which requires client and provider signatures as well as a listing of each service occurrence) will be used or payment will not be issued.

Contact: Sarah Briggs, Unit Manager, Safety & Independence Supports Unit, Division of Medicaid & Long-Term Care and Roxie Cillessen, Unit Manager, Behavioral Health, Pharmacy & Ancillary Services Unit, Division of Medicaid & Long-Term Care.

Anticipated Completion Date:

1) Update 473 NAC regulations by December 31, 2010.

2) Transportation Broker RFP previously released; services to begin July 2010.

3) January 31, 2010

Finding #09-25-16

Program: CFDA 93.667 Social Services Block Grant – Allowability

Grant Number & Year: #0G0901NESOSR, FFY 2009

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

Criteria: Title 45 CFR § 96.30 (October 1, 2008) requires fiscal control and accounting procedures 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. A good internal control plan requires policies be in place to ensure documentation is maintained to support journal entries.

Condition: We noted supporting documentation was not maintained for one of two journal entries tested.

Questioned Costs: $171,063 known

Context: The Agency processed a journal entry that transferred $171,063 of Child Care expenditures to SSBG Federal funds. This transfer was performed to meet Federal regulations to participate in the Child and Adult Care Food Program. Child care expenses are allowable from SSBG Federal funds; however, the Agency was not able to provide detailed support for the transferred expenditures so that the underlying transactions could be tested.

Cause: Unknown

Effect: When supporting documentation is not maintained for journal entries, there is an increased risk for loss and/or misuse of Federal funds.

Recommendation: We recommend policies be strengthened to ensure documentation is maintained to support all journal entries processed by the Agency.

Management Response: The journal entry (JE) to transfer Child Care expenditures to SSBG Federal funds is required because of regulations published by the U.S. Department of Education, which require child care providers to participate in Title XX child care program in order to qualify for certain

Department of Education food programs. The amount of the JE was established when the Child Care Development Fund became the primary source of funds for child care expenditures.

Corrective Action Plan: Agency staff will contact the U.S. Department of Education to verify that this amount is still appropriate.

Contact: Kim Collins

Anticipated Completion Date: March 31, 2010

Finding #09-25-17

Program: CFDA 93.667 Social Services Block Grant – Allowability

Grant Number & Year: #0G0801NESOSR, FFY08; #0G0901NESOSR, FFY 2009

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

Criteria: Title 45 CFR § 96.30 (October 1, 2008) requires, "Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) 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." OMB Circular A-87 states, "to be allowable under Federal awards, costs must … not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award."

Condition: SSBG medical transportation claims originally paid in December 2008 with both State and Federal funds were transferred to Medicaid as paid solely with State funds.

Questioned Costs: Unknown

Context: Total SSBG medical transportation claims transferred from the General Fund for December were $540,947. Of this amount, $81,142 originated from and should have been credited to SSBG Federal funds. A similar finding was noted for all months in fiscal year 2008.

Cause: Clerical oversight, the Agency properly transferred other months except December.

Effect: The Agency charged Federal Medicaid funds for claims partially paid with Federal SSBG funds. Increased risk for fraud or errors to occur and not be detected.

Recommendation: We recommend the Agency strengthen procedures to ensure SSBG medical transportation claims are correctly transferred to Medicaid funds.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Agency staff will follow the established process to transfer expenditures.

Contact: Kim Collins

Anticipated Completion Date: Already implemented.

Finding #09-25-18

Program: CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Activities Allowed & Eligibility

Grant Number & Year: #0G0801NE1401, FFY 2008; #0G0901NE1401, FFY 2009; #0G0901NE1402, FFY 2009

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

Criteria: Per 42 USC § 672 (2008) funds may be expended for Foster Care maintenance payments on behalf of eligible children.

Per 45 CFR § 233.90(b)(3) (October 1, 2008), "a state may elect to include in its AFDC program children age 18 who are full-time students in a secondary school, or in the equivalent level of vocational or technical training, and who may reasonably be expected to complete the program before reaching age 19." A good internal control plan requires the Agency have procedures in place to ensure children 18 years old and receiving IV-E maintenance payments are in school.

Per 42 USC § 671(a)(20) (2008), the foster family home must have met both a criminal records check and a child abuse and neglect registry check.

Per Title 390 NAC 7-001.10, support will be provided to foster parents or relative foster parents in order to provide quality care for children. These supports include personal needs.

Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires procedures to ensure providers are not paid for services not provided. A good internal control plan also requires procedures to ensure adequate records are maintained to support payments were for the proper amount and paid to eligible providers.

Condition: We tested 42 Foster Care payments and noted 8 payments did not comply with Federal regulations.

Questioned Costs: $3,128 known

Context: We noted the following during our testing:

- For three maintenance payments, the child was ineligible because the child was 18 years old and was no longer going to school.

- For two maintenance payments, payment to the provider was unallowable because the child was no longer in the foster home.

- For two maintenance payments, the provider file could not be located. Therefore it could not be determined whether the provider met the required criminal records check or the child abuse and neglect registry check.

- For one personal needs payment, the payment was made directly to the foster child. In addition, receipts could not be located to support the personal needs.

Two maintenance payments made on behalf of children 18 years old with known questioned costs of $757 are not included in the calculation of dollars at risk because they were not tested as part of the random sample of aid payments. Federal payment errors noted in the random sample were $2,371. The total Federal sample tested was $15,747 and total Foster Care assistance payments for fiscal year 2009 were $6,421,963. Based on the sample tested, the case error rate was 15% (6/40). The dollar error rate for the sample was 15.06% ($2,371/$15,747) which estimates the potential dollars at risk for fiscal year 2009 to be $967,148 (dollar error rate multiplied by population).

A similar finding was noted in our Single Audit reports every year since 2003.

Cause: There was inadequate caseworker review and 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:

1. Management agrees with the finding regarding three maintenance payments made in error, because the child no longer was attending school.

2. Management agrees with the finding that payment was made to two providers while the children were no longer in the home.

3. Management agrees that inability to locate two provider (foster home) files made it impossible to confirm if the required criminal history and central registry checks occurred. However, Management would like to offer the following:

    - Licenses are issued from N-FOCUS. The system will not issue an initial license if the required information that the background checks have been done is not entered.

    - The results of each National Criminal History check are sent by the Patrol to the Child Welfare Unit, where they are recorded, and a determination is made regarding the "category" of crime involved when there is a record. The rap sheet and determination then are sent to local office staff for appropriate licensing action and entry of the information into N-FOCUS. The Child Welfare Unit log includes dates and results of the National Checks done for both foster homes (two adults in one home and one in the other), validating that checks were done, and that the dates coincide with the license dates.

    - We have done another check of our Child Protective Services Central Register. None of the adults in question are listed as perpetrators on that system during the time the licenses were in effect and the reviewed payments were made.

4. Management agrees with the finding that a personal needs payment was inappropriately made to the ward.

Corrective Action Plan:

For #1: The cause for errors found in the current audit was that the Eligibility workers did not have accurate information. Corrective actions:

- We will add a data item to NFOCUS for anticipated date of graduation from high school.

- An administrative memorandum will be sent to CFS staff to require updating of the school information already on NFOCUS, at least every six months, with the requirement that CFS Supervisors check the information on a regular basis. This memorandum will be issued by April 1, 2010.

- In the cases with errors, correct information was found in the court report for two of the youth. An administrative memorandum will be issued to require that the Eligibility Worker must either check the most current court report as part of the eligibility review, or must make a separate contact with the CFS Specialist to verify current education status of the youth. This memorandum will be issued by April 1, 2010.

- A request to unclaim the federal funds was made to Finance in November, 2009.

For #2: Information on this error will be provided to field staff, including supervisory staff, as a reminder of the need for timely entry of information on N-FOCUS and timely closing of service authorizations. In the first case, an overpayment was created on November 12, 2009, and a request to unclaim federal funds was made to Finance in November, 2009. In the second case, no overpayment request will be made of the foster parent, based on 479 NAC: 2-002.06B: Overpayments over $50 are recouped. In this case, the overpayment was $38.02. A request was made to Finance in November, 2009, to unclaim funds.

For #3: We are in the process of implementing changes that will further strengthen the safeguards already in place:

- A new Retention Schedule, including direction for storage of closed foster care files, was approved October 6, 2009. Combining the Central Office and Field instructions for all DHHS, Division of Children and Family Services Units, is in process. As soon as it is completed, the combined Retention Schedule will be given to the Secretary of State for approval and listing, and field staff will be notified. In the mean time, an administrative memorandum will be issued by April 1, 2010, to notify child welfare and juvenile staff of record retention requirements.

- An N-FOCUS change is scheduled for November 2010 to prohibit issuance of a license renewal unless dates entered for background checks (both Child Abuse Central Register and National Criminal History) are updated. Until the NFOCUS change is made, an administrative memo will be issued to field staff by April 1, 2010, to instruct them to update the background checks when issuing a renewal of a license.

For #4: The CFS Supervisor has met with the CFS Specialist who authorized the personal needs payment and reviewed the policies regarding when a personal needs payment is appropriate or allowable. The Supervisor also has reviewed the policies with the rest of the CFS Specialists whom she supervises. The CFS Specialist has gone to the youth's placement and viewed each item that was purchased, and these purchases have been verified by the Family Support Specialist who accompanied the youth when purchases were made. Because contractors will have responsibility for authorizing payments in the future, we are providing definitions of all services that are claimable from IV-E and when they can be authorized as an IV-E purchase. The definitions were to be issued to the contractors on January 27, 2010. A request to unclaim the federal funds was made to Finance in November, 2009.

Contact: Ruth Grosse, Business Analyst, and Margaret Bitz, Administrator

Anticipated Completion Date: See under each item, above.

APA Response: For #3 above, we do not believe the fact that the provider was licensed on N-FOCUS provides sufficient audit evidence to support the provider met the required criminal records check or the child abuse and neglect registry check. In addition, the Agency did not provide us with the Child Welfare Unit Log. As noted, the Agency receives documentation from the Nebraska State Patrol, to adequately support compliance with requirements we believe that documentation should be maintained and be available for the APA to verify the dates, results, and determinations of the category of any crime involved.

Finding #09-25-19

Program: CFDA 93.658 – Foster Care Title IV-E – Matching

Grant Number & Year: #0G0801NE1401, FFY 2008

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

Criteria: OMB Circular A-87 requires match to not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period. OMB Circular A-87 also requires that salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards. Good internal control requires the Agency verify third-party match complies with Federal regulations. 45 CFR § 74.23(a) (January 1, 2008) states that to be accepted, all cost sharing or matching contributions, including cash and third party in-kind, shall be verifiable from the recipient's records, shall be allowable under the applicable cost principles, and shall not be paid by the Federal Government under another award.

Condition: During July 2008 through December 2008, the Agency did not adequately verify in-kind match for foster care training.

Questioned Costs: Unknown

Context: We noted in our prior Single Audit report that the Agency contracted with an educational institution to provide foster care-related training to new Agency employees. The institution was responsible for providing the required 25% match. However, the Agency did not review the match to ensure it was met and that it was from an allowable source. The Agency corrected the finding in January 2009. The total amount paid to the institution during fiscal year 2009 before the finding was corrected was $1,455,628; 25% required match would be $485,209.

Cause: Unknown

Effect: Without a proper review of third-party match, it cannot be determined whether the required match was met or if the match was allowable.

Recommendation: We recommend the Agency continue to review the in-kind match to determine the match was met and ensure compliance with Federal regulations.

> **Management Response:** The Agency agrees with the condition and recommendation by the Auditor. The Agency reviews of the match items commenced in January 2009 as noted in the corrective action plan to the prior audit. All match reviewed was found to be allowable for the program. The Agency has for many years also received certification from the University that "all expenditures reported (or payments requested) are for appropriate purposes and in accordance with the [Contract No 0611 Children, Family & the Law]".
>
> **Corrective Action Plan:** The Agency will continue to receive certifications of expenditures reported and to review match reported by the University.
>
> **Contact:** Mary Osborne and Larry Morrison
>
> **Anticipated Completion Date:** Complete

Finding #09-25-20

Program: CFDA 93.069 – Public Health Emergency Preparedness – Reporting

Grant Number & Year: #5U90TP716975-08, FFY 2008; #5U90TP716975-09, FFY 2009

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

Criteria: Title 45 CFR 92.20 (October 1, 2008) requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. A good internal control plan requires procedures to ensure accurate financial reporting. A good internal control plan requires reports be reconciled to the State's accounting system, the Nebraska Information System (NIS).

Condition: Total outlays were not reported correctly on both Financial Status Reports (FSRs) tested. Neither FSR tested identified the correct CFDA number. A third FSR noted during testing did not agree to NIS. The Agency submitted four FSRs for the fiscal year and has procedures for a supervisory review of FSRs. The review of these FSRs was documented, but did not detect the errors noted.

Questioned Costs: Unknown

Context: The Bioterrorism and Pandemic Flu FSRs ending October 31, 2008, reported total outlays of $2,786,549 and $526,394, respectively. Actual total outlays were $2,993,784 and $540,985. Combined total outlays on the two FSRs were underreported by $221,826. Both FSRs identified CFDA 93.283 Centers for Disease Control and Prevention – Investigations and Technical Assistance instead of CFDA 93.069 Public Health Emergency Preparedness.

We also noted the Cities Readiness Initiative FSR ending October 31, 2008, reported total outlays of $102,500. The expenditures were identified on the FSR as grant #5U90TP716975-08; however, these costs were coded in NIS to grant #5U90TP716975-09.

Cause: Inadequate reconciliation procedures, clerical errors, and inadequate reviews.

Effect: When Federal reporting is inaccurate, there is an increased risk Federal funds will be misused. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency strengthen procedures used in the preparation and review of FSRs to ensure all reported amounts and supporting worksheets reconcile to NIS. In addition, procedures should be implemented to ensure the FSRs identify the correct CFDA number.

> **Management Response:** The Agency agrees with the Condition reported.
>
> **Corrective Action Plan:** The Agency has a process in place to review financial entries on the FSRs and will add the review of the CFDA number to this process.

A Journal Entry was recorded to adjust the Cities Readiness expenditure to the correct grant year. Corrected reports will be submitted to the federal agency by September 30, 2009.

Contact: Larry Morrison

Anticipated Completion Date: September 30, 2009

<u>Finding #09-25-21</u>

Program: CFDA 93.069 – Public Health Emergency Preparedness – Allowable Costs/ Cost Principles

Grant Number & Year: #5U90TP716975-08, FFY 2008

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

Criteria: A good internal control plan requires procedures to ensure charges are properly allocated based on supporting documentation. OMB Circular A-87, Basic Guidelines, Allocable Costs (a) 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."

Condition: One of 25 expenditures tested was not charged to cost objectives in accordance with relative benefits received.

Questioned Costs: $1,307 known

Context: An expenditure of $13,597 for information services provided in April 2008 was selected for testing. Per supporting documentation, only $12,290 of the costs was related to the administration of the State's Health Alert Network and allocable to CFDA 93.069.

This led to a Federal payment error of $1,307. The total Federal sample was $396,868 and total program operating and aid expenditures were $7,534,979 for the fiscal year. The dollar error rate for the sample was .33% ($1,307/$396,868) which estimates the potential dollars at risk for fiscal year 2009 to be $24,865 (dollar error rate multiplied by population).

Cause: Employee error and inadequate review.

Effect: When expenditures are made for services not related to appropriate CFDA business units, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency review procedures to ensure expenditures agree to supporting documentation prior to payment and are allocated in accordance with Federal requirements.

Management Response: The Agency agrees with the condition reported. The Agency 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 APA findings.

Corrective Action Plan: The Department has a review process in place for pre-audit of all payments. The Accounting Unit will plan refresher training for all certified pre-audit staff. In addition, the Program staff will be retrained on use of correct coding. The amount has been corrected and charged to the correct grant.

Contact: Don Swartz

Anticipated Completion Date: December 31, 2009

APA Response: The extrapolation method is in accordance with auditing standards.

Finding #09-25-22

Program: CFDA 93.069 – Public Health Emergency Preparedness – Subrecipient Monitoring

Grant Number & Year: #5U90TP716975-08, FFY 2008

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

Criteria: OMB Circular A-133 § 400 (d) states, "A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency."

Condition: One of five subrecipient contracts tested did not identify the correct CFDA number and title, award name and number, or awarding Federal Agency.

Questioned Costs: Unknown

Context: One subrecipient contract tested incorrectly identified CFDA 93.889 National Bioterrorism Hospital Preparedness Program instead of CFDA 93.069. The award name and award number were also incorrect. There were 48 subrecipients during the fiscal year.

Cause: Inadequate review of subrecipient contracts by program staff.

Effect: Increased risk for errors at the subrecipient level.

Recommendation: We recommend the Agency thoroughly review subrecipient contracts to ensure the correct CFDA number and title, award name and number, and awarding Federal Agency are identified.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The contract with the Nebraska Department of Agriculture was amended to correct the referenced funding source. The processes regarding contracting, procurement, and payments protocol has been drafted to ensure the correct CFDA number and title, award name and number, and awarding Federal Agency are identified.

Contact: Christine Newlon

Anticipated Completion Date: Completed September 2009

Finding #09-25-23

Program: CFDA 93.283 Centers for Disease Control and Prevention – Investigations and Technical Assistance – Matching

Grant Number & Year: #09UDP000811A, FFY 2008

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

Criteria: 45 CFR § 92.24 (October 1, 2008) (b) (6) states "Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs."

45 CFR § 92.24 (October 1, 2008) (c) regarding volunteer services states "Unpaid services provided to a grantee or subgrantee by individuals will be valued at rates consistent with those ordinarily paid for similar work in the grantee's or subgrantee's organization. If the grantee or subgrantee does not have employees performing similar work, the rates will be consistent with those ordinarily paid by other employers for similar work in the same labor market. In either case, a reasonable

amount for fringe benefits may be included in the valuation. (2) Employees of other organizations. When an employer other than a grantee, subgrantee, or cost-type contractor furnishes free of charge the services of an employee in the employee's normal line of work, the services will be valued at the employee's regular rate of pay exclusive of the employee's fringe benefits and overhead costs. If the services are in a different line of work, paragraph (c)(1) of this section applies."

Condition: No documentation was available to support the hourly rates used to calculate the in-kind match for the Cancer Control grant. No documentation was available to support the salaries used in the calculation of the in-kind match for the Cancer Registry grant. Documentation of meetings administered by outside entities used in the calculation of in kind match was not maintained by the Agency.

Questioned Costs: Unknown

Context: In-kind match and total match of $51,845 was reported for the Cancer Control grant. The required match for the Cancer Control portion of the grant was $25,500. In kind match of $61,166 was reported for the Cancer Registry grant. The total match reported for Cancer Registry was $188,760 and the required match was $67,992.

Cause: Unknown

Effect: Values placed on in-kind contributions cannot be verified if adequate supporting documentation is not maintained.

Recommendation: We recommend the Agency document the support for the rates used to calculate in-kind match and maintain support for all meetings included in the calculation of in-kind match.

> **Management Response:** The Agency agrees with the condition reported. DHHS Cancer Registry checked the existing documents to determine in-kind contribution but no supporting written documents were found. However, an explanation for determining the current in-kind contribution was sent to the State Auditor's Office in July 2009.
>
> **Corrective Action Plan:** In January 2010, the registry staff contacted five non-accredited hospitals to inquire the pay rate in order to estimate their contributions that grant required.
>
> **Contact:** Ming Qu
>
> **Anticipated Completion Date:** February 28, 2010

Finding #09-25-24

Program: CFDA 93.283 Centers for Disease Control and Prevention – Investigations and Technical Assistance – Reporting

Grant Number & Year: #09UDP000811A, FFY 2008; #090CCU722780, FFY 2007

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

Criteria: Title 45 CFR § 92.20 (October 1, 2008) requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. A good internal control plan requires a supervisory review of Financial Status Reports (FSR) to ensure accuracy.

Condition: FSRs tested did not have evidence of supervisory review before submitted and reporting inaccuracies were noted.

Questioned Costs: None

Context: During our testing of eight reports we noted the following:

- For eight reports tested, the Department did not have documentation of a supervisory review. We noted FSRs completed in November 2009 did have documentation of supervisor review.

- For one FSR the match reported was from the wrong year. Match was still met. The match reported for Wisewoman was the match amount from ACTS for fiscal year 2006 of $683,176 and the match amount for Fiscal Year 2007 of $458,736 should have been reported. This also caused the total outlays reported to be overstated by $224,440.

- Adjustments to NIS were not made in a timely manner. At the time the report was completed an adjustment to NIS of $5,089 was required to agree NIS to the amount reported for the Skin Cancer award. This adjustment was not made until ten months after the report was filed.

- One of two combined reports tested did not agree to the sum of the individual reports. The combined report for the Cancer award did not agree to the sum of the four individual reports. The Federal outlays were correctly reported. The match amount and total outlay was understated by $56,925 on the combined report compared to the sum of the individual reports.

A similar finding was noted in our 2007 and 2008 audit reports.

Cause: Inadequate review.

Effect: Increased risk of inaccurate reporting, which could lead to Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure accurate financial reporting, we further recommend a documented supervisory review be completed of all FSRs.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Corrected reports have been submitted to CDC. The financial reporting process includes a documented supervisory review.

Contact: Larry Morrison

Anticipated Completion Date: March 1, 2010

Finding #09-25-25

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, Section 400(d)(1) requires that pass-through entities "identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal Agency." A good internal control plan should include procedures which ensure subrecipients are informed of required information.

Condition: For six of ten subrecipients tested, the Agency did not document all required information to the subrecipient.

Questioned Costs: Unknown

Context: We tested ten subrecipients (two Nutrition, three Tobacco, five Epidemiology) and noted:

- Two Nutrition sub awards did not include CFDA number, CFDA title, award number, or Federal Agency.

- Two Tobacco sub awards did not include the award number, and one Tobacco sub award did not include the CFDA number or the award number.

- One Epidemiology sub award did not include CFDA number, CFDA title, award number, or Federal Agency.

A similar finding was noted in our prior audit.

Cause: Contract templates were not used or did not include all required information or the information was not filled out.

Effect: Noncompliance with Federal requirements and the possibility of loss of Federal funding.

Recommendation: For all Federal Awards, we recommend the Agency include in the information it submits to the subrecipient, the CFDA number and title, award name and number, and the name of the Federal Agency, as required by A-133.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: There has been a template created to comply with above recommendation.

Contact: Jude Eberhardt

Anticipated Completion Date: Completed in 2009

Finding #09-25-26

Program: CFDA 93.283 Centers for Disease Control and Prevention – Investigations and Technical Assistance – Allowability

Grant Number & Year: #09UDP000811A, FFY2008

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

Criteria: OMB Circular A-87 Attachment A – General Principles for Determining Allowable Costs (C) (1) states "To be allowable under Federal awards, costs must meet the following general criteria …Be necessary and reasonable for proper and efficient performance and administration of Federal award…Be adequately documented." A good internal control plan requires that procedures are in place to ensure expenditures are adequately documented and accurate.

Condition: Inadequate documentation and overpayments to providers were noted during testing of 40 payments.

Questioned Costs: $6,022

Context: Adequate documentation was not available to support payments made to providers for Essential Services. Essential Services payments are payments to providers made at the end of the grant period to allocate remaining grant monies not paid out for specific direct services to clients. Documentation of how Essential Service rates were determined and allocated to providers was not available. Eight of 40 payments tested for $5,924 were for Essential Service payments to providers. Rates paid were $1 for Wisewoman and $4 and $10 for Breast and Cervical Cancer. The $10 was for those clients that had abnormal screenings. Based on review of the NIS general ledger an estimated total Essential Services paid is $121,111.

Overpayments were made to providers for services rendered to Every Woman Matters clients for one of 40 payments tested. The overpayment was $98. Every Woman Matters did not increase the rate paid to providers when Medicaid's rates increased in July 2008. This caused claims submitted from providers to be underpaid. When corrections were made to reimburse the providers the difference, a portion of the claims that had a manual coding (Current Procedural Terminology (CPT) codes starting with 99) were overpaid. The total CPT codes starting with 99 payments made to adjust for the rate increase was $15,715.

Cause: Documentation of how Essential Service rates were determined and allocated to providers was not available. Manual entries (CPT codes starting with 99) did not automatically calculate the correct amount to pay providers.

Effect: The Agency is not in compliance with OMB Circular A-87 and providers were overpaid.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are adequately documented. We further recommend the Agency request refunds for the amount of overpayments and procedures be reviewed to prevent overpayments in the future.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The program will develop a formula for reimbursing providers for allowable essential services prior to reimbursing for essential services in the future. Formula will be based on volume and performance of clinic. Formula will be developed with program's Medical Advisory Committee.

Refunds have already been requested from providers for overpayments.

Contact: Melissa Leypoldt

Anticipated Completion Date: Essential Services Formula developed by June 30, 2010.

Confirmation of receipt of refunds by April 30, 2010.

Finding #09-25-27

Program: CFDA 10.569 – Emergency Food Assistance Program (Food Commodities) – Eligibility

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 251.5(a)(3) (January 1, 2008) states a recipient agency must have a tax exempt status. 7 CFR § 251.5(a)(1) (January 1, 2008) states, "Organizations distributing commodities to households for home consumption must limit the distribution of commodities provided under this part to those households which meet the eligibility criteria established by the State agency." The State plan for the cluster states, "Recipient eligibility will be based on 180% of the federal poverty guidelines during each fiscal year or current participation in one of the following programs: Food Stamps, ADC, State Supplemental (AABD), Energy, Medicaid only, State Disability, Refugee Program." A good internal control plan requires recipient agency eligibility determination to be reviewed and approved by someone other than the individual who determined the initial eligibility. A good internal control plan requires eligibility documentation to be maintained on file. 7 CFR § 251.4(d)(2) (January 1, 2008) states, State agencies shall "ensure that no eligible recipient agency receives commodities in excess of anticipated use, based on inventory records and controls, or in excess of its ability to accept and store such commodities." A good internal control plan requires documentation to be on file to support the value of commodities distributed to a recipient agency to ensure the commodities received is in line with their average daily participation. Good internal control also requires written procedures and adequate cross training of staff.

Condition: The Agency subgrants with Eligible Recipient Agencies (ERAs) such as food banks who distribute food to other ERAs or to individuals. The Agency did not have adequate documentation to support recipient agencies were eligible or that the amount awarded was in accordance with their average daily participation. Documentation was also not on file to show the testing and review of individual households who receive commodities from recipient agencies.

Questioned Costs: Unknown

Context: There were 149 ERAs on the Agency's participation list for commodities during fiscal year 2009. For 13 of 15 ERAs tested there was not a FFY 2009 agreement on file or eligibility documentation noting the entity had a tax exempt status. For those ERAs without a FFY 2009 agreement on file, the last agreement filed ranged from FFY 2006 to FFY 2008. Of 11 ERAs tested, 7 did not have documentation on file stating how they were going to determine a household was within the income guidelines as noted in the State plan. Eligibility determination was not reviewed or approved by the program coordinator for 13 of 15 ERAs tested. Amount awarded to the ERAs could not be recalculated for all 14 tested. We could not verify the average daily participation rate in the food distribution system to documentation supporting the quantity of commodities shipped. In addition, there was no documentation on file to determine the program staff monitored the quantity of commodities which the food banks distributed to food pantries that ultimately provided the food to households.

As current staff was unable to locate supporting documentation, we were unable to determine if eligibility requirements were met.

Cause: During the time of the audit, the Program Coordinator was on administrative leave and the current staff was not familiar with the eligibility determination process or documentation maintained.

Effect: When eligibility determinations are not documented or adhered to there is an increased risk commodities given to ERAs will not be used in accordance with Federal regulations.

Recommendation: We recommend the Agency ensure documentation for determining eligibility and compliance with Federal regulations is maintained in the ERAs file for subsequent review. We also recommend the Agency maintain documentation of the individuals who receive commodities from recipient agencies to ensure compliance with eligibility requirements. We further recommend written procedures be maintained and adequate cross training to ensure staff can readily take over other employees' job duties if needed.

Management Response: The Agency agrees with this finding.

Corrective Action Plan: Steps will be taken to determine and follow correct procedures. This will include assistance from the USDA. Staffing concerns are being addressed. Adequate training of staff will be provided.

Contact: Jill Schreck

Anticipated Completion Date: July 1, 2010

Finding #09-25-28

Program: CFDA 10.569 – Emergency Food Assistance Program (Food Commodities) – Subrecipient Monitoring

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-133 requires the pass-through entity to inform each subrecipient of the CFDA title and number; ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements; issue a management decision on audit findings, and ensure the subrecipient takes timely and appropriate corrective action. The agreement between the State and the ERAs requires participation and inventory information to be provided to the State Agency at least once every three months, or as otherwise requested; the Agency is distributing the inventory documents to ERAs on an annual basis. 7 CFR § 251.10 (e)(2)(i) requires, "An annual review of at least 25 percent of all eligible recipient agencies which have signed an agreement with the State agency…provided that each such agency must be reviewed no less frequently than once every four years." OMB Circular A-133 § 300 states the auditee shall "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."

Condition: The Agency did not have adequate subrecipient monitoring procedures.

Questioned Costs: Unknown

Context: There were 149 ERAs during the audit period. For 7 of the 15 ERAs tested, there was a FFY 2009 agreement on file between the ERAs and the Agency. However, this agreement did not note the CFDA title or number. A FFY 2008 annual inventory was not on file for all 14 ERAs tested. A site visit had not been done in the last four years for 8 of 14 ERAs tested. An A-133 audit was not submitted or reviewed when an ERA declared they had received more than $500,000, or there was no disclosure made by the ERA for all 4 tested. In addition, site reviews should be completed each year for at least 25% of the ERAs who hold agreements with the State. The spreadsheet maintained on file noted there were 149 recipient agencies and only 11 reviews were done during fiscal year 2009. To meet the 25% requirement, 38 site reviews should have been completed.

Cause: The two program staff primarily involved with the administration of the program were on administrative leave or no longer with the Agency, so obtaining documentation and explanations of procedures in place was limited.

Effect: When subrecipient monitoring requirements as noted in Federal regulations are not being adhered to there is an increased risk commodities distributed to subrecipients are not being used appropriately.

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

Management Response: The Agency agrees with this finding.

Corrective Action Plan: The Food Distribution Program will work with Agency Legal Counsel to create agreements that reference the proper laws, which the program will be following. Staffing concerns are being addressed. Management and staff will work with USDA to define necessary action to maintain a schedule for reviews and proper documentation.

Contact: Jill Schreck

Anticipated Completion Date: July 1, 2010

<u>Finding #09-25-29</u>

Program: CFDA 10.569 – Emergency Food Assistance Program (Food Commodities) – Special Tests & Provisions

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR 250.14(e) (January 1, 2008) states, "During the annual review required by paragraph (c) of this section, distributing agencies and subdistributing agencies shall take a physical inventory of their storage facilities. The physical inventory shall be reconciled with each storage facility's book inventory. The reconciliation records shall be maintained by the agency that contracted for or maintained the storage facility." 7 CFR 250.16(a)(1) (January 1, 2008) states, "Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods…" and 7 CFR 250.16(b) (January 1, 2008) states, "All records required by this Section shall be retained for a period of three years from the close of the fiscal year to which they pertain." OMB Circular A-133 § 300 states the auditee shall "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."

Condition: The Agency inventory listing for the date of the physical inventory could not be located. Confirmations from the warehouse showing the receipt of the commodities could not be located for all seven receipts tested, and two bills of lading to support the seven issuances tested could not be located. In addition, as of December 2009, the commodities received from the USDA had not been entered into the food distribution system since July 2009.

Questioned Costs: Unknown

Context: When the Agency completes the annual physical inventory of the commodities on hand at the contracted warehouse an inventory report must be generated from the food distribution system. The food distribution system is used by program staff to monitor the receipt and disbursements of commodities received from the USDA. During testing of the physical inventory performed, the inventory report from the food distribution system could not be located. The system has the capability to run the report retroactively, but any adjustments made which affect balances up to the inventory date will be reflected in this regenerated report. The report was run retroactively, but the ending inventory balances did not agree to the spreadsheet the Program Coordinator used to complete the inventory reconciliation. The program staff is relying on the inventory balances kept by the warehouse company to ensure commodities are available for shipment to food banks. Because the commodities have not been receipted in the system we were not able to roll forward the quantity on hand at the time the physical inventory was taken to the quantity currently on hand to determine whether the inventory records were accurate.

Cause: The inventory record from the food distribution could not be located.

Effect: When supporting documentation of physical inventory counts are not maintained and the receipt of commodities are not logged in the system there is an increased risk of commodity inventory not being accurate and noncompliance with Federal regulations.

Recommendation: We recommend the Agency ensure the physical inventory records from the food distribution system are maintained on file for subsequent review and the receipt of commodities is entered into the system in a timely manner.

Management Response: The Agency agrees with this finding.

Corrective Action Plan: The Food Distribution Program will establish a process to maintain proper inventory records and make timely receipt entries into the system.

Contact: Jill Schreck

Anticipated Completion Date: July 1, 2010

Finding #09-25-30

Program: CFDA 10.568 – Emergency Food Assistance Program (Administrative Costs); CFDA 10.568 – ARRA – Emergency Food Assistance Program (Administrative Costs); CFDA 10.569 – Emergency Food Assistance Program (Food Commodities) – Suspension & Debarment

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 2 CFR § 180.300 (January 1, 2008), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. OMB Circular A-133 § 300 states, the auditee shall "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."

Condition: The Agency did not have adequate procedures to ensure contractors and ERAs were not suspended or debarred by the Federal government.

Questioned Costs: None

Context: We noted one of two vendors tested did not have a suspension and debarment clause in their contract, nor did the Agency have documentation of checking the EPLS website or obtaining a certification. The vendor was paid $96,039 during the fiscal year; we checked the EPLS website and the vendor was not listed. We also noted the Agency did not have procedures in place to check the EPLS website, collect a certification, or include a clause in the contracts regarding suspension and debarment for ERAs. The Agency distributed $1,297,802 in commodities to ERAs during the fiscal year. We checked the EPLS list and none of the 15 ERAs tested were listed.

Cause: Unknown

Effect: The Agency could be unaware they are contracting with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure all parties contracted with are not suspended or debarred by the Federal government.

Management Response: The Agency agrees with this finding.

Corrective Action Plan: The Food Distribution Program management will work with Agency Legal Counsel to include in our contracts a clause regarding suspension and debarment for ERAs. The Food Distribution Program will also develop a process of checking the EPLS website or obtaining certification and documenting that information.

Contact: Jill Schreck

Anticipated Completion Date: July 1, 2010

Finding #09-25-31

Program: CFDA 10.555 – National School Lunch Program, CFDA 10.559 – Summer Food Service Program for Children - Special Tests & Provisions

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR 250.14 (e) (January 1, 2008) states, "During the annual review required by paragraph (c) of this section, distributing agencies and subdistributing agencies shall take a physical inventory of their storage facilities. The physical inventory shall be reconciled with each storage facility's book inventory. The reconciliation records shall be maintained by the agency that contracted for or maintained the storage facility." 7 CFR 250.16 (a)(1) (January 1, 2008) states, "Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods…" and 7 CFR 250.16 (b) (January 1, 2008) states, "All records required by this Section shall be retained for a period of three years from the close of the fiscal year to which they pertain." OMB Circular A-133 § 300 states the auditee shall "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."

Condition: The inventory listing for the date of the physical inventory could not be located. Bills of lading to support one of ten issuances to schools tested could not be located, amounts per bills of lading did not agree to accounting records for three of ten issuances to schools tested, and supporting documentation could not be located for three of five adjustments to the commodities records tested. In addition, as of February 2010, the commodities received from the USDA had not been entered into the food distribution system since July 2009.

Questioned Costs: Unknown

Context: When the Agency completes the annual physical inventory of the commodities on hand at the contracted warehouse an inventory report must be generated from the food distribution system. The food distribution system is used by program staff to monitor the receipts and disbursements of commodities received from the USDA. During testing of the physical inventory performed the inventory report from the food distribution system could not be located. The system has the capability to run the report retroactively, but any adjustments made which affect balances up to the inventory date will be reflected in this regenerated report. The report was run retroactively, but the ending inventory balances did not agree to the spreadsheet the Program Coordinator used to complete the inventory reconciliation. The program staff is relying on the inventory balances kept by the warehouse company to ensure commodities are available for shipment to schools. Because the commodities have not been receipted in the system we were not able to roll forward the quantity on hand at the time the physical inventory was taken to the quantity currently on hand to determine whether the inventory records were accurate.

Cause: The inventory record from the food distribution could not be located.

Effect: When supporting documentation of physical inventory counts are not maintained and the receipt of commodities are not logged in the system there is an increased risk of commodity inventory not being accurate and noncompliance with Federal regulations.

Recommendation: We recommend the Agency ensure the physical inventory records from the food distribution system are maintained on file for subsequent review and the receipt of commodities is entered into the system in a timely manner. We also recommend the Agency implement policies and procedures to ensure all issuances and adjustments are accurately recorded and documented.

> **Management Response:** The Agency agrees with this finding.
>
> **Corrective Action Plan:** The Agency is in the process of hiring a Food Distribution Coordinator who will oversee the Food Distribution Program. Upon hiring, the Coordinator will receive adequate training on the job as well as from a USDA representative. Adequate staffing levels will allow staff the time necessary to complete work they have otherwise been unable to do due to the current workloads and low staffing levels. This would include accurate inventory of the commodities.
>
> **Contact:** Jill Schreck
>
> **Anticipated Completion Date:** June 30, 2010

Finding #09-25-32

Program: CFDA 93.268 – Immunization Grants – Reporting

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State shall prepare a Schedule of Expenditure of Federal Awards (SEFA) in accordance with § 310 including total Federal awards expended for each individual Federal program and the CFDA number. A good internal control plan requires procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA. We informed the Department of Administrative Services (DAS) and the Agency of the errors and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to DAS. DAS compiles the information for all agencies and reports to the APA. The Immunization Grants amount was reported as follows:

CFDA #	Program	Amount Initially Reported	Corrected SEFA Amount	Variance
93.268	Immunization Grants	$16,839,390	$17,137,074	$297,684

A similar finding was noted in the prior audit.

Cause: Vaccines are not tracked in the Nebraska Information System (NIS) and program staff did not maintain support for the initial SEFA amount reported to DAS.

Effect: Noncompliance with Federal regulations which could result in sanctions.

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The DHHS Nebraska Immunization Program will use the information in the monthly Grantee Vaccine Monitoring Report for Nebraska, provided by the Immunization Services Division of the Centers for Disease Control and Prevention (CDC) National Council on Immunization and Respiratory Diseases' (NCIRD) to determine the vaccine value of federally-purchased vaccine supplied to Nebraska. The CDC is the granting agency for the CFDA 93.268 Immunization Grants.

The total dollar value of the Federal vaccine for July 1, 2009 through June 30, 2010 will be documented in the SEFA report.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: June 30, 2010

Finding #09-25-33

Program: CFDA 93.268 – Immunization Grants – Special Tests and Provisions

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 § 300 requires the State 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. A good internal control plan requires appropriate sampling of inventory records be conducted during onsite reviews and written procedures maintained to govern this sampling.

Condition: The Agency did not have written procedures for sampling of provider inventory records. Also, they did not sample vaccine provider inventory records during onsite reviews to ensure proper recording of receipt, transfer, and usage of vaccines.

Questioned Costs: None

Context: The Vaccine for Children (VFC) Provider Site Visit Questionnaire was utilized to complete onsite reviews of vaccine providers. The questionnaire was provided by the Centers for Disease Control (CDC) and did not contain any language requiring sampling be performed to ensure inventory records were accurately maintained. However, further inquiry with the CDC revealed that sampling of inventory records should be included as part of the onsite review process.

Cause: Program staff was unaware of the need to perform onsite sampling of provider vaccine records.

Effect: Without proper sampling of inventory records, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency sample vaccine provider inventory records during onsite reviews to ensure proper recording of receipt, transfer, and usage of vaccines. In addition, written procedures for overseeing vaccinating providers that provide for sampling of provider inventory records should be established as a guideline for the sampling techniques.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will add a question(s) to the VFC site visit questionnaire as described above and record responses.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: February 26, 2010

Finding #09-25-34

Program: CFDA 93.268 – Immunization Grants – Suspension and Debarment

Grant Number & Year: All open grants

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

Criteria: Per 2 CFR § 180.300 (January 1, 2008), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. OMB Circular A-133 § 300 states the auditee shall "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."

Condition: The Agency did not have adequate procedures to ensure vaccine providers were not suspended or debarred by the Federal government.

Questioned Costs: None

Context: During fiscal year 2009, vaccine providers received $15,231,973 in immunizations. The Agency did not have procedures in place to check the EPLS, collect a certification, or include a clause in the enrollment form regarding suspension and debarment. We tested 25 vaccine providers and none tested were suspended or debarred.

Cause: Unknown

Effect: The Agency could be unaware of contracts with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure vaccine providers are not suspended or debarred by the Federal government.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Immunization Program will develop a procedure regarding annually checking the EPLS for each provider who receives federally-purchased vaccine and when new providers enroll. Documentation of the review date will be recorded on the Immunization Master List of Vaccines for Children Providers.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: February 26, 2010

<u>Finding #09-25-35</u>

Program: CFDA 93.575 & 93.596 Child Care and Development Fund Cluster – Allowability and Eligibility

Grant Number & Year: #0G0901NECCDF, FFY2009

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

Criteria: Per 45 CFR § 98.20(a) (October 1, 2008), in order to be eligible for services, a child shall reside with a parent or parents who are working or attending a job training or educational program.

Per Title 392 NAC 3-008.01(2), for non-employment first clients, the case manager may authorize child care for two consecutive calendar months per program year July 1 through June 30 to enable the client to seek employment.

A good internal control plan requires procedures be in place to ensure amounts are properly billed, adequate supporting documentation exists for all payments, billing documents are properly signed, and child care is only paid for times authorized by the caseworker.

Condition: Nine of 40 Child Care payments tested were not in compliance with Federal and State requirements.

Questioned Costs: $375 known

Context: We noted the following during our testing:

- One payment tested was for a two-parent family. One parent was appropriately working and participating in an educational program. The other parent was not working or participating in a job training or educational program. Therefore, the family was not eligible to receive a child care subsidy.

- Child care for job search is only allowed for two consecutive months each year. For one payment tested, at the time of the payment the client had been receiving child care for job search for six consecutive months.

- For four payments tested, payment amount was incorrect due to the use of unauthorized rates, billing and attendance sheet miscalculations, or a combination of these.

- For one payment tested, the attendance sheet could not be located; therefore, we were unable to determine if child care was during authorized hours, or if the payment amount was correct.

- The billing document was not signed by the provider for one payment tested.

- For one payment tested, child care was paid for times not authorized by the caseworker.

Federal payment errors noted were $375 in overpayments and $6 in underpayments. The total Federal sample tested was $4,157 and total Child Care Federal assistance claims paid through NFOCUS for the fiscal year were $42,896,309. Based on the sample tested, the case error rate was 22.5% (9/40). The dollar error rate for the sample was 9.02% for overpayments ($375/$4,157) and 0.14% for underpayments ($6/$4,157) which estimates the potential dollars at risk for fiscal year 2009 to be $3,869,247 in overpayments and $60,055 in underpayments for a net effect of $3,809,192 in overpayments (dollar error rate multiplied by population).

Our prior audit reports also noted allowability/eligibility findings during case file testing.

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. We also recommend the Agency consider having a separate individual review the billing documents for mathematical accuracy to ensure providers are appropriately paid.

Management Response: The Agency agrees with the condition reported. The Agency 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.

Corrective Action Plan: A memo will be sent to local office social service workers sharing the results of the audit and highlighting areas that need more attention. This includes making sure that both parents in a two-parent family are participating in an activity that qualifies for child care assistance; limiting time allowed for job search to two months, with the possibility of an extension; and ensuring that the authorization reflects current hours of activity. A separate memo will be sent to resource development workers emphasizing that provider attendance calendars must be signed and the importance of the review of billing documents.

The Agency will explore options to more thoroughly review billing documents, taking into account current fiscal and staff resources.

Contact: Chris Hanus, State Child Care Administrator

Anticipated Completion Date: April 1, 2010

APA Response: The extrapolation method is in accordance with auditing standards.

Finding #09-25-36

Program: CFDA 93.575 & 93.596 Child Care and Development Fund Cluster – Suspension & Debarment

Grant Number & Year: All open grants

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

Criteria: Per 2 CFR 180.300 (January 1, 2008), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the EPLS, collecting a certification from that person, or adding a clause or condition to the covered transaction with that person.

Condition: We noted the Agency did not perform procedures to ensure child care providers were not suspended or debarred by the Federal government.

Questioned Costs: Unknown

Context: The total amount of Federal funds paid to providers who received at least $25,000 during State fiscal year 2009 was $27,626,861. We tested 40 providers and noted none were on the EPLS.

Cause: The Agency believed suspension and debarment was not a requirement for the Child Care and Development Fund Cluster.

Effect: The Agency could be unaware it is doing business with suspended or debarred providers.

Recommendation: We recommend the Agency implement procedures to ensure all child care providers are not suspended or debarred by the Federal government.

> **Management Response:** The Agency has never received any instruction from the Administration for Children and Families (ACF) of this requirement for child care providers participating in the Child Care subsidy Program. An inquiry has been addressed to the regional ACF office. We have been informed that they were unaware of the requirement and are requesting guidance from the central ACF office.
>
> **Corrective Action Plan:** Assuming that the Administration for Children and Families concurs that this is a requirement for child care providers, standard language will be added to the child care provider agreement. If they do not concur, this information will be shared with the APA.
>
> **Contact:** Chris Hanus, State Child Care Administrator
>
> **Anticipated Completion Date:** May 1, 2010

Finding #09-25-37

Program: CFDA 93.575 & 93.596 Child Care and Development Fund Cluster – Allowable Costs/Cost Principles

Grant Number & Year: #0G0801NECCDF, FFY2008; #0G0901NECCDF, FFY2009

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

Criteria: Per OMB Circular A-133 § 300(b), the State must "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." Per 45 CFR § 96.30 (October 1, 2008), "Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) 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." A good internal control plan requires procedures be in place to ensure journal entries are correctly entered into the Nebraska Information System (NIS). NIS is the official accounting system of the State and all expenditures are generated from NIS.

Condition: One journal entry tested transferred a total of $709,097 of expenditures to Federal costs, which were originally paid with State general funds.

Questioned Costs: Unknown

Context: The journal entry was intended to charge the 2008 grant for 2009 Federal expenditures because there was $709,097 left of unexpended award in the 2008 grant. The journal entry was not correctly entered into NIS and the end result was the 2008 grant was charged for general fund expenditures. This error was not detected by Agency personnel. As the Agency had sufficient maintenance of effort expenditures, it is likely there were adequate allowable child care expenditures in the General Fund; however, the journal entry did not provide supporting documentation to identify those underlying transactions.

Cause: There was inadequate review of the journal entry to ensure it was coded correctly.

Effect: Without procedures in place to ensure journal entries are correctly recorded in NIS, there is an increased risk journal entries will be recorded with errors and not be detected by the Agency.

Recommendation: We recommend the Agency implement procedures to ensure all journal entries are correctly entered in NIS.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has a process for review of all journal entries and will re-emphasize the steps required on this review.

Contact: Willard Bouwens, Financial Services Administrator

Anticipated Completion Date: Ongoing

Finding #09-25-38

Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – Subrecipient Monitoring

Grant Number & Year: All open grants

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

Criteria: Title 7 CFR § 246.19 (January 1, 2008) requires the State Agency to establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, and on-site reviews. The on-site reviews shall include evaluation of certification. Title 7 CFR § 246.4 (January 1, 2008) requires the State Agency to develop policies and procedures for preventing conflicts of interests at the local agency in a reasonable manner.

Condition: We noted for one of three local agency subrecipients tested, the Agency's onsite monitoring of local agencies did not include specific monitoring procedure steps or documentation of monitoring for the prevention of conflict of interest, or separation of duties in determining certification of eligibility for the program participants.

Questioned Costs: Unknown

Context: The Agency conducts on-site monitoring of their subrecipients and uses monitoring spreadsheets to document the specific items reviewed during the on-site monitoring. The on-site monitoring spreadsheet used for one local agency tested did not include specific documentation to ensure the Agency was adhering to written policies which prohibit: certifying oneself, certifying relatives or close friends, and one employee determining eligibility for all certification criteria and issuing food instruments or supplemental food for the same participant. A similar finding was noted in our 2008 audit report. A corrective action plan was implemented in

September 2008 to include this procedure in two separate monitoring spreadsheets used by the Agency. Two of the local agencies tested did have this procedure included in their monitoring spreadsheets.

Cause: Unknown

Effect: Without documentation by the Agency during their on-site monitoring regarding local agency procedures to prevent conflict of interest, or separation of duties, there is an increased risk of inappropriate participant certification occurring.

Recommendation: We recommend the Agency use the developed procedures during future on-site monitoring of local agencies to ensure the local agencies adhere to the policies requiring separation of duties in WIC certification.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: We have added the following "Separation of Duties" statement to all management evaluation forms that are used for on-site reviews, with the comments to be noted by reviewers specific to the type of observation completed.

> A separation of duties exists which ensures that at least two staff are evaluating eligibility criteria (income, nutrition risk, benefit package)

Contact: Peggy Trouba, WIC Program Manager

Anticipated Completion Date: March 1, 2010

Finding #09-25-39

Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – Subrecipient Monitoring and Suspension and Debarment

Grant Number & Year: All open grants

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

Criteria: Per 2 CFR § 180.300 (January 1, 2008), when you enter into a covered transaction with another organization at the next lower tier, you must verify that the organization with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that organization, or adding a clause or condition to the covered transaction with that organization. OMB Circular A-133 § 300 states the auditee shall "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."

Condition: We noted the Local Agency (LA) agreements (Subgrant Terms and Assurance) did not contain a Suspension and Debarment clause.

Questioned Costs: Unknown

Context: WIC policies and procedures states that the LA agreements must address Government-wide Suspension and Debarment. The LA agreements states that subrecipients must perform subgrant activities, expend funds, and report financial and program activities in accordance with Federal grants administration regulations, and OMB Circular governing cost principles and audits. However, no specific language regarding suspension and debarment was included.

Cause: Unknown

Effect: The Agency could be unaware of contracts with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure Local Agencies are not suspended or debarred by the Federal government.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency will develop a template for subgrant Terms and Assurances, that includes a suspension and debarment clause and a Suspension and Debarment Certification form to be completed by the subgrantee.
>
> The WIC Program will use the Agency's standard template which will include a suspension and debarment clause and certification form, beginning with the FFY 2011 subgrant awards.
>
> **Contact:** Brad Gianakos and Peggy Trouba
>
> **Anticipated Completion Date:** October 1, 2010

APA Response: Until the assurances are obtained, the Agency should check the EPLS and maintain documentation of this procedure.

Finding #09-25-40

Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Allowability and Eligibility

Grant Number & Year: All open grants

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

Criteria: The Nebraska State Plan for TANF effective October 1, 2007, states "Failure of a dependent child age 16, 17, 18 to attend school without participating in any other *Employment First* approved work activity results in removal of the child's needs from the ADC unit."

Title 468 Nebraska Administrative Code (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 (April 12, 1999) 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. A good internal control plan requires verification of income to determine if the family is needy.

A good internal control plan and Title 468 NAC 1-010 requires the worker to redetermine eligibility for grant and medical assistance every six months.

The Nebraska State Plan for TANF, effective October 1, 2007, states the Solely State-Funded Program for Specified Exemptions "is not funded with federal TANF funds…the state general funds used for cash assistance for this program will not count toward Nebraska's TANF maintenance-of-effort requirement…the following individuals are exempt from participating in *Employment First* approved work activities…a person who…is incapacitated with a medically determinable physical or mental impairment," or "a victim of domestic violence."

The Nebraska State Plan for TANF, effective October 1, 2007, states the Separate State Program for Specified Exemptions "will be funded with state dollars only. The state general funds used to support this separate state program will apply towards Nebraska's Maintenance-of-Effort requirement…the following individuals are exempt from participating in *Employment First* approved work activities…a pregnant woman beginning the first of the month before the month of the mother's due date."

A good internal control plan requires procedures to ensure that cases are charged to the correct program: the Federal/State mix program, the Solely State-Funded Program for Specified Exemptions, or the Separate State Program for Specified Exemptions.

Condition: 6 of 40 TANF payments tested were not in compliance with Federal and State requirements.

Questioned Costs: $880 known

Context: For 3 of the cases, the caseworker had not completed a review within six months of the date of the previous application. The reviews were between four and eight months overdue. Because a timely review was not performed, for one case which included an 18-year-old child it could not be determined whether the child was going to school. If the child was not going to school, the child should have been enrolled in Employment First. Because a timely review was not performed, for another case it could not be determined if the family was needy because there was no review for possible income and resources.

For the other 3 cases, the parent was exempted from Employment First and should not have been paid with Federal dollars. One parent was exempt due to incapacity; one parent was exempt due to domestic violence; and the other parent was exempt due to pregnancy. The first two parents should have been in the Solely State-Funded Program for Specified Exemptions and the payments would not have qualified toward Nebraska's maintenance-of-effort requirements. The last parent should have been in the Separate State Program for Specified Exemptions and the payment would have qualified toward Nebraska's maintenance-of-effort requirement.

Federal payment errors noted were $880. The total Federal sample tested was $6,846 and total TANF cash assistance payments for fiscal year 2009 were $14,201,112. Based on the sample tested, the case error rate was 15% (6/40). The dollar error rate for the sample was 12.85% ($880/$6,846) which estimates the potential dollars at risk for fiscal year 2009 to be $1,824,843 (dollar error rate multiplied by population).

A similar finding was noted in previous audit reports.

Cause: Inadequate procedures.

Effect: Increased risk for misuse of Federal funds.

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

> **Management Response:** The Agency agrees with the condition reported. The Agency 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.
>
> **Corrective Action Plan:** To support implementation of the ACCESSNebraska project, the Agency elected to take advantage of a state option (offered by the federal government to States) to incorporate Simplified Reporting with a 12

month review rather than a 6 month review for the Supplemental Nutrition Assistance Program (SNAP) and adopted it for other programs as well to include TANF. This was to support alignment of policies between programs as well as to support ACCESS-Nebraska implementation. A Manual Bulletin was issued on December 29, 2008 which directed the Service Area eligibility workers to conduct eligibility reviews on an annual basis rather than every six months. This change was effective January 1, 2009. A copy of this Manual Bulletin was provided to APA staff. This change in review frequency is being taken through the formal certification process to incorporate the change into Title 468 of the Nebraska Administrative Code.

The Agency does not contest the finding other than to point out that the APA's findings for the three cases mentioned presume total ineligibility when no evidence was provided to support such findings. In one of the three cases cited, the presumption was that because the review was not completed timely, the Agency could not prove that the children in the family were "needy" as there was "no review for possible income and resources." On previous Audits where households were in like circumstances (i.e., an ineligible parent with no SSN and eligible children), errors were also cited until the FFY2008 Audit, when similar cases were <u>not</u> cited as the Agency was advised by APA that ACF indicated these weren't to be pursued.

Contact: Jill Schreck

Anticipated Completion Date: October 1, 2010 (contingent on hearing date on title change)

APA Response: The extrapolation method is in accordance with auditing standards.

Per 45 CFR 92.20 (January 1, 2009), a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Agency regulations properly adopted and filed with the Secretary of State of Nebraska have the effect of statutory law and, therefore, supersede any conflicting contents of mere departmental manuals or bulletins. Until the NAC regulations are revised and approved, the Agency is required to adhere to Title 468 NAC 1-010 and redetermine eligibility every six months. No costs were questioned when the only exception noted was a late review and the late review did redetermine the family was eligible.

Regarding the case with lack of review for possible income and resources, this is not a circumstance like the prior audits. Prior audits indicated the Agency was not using the Income Eligibility and Verification System (IEVS) to determine

income and resources. The ACF indicated the Agency was not required to use IEVS for ineligible parents with no SSN, but was still required to determine income and resources by other means to ensure the family was needy.

The Corrective Action Plan above does not address procedures to ensure cases with parents exempt from Employment First are not paid with Federal dollars, or procedures to ensure dependent children age 16, 17, and 18 who are not attending school or in other Employment First activities are removed from the ADC unit.

Finding #09-25-41

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

Grant Number & Year: All TANF grants open during State fiscal year 2009

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

Criteria: A good internal control plan requires adequate procedures to ensure the recipients' assistance payments are properly reduced in a timely manner when notice of non-cooperation is received. Per Title 42 USC § 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: TANF assistance was not properly reduced for Child Support non-cooperation for 3 of 26 cases tested.

The Agency reviews a monthly report to ensure Child Support non-cooperation sanctions are properly imposed. This report is not complete and is not showing all "sanctions not imposed" recipients. Additionally, review procedures for this report were not adequate.

Questioned Costs: $386 known

Context: We tested 40 Child Support non-cooperation notices to determine if the TANF assistance payment was appropriately sanctioned and reduced in a timely manner. Of the 40 tested, 26 received TANF assistance during the individuals' non-cooperation time period.

For 1 of the 26 cases, assistance was not reduced for a payment for one month. This TANF case was then closed for other reasons. For 2 of 26 cases, assistance was not reduced for a payment for one month. However, after the payment was issued, it was determined these individuals should not have received payment for that month. The Agency is in the process of collecting the overpayment from one individual, but has been unable to collect any of the overpayment from the other individual.

The Agency has a control in place to review cases that are in non-cooperation status but were not sanctioned by using a monthly report. Our prior audit noted that this report was not complete and did not show all "sanction not imposed" recipients. The report did not include individuals who had a closed case at the start of non-cooperation with Child Support and then later the case was reopened and was still in non-cooperation status. The Agency fixed this problem in November 2009 so that the report would include all cases; however, since this correction was not implemented until November 2009, the reports for State fiscal year 2009 would not have been complete. Additionally, during review of this report we noted the Agency's review procedures were not adequate because follow up was only performed on highlighted cases. Cases highlighted signify they have appeared on this report more than once. This review process would not catch an individual whose non-cooperation started earlier in the month and should have a sanction imposed by the end of the month.

A similar finding was noted in previous audit reports.

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 non-cooperation referrals have assistance payments properly reduced or terminated in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: As mentioned above, the monthly "CSE Sanctions Not Imposed" Crystal Report was modified effective November, 2009 to more accurately capture all cases where Child Support non-cooperation has occurred. The Agency does question APA's assertion that "the Agency's review procedures are not adequate." When the Crystal Report first started running (May, 2007), the report contained 97 ADC cases, with 87 being shown on the report for a second time. The last report run before modification contained eight (8) cases with five (5) being repeat listings. This was a clear indication that the report was not accurate as noted in this finding. Now that the report has been modified, the most recent report showed 35 total ADC cases with 29 being repeat cases. Of these, there were only two (2) cases where the SSW had not listed a reason why the Sanction had not been imposed.

The Crystal Report is run on a monthly basis, but not always on the same date. It runs the third Monday of each month, which can be as early as the 15th or as late as the 21st. The report is available to the supervisors who then notify the appropriate eligibility worker of the cases on the report. Given the date the report is run it is often not possible for the eligibility workers to respond immediately to any cases of theirs which may appear on the report and impose a Sanction for the upcoming month. The report does help identify the cases that need review and the eligibility worker acts accordingly.

The Crystal Report and issues related to prompt implementation of CSE Sanctions will be reviewed and discussed in a statewide Economic Assistance Administrator's meeting scheduled for March 24, 2010.

Contact: Jill Schreck

Anticipated Completion Date: July 1, 2010

APA Response: Although the Agency did modify the information included on the "sanction not imposed" report; this was not completed until after the fiscal year under audit. Additionally as noted above, procedures during the year were not adequate, as 3 of 26 cases did not have assistance reduced timely.

Finding #09-25-42

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

Grant Number & Year: #0G0501NETANF, FFY 2005; #0G0602NETANF, FFY 2006; #0G0702NETANF, FFY 2007

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 adequately documented." Title 45 CFR § 92.20 (October 1, 2008) 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. A good internal control plan requires procedures be in place to ensure journal entries are prepared using all relevant information.

OMB Circular A-133 § 300 states, "the auditee shall…follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with § ___.315(b) and § ___.315(c), respectively."

OMB Circular A-133 § 500(e) states, "the auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with § ___.315(b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding."

OMB Circular A-133 § 400(c) states, "the Federal awarding agency shall…issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action."

The Agency's corrective action plan should be in sufficient detail for the APA and the Federal awarding agency to determine whether the Agency's corrective action plan was sufficient and appropriately followed.

Condition: The Agency performed a journal entry and adjusted the Financial Status Reports (FSRs) for Federal fiscal year (FFY) 2005, 2006, and 2007 grants in order to correct prior Single Audit finding #06-26-24 which stated the FSRs did not agree to the accounting records, the Nebraska Information System (NIS). The Agency's corrective action plan stated, ". . . A review of the 2005 and 2006 grant activity will be completed and revised financial reports prepared as necessary for the Federal agency. The revised reports will include the variances noted by the auditor." The Agency did not submit a detailed plan regarding the methods or assumptions that would be used in preparing revisions or obtain approval from the Federal agency for the procedures used. In addition, an error in the process was noted resulting in questioned costs of $620,239.

Questioned Costs: $620,239 known

Context: Our 2006 Single Audit report noted that Federal expenditures for the 2005 grant were overstated on the FSR by $1,742,276 and the 2006 grant expenditures were overstated by $19,107,429, as compared to NIS. The Agency performed a journal entry on March 31, 2009, to adjust 2005, 2006, and 2007 grants. The entry resulted in $10,844,030 of Federal funds being charged and drawn.

To perform the journal entry the Agency obtained all Federal expenditures per NIS by Federal fiscal year regardless of the grant year charged and adjusted the FSRs accordingly. For example, all Federal expenditures from October 1, 2004, through September 30, 2005, were assumed to be Federal expenditures from the FFY 2005 grant, regardless if they were drawn from the 2003 or 2005 grant. NIS records each grant year separately; if the Agency had simply adjusted the FSRs to reflect the expenditures by each grant year, the journal entry would have been cost neutral, i.e. no Federal funds would have been due or owed. The journal entry resulted in the Federal funds being charged $10,844,030. This is due primarily to the following:

1. One journal entry recorded to NIS during December 2004, amounting to $620,239, was not included by the Agency in the process to create the journal entry. Per the Agency, this was an inadvertent mistake. As a result $620,239 was overcharged to the FFY 2006 grant.
2. Two journal entries were recorded to NIS during May 2005, amounting to $9,497,453, and one payment was recorded to NIS during December 2004, amounting to $127,838, which involved the FFY 2003 grant. These entries charged the 2003 grant for 2005 grant basic assistance costs; it is allowable to charge the FFY 2003 grant for costs incurred in FFY 2005. However, by including these as FFY 2005 costs in 2009, the Agency did not have documentation to support the underlying transactions. There was no specific detail to allow the APA to test individual charges for allowability and other Federal compliance requirements. The Agency considered this $9,625,291 to be a receivable for Federal costs reported but not drawn. The Agency rolled this "receivable" forward and included in the fiscal year 2009 journal entry, drawing the funds from the FFY 2006 grant.

The explanation provided by the Agency for why a receivable was due from the Federal government is as follows. Reports did not agree to NIS for several years prior to the 2006 audit finding because:

- The reports were prepared based on predetermined flat percentages without regard to the actual funds charged on NIS and
- Certain work activities costs were routinely reported as Federal without regard to actual coding on NIS.

The Agency indicated they were actually charging more costs to State funds than Federal funds; the journal entry made in 2009 was to correct those problems and reimburse the State for all funds that were due.

The APA agrees that prior to 2007 the Agency used a percentage calculation to determine the amount of cash assistance being reported for Federal and State maintenance of effort expenditures. However, the Agency did not have adequate documentation to support the $9,625,291 was a receivable, or detail needed to support the underlying transactions were allowable.

Cause: Accounting inadequacies and reporting errors from previous years.

Effect: Without adequate documentation for accounting entries, there is an increased risk Federal funds may be drawn inappropriately. Also, without a detailed corrective action plan approved by the Federal awarding agency, we cannot determine whether the procedures to correct the 2005, 2006, and 2007 grant years were adequate.

Recommendation: We recommend the Agency perform a correcting entry for the $620,239 overcharged. We further recommend the Agency provide additional support for the $9,625,291 receivable drawn. Finally, we recommend the Agency obtain Federal approval for the procedures the Agency used to correct the 2005, 2006, and 2007 grants.

Management Response: The Agency agrees that $620,239 was overcharged as the corrective action plan to the 2006 audit was completed. The Agency has provided the support for the receivable drawn and all years have been audited. The Agency is awaiting a final confirmation from the Federal Government.

Corrective Action Plan: A correction will be entered onto the next ACF-196 financial report filed with the Federal government.

Contact: Larry Morrison

Anticipated Completion Date: May 15, 2010

<u>Finding #09-25-43</u>

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Cash Management

Grant Number & Year: All open grants

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

Criteria: Per 31 CFR 205.33(a) (July 1, 2008), "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes." A good internal control plan requires procedures be in place to ensure Federal grants are not charged for more than their actual expenditures.

Condition: We noted TANF administrative expenditures exceeded TANF Cost Allocation Plan (CAP) expenditures by $1,511,370 for the 2009 grant and by $1,503,669 for the 2008 grant.

Questioned Costs: Unknown

Context: Administrative costs (consisting primarily of payroll and systems costs) when paid are charged to various Federal and State programs based on predetermined percentages. When costs are recorded in NIS to a particular grant, the Agency draws the funds from the Federal agency. At the end of each quarter the CAP is run. The CAP redistributes costs and reflects actual allowable expenditures for each program.

Since NIS expenditures exceeded CAP expenditures for TANF by a significant amount, cash management issues occurred because funds were drawn from the TANF grant before costs were actually incurred for the TANF grant.

Cause: The Agency monitors administrative costs charged to grants to ensure actual NIS administrative expenditures do not exceed CAP administrative expenditures by a significant amount. However, adjustments were not made to true up the TANF expenditures.

Effect: If NIS expenditures exceed CAP expenditures by a significant amount, there is an increased risk funds are drawn for a grant before actual expenditures for the grant occur. TANF grants were overcharged and State and/or other Federal programs were undercharged. This results in noncompliance with Federal cash management regulations.

Recommendation: We recommend the Agency implement procedures to ensure expenditures charged to Federal grants are allowable costs per the CAP; actual NIS expenditures and allowable CAP expenditures do not vary by significant amounts; and timing variances are resolved in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Amounts drawn from the 2009 and 2008 grants in excess of the administrative costs identified in the CAP will be returned to the grant. More immediate adjustments will be made to reconcile the NIS expenditures to the allowable CAP expenditures.

Contact: Larry Morrison

Anticipated Completion Date: May 15, 2010

DEPARTMENT OF ROADS

Finding #09-27-01

Program: CFDA 20.205 – Highway Planning and Construction – Davis-Bacon Act

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Transportation

Criteria: 29 CFR § 5.5 (a) (3) (July 1, 2008) states payroll and basic records relating thereto shall be maintained by the contractor during the course of the work and such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid, and daily and weekly number of hours worked. These payrolls shall be submitted each week to the Agency and shall set out accurately and completely all the information required. Additionally, a good internal control plan requires final payroll dates in the Agency's SiteManager agree to support.

Condition: Contractors and subcontractors are required to submit to the Agency Project Manager a certified copy of each weekly payroll and Statement of Compliance – Form WH 348 or a contractor's form with identical wording. The payrolls and Statement of Compliance are to be submitted within seven days after the date the employees are paid. When payrolls are received, the Project Managers record the receipt on form DR 84 entitled "Record of Contractor Payrolls Received." Upon receiving the final payroll from the contractor and any subcontractors, the Project Managers will go into SiteManager to record the date the final payroll was received. SiteManager integrates field-based data collection, administration of contract records, contractor payments, project oriented civil rights monitoring, and materials management. The final review team often uses SiteManager completion dates to complete their final review checklist for completed projects. We noted 4 of 25 contracts tested had the wrong final payroll received date recorded in SiteManager. Additionally, during testing we noted 1 of 25 certified payrolls incorrectly stated that all employees were salaried. This error was not caught by the consultant hired by the Agency to collect contractor payrolls.

Questioned Costs: None

Context: SiteManager listed incorrect final payroll received dates for project numbers NH-680-9(877), HSIP-84-5(111), ITS-ITSN(301), and STP-PEP-183-1(113). For project NH-680-9(877) SiteManager showed final payroll received date as October 26, 2008; however, per the DR 84 the final payroll was received November 14, 2008. For project HSIP-84-5(111) SiteManager showed final payroll received date as November 18, 2008; however, per the DR 84 the final payroll was received December 1, 2008. For project number ITS-ITSN(301) SiteManager showed final payroll received date as October 8, 2007; however, per the DR 84 the final payroll was received April 15, 2008. For project number STP-PEP-183-1(113) SiteManager showed final payroll received date as January 3, 2008; however, per the DR 84 the final payroll was received January 17, 2008.

Cause: Project Managers have multiple event dates to put into SiteManager for each project. Project Managers put in dates for both the expected and actual completion dates of these events. On occasion Project Managers may grab the wrong event line and enter an incorrect date for a particular event's completion or Project Managers may put the expected completion date in for the actual completion date. Project Managers may also believe they have received all the payrolls and then the contractor will send them another one. When such errors occur in data entry, Project Managers may not update SiteManager with the correct information.

Effect: When an incorrect date is entered into SiteManager, the final review team may sign off on a project and release the project to the Controller Division for payment of retainage even though all required reports have not been received. Furthermore, when there are not procedures in place to catch obvious payroll certification errors, there is a greater risk noncompliance with Davis-Bacon wage requirements may go undetected.

Recommendation: We recommend the Agency implement procedures to ensure all payrolls have been received before a date is entered into SiteManager and the date entered corresponds to the final payroll noted on the DR 84. Additionally, we recommend the Agency implement procedures to ensure payrolls are not glaringly incorrect.

Management Response: At the Project Managers Conference in March, the subject will be discussed with District personnel to be more vigilant in accurately entering the correct data in SiteManager. Also, an item will be added to the checklist during the final review process to ensure that the final payroll received date matches the DR Form 84 (Record of Contractor Payrolls Received).

Corrective Action Plan: Same as Management Response.

Contact: Claude Oie, Construction Engineer

Anticipated Completion Date: April 30, 2010

Finding #09-27-02

Program: CFDA 20.205 – Highway Planning and Construction – Subrecipient Monitoring

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-133 § 400 (d)(5) states a 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." OMB Circular A-133 § 405 (a) states "the management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee."

Condition: The Agency's Audit Division is responsible for reviewing subrecipients' A-133 audits and issuing management decisions. For the fiscal year ended June 30, 2009, the Agency had 50 subrecipients. During our review of subrecipient monitoring we noted one of two subrecipients tested did not have a management decision issued on audit findings within six months nor does there appear to be procedures to ensure subrecipients take appropriate and timely corrective action.

Questioned Costs: None

Context: A calendar year 2007 subrecipient audit was not received by the Agency until September 2008; however, the Audit Division did not complete their A-133 audit checklist and review until July 2009. The audit included two findings which were applicable to the pass-through funds received from the Agency. The Agency did not issue a management decision letter concerning these audit findings.

Cause: The Agency's procedures currently do not include sending out a management decision letter or ensuring appropriate and timely corrective action is taken.

Effect: When management decisions are not issued within six months of receiving audit findings, there is an increased risk subrecipients may not be monitored in a sufficient manner considering their risk. Additionally, the Agency is not in compliance with the requirements of OMB Circular A-133.

Recommendation: We recommend the Agency ensure management decisions on subrecipient audit findings are issued within six months after the receipt of the subrecipient's audit report. Additionally, we recommend the Agency implement procedures to ensure subrecipients take appropriate and timely corrective action on all audit findings.

Management Response: The Controller Division, Audit Section, will include within its checklist an item that a Management Decision letter has been issued to the subrecipient, when required, and will follow up with the subrecipient on significant audit findings where actions should be taken to correct deficiencies.

Corrective Action Plan: Same as Management Response.

Contact: Jim Dietsch, Audit Manager

Anticipated Completion Date: March 15, 2010

Finding #09-27-03

Program: CFDA 20.205 – Highway Planning and Construction and ARRA Highway Planning and Construction – Allowable Costs/Cost Principles

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87 Attachment B § 8 (h)(6) states, "substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency." Additionally, the Agency's Stewardship Agreement with the Federal Highway Administration (FHWA), Agreement Modification 8 (c) (July 2006) states, "FHWA has and will approve the accounting methods and process used to develop the payroll additive rates and indirect cost rates." The FHWA methodology approval letter further requests the Agency annually provide an informational copy of the payroll additive rate at the time it is computed and approved by the Agency's Controller Division each year. OMB Circular A-87 Attachment B § 8 (h)(5)(e) requires distribution percentages be adjusted at least annually to reflect adjustments required as a result of the actual activity. The Agency's methodologies state "at the time of the development of a new payroll additive rate, consideration may be given to the over or under distribution of actual expenses that occurred in the prior fiscal year (the application of the payroll additive rate used in that fiscal year when compared to the actual costs). These over or under distributed costs are added or credited to the estimated benefit costs and the new payroll additive rate is calculated accordingly."

Condition: The payroll additive rate is a percentage rate used to distribute the costs of all employee leaves and benefits to all work activities and related reporting requirements on an equitable basis. The payroll additive rate is applied only to the dollars paid for hours physically worked. The total payroll additive amount for the fiscal year ended June 30, 2009, for projects with federal participation was $9,227,065. During our review of the payroll additive rate calculation we noted the following:

- The payroll additive rate calculation methodology was not approved by the FHWA for fiscal year 2009.
- The Agency could not provide the email sent to FHWA to inform them of the payroll additive rate change in January 2009.
- The fiscal year ended 2009 payroll additive rate included adjustments of over recovery of payroll additive for the prior two fiscal years.

Questioned Costs: None

Context: In a letter dated January 11, 2005, the FHWA approved the additive rate calculation methodologies for the fiscal years 2005 through 2008. Since this January 11, 2005, letter, the Agency's methodologies have not been re-approved by FHWA for fiscal years subsequent to 2008.

Effective January 14, 2009, the payroll additive rate was changed from 70% to 67%. Controller Division could not provide email support for the APA to verify the FHWA was informed of this rate change.

The fiscal year 2009 payroll additive rate calculation included adjustments for two years of over recovery. The 2009 calculation included adjustments of $602,849 for fiscal year 2007 over recovery and $922,135 for fiscal year 2008 over recovery. Fiscal year 2007 over recovery should have been adjusted in 2008.

Cause: The email sent to the FHWA informing them of the January 14, 2009, payroll additive rate change could not be located by Controller Division staff. Prior to the fiscal year 2009 payroll additive rate calculation, Controller staff could not remember if adjustments had been made to the rate for over/under recoveries.

Effect: The Agency is not in compliance with the requirements for payroll additive rate methodology approval and adjustment.

Recommendation: We recommend the Agency receive approval for their payroll additive methodologies for subsequent fiscal years. Additionally, we recommend the Agency keep a copy of the email sent to FHWA informing them of any rate change. Furthermore, we recommend the Agency ensure adjustments are made at least annually to the payroll additive rate for any over/under payroll recovery amounts.

Management Response: The Controller Division will contact the Federal Highway Administration (FHWA) and ask that they either extend their approval period for the methodology used for the payroll additive calculation, or perform a more current review. The methodology used in calculating the payroll additive has not changed, since the previous review performed by the FHWA.

Each year when the payroll additive is adjusted, the FHWA is notified by email of the new rate. A copy of future notes will be placed in a specifically identified file folder for record keeping and reference purposes.

The annual rate adjustment will take into account the over/under distribution from the prior fiscal year.

Corrective Action Plan: Same as Management Response.

Contact: Cyndy Roth, Accounting Manager

Anticipated Completion Date: June 18, 2010

GAME AND PARKS COMMISSION

Finding #09-33-01

Program: CFDA 15.605 and 15.611 – Fish and Wildlife Cluster – Reporting and Matching

Grant Number & Year: All Open Grants

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

Criteria: OMB Circular A-133, Section 310, requires the State to prepare the Schedule of Expenditures of Federal Awards (SEFA) that provides total Federal awards expended for each individual Federal program and the CFDA number.

43 CFR § 12.60(a) (October 1, 2008) states, 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.

Furthermore, a good internal control plan requires adequate tracking of Federal expenditures to ensure accurate reporting. Also, NIS is the official accounting system of the State and all expenditures should be properly recorded in the system.

Condition: The Agency did not record transactions in the accounting system in a manner that adequately established whether a transaction was paid using Federal or State funding. The Agency prepared a spreadsheet to track Federal expenditures; however, the amount reported understated Federal expenditures on the SEFA by $55,103. Furthermore, we noted the Agency included amounts in the spreadsheet that had no corresponding expense recorded in the accounting system, totaling $74,137.

Questioned Costs: Unknown

Context: During testing it could not be determined whether expenditures were paid using State or Federal monies. The Agency's procedure was to record expenditures against one of the Agency's cash funds. The Agency then determined the expenditures in the accounting system and requested Federal monies as a percentage of the grant match. Therefore, it appeared all expenditures recorded against the grants had a Federal and State match. However, the Agency considered one of the expenditures selected for testing to be from State funds only. This could not be determined according to the Agency's procedures to drawdown Federal funds or per NIS.

We also noted the Agency did not properly code all expenditures paid in the accounting system against Federal grants. Conservation Officer's wages are not coded in the accounting system to a Federal grant; instead they are tracked separately in a spreadsheet and included in the calculation of Federal expenditures.

The Agency tracked and reported Federal expenditures using a spreadsheet. For fiscal year 2009 the Agency reported $3,824,098 in Federal expenditures, however, $3,879,201 should have been reported, creating a $55,103 understatement. We informed the Department of Administrative Services (DAS) and the Agency of the errors and the SEFA was subsequently adjusted. This has been a prior finding since fiscal year 2006.

The Agency paid employees monthly until November 2008 when they changed to a bi-weekly payroll cycle. There was a month time lag between when the employees were paid and when the timesheet was recorded in the accounting system. For October the employees were paid for October wages, however, the coding in the system, due to timing, was for the September timesheet. In November the Agency was current for their recording of hours paid and coding of the timesheets. Therefore, the Agency tracked the October timesheets in a spreadsheet and included the wages in the calculation of Federal expenditures, however, because there was no corresponding expenses these should not have been included in the calculation. October wages recorded against Federal grants totaled $74,137.

Cause: The spreadsheet used to calculate Federal expenditures did not carry forward prior year amounts properly, causing variances. Furthermore, the spreadsheet was set up to account for expenditures paid from the Agency's cash funds, the expenditures were then calculated as a percentage of the grant match. However, some of the grants on the spreadsheet were already accounted for in a Federal fund and therefore, should not have been included in the calculation. We also noted amounts that should not have been included as they would not have been allowable.

Effect: Noncompliance with Federal regulations could lead to loss of Federal funding. Without adequate controls to ensure Federal expenditures are reported accurately there is an increase of misstatement on the SEFA.

Recommendation: We recommend the Agency ensure expenditures recorded in the accounting system are adequately identified as Federal or State funds in compliance with Federal regulations. The Agency should work with DAS Accounting Division to implement the process change. Furthermore, we recommend the Agency implement procedures to ensure Federal expenditures are properly reported.

Management Response: Over the past 2 years, the Nebraska Game and Parks Commission (Agency) staff has implemented several adjustments to the SEFA spreadsheet recommended by State Accounting and the APA. The current recommended format that is in use will be thoroughly reviewed to determine how Federal Aid grants can be tracked more effectively. Federal Aid staff will continue to work directly with State Accounting and the APA to ensure SEFA information is appropriately reported and will continue to provide supporting information for all Federal funds.

All Conservation Officers wages are recorded in the State accounting system. Since Conservation Officers have daily changing activities which include not only conservation activities but law enforcement, additional information is required to determine grant fund eligibility. This information has been tracked on a monthly basis and reviewed prior to inclusion in the grant for reimbursement. We will work with State Accounting to determine how this detail can be more effectively reported in a cost effective manner within the State accounting system.

Due to a change from monthly to bi-weekly payroll, the payroll activity appears to have been incorrectly utilized for match. The Agency has reviewed actual grant activity. Due to over-match, and status of grants at the time of the calculations, none of the payroll was reimbursed or used for match. No funds will be reimbursed since no funds were requested based on the miscalculation.

Corrective Action Plan: The Agency has communicated with both the APA and the Department of Administrative Services to arrange a meeting to review SEFA reporting format.

The Agency is working with State Accounting to determine how Conservation Officer's time can be effectively reported in a cost effective manner within the State accounting system and maintain detail necessary for compliance with the grant.

No corrective action is necessary for the change from monthly to bi-weekly payroll. The conversion in pay schedules was a one-time event. The Agency has reviewed actual grant activity for each grant with salary coding during the conversion from monthly to bi-weekly. Due to over-match, and status of grants at the time, none of the payroll was reimbursed or used for match. No funds will be reimbursed since no funds were requested based on the miscalculation.

Contact: Marilyn Tabor

Anticipated Completion Date: April 30, 2010

APA Response: All expenditures should be properly identified in the State accounting system to separately account for Federal and State expenditures.

<u>Finding #09-33-02</u>

Program: CFDA 15.605 and 15.611 – Fish and Wildlife Cluster – Suspension and Debarment

Grant Number & Year: All Open Grants

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

Criteria: 2 CFR § 180.300 (January 1, 2008), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. Title 2 CFR § 180.220 (January 1, 2008) states that covered transactions include contracts for goods and services that are expected to equal or exceed $25,000. OMB Circular A-133 § 300 states the auditee shall "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."

Condition: The Agency did not have procedures to verify vendors were not on the EPLS and three of four contracts tested did not contain a clause or have a certification regarding adherence with the Federal suspension and debarment requirements.

Questioned Costs: None

Context: Two contracts tested were statewide contracts established by DAS Accounting Division, which the Agency relied on to have all appropriate clauses in the contract. Payments to each contractor totaled $158,189 and $432,162 during the State fiscal year 2009. An additional contract, entered into by the Agency, had payments totaling $445,129 during the State fiscal year 2009. All three contractors were verified against the EPLS by the APA, however, the Agency did not comply with 2 CFR § 180.300.

Cause: The Agency was unaware of the Federal requirement for suspension and debarment.

Effect: The Agency could be unaware that it is contracting with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure contractors are not suspended or debarred by the Federal government.

Management Response: Federal Aid erroneously assumed that State purchasing and individuals preparing agreements and contracts were checking to ensure debarred or suspended parties were not awarded contracts. The Agency will work with State purchasing to put procedures in place to ensure that contracts are reviewed for compliance with Federal regulations.

Debarment and suspension has been included in all construction projects. Procedures have been implemented to ensure that individuals preparing agreements will check the EPLS website to ensure no agreements are signed with debarred or suspended parties. This procedure will be document and Federal Aid will review the process for compliance.

Corrective Action Plan: Procedures have been implemented to ensure that individuals preparing agreements will check the EPLS website to ensure no agreements are signed with debarred or suspended parties.

The Agency is working with State purchasing to put procedures in place to ensure that contracts are reviewed for compliance with Federal regulations. Until that process is ensured, Agency staff are checking the EPLS website.

Contact: Marilyn Tabor

Anticipated Completion Date: March 4, 2010

ENERGY OFFICE

Finding #09-71-01

Program: CFDA 81.042 – ARRA – Weatherization Assistance for Low-Income Persons – Reporting

Grant Number & Year: ARRA Grant #DE-FG-26-09EE00137, (April 1, 2009 – March 31, 2012)

Federal Grantor Agency: U.S. Department of Energy

Criteria: OMB Financial Report SF-425 Instructions state, "Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to subrecipients and contractors."

Condition: During testing of reporting, it was noted that $372,316 of ARRA funds was not appropriately reported on a cash basis as disbursements on the SF-425.

Questioned Costs: None

Context: For the quarter ending June 30, 2009 the Agency did not report $372,316 of cash advances paid to subrecipients before June 30, 2009 as part of Cash Disbursements on the Federal Financial Report (SF-425). The amount was correctly reported on the Schedule of Expenditures of Federal Awards (SEFA).

Cause: Unknown

Effect: Without procedures to ensure reporting is completed on the correct basis of accounting, it increases the risk for misstatements.

Recommendation: We recommend the Agency follow instructions to complete the Federal reporting with the correct basis of accounting.

Management Response: The Nebraska Energy Office agrees with the finding.

Corrective Action Plan: The Nebraska Energy Office is working with the U.S. Department of Energy to determine what action, if any, is needed to correct the reporting error on the Federal Financial Report (SF-425). In the future, the Energy Office will include Cash Advances on the Federal Financial Report forms.

Contact: David Wesely

Anticipated Completion Date: April 30, 2010

COMMISSION FOR THE BLIND AND VISUALLY IMPAIRED

Finding #09-81-01

Program: CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States, CFDA 84.390 – Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act – Allowability

Grant Number & Year: #H126A070040D, FFY 2007; #H126A080040D, FFY 2008; #H126A090040A, FFY 2009; #H390A090040A ARRA, FFY 2009

Federal Grantor Agency: U. S. Department of Education

Criteria: OMB Circular A-87, Attachment B, Sec. 8.h.(5)(d) indicates personnel activity reports must be signed by the employee. A good internal control plan requires all supervisors' approvals of time charged to Federal grants are documented, and such documentation be maintained.

Condition: Electronic certifications and approvals of timesheets were not maintained.

Questioned Costs: Unknown

Context: In January 2008, Fair Labor Standards Act (FLSA) exempt staff began using an Excel template for their timesheets. The employees email to their supervisor would be considered their electronic signature and their supervisor's email to the time clerk would be considered the supervisor's electronic signature. The Excel timesheet and emails were printed and maintained by the time clerk. In June 2008, the policy changed to require that the emails would no longer be printed, but should be saved electronically; however, they were not saved electronically. In September 2008, FLSA non-exempt staff in offices outside Lincoln and Omaha began using the same process. As a result, the documentation of the employees' certification and supervisors' approval is not available for FLSA exempt staff and FLSA non-exempt staff outside of Lincoln and Omaha. FLSA non-exempt employees in the Lincoln and Omaha offices were certified and approved with a manual signature.

Federal payroll costs from unsigned timesheets noted were $2,059. The total Federal sample tested was $7,182 and total payroll costs charged to Vocational Rehabilitation for 2009 were $1,896,305. Based on the sample tested, the case error rate was 50% (2/4). The dollar error rate for the sample was 28.66% ($2,059/$7,182) which estimates the potential dollars at risk for fiscal year 2009 to be $543,481 (error rate multiplied by population).

Cause: Communication of new procedures regarding the maintenance of electronic certification via email was not effective.

Effect: Without documentation of the certification and approval of employees' timesheets, there is an increased risk that time worked on Federal grants will not be reported accurately.

Recommendation: We recommend the Commission maintain proper documentation of employee certification and supervisor approval of time worked on Federal grants.

Management Response: See Corrective Action Plan.

Corrective Action Plan: This action plan is to implement a folder with each payroll, housed in our W: Shared file folders drive > Business Office > Payroll Registers > 2010 > B-02 '10 and forward. The folder will preserve all correspondence between staff and their supervision that will contain submission and approval information regarding timesheets with reference to their attached timesheet. In another folder on our W: Shared File Folders drive, the actual timesheets will be housed by name and date. These folders are maintained by the State of Nebraska Office of the CIO and have necessary redundancy to assure access to those records for satisfaction of OMB Circular A-133 requirements.

Contact: Bill Brown, NCBVI Business Manager

Anticipated Completion Date: January 15, 2010

Nebraska Secretary of State

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-09-01 07-09-01 06-09-01	90.401	Help America Vote Act Allowable Costs/Cost Principles/Equipment	Corrective action plan is complete.	No current finding
08-09-02	90.401	Help America Vote Act Reporting	Corrective action plan is complete. The error was a clerical error in which a wrong number was pulled off a report. Prior to submission to the Federal Audit Clearinghouse the Schedule of Expenditures of Federal Awards (SEFA) was changed to reflect the correct amount of expenditures.	No current finding

Nebraska State Treasurer

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-65-02 06-12-01	93.563	Child Support Enforcement Special Tests and Provisions	Corrective action plan is complete. Over the last several years, a lot of the old variances were properly identified and corrected. An adjustment was made in June 2009 to correct the general ledger for the remaining immaterial old variance. Since July 2005, a monthly bank reconciliation has been performed in which the general ledger is reconciled to the bank statements.	No current finding

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-13-02	84.010	Title I Grants to Local Educational Agencies Special Tests and Provisions	Working with the U.S. Department of Education Title I staff to obtain a resolution.	Resolution still in progress

Nebraska Department of Aeronautics

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-17-01	20.106	Airport Improvement Program Allowable Costs/Cost Principles	Corrective action plan is complete. The Agency submitted their cost allocation plan to the Federal Aviation Administration. The rate from this plan has been in use since February 2009.	No current finding

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-23-02	17.258 17.259 17.260	WIA Cluster Cash Management/ Reporting	The Agency will work with the U.S. Department of Labor administrators in Region V to place validation controls on the expenditures, drawdowns, and repayments. Evaluation will include adjusted NIS expenses, as well as current general ledger and reported values compared to actual drawdowns from the federal payment management system.	The issue was not resolved during the fiscal year. The Agency is still working with the U.S. Department of Labor
08-23-03	17.258 17.259 17.260	WIA Cluster Allowability/Cash Management	Corrective action plan is in process. The Agency has set up proper controls for validation of expenditures. The Agency performs a reconciliation of amounts drawn-down to actual expenditures. The Agency has repaid a partial amount of the questioned cost. In a letter dated July 7, 2009 to the U.S. Department of Labor, the Agency offered to resolve the remaining questioned cost.	Repeated with changes Finding 09-23-08
08-23-04	17.258 17.259 17.260	WIA Cluster Allowable Costs/Cost Principles	Corrective action plan is complete. The Agency developed a Cost Allocation Plan which was approved by the U.S. Department of Labor.	Repeated with changes Finding 09-23-01

Nebraska Department of Labor (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-23-05	17.002 17.207 17.225 17.245 17.258 17.259 17.260	Labor Force Statistics Employment Services Unemployment Insurance Trade Adjustment Assistance WIA Cluster Reporting	Corrective action plan is ongoing. The expenditures by CFDA number will be thoroughly reviewed before submitting for inclusion in the statewide SEFA.	Repeated with changes Finding 09-23-10
08-23-06	17.258 17.259 17.260	WIA Cluster Reporting	Corrective action plan is complete and ongoing.	Repeated with changes Finding 09-23-05
08-23-07	17.258 17.259 17.260	WIA Cluster Period of Availability	Corrective action plan is complete and ongoing. The Agency has set up business units tied directly to each grant for FY08 and FY09 except for WIA administrative accounts which occupy multiple grants. The WIA administrative accounts are being tracked by alternative means.	Repeated with changes Finding 09-23-07
08-23-08	17.258 17.259 17.260	WIA Cluster Earmarking	Corrective action plan is complete and ongoing. The Agency now requires at least three staff members prepare and review all reports. All reports are reviewed to ensure that the reports tie to adequate supporting documentation. The reports are verified by an administrator for each grant.	Repeated with changes Finding 09-23-07

Nebraska Department of Labor (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-23-09	17.258 17.259 17.260	WIA Cluster Reporting	Corrective action plan is complete. The Agency became aware of a programming error and fixed the error in 2008.	No current finding
08-23-10	17.258 17.259 17.260	WIA Cluster Subrecipient Monitoring	Corrective action plan is complete and ongoing. The Agency has one sub-recipient and it is doing more monitoring of sub-recipient's expenditures. This sub-recipient will be notified of the required award information on sub-recipient award documents.	Repeated with changes Finding 09-23-06
08-23-11	17.258 17.259 17.260	WIA Cluster Allowability	Corrective action plan is complete and ongoing. The Student Orientation Agreement was revised and training was conducted with staff concerning new procedures and the need for proper documentation. A formal letter of request was developed that seeks payment of tuition and/or materials. When appropriate to do so, this letter will be sent via certified mail and will serve as documentation of collection attempt. The recapture of such expenses is not required by Federal WIA rules and regulations. This is a state policy that was created in an attempt to discourage clients from dropping out of training. The State has no reasonable means to aggressively collect monies or equipment from clients. The intent of the State policy is to simply ensure a reasonable attempt is made to collect and that the attempt is documented.	No current finding

Nebraska Department of Health and Human Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-25-02	10.557	WIC Subrecipient Monitoring	Corrective action plan is complete.	Repeated with changes Finding 09-25-38
08-25-03	10.557	WIC Subrecipient Monitoring	Corrective action plan is complete.	No current finding
08-25-04	64.015	Veterans State Nursing Home Care Eligibility	Corrective action plan is complete.	No current finding
08-25-05 07-26-04	93.283	CDC Investigations and Technical Assistance Subrecipient Monitoring	Corrective action plan is complete and ongoing. The Agency has policies and procedures in place to do subrecipient monitoring of pass-through entities.	Repeated with changes Finding 09-25-25
08-25-06	93.283	CDC Investigations and Technical Assistance Allowability	Corrective action plan is complete and ongoing.	No current finding
08-25-07 07-26-05	93.283	CDC Investigations and Technical Assistance Reporting	Corrective action plan is complete.	Repeated with changes Finding 09-25-24

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-25-08 07-26-06 06-26-20 05-26-15 05-26-14 04-26-07	93.558	TANF Allowability/Eligibility	Corrective action plan is complete and ongoing.	Repeated with changes Finding 09-25-40
08-25-09 07-26-08 06-26-21 05-26-20	93.558	TANF Special Tests and Provisions	All of the points in the corrective action plan are complete except the new Nebraska Family On-line Client User System (N-FOCUS) enhancement, which will be included in the November 9, 2009 release.	Repeated with changes Finding 09-25-41
08-25-10	93.558	TANF Special Tests and Provisions	Corrective action plan is complete and ongoing.	No current finding
08-25-11 07-26-11	93.568	LIHEAP Activities Allowed/Eligibility	Corrective action plan for the Nebraska Economic Assistance Review System (NEARS) is complete; LIHEAP to Nebraska Family On-line Client User System (N-FOCUS) has been put on hold.	No current finding
08-25-12 07-26-12	93.575 93.596	Child Care Cluster Allowability/Eligibility	Corrective action plan is complete.	Repeated with changes Finding 09-25-35

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-25-13 07-26-13 06-26-28 05-26-04 04-26-01 03-26-01	93.658	Foster Care Activities Allowed/Eligibility	Corrective action plan is complete.	Repeated with changes Finding 09-25-18
08-25-14	93.658	Foster Care Matching	Corrective action plan is complete and ongoing.	Finding corrected beginning January 2009 Finding 09-25-19
08-25-15 07-26-15	93.659	Adoption Assistance Allowability/ Matching	Corrective action plan is complete.	No current finding
08-25-16	93.659	Adoption Assistance Allowable Costs/Cost Principles/Reporting	Corrective action plan is complete and ongoing.	No current finding
08-25-17	93.667	Social Services Block Grant Allowability	Corrective action plan is complete.	Repeated with changes Finding 09-25-17
08-25-18 07-26-16	93.667	Social Services Block Grant Allowability	All of the points in the corrective action plan are complete except a transportation fee schedule. New Anticipated Completion Date: Jan. 1, 2010.	Repeated with changes Finding 09-25-15

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-25-19 07-26-17	93.767	State Children's Insurance Program Reporting	Corrective action plan is not complete. The spreadsheet has been developed, but the narrative explanations have not been completed. The revised anticipated completion date is April 30, 2010 (the January – March 2010 quarterly report.)	Repeated with changes Finding 09-25-05
08-25-20 07-26-18	93.767	State Children's Insurance Program Eligibility	Corrective action plan is complete.	No current finding
08-25-21 07-26-22 06-26-07	93.778	Medicaid Matching/Reporting	Corrective action plan is not complete. The spreadsheet has been developed, but the narrative explanations have not been completed. The revised anticipated completion date is April 30, 2010 (the January – March 2010 quarterly report.)	Repeated with changes Finding 09-25-06
08-25-22	93.778	Medicaid Allowability/ Subrecipient Monitoring	Corrective action plan is not complete. Contracts will be signed by 9/30/09 to include these changes.	Repeated with changes Finding 09-25-07
08-25-23	93.778	Medicaid Allowability/Matching	Corrective action plan is complete.	No current finding
08-25-24	93.778	Medicaid Eligibility	Corrective action plan is complete and ongoing.	No current finding

Nebraska Department of Health and Human Services (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-25-25	Various	Various Reporting	Completion date for corrective action plan of 9-30-2009 is on schedule.	Repeated with changes Finding 09-25-32
08-25-26 07-26-26 06-26-02	Various	Various Allowable Costs/Cost Principles	Corrective action plan is complete.	Repeated with changes Finding 09-25-03
08-25-27 07-26-28 06-26-04 05-26-01	Various	Various – Cost Allocation Plan Allowable Costs/Cost Principles	Electronic reporting for cost allocation was not completed by June 2009 as outlined for the corrective action plan. Although Resource Developers were added to electronic time reporting in June, the decision was made that cost allocation elements needed to be reviewed before adding the electronic reporting by program. Projected completion date October 1, 2009.	Repeated with changes Finding 09-25-04
07-26-29	Various	Various – Cost Allocation Plan Allowable Cost/Cost Principles	Corrective action plan is complete. The adjustment for Medicaid was completed on 1/30/2009 and the Food Stamps on 2/4/2009.	No current finding
06-26-03 05-65-02	Various	Various Allowability/Eligibility	Corrective action plan is complete.	No current finding
06-26-25 05-26-07 04-26-02 03-26-04	93.563	Child Support Enforcement Subrecipient Monitoring	Corrective action plan for the County Attorney Agreement is complete. Completion date for the Clerk of the District Court Agreement is on schedule for July 1, 2011.	Repeated with changes Finding 09-25-14

Nebraska Game and Parks Commission

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-33-01 07-33-01	Various	Various Reporting	The corrective action plan was implemented. A new staff member was hired who coordinates the preparation of the Schedule of Expenditures of Federal Awards. All CFDA numbers will be reviewed for accuracy. All grants will be reviewed to determine the status as either a direct or a pass through grant.	Repeated with changes Finding 09-33-01

Nebraska Energy Office

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
08-71-01	93.568	Low-Income Home Energy Assistance Subrecipient Monitoring	Corrective action plan is complete.	No current finding