STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2010

Issued on March 29, 2011

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2010

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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, 2010, 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 17% and 35% of the assets and revenues, respectively of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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, 2010, 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, 2010 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, 2010

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, 2010. 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 three new standards in 2010 required by the Governmental Accounting Standards Board (GASB): Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which has no material effect on the State's financial statements; Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which added some additional footnote disclosures; and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which has no material effect on the State's financial statements.

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, 2010 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, 2010 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 $0.9 billion, most of which is available to be used to fund future needs of the State. The primary government's net revenues exceeded net expenses for 2010 resulting in an increase in net assets of $54 million. This increase in net assets was a reversal of the $164 million decrease in 2009, due to three main areas: (1) a $198 million increase in investment earnings (a result of unrealized market gains) (2) a decrease of expenses, net of program revenue, of $143 million, and (3) a decrease in tax revenues of $133 million.

Fund Level:

General Fund receipts for 2010 were $181 million below the original budgeted amount and below the final budget by $76 million. Expenditures were $332 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $85 million in excess expenditures prior to a legislatively mandated property tax relief transfer of $112 million and $57 million in other financing uses, causing a reduction in fund balances of $140 million, and thereby reducing the fund balance on June 30, 2010 to $716 million. Other governmental funds revenues exceeded expenditures by $129 million, chiefly due to unrealized market gains. Offsetting these operating gains, such other funds paid $21 million in net other financing uses. This $108 million net increase resulted in raising such fund balances at June 30, 2010 to $1,942 million.

The $239 million of net assets of the Unemployment Insurance Fund represents seventy-five percent of the enterprise funds. Such fund had a $30 million decrease in net assets for 2010 compared to a $74 million decrease in 2009, a $44 million difference. This was due to unemployment insurance claims exceeding the business assessment fees collected from employers by $41 million, even though the State collected $241 million more in fees in 2010. This loss was only partially offset by $11 million in investment income.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $492 million at June 30, 2010, which is a $39 million decrease from the prior year. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due to 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 92% 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 12 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 $12,441 million at June 30, 2010 as compared to $12,670 million at June 30, 2009. As total liabilities only totaled $1,697 million, net assets amounted to $10,744 million as of June 30, 2010. As of June 30, 2009, these amounts were $1,980 million and $10,690 million, respectively. By far the largest portion of the State of Nebraska's net assets (73 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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current and Other Non-current Assets	$ 4,176	$ 4,491	$ 416	$ 427	$ 4,592	$ 4,918
Capital Assets	7,843	7,746	6	6	7,849	7,752
Total Assets	12,019	12,237	422	433	12,441	12,670
Non-current Liabilities	423	460	69	71	492	531
Other Liabilities	1,171	1,411	34	38	1,205	1,449
Total Liabilities	1,594	1,871	103	109	1,697	1,980
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,820	7,719	6	6	7,826	7,725
Restricted	1,754	1,632	241	271	1,995	1,903
Unrestricted	851	1,015	72	47	923	1,062
Total Net Assets	$ 10,425	$ 10,366	$ 319	$ 324	$ 10,744	$ 10,690

Over 66% of the State's non-capital assets consist of cash and investments. It should be noted that $356 million in 2010 and $584 million in 2009 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 95% 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 $457 million ($489 million in 2009); tax refunds payable of $319 million ($315 million in 2009); 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 $492 million ($531 million in 2009). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling $133 million for 2010 ($138 million for 2009), Medicaid claims for $192 million ($223 million in 2009) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of $130 million in 2010 ($127 million for 2009). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), which totaled $23 million at June 30, 2010. There was also $14 million of obligations under other financing arrangements (See Note 9 to the Financial Statements).

The $59 million increase in net assets of Governmental Activities, offset by a decrease of $164 million in unrestricted net assets, was due to the $101 million increase in the net investment in capital assets and the $122 million increase in restricted net assets. The major causes of the increase were a $201 million increase in investment earnings as a result of market gains and a $133 million decrease in taxes collected.

At the end of June 30, 2010, 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 2010, 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	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Program Revenues						
Charges for Services	$ 553	$ 594	$ 557	$ 292	$ 1,110	$ 886
Operating Grants and Contributions	2,841	2,490	-	-	2,841	2,490
Capital Grants and Contributions	25	25	-	-	25	25
General Revenues						
Taxes	3,654	3,787	-	-	3,654	3,787
Unrestricted Investment Earnings	216	15	20	23	236	38
Miscellaneous	(2)	-	-	-	(2)	-
Total Revenues	7,287	6,911	577	315	7,864	7,226
EXPENSES						
General Government	472	468	-	-	472	468
Conservation of Natural Resources	148	128	-	-	148	128
Culture - Recreation	24	29	-	-	24	29
Economic Development and Assistance	95	88	-	-	95	88
Education	1,713	1,563	-	-	1,713	1,563
Higher Education - Colleges and Universities	571	571	-	-	571	571
Health and Social Services	3,010	2,913	-	-	3,010	2,913
Public Safety	373	352	-	-	373	352
Regulation of Business and Professions	132	124	-	-	132	124
Transportation	736	797	-	-	736	797
Interest on Long-term Debt	2	2	-	-	2	2
Unemployment Insurance	-	-	432	242	432	242
Lottery	-	-	99	95	99	95
Excess Liability	-	-	7	12	7	12
Cornhusker State Industries	-	-	12	10	12	10
Total Expenses	7,276	7,035	550	359	7,826	7,394
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	11	(124)	27	(44)	38	(168)
Transfers	32	30	(32)	(30)	-	-
Contributions to Permanent Fund Principal	16	4	-	-	16	4
Increase (Decrease) in Net Assets	59	(90)	(5)	(74)	54	(164)
Net Assets - Beginning	10,366	10,456	324	398	10,690	10,854
Net Assets - Ending	$ 10,425	$ 10,366	$ 319	$ 324	$ 10,744	$ 10,690

Governmental Activities

Governmental activities increased the State's net assets by $59 million in 2010 ($90 million decrease in 2009). Governmental activities represent 93% of all the primary government's revenues. Program revenues of governmental activities were $3,419 million and were used to partially offset program expenses of $7,276 million, leaving net expenses of $3,857 million. Only 7% of total expenses were spent on general government expenses. General taxes, investment earnings, miscellaneous, contributions to the permanent fund principal, and transfers all totaling $3,916 million, were $59 million more than the remaining costs of the governmental activities' programs as shown below.

Due to the recession, tax revenues were down $133 million compared to a decrease of $179 million in 2009. Offsetting this decline, program revenues increased 10% from 2009, chiefly due to income from grants being up $351 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. The increase in grant-related projects was more than the $241 million increase in program expenses. The increase in investment earnings and the increase in program revenue, coupled with a small decrease in other program expenses, greatly exceeded the loss of tax revenue and were the chief reasons the change in net assets was $149 million higher in 2010 than the $388 million decrease recorded in 2009. The increase in investment earnings was the result of unrealized market valuation gains on investments which was accompanied 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 2010 over 2009 of $13 million, due to declining interest rates.

Program expenses, net of revenue, decreased by $69 million in 2010, as shown below:

GOVERNMENTAL ACTIVITIES
(in millions of dollars)

Program Expenses, Net of Revenue	**2010**	**2009**
General Government	$ (359)	$ (371)
Conservation of Natural Resources	(17)	(41)
Culture - Recreation	(3)	(8)
Economic Development and Assistance	(34)	(38)
Education	(1,210)	(1,206)
Higher Education - Colleges and University	(571)	(571)
Health and Social Services	(1,109)	(1,086)
Public Safety	(225)	(222)
Regulation of Business and Professions	4	12
Transportation	(332)	(393)
Interest on Long-Term Debt	(1)	(2)
Subtotal	(3,857)	(3,926)
General Revenues		
Taxes	3,654	3,787
Unrestricted Investment Earnings	216	15
Miscellaneous	(2)	-
Transfers	32	30
Contributions to Permanent Fund Principal	16	4
Increase (Decrease) in Net Assets	$ 59	$ (90)

Four functional areas of the State comprise 83% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Transportation comprises 88% of the decrease in program expenses, net of revenue. Education expenses were up $150 million chiefly due to planned budgetary increases providing more school aid to the K-12 school systems in Nebraska and increased aid from federal ARRA funds. Health and Social Services was up $97 million mainly because increased aid from federal ARRA funds. Transportation expenses were down $61 million chiefly due to decreased highway construction. All the other functional areas had small variances in net expenses.

Business-type Activities

Due to losses, the business-type activities reduced the State's net assets by $5 million for 2010, which was net of a $32 million transfer to the governmental activities. Most of the $557 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 $41 million in 2010, due to the recession and the State paying out $190 million in additional unemployment claims which greatly exceeded the additional $241 million in increased business assessment fees. This loss, when combined with the $11 million in investment income, produced $30 million of net loss for the Unemployment Insurance Fund. Lottery revenues of $131 million generated net revenue of $32 million, which was offset by the $32 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, 2010, the State's Governmental Funds reported combined ending fund balances of $2,659 million. The total unreserved balances amounted to $1,928 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 $311 million. However, such refunds payable are only $3 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 $719 million.

On June 30, 2009, the General Fund had a positive fund balance of $857 million. While expenditures decreased $56 million, revenues decreased by $151 million in 2010. This $95 million downslide was less than the $231 million decrease that occurred in 2009, resulting in an operating decrease of the fund balance of $198 million in 2010. This operating decrease in 2010, when coupled with the $57 million of other financing sources, caused the General Fund balance to decrease by $141 million, ending with a fund balance of $716 million.

Revenues in 2010, significantly less than anticipated, were down $151 million over 2009 chiefly due to a decrease in income tax revenue of $112 million (a 6% decrease) over 2009 and a decrease in sales and use tax revenue of $27 million (a 2% decrease) over 2009. Investment income was down $13 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 decreases in expenditures were caused chiefly in three areas. General Government and Public Safety expenditures decreased $24 million and $34 million, respectively, which offset budgeted increases in Higher Education expenditures of $11 million.

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 2010.

The Cash Reserve Fund was at $545 million at the beginning of 2009. Due to the fact that 2009 revenues exceeded the forecast, a statutory requirement caused a $117 million transfer from the General Fund cash account to the Cash Reserve Fund in 2009. In 2009 there were also other net transfers out of the Fund of $87 million, leaving a Cash Reserve Fund balance at June 30, 2009 of $575 million. In 2010 there was a statutory transfer from the Fund to the General Fund of $105 million. In 2010, there were also net transfers out of $3 million, leaving a Fund balance of $467 million at June 30, 2010.

Other Governmental Funds

Other governmental fund balances totaled $1,942 million at June 30, 2010; $729 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 ($438 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable ($274 million), (3) have been expended for other assets, chiefly inventories ($5 million) and thus the funds are not available, or (4) have been committed for debt service ($12 million).

Of the non-General Fund unreserved fund balances of $1,212 million, $1,062 million represents special revenue funds, which, while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered “restricted” on the government-wide financial statements). Sixty-eight million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. Eighty-two 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 $595 million. Of this balance, $588 million is classified as unreserved. The non-major special revenue fund balances totaled $760 million, of which $475 is unreserved.

Governmental funds other than the General Fund saw an increase in fund balances of $108 million. The fund balances of the following funds increased: the Highway Fund ($41 million), the Federal Fund ($7 million), the Health and Social Service Fund ($7 million) and the Permanent School Fund ($57 million). The other Nonmajor Funds decreased by $4 million.

The Highway Fund had an $11 million decrease in charges for services. However, $85 million of decreases in operating expenses (namely highway construction) was the chief reason the Highway Fund had a $41 million increase in its fund balance in 2010 as opposed to a $38 million decrease in 2009.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2010 the State received a large boost in federal grants and contracts of $341 million, charges for services decreased $19 million and other revenue only increased $2 million. Expenditures increased by $145 million for Education, $88 million for Health and Social Services and $18 million for Public Safety in 2010 due to increases in ARRA funding. Revenues exceeded expenditures by $50 million before transfers. Transfers out increased $35 million, which was related to increased ARRA funding for water treatment, so at the end of 2010 there was a net increase in the fund of $7 million, compared to a $2 million increase in 2009.

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 $101 million increase in investment income in 2010 (chiefly unrealized gains in the market value of investments), which was the main reason there was a $79 million increase in the net change in fund balance in 2010, as opposed to a $72 million decrease in 2009.

The Permanent School Fund had a $115 million increase in revenue, chiefly due to a $99 million increase in investment income caused by unrealized gains in the market value of investments in 2010, as opposed to a $37 million investment income decrease in 2009 (when compared to 2008). Since expenditures decreased $3 million in 2010, there was a $57 million increase in fund balance in 2010, as opposed to a $61 million decrease in 2009, a change of $118 million.

The Nonmajor Funds revenues and expenditures both remained about the same between 2009 and 2010 and revenues about equaled expenditures. However, there was only $6 million in net transfers in for the Nonmajor Funds in 2010 versus $32 million in 2009 (there were significant one-time transfers to the General Fund in 2010). As a result, the net change in fund balances decreased $5 million in 2010 as opposed to a $37 million increase in 2009.

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 $239 million at the end of 2010. This fund's net assets decreased $30 million in 2010, because unemployment claims paid out exceeded business assessment fees by $41 million, which was offset by investment earnings of $11 million. Other proprietary or enterprise funds, the Lottery Fund, the Excess Liability Fund (the fund established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (an operation that utilizes incarcerated persons to manufacture and sell items) had combined income of $57 million prior to a $32 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 had operating income of $14 million and earned $9 million in investment earnings for a net asset increase of $23 million. Net Assets of Cornhusker State Industries increased $2 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net assets increased $1,021 million to $7,966 million in 2010 due primarily to a rising market in 2010, which increased the market value of investments by $930 million. (In 2009 there was a $1,862 million depreciation of investments.) Interest and dividend income in 2010 was $115 million versus $134 million in 2009. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $9 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $952 million. The total net assets in the College Savings Plan now total over two billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2010 the State continued 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 2010 and equal to 2009 net tax revenue of $3,231 million. Because revenues showed a declining trend during 2010, the State's Forecasting Board made two new forecasts throughout the year. At the end, the forecasted net tax revenues were $104 million below the original forecast. However, that reduced forecast still exceeded the actual tax revenues of $3,070 million by $76 million, leaving the State with actual tax revenues, net of refunds, of $180 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 $208 million less than the final appropriated amount. This reduction, when coupled with the reduced tax revenues, caused the State to finish 2010 with General Fund revenues of $177 million less than expenditures on a budgetary basis, prior to net transfers out. There was a net $58 million transferred out for specific purposes, causing the fund balance on a budgetary basis to drop from $997 million to $762 million in 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, 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 2010 totaled $45 million, compared to $50 million for 2009.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	$ 548	$ 537	$ -	$ -	$ 548	$ 537
Buildings and Equipment	359	362	6	6	365	368
Infrastructure	6,852	6,747	-	-	6,852	6,747
Subtotal	7,759	7,646	6	6	7,765	7,652
Construction in Progress	84	100	-	-	84	100
Total	$ 7,843	$ 7,746	$ 6	$ 6	$ 7,849	$ 7,752

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 2009, indicated an overall system rating of 81, a rating that has been very consistent over the past six years.

For 2010, it was estimated that the State needed to spend $211 million to preserve and maintain the roads at the abovementioned level. The State actually spent $270 million on roads in 2010, compared to $239 million in 2009. For 2011, it is estimated that the State needs to spend $267 million, a slight decrease from actual 2010 and an increase from the average of the previous five years. However, past history indicates the State typically spends more than estimated.

The State also spent $115 million on capitalized infrastructure and land purchases relating to roads in 2010 ($105 million in 2009), most notably reconstructing (a) Interstate 80 between the Missouri River and Lincoln, (b) I-80 westbound bridge over the Missouri River. Major land purchases included land purchased near five State highways. At June 30, 2010, the State had contractual commitments of $479 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the financial statements.) These commitments are $462 million less than at June 30, 2009 as a result of completion of highway construction and repair work being financed by the federal government.

During 2010, the State added $47 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 4 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 8 and 13 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2010	2009
Bonds Payable:	$ -	$ 5
Capitalized Leases:	$ 23	$ 22

There were no new bonds issued in 2010 or 2009. Three new capitalized leases were added in 2010 (one lease was added in 2009). Bonds and Certificates of Participation for leases issued on behalf of the State maintain 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, but have improved in recent months. 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 2011 are currently projected to exceed actual 2010 revenues by $159 million, which is an improvement from 2010, but falls short of expected expenditures. The Legislature will need to close this expected shortfall during the next legislative session.

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 2009 through 2020 will total $153.25 million. To date the State has spent $19.875 million in 2007 through 2009 and $12.125 million in 2010, and will spend $12.125 million annually from July 1, 2010 through June 30, 2020. As of June 30, 2010, the remaining commitment for the State through 2020 is $121 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, 2010, this Fund had a $467 million balance, and this remained the balance at November 30, 2010. Future significant statutory disbursements from this fund in 2011 include $154 million to be transferred to the General 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, 2010

(Dollars in Thousands)	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 141,438	$ 219,983	$ 361,421	$ 337,375
Receivables, net of allowance				
Taxes	352,836	-	352,836	-
Due from Federal Government	328,163	-	328,163	-
Other	145,666	62,082	207,748	298,934
Internal Balances	(2,250)	2,250	-	-
Due from Primary Government	-	-	-	1,664
Investments	2,560,383	114,676	2,675,059	1,571,476
Loans Receivable	274,629	-	274,629	39,102
Investment in Joint Venture	-	-	-	253,410
Other Assets	14,201	3,114	17,315	36,817
Restricted Assets:				
Cash and Cash Equivalents	17,286	-	17,286	411,619
Other	-	1,890	1,890	65,209
Securities Lending Collateral	343,531	12,031	355,562	-
Capital assets:				
Land	548,156	315	548,471	73,771
Infrastructure	6,852,227	-	6,852,227	-
Construction in Progress	84,478	-	84,478	281,735
Land Improvements	-	-	-	157,149
Buildings and Equipment	892,105	11,589	903,694	2,158,394
Less Accumulated Depreciation	(533,539)	(6,056)	(539,595)	(785,261)
Total Capital Assets, net of depreciation	7,843,427	5,848	7,849,275	1,885,788
Total Assets	$ 12,019,310	$ 421,874	$ 12,441,184	$ 4,901,394
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 441,481	$ 16,002	$ 457,483	$ 189,618
Tax Refunds Payable	318,839	-	318,839	-
Due to Other Governments	14,956	-	14,956	-
Deposits	6,900	-	6,900	15,728
Due to Component Units	1,664	-	1,664	-
Unearned Revenue	44,287	5,715	50,002	92,471
Obligations under Securities Lending	343,531	12,031	355,562	-
Noncurrent Liabilities:				
Due within one year	228,462	55,892	284,354	112,666
Due in more than one year	194,001	13,335	207,336	717,837
Total Liabilities	$ 1,594,121	$ 102,975	$ 1,697,096	$ 1,128,320
NET ASSETS				
Invested in Capital Assets, net of related debt	$ 7,820,246	$ 5,848	$ 7,826,094	$ 1,060,132
Restricted for:				
Education	18,661	-	18,661	1,403,086
Health and Social Services	436,050	-	436,050	-
Conservation of Natural Resources	450,631	-	450,631	-
Transportation	127,454	-	127,454	-
Licensing and Regulation	59,572	-	59,572	-
Other Purposes	144,091	1,890	145,981	252,830
Unemployment Insurance Benefits	-	238,988	238,988	-
Debt Service and Construction	12,447	-	12,447	316,122
Permanent Trusts:				
Nonexpendable	437,526	-	437,526	-
Expendable	67,754	-	67,754	-
Unrestricted	850,757	72,173	922,930	740,904
Total Net Assets	$ 10,425,189	$ 318,899	$ 10,744,088	$ 3,773,074

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

(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	$ 471,614	$ 100,501	$ 9,333	$ 3,164
Conservation of Natural Resources	148,452	35,483	94,088	1,824
Culture – Recreation	24,228	18,550	2,836	121
Economic Development and Assistance	95,228	2,171	59,106	-
Education	1,712,705	34,166	468,344	260
Higher Education - Colleges and University	571,288	-	-	-
Health and Social Services	3,010,299	109,333	1,792,392	-
Public Safety	372,813	25,320	102,989	19,311
Regulation of Business and Professions	132,094	131,814	4,326	-
Transportation	736,449	95,950	308,143	-
Interest on Long-term Debt	1,400	-	-	-
Total governmental activities	7,276,570	553,288	2,841,557	24,680
Business-type activities:				
Unemployment Insurance	431,836	391,067	-	-
Lottery	98,948	130,580	-	-
Excess Liability	7,220	21,475	-	-
Cornhusker State Industries	11,847	13,549	-	-
Total business-type activities	549,851	556,671	-	-
Total Primary Government	$ 7,826,421	$ 1,109,959	$ 2,841,557	$ 24,680
COMPONENT UNITS:				
University of Nebraska	$ 1,686,068	$ 762,735	$ 328,073	$ 43,531
State Colleges	92,856	31,486	15,627	3,320
Total Component Units	$ 1,778,924	$ 794,221	$ 343,700	$ 46,851

General revenues:
- Income Taxes
- Sales and Use Taxes
- Petroleum Taxes
- Excise Taxes
- Business and Franchise Taxes
- Other Taxes
- Unrestricted Investment earnings
- Miscellaneous
- Payments from the State of Nebraska

Contributions to Permanent Fund Principal

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning - As Restated

Net Assets - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (358,616)	$ -	$ (358,616)	$ -
(17,057)	-	(17,057)	-
(2,721)	-	(2,721)	-
(33,951)	-	(33,951)	-
(1,209,935)	-	(1,209,935)	-
(571,288)	-	(571,288)	-
(1,108,574)	-	(1,108,574)	-
(225,193)	-	(225,193)	-
4,046	-	4,046	-
(332,356)	-	(332,356)	-
(1,400)	-	(1,400)	-
(3,857,045)	-	(3,857,045)	-
-	(40,769)	(40,769)	-
-	31,632	31,632	-
-	14,255	14,255	-
-	1,702	1,702	-
-	6,820	6,820	-
(3,857,045)	6,820	(3,850,225)	-
-	-	-	(551,729)
-	-	-	(42,423)
-	-	-	(594,152)
1,676,829	-	1,676,829	-
1,447,865	-	1,447,865	-
303,865	-	303,865	-
132,779	-	132,779	-
79,115	-	79,115	-
13,436	-	13,436	-
216,190	20,293	236,483	55,101
(1,927)	27	(1,900)	380,307
-	-	-	571,288
16,314	-	16,314	-
32,000	(32,000)	-	-
3,916,466	(11,680)	3,904,786	1,006,696
59,421	(4,860)	54,561	412,544
10,365,768	323,759	10,689,527	3,360,530
$ 10,425,189	$ 318,899	$ 10,744,088	$ 3,773,074

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2010

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	$ 4,441	$ 544	$ 386	$ 158	$ 116	$ 11,963	$ 17,608
Cash on Deposit with Fiscal Agents	-	-	-	-	-	17,286	17,286
Investments	825,091	141,062	99,226	409,489	474,196	611,319	2,560,383
Securities Lending Collateral	141,037	24,112	17,451	31,076	30,819	99,036	343,531
Receivables, net of allowance							
Taxes	308,067	44,568	-	-	-	201	352,836
Due from Federal Government	14	34,402	292,511	-	-	1,236	328,163
Loans	137	-	1,694	316	-	272,482	274,629
Other	28,828	6,281	42,927	28,826	22,921	12,993	142,776
Due from Other Funds	99,476	258	734	3,908	-	3,708	108,084
Inventories	752	4,302	4,125	379	-	-	9,558
Prepaid Items	5	10	4	2	-	124	145
Other	443	-	-	-	-	2,600	3,043
TOTAL ASSETS	$ 1,408,291	$ 255,539	$ 459,058	$ 474,154	$ 528,052	$ 1,032,948	$ 4,158,042
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	$ 89,879	$ 52,971	$ 177,150	$ 6,513	$ 31,273	$ 34,362	$ 392,148
Tax Refunds Payable	310,913	7,926	-	-	-	-	318,839
Due to Other Governments	9,205	4,708	-	-	-	1,043	14,956
Deposits	444	1,052	3,521	289	183	1,411	6,900
Due to Other Funds	36,240	3,286	101,904	225	8	9,100	150,763
Due to Component Units	1,664	-	-	-	-	-	1,664
Obligations under Securities Lending	141,037	24,112	17,451	31,076	30,819	99,036	343,531
Claims Payable	75,426	-	110,228	-	-	-	185,654
Deferred Revenue	27,059	-	33,606	18,094	6,223	-	84,982
TOTAL LIABILITIES	691,867	94,055	443,860	56,197	68,506	144,952	1,499,437
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	137	-	1,694	316	-	272,482	274,629
Inventories and Prepaid Items	757	4,312	95	381	-	124	5,669
Debt Service	-	-	-	-	-	12,447	12,447
Endowment Principal	-	-	-	-	417,961	19,565	437,526
Unreserved, reported in:							
General Fund	715,530	-	-	-	-	-	715,530
Special Revenue Funds	-	157,172	13,409	417,260	-	474,838	1,062,679
Permanent Funds	-	-	-	-	41,585	26,169	67,754
Capital Projects Fund	-	-	-	-	-	82,371	82,371
TOTAL FUND BALANCES	716,424	161,484	15,198	417,957	459,546	887,996	2,658,605
TOTAL LIABILITIES AND FUND BALANCES	$ 1,408,291	$ 255,539	$ 459,058	$ 474,154	$ 528,052	$ 1,032,948	$ 4,158,042

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, 2010

(Dollars in Thousands)

Total fund balances for governmental funds		$ 2,658,605
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	548,156	
Infrastructure	6,852,227	
Construction in progress	84,478	
Other capital assets	825,789	
Accumulated depreciation	(486,418)	7,824,232
Certain tax revenues and charges are earned but not available and therefore are deferred in the funds.		41,643
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.		54,380
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:		
Capital leases	(8,415)	
Obligations under other financing arrangements	(14,405)	
Compensated absences	(124,144)	
Claims and judgments	(6,707)	(153,671)
Net assets of governmental activities		$ 10,425,189

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, 2010

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	$ 1,674,867	$ -	$ -	$ 1,055	$ -	$ -	$ 1,675,922
Sales and Use Taxes	1,295,627	153,133	-	-	-	3,602	1,452,362
Petroleum Taxes	-	290,595	-	-	3,140	13,270	307,005
Excise Taxes	72,397	-	-	6,743	-	53,639	132,779
Business and Franchise Taxes	62,696	-	-	-	-	16,419	79,115
Other Taxes	1,734	2,869	-	-	-	8,833	13,436
Federal Grants and Contracts	40	284,946	2,543,805	17	-	37,181	2,865,989
Licenses, Fees and Permits	19,227	76,346	583	46,202	1,288	123,253	266,899
Charges for Services	2,784	16,721	21,832	22,354	-	32,474	96,165
Investment Income	59,878	8,147	6,472	36,714	57,182	43,960	212,353
Rents and Royalties	-	406	22	413	32,347	16,098	49,286
Surcharge	-	-	-	-	-	54,937	54,937
Other	3,605	2,776	5,421	13,518	12,292	53,667	91,279
TOTAL REVENUES	3,192,855	835,939	2,578,135	127,016	106,249	457,333	7,297,527
EXPENDITURES:							
Current:							
General Government	341,543	-	6,797	-	-	90,990	439,330
Conservation of Natural Resources	38,566	-	43,938	-	-	67,052	149,556
Culture – Recreation	5,996	-	2,644	-	-	21,543	30,183
Economic Development and Assistance	7,182	-	60,652	-	-	28,750	96,584
Education	1,171,903	-	466,940	-	49,075	23,017	1,710,935
Higher Education - Colleges and University	557,786	-	-	-	-	13,502	571,288
Health and Social Services	1,069,751	-	1,817,846	114,884	-	2,197	3,004,678
Public Safety	193,832	-	120,852	-	-	36,400	351,084
Regulation of Business and Professions	3,853	-	4,231	-	-	123,800	131,884
Transportation	-	815,545	4,135	-	-	22,903	842,583
Capital Projects	-	-	-	-	-	30,584	30,584
Debt Service:							
Principal	-	-	-	-	-	6,105	6,105
Interest	-	-	-	-	-	976	976
TOTAL EXPENDITURES	3,390,412	815,545	2,528,035	114,884	49,075	467,819	7,365,770
Excess of Revenues Over (Under) Expenditures	(197,557)	20,394	50,100	12,132	57,174	(10,486)	(68,243)
OTHER FINANCING SOURCES (USES):							
Transfers In	80,104	31,339	-	865	-	113,848	226,156
Transfers Out	(27,050)	(10,360)	(42,740)	(6,108)	-	(107,898)	(194,156)
Proceeds from Capital Leases	4,323	-	-	-	-	35	4,358
TOTAL OTHER FINANCING SOURCES (USES)	57,377	20,979	(42,740)	(5,243)	-	5,985	36,358
Net Change in Fund Balances	(140,180)	41,373	7,360	6,889	57,174	(4,501)	(31,885)
FUND BALANCES, JULY 1	856,604	120,111	7,838	411,068	402,372	892,497	2,690,490
FUND BALANCES, JUNE 30	$ 716,424	$ 161,484	$ 15,198	$ 417,957	$ 459,546	$ 887,996	$ 2,658,605

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, 2010

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$	(31,885)
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	133,103		
Depreciation expense	(36,425)		96,678
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.			(4,358)
Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:			
Bond principal retirement	4,850		
Other financing arrangement payments	1,255		
Capital lease payments	5,517		11,622
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.			(6,253)
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.			(5,984)
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	133		
Increase in compensated absences	(2,145)		
Decrease in claims and judgments	1,613		(399)
Change in net assets of governmental activities		$	59,421

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

State of Nebraska

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2010

(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	$ 189,911	$ 30,072	$ 219,983	$ 124,499
Receivables, net of allowance	50,259	11,823	62,082	2,698
Due from Other Funds	-	2,370	2,370	18,737
Inventories	-	2,690	2,690	309
Prepaid Items	-	424	424	1,146
TOTAL CURRENT ASSETS	240,170	47,379	287,549	147,389
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,890	1,890	-
Long-Term Investments	49,060	65,616	114,676	-
Securities Lending Collateral	8,386	3,645	12,031	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	870	10,719	11,589	66,316
Less Accumulated Depreciation	(862)	(5,194)	(6,056)	(47,121)
Total Capital Assets, net	8	5,840	5,848	19,195
TOTAL NONCURRENT ASSETS	57,454	76,991	134,445	19,195
TOTAL ASSETS	$ 297,624	$ 124,370	$ 421,994	$ 166,584
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	$ 67	$ 15,935	$ 16,002	$ 22,394
Due to Other Funds	2	118	120	5,724
Capital Lease Obligations	-	-	-	4,098
Claims, Judgments and Compensated Absences	48,973	6,919	55,892	26,139
Unearned Revenue	1,182	4,533	5,715	948
TOTAL CURRENT LIABILITIES	50,224	27,505	77,729	59,303
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	10,668
Claims, Judgments and Compensated Absences	18	13,317	13,335	42,233
Obligations under Securities Lending	8,386	3,645	12,031	-
TOTAL NONCURRENT LIABILITIES	8,404	16,962	25,366	52,901
TOTAL LIABILITIES	58,628	44,467	103,095	112,204
NET ASSETS:				
Invested in Capital Assets, net of related debt	8	5,840	5,848	4,429
Restricted for:				
Lottery Prizes, Noncurrent	-	1,890	1,890	-
Unemployment Insurance Benefits	238,988	-	238,988	-
Unrestricted	-	72,173	72,173	49,951
TOTAL NET ASSETS	238,996	79,903	318,899	54,380
TOTAL LIABILITIES AND NET ASSETS	$ 297,624	$ 124,370	$ 421,994	$ 166,584

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, 2010

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES:				
Charges for Services	$ 391,067	$ 165,450	$ 556,517	$ 318,312
Other	-	154	154	1,497
TOTAL OPERATING REVENUES	391,067	165,604	556,671	319,809
OPERATING EXPENSES:				
Personal Services	72	5,875	5,947	35,354
Services and Supplies	7	29,862	29,869	104,521
Lottery Prizes	-	75,034	75,034	-
Unemployment Claims	431,732	-	431,732	-
Insurance Claims	-	6,755	6,755	180,800
Depreciation	25	489	514	8,726
TOTAL OPERATING EXPENSES	431,836	118,015	549,851	329,401
Operating Income (Loss)	(40,769)	47,589	6,820	(9,592)
NONOPERATING REVENUES (EXPENSES):				
Investment Income	11,234	9,059	20,293	3,837
Gain (Loss) on Sale of Capital Assets	-	27	27	(196)
Other	-	-	-	(302)
TOTAL NONOPERATING REVENUES (EXPENSES)	11,234	9,086	20,320	3,339
Income (Loss) Before Transfers	(29,535)	56,675	27,140	(6,253)
Transfers Out	-	(32,000)	(32,000)	-
Change in Net Assets	(29,535)	24,675	(4,860)	(6,253)
NET ASSETS, JULY 1	268,531	55,228	323,759	60,633
NET ASSETS, JUNE 30	$ 238,996	$ 79,903	$ 318,899	$ 54,380

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, 2010

(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	$ 365,774	$ 156,107	$ 521,881	$ 19,266
Cash Received from Interfund Charges	-	9,318	9,318	331,789
Cash Paid to Employees	(71)	(6,051)	(6,122)	(36,406)
Cash Paid to Suppliers	(232)	(28,626)	(28,858)	(99,782)
Cash Paid for Lottery Prizes	-	(76,452)	(76,452)	-
Cash Paid for Insurance Claims	(421,465)	(18,977)	(440,442)	(182,881)
Cash Paid for Interfund Services	(7)	(1,028)	(1,035)	(8,545)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(56,001)	34,291	(21,710)	23,441
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(32,000)	(32,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(75)	(75)	(2,807)
Proceeds from Sale of Capital Assets	-	23	23	625
Principal Paid on Capital Leases	-	-	-	(5,689)
Interest Paid on Capital Leases	-	-	-	(302)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	(52)	(52)	(8,173)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(14,841)	(170,016)	(184,857)	-
Proceeds from Sale of Investment Securities	-	169,270	169,270	-
Interest and Dividend Income	11,172	4,951	16,123	3,590
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,669)	4,205	536	3,590
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(59,670)	6,444	(53,226)	18,858
CASH AND CASH EQUIVALENTS, JULY 1	249,581	23,628	273,209	105,641
CASH AND CASH EQUIVALENTS, JUNE 30	$ 189,911	$ 30,072	$ 219,983	$ 124,499

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, 2010

(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)	$ (40,769)	$ 47,589	$ 6,820	$ (9,592)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	25	489	514	8,726
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(26,475)	1,776	(24,699)	291
(Increase) Decrease in Due from Other Funds	-	(1,929)	(1,929)	30,630
(Increase) Decrease in Inventories	-	(533)	(533)	(120)
(Increase) Decrease in Prepaid Items	-	(68)	(68)	59
(Increase) Decrease in Long-Term Deposits	-	6	6	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(233)	(826)	(1,059)	(4,436)
Increase (Decrease) in Due to Other Funds	2	35	37	(361)
Increase (Decrease) in Claims Payable	10,267	(12,222)	(1,955)	(2,081)
Increase (Decrease) in Unearned Revenue	1,182	(26)	1,156	325
Total Adjustments	(15,232)	(13,298)	(28,530)	33,033
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (56,001)	$ 34,291	$ (21,710)	$ 23,441

NONCASH TRANSACTIONS (dollars in thousands):

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

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	$ -	$ -	$ -	$ 7,847
Change in Fair Value of Investments	-	4,135	4,135	-
Total Noncash Transactions	$ -	$ 4,135	$ 4,135	$ 7,847

State of Nebraska

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2010

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 7,069	$ 23,989	$ 85,100
Investments:			
U.S. Treasury Notes and Bonds	199,345	-	-
U.S. Treasury Bills	6,395	-	-
Government Agency Securities	44,007	-	-
Corporate Bonds	588,496	-	-
International Bonds	81,649	-	-
Equity Securities	1,550,946	-	-
Private Equity	154,435	-	-
Options	(884)	-	-
Mortgages	510,263	-	-
Private Real Estate	104,200	-	-
Asset Backed Securities	100,302	-	-
Municipal Bonds	36,377	-	-
Commingled Funds	4,344,703	2,033,778	-
Guaranteed Investment Contracts	107,628	-	-
Short Term Investments	125,407	2,658	-
Total Investments	7,953,269	2,036,436	-
Securities Lending Collateral	457,185	-	-
Receivables:			
Contributions	24,374	-	-
Interest and Dividends	14,139	2,218	582
Other	214,926	-	595
Total Receivables	253,439	2,218	1,177
Due from Other Funds	27,608	-	-
Capital Assets:			
Buildings and Equipment	22,571	-	-
Less Accumulated Depreciation	(18,599)	-	-
Total Capital Assets, net	3,972	-	-
Other Assets	-	10,475	-
TOTAL ASSETS	$ 8,702,542	$ 2,073,118	$ 86,277
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 278,063	$ 2,678	$ 17,395
Due to Other Governments	-	-	46,895
Deposits	-	835	-
Due to Other Funds	187	5	-
Obligations under Securities Lending	457,185	-	-
Capital Lease Obligations	757	-	-
Accrued Compensated Absences	274	-	-
Other Liabilities	-	-	21,987
TOTAL LIABILITIES	$ 736,466	$ 3,518	$ 86,277
NET ASSETS			
Held in Trust for:			
Pension Benefits	$ 7,966,076	$ -	$ -
College Savings Plan	-	2,032,290	-
Other Purposes	-	37,310	-
TOTAL NET ASSETS	$ 7,966,076	$ 2,069,600	$ -

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, 2010

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	$ 187,183	$ 951,911
Client Contributions	-	198
State Contributions	96,463	-
Political Subdivision Contributions	128,850	-
Court Fees	3,543	-
Total Contributions	416,039	952,109
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	930,439	301,843
Interest and Dividend Income	114,831	44,211
Securities Lending Income	3,458	-
Total Investment Income	1,048,728	346,054
Investment Expenses	17,429	12,806
Securities Lending Expenses	1,308	-
Total Investment Expense	18,737	12,806
Net Investment Income	1,029,991	333,248
Escheat Revenue	-	8,850
Other Additions	135	5,495
TOTAL ADDITIONS	1,446,165	1,299,702
DEDUCTIONS:		
Benefits	400,584	725,500
Refunds	10,790	-
Amounts Distributed to Outside Parties	-	16,245
Administrative Expenses	8,698	1,917
Other Deductions	5,023	-
TOTAL DEDUCTIONS	425,095	743,662
Change in Net Assets Held in Trust for:		
Pension Benefits	1,021,070	-
College Savings Plan	-	558,891
Other Purposes	-	(2,851)
NET ASSETS-BEGINNING OF YEAR	6,945,006	1,513,560
NET ASSETS-END OF YEAR	$ 7,966,076	$ 2,069,600

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

State of Nebraska

STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2010

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 310,411	$ 26,964	$ 337,375
Receivables, net of allowance			
Loans	36,587	2,515	39,102
Other	295,394	3,540	298,934
Due from Primary Government	-	1,664	1,664
Investments	1,540,069	31,407	1,571,476
Investment in Joint Venture	253,410	-	253,410
Other Assets	32,942	3,875	36,817
Restricted Assets:			
Cash and Cash Equivalents	389,167	22,452	411,619
Investments Held by Trustee	64,936	273	65,209
Capital assets:			
Land	72,803	968	73,771
Land Improvements	135,018	22,131	157,149
Construction in Progress	250,162	31,573	281,735
Buildings and Equipment	1,998,146	160,248	2,158,394
Less Accumulated Depreciation	(712,135)	(73,126)	(785,261)
Total Capital Assets, net of depreciation	1,743,994	141,794	1,885,788
Total Assets	$ 4,666,910	$ 234,484	$ 4,901,394
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 179,396	$ 10,222	$ 189,618
Deposits	15,245	483	15,728
Deferred Revenue	92,112	359	92,471
Noncurrent Liabilities:			
Due within one year	109,772	2,894	112,666
Due in more than one year	679,791	38,046	717,837
Total Liabilities	$ 1,076,316	$ 52,004	$ 1,128,320
NET ASSETS			
Invested in Capital Assets, net of related debt	$ 955,142	$ 104,990	$ 1,060,132
Restricted for:			
Education	1,403,086	-	1,403,086
Other Purposes	213,657	39,173	252,830
Construction and Debt Service	301,230	14,892	316,122
Unrestricted	717,479	23,425	740,904
Total Net Assets	$ 3,590,594	$ 182,480	$ 3,773,074

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, 2010

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	$ 1,056,707	$ 58,867	$ 1,115,574
Supplies and materials	232,366	9,063	241,429
Contractual services	113,271	3,145	116,416
Repairs and maintenance	76,367	1,723	78,090
Utilities	37,157	3,833	40,990
Communications	13,655	889	14,544
Depreciation	83,554	5,112	88,666
Scholarships and fellowships	58,702	1,365	60,067
Other	14,289	8,859	23,148
Total Operating Expenses	1,686,068	92,856	1,778,924
Program Revenues:			
Charges for Services	762,735	31,486	794,221
Operating Grants and Contributions	328,073	15,627	343,700
Capital Grants and Contributions	43,531	3,320	46,851
Total Program Revenues	1,134,339	50,433	1,184,772
Net (Expense) Revenue	(551,729)	(42,423)	(594,152)
General Revenue:			
Interest and investment earnings	53,334	1,767	55,101
Miscellaneous	376,518	3,789	380,307
Payments from the State of Nebraska	515,375	55,913	571,288
Total General Revenues	945,227	61,469	1,006,696
Change in Net Assets	393,498	19,046	412,544
Net Assets - Beginning - As Restated	3,197,096	163,434	3,360,530
Net Assets - Ending	$ 3,590,594	$ 182,480	$ 3,773,074

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 Unit. The following component unit is an entity that is legally separate from the State, but is so intertwined with the State that it is, in substance, the same as the State. It is reported as part of the State and blended into the appropriate fund.

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.

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 $1,995,064 of restricted net assets, of which $1,217,578 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. Reflect 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, 2010, 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 State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.

J. **Capital Assets.** Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

State of Nebraska (dollars expressed in thousands)

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, land improvements, and software 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, 2010 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, 2010, the carrying amounts of the State's deposits were $62,768 and the bank balances were $106,193. 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 $31,627 at June 30, 2010.

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, 2009. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2010.

The primary government's investments at June 30, 2010 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, 2010

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	$ 1,066,919	2.78	$ 199,345	6.74
U.S. Treasury Bills	18,745	0.15	6,395	0.44
Government Agency Securities	441,274	1.69	44,007	4.29
Corporate Bonds	987,834	3.75	588,496	4.84
International Bonds	7,546	4.98	81,649	5.14
Mortgages	46,038	3.17	510,263	3.96
Asset Backed Securities	6,285	4.45	100,302	3.34
Commingled Funds	125,619	4.10	817,777	4.12
Municipal Bonds	4,194	7.59	36,377	11.19
Guaranteed Investment Contracts	5,608	3.12	107,628	3.12
Short Term Investments	230,056	0.07	128,065	0.07
	2,940,118		2,620,304	
Other Investments				
Equity Securities	63,527		1,550,946	
Private Equity	9,637		154,435	
Commingled Funds	393,889		5,560,704	
Options	(181)		(884)	
Private Real Estate	500		104,200	
U.S. Treasury Investment Pool	186,014		-	
Less: Component Unit Investment in State Investment Pool	(486,348)		-	
Total Investments	3,107,156		9,989,705	
Securities Lending Short-term Collateral Investment Pool	355,562		457,185	
Total	$ 3,462,718		$ 10,446,890	

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, 2010 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, 2010

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 441,274	$ 441,274	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	987,834	153,769	283,650	483,415	42,169	12,369	4,838	7,624
International Bonds	7,546	4,509	728	372	1,353	-	-	584
Mortgages	46,038	29,977	633	2,773	573	921	537	10,624
Asset Backed Securities	6,285	4,807	53	676	105	-	75	569
Commingled Funds	125,619	-	-	-	-	-	-	125,619
Short Term Investments	230,057	4,000	-	-	-	-	-	226,057
Municipal Bonds	4,194	-	417	2,533	143	-	-	1,101

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2010

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 34,536	$ 33,237	$ -	$ -	$ -	$ -	$ -	$ 1,299
Corporate Bonds	599,043	90,204	73,084	154,785	128,547	67,387	52,921	32,115
International Bonds	82,201	29,698	12,629	3,166	22,672	7,954	1,549	4,533
Mortgages	527,277	230,338	3,272	13,195	5,183	5,557	15,257	254,475
Asset Backed Securities	102,390	83,727	2,640	5,811	1,747	-	960	7,505
Commingled Funds	853,505	-	-	-	-	-	-	853,505
Short Term Investments	138,556	-	-	-	-	-	-	138,556
Municipal Bonds	37,793	4,885	12,917	18,453	447	-	-	1,091

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, 2010, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (5 percent) and Federal Home Loan Bank (5 percent). At June 30, 2010, fiduciary funds had no investments that exceeded 5 percent or more of total investments.

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the form of 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. Securities on loan at year end consisted of United States government obligations, equity securities, corporate bonds, and non-US fixed income. 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 25 and 30 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 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.

State of Nebraska (dollars expressed in thousands)

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, 2010

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 125	$ 994	$ 276
Brazilian Real	203	82	157
Canadian Dollar	-	540	4,767
Danish Krone	-	17	-
Euro Currency	29	8,097	603
Hong Kong Dollar	4	653	-
Hungarian Forint	-	65	-
Iceland Krona	-	-	18
Indian Rupee	-	-	219
Indonesian Rupiah	-	30	319
Japanese Yen	30	4,384	-
Mexican Peso	91	284	447
New Zeland Dollar	2	-	93
Norwegian Krone	3	98	-
Philippine Peso	3	75	-
Polish Zloty	-	29	-
Pound Sterling	3	3,428	-
Singapore Dollar	3	462	288
South African Rand	-	15	-
South Korean Won	4	790	354
Swedish Krona	4	468	-
Swiss Franc	-	2,929	-
Thailand Baht	8	136	-
Total	$ 512	$ 23,576	$ 7,541

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2010

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Argentine Peso	$ 12	$ -	$ -
Australian Dollar	459	24,664	1,837
Brazilian Real	1,170	2,489	884
Canadian Dollar	26	21,066	24,150
Czech Koruna	34	786	-
Danish Krone	-	4,605	-
Euro Currency	599	224,862	13,890
Hong Kong Dollar	96	18,500	-
Hungarian Forint	-	1,590	-
Iceland Krona	-	-	110
Indian Rupee	-	-	1,461
Indonesian Rupiah	-	1,953	1,410
Israeli Shekel	126	1,973	-
Japanese Yen	613	124,953	-
Mexican Peso	420	2,683	2,706
New Zeland Dollar	-	-	618
Norwegian Krone	2	2,434	-
Philippine Peso	21	261	-
Polish Zloty	-	1,567	-
Pound Sterling	29	122,679	1,579
Singapore Dollar	4	10,861	2,159
South African Rand	-	163	-
South Korean Won	-	27,576	2,223
Swedish Krona	12	14,764	-
Swiss Franc	78	78,620	-
Thailand Baht	111	7,611	-
Total	$ 3,812	$ 696,660	$53,027

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. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at June 30, 2010 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

State of Nebraska (dollars expressed in thousands)

DERIVATIVE INVESTMENTS AT JUNE 30, 2010

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 412	$ 2,476	$ -
Interest Rate Swap	5,037	5,307	-
Option-Fixed Income	(1,037)	(14,754)	(246,300)

Derivative instruments have unrated credit quality ratings, and derivative instruments have no duration for interest rate risk. Foreign currency risk for derivative instruments at June 30, 2010 are as follows:

DERIVATIVES
FOREIGN CURRENCY AT JUNE 30, 2010

Currency	Credit Default Swap	Interest Rate Swap	Op-Fixed Income
Australian Dollar	$ -	$ 495	$ -
Brazilian Real	-	412	-
Euro Currency	(2)	-	(280)
Mexican Peso	-	276	-
Total	$ (2)	$ 1,183	$ (280)

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2010 is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 13,909,608
Carrying amount of Deposits	62,768
Total	$ 13,972,376
Statement of Net Assets:	
Cash and Cash Equivalents	$ 361,421
Investments	2,675,059
Restricted Cash and Cash Equivalents	17,286
Securities Lending Collateral	355,562
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	116,158
Investments	9,989,705
Securities Lending Collateral	457,185
Total	$ 13,972,376

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2010:

Governmental Activities:	
General Fund	$ 99,269
Federal Fund	20,133
Health and Social Services Fund	3,544
Total Governmental Activities	$ 122,946
Business-type Activities:	
Unemployment Insurance	$ 10,373
Total Business-type Activities	$ 10,373

Of the taxes and other receivables, $23,555 and $18,088, 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.

State of Nebraska (dollars expressed in thousands)

4. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 536,561	$ 11,595	$ -	$ 548,156
Infrastructure	6,747,123	105,104	-	6,852,227
Construction in progress	99,525	34,662	49,709	84,478
Total capital assets, not being depreciated	7,383,209	151,361	49,709	7,484,861
Capital assets, being depreciated:				
Buildings and improvements	501,974	20,096	28,840	493,230
Equipment	387,191	26,854	15,170	398,875
Total capital assets, being depreciated	889,165	46,950	44,010	892,105
Less accumulated depreciation for:				
Buildings and improvements	245,396	11,517	24,344	232,569
Equipment	281,336	33,634	14,000	300,970
Total accumulated depreciation	526,732	45,151	38,344	533,539
Total capital assets, being depreciated, net	362,433	1,799	5,666	358,566
Governmental activities capital assets, net	$ 7,745,642	$ 153,160	$ 55,375	$ 7,843,427
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 870	$ -	$ -	$ 870
Less accumulated depreciation	837	25	-	862
Total Unemployment Insurance, net	33	(25)	-	8
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	5,043	76	151	4,968
Total capital assets, being depreciated	10,794	76	151	10,719
Less accumulated depreciation for:				
Buildings and improvements	1,530	145	-	1,675
Equipment	3,329	341	151	3,519
Total accumulated depreciation	4,859	486	151	5,194
Total capital assets, being depreciated, net	5,935	(410)	-	5,525
Total Nonmajor Enterprise, net	6,250	(410)	-	5,840
Business-type activities capital assets, net	$ 6,283	$ (435)	$ -	$ 5,848

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

Governmental activities:	
General Government	$ 13,355
Conservation of Natural Resources	1,437
Culture – Recreation	1,558
Economic Development and Assistance	349
Education	1,030
Health and Social Services	952
Public Safety	9,145
Regulation of Business and Professions	252
Transportation	17,073
Total depreciation expense - Governmental activities	$ 45,151

Construction Commitments. At June 30, 2010, the State had contractual commitments of approximately $478,522 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$ 243,849
State funds	226,208
Local funds	8,465
	$ 478,522

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)

5. Interfund Balances

Due To/From Other Funds at June 30, 2010 consists of the following:

DUE FROM	DUE TO General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Pension Trust	TOTALS
General Fund	$ -	$ 50	$ 32	$ 282	$ 1,548	$ 109	$ 6,787	$ 27,432	$ 36,240
Highway Fund	-	-	665	2	62	2,218	339	-	3,286
Federal Fund	91,683	4	-	3,604	1,951	26	4,636	-	101,904
Health and Social Services	-	6	-	-	1	-	218	-	225
Permanent School Fund	1	-	-	-	-	-	7	-	8
Nonmajor Governmental Funds	3,151	14	33	7	24	16	5,679	176	9,100
Unemployment Fund	-	-	-	-	-	-	2	-	2
Nonmajor Enterprise Funds	-	11	-	-	1	-	106	-	118
Internal Service Funds	4,641	173	4	13	121	1	771	-	5,724
Pension Trust	-	-	-	-	-	-	187	-	187
Private Purpose Trust	-	-	-	-	-	-	5	-	5
TOTALS	$ 99,476	$ 258	$ 734	$ 3,908	$ 3,708	$ 2,370	$ 18,737	$ 27,608	$ 156,799

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 $2,400 due from the General Fund to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2010 consist of the following:

TRANSFERRED FROM:	TRANSFERRED TO: General Fund	Highway Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ 5,000	$ -	$ 22,050	$ 27,050
Highway Fund	378	-	-	9,982	10,360
Federal Fund	-	-	-	42,740	42,740
Health & Social Services Fund	5,160	-	-	948	6,108
Nonmajor Governmental Funds	74,566	26,339	50	6,943	107,898
Nonmajor Enterprise Funds	-	-	815	31,185	32,000
TOTALS	$ 80,104	$ 31,339	$ 865	$ 113,848	$ 226,156

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)

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2010 consist 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	$ 10,693	$ 4,114	$ 5,969	$ 626	$ -	$ 2,807	$ 1,065	$ -	$ 169	$ 25,443
Payables and Accruals	79,186	40,900	171,181	5,887	31,273	31,551	20,657	31	15,766	396,432
Due to Fiduciary Funds *	-	-	-	-	-	-	27,608	-	-	27,608
Miscellaneous	-	7,957	-	-	-	4	3	36	-	8,000
TOTALS	$ 89,879	$ 52,971	$ 177,150	$ 6,513	$ 31,273	$ 34,362	$ 49,333	$ 67	$ 15,935	$ 457,483

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

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2010 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 290,854	$ 1,679,926	$ 1,714,689	$ 256,091	$ 211,468
Bonds Payable	4,850	-	4,850	-	-
Capital Lease Obligations	22,182	12,205	11,206	23,181	6,684
Obligations Under Other Financing Arrangements	15,660	-	1,255	14,405	1,295
Compensated Absences	126,540	14,478	12,232	128,786	9,015
Totals	$ 460,086	$ 1,706,609	$ 1,744,232	$ 422,463	$ 228,462
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 38,404	$ 432,033	$ 421,465	$ 48,972	$ 48,972
Compensated Absences	17	5	3	19	1
Totals for Unemployment Insurance	38,421	432,038	421,468	48,991	48,973
Nonmajor Enterprise Funds:					
Claims Payable	31,700	6,755	18,977	19,478	6,866
Compensated Absences	735	74	51	758	53
Totals for Nonmajor Enterprise Funds	32,435	6,829	19,028	20,236	6,919
Totals for Business-type Activities	$ 70,856	$ 438,867	$ 440,496	$ 69,227	$ 55,892

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

8. 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.

State of Nebraska (dollars expressed in thousands)

The minimum annual lease payments (principle and interest) and the present value of future minimum payments for capital leases as of June 30, 2010 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2011	$ 7,139
2012	5,747
2013	4,985
2014	3,277
2015	1,648
2016-2020	1,710
Total Minimum Payments	24,506
Less: Interest and executory costs	1,325
Present value of net minimum payments	$ 23,181

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, 2010:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 31,245
Less: accumulated depreciation	(11,586)
Carrying value	$ 19,659

The minimum annual lease payments for operating leases as of June 30, 2010 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2011	$ 7,692
2012	2,694
2013	2,268
2014	2,147
2015	1,421
2016-2020	4,734
2021-2025	2,685
2026-2030	1,592
2031-2035	1,231
Total	$ 26,464

Primary Government operating lease payments for the year ended June 30, 2010 totaled $14,752.

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, 2010, 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 $36,904 were received under these and other lease agreements for the year ended June 30, 2010.

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 3.00 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
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	1,515	391	1,906
2016-2020	6,145	892	7,037
2021-2025	1,215	87	1,302
Total	$ 14,405	$ 3,564	$ 17,969

10. 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.

State of Nebraska (dollars expressed in thousands)

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.

The State is being sued involving a $12,000 gain on sale of investments that was received in a prior fiscal year. It is not possible at the present time to determine the outcome of this proceeding.

11. 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 $48,954 at a discounted rate of 3.5 percent ($9,309).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2010, and 2009, were as follows:

	Fiscal Year 2010	Fiscal Year 2009
Beginning Balance	$ 64,311	$ 64,020
Current Year Claims and Changes in Estimates	182,300	184,491
Claim Payments	(182,881)	(184,200)
Ending Balance	$ 63,730	$ 64,311

12. 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, 2009.

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, 2009, there were 17,337 active members and 3,724 inactive members. Members contributed $31,510 and the State contributed $49,092 during the year ended December 31, 2009, 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, 2009.

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.

As of December 31, 2009, there were 7,777 active members and 1,543 inactive members. Members contributed $10,692 and counties contributed $15,807 during the year ended December 31, 2009, 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% of their compensation through August 31, 2009 and was 8.28% after August 31, 2009. 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.

State of Nebraska (dollars expressed in thousands)

Members are required to contribute fifteen 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						
12/31/2009	$ 670,592	$ 714,409	$ 43,817	93.9 %	$ 454,776	9.6 %
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)
County Cash Balance						
12/31/2009	$ 187,110	$ 196,773	$ 9,663	95.1 %	$ 177,732	5.4 %
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)
School						
6/30/2010	$ 7,040,909	$ 8,542,119	$ 1,501,210	82.4 %	$ 1,543,931	97.2 %
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
Judges'						
6/30/2010	$ 121,406	$ 121,309	$ (97)	100.1 %	$ 18,773	(0.5)%
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)
State Patrol						
6/30/2010	$ 273,307	$ 321,901	$ 48,594	84.9 %	$ 26,766	181.6 %
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

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2009	12/31/2009	6/30/2010	6/30/2010	6/30/2010
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	28 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.

State of Nebraska (dollars expressed in thousands)

THREE - YEAR TREND INFORMATION			
YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance			
12/31/2009	$30,327	100%	$ -
12/31/2008	29,204	100%	-
12/31/2007	22,921	100%	-
County Cash Balance			
12/31/2009	$10,559	100%	$ -
12/31/2008	9,840	100%	-
12/31/2007	8,195	100%	-
School			
6/30/2010	$21,380	100%	$ -
6/30/2009	20,621	100%	-
6/30/2008	15,833	100%	-
Judges'			
6/30/2010	$ 3,615	100%	$ -
6/30/2009	3,491	100%	-
6/30/2008	3,353	100%	-
State Patrol			
6/30/2010	$ 6,260	100%	$ -
6/30/2009	5,385	100%	-
6/30/2008	4,856	100%	-

13. 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, 2010, 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. The NETC Leasing Corporation 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, 2010.

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	INTEREST RATES	BALANCE JUNE 30, 2010
COMPONENT UNITS		
University of Nebraska	0.55%-6.00%	$ 700,705
Nebraska State Colleges	1.60%-5.05%	36,410
Component Units Total		$ 737,115

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2011	$ 44,885	$ 32,732	$ 77,617
2012	46,300	30,981	77,281
2013	38,150	29,211	67,361
2014	55,890	27,405	83,295
2015	59,880	25,546	85,426
2016 - 2020	202,180	95,093	297,273
2021 - 2025	114,725	57,405	172,130
2026 - 2030	76,185	35,791	111,976
2031 - 2035	55,150	18,842	73,992
2036 - 2040	43,770	5,332	49,102
Total	$ 737,115	$ 358,338	$ 1,095,453

14. Restatement

The State Colleges component unit increased Net Assets – Beginning on the Statement of Activities – Component Units by $439 to reflect construction in progress that had been expensed rather than capitalized in a prior period.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2010

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 3,250,390	$ 3,146,290	$ 3,069,870	$ (76,420)
Federal Grants and Contracts	66	66	66	-
Sales and Charges	21,910	21,910	21,910	-
Other	44,601	44,601	44,601	-
TOTAL REVENUES	3,316,967	3,212,867	3,136,447	(76,420)
EXPENDITURES:				
Current:				
General Government	265,207	262,560	250,657	11,903
Conservation of Natural Resources	55,363	49,269	37,263	12,006
Culture – Recreation	7,191	6,824	6,079	745
Economic Development and Assistance	11,113	9,188	7,252	1,936
Education	1,762,817	1,739,836	1,712,067	27,769
Health and Social Services	1,306,880	1,224,622	1,096,930	127,692
Public Safety	224,836	218,739	198,966	19,773
Regulation of Business and Professions	4,684	4,368	3,780	588
Transportation	5	4	-	4
Capital Projects	6,458	5,458	-	5,458
TOTAL EXPENDITURES	3,644,554	3,520,868	3,312,994	207,874
Excess of Revenues Over (Under) Expenditures	(327,587)	(308,001)	(176,547)	131,454
OTHER FINANCING SOURCES (USES):				
Transfers In	184,051	184,051	184,051	-
Transfers Out	(242,394)	(242,394)	(242,394)	-
Other	123	123	123	-
TOTAL OTHER FINANCING SOURCES (USES)	(58,220)	(58,220)	(58,220)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(385,807)	(366,221)	(234,767)	131,454
FUND BALANCES, JULY 1	997,101	997,101	997,101	-
FUND BALANCES, JUNE 30	$ 611,294	$ 630,880	$ 762,334	$ 131,454

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2010, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2010	
General	$ 295,132
Cash Reserve	467,202
Budgetary fund balances	762,334
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	308,067
Record tax refund liability	(310,913)
Record State contributions due pension funds	(27,432)
Record claims payable	(75,426)
Record other net accrued receivables and liabilities	59,794
GAAP fund balance, June 30, 2010	$ 716,424

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2010

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 107,012	$ 107,012	$ 107,012	$ -
Federal Grants and Contracts	370,204	370,204	370,204	-
Sales and Charges	441,569	441,569	441,569	-
Other	267,482	267,482	267,482	-
TOTAL REVENUES	1,186,267	1,186,267	1,186,267	-
EXPENDITURES:				
Current:				
General Government	231,786	228,422	194,929	33,493
Conservation of Natural Resources	123,570	105,505	53,502	52,003
Culture – Recreation	35,535	34,802	22,533	12,269
Economic Development and Assistance	75,769	58,499	23,815	34,684
Education	529,291	539,862	355,044	184,818
Health and Social Services	184,168	176,755	117,881	58,874
Public Safety	62,460	57,486	35,753	21,733
Regulation of Business and Professions	217,700	204,821	119,510	85,311
Transportation	770,349	768,563	688,282	80,281
Capital Projects	82,186	82,285	27,099	55,186
TOTAL EXPENDITURES	2,312,814	2,257,000	1,638,348	618,652
Excess of Revenues Over (Under) Expenditures	(1,126,547)	(1,070,733)	(452,081)	618,652
OTHER FINANCING SOURCES (USES):				
Transfers In	1,070,622	1,070,622	1,070,622	-
Transfers Out	(577,032)	(577,032)	(577,032)	-
Other	3,422	3,422	3,422	-
TOTAL OTHER FINANCING SOURCES (USES)	497,012	497,012	497,012	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(629,535)	(573,721)	44,931	618,652
FUND BALANCES, JULY 1	783,459	783,459	783,459	-
FUND BALANCES, JUNE 30	$ 153,924	$ 209,738	$ 828,390	$ 618,652

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2010, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2010	
Cash	$ 828,390
Construction	28,956
Federal	94,072
Revolving	246,356
Budgetary fund balances	1,197,774
Unbudgeted fund balances	1,324,168
Non-major fund balances	(1,154,435)
Differences due to basis of accounting	(313,322)
GAAP fund balance, June 30, 2010	$ 1,054,185
Actual Fund Balances of Major Funds, June 30, 2010	
Highway	$ 161,484
Federal	15,198
Health and Social Services	417,957
Permanent School	459,546
GAAP fund balance, June 30, 2010	$ 1,054,185

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS
For the Year Ended June 30, 2010

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	1,553	1,553	1,553	-
TOTAL REVENUES	1,553	1,553	1,553	-
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	4,164	4,164	1,931	2,233
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	29,958	28,958	17,977	10,981
TOTAL EXPENDITURES	34,122	33,122	19,908	13,214
Excess of Revenues Over (Under) Expenditures	(32,569)	(31,569)	(18,355)	13,214
OTHER FINANCING SOURCES (USES):				
Transfers In	21	21	21	-
Transfers Out	(8,745)	(8,745)	(8,745)	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(8,724)	(8,724)	(8,724)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(41,293)	(40,293)	(27,079)	13,214
FUND BALANCES, JULY 1	56,035	56,035	56,035	-
FUND BALANCES, JUNE 30	$ 14,742	$ 15,742	$ 28,956	$ 13,214

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2010

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,687,674	2,687,674	2,687,674	-
Sales and Charges	16,674	16,674	16,674	-
Other	(3,567)	(3,567)	(3,567)	-
TOTAL REVENUES	2,700,781	2,700,781	2,700,781	-
EXPENDITURES:				
Current:				
General Government	18,909	59,816	8,134	51,682
Conservation of Natural Resources	67,164	93,750	88,345	5,405
Culture – Recreation	5,599	5,917	2,681	3,236
Economic Development and Assistance	147,922	133,642	66,091	67,551
Education	887,863	1,081,372	785,745	295,627
Health and Social Services	1,915,876	1,748,509	1,614,250	134,259
Public Safety	148,784	273,402	119,329	154,073
Regulation of Business and Professions	3,107	6,207	3,774	2,433
Transportation	2,784	5,284	4,135	1,149
Capital Projects	615	615	208	407
TOTAL EXPENDITURES	3,198,623	3,408,514	2,692,692	715,822
Excess of Revenues Over (Under) Expenditures	(497,842)	(707,733)	8,089	715,822
OTHER FINANCING SOURCES (USES):				
Transfers In	19,007	19,007	19,007	-
Transfers Out	(14,526)	(14,526)	(14,526)	-
Other	398	398	398	-
TOTAL OTHER FINANCING SOURCES (USES)	4,879	4,879	4,879	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(492,963)	(702,854)	12,968	715,822
FUND BALANCES, JULY 1	81,104	81,104	81,104	-
FUND BALANCES, JUNE 30	$ (411,859)	$ (621,750)	$ 94,072	$ 715,822

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2010

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	1,406	1,406	1,406	-
Sales and Charges	479,422	479,422	479,422	-
Other	142,054	142,054	142,054	-
TOTAL REVENUES	622,882	622,882	622,882	-
EXPENDITURES:				
Current:				
General Government	282,713	245,291	162,362	82,929
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	4,269	4,237	1,203	3,034
Education	668,852	668,720	455,308	213,412
Health and Social Services	-	-	-	-
Public Safety	29,776	25,891	13,857	12,034
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	985,610	944,139	632,730	311,409
Excess of Revenues Over (Under) Expenditures	(362,728)	(321,257)	(9,848)	311,409
OTHER FINANCING SOURCES (USES):				
Transfers In	42,148	42,148	42,148	-
Transfers Out	(39,329)	(39,329)	(39,329)	-
Other	897	897	897	-
TOTAL OTHER FINANCING SOURCES (USES)	3,716	3,716	3,716	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(359,012)	(317,541)	(6,132)	311,409
FUND BALANCES, JULY 1	252,488	252,488	252,488	-
FUND BALANCES, JUNE 30	$ (106,524)	$ (65,053)	$ 246,356	$ 311,409

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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 2010, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2010, 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, 2010

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	2009	2008	2007	2006	2005	2004
Very Good	32%	32%	33%	42%	39%	39%
Good	47%	47%	49%	38%	46%	46%
Fair	19%	19%	17%	19%	12%	12%
Poor	2%	2%	1%	1%	3%	3%
Overall System Rating	81	82	82	83	84	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 81 actual).

Fiscal Year	2011	2010	2009	2008	2007	2006
Estimated	$ 267	$ 211	$ 206	$ 155	$ 148	$ 125
Actual		270	239	208	167	214
Difference		59	33	53	19	89

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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, 2010

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Agriculture, U.S. Department of				
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025		$ 901,972
	Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025		145,517
	Total Plant and Animal Disease, Pest Control, and Animal Care				1,047,489
	Avian Influenza Indemnity Program	Game and Parks Commission	10.029		34,249
	Wetlands Reserve Program	Game and Parks Commission	10.072		431,304
ARRA	Aquaculture Grants Program (AGP) Recovery	Agriculture, Department of	10.086		25,536
	Federal-State Marketing Improvement Program	Agriculture, Department of	10.156		33,693
	Market Protection and Promotion	Agriculture, Department of	10.163		62,196
	Specialty Crop Block Grant Program	Agriculture, Department of	10.169		64,101
	Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170		39,636
	Grants for Agricultural Research_Competitive Research Grants	Corn Board	10.206		88,743
	State Mediation Grants	Agriculture, Department of	10.435		163,615
	Rural Community Development Initiative	Economic Development, Department of	10.446		62,786
	Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477		26,043
	Food Safety Cooperative Agreements	Agriculture, Department of	10.479		161,773
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program (SNAP)	Health and Human Services, Department of	10.551		228,766,099
ARRA	ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	^	444,592
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	^	14,588,930
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				15,033,522
	Total SNAP Cluster				243,799,621
	Child Nutrition Cluster:				
	School Breakfast Program	Education, Department of	10.553	*	11,799,459
	National School Lunch Program	Education, Department of	10.555	*	53,284,910
	National School Lunch Program	Health and Human Services, Department of	10.555	*	8,845,795
	Total National School Lunch Program				62,130,705
	Special Milk Program for Children	Education, Department of	10.556	*	45,829

^ - 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 #		2010 Expenditures
	Agriculture, U.S. Department of, Continued:				
	Summer Food Service Program for Children	Education, Department of	10.559	*	1,985,788
	Summer Food Service Program for Children	Health and Human Services, Department of	10.559	*	69,252
	Total Summer Food Service Program for Children				2,055,040
	Total Child Nutrition Cluster				76,031,033
	Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557	*	29,999,757
	Child and Adult Care Food Program	Education, Department of	10.558		28,838,217
	Child and Adult Care Food Program	Health and Human Services, Department of	10.558		250,314
	Total Child and Adult Care Food Program				29,088,531
	State Administrative Expenses for Child Nutrition	Education, Department of	10.560		1,154,093
	State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560		106,142
	Total State Administrative Expenses for Child Nutrition				1,260,235
	Commodity Supplemental Food Program	Health and Human Services, Department of	10.565		3,607,902
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568	*	337,456
ARRA	Emergency Food Assistance Program (Administrative Costs) Recovery	Health and Human Services, Department of	10.568	*	116,148
	Total Emergency Food Assistance Program (Administrative Costs)				453,604
	Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569	*	4,114,090
	Total Emergency Food Assistance Cluster				4,567,694
	Team Nutrition Grants	Education, Department of	10.574		4,855
	Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		238,220
ARRA	ARRA - Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579		531,027
	Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579		12,638
	Total Child Nutrition Discretionary Grants Limited Availability				543,665
	Fresh Fruit and Vegetable Program	Education, Department of	10.582		661,295
	Cooperative Forestry Assistance	Game and Parks Commission	10.664		30,448
	Schools and Roads - Grants to States	Education, Department of	10.665		561,693

^ - 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, 2010

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Agriculture, U.S. Department of, Continued:				
	Public Television Station Digital Transition Grant Program	Educational Telecommunications Commission	10.861		193,802
	Soil and Water Conservation	Natural Resources, Department of	10.902		9,279
	Environmental Quality Incentives Program	Corn Board	10.912		62,607
	National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03		669
	Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		148,518
	Total U.S. Department of Agriculture				$ 393,050,988
	Commerce, U.S. Department of				
	Economic Development_Support for Planning Organizations	Economic Development, Department of	11.302		$ 358
	Public Telecommunications Facilities Planning and Construction	Educational Telecommunications Commission	11.550		59,672
	Public Safety Interoperable Communications Grant Program	Military Department	11.555		270,704
ARRA	State Broadband Data and Development Grant Program Recovery	Public Service Commission	11.558	*	1,238,344
	Manufacturing Extension Partnership	Economic Development, Department of	11.611		527,938
	Total U.S. Department of Commerce				$ 2,097,016
	Corporation for National and Community Service				
	State Commissions	Health and Human Services, Department of	94.003		$ 177,292
	Learn and Serve America_School and Community Based Programs	Education, Department of	94.004		100,936
	AmeriCorps	Health and Human Services, Department of	94.006		947,635
ARRA	ARRA - AmeriCorps	Health and Human Services, Department of	94.006		253,462
	Total AmeriCorps				1,201,097
	Program Development and Innovation Grants	Health and Human Services, Department of	94.007		34,029
	Training and Technical Assistance	Health and Human Services, Department of	94.009		85,651
	Volunteers in Service to America	Health and Human Services, Department of	94.013		4,269
	Total Corporation for National and Community Service				$ 1,603,274
	Defense, U.S. Department of				
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113		$ 147,095
	Military Construction, National Guard	Military Department	12.400	*	18,598,419
ARRA	ARRA - Military Construction, National Guard	Military Department	12.400	*	1,169,437
	Total Military Construction, National Guard				19,767,856

^ - 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 #		2010 Expenditures
	Defense, U.S. Department of, Continued:				
	National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	*	13,461,953
ARRA	ARRA - National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	*	1,974,615
	Total National Guard Military Operations and Maintenance (O&M) Projects				15,436,568
	National Guard Civilian Youth Opportunities	Military Department	12.404		283,805
	US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P-0171, W912F-06-P-0101		1,223,874
	Total U.S. Department of Defense				$ 36,859,198
	Education, U.S. Department of				
	Adult Education - Basic Grants to States	Education, Department of	84.002		$ 2,698,636
	Title I , Part A Cluster:				
	Title I Grants to Local Educational Agencies	Education, Department of	84.010	*	63,913,097
ARRA	Title I Grants to Local Educational Agencies, Recovery Act	Education, Department of	84.389	*	9,541,235
	Total Title I , Part A Cluster				73,454,332
	Migrant Education_State Grant Program	Education, Department of	84.011		5,346,975
	Title I Program for Neglected and Delinquent Children	Education, Department of	84.013		331,893
	Special Education Cluster (IDEA):				
	Special Education_Grants to States	Education, Department of	84.027	*	71,287,953
	Special Education_Preschool Grants	Education, Department of	84.173	*	2,230,871
ARRA	Special Education Grants to States, Recovery Act	Education, Department of	84.391	*	19,211,120
ARRA	Special Education - Preschool Grants, Recovery Act	Education, Department of	84.392	*	466,761
	Total Special Education Cluster (IDEA)				93,196,705
	Career and Technical Education -- Basic Grants to States	Education, Department of	84.048		7,377,541
	Career and Technical Education -- National Program	Education, Department of	84.051		145,885
	Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069		512,379

^ - 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 #		2010 Expenditures
Education, U.S. Department of, Continued:					
	Vocational Rehabilitation Cluster:				
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Commission for the	84.126		2,351,803
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126		15,829,248
	Total Rehabilitation Services_Vocational Rehabilitation Grants to States				18,181,051
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, Department of	84.390		1,082,198
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Blind and Visually Impaired, Commission for the	84.390		179,295
	Total Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act				1,261,493
	Total Vocational Rehabilitation Cluster				19,442,544
	Migrant Education_Coordination Program	Education, Department of	84.144		62,404
	Rehabilitation Services_Client Assistance Program	Education, Department of	84.161		130,489
	Independent Living State Grants Cluster:				
	Independent Living_State Grants	Blind and Visually Impaired, Commission for the	84.169		48,763
	Independent Living_State Grants	Education, Department of	84.169		393,141
	Total Independent Living_State Grants				441,904
ARRA	Independent Living State Grants, Recovery Act	Blind and Visually Impaired, Commission for the	84.398		9,877
ARRA	Independent Living State Grants, Recovery Act	Education, Department of	84.398		148,366
	Total Independent Living State Grants, Recovery Act				158,243
	Total Independent Living State Grants Cluster				600,147
	Independent Living Services for Older Individuals Who Are Blind Cluster:				
	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired, Commission for the	84.177		283,852
ARRA	Independent Living Services for Older Individuals Who are Blind, Recovery Act	Blind and Visually Impaired, Commission for the	84.399		99,545
	Total Independent Living Services for Older Individuals Who Are Blind Cluster				383,397
	Early Intervention Services (IDEA) Cluster:				
	Special Education-Grants for Infants and Families	Education, Department of	84.181	*	2,668,246
ARRA	Special Education - Grants for Infants and Families, Recovery Act	Education, Department of	84.393	*	393,113
	Total Early Intervention Services (IDEA) Cluster				3,061,359
	Byrd Honors Scholarships	Education, Department of	84.185		234,606

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Education, U.S. Department of, Continued:				
	Safe and Drug-Free Schools and Communities_State Grants	Education, Department of	84.186		1,233,003
	Safe and Drug-Free Schools and Communities_State Grants	Health and Human Services, Department of	84.186		278,608
	Total Safe and Drug-Free Schools and Communities_State Grants				1,511,611
	Supported Employment Services for Individuals with Significant Disabilities	Blind and Visually Impaired, Commission for the	84.187		25,309
	Supported Employment Services for Individuals with Significant Disabilities	Education, Department of	84.187		372,750
	Total Supported Employment Services for Individuals with Significant Disabilities				398,059
	Education of Homeless Children and Youth Cluster:				
	Education for Homeless Children and Youth	Education, Department of	84.196		232,658
ARRA	Education for Homeless Children and Youth, Recovery Act	Education, Department of	84.387		50,427
	Total Education of Homeless Children and Youth Cluster:				283,085
	Star Schools	Education, Department of	84.203		9,361
	Even Start_State Educational Agencies	Education, Department of	84.213		284,039
	Assistive Technology	Education, Department of	84.224		485,588
	Tech-Prep Education	Education, Department of	84.243		61,940
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Commission for the	84.265		18,379
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265		32,691
	Total Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training				51,070
	Twenty-First Century Community Learning Centers	Education, Department of	84.287		5,380,626
	Foreign Language Assistance	Education, Department of	84.293		68,476
	State Grants for Innovative Programs	Education, Department of	84.298		123,685
	Parental Information and Resource Centers	Education, Department of	84.310		33,685
	Educational Technology State Grants Cluster:				
	Education Technology State Grants	Education, Department of	84.318	*	1,390,398
ARRA	Education Technology State Grants, Recovery Act	Education, Department of	84.386	*	357,796
	Total Educational Technology State Grants Cluster				1,748,194
	Special Education - State Personnel Development	Education, Department of	84.323		835,247
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326		61,752

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Education, U.S. Department of, Continued:				
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330		19,488
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Correctional Services, Department of	84.331		58,254
	Reading First State Grants	Education, Department of	84.357		2,187,054
	Rural Education	Education, Department of	84.358		97,456
	English Language Acquisition Grants	Education, Department of	84.365		2,837,689
	Mathematics and Science Partnerships	Education, Department of	84.366		1,350,216
	Improving Teacher Quality State Grants	Education, Department of	84.367	*	14,336,794
	Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367	*	439,453
	Total Improving Teacher Quality State Grants				14,776,247
	Grants for State Assessments and Related Activities	Education, Department of	84.369		4,813,111
	Statewide Data Systems Cluster:				
	Statewide Data Systems	Education, Department of	84.372		1,500,663
	Special Education_Technical Assistance on State Data Collection	Education, Department of	84.373		337,886
	School Improvement Grants Cluster:				
	School Improvement Grants	Education, Department of	84.377		1,016,911
	College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378		261,160
	State Fiscal Stabilization Fund Cluster:				
ARRA	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, Department of	84.394	*	53,657,662
ARRA	State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	Correctional Services, Department of	84.397	*	33,250,291
	Total State Fiscal Stabilization Fund Cluster				86,907,953
	Total U.S. Department of Education				$ 334,479,798
	Election Assistance Commission				
	Help America Vote Act Requirements Payments	Secretary of State	90.401		$ 1,191,198
	Total Election Assistance Commission				$ 1,191,198

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Energy, U.S. Department of				
	National Energy Information Center	Energy Office	81.039		$ 6,000
	State Energy Program	Energy Office	81.041		263,010
ARRA	State Energy Program Recovery	Energy Office	81.041		600,895
	Total State Energy Program				863,905
	Weatherization Assistance for Low-Income Persons	Energy Office	81.042	*	3,862,690
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy Office	81.042	*	7,177,527
	Total Weatherization Assistance for Low-Income Persons				11,040,217
	State Energy Program Special Projects	Energy Office	81.119		206,077
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy Office	81.122		22,635
ARRA	Energy Efficient Appliance Rebate Program (EEARP) Recovery	Energy Office	81.127		26,949
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy Office	81.128		110,398
	Total U.S. Department of Energy				$ 12,276,181
	Environmental Protection Agency, U.S.				
	State Indoor Radon Grants	Health and Human Services, Department of	66.032		$ 148,621
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034		218,419
ARRA	ARRA - State Clean Diesel Grant Program	Environmental Quality, Department of	66.040	*	1,221,796
	State Clean Diesel Grant Program	Environmental Quality, Department of	66.040	*	80,873
	Total State Clean Diesel Grant Program				1,302,669
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419		187,993
	State Public Water System Supervision	Health and Human Services, Department of	66.432		1,219,801
	State Underground Water Source Protection	Oil and Gas Conservation Commission	66.433		93,987
	Targeted Watersheds Grants	Environmental Quality, Department of	66.439		127,812
ARRA	ARRA - Water Quality Management Planning	Environmental Quality, Department of	66.454		76,443
	Water Quality Management Planning	Environmental Quality, Department of	66.454		107,709
	Total Water Quality Management Planning				184,152

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Environmental Protection Agency, U.S., Continued:				
ARRA	ARRA - Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	*	10,569,303
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	*	3,386,741
	Total Capitalization Grants for Clean Water State Revolving Funds				13,956,044
	Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460		4,210,573
	Regional Wetland Program Development Grants	Game and Parks Commission	66.461		244,303
	Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463		89,560
	Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467		12,684
ARRA	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	*	15,715,842
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	*	14,457,186
	Total Capitalization Grants for Drinking Water State Revolving Funds				30,173,028
	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Health and Human Services, Department of	66.471		204,174
	Water Protection Grants to the States	Health and Human Services, Department of	66.474		19,160
	Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804		431,168
	Performance Partnership Grants	Environmental Quality, Department of	66.605		4,217,113
	Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608		186,233
	Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700		729,302
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services, Department of	66.707		203,363
	Pollution Prevention Grants Program	Environmental Quality, Department of	66.708		98,499
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802		327,022
ARRA	ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805		1,221,122
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805		1,523,517
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program				2,744,639
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809		191,721
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Health and Human Services, Department of	66.809		14,516
	Total Superfund State and Indian Tribe Core Program Cooperative Agreements				206,237
	State and Tribal Response Program Grants	Environmental Quality, Department of	66.817		429,467
	Total U.S. Environmental Protection Agency				$ 61,966,023

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
Equal Employment Opportunity Commission, U.S.				
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002		$ 469,858
Total U.S. Equal Employment Opportunity Commission				$ 469,858
Forest Service, U.S.				
USFS T&E and Sensitive Species	Game and Parks Commission	N/A		$ 11,417
Total U.S. Forest Service				$ 11,417
General Services Administration				
Donation of Federal Surplus Personal Property	Correctional Services, Department of	39.003		$ 980,427
Total General Services Administration				$ 980,427
Health and Human Services, U.S. Department of				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, Department of	93.006		$ 114,771
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services, Department of	93.041		31,057
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	Health and Human Services, Department of	93.042		100,291
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043		147,279
Aging Cluster:				
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Health and Human Services, Department of	93.044	*	2,177,625
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, Department of	93.045	*	3,512,423
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053	*	1,322,789
ARRA Aging Home-Delivered Nutrition Services for States Recovery	Health and Human Services, Department of	93.705	*	185,508
ARRA Aging Congregate Nutrition Services for States Recovery	Health and Human Services, Department of	93.707	*	376,813
Total Aging Cluster				7,575,158
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, Department of	93.048		195,211
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, Department of	93.051		59,363
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052		900,944
Public Health Emergency Preparedness	Health and Human Services, Department of	93.069	*	18,245,708
Emergency System for Advance Registration of Volunteer Health Professionals	Health and Human Services, Department of	93.089		22,796
Food and Drug Administration_Research	Agriculture, Department of	93.103		5,374

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, U.S. Department of, Continued:				
	Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110		779,954
	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116		211,215
	Emergency Medical Services for Children	Health and Human Services, Department of	93.127		73,273
	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130		144,397
	Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136		370,180
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150		306,598
	Family Planning_Services	Health and Human Services, Department of	93.217		2,785,703
	Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234		165,244
	Abstinence Education Program	Health and Human Services, Department of	93.235		20,770
	Grants for Dental Public Health Residency Training	Health and Human Services, Department of	93.236		32,407
	State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241		660,603
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, Department of	93.243		4,101,316
	Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251		292,334
	Immunization Cluster:				
	Immunization Grants	Health and Human Services, Department of	93.268	*	18,997,832
ARRA	ARRA - Immunization	Health and Human Services, Department of	93.712	*	460,510
	Total Immunization Cluster				19,458,342
	Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279		69,022
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, Department of	93.283		9,688,294
	Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301		600,640
ARRA	ARRA - State Primary Care Offices	Health and Human Services, Department of	93.414		10,000
	Food Safety and Security Monitoring Project	Agriculture, Department of	93.448		174,172
	Ruminant Feed Ban Support Project	Agriculture, Department of	93.449		279,975
	Transitional Living for Homeless Youth	Health and Human Services, Department of	93.550		150,000
	Promoting Safe and Stable Families	Health and Human Services, Department of	93.556		1,157,508
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, Department of	93.558	*^	34,031,850
	Child Support Enforcement	Health and Human Services, Department of	93.563	*^	18,359,165
ARRA	ARRA - Child Support Enforcement	Health and Human Services, Department of	93.563	*^	10,038,933
	Total Child Support Enforcement				28,398,098

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, U.S. Department of, Continued:				
	Child Support Enforcement Research	Health and Human Services, Department of	93.564		4,978
	Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, Department of	93.566		1,900,818
	Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568		37,699,321
	Low-Income Home Energy Assistance	Energy Office	93.568		5,057,492
	Total Low-Income Home Energy Assistance				42,756,813
	CSBG Cluster:				
	Community Services Block Grant	Health and Human Services, Department of	93.569	*	4,842,861
ARRA	ARRA - Community Services Block Grant	Health and Human Services, Department of	93.710	*	5,606,134
	Total CSBG Cluster				10,448,995
	Child Care and Development Fund (CCDF) Cluster:				
	Child Care and Development Block Grant	Health and Human Services, Department of	93.575	*^	31,527,702
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596	*^	22,049,344
ARRA	ARRA – Child Care and Development Block Grant	Health and Human Services, Department of	93.713	*^	7,059,006
	Total Child Care and Development Fund (CCDF) Cluster				60,636,052
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, Department of	93.576		235,407
	State Court Improvement Program	Supreme Court	93.586		480,013
	Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597		102,062
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599		532,471
	Head Start Cluster:				
	Head Start	Education, Department of	93.600		118,986
	Adoption Incentive Payments	Health and Human Services, Department of	93.603		332,613
	Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617		99,834
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630		462,928
	Children's Justice Grants to States	Health and Human Services, Department of	93.643		107,300
	Child Welfare Services_State Grants	Health and Human Services, Department of	93.645		2,026,451
	Foster Care_Title IV-E	Health and Human Services, Department of	93.658	*^	18,749,716
ARRA	ARRA - Foster Care_Title IV-E	Health and Human Services, Department of	93.658	*^	695,227
	Total Foster Care_Title IV-E				19,444,943

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, U.S. Department of, Continued:				
	Adoption Assistance	Health and Human Services, Department of	93.659	^	11,015,978
ARRA	ARRA - Adoption Assistance	Health and Human Services, Department of	93.659	^	1,010,000
	Total Adoption Assistance				12,025,978
	Social Services Block Grant	Health and Human Services, Department of	93.667	*	10,511,928
	Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669		79,502
	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	Health and Human Services, Department of	93.671		905,931
	Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674		727,278
ARRA	ARRA - Preventing Healthcare-Associated Infections	Health and Human Services, Department of	93.717		2,215
ARRA	ARRA - State Grants to Promote Health Information Technology	Administrative Services, Department of	93.719		216,606
ARRA	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Health and Human Services, Department of	93.720		2,274
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, Department of	93.723		85,889
ARRA	ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	Health and Human Services, Department of	93.725		2,157
	Children's Health Insurance Program	Health and Human Services, Department of	93.767	^	36,410,745
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, Department of	93.768		298,695
	Medicaid Cluster:				
	State Medicaid Fraud Control Units	Attorney General	93.775	*	541,968
	State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, Department of	93.777	*^	4,292,543
	Medical Assistance Program	Health and Human Services, Department of	93.778	*^	1,046,288,219
ARRA	Medical Assistance Program Recovery	Health and Human Services, Department of	93.778	*^	128,805,366
	Total Medical Assistance Program				1,175,093,585
	Total Medicaid Cluster				1,179,928,096
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779		522,688
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780		1,199,791
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889		3,264,120
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, Department of	93.791		2,176,630
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, Department of	93.913		195,929
	HIV Care Formula Grants	Health and Human Services, Department of	93.917		3,366,962
	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938		110,086

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Federal Agency/Program Title	State Agency	CFDA or Grant #	2010 Expenditures
Health and Human Services, U.S. Department of, Continued:			
HIV Prevention Activities_Health Department Based	Health and Human Services, Department of	93.940	1,292,907
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944	178,799
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946	134,715
Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958	1,757,583
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959	7,724,593
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977	506,467
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, Department of	93.988	(17,319)
Preventive Health and Health Services Block Grant	Health and Human Services, Department of	93.991	1,739,316
Maternal and Child Health Services Block Grant to the States	Health and Human Services, Department of	93.994	3,715,086
National Center for Health Statistics	Health and Human Services, Department of	200-2000-07227	383,954
Tissue Residue Inspection Contract	Agriculture, Department of	HHSF223200840005I	2,209
Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C	1,105
Food Inspection	Agriculture, Department of	HHSF223200940012C	52,568
Feed Establishment & BSE Inspection Contract	Agriculture, Department of	HHSF223200840123C	100,168
Total U.S. Department of Health and Human Services			$ 1,540,656,162
Homeland Security, U.S. Department of			
Special Projects	Military Department	97.001	$ 177,273
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	Military Department	97.004	(1,555)
Homeland Security Grant Program	Military Department	97.067	14,454,431
Homeland Security Grant Program	Motor Vehicles, Department of	97.067	153,807
Homeland Security Grant Program	Game and Parks Commission	97.067	17,203
Total Homeland Security Grant Program			14,625,441
Total Homeland Security Cluster			14,623,886
Boating Safety Financial Assistance	Game and Parks Commission	97.012	383,671
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	131,815
Flood Mitigation Assistance	Natural Resources, Department of	97.029	5,848

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Homeland Security, U.S. Department of, Continued:				
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036		11,210,721
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	State Patrol	97.036		1,369
	Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)				11,212,090
	Hazard Mitigation Grant	Military Department	97.039		1,472,238
	National Dam Safety Program	Natural Resources, Department of	97.041		102,229
	Emergency Management Performance Grants	Military Department	97.042		3,355,957
	State Fire Training Systems Grants	Fire Marshal	97.043		23,800
	Cooperating Technical Partners	Natural Resources, Department of	97.045		120,910
	Map Modernization Management Support	Natural Resources, Department of	97.070		73,714
	Buffer Zone Protection Program (BZPP)	Military Department	97.078		589,561
	Buffer Zone Protection Program (BZPP)	State Patrol	97.078		200,000
	Total Buffer Zone Protection Program (BZPP)				789,561
	Total U.S. Department of Homeland Security				$ 32,472,992
	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	*	$ 16,042,792
ARRA	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Economic Development, Department of	14.255	*	259,931
	Total CDBG - State-Administered Small Cities Program Cluster				16,302,723
ARRA	ARRA - Emergency Shelter Grants Program	Health and Human Services, Department of	14.231		763,672
	Emergency Shelter Grants Program	Health and Human Services, Department of	14.231		649,918
	Total Emergency Shelter Grants Program				1,413,590
	HOME Investment Partnerships Program	Economic Development, Department of	14.239		4,379,607
	Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241		729,810
	Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401		242,997
	Total U.S. Department of Housing & Urban Development				$ 23,068,727
	Interior, U.S. Department of				
ARRA	Water Reclamation and Reuse Program Recovery	Game and Parks Commission	15.504		$ 362,860
	Cultural Resources Management	Historical Society	15.511		139,170
	Water Conservation Field Services Program (WCFSP)	Game and Parks Commission	15.530		92,688

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* - 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, 2010

Federal Agency/Program Title	State Agency	CFDA or Grant #	2010 Expenditures
Interior, U.S. Department of, Continued:			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Game and Parks Commission	15.605 *	5,621,090
Wildlife Restoration	Game and Parks Commission	15.611 *	5,049,395
Total Fish and Wildlife Cluster			10,670,485
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	21,759
Fish and Wildlife Management Assistance	Historical Society	15.608	107,179
Total Fish and Wildlife Management Assistance			128,938
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	742,110
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	432
Landowner Incentive Program	Game and Parks Commission	15.633	272,314
State Wildlife Grants	Game and Parks Commission	15.634	885,743
U.S. Geological Survey_ Research and Data Collection	Natural Resources, Department of	15.808	15,479
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	733,883
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916	134,788
Save America's Treasures	Historical Society	15.929	8,399
Total U.S. Department of Interior			$ 14,187,289
Justice, U.S. Department of			
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission on	16.017	$ 114,017
Antiterrorism Emergency Reserve	Law Enforcement and Criminal Justice, Commission on	16.321	3,325
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission on	16.523	320,955
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Attorney General	16.528	62,377
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission on	16.540	604,372
Missing Children's Assistance	State Patrol	16.543	323,028
Title V_Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission on	16.548	49,054
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission on	16.550	59,556
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	352,246
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	395,517
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission on	16.575	2,494,203
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission on	16.576	36,913
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.579	1,536,994
Edward Byrne Memorial Formula Grant Program	State Patrol	16.579	211,508
Total Edward Byrne Memorial Formula Grant Program			1,748,502

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2010 Expenditures
	Justice, U.S. Department of, Continued:			
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Law Enforcement and Criminal Justice, Commission on	16.580	32,063
	Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission on	16.588	1,039,241
ARRA	ARRA - Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission on	16.588	381,401
	Violence Against Women Formula Grants	State Patrol	16.588	16,258
ARRA	ARRA - Violence Against Women Formula Grants	State Patrol	16.588	13,313
	Total Violence Against Women Formula Grants			1,450,213
	The Community-Defined Solutions to Violence Against Women Grant Program	Attorney General	16.590	160,978
	Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission on	16.593	74,571
	State Criminal Alien Assistance Program	Correctional Services, Department of	16.606	260,219
	Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission on	16.609	163,888
	Public Safety Partnership and Community Policing Grants	State Patrol	16.710	302,628
	Public Safety Partnership and Community Policing Grants	Law Enforcement and Criminal Justice, Commission on	16.710	143,345
	Total Public Safety Partnership and Community Policing Grants			445,973
	Enforcing Underage Drinking Laws Program	Roads, Department of	16.727	94,722
	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Correctional Services, Department of	16.735	87,081
	Edward Byrne Memorial Justice Assistance Grant Program	State Patrol	16.738	407,945
	Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission on	16.738	133,461
	Total Edward Byrne Memorial Justice Assistance Grant Program			541,406
	Statewide Automated Victim Information Notification (SAVIN) Program	Law Enforcement and Criminal Justice, Commission on	16.740	37,500
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Department of Health and Human Services	16.745	63,649
	Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750	166,306
ARRA	Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	State Patrol	16.800	230,626
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.801	150,787
ARRA	Recovery Act - State Victim Compensation Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.802	15,663
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Law Enforcement and Criminal Justice, Commission on	16.803	561,886
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	State Patrol	16.803	199,910
	Total Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories			761,796

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

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Federal Agency/Program Title		State Agency	CFDA or Grant #		2010 Expenditures
Justice, U.S. Department of, Continued:					
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Attorney General	16.810		148,983
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	State Patrol	16.810		56,512
	Total Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program				205,495
	High Intensity Drug	State Patrol	IG-02-0104, I5PMWP634Z		868,594
Total U.S. Department of Justice					$ 12,375,595
Labor, U.S. Department of					
	Labor Force Statistics	Labor, Department of	17.002		$ 891,545
	Compensation and Working Conditions	Worker's Compensation Court	17.005		47,388
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207		6,298,523
ARRA	Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, Department of	17.207		972,932
	Total Employment Service/Wagner-Peyser Funded Activities				7,271,455
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801		841,950
	Local Veterans' Employment Representative Program	Labor, Department of	17.804		128,843
	Total Employment Service Cluster				8,242,248
	Unemployment Insurance - Federal	Labor, Department of	17.225	*	4,574,646
ARRA	Unemployment Insurance - Federal Recovery	Labor, Department of	17.225	*	182,849,424
	Unemployment Insurance - State	Labor, Department of	17.225	*	209,723,467
	Unemployment Insurance - Admin	Labor, Department of	17.225	*	20,243,740
ARRA	Unemployment Insurance - Admin Recovery	Labor, Department of	17.225	*	29,967
	Total Unemployment Insurance				417,421,244
ARRA	Senior Community Service Employment Program Recovery	Health and Human Services, Department of	17.235		137,295
	Senior Community Service Employment Program	Health and Human Services, Department of	17.235		735,226
	Total Senior Community Service Employment Program				872,521
	Trade Adjustment Assistance	Labor, Department of	17.245		747,418

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

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Labor, U.S. Department of, Continued:				
	WIA Cluster:				
	WIA Adult Program	Labor, Department of	17.258	*	3,356,548
ARRA	WIA Adult Program Recovery	Labor, Department of	17.258	*	319,685
	Total WIA Adult Program				3,676,233
	WIA Youth Activities	Labor, Department of	17.259	*	2,237,245
ARRA	WIA Youth Activities Recovery	Labor, Department of	17.259	*	2,200,580
	Total WIA Youth Activities				4,437,825
	WIA Dislocated Workers	Labor, Department of	17.260	*	2,323,211
ARRA	WIA Dislocated Workers Recovery	Labor, Department of	17.260	*	726,937
	Total WIA Dislocated Workers				3,050,148
	Total WIA Cluster				11,164,206
	WIA Pilots, Demonstrations, and Research Projects	Labor, Department of	17.261		14,964
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271		125,435
	Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273		59,776
ARRA	ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, Department of	17.275		118,255
	Consultation Agreements	Labor, Department of	17.504		511,604
	WIA Dislocated Workers NAT RES - TAT	Labor, Department of	17.999		16,532
	Veterans' Employment Program	Labor, Department of	17.802		84,713
	Total U.S. Department of Labor				$ 440,317,849
	National Archives and Records Administration				
	National Historical Publications and Records Grants	Historical Society	89.003		$ 3,577
	Total National Archives and Records Administration				$ 3,577
	National Foundation on the Arts and Humanities				
ARRA	ARRA - Promotion of the Arts_Partnership Agreements	Arts Council	45.025		$ 270,654
	Promotion of the Arts_Partnership Agreements	Arts Council	45.025		691,126
	Total Promotion of the Arts_Partnership Agreements				961,780
	Promotion of the Humanities_Public Programs	Supreme Court	45.164		2,084
	Grants to States	Library Commission	45.310		1,307,327
	Total National Foundation on the Arts and Humanities				$ 2,271,191

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

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Schedule of Expenditures of Federal Awards - By Federal Agency

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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
	Social Security Administration				
	Disability Insurance/SSI Cluster:				
	Social Security_Disability Insurance	Education, Department of	96.001		$ 10,216,549
	Supplemental Security Income	Education, Department of	96.006		418,463
	Supplemental Security Income	Blind and Visually Impaired, Commission for the	96.006		621,966
	Total Supplemental Security Income				1,040,429
	Total Social Security Administration				$ 11,256,978
	Transportation, U.S. Department of				
ARRA	Airport Improvement Program Recovery	Aeronautics, Department of	20.106	*	$ 2,038,258
	Airport Improvement Program	Aeronautics, Department of	20.106	*	17,166,579
	Total Airport Improvement Program				19,204,837
	Highway Research and Development Program	Education, Department of	20.200		59,329
	Highway Planning and Construction Cluster:				
	Highway Planning and Construction	Roads, Department of	20.205	*	176,003,139
ARRA	Highway Planning and Construction Recovery	Roads, Department of	20.205	*	109,226,246
	Total Highway Planning and Construction				285,229,385
	Recreational Trails Program	Game and Parks Commission	20.219	*	756,070
	Total Highway Planning and Construction Cluster				285,985,455
	National Motor Carrier Safety	Motor Vehicles, Department of	20.218		36,743
	National Motor Carrier Safety	State Patrol	20.218		2,893,395
	Total National Motor Carrier Safety				2,930,138
	Fuel Tax Evasion-Intergovernmental Enforcement Effort	State Patrol	20.240		22,215
	Metropolitan Transportation Planning	Roads, Department of	20.505		311,429
	Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509		3,387,221
ARRA	ARRA Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509		1,514,135
	Total Formula Grants for Other Than Urbanized Areas				4,901,356
	Transit Services Programs Cluster:				
	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513		715,298

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Schedule of Expenditures of Federal Awards - By Federal Agency

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2010 Expenditures
Transportation, U.S. Department of, Continued:				
Highway Safety Cluster:				
State and Community Highway Safety	Motor Vehicles, Department of	20.600		2,131
State and Community Highway Safety	Roads, Department of	20.600		2,879,058
Total State and Community Highway Safety				2,881,189
Alcohol Impaired Driving Countermeasures Incentive Grants I	Roads, Department of	20.601		1,110,916
Occupant Protection Incentive Grants	Motor Vehicles, Department of	20.602		698
Occupant Protection Incentive Grants	Roads, Department of	20.602		237,222
Total Occupant Protection Incentive Grants				237,920
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Motor Vehicles, Department of	20.605		99,334
State Traffic Safety Information System Improvement Grants	Roads, Department of	20.610		468,313
Incentive Grant Program to Prohibit Racial Profiling	Roads, Department of	20.611		69,342
Incentive Grant Program to Increase Motorcyclist Safety	Roads, Department of	20.612		186,250
Total Highway Safety Cluster				5,053,264
E-911 Grant Program	Public Service Commission	20.615		100,759
Pipeline Safety Program Base Grants	Fire Marshal	20.700		241,891
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703		190,285
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-763		57,484
Total U.S. Department of Transportation				$ 319,773,740
Veterans Affairs, U.S. Department of				
Grants to States for Construction of State Home Facilities	Health and Human Services, Department of	64.005		$ 14,435
Veterans State Domiciliary Care	Health and Human Services, Department of	64.014	^	1,356,437
Veterans State Nursing Home Care	Health and Human Services, Department of	64.015	^	8,928,827
State Cemetery Grants	Department of Veterans' Affairs	64.203		3,077,437
Total U.S. Department of Veterans Affairs				$ 13,377,136
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 3,254,746,614

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STATE OF NEBRASKA
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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
Administrative Services, Department of					
ARRA	ARRA - State Grants to Promote Health Information Technology	Health and Human Services, U.S. Department of	93.719		$ 216,606
Total Department of Administrative Services					$ 216,606
Aeronautics, Department of					
ARRA	Airport Improvement Program Recovery	Transportation, U.S. Department of	20.106	*	$ 2,038,258
	Airport Improvement Program	Transportation, U.S. Department of	20.106	*	17,166,579
Total Department of Aeronautics					$ 19,204,837
Agriculture, Department of					
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025		$ 901,972
ARRA	Aquaculture Grants Program (AGP) Recovery	Agriculture, U.S. Department of	10.086		25,536
	Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156		33,693
	Market Protection and Promotion	Agriculture, U.S. Department of	10.163		62,196
	Specialty Crop Block Grant Program	Agriculture, U.S. Department of	10.169		64,101
	Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170		39,636
	State Mediation Grants	Agriculture, U.S. Department of	10.435		163,615
	Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477		26,043
	Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479		161,773
	Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576		238,220
	Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700		729,302
	Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103		5,374
	Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448		174,172
	Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449		279,975
	Tissue Residue Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200840005I		2,209
	Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C		1,105
	Food Inspection	Health and Human Services, U.S. Department of	HHSF223200940012C		52,568
	Feed Establishment & BSE Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200840123C		100,168
	Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A		148,518
Total Department of Agriculture					$ 3,210,176
Arts Council					
ARRA	ARRA - Promotion of the Arts_Partnership Agreements	National Foundation on the Arts and Humanities	45.025		$ 270,654
	Promotion of the Arts_Partnership Agreements	National Foundation on the Arts and Humanities	45.025		691,126
Total Arts Council					$ 961,780

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Attorney General				
	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Justice, U.S. Department of	16.528		$ 62,377
	The Community-Defined Solutions to Violence Against Women Grant Program	Justice, U.S. Department of	16.590		160,978
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810		148,983
	Medicaid Cluster:				
	State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	*	541,968
	Total Attorney General				$ 914,306
	Blind and Visually Impaired, Commission for the				
	Vocational Rehabilitation Cluster:				
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126		$ 2,351,803
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390		179,295
	Total Vocational Rehabilitation Cluster				2,531,098
	Independent Living State Grants Cluster:				
	Independent Living_State Grants	Education, U.S. Department of	84.169		48,763
ARRA	Independent Living State Grants, Recovery Act	Education, U.S. Department of	84.398		9,877
	Total Independent Living State Grants Cluster				58,640
	Independent Living Services for Older Individuals Who Are Blind Cluster:				
	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177		283,852
ARRA	Independent Living Services for Older Individuals Who are Blind, Recovery Act	Education, U.S. Department of	84.399		99,545
	Total Independent Living Services for Older Individuals Who Are Blind Cluster				383,397
	Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187		25,309
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265		18,379
	Disability Insurance/SSI Cluster:				
	Supplemental Security Income	Social Security Administration	96.006		621,966
	Total Commission for the Blind and Visually Impaired				$ 3,638,789
	Corn Board				
	Grants for Agricultural Research_Competitive Research Grants	Agriculture, U.S. Department of	10.206		$ 88,743
	Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912		62,607
	Total Corn Board				$ 151,350

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	Correctional Serivces, Department of				
	State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606		$ 260,219
	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Justice, U.S. Department of	16.735		87,081
	Donation of Federal Surplus Personal Property	General Services Administration	39.003		980,427
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Education, U.S. Department of	84.331		58,254
	State Fiscal Stabilization Fund Cluster:				
ARRA	State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	Education, U.S. Department of	84.397	*	33,250,291
	Total Department of Correctional Services				$ 34,636,272
	Economic Development, Department of				
	Rural Community Development Initiative	Agriculture, U.S. Department of	10.446		$ 62,786
	National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03		669
	Economic Development_Support for Planning Organizations	Commerce, U.S. Department of	11.302		358
	Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611		527,938
	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	*	16,042,792
ARRA	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Housing & Urban Development, U.S. Department of	14.255	*	259,931
	Total CDBG - State-Administered Small Cities Program Cluster				16,302,723
	HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239		4,379,607
	Total Department of Economic Development				$ 21,274,081
	Education, Department of				
	Child Nutrition Cluster:				
	School Breakfast Program	Agriculture, U.S. Department of	10.553	*	$ 11,799,459
	National School Lunch Program	Agriculture, U.S. Department of	10.555	*	53,284,910
	Special Milk Program for Children	Agriculture, U.S. Department of	10.556	*	45,829
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	*	1,985,788
	Total Child Nutrition Cluster				67,115,986

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Education, Department of, Continued:				
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		28,838,217
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		1,154,093
	Team Nutrition Grants	Agriculture, U.S. Department of	10.574		4,855
ARRA	ARRA - Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579		531,027
	Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579		12,638
	Total Child Nutrition Discretionary Grants Limited Availability				543,665
	Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582		661,295
	Schools and Roads - Grants to States	Agriculture, U.S. Department of	10.665		561,693
	Highway Research and Development Program	Transportation, U.S. Department of	20.200		59,329
	Adult Education - Basic Grants to States	Education, U.S. Department of	84.002		2,698,636
	Title I , Part A Cluster:				
	Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	*	63,913,097
ARRA	Title I Grants to Local Educational Agencies, Recovery Act	Education, U.S. Department of	84.389	*	9,541,235
	Total Title I , Part A Cluster				73,454,332
	Migrant Education_State Grant Program	Education, U.S. Department of	84.011		5,346,975
	Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013		331,893
	Special Education Cluster (IDEA):				
	Special Education_Grants to States	Education, U.S. Department of	84.027	*	71,287,953
	Special Education_Preschool Grants	Education, U.S. Department of	84.173	*	2,230,871
ARRA	Special Education Grants to States, Recovery Act	Education, U.S. Department of	84.391	*	19,211,120
ARRA	Special Education - Preschool Grants, Recovery Act	Education, U.S. Department of	84.392	*	466,761
	Total Special Education Cluster (IDEA)				93,196,705
	Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048		7,377,541
	Career and Technical Education -- National Program	Education, U.S. Department of	84.051		145,885
	Vocational Rehabilitation Cluster:				
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126		15,829,248
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390		1,082,198
	Total Vocational Rehabilitation Cluster				16,911,446

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State Agency/Program Title		Federal Agency	CFDA or Grant #		2010 Expenditures
Education, Department of, Continued:					
	Migrant Education_Coordination Program	Education, U.S. Department of	84.144		62,404
	Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161		130,489
	Independent Living State Grants Cluster:				
	Independent Living_State Grants	Education, U.S. Department of	84.169		393,141
ARRA	Independent Living_State Grants, Recovery Act	Education, U.S. Department of	84.398		148,366
	Total Independent Living State Grants Cluster				541,507
	Early Intervention Services (IDEA) Cluster:				
	Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	*	2,668,246
ARRA	Special Education - Grants for Infants and Families, Recovery Act	Education, U.S. Department of	84.393	*	393,113
	Total Early Intervention Services (IDEA) Cluster				3,061,359
	Byrd Honors Scholarships	Education, U.S. Department of	84.185		234,606
	Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186		1,233,003
	Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187		372,750
	Education of Homeless Children and Youth Cluster:				
	Education for Homeless Children and Youth	Education, U.S. Department of	84.196		232,658
ARRA	Education for Homeless Children and Youth, Recovery Act	Education, U.S. Department of	84.387		50,427
	Total Education of Homeless Children and Youth Cluster				283,085
	Star Schools	Education, U.S. Department of	84.203		9,361
	Even Start_State Educational Agencies	Education, U.S. Department of	84.213		284,039
	Assistive Technology	Education, U.S. Department of	84.224		485,588
	Tech-Prep Education	Education, U.S. Department of	84.243		61,940
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265		32,691
	Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287		5,380,626
	Foreign Language Assistance	Education, U.S. Department of	84.293		68,476
	State Grants for Innovative Programs	Education, U.S. Department of	84.298		123,685
	Parental Information and Resource Centers	Education, U.S. Department of	84.310		33,685
	Educational Technology State Grants Cluster:				
	Education Technology State Grants	Education, U.S. Department of	84.318	*	1,390,398
ARRA	Education Technology State Grants, Recovery Act	Education, U.S. Department of	84.386	*	357,796
	Total Educational Technology State Grants Cluster				1,748,194

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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, 2010

State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
Education, Department of, Continued:				
Special Education - State Personnel Development	Education, U.S. Department of	84.323		835,247
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326		61,752
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330		19,488
Reading First State Grants	Education, U.S. Department of	84.357		2,187,054
Rural Education	Education, U.S. Department of	84.358		97,456
English Language Acquisition Grants	Education, U.S. Department of	84.365		2,837,689
Mathematics and Science Partnerships	Education, U.S. Department of	84.366		1,350,216
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	*	14,336,794
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369		4,813,111
Statewide Data Systems Cluster:				
Statewide Data Systems	Education, U.S. Department of	84.372		1,500,663
Special Education_Technical Assistance on State Data Collection	Education, U.S. Department of	84.373		337,886
School Improvement Grants Cluster:				
School Improvement Grants	Education, U.S. Department of	84.377		1,016,911
State Fiscal Stabilization Fund Cluster:				
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, U.S. Department of	84.394	*	53,657,662
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234		165,244
Head Start Cluster:				
Head Start	Health and Human Services, U.S. Department of	93.600		118,986
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		110,086
Learn and Serve America_School and Community Based Programs	Corporation for National and Community Service	94.004		100,936
Disability Insurance/SSI Cluster:				
Social Security_Disability Insurance	Social Security Administration	96.001		10,216,549
Supplemental Security Income	Social Security Administration	96.006		418,463
Total Disability Insurance/SSI Cluster				10,635,012
Total Department of Education				$ 406,732,227

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	State Agency/Program Title	Federal Agency	CFDA or Grant #			2010 Expenditures
	Educational Telecommunications Commission					
	Public Television Station Digital Transition Grant Program	Agriculture, U.S. Department of	10.861		$	193,802
	Public Telecommunications Facilities Planning and Construction	Commerce, U.S. Department of	11.550			59,672
	Total Educational Telecommunications Commission				$	253,474
	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			263,010
ARRA	State Energy Program Recovery	Energy, U.S. Department of	81.041			600,895
	Total State Energy Program					863,905
	Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	*		3,862,690
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy, U.S. Department of	81.042	*		7,177,527
	Total Weatherization Assistance for Low-Income Persons					11,040,217
	State Energy Program Special Projects	Energy, U.S. Department of	81.119			206,077
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122			22,635
ARRA	Energy Efficient Appliance Rebate Program (EEARP) Recovery	Energy, U.S. Department of	81.127			26,949
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy, U.S. Department of	81.128			110,398
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568			5,057,492
	Total Energy Office				$	17,333,673
	Environmental Quality, Department of					
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113		$	147,095
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034			218,419
ARRA	ARRA - State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040	*		1,221,796
	State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040	*		80,873
	Total State Clean Diesel Grant Program					1,302,669
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419			187,993
	Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439			127,812

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Environmental Quality, Department of, Continued:				
ARRA	ARRA - Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		76,443
	Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		107,709
	Total Water Quality Management Planning				184,152
ARRA	ARRA - Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	*	10,569,303
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	*	3,386,741
	Total Capitalization Grants for Clean Water State Revolving Funds				13,956,044
	Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		4,210,573
	Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463		89,560
	Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467		12,684
ARRA	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	*	15,715,842
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	*	14,457,186
	Total Capitalization Grants for Drinking Water State Revolving Funds				30,173,028
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		4,217,113
	Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608		186,233
	Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708		98,499
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		327,022
ARRA	ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805		1,221,122
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805		1,523,517
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program				2,744,639
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		191,721
	State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		429,467
	Total Department of Environmental Quality				$ 58,804,723
	Equal Opportunity Commission				
	Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401		$ 242,997
	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		469,858
	Total Equal Opportunity Commission				$ 712,855

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State Agency/Program Title		Federal Agency	CFDA or Grant #		2010 Expenditures
Fire Marshal					
	Pipeline Safety Program Base Grants	Transportation, U.S. Department of	20.700		$ 241,891
	Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804		431,168
	State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043		23,800
Total Fire Marshal					$ 696,859
Game and Parks Commission					
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025		$ 145,517
	Avian Influenza Indemnity Program	Agriculture, U.S. Department of	10.029		34,249
	Wetlands Reserve Program	Agriculture, U.S. Department of	10.072		431,304
	Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664		30,448
ARRA	Water Reclamation and Reuse Program Recovery	Interior, U.S. Department of	15.504		362,860
	Water Conservation Field Services Program (WCFSP)	Interior, U.S. Department of	15.530		92,688
	Fish and Wildlife Cluster:				
	Sport Fish Restoration Program	Interior, U.S. Department of	15.605	*	5,621,090
	Wildlife Restoration	Interior, U.S. Department of	15.611	*	5,049,395
	Total Fish and Wildlife Cluster				10,670,485
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608		21,759
	Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615		742,110
	Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617		432
	Landowner Incentive Program	Interior, U.S. Department of	15.633		272,314
	State Wildlife Grants	Interior, U.S. Department of	15.634		885,743
	Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916		134,788
	Highway Planning and Construction Cluster:				
	Recreational Trails Program	Transportation, U.S. Department of	20.219	*	756,070
	Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461		244,303
	Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012		383,671
	Homeland Security Cluster:				
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		17,203

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Game and Parks Commission, Continued:				
	US Army Corps of Engineers	Defense, U.S. Department of	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P-0171, W912F-06-P-0101		1,223,874
	USFS T&E and Sensitive Species	Forest Service, U.S.	N/A		11,417
	Total Game and Parks Commission				$ 16,461,235
	Health and Human Services, Department of				
	Child Nutrition Cluster:				
	National School Lunch Program	Agriculture, U.S. Department of	10.555	*	$ 8,845,795
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	*	69,252
	Total Child Nutrition Cluster				8,915,047
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program (SNAP)	Agriculture, U.S. Department of	10.551		228,766,099
ARRA	ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	^	444,592
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	^	14,588,930
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				15,033,522
	Total SNAP Cluster				243,799,621
	Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	*	29,999,757
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		250,314
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		106,142
	Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565		3,607,902
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	*	337,456
ARRA	Emergency Food Assistance Program (Administrative Costs) Recovery	Agriculture, U.S. Department of	10.568	*	116,148
	Total Emergency Food Assistance Program (Administrative Costs)				453,604
	Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	*	4,114,090
	Total Emergency Food Assistance Cluster				4,567,694

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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 #		2010 Expenditures
Health and Human Services, Department of, Continued:					
ARRA	ARRA - Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231		763,672
	Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231		649,918
	Total Emergency Shelter Grants Program				1,413,590
	Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241		729,810
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Justice, U.S. Department of	16.745		63,649
ARRA	Senior Community Service Employment Program Recovery	Labor, U.S. Department of	17.235		137,295
	Senior Community Service Employment Program	Labor, U.S. Department of	17.235		735,226
	Total Senior Community Service Employment Program				872,521
	Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005		14,435
	Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	^	1,356,437
	Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	^	8,928,827
	State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032		148,621
	State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432		1,219,801
	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471		204,174
	Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474		19,160
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707		203,363
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		14,516
	Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186		278,608
	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006		114,771
	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		31,057
	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		100,291
	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		147,279
	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	*	2,177,625
	Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045	*	3,512,423

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, Department of, Continued:				
	Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053	*	1,322,789
ARRA	Aging Home-Delivered Nutrition Services for States Recovery	Health and Human Services, U.S. Department of	93.705	*	185,508
ARRA	Aging Congregate Nutrition Services for States Recovery	Health and Human Services, U.S. Department of	93.707	*	376,813
	Total Aging Cluster				7,575,158
	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048		195,211
	Alzheimer's Disease Demonstration Grants to States	Health and Human Services, U.S. Department of	93.051		59,363
	National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052		900,944
	Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069	*	18,245,708
	Emergency System for Advance Registration of Volunteer Health Professionals	Health and Human Services, U.S. Department of	93.089		22,796
	Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110		779,954
	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116		211,215
	Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127		73,273
	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130		144,397
	Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136		370,180
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150		306,598
	Family Planning_Services	Health and Human Services, U.S. Department of	93.217		2,785,703
	Abstinence Education Program	Health and Human Services, U.S. Department of	93.235		20,770
	Grants for Dental Public Health Residency Training	Health and Human Services, U.S. Department of	93.236		32,407
	State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241		660,603
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243		4,101,316
	Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251		292,334
	Immunization Cluster:				
	Immunization Grants	Health and Human Services, U.S. Department of	93.268	*	18,997,832
ARRA	ARRA - Immunization	Health and Human Services, U.S. Department of	93.712	*	460,510
	Total Immunization Cluster				19,458,342
	Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279		69,022
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283		9,688,294
	Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301		600,640
ARRA	ARRA - State Primary Care Offices	Health and Human Services, U.S. Department of	93.414		10,000
	Transitional Living for Homeless Youth	Health and Human Services, U.S. Department of	93.550		150,000
	Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556		1,157,508

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, Department of, Continued:				
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	*^	34,031,850
	Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	*^	18,359,165
ARRA	ARRA - Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	*^	10,038,933
	Total Child Support Enforcement				28,398,098
	Child Support Enforcement Research	Health and Human Services, U.S. Department of	93.564		4,978
	Refugee and Entrant Assistance _ State Administered Programs	Health and Human Services, U.S. Department of	93.566		1,900,818
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		37,699,321
	CSBG Cluster:				
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	*	4,842,861
ARRA	ARRA - Community Services Block Grant	Health and Human Services, U.S. Department of	93.710	*	5,606,134
	Total CSBG Cluster				10,448,995
	Child Care and Development Fund (CCDF) Cluster:				
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	*^	31,527,702
ARRA	ARRA – Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.713	*^	7,059,006
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	*^	22,049,344
	Total Child Care and Development Fund (CCDF) Cluster				60,636,052
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576		235,407
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597		102,062
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599		532,471
	Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603		332,613
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630		462,928
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643		107,300
	Child Welfare Services_State Grants	Health and Human Services, U.S. Department of	93.645		2,026,451
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	*^	18,749,716
ARRA	ARRA - Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	*^	695,227
	Total Foster Care_Title IV-E				19,444,943

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Health and Human Services, Department of, Continued:				
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	^	11,015,978
ARRA	ARRA - Adoption Assistance	Health and Human Services, U.S. Department of	93.659	^	1,010,000
	Total Adoption Assistance				12,025,978
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	*	10,511,928
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669		79,502
	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		905,931
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674		727,278
ARRA	ARRA - Preventing Healthcare-Associated Infections	Health and Human Services, U.S. Department of	93.717		2,215
ARRA	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Health and Human Services, U.S. Department of	93.720		2,274
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, U.S. Department of	93.723		85,889
ARRA	ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	Health and Human Services, U.S. Department of	93.725		2,157
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	^	36,410,745
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768		298,695
	Medicaid Cluster:				
	State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777	*^	4,292,543
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	*^	1,046,288,219
ARRA	Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778	*^	128,805,366
	Total Medical Assistance Program				1,175,093,585
	Total Medicaid Cluster				1,179,386,128
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		2,176,630
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889		3,264,120
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		195,929
	HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		3,366,962
	HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		1,292,907
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		178,799
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		134,715

^ - 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 #	2010 Expenditures
	Health and Human Services, Department of, Continued:			
	Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	1,757,583
	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	7,724,593
	Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	506,467
	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988	(17,319)
	Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,739,316
	Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	3,715,086
	State Commissions	Corporation For National and Community Service	94.003	177,292
	AmeriCorps	Corporation For National and Community Service	94.006	947,635
ARRA	ARRA - AmeriCorps	Corporation For National and Community Service	94.006	253,462
	Total AmeriCorps			1,201,097
	Program Development and Innovation Grants	Corporation For National and Community Service	94.007	34,029
	Training and Technical Assistance	Corporation For National and Community Service	94.009	85,651
	Volunteers in Service to America	Corporation For National and Community Service	94.013	4,269
	National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227	383,954
	Total Department of Health and Human Services			$ 1,839,744,210
	Historical Society			
	Cultural Resources Management	Interior, U.S. Department of	15.511	$ 139,170
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	107,179
	Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	733,883
	Save America's Treasures	Interior, U.S. Department of	15.929	8,399
	National Historical Publications and Records Grants	National Archives and Records Administration	89.003	3,577
	Total Historical Society			$ 992,208
	Insurance, Department of			
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	$ 522,688
	Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	1,199,791
	Total Department of Insurance			$ 1,722,479

^ - 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, 2010

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Labor, Department of				
	Labor Force Statistics	Labor, U.S. Department of	17.002		$ 891,545
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207		6,298,523
ARRA	Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, U.S. Department of	17.207		972,932
	Total Employment Service/Wagner-Peyser Funded Activities				7,271,455
	Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801		841,950
	Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804		128,843
	Total Employment Service Cluster				8,242,248
	Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	*	4,574,646
ARRA	Unemployment Insurance - Federal Recovery	Labor, U.S. Department of	17.225	*	182,849,424
	Unemployment Insurance - State	Labor, U.S. Department of	17.225	*	209,723,467
	Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	*	20,243,740
ARRA	Unemployment Insurance - Admin Recovery	Labor, U.S. Department of	17.225	*	29,967
	Total Unemployment Insurance				417,421,244
	Trade Adjustment Assistance	Labor, U.S. Department of	17.245		747,418
	WIA Cluster:				
	WIA Adult Program	Labor, U.S. Department of	17.258	*	3,356,548
ARRA	WIA Adult Program Recovery	Labor, U.S. Department of	17.258	*	319,685
	Total WIA Adult Program				3,676,233
	WIA Youth Activities	Labor, U.S. Department of	17.259	*	2,237,245
ARRA	WIA Youth Activities Recovery	Labor, U.S. Department of	17.259	*	2,200,580
	Total WIA Youth Activities				4,437,825
	WIA Dislocated Workers	Labor, U.S. Department of	17.260	*	2,323,211
ARRA	WIA Dislocated Workers Recovery	Labor, U.S. Department of	17.260	*	726,937
	Total WIA Dislocated Workers				3,050,148
	Total WIA Cluster				11,164,206
	WIA Pilots, Demonstrations, and Research Projects	Labor, U.S. Department of	17.261		14,964
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271		125,435

^ - Amounts taken from financial status reports.
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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, 2010

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2010 Expenditures
	Labor, Department of, Continued:			
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	59,776
ARRA	ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, U.S. Department of	17.275	118,255
	Consultation Agreements	Labor, U.S. Department of	17.504	511,604
	WIA Dislocated Workers NAT RES - TAT	Labor, U.S. Department of	17.999	16,532
	Veterans' Employment Program	Labor, U.S. Department of	17.802	84,713
	Total Department of Labor			$ 439,397,940
	Law Enforcement and Criminal Justice, Commission on			
	Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$ 114,017
	Antiterrorism Emergency Reserve	Justice, U.S. Department of	16.321	3,325
	Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	320,955
	Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540	604,372
	Title V_Delinquency Prevention Program	Justice, U.S. Department of	16.548	49,054
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	59,556
	Crime Victim Assistance	Justice, U.S. Department of	16.575	2,494,203
	Crime Victim Compensation	Justice, U.S. Department of	16.576	36,913
	Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	1,536,994
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Justice, U.S. Department of	16.580	32,063
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,039,241
ARRA	ARRA - Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	381,401
	Total Violence Against Women Formula Grants			1,420,642
	Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	74,571
	Project Safe Neighborhoods	Justice, U.S. Department of	16.609	163,888
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	143,345
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	133,461
	Statewide Automated Victim Information Notification (SAVIN) Program	Justice, U.S. Department of	16.740	37,500
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Justice, U.S. Department of	16.801	150,787
ARRA	Recovery Act - State Victim Compensation Formula Grant Program	Justice, U.S. Department of	16.802	15,663
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	561,886
	Total Commission on Law Enforcement and Criminal Justice			$ 7,953,195

^ - Amounts taken from financial status reports.
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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, 2010

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2010 Expenditures
	Library Commission				
	Grants to States	National Foundation on the Arts and Humanities	45.310		$ 1,307,327
	Total Library Commission				$ 1,307,327
	Military Department				
	Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555		$ 270,704
	Military Construction, National Guard	Defense, U.S. Department of	12.400	*	18,598,419
ARRA	ARRA - Military Construction, National Guard	Defense, U.S. Department of	12.400	*	1,169,437
	Total Military Construction, National Guard				19,767,856
	National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	*	13,461,953
ARRA	ARRA - National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	*	1,974,615
	Total National Guard Military Operations and Maintenance (O&M) Projects				15,436,568
	National Guard Civilian Youth Opportunities	Defense, U.S. Department of	12.404		283,805
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703		190,285
	Special Projects	Homeland Security, U.S. Department of	97.001		177,273
	Homeland Security Cluster:				
	State Domestic Preparedness Equipment Support Program	Homeland Security, U.S. Department of	97.004		(1,555)
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		14,454,431
	Total Homeland Security Cluster				14,452,876
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036		11,210,721
	Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		1,472,238
	Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		3,355,957
	Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078		589,561
	Total Military Department				$ 67,207,844
	Motor Vehicles, Department of				
	National Motor Carrier Safety	Transportation, U.S. Department of	20.218		$ 36,743
	Highway Safety Cluster:				
	State and Community Highway Safety	Transportation, U.S. Department of	20.600		2,131
	Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602		698
	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605		99,334
	Total Highway Safety Cluster				102,163

^ - Amounts taken from financial status reports.
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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, 2010

State Agency/Program Title		Federal Agency	CFDA or Grant #		2010 Expenditures
Motor Vehicles, Department of, Continued:					
	Homeland Security Cluster:				
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		153,807
Total Department of Motor Vehicles					$ 292,713
Natural Resources, Department of					
	Soil and Water Conservation	Agriculture, U.S. Department of	10.902		$ 9,279
	U.S. Geological Survey_ Research and Data Collection	Interior, U.S. Department of	15.808		15,479
	Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023		131,815
	Flood Mitigation Assistance	Homeland Security, U.S. Department of	97.029		5,848
	National Dam Safety Program	Homeland Security, U.S. Department of	97.041		102,229
	Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045		120,910
	Map Modernization Management Support	Homeland Security, U.S. Department of	97.070		73,714
Total Department of Natural Resources					$ 459,274
Oil and Gas Conservation Commission					
	State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433		$ 93,987
Total Oil and Gas Conservation Commission					$ 93,987
Postsecondary Education, Coordinating Commission for					
	Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069		$ 512,379
	Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	*	439,453
	College Access Challenge Grant Program	Education, U.S. Department of	84.378		261,160
Total Coordinating Commission for Postsecondary Education					$ 1,212,992
Public Service Commission					
ARRA	State Broadband Data and Development Grant Program Recovery	Commerce, U.S. Department of	11.558	*	$ 1,238,344
	E-911 Grant Program	Transportation, U.S. Department of	20.615		100,759
Total Public Service Commission					$ 1,339,103
Roads, Department of					
	Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727		$ 94,722
	Highway Planning and Construction Cluster:				
	Highway Planning and Construction	Transportation, U.S. Department of	20.205	*	176,003,139
ARRA	Highway Planning and Construction Recovery	Transportation, U.S. Department of	20.205	*	109,226,246
	Total Highway Planning and Construction Cluster				285,229,385

^ - 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 #	2010 Expenditures
	Roads, Department of, Continued:			
	Metropolitan Transportation Planning	Transportation, U.S. Department of	20.505	311,429
	Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	3,387,221
ARRA	ARRA Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	1,514,135
	Total Formula Grants for Other Than Urbanized Areas			4,901,356
	Transit Services Programs Cluster:			
	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	715,298
	Highway Safety Cluster:			
	State and Community Highway Safety	Transportation, U.S. Department of	20.600	2,879,058
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601	1,110,916
	Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602	237,222
	State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	468,313
	Incentive Grant Program to Prohibit Racial Profiling	Transportation, U.S. Department of	20.611	69,342
	Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	186,250
	Total Highway Safety Cluster			4,951,101
	Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-763	57,484
	Total Department of Roads			$ 296,260,775
	Secretary of State			
	Help America Vote Act Requirements Payments	Election Assistance Commission	90.401	$ 1,191,198
	Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617	99,834
	Total Secretary of State			$ 1,291,032
	State Patrol			
	Missing Children's Assistance	Justice, U.S. Department of	16.543	$ 323,028
	National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	352,246
	National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	395,517
	Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	211,508
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	16,258
ARRA	ARRA - Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	13,313
	Total Violence Against Women Formula Grants			29,571

^ - 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, 2010

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2010 Expenditures
	State Patrol, Continued:			
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	302,628
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	407,945
	Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750	166,306
ARRA	Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	Justice, U.S. Department of	16.800	230,626
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	199,910
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	56,512
	National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,893,395
	Fuel Tax Evasion-Intergovernmental Enforcement Effort	Transportation, U.S. Department of	20.240	22,215
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	1,369
	Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078	200,000
	High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z	868,594
	Total State Patrol			$ 6,661,370
	Supreme Court			
	Promotion of the Humanities_Public Programs	National Endowment for the Humanities	45.164	$ 2,084
	State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	480,013
	Total Supreme Court			$ 482,097
	Veterans' Affairs, Department of			
	State Cemetery Grants	Veterans Affairs, U.S. Department of	64.203	$ 3,077,437
	Total Department of Veterans' Affairs			$ 3,077,437
	Worker's Compensation Court			
	Compensation and Working Conditions	Labor, U.S. Department of	17.005	$ 47,388
	Total Worker's Compensation Court			$ 47,388
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,254,746,614

^ - 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, 2010.

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. Because the Schedule presents only a selected portion of the operations of the State, it is not intended to and does not present the financial position, changes in net assets or cash flows of the State. 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 and Public Health Emergency Preparedness 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, 2010, the inventory balance of nonmonetary assistance for Food Commodities at the State level was $4,033,848.

(4) Commodity and Vaccine Programs

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

CFDA #	Program	Commodities
10.555	National School Lunch Program	$ 8,845,795
10.558	Child and Adult Care Food Program	250,314
10.559	Summer Food Service Program for Children	69,252
10.565	Commodity Supplemental Food Program	2,808,563

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 (CFDA No. 93.268 and 93.712) included expenditures of $17,334,286 of nonmonetary Federal assistance in the form of vaccines. The Public Health Emergency Preparedness Grant (CFDA No. 93.069) included expenditures of $6,841,155 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 No. 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 portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures of SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

(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 2010 was valued at the historical cost of $6,536,182 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 does not impose continuing compliance requirements other than repayment of the loans.

CFDA #	Program	Outstanding Balance at June 30, 2010
66.458	Capitalization Grants for Clean Water State Revolving Funds	$ 160,009,843
66.468	Capitalization Grants for Drinking Water State Revolving Funds	88,068,827
84.176	Paul Douglas Teacher Scholarship Loan Program	21,048

New loans provided from these programs totaling $28,853,542 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, 2010, which collectively comprise the State of Nebraska's basic financial statements and have issued our report thereon dated December 28, 2010. 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. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting: findings #10-25-01 and #10-65-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 responses and, accordingly, we express no opinion on the responses.

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, 2010	Assistant Deputy Auditor

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 State of Nebraska's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. 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, 2010. 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

We were unable to obtain sufficient documentation supporting the compliance of the State of Nebraska with the major Federal program 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	WIA Cluster	Period of Availability/ Earmarking	10-23-08
10.568 and 10.569	Emergency Food Assistance Cluster	Allowability/Cash Management/Eligibility	10-25-08
93.044 and 93.045	Special Programs for the Aging – Title III, Part B and Part C	Maintenance of Effort/ Reporting	10-25-12

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 #**
17.258, 17.259, and 17.260	WIA Cluster	Reporting	10-23-07
93.044, 93.045, 93.053, 93.705 and 93.707	Aging Cluster	Allowability/ Subrecipient Monitoring	10-25-11
81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring	10-71-01

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 #
10.555 and 10.559	National School Lunch Program, Summer Food Service Program for Children	Special Tests and Provisions	10-25-04
10.568 and 10.569	Emergency Food Assistance Cluster	Suspension and Debarment/Subrecipient Monitoring/Special Tests and Provisions	10-25-09
93.044, 93.045, 93.053, 93.705 and 93.707	Aging Cluster	Cash Management	10-25-13

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State of Nebraska did not comply in all material respects, with the requirements applicable to the programs identified in the preceding paragraph that could have a direct and material effect on each of its other major Federal programs for the year ended June 30, 2010. Also, in our opinion, except for the noncompliance described in the second preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Nebraska's compliance with the requirements described in the third preceding paragraph, the State of Nebraska complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs for the year ended June 30, 2010.

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 #
10.555 and 10.553	National School Lunch Program, School Breakfast Program	Eligibility	10-13-01
84.181 and 84.393	Early Intervention Services (IDEA) Cluster	Allowability	10-13-02
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	Subrecipient Monitoring	10-13-03

CFDA #	Federal Program	Compliance Requirement	Finding #
17.258, 17.259, 17.260, and 17.225	WIA Cluster and Unemployment Insurance	Allowable Costs/Cost Principles	10-23-01
17.258, 17.259 and 17.260	WIA Cluster	Allowable Costs/Cost Principles	10-23-02
17.258, 17.259 and 17.260	WIA Cluster	Allowability/ Subrecipient Monitoring	10-23-03
17.258, 17.259 and 17.260	WIA Cluster	Allowability/Eligibility	10-23-04
17.259	WIA Youth Activities	Eligibility/Earmarking	10-23-05
17.258, 17.259 and 17.260	WIA Cluster	Cash Management	10-23-06
17.225	Unemployment Insurance	Cash Management	10-23-10
17.225	Unemployment Insurance	Reporting	10-23-11
17.225	Unemployment Insurance	Reporting	10-23-12
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Allowable Costs/Cost Principles	10-25-02
93.558	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	10-25-03
10.555 and 10.559	National School Lunch Program and Summer Food Service Program for Children	Reporting	10-25-05
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Suspension and Debarment	10-25-06
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Period of Availability	10-25-07
10.569	Emergency Food Assistance Program (Food Commodities)	Reporting	10-25-10

CFDA #	Federal Program	Compliance Requirement	Finding #
93.044, 93.045, 93.053, 93.705 and 93.707	Aging Cluster	Subrecipient Monitoring	10-25-14
93.268	Immunization Grants	Allowability	10-25-15
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	Subrecipient Monitoring	10-25-18
93.558	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles/Eligibility	10-25-19
93.558	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	10-25-20
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	10-25-21
93.563	Child Support Enforcement	Reporting	10-25-22
93.563	Child Support Enforcement	Allowable Costs/Cost Principles	10-25-23
93.569 and 93.710	CSBG Cluster	Cash Management/ Special Tests and Provisions	10-25-24
93.569 and 93.710	CSBG Cluster	Allowability/ Subrecipient Monitoring	10-25-25
93.710	ARRA – Community Services Block Grant	Special Tests and Provisions	10-25-27
93.575, 93.596 and 93.713	CCDF Cluster	Allowability	10-25-28
93.658	Foster Care Title IV-E	Allowability/Eligibility	10-25-29
93.658	Foster Care Title IV-E	Allowable Costs/Cost Principles	10-25-30
93.658	Foster Care Title IV-E	Allowable Costs/Cost Principles	10-25-31

CFDA #	Federal Program	Compliance Requirement	Finding #
93.667	Social Services Block Grant	Allowability	10-25-32
93.667	Social Services Block Grant	Suspension and Debarment	10-25-33
93.778	Medical Assistance Program	Allowable Costs/Cost Principles/Subrecipient Monitoring	10-25-34
93.778	Medical Assistance Program	Matching/Period of Availability	10-25-35
93.778	Medical Assistance Program	Allowable Costs/Cost Principles	10-25-36
93.778	Medical Assistance Program	Allowability	10-25-37
93.778	Medical Assistance Program	Special Tests and Provisions	10-25-39
93.778	Medical Assistance Program	Suspension and Debarment	10-25-40
93.778	Medical Assistance Program	Eligibility	10-25-41
93.778	Medical Assistance Program	Allowable Costs/Cost Principles/Eligibility	10-25-42
93.778	Medical Assistance Program	Special Tests and Provisions	10-25-43
93.778	Medical Assistance Program	Special Tests and Provisions	10-25-44
20.205	Highway Planning and Construction	Allowable Costs/Cost Principles	10-27-01
20.205	Highway Planning and Construction	Subrecipient Monitoring	10-27-02
20.205	Highway Planning and Construction	Subrecipient Monitoring	10-27-03
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Cash Management	10-31-01

CFDA #	Federal Program	Compliance Requirement	Finding #
12.400 & 12.401	Military Construction, National Guard and National Guard Military Operations and Maintenance (O&M) Projects	Reporting	10-31-02
15.605 & 15.611	Fish and Wildlife Cluster	Matching/Reporting	10-33-01
15.605 & 15.611	Fish and Wildlife Cluster	Suspension and Debarment	10-33-02
81.042	Weatherization Assistance for Low-Income Persons	Eligibility/Subrecipient Monitoring	10-71-02
81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring	10-71-03
81.042	Weatherization Assistance for Low-Income Persons	Earmarking	10-71-04
81.042	Weatherization Assistance for Low-Income Persons	Reporting	10-71-05
14.255	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Subrecipient Monitoring	10-72-01
66.040	State Clean Diesel Grant Program	Allowable Costs/Cost Principles	10-84-01
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Matching	10-84-08

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #10-14-01, #10-23-07, #10-23-08, #10-25-04, #10-25-08, #10-25-09, #10-25-11, #10-25-12, #10-25-13, and #10-71-01 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #10-13-02, #10-13-03, #10-23-01, #10-23-03, #10-23-09, #10-23-10, #10-23-11, #10-23-12, #10-25-05, #10-25-10, #10-25-14, #10-25-15, #10-25-16, #10-25-17, #10-25-19, #10-25-21, #10-25-22, #10-25-24, #10-25-25, #10-25-26, #10-25-28, #10-25-30, #10-25-31, #10-25-32, #10-25-33, #10-25-34, #10-25-37, #10-25-38, #10-25-39, #10-27-03, #10-33-01, #10-33-02, #10-65-02, #10-84-01, #10-84-02, #10-84-03, #10-84-04, #10-84-05, #10-84-06, and #10-84-07 to be significant deficiencies.

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 responses and, accordingly, we express no opinion on the responses.

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 25, 2011

Pat Reding, CPA, CFE
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

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 #10-25-01, and #10-65-01. 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 #10-13-02, #10-13-03, #10-23-01, #10-23-03, #10-23-09, #10-23-10, #10-23-11, #10-23-12, #10-25-05, #10-25-10, #10-25-14, #10-25-15, #10-25-16, #10-25-17, #10-25-19, #10-25-21, #10-25-22, #10-25-24, #10-25-25, #10-25-26, #10-25-28, #10-25-30, #10-25-31, #10-25-32, #10-25-33, #10-25-34, #10-25-37, #10-25-38, #10-25-39, #10-27-03, #10-33-01, #10-33-02, #10-65-02, #10-84-01, #10-84-02, #10-84-03, #10-84-04, #10-84-05, #10-84-06, and #10-84-07.

   We consider items # items #10-14-01, #10-23-07, #10-23-08, #10-25-04, #10-25-08, #10-25-09, #10-25-11, #10-25-12, #10-25-13, and #10-71-01 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Unqualified, Qualified, Scope Qualification, 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	10.553, 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	11.558	State Broadband Data and Development Grant Program

CFDA	12.400	Military Construction, National Guard
CFDA	12.401	National Guard Military Operations and Maintenance (O&M) Projects
CFDA	14.228 and 14.255	CDBG – State-Administered Small Cities Program Cluster
CFDA	15.605 and 15.611	Fish & Wildlife Cluster
CFDA	17.225	Unemployment Insurance
CFDA	17.258, 17.259, and 17.260	WIA Cluster
CFDA	20.205 and 20.219	Highway Planning and Construction Cluster
CFDA	20.106	Airport Improvement Program
CFDA	66.040	State Clean Diesel Grant Program
CFDA	66.458	Capitalization Grants for Clean Water State Revolving Funds
CFDA	66.468	Capitalization Grants for Drinking Water State Revolving Funds
CFDA	81.042	Weatherization Assistance for Low-Income Persons
CFDA	84.010 and 84.389	Tile I, Part A Cluster
CFDA	84.027, 84.173, 84.391, and 84.392	Special Education Cluster (IDEA)
CFDA	84.181 and 84.393	Early Intervention Services (IDEA) Cluster
CFDA	84.318 and 84.386	Educational Technology State Grants Cluster
CFDA	84.367	Improving Teacher Quality State Grants

CFDA	84.394 and 84.397	State Fiscal Stabilization Fund Cluster
CFDA	93.044, 93.045, 93.053, 93.705, and 93.707	Aging Cluster
CFDA	93.069	Public Health Emergency Preparedness
CFDA	93.268 and 93.712	Immunization Cluster
CFDA	93.558	Temporary Assistance for Needy Families
CFDA	93.563	Child Support Enforcement
CFDA	93.569 and 93.710	CSBG Cluster
CFDA	93.575, 93.596, and 93.713	CCDF Cluster
CFDA	93.658	Foster Care – Title IV-E
CFDA	93.667	Social Services Block Grant
CFDA	93.775, 93.777, and 93.778	Medicaid Cluster

h) Dollar threshold used to distinguish between Type A and Type B programs: $9,764,240

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 #10-25-01

Accrual Information

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the Comprehensive Annual Financial Report (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 2010 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Agency's estimated Medicaid Drug Rebates accounts receivable accruals were understated by $11,182,527. The understatement was primarily due to the receivable not properly reflecting the current year collections of calendar year 2010 billed amounts.

- The Agency reported $3,860,610 in Medicare Part B Supplementary Medical Insurance Billings payables that were not prior year obligations, as the June 2010 billing was for July premiums.

- The Agency over-reported NFOCUS payables due to the inclusion of rejected and cancelled claims and the use of incorrect match percentages. The payable was overstated by $2,757,638.

- The Agency's calculation of Third Party Liability (TPL) accounts receivable did not include $2,640,512 in off-line balances and included an account for $129,154 that had been settled and was no longer collectible. The net effect was an understatement of the receivable by $2,511,358.

- The Agency reported $932,850 in Disproportionate Share Hospitals (DSH) payables that were not prior year obligations. Additionally, the Agency reported the State's share of the DSH payable of $370,282 under the incorrect CAFR fund.

- The Agency under-reported NFOCUS receivables due to not including Medicaid receivable balances of $299,032, and including an account for $44,543 twice. The net effect was the receivable was understated by $254,489.

- The Agency's calculation of Medicaid Estate Recovery receivable did not include amounts for four cases with Payment Plan balances or outstanding Probate balances, resulting in a combined understatement of the receivable of $161,490.

- Also, other issues were noted for allowance for uncollectable amounts calculations for the Agency's receivables as follows:

  - The assumptions used by the Agency to calculate the allowance for uncollectable amounts for the Patient and County Billings' receivable was not adequately documented.
  - The calculation of the allowance for uncollectible amounts for NFOCUS receivables did not appear reasonable as the Agency used the amounts to be written off in fiscal year 2011 and did not consider the collectability of other NFOCUS receivables based on aging of amounts due.
  - The calculation of the allowance for uncollectible amounts for Medicaid Drug Rebate receivables was not based on sampling of actual receivables and was not supported by historical information.
  - There was no historical data or documentation available to support allowance for uncollectible amounts for 2 of 3 percentages used for the Medicaid Estate Recovery receivable.

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 statements 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. This would include ensuring allowances for uncollectable amounts for the Agency's receivables are reasonable and adequately documented.

Management Response: The Agency has instructions 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 #10-65-01

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 an understatement of $11,182,527 to an overstatement of $3,860,610 were noted in amounts reported by the Department of Health and Human Services.

- Errors were also noted on information prepared by State Accounting to support entries made to the financial statements. The errors ranged from $143,555 to $51,680,805.

- State Accounting's worksheet used to accumulate vacation, sick, compensatory time hours, and pay rates for all State employees and then calculate compensated absences accruals, included a pay rate error for one employee tested. The employee's Agency incorrectly entered the employee's address book number as their pay rate in EnterpriseOne. The rate was changed by the employee's Agency; however, the report used by State Accounting used the incorrect rate. As a result, vacation accrual was overstated by $31,156,287, sick accrual was understated by $11,441, and compensatory time accrual was overstated by $43,431.

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.

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 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 APA and the agencies regarding this issue. State Accounting continues to meet with appropriate agencies to improve reporting methods. Significant progress has been made in accrual reporting over the years, and State Accounting will continue to improve this area.

- State Accounting has procedures to review work papers before they are given to the APA. 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. Several of the errors noted, including the compensated absences accrual and the largest errors noted, would have been discovered by State Accounting while preparing financial statements. State Accounting has modified working papers and will review timing of providing work papers to the APA to help eliminate many of the errors noted.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

Finding #10-13-01

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

Grant Number & Year: #2009IN109943, FFY 2009; #2010IN109943, FFY 2010

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 210.10(n) (January 1, 2009) 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…" 7 CFR § 210.2 (January 1, 2009) states, "Afterschool care program means a program providing organized child care services to enrolled school-aged 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, 2009) states, "The State Agency…shall determine whether a school is in severe need…" 7 CFR § 220.13(b) (January 1, 2009) states, "Each State agency shall maintain Program records as necessary to support the reimbursement payments made to School Food Authorities under § 220.9…"

Condition: Documentation of the verification of the After School Snack and Severe Need Breakfast (SNB) eligibility was not maintained prior to March 2010 for all 5 School Food Authorities (SFAs) tested for After School Snack reimbursements. For 14 of 16 payees tested for SNB reimbursement rates, the Agency did not have adequate documentation to support that recipient SFAs were eligible.

Questioned Costs: $2,836, After School Snacks; $6,273, Severe Need Breakfast

Context: Per discussion with the Agency, staff interviewed SFAs via telephone to obtain sufficient information about the program to determine if all requirements are met. The Coordinated Review Effort (CRE) review form did 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 SNB assistance, 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) must have been served free or at a reduced price.

All SFAs participating in the School Breakfast Program are subject to a CRE once every five years. During a CRE, Agency staff review SNB eligibility for the individual sites qualifying by requesting the SFA provide site records documenting the 40% status. However, no written documentation of the verification was noted on the CREs reviewed during testing.

Per review of the CREs conducted during March 2010 through June 2010, it appears SNB eligibility verification and After School Snack Program reviews are being documented on the CREs. The Auditor of Public Accounts (APA) observed a copy of the updated CRE which included questions relevant to SNB and After School Snack Program.

We tested 43 Child Nutrition payments to SFAs; of the 43, 5 included After School Snack and 16 included SNB. The total Federal sample tested was $324,803 and the payments for fiscal year 2010 were $67,087,025.

Federal payments for After School Snack assistance errors noted were $2,836. Based on the sample tested, the case error rate was 100% (5/5). The dollar error rate for the sample was 0.87% ($2,836/$324,803) which estimates the potential dollars at risk for fiscal year 2010 to be $583,657 (error rate multiplied by population).

Federal payments for SNB assistance errors noted were $6,273. Based on the sample tested, the case error rate was 87.5% (14/16). The dollar error rate for the sample was 1.93% ($6,273/$324,803) which estimates the potential dollars at risk for fiscal year 2010 to be $1,294,780 (error rate multiplied by population).

A similar finding was noted in the prior audit.

Cause: The Agency implemented corrective action after the finding was reported in the prior audit.

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:** As was indicated in the Exit Conference the Agency has taken corrective actions after this finding was reported in the 2009 Single Audit.
>
> **Corrective Action Plan:** The Agency will continue to ensure Coordinated Review Effort (CRE) documentation for eligibility and compliance with Federal regulations is maintained in the School Food Authorities files.

Contact: Russ Inbody

Anticipated Completion Date: Completed and ongoing

<u>Finding #10-13-02</u>

Program: CFDA 84.181 and 84.393 Early Intervention Services (IDEA) Cluster – Allowability

Grant Number & Year: #H181A070033, FFY 2008, FFY 2009, FFY 2010; #H393A090033A, FFY 2010

Federal Grantor Agency: U.S. Department of Education

Criteria: OMB Circular A-87, Attachment A § C(1) states, "To be allowable under Federal awards, costs must meet the following general criteria…(j) Be adequately documented." 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 that could have a material effect on each of its Federal programs." A good internal control plan requires policies or procedures to ensure adequate documentation is obtained and reviewed to ensure all aid expenditures are allowable and in accordance with Federal requirements.

Condition: The Agency did not have adequate supporting documentation for 9 of 9 aid expenditures tested for the Early Intervention Program.

Questioned Costs: Unknown

Context: A total of 25 expenditures were tested for allowability compliance, 9 of which were for aid to subrecipients. The 9 aid expenditures to subrecipients tested totaled $28,012 and all aid expenditures to subrecipients totaled $1,992,525 for the fiscal year ended June 30, 2010. All aid expenditures tested had summary level documentation such as subrecipient accounting reports, spreadsheets, or similar documentation; but did not have documentation such as approved purchase orders, vendor invoices, etc. to support the expenditures were for the Early Intervention Program and in accordance with Federal requirements.

Cause: The Agency felt they were obtaining adequate supporting documentation to determine allowability of costs.

Effect: There is an increased risk of making payments for unallowable costs when adequate supporting documentation is not obtained for subrecipient aid expenditures.

Recommendation: We recommend the Agency implement policies or procedures to ensure adequate supporting documentation for aid expenditures to subrecipients is obtained.

Management Response: The finding indicated that the Agency did not have adequate supporting documentation to determine allowable cost for the program.

Corrective Action Plan: The Agency is in the process of reviewing our procedures and is making changes to our procedures to ensure that we have adequate detailed supporting documentation for aid expenditures.

Contact: Russ Inbody

Anticipated Completion Date: This will be an ongoing process.

Finding #10-13-03

Program: CFDA 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act – Subrecipient Monitoring

Grant Number & Year: #S394A090028, FFY 2009

Federal Grantor Agency: U.S. Department of Education

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." 2 CFR § 176.210(b) (April 23, 2009) states, "…recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133." 2 CFR § 176.210(d) (April 23, 2009) states, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above." A good internal control plan requires adequate review of the grant award notifications (GANs) to subrecipients to ensure the correct CFDA number is identified.

Condition: For 25 of 25 subrecipient contracts tested, the GAN did not identify the correct CFDA number. For 25 of 25 award documents or agreements tested to subrecipients, the Agency did not contain a requirement to provide appropriate identification in the subrecipient's SEFA and SF-SAC.

Questioned Costs: Unknown

Context: The wrong CFDA number was entered into the Grants Management System (GMS). The GANs tested identified CFDA 84.298 instead of CFDA 84.394. The Agency was unable to show where they had communicated to their subrecipients that they were to separately identify the expenditures for ARRA on their SEFA and SF-SAC. The Agency later communicated this to their subrecipients by including it in their August 2010 newsletter.

Cause: Inadequate review of subrecipient GANs.

Effect: Increased risk for errors at the subrecipient level and Federal noncompliance.

Recommendation: We recommend the Agency adequately review the GANs to ensure the correct CFDA number is identified and all required information is communicated to their subrecipients.

> **Management Response:** The incorrect CFDA number was entered into the Grant Management System (GMS). When notified by the APA of the error the Agency, on January 28, 2011, made corrections in the GMS by updating and making available new grant award documents. The APA was unable to document that the Agency communicated that subrecipients were to separately identify the expenditures for ARRA on their SEFA and SF-SAC. In an August 2010 newsletter NDE did communicate this requirement to the subrecipients.
>
> **Corrective Action Plan:** The Agency will review our procedures to ensure the correct CFDA number is identified and all required information is provided to subrecipients.
>
> **Contact:** Russ Inbody
>
> **Anticipated Completion Date:** Completed and ongoing

PUBLIC SERVICE COMMISSION

Finding #10-14-01

Program: CFDA 11.558 – ARRA State Broadband Data and Development Grant – Suspension and Debarment

Grant Number & Year: #31-50-M09058, FFY 2010

Federal Grantor Agency: U. S. Department of Commerce

Criteria: OMB Circular A-102, Attachment (1)(d) states, "Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule."

OMB Circular A-133 § 300 states, "An 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 that could have a material effect on each of its Federal programs." A good internal control plan requires compliance control procedures be documented.

Condition: The Agency did not verify vendors receiving more than $25,000 and all subrecipients were not suspended or debarred from receiving Federal funds by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration.

Questioned Costs: None

Context: The Agency has an agreement to pay the University of Nebraska $420,085 from the grant for broadband planning activities. The Agency has also awarded Apex Covantage, LLC a $1,376,716 contract for broadband mapping activities. The total grant awarded to the Agency was $2,096,859. APA reviewed EPLS and noted neither entity was on the list.

Cause: The Agency thought the State Purchasing Bureau performed this procedure.

Effect: The Agency could contract with suspended or debarred contractors, increasing the risk for loss or abuse to occur.

Recommendation: We recommend the Agency implement procedures to ensure a documented review of the EPLS is performed prior to awarding contracts greater than $25,000 for any grant with Federal funds, or collect a certification form or add a clause to the contract.

Management Response: The Commission has addressed the issue raised.

Corrective Action Plan: The Commission has developed the following procedure as the corrective action to ensure that a documented review of the Excluded Parties List System (EPLS) is performed prior to awarding any contracts involving Federal funds.

Any Agency personnel executing a contract greater than $25,000 for a grant using Federal funds, shall comply with one of the following options prior to executing a contract:

(1) Verify and document that the vendor has not been suspended or debarred from receiving Federal funds by checking the EPLS, maintained by the General Services Administration;
(2) Collect a statement from the vendor certifying that they are not listed in the EPLS, maintained by the General Services Administration; or
(3) Add a clause to the contract for services which includes a statement that the vendor is not included in the EPLS as having been excluded from receiving contracts involving Federal funds.

Contact: John Burvainis

Anticipated Completion Date: October 2010

DEPARTMENT OF LABOR

Finding #10-23-01

Program: CFDA 17.258, 17.259, 17.260 – Workforce Investment Act (WIA) and ARRA WIA 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, including WIA grant #AA-18655-09-55-A-31, FFY 2010; WIA ARRA grant #AA-17135-08-55-A-31, FFY 2009; UI grant #UI-19596-10-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-87, Attachment B, § 8(h)(4), states: "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . ." Section 8(h)(5)(b) requires that "[p]ersonnel activity reports or equivalent documentation must . . . account for the total activity for which each employee is compensated[.]" Per OMB Circular A-87, Attachment A, § C(3)(b): "All activities which benefit from the governmental unit's indirect cost . . . will receive an appropriate allocation of indirect costs." Section C(3)(c) provides also: "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), provides: "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. Finally, OMB Circular A-87, Attachment A, § C(3)(d), says: "Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E."

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 the employee benefit charge was incurred.

A good internal control plan requires the Agency to follow the indirect cost allocation policies and procedures outlined in its approved Cost Allocation Plan (CAP). 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 backup to exist for key functions performed by the Agency.

Condition: EnterpriseOne is the State's official accounting system and is used to record all State expenditures and revenues. The Agency enters all accounting transactions into EnterpriseOne 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 EnterpriseOne to allocate indirect costs per its CAP. During the fiscal year ended June 30, 2010, the Agency used 14 business units to collect indirect costs. Ten of these business units allocated costs using a variable monthly rate, while four of these business units allocated costs using a fixed indexed percentage. For the fiscal year ended June 30, 2010, the Auditor of Public Accounts (APA) selected one month and two allocating business units to recalculate allocations based on the Agency's allocation methodologies. While obtaining an understanding of the allocation process and recalculating indirect cost allocations, several compliance and control issues were noted. Additionally, the APA selected ten disbursement documents coded to allocating business units to test. Of these ten disbursement documents, eight were not charged or assigned to such cost objective in accordance with relative benefits received or were not allocated in accordance with the Agency's CAP. Our prior two audits also noted expenditures not in compliance with OMB Circular A-87.

Questioned Costs: Unknown

Context: When testing the April 2010 indirect cost allocations, we noted the following:

- The Agency does not have written policies and procedures concerning the allocation process.
- During the fiscal year, only one Agency employee knew how to perform allocations in the EnterpriseOne System. A backup did not exist to perform allocations in the absence of this individual.
- Prior to the accounting system upgrade on March 23, 2010, the individual responsible for running allocations could change template criteria without anyone being aware of it. Subsequent to March 23, 2010, changes to template criteria must be sent to the Department of Administrative Services (DAS) to be put into production. At the time of the upgrade, the Agency reviewed template criteria to ensure it agreed to previous template criteria; however, the Agency did not have procedures in place to ensure all source object accounts were included in the criteria. The Agency did not start reviewing source object account criteria for completeness until after the fiscal year.

- Business units for general overhead, facility, desktop, and WIA for the Greater Nebraska 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 neither mentions nor allows for this lag in re-allocating costs, using a different month's hours.

- Allocations involving general overhead and benefits costs were based on hours charged to various programs during the month; however, this hourly basis excluded overtime exempt hours, which were coded to the Agency's programs for salaried workers. April overtime exempt hours totaled 69 hours.

- When testing the April benefit allocation, the APA noted one subledger that did not include civil leave costs in the allocation amount. The total costs excluded from the allocations amounted to $346.

- Benefit costs were not allocated to all programs within one subledger. Programs not receiving a share of the subledger's benefits costs were Occupational Safety and Health Administration (OSHA) and Contractor's Resignation.

- The April benefit allocation included $537 of benefits coded to a subledger not set up to allocate costs; therefore, those costs were never allocated. This subledger should not have had benefits or any other salary costs coded to it.

- The Agency's calculation of fixed percentages for the allocation of desktop computer costs did not agree to the support provided. Specifically, the APA noted 17 computers in the Labor Market Information subledger and 1 computer in the Legal subledger, none of which should have been included in the percentage calculation. The APA also noted 8 extra hours included in the Office of Workforce Services subledger project percent basis, as well as the exclusion of 5 different project hours. It was also noted that all public computers at the Career Centers were coded to Employment Services (ES) despite being used by ES and WIA clients. Additionally, the APA noted inconsistencies in the underlying basis (i.e., salary, hours) and time period (i.e., quarter, month) used to calculate percentages to allocate computers to various projects within the Agency's subledgers. Also, the APA noted that the desktop fixed percentages were not changed when some of the underlying subledger allocation percentages were updated, and not all projects were included when determining percentages. Furthermore, the Agency has three templates for desktop allocations. These three templates were for allocations of desktop personnel services, personnel benefits, and non-personnel services. When reviewing these three templates, the APA noted discrepancies in the fixed percentages used to allocate costs to project grant years.

- The Reed Act – Job Link and ARRA WIA General – Youth business units were excluded from allocations of the general overhead, benefit, and termination leave payout cost despite having hours coded to them.
- The Desktop Fee, Child Support Intercept, Exchange Reimbursables, ARRA Facility Program Project, and ARRA Wagner Peyser Reemployment business units did not have termination leave payout costs allocated to them despite having hours coded to them.
- The Skills Shed Analysis, Child Support Intercept, ARRA Wagner Peyser, ARRA Facility Program Project, ARRA High Growth Green Jobs, ARRA Tri-County Adult, ARRA Tri-County Dislocated Worker, ARRA Greater Nebraska Youth In School, ARRA Greater Nebraska Dislocated Worker, and ARRA Wagner Peyser Reemployment business units did not have general overhead costs allocated to them despite having hours coded to them.

The APA calculated the following over and (under) allocation of indirect costs for April 2010 by CFDA based on the problems noted above:

CFDA	APA Allocated Amount	EnterpriseOne Allocated Amount (JAs)	Variance Over/ Under Allocated To
10.561	$ 3,918	$ 4,117	$ 199
17.002	9,407	9,859	452
17.207	77,774	70,765	(7,009)
17.225	152,605	158,452	5,847
17.245	2,690	2,803	113
17.258	17,437	17,635	198
17.259	1,153	1,986	833
17.260	8,793	7,655	(1,138)
17.261	278	108	(170)
17.271	1,230	1,282	52
17.273	863	903	40
17.275	3,064	1,188	(1,876)
17.504	8,484	8,217	(267)
17.801	9,548	9,913	365
17.802	138	145	7
17.804	1,779	1,863	84
None - (Note 1)	22,956	23,947	991
Allocating - (Note 2)	21,497	21,893	396
Total	$ 343,614	$ 342,731	$ (883)

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 that both allocate costs out and accept cost allocations in. These costs will then be allocated out of the business unit when the following month's allocation is completed.

For the eight expenditures tested, which were not charged or assigned to such cost objectives in accordance with relative benefits received or allocated in accordance with the Agency's CAP, we noted the following:

- The Agency has several One-Stop Career Center locations throughout Nebraska. These Career Centers are used to administer multiple programs, such as WIA, ES, and UI. Charges relating to the use of the buildings are allocated to the multiple programs using a Rent, Utility, and Communication (RUC) calculation. Six of the eight expenditures were allocated using the RUC percentages. These RUCs are based on salary dollars for a quarter of the previous fiscal year. Salary dollars for these Career Centers excluded amounts coded to projects, such as Alien Labor Certification, Unemployment Insurance, or Work Opportunity Tax Credit, and Local Veterans' Employment Representative. Management excluded salary dollars for these projects, as the Career Centers normally do not handle these programs but will occasionally do work on demand related to them. The CAP does not specify that these hours should be excluded. Therefore, expenditures were not charged or assigned to cost objectives in accordance with relative benefits received. During the fiscal year, the quarter used was also changed from the second quarter of fiscal year 2009 to the fourth quarter of fiscal year 2009 in April 2010. The Agency's CAP does not adequately specify how facility expenses should be allocated. The Agency's CAP requires facility expenses for leased buildings to be allocated in accordance with the CAP of the memorandum of understanding (MOU) applicable to such leased facility; however, the MOU for these facilities does not state how expenses should be allocated to the Agency's programs. Likewise, the MOU makes no mention of the RUC. Total costs tested were $64.

- For one expenditure, paper purchased for the Columbus Career Center was not charged or assigned to cost objectives in accordance with relative benefits received. The entire purchase was coded to WIA; however, a note on the supply requisition states that the paper is for use by all offices, except administration, at the Columbus location. Per the Agency's CAP, office expenses that benefit the entire location should be allocated to the projects within a subledger based on the relative benefit received. Total costs tested were $208.

- For one expenditure, CAP did not adequately describe how indirect costs should be allocated. The method used by the Agency appeared reasonable; however, the Agency's CAP did not specify a basis or time period for how the allocation percentage should be determined. Total costs tested were $314.

Cause: The Agency is currently in the process of refining its allocation procedures and; therefore, does not have written policies and procedures concerning the allocation process nor does the Agency have a backup individual who knows how to run the allocations. Additionally, the programming for EnterpriseOne causes overtime exempt hours to be excluded.

Effect: Indirect costs were over allocated for some programs and under allocated for other programs. Additionally, noncompliance with regulations could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure costs are allocated in accordance with the approved CAP and Circular A-87. We further recommend the CAP be revised to include specific guidance regarding the basis (dollars, hours) and timeframe (previous month, quarter, etc.) that should be used to allocate costs. All revisions should be approved by the Federal awarding agency.

Management Response: Management agrees with the findings for the most part. Several of the findings are a limitation on the way the State of Nebraska Enterprise system allows items to be categorized. The fiscal year ended June 30, 2010, had several changes to the allocation process. Most were implemented in the late March to June timeframe. Allocations templates went from over a thousand to under 100 lines of entry. However due to the time intensive programming of these allocations, not all review procedures were documented. However a systematic review was performed with the Controller’s involvement to ensure accuracy, which had not been accomplished previously in the area of the Agency’s variable allocation. There were no changes to the allocations for indexed. The RUC’s which were indirect also went through a review and many of those months were corrected by the budget manager. The Agency did and does have several persons who can run the allocation entries. The Agency did not have documentation for the 3 month period prior to the year end because all entries had to be redone following July 1st. However the Agency met with the auditors and they documented the procedures the Agency went through. All proofs for the indirect allocations were performed in the latter half of the year. RUC’s and various other indirect costs such as desktop which were a fixed allocation were unable to be reviewed prior to year end. The Agency is unable to mandate changes to how the costs are allocated for an example exempt employees hours.

Corrective Action Plan: Management will develop written procedures going forward and will document all changes in the RUC process throughout the year.

Contact: Debbie Kay Ward

Anticipated Completion Date: September 2011

Finding #10-23-02

Program: CFDA 17.258, 17.259, and 17.260 – Workforce Investment Act (WIA) – Allowable Costs/Cost Principles

Grant Number & Year: All open WIA grants, including #AA-18655-09-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-87, Attachment B, § 8(h)(5)(a), requires that "[p]ersonnel activity reports or equivalent documentation" reflect "an after the fact distribution of the actual activity of each employee[.]" Additionally, § 8(h)(5)(e) states: "Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

Condition: Three of 15 employee timesheets tested, did not appear to reflect an after-the-fact distribution of the actual activity of the employee.

Questioned Costs: Unknown

Context: We noted the following:

- One employee recorded two hours to WIA-Adult, two hours to WIA-Youth, and four hours to WIA-Dislocated Worker for every day of the pay period tested.
- One employee recorded six hours to WIA-Tri-County and two hours to WIA-Tri-County Dislocated Worker for every day of the pay period tested.
- One employee recorded seven hours to Wagner Peyser and one hour to Greater Nebraska allocating business unit for every day of the pay period tested.

For all three employees, the APA obtained and reviewed the two timesheets prior to and the two timesheets subsequent to the pay period tested. These additional four timesheets showed the employees coding the exact same time to the Agency's programs. It seems unlikely an employee working on multiple programs would have the same hours each day for six weeks. It appeared time coded was not a reflection of actual activity.

Cause: The Agency bases time charging on the ratio or percentage of clients the employee serves; however, the actual time spent on programs would vary by client and from day to day.

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.

Management Response: Management agrees to the findings and will observe employees timesheets to ensure they are reasonable and accurate.

Corrective Action Plan: Management will periodically spot check their employees' timesheets to ensure they are accurate. Questions will be sent to the supervisor to document the validness of the timesheets. The Agency will notify staff that they may estimate their time in advance, but must correct their entries upon submitting their time card on the last day of the pay period.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: June 2011

Finding #10-23-03

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

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-87 Attachment A § C (1)(c), (e), (i), and (j) requires that 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 the net of all applicable credits; and be adequately documented. OMB Circular A-133 § 400(d) states, in part: "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: The subrecipient was not properly notified of Federal award information. Additionally, for 2 of 2 City of Lincoln payment requests tested, there was not adequate documentation on file to support the expenditures.

Questioned Costs: Unknown

Context: Award information provided to the 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 2010 was $1,835,446.

The local area, Greater Lincoln, which is administered by the City of Lincoln, sends requests for payments to the Agency. These requests for payments do not include adequate supporting documentation for the amounts requested. The two requests for payments tested included one for $163,255 and one for ARRA funds of $99,562, totalling $262,817, and included requests for Adult, Dislocated Worker, Youth, Incentive, and Capacity. The City did send a drawdown worksheet for the two requests for payments after the APA requested support for these payments. Though not periodically submitted or requested by the Agency, these spreadsheets did match the requests for payments and also matched the Excel spreadsheets the City sent in with their monthly reports for reporting purposes. However, these were Excel spreadsheets and were not actual support from the City's accounting system, and the Agency did not review them or ensure they matched the requests for payments.

A similar finding was noted in the two prior audits.

Cause: Unknown

Effect: Without notification of award information, there is increased risk for errors at the subrecipient level. Without adequate supporting documentation on file for requests for payments, there is an increased risk of misuse of Federal Funds.

Recommendation: We recommend the Agency include all required information on subrecipient award documents. We further recommend the Agency ensure supporting documentation is submitted with the City of Lincoln's requests for payments to ensure the amount paid is accurate and appropriate.

> **Management Response:** The Department of Labor is a pass-through agency as to the City of Lincoln as stated, then the finding of a questioned cost for any expenditure made by the Nebraska Department of Labor is not supported by the provisions of OMB Circular A-133.
>
> The existence of "adequate supporting documentation for the amounts requested" is an auditing function and although OMB Circular A-87 under (C)(1)(c), (e), (i), and (j) requires costs charged to Federal programs to be adequately documented; how each local area provides the documentation is not dictated in either A-87 or OMB A-133. Management will take this under advisement.

Corrective Action Plan: The Agency has notified in writing the local area to provide source documentation by way of the general ledger transactions. We will continue to work with them and other local areas to obtain adequate documentation.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: July 2011

Finding #10-23-04

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

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: 20 CFR § 663.310 (April 1, 2009) states: "Training services may be made available to employed and unemployed adults and dislocated workers who: (a) Have met the eligibility requirements for intensive services, have received at least one intensive service under § 663.240, and have been determined to be unable to obtain or retain employment through such services; (b) After an interview, evaluation, or assessment, and case management, have been determined by a One-Stop operator or One-Stop partner, to be in need of training services and to have the skills and qualifications to successfully complete the selected training program; (c) Select a program of training services that is directly linked to the employment opportunities either in the local area or in another area to which the individual is willing to relocate; (d) Are unable to obtain grant assistance from other sources to pay the costs of such training, including such sources as Welfare-to-Work, State-funded training funds, Trade Adjustment Assistance and Federal Pell Grants established under title IV of the Higher Education Act of 1965, or require WIA assistance in addition to other sources of grant assistance, including Federal Pell Grants (provisions relating to fund coordination are found at § 663.320 and WIA section 134(d)(4)(B)); and (e) For individuals whose services are provided through the adult funding stream, are determined eligible in accordance with the State and local priority system, if any, in effect for adults under WIA section 134(d)(4)(E) and § 663.600. (WIA sec. 134(d)(4)(A))."

OMB Circular A-87, Attachment A, § A(3)(e)(1) states, in part: "OMB authorizes conditional exemption from OMB administrative requirements and cost principles circulars for certain Federal programs…." Section A(3)(e)(3) provides: "When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of OMB Circular A-87, and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not [to] be used for general expenses required to carry out other responsibilities of a State or its subrecipients."

Condition: For 14 of 19 adult and dislocated worker participants tested, eligibility could not be fully determined, as there was not adequate supporting documentation on file to determine if the individual received or did not receive a Pell Grant and whether WIA funds were needed in addition to other sources.

Questioned Costs: Unknown

Context: Of the 19 participants tested, 7 of these documented they were eligible for a Pell grant; however, there was not a documented coordination of the grant and the WIA funds showing WIA funds were needed in addition to the grant money. For 7 other individuals, their files stated they were not Pell grant recipients; however, there was no documentation on file supporting the denial of the Pell grant. Total payments tested for Adult participants were $3,489, and total payments tested for Dislocated Worker participants were $3,547. Total aid payments made to Adult participants were $1,623,835 for fiscal year 2010. Total aid payments made to Dislocated Worker participants were $2,173,261 for fiscal year 2010.

Cause: Unknown

Effect: Without adequate eligibility documentation, there is an increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency ensure supporting documentation is on file that a Pell grant was awarded or denied. Also, if a grant was awarded, the Agency should maintain a documented coordination of WIA funds and other grant sources to ensure WIA funds are needed.

> **Management response**: We concur that the receipt or denial of a Pell grant award should be documented in the WIA participant file if participant has applied for this financial aid.
>
> **Corrective Action**: The local WIA Service Provider Manual which serves as local area policy instruction will be updated to reflect that documentation of the receipt or denial of a Pell grant should be maintained in the participant file. This requirement will be communicated to the case managers through an email as well as future training sessions. During the annual client file review the administrative entity for the local area will check files of WIA participants who are enrolled in classroom training who indicate they have applied for the Pell grant and assure that the proper documentation is available. The State's Management Information System (NEworks) will track if clients receive Pell grant funds.

Contact: Joan Modrell

Anticipated Completion Date: June 2011

Finding #10-23-05

Program: CFDA 17.259 –WIA Youth Activities –Eligibility and Earmarking

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: 29 USC § 2801(25) provides, in part: "The term 'low-income individual' means an individual who — (A) receives, or is a member of a family that receives, cash payments under a Federal, State, or local income-based public assistance program; (B) received an income, or is a member of a family that received a total family income, for the 6-month period prior to application for the program involved (exclusive of unemployment compensation, child support payments, payments described in subparagraph (A), and old-age and survivors insurance benefits received under section 402 of title 42) that, in relation to family size, does not exceed the higher of – (i) the poverty line, for an equivalent period; or (ii) 70 percent of the lower living standard income level, for an equivalent period…."

20 CFR § 664.220 (April 1, 2009) states that "up to five percent of youth participants served by youth programs in a local area may be individuals who do not meet the income criterion for eligible youth, provided that they are within one or more of the following categories: (a) School dropout; (b) Basic skills deficient, as defined in WIA section 101(4); (c) Are one or more grade levels below the grade level appropriate to the individual's age; (d) Pregnant or parenting; (e) Possess one or more disabilities, including learning disabilities; (f) Homeless or runaway; (g) Offender; or (h) Face serious barriers to employment as identified by the Local Board. (WIA sec. 129(c)(5).)."

A good internal control plan requires reported information to be accurate.

Condition: Two of six youths tested for eligibility were not appropriately listed as low income or non-low income in the Tracking and Reporting Exchange System (TREX). Also, during testing of the youth earmark requirement, it was noted there are participant data errors in TREX.

Questioned Costs: Unknown

Context: TREX, a system used to accumulate WIA participant data, is also used to report participant data to the U.S. Department of Labor. A youth can be determined to be low income or non-low income, and this is then documented in TREX. Only 5% of the youths can be determined to be non-low income or windowed. Windowed youth are those youth who do not fall under the definition of disadvantaged low income. It is necessary to have the correct information recorded in TREX to ensure compliance. The information in TREX is also submitted to the Federal reporting agency, which depends upon the accuracy of that information. One of the youths tested was marked as low income; however, there was not adequate documentation to determine the youth was low income. There were a few paystubs on file; however, it could not be determined what the participant's income was for the prior six months. The second youth was marked as both low income and non-low income in TREX. She was a windowed youth, and there was adequate supporting documentation on file for this determination. However, when she was entered into TREX, she was checked as low income by marking the box "Individual w/ Disability," and she was also checked as non-low income by marking the box "Windowed Youth." Total aid payments to youths were $3,677,505 for the fiscal year.

During testing of earmark requirements that a minimum of 95% of eligible participants in Youth Activities meet the criteria of disadvantaged low income youth, it was noted there were participant data errors in TREX. There is a field in TREX that notes the participant as either disadvantaged low income youth or windowed youth. We noted 32 of 2,099 youth participants were not marked as disadvantaged low income or windowed in TREX. The Agency uses a Windowed Youth report from TREX, showing all youth participants who have been noted as windowed, to monitor the earmark requirement. This report may be inaccurate, as not all youth participants are marked as disadvantaged low income or windowed. Although there were participant data errors in TREX, it does appear the Agency met the youth earmark requirement.

Cause: Unknown

Effect: Without accurate information recorded in TREX, there is an increased risk of noncompliance and incorrect information, such as participant data, being submitted to the Federal reporting agency. There is also an increased risk of not meeting the youth earmark requirement.

Recommendation: We recommend the Agency develop procedures to ensure the youth participant data, including the low income status of youth participants, is adequately documented and entered into TREX accurately.

> **Management Response:** We concur that the State's Management Information System should track this earmark requirement.

Corrective Action Plan: Our new State Management Information System (NEworks) allows us to now track each youth individually to determine if they are a windowed youth (i.e. faces serious barrier to employment). This is determined during the eligibility process when case managers are **required** to answer yes/no to the question; Do they face a serious barrier to employment (5% windowed youth). This is a much improved process over the TREX system which was ambiguous concerning this issue. Additionally, the local service provider will be able to query the data base to extract the list of windowed youth.

Contact: Joan Modrell

Anticipated Completion Date: June 30, 2011

<u>Finding #10-23-06</u>

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

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 CFR § 205.11(b) (July 1, 2009), "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." 31 CFR § 205.33(a) (July 1, 2009) states, in part: "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." 29 CFR § 97.20(a) (July 1, 2009) provides, in part: "Fiscal control and accounting procedures of the State, as well as it 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 restriction and prohibitions of applicable statutes."

A good internal control plan requires cash draw amounts be adequately supported. A good internal control plan also requires procedures to ensure amounts are not drawn twice.

Condition: We noted for three of ten cash draws tested, the draw amount was not adequately supported by documentation of anticipated expenditures. For 1 of 10 draws, we noted the draw amount included activity that was not WIA related. For 1 of 10 cash draws tested, direct expenditure amounts reported by the Agency did not agree to direct expenditure amounts recorded in EnterpriseOne.

Questioned Costs: $16,345 known

Context: When testing Federal cash draws we noted the following:

- For 2 of 10 cash draws tested, the split of payroll expenditures between Adult, Youth, and Dislocated Worker was not adequately supported. Payroll amounts were drawn 33%, 33%, and 34% between the cluster CFDAs despite including Workfare and Supplemental Nutrition Assistance Program (SNAP) payroll costs. Additionally, funds were drawn under the WIA Cluster that were not for WIA activity but were instead for SNAP. Total questioned costs associated with these two draws were $12,467.

- For 1 of 10 cash draws tested, the non-ARRA dislocated worker draw incorrectly included ARRA expenditures, which were already included separately on the ARRA draw document. When determining the amount of non-ARRA WIA to draw, the Agency took the cash needed amount from the EnterpriseOne Cash Status Report. Cash needed amounts on this report are listed by fund and include both non-ARRA and ARRA funds. The Agency failed to exclude these ARRA funds when determining the amount of non-ARRA WIA funds to draw. The Agency drew $49,759 for WIA non-ARRA Dislocated Worker, of which they had adequate supporting documentation for $46,465, but did not have adequate supporting documentation for the remaining $3,294. Total questioned costs were $3,294.

- For 1 of 10 cash draws tested, the Agency's expenditure detail excluded a correcting journal entry. This journal entry was to move an expenditure from an ARRA dislocated worker grant to a non-ARRA Dislocated Worker grant. Because the amount had already been reported and drawn on a previous draw, the ARRA grant was overdrawn, and the non-ARRA grant was underdrawn for this amount. The total amount of this excluded journal entry was $584.

There were 63 cash draws during fiscal year 2010, totaling $6,616,698.

A similar finding was noted in the two prior audits.

Cause: The Agency did not take into consideration that the cash balance on the Cash Status Report amounts included both ARRA and non-ARRA funds.

Effect: Noncompliance with regulations could result in Federal sanctions.

Recommendation: We recommend the Agency ensure Federal draw amounts are fully supported.

Management Response: Management agrees with the findings.

Corrective Action Plan: Management will work with Treasury on a fiscally correct way of spreading any excess cash. Treasury will be in charge of this process and their work will be reviewed. Setting up current business units, allocating the estimates and reversing those allocation estimates will be completed.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: June 2011

Finding #10-23-07

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

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: 29 CFR § 97.20(a)(2) (July 1 2009) 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. EnterpriseOne is the official accounting system for the State of Nebraska and all expenditures are generated from EnterpriseOne.

29 CFR § 97.20(b)(2) (July 1, 2009) requires: "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." Additionally, § 97.20(b)(1) requires: "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." Section 97.20(b)(6) states: "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."

29 CFR § 97.40(a) (July 1, 2009) 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."

The U.S. Department of Labor's Training and Employment Guidance Letter (TEGL) No. 16-99, dated June 23, 2000, states financial reports are due "no later than 45 days after the end of each reporting quarter."

A good internal control plan requires procedures to reconcile the accounting system to the submitted reports, to ensure amounts paid to subrecipients agree to amounts reported by the subrecipients, and to ensure amounts reported are accurate and reviewed before submitted to the Federal Agency.

Condition: During testing of eleven 9130 reports, we noted:

- Five reports showed cumulative cash receipts and cumulative cash disbursements greater than the cumulative Federal accrual expenditures reported;
- Three reports had variances between the expenditures reported and supporting documentation;
- Seven reports had cumulative expenditures reported that did not agree to supporting documentation due to the business units not being tied to specific grant funds;
- Two reports included allocation percentages that were not supported by documentation;
- One report included reported expenditures that did not agree to the independent local area's supporting documentation;
- Five reports were not filed timely;
- One report did not have a documented supervisory review prior to submission;
- Seven reports included expenditures reported by the independent local area that were manually prepared and not reconciled to the independent local area's accounting records and did not have a documented review by Agency staff;
- Two reports included expenditures reported by the local areas that did not have a documented review by Agency staff; and
- The Agency did not have adequate procedures to ensure the cumulative amounts reported agreed to accounting records.

Questioned Costs: Unknown

Context: During the testing of 9130 quarterly financial reports, the following information was provided to us from Agency staff. The Agency indicated 9130 reports were prepared from information provided by the local areas that provide the

WIA services. One of the local areas was independent from the Agency and maintained its 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, EnterpriseOne.

Agency staff prepared a monthly expenditure report for each program (adult, dislocated worker, youth, etc.) for each grant year, for the other two local areas. The monthly reports were prepared from a GA-17 report, from the State accounting system. Business units were used to identify the expenditures by grant and local area; however, they did not identify the funding year. Without this, the funding year in 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 having to manually split current month expenditures reported on the monthly expenditure reports for new grants and fully expended older grants on numerous occasions. The Agency developed a new series of spreadsheets by project code. These spreadsheets are very complex, manually prepared, and there is an increased risk of errors in the preparation. We noted various data issues in the spreadsheets, such as:

- Documentation for the total monthly expenditures per the EnterpriseOne accounting system did not agree to the monthly report amounts and, therefore, the cumulative totals. Also, some adjustments to reported amounts were noted, while other variances noted were not adjusted;

- Each spreadsheet started with a beginning balance for the cumulative expenses that were traced to the July 2006 monthly fiscal report but could not be traced to supporting documentation from the EnterpriseOne accounting system;

- Information from many past months did not include detailed information from the State accounting system, but only the monthly reported amounts. Therefore, the cumulative amounts could not be verified or relied on;

- One month showed a monthly report amount different from the actual monthly fiscal report, with no note of explanation. Therefore, the spreadsheets utilized to prepare the required 9130 reports could not fully be relied on.

We were able to trace the current month amounts from the monthly expenditure reports to EnterpriseOne reports and/or manual calculations; however, we could not consistently trace the current month expenditures from the original source documentation to the 9130 reports. Likewise, we could not determine which grant the expenditures were paid from, as expenditures for differing grant years were made from the same business unit. It was noted the new spreadsheets are an attempt to capture the expenses by grant year until the new series of business units can be implemented; however, errors were noted in these spreadsheets, as discussed above.

The Agency indicated the process of implementing business units to reflect each grant was started in July 2010. When this process is completed, the need for the manually-prepared spreadsheets is expected to end.

For the eleven 9130 quarterly reports tested, we obtained the three monthly fiscal reports and the related supporting documentation for each local area and totaled the current month expenditures from all areas to arrive at the current quarterly expenditures. We also reviewed and recalculated the series of spreadsheets used to determine the cumulative expenditures. During testing, we noted the following:

- Five reports showed that the cumulative cash disbursements reported exceeded the cumulative Federal share of accrual expenditures. Per review of report instructions and discussions with the Agency staff, the Federal share of accrued expenditures would include allocations and accruals and, therefore, would normally be at least equal to or possibly more than the cash disbursements reported. The variances noted ranged from $35,454 to $529,415, including the State Adult FFY2009 grant that reported all authorized funds of $266,332 had been drawn and disbursed, but no Federal share accrual expenditures had been reported;

- Three reports showed current period expenditures that did not agree to documented expenditures, ranging from $39,744 underreported to $11 overreported, for a net amount underreported of $39,757;

- Seven reports had cumulative expenditures on the Quarterly 9130 report that could not be traced to supporting documentation because the business units used to record expenditures were not tied to specific grant funds;

- Two reports had no supporting documentation for the percentages used to allocate the local areas' administrative expenditures to the Adult or Dislocated Worker programs. It appears there was an error in the percentage used. The APA recalculated the percentage and noted the Dislocated Worker administrative expenditures were reported as $1,711, but should have been $1,736 for a variance of $25 underreported;

- One report included the independent local area's reported expenditures, which did not agree to their monthly supporting documentation for July through September 2009, with reported expenditures being overreported by a net amount of $13 for the quarter;

- Five reports were not submitted timely, with delays ranging from 26 to 31 days past the filing date;

- One report did not have a documented review of the 9130 report prior to filing;

- Seven reports were based on the independent local area's supporting documentation, which was a series of manually generated spreadsheets and was not directly from their accounting records. These seven reports were not subject to adequate review by Agency staff. During the Agency's subrecipient monitoring site visit, a sample of expenditures are reviewed; however, there is no reconciliation of the monthly expenditures reported on the monthly fiscal reports to independent area's accounting records;

- Two reports included reported expenditures from the Agency-prepared monthly reports for the other local areas that did not include a documented supervisory review;

A similar finding was also noted in the two prior audits.

Cause: The Agency uses the business units to reflect the fiscal year the expenditure was made rather than being tied to a particular grant. The Federal government provides the total cash receipts reported on the 9130 report. The Agency then enters on the report this same amount for cash disbursements, regardless of what the actual cash disbursements were or what was also entered on the report for Federal Share of Expenditures. As also noted in a prior finding, the reported amounts did not agree to supporting documentation, and this situation continues to exist until the grant is closed.

Effect: Without adequate procedures to ensure amounts reported reconcile to the accounting system, there is a risk amounts reported are not correct. Failure to require subrecipients to send supporting documentation with reported amounts increases the risk the amounts are incorrect.

Recommendation: We recommend the Agency develop procedures to ensure amounts reported are reconciled to supporting documentation. We recommend the Agency require the independent local area to send complete supporting documentation with reported expenditures and that information include a documented review by Agency staff.

Management Response: Management utilized information from the system of record to complete the quarterly 9130's for the period in question. During that period Management had not established business units to distinguish funding year. This endeavor is part of a much larger overhaul to the accounting structure and was due to start in July 2010. EnterpriseOne was used for the current year to tie back to the expenditures.

Corrective Action Plan: Management will establish business units to distinguish funding years and other required tracking of the grants. Local areas will be required to submit their expenditures and accruals on a quarterly basis or if wanting to receive reimbursements any sooner will need to submit them sooner.

Contact: Debbie Kay Ward, CPA CTP

Anticipated Completion Date: September 2011

Finding #10-23-08

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

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: 20 CFR § 667.107(a) (April 1, 2009) 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."

29 CFR 97.20(a)(2) (July 1, 2009) states, in part: "Fiscal control and accounting procedures of the State, as well as its sub-grantees . . . 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." EnterpriseOne is the official accounting system for the State of Nebraska and all expenditures are generated from EnterpriseOne.

A good internal control plan requires that adequate documentation be maintained to support expenditures, as well as identify the source of funds expended. A good internal control plan should also include a documented review to ensure the earmarking levels were met and not exceeded.

Condition: The business units used to record the WIA expenditures were not tied to a particular grant number and year. Therefore, expenditures could not be tied to the grant funds expended, and we were unable to determine if the expenditures tested met the period of availability. It was also noted the Agency did not have adequate supporting documentation to ensure earmarking levels were met, and there was no documented review of the final 9130 reports to ensure the earmarking levels were met.

Questioned Costs: Unknown

Context: EnterpriseOne, the official accounting system for the State of Nebraska, utilizes business units to identify the source and expenditure of funds. In EnterpriseOne, 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. This was also noted in the two prior audits. New business units were not implemented during the audit period but were implemented at the beginning of the State fiscal year 2011.

In the interim, the Agency developed a series of spreadsheets to reconcile the reported monthly expenses to EnterpriseOne accounting records. These spreadsheets started at July 31, 2006, and assumed a beginning balance at that time, which the APA agreed to the Agency's July 2006 monthly fiscal report amounts but could not verify to the State accounting system. Various discrepancies were noted in these spreadsheets, including:

- The spreadsheets did not document EnterpriseOne accounting records for all months included in the spreadsheets, but rather only the more recent months of July 31, 2008, to current.

- There were variances between the EnterpriseOne data and were the total, per the Agency's monthly fiscal report; sometimes, adjustments were made to the cumulative amounts, and other times no adjustments were made.

- The APA also noted instances where expenses were omitted from the Agency's monthly fiscal report total, and the error was discovered during the preparation of these reconciliation spreadsheets. In one instance, the spreadsheet shows the monthly fiscal report amount of $39,565 to include an adjustment for $1,634 in expenses that were omitted; however, the actual Agency monthly fiscal report amount was $37,931. There was no explanation of the adjustment on the spreadsheet, making it appear the spreadsheet's monthly fiscal report amount was correct when it actually did not agree to the Agency monthly fiscal report prepared.

Since the Agency did not utilize the business units to separately identify each grant year, and their spreadsheets were not reliable, we were unable to determine if the expenditures tested met the period of availability requirements.

We also tested the grant that was closed and certified during State fiscal year 2010, or the PY06/FY07 grant. In reviewing the Agency's monthly fiscal reports and the Agency-prepared spreadsheets utilized to show the earmarks, it appears that some of the earmarking requirements have been met. However, the earmarking 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 fiscal reports were prepared by the Agency. The Agency indicated the monthly fiscal reports were prepared utilizing financial information from the GA-17 reports from EnterpriseOne. During testing, we noted one local area had amounts included in the reconciling spreadsheets that could not be traced to supporting documentation. Additionally, one independent local area prepares monthly expenditure reports that were sent to the Agency without adequate supporting documentation. The Agency did not have procedures in place to ensure these monthly reports were accurate for the grant tested. Therefore, we could not determine the earmarks were met.

The earmarking requirements for 15% State Reserve, 5% State administrative costs, and 25% rapid response were supported by expenditures from EnterpriseOne. However, the Agency did not properly utilize the EnterpriseOne business units to identify the source of funds. Therefore, the tracking of these earmarking requirements by grant in EnterpriseOne was not possible without Agency spreadsheets to determine cumulative amounts. The APA reviewed the new reconciling spreadsheets and was able to trace the 5% State administrative costs and 25% rapid response to supporting documentation and determined these earmarks were met. However, the APA could not determine if the 15% State Reserve earmark was met because there was no supporting documentation for the Greater Lincoln amounts included, as well as some adjustments to the Agency-managed local areas that were not documented.

We also noted the final 9130 report was certified before a documented review was performed. Without a documented review, the Agency's procedures to ensure the earmarking levels were met prior to the final report filing are not adequate.

Cause: The business units used were not tied to a specific grant. Instead, the Agency relied on manually-prepared spreadsheets to determine cumulative expenditures and earmarking requirements.

Effect: Without adequate supporting documentation, including specific business units, we were unable to determine compliance with the period of availability requirements and unable to determine whether earmarking requirements were met.

Recommendation: We recommend the Agency set up EnterpriseOne business units to properly identify the source and use of Federal funds. Specifically, each grant should have a separate and unique business unit to provide documentation to support compliance with the period of availability and earmarking requirements were met. We also recommend the Agency maintain supporting documentation and perform a documented review of compliance with the earmarking requirements.

> **Management Response:** While Management feels it was able to capture the necessary detail, to segregate the costs by funding year and matching requirements; the issue that all supporting documentation was not provided from Lincoln was also a contributing factor.

Corrective Action Plan: Management will adopt a policy to review and 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 set up new business units.

Contact: Debbie Kay Ward, CTP, CPA

Anticipated Completion Date: July 2011

Finding #10-23-09

Program: CFDA 17.258, 17.259, and 17.260 – Workforce Investment Act Cluster – Suspension & Debarment

Grant Number & Year: All open grants, including #AA-18655-09-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: 2 CFR § 180.300 (January 1, 2009) states: "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: (a) Checking the Excluded Parties List System (EPLS); (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person."

OMB Circular A-133 § .300 states, in part: "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 that could have a material effect on each of its Federal programs."

A good internal control plan requires compliance control procedures be documented.

Condition: The Agency did not have procedures in place to verify vendors receiving more than $25,000 and all subrecipients were not suspended or debarred from receiving Federal funds by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration.

Questioned Costs: None

Context: The Agency has three subrecipients (Greater Nebraska, Tri-County, and Greater Lincoln), as well as vendors with total payments greater than $25,000, that are subject to the suspension and debarment compliance requirements. The auditor reviewed the EPLS for the subrecipients and largest vendor and found none of them on the list.

Cause: Unknown

Effect: The Agency could contract with, or award grants of Federal funds to, suspended or debarred entities.

Recommendation: We recommend the Agency implement procedures to ensure a documented review of the EPLS is performed prior to awarding contracts greater than $25,000 or awarding any grant with Federal funds.

Management Response: The Agency accepts the recommendations of the State Auditor. The Agency has implemented some Suspension and Debarment procedures:

1. The Agency currently verifies vendors receiving more than $25,000 and all sub recipients to ensure they are not suspended or debarred from receiving Federal funds by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration.
2. The Agency contracts include Suspension & Debarment language requiring certification that the vendor is not presently ineligible due to current or proposed debarment.

Corrective Action Plan: The Agency will put additional compliance control procedures in place and document all compliance policies and procedure, including:

1. Suspension and Debarment language in all contracts requiring the vendor to notify the Agency if sanctioned during the term of the contract and cause for termination of the contract due to suspension or debarment.
2. An annual review of vendors with contracts over $25,000.

All compliance control policies and procedures will be documented.

Contact: Debbie Kay Ward

Anticipated Completion Date: April 1, 2011

Finding #10-23-10

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

Grant Number & Year: #UI-18034-09-55-A-31, FFY 2009; #UI-19596-10-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 CFR § 205.11(b) (July 1, 2009): "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." 31 CFR § 205.33(a) (July 1, 2009) provides, in part: "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: 1) draw amounts to be adequately supported; 2) monthly reconciliations between estimated allocations drawn and actual allocations; and 3) separate identification of ARRA fund balances from non-ARRA fund balances. 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 perpetrate and/or conceal errors or irregularities and to ensure the amounts drawn are accurate and in accordance with Federal regulations.

Condition: For 1 of 6 administrative expense cash draws tested, the draw did not trace to supporting documentation. This draw was overdrawn by $16,857. Cash draws for administrative expenses may include an estimated amount for indirect costs allocated between programs. Two of the draws tested included estimates and, for one draw, the estimated allocation portion was not adjusted to the actual amount allocated to the Unemployment Insurance (UI) program. In addition, the Agency used the Cash Status Report from EnterpriseOne to obtain the cash balance; however, this report did not identify ARRA fund balances separately from non-ARRA fund balances.

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. Seven of 15 benefit draws tested contained errors.

Questioned Costs: Unknown

Context: When the Agency performs its weekly cash draws, a portion of the draw is an estimated amount for operating expenses allocated to various programs. The actual allocations were performed at various times throughout the fiscal year. The estimated allocation portion of the cash draws were not adjusted to the actual amount allocated to the program. One cash draw tested was for $575,084, and the estimated amount was $128,822. In addition, the Agency used the cash balance, per the EnterpriseOne Cash Status Report. Cash balance amounts on this report were listed by fund and included both ARRA and non-ARRA expenditures; the report did not separately identify the ARRA from the non-ARRA cash balance.

We also tested 15 benefit cash draws from the Trust Fund. For 7 of the 15 benefit draws, we noted the following:

- Draw dated July 28, 2009, was underdrawn by $389 for UI and underdrawn by $405 for Emergency Unemployment Compensation (EUC08). The total underdrawn was $794. When the Agency requested the draw through the Automated Standard Application For Payment (ASAP), these amounts were not included.

- Draw dated September 15, 2009, was underdrawn by $81 for UI, overdrawn by $42 for Federal Additional Unemployment Compensation (FAUC), and overdrawn by $47 for EUC08. Adjustments were made on the Agency's spreadsheet but were not added or subtracted correctly, which resulted in the errors.

- Draw dated November 2, 2009, was underdrawn by $124 for EUC08 and overdrawn by $124 for UI. This amount was not entered correctly on the Agency's spreadsheet.

- Draw dated November 12, 2009, was overdrawn by $34 for EUC08. The $34 was added twice on the Agency's spreadsheet.

- Draw dated November 25, 2009, was overdrawn by $36 for EUC08. The $18 adjustment was added to the draw and should have been subtracted.

- Draw dated December 18, 2009, was underdrawn by $30 for FAUC. This was an adjustment that was on the spreadsheet, but not added to total.

- Draw dated January 12, 2010, was underdrawn by $201 for UI and overdrawn by $201 for EUC08. This amount was not entered correctly on the Agency's spreadsheet.

The total Federal sample tested for benefit drawdowns was $15,696,939, and the total Federal benefit cash draws from the Trust Fund for the fiscal year were $187,424,070.

There was a similar comment noted in the Single Audit FY 2009 report.

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 both the accuracy of the draws and that they are within Federal regulations.

Management Response: The Agency accepts the findings and the recommendations of the state audit team. Draws were reviewed for periods after January 2010. This review while not perfect greatly improved the accuracy of the draw. We were not able to make the transition to Treasury prior to February 2011. However an interim step was put in for December and the draw process was removed from the prior drawer.

Corrective Action Plan: Management will continue to work with Treasury to ensure processes and procedures are in place to review the draw prior to pulling the dollars out of PMS. Management will review the draw processes to determine additional transparencies are available in the area of allocations.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2011

Finding #10-23-11

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

Grant Number & Year: All open grants including #UI-19596-10-55-A-31, FFY2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133, § 300(b), requires the auditee to "[m]aintain 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." Additionally, § 300(c) requires auditees to "[c]omply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

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

Condition: The Agency did not have adequate controls over the Employment and Training Administration (ETA) UI3 Reports to ensure they were in accordance with Federal regulations. Both quarterly reports tested did not agree to supporting documentation.

Questioned Costs: None

Context: During testing of two ETA UI3 Reports, it was noted the reports were not adequately reviewed by a second individual prior to submission. The UI3 Report for quarter ending March 31, 2010, included an email indicating the Controller would not have time to review the report prior to submission; thus, no review of that report was performed. The UI3 Report for quarter ending September 30, 2009, appeared to have been reviewed, as "X" tickmarks were noted on the report; however, it was unclear as to who performed the review, when it was performed, and what exactly was reviewed. Per discussion with the Controller, these could be her notations; however, she did not believe they indicated a thorough review had been performed.

The following errors were noted in the accumulation of supporting documentation to prepare the ETA UI3 Reports:

- The UI3 Report for quarter ending March 31, 2010, did not include the amount for one Administrative Law Judge (ALJ) Corrective Billing. The amount per this billing was for 128.4 hours or 0.25 FTE's (full time equivalents) for the quarter and 0.12 FTE's for the year-to-date (YTD). The effect on the UI3 report due to this error is shown in the chart below.

	Reported	Actual	Variance
Claims Activities Program (Row 1):			
Quarterly Staff Years Worked (FTE's)	112.57	112.82	-0.25
Quarterly Staff Years Paid (FTE's)	120.38	120.63	-0.25
Year-To-Date Staff Years Paid (FTE's)	114.55	114.67	-0.12

- The UI3 Report for quarter ending September 30, 2009, was submitted using incorrect information for two reasons. First, there were two sets of spreadsheets created for this quarterly report. The first set was not complete, and a revised second set was created; however, the incomplete set of spreadsheets was used to prepare and submit the actual UI3 Report. Second, the revised set of spreadsheets was not accurate. The revised spreadsheets contained errors due to both incomplete accumulation of ALJ hours (similar to the finding noted on the March 31, 2010, report above), as well as a duplication of temporary employee hours for July and August 2009. The effect on the UI3 report due to these errors is shown in the chart below.

	Reported	Actual	Variance
Claims Activities Program (Row 1):			
Quarterly Staff Years Worked (FTE's)	97.35	106.66	-9.31
Quarterly Staff Years Paid (FTE's)	109.15	118.46	-9.31
Year-To-Date Staff Years Paid (FTE's)	87.19	96.45	-9.26
Employer Activities Program (Row 2):			
Year-To-Date Staff Years Paid (FTE's)	38.81	39.07	-0.26

	Reported	Actual	Variance
Support/AS&T Program (Row 4):			
Quarterly Staff Years Worked (FTE's)	41.23	41.61	-0.38
Quarterly Staff Years Paid (FTE’s)	49.77	50.15	-0.38
Year-To-Date Staff Years Paid (FTE’s)	40.67	40.90	-0.23

Cause: Agency staff indicated review did not occur, and errors were made due to time constraints.

Effect: Without adequate controls, there is an increased risk of noncompliance with Federal reporting regulations.

Recommendation: We recommend the Agency implement adequate controls, such as a thorough, documented review, to ensure Federal reporting requirements are properly complied with.

Management Response: Issues with the UI 3 were found in the reporting of temporary staff, specifically Administrative Law Judges and Specialized Office Services (SOS). Currently the accumulation of this information is a manual process with increased volume due to the increase in unemployment.

Corrective Action Plan: Administrative Law Judges are now included as SOS rather than a separate billing process. Agency staff will be working on a standardized method to obtain the UI 3 required breakouts of SOS hours. Finance will work with the UI 3 preparer on an improved review process with initials and dates of review being included.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: September 2011

Finding #10-23-12

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

Grant Number & Year: All open grants, including #UI-19596-10-55-A-31, FFY 2010

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133, § 300(a), requires the State to “[i]dentify, 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, which 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	$ 7,131,112	$ 4,574,646	$ (2,556,466)
ARRA UI - Federal	$ 179,868,098	$ 182,849,424	$ 2,981,326
UI - State	$ 206,198,576	$ 209,723,467	$ 3,524,891
UI - Admin	$ 20,169,895	$ 20,243,740	$ 73,845
TOTAL	**$ 413,367,681**	**$ 417,391,277**	**$ 4,023,596**

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: Management would disagree with the cause of this finding. Management relied upon a report to segregate the ARRA and non ARRA. They relied on subject matter experts and the report was not programmed to provide them the data they needed.

Corrective Action Plan: Fiscal review of the SEFA number will start earlier in the audit cycle. Data backing up the report will be added to the review process.

Contact: Debbie Kay Ward, CPA, CTP

Anticipated Completion Date: August 2011

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #10-25-02

Program: Various including CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Allowable Costs/Cost Principles

Grant Number & Year: Various

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(3)(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."

OMB Circular A-87 Attachment A § E(1) states, "Direct costs are those that can be identified specifically with a particular final cost objective." OMB Circular A-87 Attachment A § E(3) states, "Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives."

OMB Circular A-87 Attachment A § C(1)(d) requires costs charged to Federal programs "Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items."

OMB Circular A-87, Attachment B – Selected Items of Cost, § 5 states, "Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable."

Condition: The Agency utilizes a cost allocation plan (CAP) to distribute administrative expenditures to benefiting programs. During testing of the CAP, we noted 2 of 25 expenditures tested were not in accordance with OMB Circular A-87.

Questioned Costs: $2,833 known

Context: We noted the following:

- One expenditure for printing costs of $18,595 for Child Care attendance calendars was coded to a cost center allocated to various programs within the Agency. Since this expenditure was specifically identifiable to the Child Care program, the costs should have been directly charged. Although, OMB A-87 does allow for minor amounts to be treated as an indirect cost for reasons of practicality; we do not consider this amount to be minor. Also, the Agency does not have a written policy regarding what would be considered a minor amount and the CAP submitted for Federal approval does not specify a minor dollar amount.

- One expenditure was for a $7,000 contractual payment for debt collection services for December 2009. According to the Request for Proposal on file with the Department of Administrative Services, services to be provided under the contract were for debt collection for instances such as overpayments made to program recipients. We determined the amount allocated to Federal programs was $2,833.

Our sample of 25 included administrative expenditures other than payroll (operating expenditures, contractual services, travel, and capital outlay). The total dollar amount of the sample tested was $816,001 and the total administrative expenditures other than payroll for the fiscal year were $237,160,093.

Cause: Unknown

Effect: Increased risk of loss or misuse of Federal funds and noncompliance with OMB Circular A-87.

Recommendation: We recommend the Agency strengthen procedures to ensure compliance with OMB Circular A-87. We further recommend the Agency include a dollar threshold for minor items in the CAP submitted for Federal approval, and return the $2,833 debt collection services charged to Federal funds.

Management Response: The Agency does not agree with the auditors finding regarding a single printing item that could be identified as a direct cost of a particular program. The Agency has a cost center described in the Public Assistance CAP that accumulates and allocates the pooled costs for printing services for central operations. The Agency made the decision to include such costs in an allocated cost pool due to the volume of print jobs making the effort to directly charge all print jobs disproportionate to the results achieved. Circular A-87 does not allow the Agency to include items in indirect cost if like items, in like circumstances, are directly charged to Federal programs.

The Agency agrees with the finding regarding the debt collection.

Corrective Action Plan: The Agency will identify all amounts paid during the year for debt collection services and return the full amount, including the $2,833 to the respective Federal programs at the next reporting opportunity. The Agency will implement coding that will identify the unallowable item to be removed from the costs allocated to Federal programs.

Contact: Larry Morrison

Anticipated Completion Date: November 15, 2010

Finding #10-25-03

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

Grant Number & Year: Various

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(3)(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." A good internal control plan requires procedures to ensure costs allocated to Federal grants are calculated correctly.

Condition: During testing of the IST NFOCUS Applications allocation for the quarter ended March 31, 2010, it was noted the number of recipients used in calculating the costs allocated to the Temporary Assistance to Needy Families (TANF) program included recipients of cash assistance from the Solely State-Funded Program.

Questioned Costs: Unknown

Context: The IST NFOCUS Applications cost center is allocated to benefiting programs based on the end-of-the-quarter count of recipients receiving benefits associated with each program that benefits from the system. The TANF program's calculation included the number of recipients in the Solely State-Funded Program. According to the TANF State Plan, cash assistance for the Solely State-Funded Program is paid from the State General Fund which is not counted towards the TANF Maintenance of Effort (MOE) as work participation rates for individuals in this program are not reported to the Federal government. Therefore, recipients of the Solely State-Funded Program should be excluded from the TANF calculation. Since the allocation is based on number of recipients rather than cases and the Agency only maintains data on the number of cases in the Solely State-Funded Program, we were unable to calculate the amount that should not have been charged to TANF Federal funds. For the quarter ended March 31, 2010, there were 9,456 TANF cases of which 1,348 of these cases were in the Solely State-Funded Program. The total amount allocated to the TANF program for the quarter ended March 31, 2010, was $239,383.

Cause: Unknown

Effect: Increased risk of misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure allocations are calculated correctly, and to ensure Federal funds are not charged for State funded programs.

Management Response: The Agency agrees with the reported condition.

Corrective Action Plan: The Agency prepared a request to obtain the necessary statistic from NFOCUS to support the allocation of the NFOCUS costs to the State only program for the Solely State-Funded Program recipients receiving benefits. The program will be complete in October and will be used for the quarter beginning October 1, 2010.

Contact: Larry Morrison

Anticipated Completion Date: January 30, 2011

Finding #10-25-04

Program: CFDA 10.555 – National School Lunch Program; CFDA 10.559 – Summer Food Service Program for Children – Special Tests and Provisions

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR 250.14(e) (January 1, 2009) 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, 2009) states, "Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods…" OMB Circular A-133 § 300(b) 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." A good internal control plan requires adequate review over commodities to ensure the commodities are recorded accurately.

Condition: Receipts, distributions, and adjustments were not entered timely into the Food Distribution Program (FDP) system and were not reviewed by a second individual to ensure they were entered correctly. The FDP system was not programmed to handle direct shipments that several schools began receiving during fiscal year 2010. The Agency did not have adequate procedures for conducting the annual physical inventory.

Questioned Costs: Unknown

Context: The Agency distributed a total of $8,915,047 in food commodities under CFDAs 10.555 and 10.559 during the fiscal year. We noted the following:

- Most of the activity of receipts, disbursements, and adjustments were not entered into the FDP system during fiscal year 2010 until July 2010, one month after the end of the fiscal year.
- The few transactions that were entered into the FDP system did not have a review by a second individual to ensure they were entered correctly. The receipts, issuances, and adjustments are entered into the FDP system by an Accountant. These transactions were not reviewed by the FDP Coordinator or a second individual.
- The FDP system reports provided to the Auditor of Public Accounts (APA) were not accurate. The FDP system was not programmed to handle direct shipments that several schools began receiving during fiscal year 2010.
- The Agency was unable to provide detail to support the direct shipments to the schools were accurately reported on the Schedule of Expenditures of Federal Awards (SEFA).
- The Agency reported an increase of $1,989,607 in the ending inventory between fiscal year 2009 and 2010, but was unable to support the reason for this increase. The reported ending inventory was $3,404,313 at June 30, 2010.

The APA observed the physical inventory count conducted July 14, 2010, at the contracted warehouse. The following was noted:

- The Agency did not have written procedures for conducting an annual physical inventory.
- The Agency did not appear to be prepared or well organized. They did not have a report from the FDP system listing the commodities. The Agency started with a blank sheet of paper, we believe utilizing a listing with the commodity description, but not including the amount would be more effective.
- The conditions, such as the temperature, in which the commodities were to be stored, were not discussed with the contracted warehouse. The APA noted the thermostat read 83 degrees in the warehouse where such commodities as soy milk, wheat flour, marinara cups, mayonnaise dressing, and tartar sauce were kept.
- The APA observed a number of items which appeared to be damaged or out of date. The Agency was unable to provide a complete listing of each item and the disposition of each. Some documentation was obtained on a few items, but not for all items.
- The Agency performed a recount on July 21, 2010, due to large variances noted between the FDP system and the physical count. This recount included nearly 80 percent of the commodities in the cooler and freezer. The APA was not informed a recount was needed, until after the recount was performed.
- The Agency was unable to provide a listing of adjustments made between the physical inventory count and the FDP system. The Agency did not maintain documentation of adjustments made to the ending inventory based on the counts.

- For 1 of 21 items tested, the count from the Agency's physical inventory spreadsheet did not agree to the count in the FDP system. Item #3734, pork rib patty, had a physical inventory count of 176, the FDP system had a count of 178, a variance of 2. The Agency was unable to provide support for the variance.
- Because the FDP system was not up-to-date, we were not able to roll forward the quantity on hand at the time the recount of the physical inventory was taken to the quantity currently on hand to determine whether the inventory records were accurate.

A similar finding was noted in our previous audit report.

Cause: Inadequate review.

Effect: When there is a lack of review of activity over commodities, there is an increased risk of loss or stolen items. This leads to inaccurate reporting as well as noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement adequate controls and procedures over commodities. This would include recording the receipts, issuances, and adjustments into the FDP system in a timely manner and having a second individual review these entries. We further recommend the Agency develop specific written procedures over the physical inventory process. We also recommend the Agency maintain all documentation of the physical inventory which includes adjustments between the physical count and the FDP system.

Management Response: The Agency agrees with the reported condition.

Corrective Action Plan: The Food Distribution Program (FDP) is now staffed at an appropriate level to include the Food Distribution Coordinator position. The coordinator, Pam Schoenrock has been in constant communication with the USDA for training and this is on-going. Through her training and on the job experiences, Pam Schoenrock is developing procedures and processes for all areas related to the FDP to include controls and procedures over commodities. The FDP's management will set standards to record receipts, issuances, and adjustments into the FDP system in a timely manner and will have a process for a second individual to review these entries. A process for conducting physical inventory at the State storage facility has been created.

Contact: Pam Schoenrock

Anticipated Completion Date: July 1, 2011

Finding #10-25-05

Program: CFDA 10.555 – National School Lunch Program; CFDA 10.559 – Summer Food Service Program for Children – Reporting

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-133 § 300(a) 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 for commodities by CFDA on the SEFA. 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 commodities to be included in the SEFA to DAS. DAS then compiles the information for all agencies and reports to the APA. The amounts reported for commodities were:

	Originally Reported	Corrected SEFA Amount	Variance
National School Lunch	$ 6,202,173	$ 8,845,795	$ 2,643,622
Summer Food Service	$ 72,835	$ 69,252	$ 3,583

Cause: Inadequate review.

Effect: Noncompliance with Federal requirements.

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

Management Response: The Agency agrees with the reported condition.

Corrective Action Plan: Direct shipment of commodity foods to carrier storage facilities was a portion of this problem. The FDP did not allow for direct shipments to carrier storage facilities during State Fiscal Year 2010-2011, except for qualifying schools. The FDP system has also been corrected to recognize direct shipments sent to warehouses other than the State's warehouse. This revision to the FDP will result in the correct dollars expended to be reflected in the FDP reports. Management will provide oversight of the information and review reports on a regular basis to ensure accuracy.

Contact: Pam Schoenrock

Anticipated Completion Date: The FDP system correction is completed. Oversight is an on-going process.

Finding #10-25-06

Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children – Suspension and Debarment

Grant Number & Year: #3NE700706, FFY 2009 and FFY 2010

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 2 CFR § 180.300 (January 1, 2009), 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 the organization, or adding a clause or condition to the covered transaction with that organization. OMB A-133 § 300(b) states that 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 on 4 of 4 Local Agencies (LAs) tested that the LA agreement (Subgrant Terms and Assurances) did not contain a suspension and debarment clause.

Questioned Costs: Unknown

Context: The LA agreement states that subrecipients must perform subgrant activities, expend funds, and report financial and program activities in accordance with Federal grants administration regulations, and U.S. Office of Management and Budget (OMB) Circulars governing cost principles and audits. We noted that a certification that the subrecipient was not suspended or debarred was obtained with the October 2010 grant award agreements, but the agreements for the fiscal year ended June 30, 2010, did not have a clause and the Agency did not have documentation of checking the EPLS.

Cause: Unknown

Effect: The Agency could be unaware of awards to suspended or debarred subrecipients.

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The local agency Subgrant Terms and Assurances for FFY 2011 were revised to include a suspension and debarment clause and certifications. FFY 2011 Subgrant Terms and Assurances were sent to WIC local agencies on September 29, 2010.

Contact: Peggy Trouba

Anticipated Completion Date: Completed on September 29, 2010

Finding #10-25-07

Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children – Period of Availability

Grant Number & Year: #3NE700706, FFY 2009

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 2 CFR § 215.71(b) "…a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period…" OMB A-133 § 300(b) states that 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 two payments for the FFY 2009 grant were made after the 90 day liquidation period for obligations incurred prior to the grant period end.

Questioned Costs: $488,787

Context: The grant period ended September 30, 2009, and the 90-day liquidation period ended December 29, 2009. Two payments for $475,448 and $13,339 were made on January 4, 2010, six days after the liquidation period ended.

Cause: The Agency did not require the subrecipient to provide a grant closeout funding request by a date sufficient for the Agency to process the payment within the liquidation period.

Effect: The Agency was not in compliance with Federal regulations.

Recommendation: We recommend the Agency review and amend their policies and procedures to ensure that all grant expenditures are made within the required period of availability or subsequent liquidation period.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The WIC Program will revise the date for submission of final closeout reports from WIC local agencies and will work with Agency Accounting staff on payment timelines to assure liquidation within 90 days after the end of the grant year.

Contact: Peggy Trouba

Anticipated Completion Date: September 30, 2011

Finding #10-25-08

Program: CFDA 10.568, 10.568 ARRA & 10.569 – Emergency Food Assistance Cluster – Allowability, Cash Management, and Eligibility

Grant Number & Year: #2010CC200343, FFY 2010; #2010CY810543, FFY 2010; #2010IS220243, FFY 2010; #2010IY810543, FFY 2010

Federal Grantor Agency: U.S. Department of Agriculture (USDA)

Criteria: 7 CFR 251.4(d)(2) (January 1, 2009) 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." 7 CFR 251.5(a)(1) (January 1, 2009) 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." 7 CFR 251.5(a)(3) (January 1, 2009) states a recipient agency must have a tax exempt status. 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." The State plan for the Cluster states, "The

Nebraska Health and Human Services, Food Program Unit, maintains contracts with all eligible recipient agencies in the State, such as the food banks, and Community Action Agencies, to whom the State directly distributes commodities/funds, but also including the food pantries and soup kitchens to whom commodities/funds are further distributed."

31 CFR 205.33(a) (July 1, 2009) states, "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes." Per 45 CFR 92.37(4) (October 1, 2009), "States shall: Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

OMB Circular A-87 states to be allowable under Federal awards, costs must be adequately documented. A good internal control plan requires that payments to subrecipient are for actual costs.

OMB Circular A-133 § 315 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards . . . When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken . . . When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."

A good internal control plan requires eligibility documentation be kept on file or other procedures are completed to ensure contract objectives are met, including State and Federal eligibility requirements. A good internal control plan requires written eligibility determination procedures are maintained by the Agency.

Condition: The Agency did not have adequate procedures to ensure contracts were appropriately monitored and Federal requirements were adhered to.

Questioned Costs: $254,922 known

Context: The Agency supplies commodities to Eligible Recipient Agencies (ERAs) such as food banks who distribute food to other ERAs (food pantries) or to individual households (through the food pantries). The Agency did not have adequate procedures to verify that ERAs were tax exempt or that commodities awarded to them were not in excess of their anticipated use. Eligibility determinations of individual households are done by food pantries; however, the Agency did not perform procedures to ensure the eligibility determinations were conducted and were appropriate.

Contracts were entered into with three food banks in June 2010 to assist in administering the program and determining the eligibility of food pantries. The contracts specifically required the food banks: to distribute the foods according to Federal regulations and Agency policies and procedures; provide documentation of tax-exempt status; maintain records to document the receipt, issuance, disposal, transfer, and inventory of all USDA commodities received and provide required participation and inventory information to the Agency; obtain pantry and/or meal provider agreements, review for accuracy, and submit them to the Agency no later than September 1, 2010; and to distribute USDA foods only to those recipient agencies that have pantry agreements with the food bank.

All three food bank contracts were signed in June 2010 and had terms from October 1, 2009, to September 30, 2010; however, they were paid in full for a total of $254,922 in June 2010. During our testing, we noted the Agency did not maintain adequate support to verify payments to the food banks were for actual costs or perform other procedures to ensure these contract activities were completed prior to payment. In addition, agreements with food pantries were not submitted and maintained on file in accordance with the State plan.

A similar finding was noted in the prior audit. The summary schedule of prior audit findings for #09-25-27 states the corrective action plan was completed by July 1, 2010. The Agency has been in contact with the USDA regarding procedures to monitor contract and eligibility requirements of ERAs; however, no specific activities had been conducted as of November 30, 2010.

Cause: Inexperience of Agency staff with program and Federal requirements.

Effect: When procedures are not in place to adequately monitor contract and Federal requirements, there is an increased risk Federal funds will be lost and/or misused.

Recommendation: We recommend the Agency implement procedures to ensure ERA contracts are appropriately monitored and Federal requirements are adhered to.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Food Distribution Program (FDP) has worked closely with the USDA and the Nebraska Food Banks to provide a clear understanding of expectations. The fiscal year 2010 contract included the changes per the prior audit's recommendations and the fiscal year 2011 subawards include even more changes as a result of input from audits and the USDA. A couple of these changes include that the subrecipients report directly to the food banks and FDP reviews the food banks and a percentage of food pantries. The USDA has provided FDP with a review form to use. This has been shared with the food banks so they are aware of what information they need to track and provide to FDP. FDP will use the review form when a review of the food banks is conducted. The food banks also have an expenditure form which they turn in monthly to the FDP.

Contact: Pam Schoenrock

Anticipated Completion Date: The subaward changes and the record of expenditures under the Emergency Food Assistance Program have been written and the reviews will resume by March 31, 2011, and will be on-going.

Finding #10-25-09

Program: CFDA 10.568, 10.568 ARRA & 10.569 – Emergency Food Assistance Cluster – Suspension & Debarment, Subrecipient Monitoring, and Special Tests & Provisions

Grant Number & Year: #2010CC200343, FFY 2010; #2010CY810543, FFY 2010; #2010IS220243, FFY 2010; #2010IY810543, FFY 2010

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-133 § 400(d) states, "A pass-through entity shall perform the following for Federal awards it makes: … (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year … (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." 2 CFR 176.210 (January 1, 2009) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds … recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."

7 CFR 251.10(e)(2) (January 1, 2009) states, "…the State agency monitoring system must include: An annual review of at least 25 percent of all eligible recipient agencies which have signed an agreement with the State agency pursuant to §251.2(c), provided that each such agency must be reviewed no less frequently than once every four years."

Per 2 CFR 180.300 (January 1, 2009), 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."

OMB Circular A-133 § 315 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards . . . When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken . . . When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken." A good internal control plan requires that the Agency maintains written documentation of program procedures.

Condition: The Agency did not have adequate procedures to: ensure 25% of ERAs received an annual site visit; communicate to the subrecipients at the time of award and disbursement of funds, the appropriate Federal award information, the amount of ARRA and non-ARRA amounts and the requirements to identify these amounts in their SEFAs; obtain A-133 audits from subrecipients receiving $500,000 or more in Federal funds; and verify food banks were monitoring the suspension and debarment status of food pantries.

Questioned Costs: Unknown

Context: We tested all three food bank contracts and noted Federal award information was not correctly stated, ARRA and non-ARRA amounts were not separately identified and a requirement to identify these amounts in their SEFAs was not included. The food banks also did not submit A-133 audits as required and were not made aware of Federal award information when funds or commodities were disbursed to them. The Agency disbursed $3,647,076 in administrative costs and commodities to the three food banks during fiscal year 2010. In addition, no ERA site visits were conducted during the fiscal year.

A similar finding was noted in the prior audit. The summary schedule of prior audit findings for #09-25-28 states that corrective action was completed by July 1, 2010. The Agency has been in contact with the USDA to assist in developing subrecipient monitoring activities; however, no procedures had been implemented as of November 30, 2010.

We also noted the Agency did not have procedures to ensure food banks were verifying that food pantries were not suspended or debarred prior to disbursing commodities to them.

Cause: Inexperience of Agency staff with program and Federal requirements.

Effect: Without adequate procedures to ensure compliance with Federal regulations, there is an increased risk for loss and/or misuse of Federal funds.

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Our response is similar to the previous finding, #10-25-08: The Food Distribution Program (FDP) has worked closely with the USDA and the Nebraska Food Banks to provide a clear understanding of expectations. The fiscal year 2010 contract included the changes per the prior audit's recommendations and the fiscal year 2011 subawards include even more changes to include the ARRA language when applicable. A couple of these changes include that the local level recipient agencies report directly to the food banks and FDP will review the food banks and a percentage of the local level recipient agencies as defined by the USDA. FDP has established a process that includes two review forms that the USDA has provided. The process and the forms have been shared with the food banks so they are aware of what information they need to track and provide to FDP. FDP will use these forms when reviewing the food banks and local level recipient agencies. Site reviews using these forms will be conducted by FDP in FY 2011. The food banks have provided FDP with a list of all eligible recipient agencies they currently serve. This list will be used for tracking reviews that have been completed and when they are due for the next review.

Contact: Pam Schoenrock

Anticipated Completion Date: September 30, 2011

<u>Finding #10-25-10</u>

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

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

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. Good internal control requires procedures to ensure the SEFA is properly presented.

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

Questioned Costs: Unknown

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

CFDA #	Program	Amount Initially Reported	Corrected SEFA Amount	Variance
10.569	Emergency Food Assistance Program	$ 3,588,048	$ 4,114,090	$ 526,042

The SEFA amount includes commodities distributed by the program, which are obtained from a report generated by the Agency's Food Distribution System (FDS). During testing, it was noted the ending commodities amount on the report ($401,866) did not agree to the actual amount of commodities on hand at the end of the fiscal year ($152,290). The difference of $249,576 was added to the SEFA amount in order to adjust ending commodities to the correct amount. In addition, directly shipped commodities of $276,466 were excluded from the initially reported amount.

Cause: Direct shipments to food banks occurred for the first time in 2010.

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 Food Distribution Program's (FDP) computer software has been changed to recognize direct shipments to warehouses other than the State's warehouse. This revision to the FDP computer program will result in the correct dollars expended to be reflected in FDP reports. Management will provide oversight of the information and review reports on a regular basis to ensure accuracy.

Contact: Pam Schoenrock

Anticipated Completion Date: Completed in September 2010

Finding #10-25-11

Program: CFDA 93.044, 93.045, 93.053, 93.705, and 93.707 – Aging and ARRA Aging Cluster – Allowability and Subrecipient Monitoring

Grant Number & Year: All open including #AANET3SP, FFY 2010; #AANENSIP, FFY 2010

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

Criteria: OMB Circular A-87, Attachment A – General Principles for Determining Allowable Costs, § A.2.a states, "The application of these principles is based on the fundamental premises that: (1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. (2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award." § C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria:…j. Be adequately documented."

OMB Circular A-133 § .400(d) states, "A pass-through entity shall perform the following for the 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 $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Furthermore, § .105 states, "A cluster of programs shall be considered as one program for determining major programs."

A good internal control plan requires the pass-through entity to establish controls to ensure subrecipients use Federal awards in accordance with Federal compliance requirements.

Condition: The Agency did not have adequate documentation on file and subrecipient monitoring was not adequate to support the payments to the Area Agencies on Aging (AAA) were for allowable activities and in accordance with allowable cost principles. The AAAs were required to submit A-133 audits; however, the A-133 audits for 3 of 8 AAAs did not have the entire cluster tested as a major program and one AAA did not have any major program coverage.

Questioned Costs: Unknown

Context: The Agency disbursed $7,294,394 in aid to the AAAs during fiscal year 2010. The Agency received monthly expense reports from the AAA which listed expenditures to date, estimated expenditures needed, funds received to date, and the funds requested. Furthermore, there was a report attached with a breakdown of the current month's expenses by cost categories: payroll, travel, operating expenses, contractual services, etc. The monthly expense reports were reviewed by Agency staff; however, no invoices or detailed supporting documentation was attached. Also, there were no procedures performed to verify the monthly reports agreed to supporting documentation at the AAA when the Agency performed on-site reviews. Furthermore, we noted the A-133 audits performed by independent auditors could not be relied upon for adequate monitoring of 4 of the 8 AAAs. Three of these four A-133 audits did not test all of the programs in the cluster as a major program. In the fourth AAA, the Aging Cluster was not required to be tested as a major program for the audit and; therefore, did not have audit coverage the Agency could rely on. We also noted 2 of 25 expenditures tested were not documented as reviewed. The AAA monthly expense reports included a signature line for the AAA Director to certify the expenditures requested were correct and complete; and there were signature lines for the Agency fiscal review, program review, and the fiscal certification. One monthly expense tested for Blue River Area Aging Agency did not have the AAA Director's signature and one monthly expense tested for Eastern Nebraska Office on Aging (ENOA) did not have the Agency fiscal certification. We tested 25 expenditures totaling $334,224. Expenditures tested for AAAs without adequate A-133 audits totaled $149,513.

We performed further procedures at the ENOA to verify supporting documentation at the AAA was reasonable and allowable in accordance with the Federal awards and the Older Americans Act of 1965 (Act). We noted the following:

- According to inquiries made with ENOA staff, there were no policies and procedures established to ensure eligibility criteria was met in accordance with the Act. Title III of the Act required the AAA to provide benefits and services to older individuals with the greatest economic and social needs. The Act defined "older individual" as an individual who was 60 years of age or older. Furthermore, ENOA did not have policies and procedures to verify client social security numbers were accurate in the system. We performed detailed testing of 45 clients with a date of death during the fiscal year ended June 30, 2010. We noted 2 of 45 clients tested had an invalid social security number in the system.

- We performed detailed testing of ENOA expenditures including transactions made with four credit cards used by ENOA staff. We tested 175 transactions and noted 73 transactions did not have detailed receipts on file to support the payment and 63 transactions did not appear to be reasonable due to lack of documentation to support the payment or the items purchased did not appear reasonable. For instance, there were charges for late fees and interest charges; there was a purchase to Bed Bath and Beyond; a purchase to Scheels for an employee's retirement present; and several purchases to gas stations, that lacked adequate documentation to support the payments were allowable. Furthermore, 76 of 175 payments were not approved by a second individual.

- Additionally, we performed detailed testing of 20 vendor payments and 32 employee reimbursements, for a total of 52 transactions tested during the fiscal year. We noted 2 transactions did not have detailed receipts or invoices on file and 22 transactions did not appear to be reasonable and necessary. For instance, there was a payment to the Bellevue City Handyman Program for $1,184, the city sent in a monthly expenditure report similar to the report ENOA sent to the Agency summarizing expenses to be reimbursed. There was a lack of monitoring to ensure services were provided in accordance with the contract. There was also a payment to a storage facility totaling $448 to store office furniture that was not being used. Additionally, the prior fiscal officer was reimbursed for two cases of alcohol from Sam's and there was a duplicate reimbursement for a purchase to Walmart. Furthermore, 23 of 52 transactions were not approved by a second individual.

- We also performed a detailed review of 11 payments for miscellaneous maintenance (janitorial) work performed by an ENOA case worker during the fiscal year. The individual performed miscellaneous work in addition to case management and senior employment work, however, there was no contract established by the ENOA for the services performed. The individual was paid $20 per hour for the miscellaneous work and $150 for mowing services. We noted the individual was overpaid for two hours due to a miscalculation on the timesheet. There were also potential overbillings totaling 372.5 hours, as hours documented on the miscellaneous work timesheets coincided with the regular duty timesheets.

- Furthermore, we performed detailed testing of 45 clients with a date of death during the fiscal year ended June 30, 2010. We noted 2 of 45 clients tested had services billed past their date of death. One individual had 2 congregate meals billed past their date of death and the second individual had 14 home delivered meals billed after their date of death. Billings past the date of death totaled $50. The Agency reimbursed ENOA for the congregate and home delivered meals.

The Agency made payments to ENOA totaling $1,781,754 during the fiscal year.

Cause: The financial monthly reports were not tested during the on-site reviews of the AAA performed by the Agency.

Effect: Without procedures to trace the monthly reports to supporting documentation there is an increased risk costs may not be allowable in accordance with the grant agreements.

Recommendation: We recommend the Agency ensure compliance with Federal regulations by establishing procedures to adequately monitor subrecipients. Monitoring should include procedures to ensure monthly reports are adequate, agree to supporting documentation and that subrecipient expenditures are in accordance with A-87. Furthermore, we recommend the Agency ensure A-133 audits received properly test clusters as major programs.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Agency will review and update the subrecipient monitoring process to include more detailed financial review.

Contact: Sarah Briggs

Anticipated Completion Date: January 1, 2012

Finding #10-25-12

Program: CFDA 93.044 & 93.045 – Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers and Title III, Part C, Nutrition Services – Maintenance of Effort & Reporting

Grant Number & Year: #10AANET3SP, FFY 2010

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

Criteria: 45 CFR § 92.20(a) (October 1, 2009) states, "A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to – (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

A good internal control plan requires the entity to have controls in place to ensure expenditures reported are proper and agree to accounting records.

Condition: During testing of the fiscal year 2010 financial status report for the semi-annual period, October 1, 2009, through March 31, 2010, there were several errors noted. Furthermore, maintenance of effort expenditures were unable to be traced to the accounting system and subrecipient expenditures reported on the monthly reports were not substantiated through appropriate monitoring procedures.

Questioned Costs: Unknown

Context: The financial status report tested contained information that did not agree to supporting documentation as follows:

- In-kind contributions reported totaled $499,780; however, the supporting documentation accumulated from the AAAs monthly expenditure reports was $170,098.
- Seven line items on the report were not accurate due to formula or clerical errors totaling $11,137.
- Reported expenses were not reconciled to the State accounting system.

Furthermore, the maintenance of effort expenditures are accumulated from State accounting information and the AAA monthly reports, the amount is primarily accumulated from the AAA reports. However, the monthly reports are not reviewed in detail when the Agency performs on-site monitoring procedures. Therefore, there is no documentation that the monthly reports agree to AAA accounting records. In addition, the total maintenance of effort provided by the State was not reconciled to the State accounting system.

Cause: Errors noted in the report were due to improper formulas or data inappropriately not updated from prior reporting. The reporting process is manual and cumbersome, which increases the risk for errors to occur and not be detected. Worksheets are compiled from 8 AAA's monthly billings to prepare quarterly information by program. The maintenance of effort expenditures consisted of State information which was not reconciled to the accounting system, and AAA reporting which was not adequately monitored by the Agency.

Effect: Improper reporting and noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency ensure Federal reporting is proper and agrees to supporting documentation. Furthermore, the Agency should implement procedures for the proper monitoring and review of subrecipient reporting to ensure reported amounts agree to AAA accounting records. We also recommend the Agency reconcile reported amounts to the State accounting system.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will review and update the subrecipient monitoring process to include more detailed financial review. The Agency is reviewing subrecipient reporting mechanisms, with the intention of increasing automation and efficiency.

Contact: Sarah Briggs

Anticipated Completion Date: January 1, 2012

Finding #10-25-13

Program: CFDA 93.044, 93.045, 93.053, 93.705, and 93.707 – Aging and ARRA Aging Cluster – Cash Management

Grant Number & Year: All open including #AANET3SP, FFY 2010; #AANENSIP, FFY 2010

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

Criteria: 31 CFR § 205.33(a) (July 1, 2009) states, "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. 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. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102."

OMB Circular A-102 and 45 CFR § 92.37(a) (October 1, 2009) state, "States shall:…(4) Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

Condition: The Agency did not have adequate procedures to ensure advances to subgrantees were as close as administratively feasible to the AAA's actual cash outlay. Payments to subgrantees exceeded the immediate cash needs of the AAAs.

Questioned Costs: Unknown

Context: The Agency disbursed $7,294,394 in aid to the AAAs during fiscal year 2010. The Agency policy was to allow the AAA to request up to two months of estimated expenses. We believe two months of expenses are in excess of immediate cash needs. We tested 25 payments to determine if the funds were used within the two months as estimated. We noted 6 of 25 expenditures tested were not spent within two months. The funds were used from 4 to 6 months after the original request was made.

Cause: The Agency policy of two months was excessive and there were no consequences for AAAs over-estimating cash needs.

Effect: Noncompliance with regulations could result in Federal sanctions.

Recommendation: We recommend the Agency ensure compliance with Federal regulations by establishing procedures to ensure subrecipients minimize the time cash is on hand.

Management Response: The Agency has not received Federal guidance on advance payments.

Corrective Action Plan: The Agency will consult with Federal Grantor (Administration on Aging) regarding requirements for a fair advance payment process. Agency processes will be reviewed and adjusted for compliance with Federal guidelines.

Contact: Sarah Briggs

Anticipated Completion Date: January 1, 2012

<u>Finding #10-25-14</u>

Program: CFDA 93.044, 93.045, 93.053, 93.705, and 93.707 – Aging and ARRA Aging Cluster – Subrecipient Monitoring

Grant Number & Year: All open including #AANET3SP, FFY 2010; #AANENSIP, FFY 2010

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

Criteria: 2 CFR § 176.210 (April 23, 2009) states, "(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133…recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133…(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

45 CFR 1321.13(a) (October 1, 2009) states, "The State agency shall: (1) Review, monitor, evaluate and comment on Federal, State and local plans, budgets, regulations, programs, laws, levies, hearings, policies, and actions which affect or may affect older individuals and recommend any changes in these which the State agency considers to be appropriate."

Condition: The Agency did not adhere to Recovery Act requirements for subrecipient notifications and did not have documentation of their review of two AAA plans.

Questioned Costs: Unknown

Context: The Agency disbursed $7,294,394 in aid to the local AAAs during fiscal year 2010, of which $562,321 was ARRA. During testing of 25 aid expenditures, we noted the following:

- Three of three AAA payments tested with ARRA expenditures had not been informed of the proper CFDA number in the grant award and there was no documentation that the Agency had informed the subrecipient of the requirement to identify the ARRA funds in the SEFA and SF-SAC. The ARRA awards reported CFDA 93.045 instead of the proper CFDA numbers 93.705 and 93.707.
- There was no documentation of the Agency's communication of the SEFA or SF-SAC requirements.
- Two of eight AAA annual area plans were not documented as reviewed by the Agency. The Agency reviewed the AAA area plans and documented their review via a letter to the AAA. The Agency was unable to provide letters for their review of the Aging Office of Western Nebraska and Blue Rivers Area Aging Agency plans.

Cause: Staff mistakenly used the incorrect CFDA number in the awards. The SEFA and SF-SAC requirements were unknown by the Program staff. Letters documenting the Agency review of AAA area plans could not be located.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency ensure compliance with Federal regulations by establishing procedures to ensure proper CFDA numbers and other reporting requirements are communicated, and reviews are performed and properly documented.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: ARRA grant award announcements have been sent to subrecipients. The ARRA funds have been expended and reported per Federal requirements. Since corrective action on these past announcements is not possible, the Agency will review notification of award procedures and implement changes as necessary. The Agency will review the subrecipient monitoring processes and establish procedures to better track and document review activities.

Contact: Sarah Briggs

Anticipated Completion Date: January 1, 2012

Finding #10-25-15

Program: CFDA 93.268 – Immunization Grants – Allowability

Grant Number & Year: #5H23IP722562-07, FFY 2009; #5H23IP722562-08, FFY 2010

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 adequately documented. A good internal control plan requires adequate procedures to ensure reimbursements to public health departments are for actual costs. A good internal control plan requires procedures to ensure reimbursements to local health departments are appropriately monitored in order to prevent overpayments.

Condition: The Agency did not have adequate procedures to verify reimbursements to local health departments were for actual costs or to monitor reimbursements to prevent overpayments.

Questioned Costs: $8,197 known

Context: The Agency enters into agreements with local health departments to assist in the operation of immunization programs for age-appropriate children. Each agreement contains specific requirements to be completed in order to receive Federal funding. On a quarterly basis, the local health departments submit work plan reports to the Agency to document progress made on their agreements and expenditure reports which track their costs during the quarter. During our testing, we noted the Agency did not maintain adequate documentation to verify the costs included on the expenditure reports from all four local health departments tested were actually incurred. These four local health departments were reimbursed $473,551 in fiscal year 2010. Total reimbursed to all 25 local health departments under agreement in fiscal year 2010 was $911,759.

An independent contractor does perform financial reviews of local health departments and submits a report of their findings which is relied upon by the Agency. However, we reviewed one report and noted there was not sufficient detail to determine the specific work they had completed. In addition, the current agreement with the independent contractor only requires seven reviews be completed for the Immunization Program from February 15, 2010, to June 30, 2011.

We also noted two of four local health departments tested were reimbursed twice for reports submitted for the quarter July 1, 2009 to September 30, 2009. Total overpayment to these local health departments was $8,197.

Cause: Adequate procedures had been not implemented.

Effect: Without procedures to ensure reimbursements to local health departments are for actual costs and are not overpaid, there is an increased risk Federal funds could be utilized to subsidize other programs or misused.

Recommendation: We recommend the Agency implement procedures to ensure reimbursements to local health departments are for actual costs. We further recommend the Agency implement procedures to ensure reimbursements to local health departments are appropriately monitored.

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

Corrective Action Plan: We agree that duplicate payments were made for 2 grantees. In December 2010, the overpaid grantees agreed to reimburse the overpayment amount. Checks and balances were in place and we have reviewed procedures and how they are impacted by emergency situations. The Agency will evaluate the requirements of the independent contract for financial review and ensure they include adequate testing of records.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: Review completed December 29, 2010, and on-going.

Finding #10-25-16

Program: CFDA 93.268 – Immunization Grants; CFDA 93.712 – ARRA – Immunization – 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, 2009), 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." A good internal control plan requires procedures to ensure reviews of the EPLS are documented.

OMB Circular A-133 § 315 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings . . . The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards . . . When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken . . . When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."

Condition: A review of the EPLS was not documented for 5 of 25 vaccinating providers tested.

Questioned Costs: Unknown

Context: As part of the Vaccines for Children (VFC) program, the Agency provides vaccines to both private and public providers. Agency staff reviews the EPLS to ensure vaccinating providers are not suspended or debarred; however, procedures were not in place to document this review for public providers. During our testing, we verified none of the five vaccinating public providers tested were listed on the EPLS.

There were a total 48 public providers in fiscal year 2010.

A similar finding was noted in the prior audit. The summary schedule of prior audit findings for Finding #09-25-34 states that corrective action had been completed; however, procedures to document a review of the EPLS for all vaccinating providers, as noted during our testing, had not been implemented.

Cause: Adequate procedures had not been implemented.

Effect: The Agency could be providing vaccines to suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to document the review of the EPLS for all vaccinating providers.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Immunization Program will review the status of each Vaccines for Children provider monthly against the EPLS by the 7th of the month and document the review on the provider master list. All new providers enrolling in the Vaccines for Children Program will be checked against the EPLS when their enrollment forms are received in the Immunization Program office. The date of the status review for new providers will be recorded in the master list of providers at the time that they enroll.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: The January 2011 EPLS review of all VFC providers was completed January 6, 2011. Monthly reviews will be on-going.

Finding #10-25-17

Program: CFDA 93.268 – Immunization Grants; CFDA 93.712 – ARRA – Immunization – Special Tests & 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.

Condition: For 5 of 22 vaccinating providers tested, the Agency did not sample their inventory records during onsite reviews to ensure proper recording of receipt, transfer, and usage of vaccines.

Questioned Costs: Unknown

Context: The Agency implemented procedures to sample vaccinating provider inventory records as part of their onsite reviews; however, they were not in place until February 2010. Five providers tested were reviewed prior to February 2010 and were not subject to these sampling procedures. There were a total of 323 vaccinating providers in fiscal year 2010.

Cause: Procedures were not implemented until February 2010.

Effect: Without proper sampling of inventory records, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency continue to utilize procedures in place to sample vaccinating provider inventory records during onsite reviews.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Since procedures were drafted and put in place February 2010, the Immunization Program will continue to utilize the procedures to sample vaccinating provider inventory records during on-site compliance visits.

Contact: Barbara Ludwig, Immunization Program Manager

Anticipated Completion Date: Sampling procedures were completed February 26, 2010, and are on-going.

<u>Finding # 10-25-18</u>

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

Grant Number & Year: #09UDP001473A, FFY2009

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

Criteria: OMB Circular A-133 § 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.

OMB Circular A-133 § 315 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. . . The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. . . When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. . .When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."

Condition: Two Nutrition subawards tested did not include the CFDA title and name of the Federal Agency. A similar finding was noted in the prior audit. For one of the two Nutrition awards tested, the audit certification form identified two CFDAs as the source of the Federal assistance. The grant agreement did not include detail of the amount of Federal assistance from each program.

The summary schedule of prior audit findings for Finding #09-25-25 states the corrective action is complete. The Agency's corrective action was to create a template which includes all the required information. It appears the template was created but it was not used for the Nutrition subawards. As of June 30, 2010, this action was not complete.

Questioned Costs: Unknown

Context: Our follow-up testing of the prior audit findings included two Tobacco, one Epidemiology, and two Nutrition subawards. The two Nutrition subawards did not include the CFDA title and name of the Federal Agency. The subrecipients were the Panhandle Public Health District and Two Rivers Public Health Department. A similar finding was noted in our prior audit.

The two CFDAs identified on the audit certification form for the Two Rivers Public Health Department were CFDA 93.991 – Preventive Health and Health Services Block Grant and CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance.

Cause: Inadequate oversight and regulations not updated.

Effect: Noncompliance with A-133 and the possibility of loss of Federal funding.

Recommendation: 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. Additionally, when Federal assistance for the sub-grant award is from more than one Federal assistance program, the amount of Federal assistance from each Federal program should be identified.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: We developed a template in July 2010 which alerts all that they must include the name of the funding source as outlined in the audit. This template is required for all subgrants and will be included in the current development of the subgrant award process.

Contact: Dan Cillessen

Anticipated Completion Date: March 31, 2011

<u>Finding #10-25-19</u>

Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Allowable Costs/Cost Principles and Eligibility

Grant Number & Year: All open including #0G0702NETANF, FFY2007

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." A good internal control plan requires procedures be in place to ensure children age 16, 17, or 18 are either going to school or enrolled in Employment First.

Per 42 USC 608(a)(8) (2010), a State may not provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted of having made fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States. Per 42 USC 608(a)(9)(A) (2010), a State may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who is violating a condition of probation or parole. Per 42 USC 608(a)(3) (2010), a State shall require, as a condition of providing assistance, that a member of the family assign to the State the rights the family member may have for support from any other person. Per 21 USC 862(a) (2010), an individual convicted of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance is ineligible for assistance. 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.

OMB Circular A-87 states, "to be allowable under Federal awards, costs must…be adequately documented." A good internal control plan requires procedures be in place to ensure eligibility for cash assistance is redetermined at least on an annual basis.

Condition: 4 of 40 TANF cash assistance payments tested were not in compliance with Federal and State requirements.

Questioned Costs: $486 known

Context: If a child in the unit is age 16, 17, or 18, the child must either attend school or be enrolled in Employment First. For two cases the child was not in Employment First and the caseworker did not verify the child was attending school. In one of these cases, the auditor determined the child had graduated high school and should not be in the unit.

For one case, the application for assistance could not be located. There was pertinent information regarding the application in the NFOCUS narratives; however, since the physical, signed application could not be located, there was no support to determine whether the individual was convicted of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more states; whether the individual was fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who was violating a condition of probation or parole; whether the individual was convicted or any offense which was classified as a felony which involved the possession, use, or distribution of a controlled substance; whether a member of the family assigned to the State the rights the family member may have for support from any other person; nor whether the family was needy.

For another case, the annual eligibility review had not been performed. As of the end of State fiscal year 2010 the annual eligibility review was five months overdue.

Federal payment errors noted were $486. The total Federal sample tested was $7,286 and total TANF cash assistance payments for fiscal year 2010 were $17,480,434. Based on the sample tested, the case error rate was 10% (4/40). The dollar error rate for the sample was 6.67% ($486/$7,286) which estimates the potential dollars at risk for fiscal year 2010 to be $1,165,945 (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. The Agency should strengthen controls over identification and follow-up on cases with children in the unit age 16, 17, or 18 to ensure they are either going to school or enrolled in Employment First. The Agency should ensure annual reviews are occurring on time and that all relevant supporting documentation is maintained.

Management Response: The Agency agrees with the conditions reported.

Corrective Action Plan: The age alert that is currently received by Social Service Workers for dependents in an ADC grant at age 16, 17, and 18 will be updated to include new language within the alert. This language will direct the Social Service Worker to verify school attendance of the dependent child.

Effective with the ACCESSNebraska pilot, Medicaid cases will be automatically sent a review letter the month prior to their review due date. If the household fails to respond and complete the review an alert will be created in N-FOCUS that will notify a Social Service Worker that the case needs to be closed for failure to complete a review. This will prevent ADC cases from continuing without a review at twelve months. Reports will be monitored and reviewed to determine that this process is working correctly and changes will be made accordingly.

All documentation received for a case will be scanned immediately upon receipt by the Agency. An alert will be generated to N-FOCUS to notify the Social Service Worker they have received a scanned image. The Social Service Worker will then review the image to make a determination of case action. This review of the image will ensure that all relevant information is scanned and readable prior to destruction of the paper document. The paper documents will then be retained for a period of no less than thirty days from the scan date.

Contact: Teri Chasten

Anticipated Completion Date: April 1, 2011

Finding #10-25-20

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

Grant Number & Year: All open including #0G0702NETANF, FFY2007

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

Criteria: Per the TANF State Plan effective October 1, 2007, "eligibility for ADC cash assistance must be redetermined every six months." Per Title 468 NAC 1-010, "the worker must redetermine eligibility for grant and medical assistance every six months." Per OMB Circular A-87, to be allowable under Federal awards, costs must be authorized or not prohibited under State or local laws or regulations.

Condition: We noted during cash assistance detail testing, eligibility reviews are only required by the Agency to be performed once a year. Both the TANF State Plan and the Nebraska Administrative Code (NAC) require reviews to be performed every six months.

Questioned Costs: Unknown

Context: On December 29, 2008, the Agency issued a manual bulletin stating that, effective January 1, 2009, the staff can eliminate six-month reviews for TANF. However, the Agency did not update their TANF State Plan or the NAC. In the prior audit, the Agency responded "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." As of June 30, 2010, the code had not yet been updated. During cash assistance testing, auditor noted 14 of 40 cases tested where reviews were greater than six months apart but were still within the Agency's procedures of having annual reviews.

A similar finding was noted in the previous audit report.

Cause: The Agency changed its procedures but did not change the State Plan or the NAC.

Effect: Noncompliance with the State Plan and with the NAC could result in unallowable costs and Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure procedures are in line with the TANF State Plan and the NAC.

Management Response: The Agency agrees with the conditions reported.

Corrective Action Plan: The 2010 TANF State Plan is in the process of being approved. The 2010 TANF State Plan does include information in regard to twelve month redeterminations. Title 468 of the Nebraska Administrative Code is also in the process of obtaining approval for the changes in annual review procedures.

Contact: Teri Chasten

Anticipated Completion Date: April 1, 2011

Finding #10-25-21

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

Grant Number & Year: All open including #0G1002NETANF, FFY2010

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

Criteria: Per 45 CFR § 261.62(a) (October 1, 2009), "To ensure accuracy in the reporting of work activities by work-eligible individuals on the TANF Data Report and, if applicable, the SSP-MOE Data Report, each State must:…(4) Establish and employ internal controls to ensure compliance with the procedures..."

A good internal control plan requires procedures to ensure hours of work participation are calculated and reported consistently.

According to the Agency's internal policy, Entry of Participation Hours, dated August 1, 2007, "For each component, total the actual monthly hours of participation and enter that figure in N-FOCUS. The process of averaging hours per week occurs at the point where we calculate for Federal reports. If the total number of hours should include a partial hour, normal rounding procedures will apply. For less than ½ hour, round down to the nearest hour. For ½ hour or more, round up to the nearest hour."

According to the Agency's Standards for Contractor Retainage Review Issues for Verification – Rounding hours, effective July 2009, "Whether the case manager chooses to use fractions or decimals for partial hours of participation, standard rounding procedures apply. Rounding should be done to the benefit of the participant."

Condition: Employment First hours and work participation status were incorrectly reported on the ACF-199 Report for 6 of the 35 individuals tested for October 2009. The Agency was allowing rounding when there is no Federal provision for and rounding was not applied consistently.

Questioned Costs: None

Context: Each month the Agency reviews 10% of cases that are reported as meeting the required work participation by each of the Employment First (EF) contractors. For 6 of the 35 cases tested, the Agency found that the TANF participant was meeting the required work participation and was shown as meeting the required work participation on the ACF-199 report for October 2009; however, during review of supporting documentation the auditor determined these individuals did not meet the required work participation. For one individual the EF contractor used hours worked from 5 weekly paychecks during October 2009. One of these paychecks should have been prorated as some of the hours were worked in September 2009. Five of the individuals did not meet the required participation for the month due to rounding procedures the EF contractor was using. One-half hours were periodically rounded up to the next whole hour per job application, per class time, per day, or per week giving the individuals extra hours in order to meet the required work participation. It appears the EF contractors are not consistent in applying rounding. Additionally, there is no Federal provision for rounding and the Agency does not have a policy in place that specifically addresses rounding procedures by job application, class time, per day, or per week.

Cause: Unknown.

Effect: Without adequate controls in place, there is a greater risk the Employment First participation rate would be incorrectly reported, which could result in Federal sanctions.

Recommendation: We recommend the Agency implement adequate procedures to ensure Employment First participation hours are correctly reported on the ACF-199/209 reports. We further recommend if rounding is used, a policy be included in the federally-approved State plan and applied on a consistent basis.

Management Response: The Agency agrees with the conditions reported.

Corrective Action Plan: In anticipation of this finding, processes were clarified with Agency and Contractor staff in regard to rounding of participation hours. During the TANF statewide meeting held on August 25, 2010, a TANF policy log clarifying the appropriate use of rounding was shared and discussed. This TANF policy log is stored with other policy log clarifications in the TANF policy log database.

A Central Office second party review of Employment First contractor case files will be completed to assess the application of the newly clarified rounding policy. The State's Work Verification Plan will be updated to include language on the rounding procedures.

Contact: Teri Chasten

Anticipated Completion Date: June 1, 2011

Finding #10-25-22

Program: CFDA 93.563 – Child Support Enforcement and ARRA – Child Support Enforcement – Reporting

Grant Number & Year: All open including #0G1004NE4004, FFY 2010; #0G1004NE4002, FFY 2010

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 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) State Accounting Division (State Accounting) and the Agency of the errors and the SEFA was subsequently adjusted.

Questioned Costs: None

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

CFDA	Originally Reported	Corrected SEFA Amount	Variance
93.563 CSE	$ 28,655,165	$ 18,359,165	$ (10,296,000)
93.563 CSE ARRA	$ 0	$ 10,038,933	$ 10,038,933
Total	$ 28,655,165	$ 28,398,098	$ (257,067)

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 agrees with the condition reported.

Corrective Action Plan: The Agency has instructions for preparation of the SEFA report. The Agency will reinforce the preparation and review processes to correct the identified SEFA misstatements.

Contact: Larry Morrison

Anticipated Completion Date: June 30, 2011

Finding #10-25-23

Program: CFDA 93.563 – Child Support Enforcement and ARRA – Child Support Enforcement – Allowable Costs/Cost Principles

Grant Number & Year: #0G1004NE4004, FFY 2010; #0G1004NE4002, FFY 2010

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

Criteria: Per OMB Circular A-87, to be allowable costs must be adequately documented. Per the cooperative agreement between the subrecipient and the Agency, "Reimbursement to Clerks of the District Court offices is based on a percentage of time allocable to the Title IV-D program. Time allocation will be determined through the analysis of data in the use of automated systems."

Condition: For 1 of 25 subrecipient payments tested, the payment made did not agree to supporting documentation, which caused an overpayment of $1,160.

Questioned Costs: $1,160 known

Context: We tested 25 subrecipient payments of which 9 were to Clerks of the District Courts (Clerks). Clerks submit their total expenses quarterly to the Agency for reimbursement. Allowable expenses are determined by the Agency by applying a percentage based on the time spent on Child Support Enforcement cases. Each Clerk's total expenses multiplied by the time study percentage equals the expense allowable for reimbursement.

Federal payment errors noted were $1,160. The total Federal sample for Clerks tested was $102,997 and total payments to Clerks for fiscal year 2010 were $1,937,233. Based on the sample tested, the payment error rate was 11.11% (1/9). The dollar error rate for the sample was 1.13% ($1,160/$102,997) which estimates the potential dollars at risk for fiscal year 2010 to be $21,891 (dollar error rate multiplied by population).

Cause: The Agency inadvertently used a time percentage from an incorrect quarter.

Effect: When payments made to subrecipients do not agree to supporting documentation, there is an increased risk for unallowable expenses.

Recommendation: We recommend the Agency implement procedures to verify the correct percentages are applied to the county billing to ensure only allowable expenses are reimbursed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In the future, if multiple quarterly reimbursement reports are received, each report amount will be added to the individual quarterly reimbursement report check list as an individual quarterly reimbursement report. The individual reports will be added together to obtain a sum total, with this total compared to the total calculated reimbursement for the county to assure the individual quarterly time study percentages are matched to the correct quarterly work sheet.

Contact: John Kwiatek, CSE Finance Administrator

Anticipated Completion Date: Immediately Implemented

Finding #10-25-24

Program: CFDA 93.569 – Community Services Block Grant; CFDA 93.710 – ARRA – Community Services Block Grant – Cash Management and Special Tests and Provisions

Grant Number & Year: #G09B1NECOSR, FFY 2009; #G10B1NECOSR, FFY 2010; #G0901NECOS2, FFY 2009 ARRA

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

Criteria: Per 31 CFR 205.33(a) (July 1, 2009), States should exercise sound cash management in funds transfers to subgrantees. A good internal control plan requires procedures be in place to ensure cash advances to subrecipients are for the subrecipients' immediate cash needs only. Per 42 USC § 9907(a)(2) (2010), funds distributed to eligible entities through grants for a fiscal year shall be available for obligation during that fiscal year and the succeeding fiscal year. A good internal control plan requires procedures be in place to ensure subgrants are made on a timely basis.

Condition: The Agency's policy was to pay subrecipients approximately one fourth of the subaward each quarter which does not ensure advances are for immediate cash needs only. We also noted subgrants could be awarded in a more timely manner.

Questioned Costs: Unknown

Context: At the beginning of each grant year the Agency predetermines the timing and amount of the award to subrecipients independent of actual spending by the subrecipients. Therefore at any one time subrecipients have received either too much or too few funds from the Community Services Block Grant (CSBG) to meet their immediate cash needs. The Agency makes payments to subrecipients approximately every quarter, as well as requires quarterly reports of expenditures from the subrecipients. Auditor of Public Accounts (APA) tested two subrecipients and noted that variances during the fiscal year ranged from the subrecipient having received $849,176 of funds in excess of its expenditures, to the subrecipient needing $315,224 to cover expenditures incurred.

In addition for the 2010 grant, there was a 52 day lag for one subrecipient and a 47 day lag for the other between the time the Federal government awarded the funds to the Agency and the time the Agency subawarded the funds to the subrecipients. Per the June 2010 OMB Circular A-133 Compliance Supplement, "States must (1) use at least 90 percent of their allotted funds under this program for subgrants to eligible entities, (2) subgrant funds in a timely manner to allow subgrantees a sufficient opportunity to obligate the funds to accomplish program purposes. . . There is a concern that some States are (1) not allotting the funds to subgrantees, either to the required level or early enough to allow a full period of performance by subgrantees without the possibility of recapture, resulting in unobligated balances of funds…"

Cause: The Program Specialist in charge of the CSBG was not aware of the cash management requirement. The Agency was monitoring to ensure all funds were spent by subrecipients before the end of the period of availability, but the Agency did not monitor to ensure time between receipt and disbursement of funds by subrecipients was minimized. Subgrants were not made to subrecipients timely because multiple levels of review by Agency management prior to disbursement of funds were lengthy.

Effect: Without procedures to ensure subrecipients are only advanced enough funds to meet their immediate cash needs, there is an increased risk of noncompliance with cash management regulations and there is an increased risk subgrants are not made timely.

Recommendation: We recommend the Agency implement procedures to ensure recipients are advanced funds to meet their immediate cash needs only and the funds are subgranted timely.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: CSBG Program Specialist will create monitoring tools for effectively checking cash management. She will work with Administration and Finance to determine if there are ways to speed up the disbursement process while still adhering to State and Agency regulations.

Contact: Jennifer Dreibelbis, CSBG Program Specialist

Anticipated Completion Date: March 31, 2011 - FY2011 cash management monitoring tool in use. October 1, 2011 - implementation of new procedures for subgrants, for subgrantee payments, and timeliness of payments.

<u>Finding #10-25-25</u>

Program: CFDA 93.569 – Community Services Block Grant; CFDA 93.710 – ARRA – Community Services Block Grant – Allowability and Subrecipient Monitoring

Grant Number & Year: #G09B1NECOSR, FFY 2009; #G10B1NECOSR, FFY 2010; #G0901NECOS2, FFY 2009 ARRA

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

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 procedures be in place to ensure subrecipients' costs are allowable in accordance with applicable cost principles, allowable activities, and follow appropriate procurement procedures.

Per 42 USC § 9901(1) (2010), allowable activities are any programs, services, or other activities related to achieving the broad goals of the CSBG program, including "the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals…to become fully self-sufficient." Per 42 USC § 9918(a)(1) (2010), CSBG funds may not be used "for the purchase or improvement of land, or the purchase, construction, or permanent improvement…of any building or other facility." Per 42 USC § 9918(b)(2) (2010), CSBG funds may not be used to support any partisan or non-partisan political activity or to provide voters or prospective voters with transportation to the polls or provide similar assistance in connection with an election or any voter registration. Per 42 USC § 9920(c) (2010), CSBG funds may not be provided directly to a religious organization for inherently religious activities, such as worship, religious instruction, or proselytization. Per the American Recovery and Reinvestment Act of 2009 § 1604, no ARRA funds may be used "for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool." A good internal control plan requires procedures be in place to ensure subrecipients' expenditures are made for allowable activities.

Per 42 USC § 9914(a) (2010), States must conduct full onsite reviews of each eligible subgrantee once every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. A good internal control plan requires procedures be in place to ensure site visit checklists covering all required types of monitoring are completed.

Condition: We tested four of nine subrecipients and noted the Agency did not have adequate documentation on file and subrecipient monitoring was not adequate to support payments to subrecipients were for allowable activities, in accordance with allowable cost principles and per procurement requirements.

Questioned Costs: Unknown

Context: Subrecipients report expenditures each quarter to the Agency. The expenditure reports include a breakdown of the quarter's expenses by cost categories: payroll, travel, operating expenses, contractual services, etc. The expenditure reports were reviewed by Agency staff; however, no invoices or detailed supporting documentation was attached. Also, there were no procedures performed to verify the quarterly reports agreed to subrecipient supporting documentation when the Agency performed on-site reviews. Due to this lack of review, we could not determine whether subrecipient expenditures were for allowable activities, for allowable costs, or whether they met procurement guidelines.

The Agency does obtain subrecipient A-133 audits which would provide reliance if the CSBG was audited as a major program. Three of four subrecipients tested had an A-133 audit for the fiscal year ended September 30, 2009, that had CSBG as a major program and there were no audit findings. This provides some level of assurance that for the first quarter of the State's current fiscal year expenditures were for allowable activities, allowable costs, and met procurement guidelines.

The Agency also has financial reviews performed by an independent contractor. Two of four subrecipients tested had a financial review performed by a contractor for one quarter during the current fiscal year (including the one subrecipient above which did not have the CSBG as a major program). This provides some level of assurance that for one quarter of the State's current fiscal year expenditures were for allowable costs and met procurement guidelines. However, APA could not determine what specific transactions the contractor reviewed or what specific procedures the contractor performed because the work product submitted by the contractor to the Agency did not explain these items in sufficient detail. APA requested and reviewed the workpapers of the contractor for one of the subrecipients tested and found the workpapers were not sufficient in detail to identify how many transactions were reviewed, the dollar amount of the transactions reviewed, or what specific transactions were reviewed. APA also could not determine what specific procedures the contractor performed.

In addition, the Agency is required to conduct a full onsite review every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. The Agency had an extensive onsite review checklist that covered all requirements; however, this checklist was not completely filled out nor was there adequate documentation to support the Agency's review.

Total payments made to the four subrecipients tested during State fiscal year 2010 were $5,664,486 and total aid payments to all subrecipients were $10,071,497.

Cause: Expenditures were not verified to support because the Agency relied on financial reviews performed by a contractor. Although this provides some assurance, the contractor does not review each subrecipient every year and the review covers only one quarter of the fiscal year. The onsite visit checklist was not completed because it was viewed as an internal document only and because the Program Specialist was unsure of what was needed to complete all the steps.

Effect: Without procedures to ensure adequate subrecipient monitoring, there is an increased risk subrecipients' expenditures are not allowable. Without procedures to ensure onsite review documentation is maintained, there is an increased risk onsite reviews did not meet CSBG program requirements.

Recommendation: We recommend subrecipient monitoring be improved to provide reasonable assurance subrecipients' expenditures are allowable. This monitoring should include consideration of whether subrecipient expenditures are covered by A-133 audits or financial reviews by the contractor. For financial reviews performed by the contractor, we recommend the Agency obtain a better understanding of the extent of transactions reviewed and what specific procedures are performed, to ensure the work performed meets the Agency's requirements. If there is no coverage for a particular period, we recommend the Agency perform additional procedures to satisfy that expenditures are allowable. We further recommend the Agency fully perform and document their onsite reviews to ensure compliance with CSBG program requirements.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In addition to an improving knowledge base with increased tenure, CSBG Program Specialist will attend the following training sessions:

EnterpriseOne Accounts Payable Training-February 1, 2011

Performance Based Budgeting - National State Auditors Association presentation-January 13, 2011

Designing Internal Controls for Federal Grant Programs-Thompson Interactive presentation-February 7, 2011

Other trainings related to financial monitoring, subrecipient monitoring, and relevant topics as available and approved by DHHS-Children and Family Services administration.

Contact: Jennifer Dreibelbis, CSBG Program Specialist

Anticipated Completion Date:

March 15, 2011 - better compliance and documentation concerning the financial review contract. This will be done in partnership with Rayma Delaney (Pat Wulff contract lead).

March 15, 2011 - new onsite monitoring procedures in place to better monitor financial policies and procedures.

April 2011 - new policies and procedures for CSBG including financial monitoring in place for the program.

October 1, 2011 - new procedures will be in place for FFY2012 and incorporated into the CSBG subgrants and new Pat Wulff contract.

Finding #10-25-26

Program: CFDA 93.569 – Community Services Block Grant; CFDA 93.710 – ARRA – Community Services Block Grant – Eligibility

Grant Number & Year: #G09B1NECOSR, FFY 2009; #G10B1NECOSR, FFY 2010; #G0901NECOS2, FFY 2009 ARRA

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

Criteria: Per 42 USC § 9902(2) (2010), the official poverty guideline shall be used to determine eligibility. 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 the Agency to ensure subrecipients are providing services to eligible recipients only.

Condition: The Agency was unable to provide adequate documentation to APA to support subrecipients were providing services to eligible recipients only.

Questioned Costs: Unknown

Context: Recipient eligibility is determined at the subrecipient level. When the Agency performs subrecipient onsite visits they are to verify the subrecipient properly determined recipient eligibility. The Agency maintains a subrecipient onsite visit checklist that includes the following steps:

- Is there evidence that staff used the most current figure for the 'official poverty line'?

- Did the Agency supply evidence that its clients meet the guidelines for the specific programs they receive?

We tested two of nine subrecipients. For one subrecipient there was a checkmark next to the eligibility questions, indicating the Agency verified the subrecipient was properly determining recipient eligibility. For the other subrecipient the questions were left blank. Per the Agency, the onsite visit checklist is an internal document and it is not necessary to complete it. Per the Agency, at each onsite visit the Agency asks the subrecipient to provide them with four to five client files which the Agency then reviews for eligibility. However, no documentation was provided to APA to support that this verification actually occurred.

Cause: Per the Agency, eligibility of recipients was verified during subrecipient onsite visits. However, the Agency did not document details of records reviewed.

Effect: Without documentation to support that the Agency adequately monitors subrecipients' eligibility determinations, there is the risk monitoring is inadequate.

Recommendation: We recommend the Agency monitor subrecipients' eligibility determinations and adequately document their review.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The CSBG Program Specialist will ensure the form is completed in full and is part of the onsite review paperwork.

The CSBG Program Specialist will create procedures to determine that clients are eligible for the services received.

Contact: Jennifer Dreibelbis, CSBG Program Specialist

Anticipated Completion Date:
February 2011 - new procedures in place to monitor client eligibility.
March 15, 2011 - use form in entirety for next onsite review.

Finding #10-25-27

Program: CFDA 93.710 – ARRA – Community Services Block Grant – Special Tests and Provisions

Grant Number & Year: #G0901NECOS2, FFY 2009 ARRA

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

Criteria: Per 2 CFR §176.210(c) (April 23, 2009), "recipients agree to separately identify to each subrecipient, and document at the time of subaward *and at the time of disbursement of funds*, the Federal award number, CFDA number, and amount of Recovery Act funds." (Emphasis added)

Condition: The Agency notified subrecipients of the Federal award number, CFDA number, and amount of ARRA funds at the time of the subaward but not at the time of the disbursement of funds. Beginning in April 2010, the Agency notified subrecipients of the amount of ARRA funds at the time of the disbursement of funds, but still did not notify the subrecipients of the Federal award number or CFDA number.

Questioned Costs: None

Context: The Agency would advance a lump sum to each subrecipient which included regular CSBG funds and ARRA funds. The Agency began notifying subrecipients of the amount of ARRA funds at the time of the disbursement of funds after one subrecipient complained that they did not know the breakdown. Per the Agency, the subrecipients should have been able to identify the amount of regular versus ARRA funds because they knew in advance the specific dollar amounts they would be receiving for each grant.

Cause: Agency staff was unaware of the additional ARRA requirement to notify subrecipients of the Federal award number, CFDA number, and amount of ARRA funds at the time of the disbursement of funds.

Effect: Without procedures in place to ensure subrecipients are notified of pertinent ARRA information at each disbursement of funds, there is an increased risk of noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure subrecipients are notified of the Federal award number, CFDA number, and amount of ARRA funds at the time of the disbursement of funds.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: CSBG ARRA funding ended September 30, 2010. If similar legislation is proposed in the future, CSBG Program Specialist will ensure, in partnership with Administration, that all policies and procedures are followed.

Contact: Jennifer Dreibelbis, CSBG Program Specialist

Anticipated Completion Date: January 11, 2011

<u>Finding #10-25-28</u>

Program: CFDA 93.575, 93.596, and 93.713 Child Care and Development Fund Cluster – Allowability

Grant Number & Year: #G0901NECCDF, FFY 2009; #G0901NECCD7, FFY 2009; #G1001NECCDF, FFY 2010

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

Criteria: Per Title 392 NAC 4-003.01, the rate for each established unit of care must be limited to the rate established as the Agency's maximum for the type of care, unit of care, and the age of the child involved. Per Title 392 NAC 000-203, the maximum child care rate allowed for a child care center for a toddler, pre-school, or school-age child in Douglas County is $31 per day.

Per Title 392 NAC 1-003, a full day of care is defined as at least 5 hours and 46 minutes through 9 hours.

A good internal control plan requires procedures be in place to ensure amounts are properly billed and billing documents are properly signed.

Condition: 7 of 40 Child Care payments tested were not in compliance with Federal and State requirements.

Questioned Costs: $65 known

Context: We noted the following during our testing:

- For two payments tested, payment amount was incorrect because rates approved by caseworkers were in excess of established maximums. Both payments were for child care centers in Douglas County. One payment was for a toddler and the other was for a school-age child. In both cases the maximum rate allowed per NAC is $31 per day and in both cases the amount charged was $32 per day.

- For three payments tested, payment amount was incorrect due to attendance sheet miscalculations.

- For one payment, the Agency paid for full days of care in three instances when the actual amount of care provided that day was less than five hours and 46 minutes.

- The billing document was not signed by the Agency for one payment tested.

Federal payment errors noted were $65 in overpayments and $2 in underpayments. The total Federal sample tested was $3,297 and the total Child Care Federal assistance claims paid through NFOCUS for the fiscal year were $53,106,991. Based on the sample tested, the case error rate was 17.5% (7/40). The dollar error rate for the sample was 2.0% for overpayments ($65/$3,297) and 0.1% for underpayments ($2/$3,297) which estimates the potential dollars at risk for fiscal year 2010 to be $1,062,140 in overpayments and $53,107 in underpayments for a net effect of $1,009,033 in overpayments (dollar error rate multiplied by population).

Our prior audits also noted allowability findings during case file testing.

Cause: Ineffective review.

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

Recommendation: We recommend the Agency implement procedures to ensure payments are allowable 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 APA's findings.

Corrective Action Plan: A memo will be sent to local office staff sharing the results of the audit and highlighting areas that need more attention. This includes making sure that billing documents are signed by the Agency, that provider rates are at or below Agency maximums, and that calculations on attendance sheets are checked for accuracy.

A System Change Request (a request to modify the NFOCUS computer system) has been written to analyze the possibility of a rate check that would notify the worker when the worker has entered a rate that exceeds the Agency maximums.

The Agency will explore options to more thoroughly review billing documents, taking into account current fiscal and staff resources.

The Agency is in the process of creating an electronic process for claims and payments. This will include a fillable claim form that contains the mathematical calculation formulas. The electronic process will also contain an electronic submission and storage of documents to improve the timing and safeguarding of the information. This will be completed by July 1, 2011.

A report on the progress of corrective actions will be submitted by the required date.

Contact: Charles Coley, Acting State Child Care Administrator

Anticipated Completion Date: July 1, 2011

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

Finding #10-25-29

Program: CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Allowability and Eligibility

Grant Number & Year: #0G0901NE1401, FFY 2009; #0G0901NE1402, FFY 2009; #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010

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

Criteria: Per 42 USC § 671(a)(20) (2010), the foster family home must have met a criminal records check, including a fingerprint-based check.

Per Title 392 NAC 3-008.01A1, a client is limited to 60 hours of child care per week.

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 child care providers are not paid with IV-E funds after the child has been returned home.

Condition: We tested 45 Foster Care payments and noted 4 payments did not comply with Federal and State requirements.

Questioned Costs: $599 known

Context: We noted the following during our testing:

- For two cases, we could see evidence of a criminal records check but it did not include a fingerprint-based check. The caseworkers neglected to get a fingerprint-based check for these cases.

- For one case, the foster child was in child care in excess of 60 hours per week resulting in questioned costs of $447. We reviewed child care claims for four months and found weekly totals ranged from 61.5 hours to 78 hours. These errors were not extrapolated because they were not the specific payment tested in the random sample.

- For one case, child care expenses were paid from IV-E after the child was returned home resulting in questioned costs of $152. This error was not extrapolated because it was not the specific payment tested.

The total Federal sample tested was $20,669, total Federal aid expenditures for the fiscal year were $6,023,504 and total number of claims was 14,935. Allowability and eligibility findings were also noted in our prior audit report.

Cause: There was inadequate caseworker review and inadequate controls over processing claims.

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

Recommendation: We recommend the Agency implement procedures to ensure all foster family homes have a criminal records check, including a fingerprint-based check. We further recommend the Agency implement procedures to ensure the Agency does not pay for foster children to be in child care more than 60 hours per week. Finally, we recommend the Agency implement procedures to ensure child care expenses are not paid from IV-E after the child has been returned home.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan:

- Criminal History Checks: We have identified that the problem of insufficient criminal history checks is specific to Tribal licensed homes. IV-E training with Tribal staff is scheduled at the Norfolk DHHS Office on March 15, 2011. The training will include all IV-E foster care, adoption assistance, and Guardianship Assistance Program (GAP) requirements, with special emphasis on Federal requirements related to background checks. Prior to the training, processes will be established to assure that appropriate verification of the required checks is received by DHHS prior to opening the child for IV-E, and on an ongoing basis thereafter. The inappropriately claimed Federal funds will be unclaimed.
- Child Care Payments: Child Welfare staff are working with Child Care Subsidy Program staff to develop an improvement plan. Strategies will be developed to enhance policy knowledge; communication between persons who gather information for child care authorizations and enter authorizations on NFOCUS; and documentation of need. An initial step in this process will be development of materials that clarify the differences between IV-E Child Care and Child Care Subsidy requirements and a method for gathering and documenting relevant information for each authorization. Inappropriately claimed funds for the two cases audited will be unclaimed.

Contact: Ruth Grosse and Margaret Bitz

Anticipated Completion Date: The inappropriately claimed Federal funds for all four cases will be unclaimed by March 31, 2011 (end of the quarter). The training for Tribal staff will be done on March 15, 2011. The initial step for the child care improvement plan will be completed by May 31, 2011. The anticipated date for completion of the full improvement plan is July 1, 2011.

Finding #10-25-30

Program: CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Allowable Costs/Cost Principles

Grant Number & Year: #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010

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

Criteria: Per Child Welfare and Juvenile Services Reform (Reform) contracts, "the Contractor will submit a schedule of rates for services provided under this contract. DHHS [Department of Health and Human Services] must approve the rates for services prior to contract start date. The Contractor may adjust the rates upon written approval of DHHS." A good internal control plan requires procedures be in place to ensure rates charged to IV-E are reasonable, appropriately approved, and trace to supporting documentation. OMB Circular A-87 states that to be allowable, costs must be necessary, reasonable, and adequately documented.

Condition: During the fiscal year the Agency hired five Reform contractors to provide safety and in-home services to both IV-E and non-IV-E children. We tested the rates charged for Reform direct services and noted the rates were not appropriately approved by the Agency, the rates did not agree to the contractors' schedules of rates, and the rates for out-of-home care varied significantly across contractors, from $31 per day to $115 per day.

Questioned Costs: Unknown

Context: Reform contractors were paid a flat fee each month regardless of the amount or value of services they provided. Previously services had been provided by a large number of contractors based on a fee-for-service model. This shift in the way the Agency purchased services for foster children was referred to as Child Welfare and Juvenile Services Reform.

The contractors are paid a flat fee each month that is split into direct service (aid) and administration costs. Direct services are billed through the Nebraska Family Online Client User System (NFOCUS) and the remaining amount is paid in a lump sum and is classified as administration expense. With Reform, the Agency allowed the contractors to set their own rates for direct services. Per the contracts, the contractors were to submit a schedule of rates and this schedule must be approved by the Agency. The APA observed emails that implied personnel in the individual service areas were aware of and accepted the rates; in addition, the Agency entered the rates into NFOCUS; however, there was no formal approval of the rates by the individual service areas or centrally. Rates for out-of-home care ranged from $31 to $115 and the Agency could not provide documentation to support these rates were reasonable. APA attempted to trace the rates charged to the contractors' schedules of rates and noted the following discrepancies:

- One contractor charged multiple rates for out-of-home care: $31, $50, $69, and $80 per day. Their schedule of rates stated the rates for out-of-home care were "to be determined."

- One contractor charged $35 per day for out-of-home care in most cases but in a few instances charged $40 per day. Their schedule of rates showed rates of $31 per day and $36 per day. In addition, the APA reviewed group home rates for this contractor. This contractor charged $90 per day for group home care but per their schedule of rates they should have charged $69, $96, or $114 based on the type of group home care provided.

- One contractor charged multiple rates for out-of-home care: $35, $55, $81, and $86 per day. Three of these rates were traced to their schedule of rates; however, APA could not find support for the $35 per day rate.

- One contractor charged $115 per day for out-of-home care while their schedule of rates showed they would charge $90 per day.

The total Federal amount charged during the fiscal year to Foster Care IV-E for Reform contract services was $1,795,640 for direct services and $1,426,952 for administration.

Cause: The Agency delegated the approval and monitoring of the rates to the individual service areas. There was no central responsibility to oversee the rates.

Effect: Aid expenses are charged to the Federal fund at the Federal Medical Assistance Percentage (FMAP) which during the period was 66.76%, and administration expenses are charged only 50% to the Federal fund. The rates charged to aid could be incorrect because the rates were not appropriately approved by the Agency, the rates in most cases did not agree to the contractors' schedules of rates, and the rates across contractors varied significantly. Because the rates charged could be incorrect, there is an increased risk that the total amount paid to each contractor for IV-E could be incorrectly divided among aid expenses and administration expenses. If too much was charged to aid, Federal funds would be overcharged because aid expenses are coded to the Federal fund at a higher rate than administration expenses. Similarly, if too much was charged to administration, Federal funds would be undercharged because administration expenses are coded to the Federal fund at a lower rate than aid expenses.

Recommendation: We recommend the Agency implement procedures to ensure all rates charged are appropriately approved by the Agency, the rates agree to the contractors' schedules of rates, and the rates charged are reasonable and in accordance with Federal requirements.

> **Management Response:** The Agency does not agree with all of the findings. According to the Agency's contract, Article II. SCOPE OF SERVICES C., "The Contractor will submit a schedule of rates for services provided under this contract. DHHS must approve the rates for services prior to the contract start date. The Contractor may adjust the rates upon written approval of DHHS, which approval will not be unreasonably withheld."
>
> The Agency did approve the initial schedule of rates for services as demonstrated by Agency staff entering these rates on to NFOCUS. The contract did not require the Agency to provide to the Contractors written approval of the initial schedule of rates for services.
>
> **Corrective Action Plan:** Based upon previous concerns expressed during the audit, Central Office staff made a request on January 24, 2011 to the Service Areas to:

- Generate a written notification to the Contractors to affirm the date the Agency approves the schedule of rates for services to be provided under the terms of the Service Delivery, Coordination and Case Management Contract.
- Generate a written notification to the Contractor to affirm the date the Agency approves a change in the schedule of rates for services to be provided under the terms of the Service Delivery, Coordination and Case Management Contract.

Provide documentation on NFOCUS when the Service Area agrees to an exception to a previously approved payment rate due to a unique situation.

Contact: Lindy Bryceson

Anticipated Completion Date: The Service Areas will provide Lindy Bryceson by April 1, 2011 a copy of their written notifications to the Contractors regarding their approval for the current schedule of rates for services to be provided under the terms of the Service Delivery, Coordination and Case Management Contract.

APA Response: It is important to have a documented approval to indicate who at the Agency approved the rates and the date the rates were approved. Without a date of approval it cannot be determined if rates are paid in accordance with approved rates. In addition the corrective action plan does not address procedures to ensure approved rates are reasonable and documentation is maintained to support the reasonableness of rates. As noted, rates across contractors varied significantly. If the rates for services are not appropriate, this also affects the amount paid for administration, and the amount of Federal versus State funding.

Finding #10-25-31

Program: CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Allowable Costs/Cost Principles

Grant Number & Year: #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010

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. Per 45 CFR 92.22(a) (October 1, 2009) "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and (2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee."

Per 45 CFR 92.30(d) (October 1, 2009) "Grantees or subgrantees must obtain the prior approval of the awarding agency whenever any of the following actions is anticipated: . . . (4) Under nonconstruction projects, contracting out, subgranting (if authorized by law) or otherwise obtaining the services of a third party to perform activities which are central to the purposes of the award. This approval requirement is in addition to the approval requirements of § 92.36 but does not apply to the procurement of equipment, supplies, and general support services."

Condition: The Agency did not obtain prior approval from the awarding agency for Reform contracts. The allocation methodology for Reform administrative costs has not yet been approved by the Federal government and questions have been raised regarding the allowability of the administrative costs including the reasonableness of fees or profit paid to contractors.

Questioned Costs: Unknown

Context: During the fiscal year the Agency hired five Reform contractors to provide services to both IV-E and non IV-E children. Reform contractors were paid a flat fee each month regardless of the amount or value of services they provided. Previously services had been provided by a large number of contractors based on a fee-for-service model. This shift in the way the Agency purchased services for foster children was referred to as Child Welfare and Juvenile Services Reform (Reform).

The contractors are paid a flat fee each month that is split into direct service (aid) and administration costs. Direct services are billed through the Nebraska Family Online Client User System (NFOCUS) and the remaining amount is paid in a lump sum and is classified as administration expense.

The total Federal amount charged during the fiscal year to Foster Care IV-E for Reform contract services was $1,795,640 for direct services and $1,426,952 for administration. Per discussions with the Agency, the Federal Division of Cost Allocation (DCA) has not yet approved the allocation methodology for the Reform administration costs. The Administration for Children and Families (ACF) noted various concerns to DCA stating, ". . . ACF is concerned that Nebraska's 10-2 amendment addressing Nebraska's change to using foster care contractors is not in compliance with 45 CFR 95.509, 45 CFR 95.515, or 45 CFR 95.517 because (1) the amendment was not submitted to DCA until June 30, 2010, which is a year after Nebraska was aware that material amendments would need to be made to its cost allocation plan; (2) the 10-2 amendment was submitted *after* Nebraska had claimed federal reimbursement for three quarters of FFY2010 (thus resulting in Nebraska claiming and receiving federal reimbursement for claims that were not supported by an approved cost allocation plan or any DCA approval to use a proposed amendment—since the 10-2 amendment had not yet been submitted); (3) the 10-2 amendment requests that the effective date for the foster care contracting claiming be backdated almost a year to October 1, 2009 (which would be a significant backdating of a material change that was not promptly submitted to DCA); and (4) the 10-2 amendment for foster care contracting is materially incomplete in its description, lacks supporting data and indicates that the foster care contracting administrative costs claimed for FFY 2010 for the quarter ending June 30, 2010 of $2,853,904 million ($1,426,952 federal share) may be unallowable. . ." ACF further noted the amendment to the Cost Allocation Plan "may indicate an unallowable method for claiming IV-E administrative costs of foster care contractors" and "Nebraska needs to explain why prior approval was not obtained for its foster care contracting reform initiatives. . ." DCA has requested the Agency submit a revised cost allocation plan by April 6, 2011. The Agency is working to address the concerns noted by DCA and ACF.

Cause: The Agency claimed administrative costs based on the amended plan prior to Federal approval which is acceptable; however, where a State has claimed costs based on a proposed plan or plan amendments, the State, if necessary, shall retroactively adjust its claims in accordance with the plan as subsequently approved by the Federal government.

Effect: If the Agency does not obtain approval for its allocation methodology for the Reform administration costs, or the charges are determined not to be in compliance with Federal regulations, this could result in unallowable costs that need to be repaid to the Federal government.

Recommendation: We recommend the Agency submit a revised plan to DCA by April 6, 2011. We further recommend the Agency continue working to address the concerns noted by DCA and ACF regarding Reform administration costs, including procedures to document that only reasonable fees and profit are paid.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will provide a revised Public Assistance Cost Allocation Plan (PACA).

Contact: Larry Morrison

Anticipated Completion Date: April 6, 2011

<u>Finding #10-25-32</u>

Program: CFDA 93.667 – Social Services Block Grant – Allowability

Grant Number & Year: #0G0901NESOSR, FFY 2009; #0G1001NESOSR, FFY 2010

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

Criteria: 45 CFR § 96.30(a) (October 1, 2009) 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… 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 5-002.06 Maximum Rates and Allowable Units states that day services at a center should be charged at $7.50/day. Title 473 NAC 5-010.05 Maximum Rates and Allowable Units states that each home-delivered meal should be charged at a rate of $1.75/meal. Title 473 NAC 5-001.02 Defined Chore Services identifies obtaining food, clothing, housing or personal care items as essential shopping (Service Code 0102). Title 473 NAC 5-001.06 Maximum Rates and Allowable Units states that a chore task (0102) should be charged at a rate of $5.00/occurrence. Title 473 NAC 5-018.06D Maximum Rates and Allowable Units states that non-medical transportation should not exceed one roundtrip per week for shopping for food and essential items. 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. A good internal control plan requires Agency staff sign the billing document to indicate their review and approval.

OMB Circular A-133 § 315 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. . . When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. . . When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."

Condition: We noted that 17 of 40 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations. We also noted the summary schedule of prior audit findings did not properly represent the status of prior year finding #09-25-15.

Questioned Costs: $130 known

Context: For two claims tested, the billing document provided was not signed as approved by Agency staff.

For twelve claims tested, there was not adequate supporting documentation for the services provided. Nine claims were not supported by a client signature as evidence of services received. Three claims 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 claims.

Seven claims tested did not comply with the rates and procedures listed in Title 473 NAC. Two claims were charging essential shopping at an hourly rate. Per 473 NAC, essential shopping should be charged on an occurrence basis. One claim was for 10 essential shopping roundtrips during September 2009. Per 473 NAC, non-medical transportation should not exceed one roundtrip per week. Four other claims were paid at rates which exceeded flat NAC rates established in 1983 and 1992. The Agency was unable to provide a signed HHS-2A Exception Form to approve a rate exceeding the maximum for these claims. As noted in prior audits, the Agency needs to have the NAC manual updated and approved as soon as possible.

The summary schedule of prior audit findings for #09-25-15 states the corrective action is complete except for the updating of 473 NAC regulations; however, the Agency's corrective action for the prior year included using a broker to regulate transportation claims with services to begin July 1, 2010. As of September 1, 2010, this action was not complete.

The total Federal questioned costs noted during testing were $130. The total Federal sample tested was $517 and total Social Services Block Grant (SSBG) Federal assistance payments for fiscal year 2010 were $1,891,949. Based on the sample tested, the case error rate was 42.50% (17/40). The dollar error rate for the sample was 25.15% ($130/$517) which estimates the potential dollars at risk for fiscal year 2010 to be $475,825 (dollar error rate multiplied by aid amount). Similar errors were noted in our prior audit reports.

Cause: Inadequate oversight and regulations not updated.

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 reported condition.

Corrective Action Plan:

1) Update 473 NAC regulations. The Legal Division has drafted regulation language clarifying rate methodologies and removing actual dollar amounts from text. Revised regulations will also clarify transportation policies and procedures. Regulations will include deletion of relative provider reference.

2) The Agency has determined that centralized management of Non-Emergency Transportation (NET) services would result in program efficiencies and is procuring a Non-Emergency Transportation Broker. The intent to award has been issued. The Agency is developing regulations and a Fee Schedule for non-emergency transportation services.

3) The Agency will conduct additional quality assurance reviews this fiscal year which will include ensuring use of current authorized timesheet.

Contact: Sarah Briggs, Unit Manager, State and Grant Funded Programs Unit, Division of Medicaid & Long-Term Care and Kay Wenzl, Unit Manager, HCBS Waivers and Community Supports Unit, Division of Medicaid & Long-Term Care.

Anticipated Completion Date:

1) Update 473 NAC regulations by June 30, 2011.

2) Non-Emergency Transportation Brokerage Services contract has been awarded and is scheduled to begin in March, 2011.

3) Quarterly, a sampling of cases will be requested from the Children and Family Service Division to conduct quality assurance reviews for non-transportation services.

Finding #10-25-33

Program: CFDA 93.667 – Social Services Block Grant – Suspension & Debarment

Grant Number & Year: #0G0901NESOSR, FFY 2009; #0G1001NESOSR, FFY 2010

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

Criteria: Per 2 CFR § 180.300 (January 1, 2009), 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 SSBG providers were not suspended or debarred by the Federal government.

Questioned Costs: None

Context: The Agency's current procedure is to add a clause to the service provider agreement. This clause was initially added to the November 2009 version of the boiler plate agreement and prior versions did not include the clause at all. The clause is still not adequate because it does not refer to the EPLS. It refers instead to the List of Excluded Individuals/Entities (LEIE), which only contains exclusion actions taken by the U.S. HHS Office of the Inspector General. The EPLS contains exclusion actions taken by various Federal agencies.

During our testing, we selected one provider that had entered into a covered transaction with the Agency. The service provider agreement did not include a clause with a reference to the LEIE or the EPLS. The APA searched the EPLS and the provider was not listed. There were 15 SSBG service providers paid over $25,000 during fiscal year 2010 totaling $1,148,736.

Cause: Agency staff believed procedures in place were adequate.

Effect: The Agency could be unaware of contracts with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure all SSBG service provider agreements contain the correct language referring to the EPLS to ensure compliance with Federal suspension and debarred requirements.

Management Response: The Agency agrees with the reported condition.

Corrective Action Plan: Language will be included in the new Medicaid & Long-Term Care Provider Agreement. Upon implementation it will be incorporated at provider agreement renewal and new provider enrollment.

The language will also be included in the new 473 NAC regulations.

Contact: Sarah Briggs, Unit Manager, State and Grant Funded Programs Unit, Division of Medicaid & Long-Term Care and Kay Wenzl, Unit Manager, HCBS Waivers and Community Supports Unit, Division of Medicaid & Long-Term Care.

Anticipated Completion Date: Provider Agreement will be updated by 12-31-10

Finding #10-25-34

Program: CFDA 93.778 Medical Assistance Program – Allowable Costs and Subrecipient Monitoring

Grant Number & Year: #050905NE5048, FFY2009; #051005NE5ADM, FFY2010

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." 45 CFR 92.25 (October 1, 2009) states, "Program income shall be deducted from outlays which may be both Federal and non-Federal." A good internal control plan requires procedures to ensure administration reimbursements amounts are credited to the Medicaid grant.

Condition: The Agency did not have adequate procedures to ensure amounts paid to subrecipients were correct and only one of two subrecipients had submitted an A-133 audit report by June 30, 2010. In addition, procedures were not in place to appropriately account for administration payments received from subrecipients.

Questioned Costs: $483,482

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 contracts with two consortiums which distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by each 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. Additionally, only the Nebraska Schools Medicaid Consortium had submitted an A-133 audit report to the Agency by June 30, 2010. The Agency paid a total of $38,512,693 Federal funds to the Nebraska Medicaid School Consortium and the NASB Medicaid Consortium during the year who distributed the funds to schools. A similar finding was noted in the prior audit.

Per the contracts with the Consortiums "As partial consideration for the services of DHHS [Department of Health and Human Services] in assisting Contractor in the filing of claims pursuant to the Administrative Claiming Process, Contractor agrees to pay DHHS an amount equal to three percent (3%) of the aggregate amount actually received by Contractor in payment on each such claim." During fiscal year 2010, the Agency received $966,964. Administration costs are charged to the Medicaid grant through the Cost Allocation Plan. As the services provided to the Consortiums would have also been charged as administrative costs, the Federal portion of the 3% payment should be credited back to Medicaid. The Federal portion of the amount received was $483,482; however, it was not credited to the Medicaid grant.

Cause: The Agency did not have appropriate procedures in place and did not follow-up with subrecipients to ensure A-133 audit reports were submitted timely.

Effect: Without adequate procedures and appropriate follow-up, 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 and to obtain and review all necessary 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. Additional procedures should be implemented to ensure program income is credited to the Medicaid grant.

Management Response: The Agency disagrees with the reported condition.

Corrective Action Plan: The Agency has contracted with two consortiums to ensure amounts claimed are correct. The Agency receives certification to that affect. The Agency does not agree that Program income be credited to the Medicaid Grant as this is an unrelated transaction to the finding since this is payment of a service fee from Administrative funds.

Contact: Sam Kaplan and Willard Bouwens

Anticipated Completion Date: Not Applicable

APA Response: Since the contract and the consideration paid relate to Medicaid claims, we believe the amount received from the consortiums should be credited to Medicaid in the same proportion Federal and State funds paid for Medicaid administrative costs.

Finding #10-25-35

Program: CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Matching and Period of Availability

Grant Number & Year: #051005NE5MAP, FFY2010; #051005NEARRA, FFY2010

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

Criteria: 42 CFR § 433.10 (October 1, 2009) provides for payments to states, on the basis of a Federal medical assistance percentage (FMAP). The 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.

Per 45 CFR § 92.23 (October 1, 2009), "a grantee may charge to the award only costs resulting from obligations of the funding period." A good internal control plan requires procedures be in place to ensure adjustments to a claim are paid at the same FMAP as the original claim.

Condition: The amount paid to the Beatrice State Developmental Center (BSDC) to adjust the daily interim rate for services provided from July 2008 through August 2009 was inappropriately charged to the FFY 2010 grant and made with the current FMAP.

Questioned Costs: $514,083

Context: During the year BSDC, a division of the Agency, is paid an estimated daily rate for services provided to Medicaid clients. They are paid out of the current grant and FMAP. At the end of the year BSDC files a cost report with the Agency. The Agency reviews the cost report and calculates the actual daily rate based on BSDC's actual costs. The Agency then reimburses BSDC the difference between the actual rate and the estimated rate, using the current grant and FMAP at the time of the adjustment. Nebraska's Medicaid transactions flow through the Medicaid Management Information System (MMIS). Each time an adjustment is made to a claim on MMIS, the difference between the previous and the new claim amount is paid at the current FMAP regardless of what the FMAP was when the original claim was paid. All portions of the same claim should be paid at the same rate; otherwise, the Agency could manipulate the timing of the payment of adjusted claims so that they pay at a higher FMAP, resulting in greater funds received from the Federal government. In this case, the original FMAPs for July 2008 through August 2009 varied from 58.02% to 67.79%. The FMAP increased to 68.76% on October 1, 2009, and this rate was used to calculate the Federal share when the payment was made on October 3, 2009, using the FFY 2010 grant. The FFY 2010 grant is only allowable for obligations occurring after October 1, 2009. Since the Agency used the current FMAP for the adjustment and not the original FMAPs, Federal funds were overcharged $514,083.

Cause: The payment was processed through MMIS rather than as a journal entry. Any adjusted claim in MMIS is paid using the current FMAP.

Effect: Depending on the FMAP at the time of the original claim versus at the time of the adjustment, and whether the adjustment increased or decreased the claim, Federal funds could be overcharged or undercharged.

Recommendation: We recommend that all portions of the same claim are paid at the claim's original FMAP. If the original grant is out of money, the original FMAP should still be used and the amount reported on the CMS-64 as a prior period adjustment.

> **Management Response:** The Agency disagrees with the reported condition. All adjustments that process through MMIS post to EnterpriseOne at the match rate in effect at the time the adjustment is made, using the current grant. This process has been in place since the inception of MMIS. Adjustments in MMIS can result in increases and decreases in expenditures. Federal funds were not overcharged.
>
> **Corrective Action Plan:** None in the existing MMIS. When a new MMIS is procured, adjustment processing based on original payment date may be considered.
>
> **Contact:** Kim Collins
>
> **Anticipated Completion Date:** Not Applicable

APA Response: Since BSDC is a division of the Agency, there is an increased risk transactions will be timed to take advantage of higher FMAP rates. In this case, transactions spanning 14 months were adjusted two days after the FMAP was increased.

Finding #10-25-36

Program: CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowable Costs

Grant Number & Year: #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: Per OMB Circular A-87 Attachment A § C 1, to be allowable under Federal awards, costs must be adequately documented. A good internal control plan requires procedures to ensure data used to calculate rates that are used to charge Federal programs are adequately documented.

Condition: The Agency charges Medicaid for developmental disability (DD) service coordination costs based on rates calculated by the Agency. These rates are calculated by taking the DD costs per the Cost Allocation Plan divided by the number of DD service authorizations. The number of DD service authorizations used to calculate the rates did not agree to supporting documentation.

Questioned Costs: $30,515 known

Context: We tested a journal entry for DD service coordination costs billed in November and December 2009. Two rates were used to charge Federal funds; one based on State fiscal year 2007 data and one based on State fiscal year 2008 data. The number of service authorizations used to calculate the rates were provided by an employee who no longer works in the area, and were 52,587, and 52,743, respectively. The monthly totals used to support these annual numbers of service authorizations were provided by current employees and totaled 53,596, and 54,129, respectively. Per the Agency, these amounts do not agree because of timing differences of when the data was pulled from DD's eligibility system, NFOCUS. Total Federal charges for DD Service Coordination costs for November and December 2009 were $1,139,710.

Cause: The Agency did not maintain documentation for the number of service authorizations used in the rate calculation.

Effect: Without procedures to ensure calculated rates agree to adequate supporting documentation, there is an increased risk Federal funds could be overcharged.

Recommendation: We recommend the Agency implement procedures to ensure adequate documentation is maintained for the calculation of the rates charged to Federal funds for DD service coordination costs.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Printed or electronic query reports from N-FOCUS (for the purpose of calculating the rate charges to Federal funds for DD Service Coordination cost) will be consistently generated and retained on record by the DD Division as source reference documents used in the calculation.

Contact: Tricia Mason, Administrator, DHHS - DD Community Based Services

Anticipated Completion Date: June 1, 2011

Finding #10-25-37

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

Grant Number & Year: #050905NE5028, FFY2009; #050905NEARRA, FFY2009; #051005NE5MAP, FFY2010; #051005NEARRA, FFY2010

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

Criteria: OMB Circular A-87 Attachment A § C (1)(a), (c), and (j) requires costs charged to Federal programs be necessary and reasonable for proper and efficient performance and administration of Federal awards; be authorized or not prohibited under State or local laws or regulations; and be adequately documented.

Per 480 NAC 5-001 (A), "the average cost of waiver services funded by Medicaid must not exceed the average cost to Medicaid for NF services." Per 480 NAC 5-001 (D), service coordinators are responsible for "determining the estimated total monthly cost of a proposed plan of services and supports and comparing the estimated cost to the Medicaid monthly payment for care in a NF" (nursing facility). A good internal control plan requires procedures be in place to ensure cap estimations are adequately supported.

Per 480 NAC 5-005 (D)(2), child care for children with disabilities shall be authorized only to allow the usual caregiver(s) to accept or maintain employment; or to enroll in and regularly attend vocational or educational training. A good internal control plan requires procedures be in place to ensure the costs incurred to allow the parent to work do not exceed the benefits gained.

Per 480 NAC 5-005 (D)(3), "each provider of Child Care for Children with Disabilities must be at least age 19. If no provider age 19 or older is available and acceptable to the family, and the family requests a younger provider, the services coordinator may authorize a provider age 16, 17, or 18." A good internal control plan requires procedures be in place to ensure providers meet the age limit requirements.

OMB Circular A-87 Attachment B § 14 states costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as transportation) are unallowable.

The Agency should pay for transportation services only using the most direct and logical route from the client's residence to the service location. A good internal control plan requires procedures be in place to ensure providers are paid for reasonable mileage based on distance traveled.

Per 480 NAC 5-005 (A)(5), the frequency of service for adult day health care is a calendar day of at least four hours.

Condition: We tested 25 home-based claims for the aged and disabled waiver and noted seven payments were not in compliance with Federal and State requirements.

Questioned Costs: $693 known

Context: We noted the following:

- Three payments were missing documentation to support the amount billed. Because documentation was missing, we could not verify if the payment was allowable, if the payment amount was correct, or if the payment was appropriately reviewed and approved by the client. For one of the payments above that was missing documentation to support the amount billed, waiver costs for fiscal year 2010 averaged $4,107 per month, which exceeds the monthly cap of $3,600 per month. When costs exceed the cap the case is supposed to be submitted to the Agency's Central Office for further review. Central Office staff then review the client's level of care and service options to determine whether it is more cost-effective to allow the client to receive waiver services or to reside in a nursing home. This case was not submitted to Central Office for further review because the caseworker determined waiver costs would not exceed the cap for the fiscal year. Total waiver cost was calculated by taking the total expected waiver cost less the client's share of cost. The client's share of cost was not adequately supported. Therefore, we could not verify the client was adequately meeting their share of cost. In addition, since waiver costs in actuality exceeded the cap, this case should have been reviewed by Central Office.
- One payment was made for child care for a child with disabilities, so the mother could work. This was not reasonable or necessary because the cost of the child care exceeded the value derived by the mother's work. In exchange for working, the mother received ½ beef twice a year and her internet bill was paid. During fiscal year 2010 the provider received $6,406 so the mother could work at the job. In addition, the provider was living in the home and was the child's older sister. Agency standards state a provider must be 19 years old, or at least 16 under special circumstances. This provider has been a provider since she was 12 years old. She was 16 at the time of the payment tested but for fiscal year payments prior to November 2009 she was only 15.

- For one payment the provider billed 2 miles to transport the client to play cards and Bingo. This is not allowable per A-87.
- For one payment the provider billed 84 miles for medical transportation. Per MapQuest the distance between destinations was only 69 miles. The overbilling was 15 miles, or 21.7% above MapQuest. If extenuating circumstances led to the increase in miles, this should have been documented.
- For one payment, the service provided was adult day health care for before and after school care. Adult day health care is required to be billed by the day and care must be provided for at least four hours. For two days billed actual hours provided were only two hours on one day and only one hour on another day.

Federal payment errors noted were $693. The total Federal sample tested was $5,419 and total home-based aged and disabled waiver payments for fiscal year 2010 were $24,014,609. Based on the sample tested, the case error rate was 28% (7/25). The dollar error rate for the sample was 12.79% ($693/$5,419) which estimates the potential dollars at risk for fiscal year 2010 to be $3,071,468 (dollar error rate multiplied by population). A similar finding was noted in our prior Single Audit report.

Cause: Missing documentation and inadequate review procedures.

Effect: Without adequate procedures to ensure payments are adequately supported and reviewed, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all aged and disabled waiver payments are adequately supported and reviewed. The Agency should ensure cap amounts are not exceeded without appropriate review. The Agency should also implement procedures to ensure waiver services are allowable per A-87 and reasonable and necessary for the situation.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will share findings of the audit with waiver services coordination supervisors. Education will be provided regarding implementation and monitoring of the share of cost (SOC) and the cap limits. The importance of keeping all documentation will be emphasized.

The Agency will educate all staff with resource development duties not to approve providers under 19 unless this is specifically allowed in regulations. The Agency will direct service coordination supervisors to evaluate the costs of child care versus the value of the parental income. The Agency is revising regulations (480 NAC 5) to require all providers be age 19 or over. Proposed regulations will also require that the cost of child care will not exceed the value derived by the parent(s) work.

The Agency will direct local staff to use a mapping program (such as MapQuest) to determine mileage and will also educate staff on documenting deviations and the importance of using specific addresses for the destination point. A non-emergency transportation brokerage is to be implemented 3/1/11 and the coordination of transportation services will be conducted by the brokerage, which will use the above techniques.

Contact: Kay Wenzl, Administrator, HCBS Waiver Services Unit

Anticipated Completion Date: April 30, 2011

Finding #10-25-38

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

Grant Number & Year: All open including #050905NE5028, FFY2009; #050905NEARRA, FFY2009; #051005NE5MAP, FFY2010; #051005NEARRA, FFY2010

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

Criteria: 45 CFR § 92.20 (October 1, 2009) 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. 42 CFR § 433.10 (October 1, 2009) provides for payments to States, on the basis of a Federal medical assistance percentage (FMAP). EnterpriseOne is the official accounting system for the State of Nebraska and all expenditures are generated from EnterpriseOne.

A good internal control plan requires procedures to reconcile submitted reports to the accounting system. A good internal control plan also requires adjustments and reconciling items to be resolved in a timely manner.

Condition: Reconciliation procedures were performed in total and not considered by Federal and State funding sources. Reconciling items and adjustments were not performed properly or in a timely manner.

Questioned Costs: Unknown

Context: We reviewed the reports for the quarters ended September 30, 2009, and March 31, 2010, and noted the following:

- The Agency did not have written procedures regarding report preparation and reconciliation to the accounting records.

- Reconciling items and adjustments were not made in a timely manner.
  - The Federal share of ARRA collections was not correct on the September 2009 report. The Federal share of ARRA collections reported was $2,199,907 and should have been $596,934, a variance of $1,602,973. The Agency made an entry on the June 2010 quarterly report to correct the Federal share of ARRA for the quarters ended December 2008 through March 2010; however, this entry needed further revision on the September 2010 report.
  - The September 2009 reconciliation included a reconciling item of $1,117,840 for Mental Health Facility unallowable Federal expenditures; the CMS 64 report was corrected in December 2009; however, an entry was not made on the accounting system until June 2010. This entry did not correctly report the Federal and State match percentages by $99,258.
  - The September 2009 reconciliation included reconciling items of $1,235,560 and $225,687 for managed care items recorded on the accounting system but not reported on the CMS 64 report. The items were not included on the report until the June 2010 quarter and then were off $3,000 due to a typographical error.
  - The March 2010 reconciliation included $1,573,578 for disability claims reported; however, the amount was not recorded on the accounting system until September 2010.
- The reconciliation was prepared for total Medicaid expenditures only, not separated by Federal funding and State match. Therefore, the reconciliation does not support 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. A similar finding was noted in our 2006, 2007, 2008, and 2009 audit reports.

Cause: Unknown

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 improve procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the State General Ledger. This reconciliation should include a separate determination for Federal funds and State match. We further recommend all reconciling items and adjustments be performed in a timely manner.

> **Management Response:** The Agency disagrees with the reported condition. A detailed reconciliation process is in place to reconcile in total funds and this was provided to the auditor. At the end of each Medicaid grant year, Federal grants/funds are reconciled between what is drawn and what is reported on the CMS-64. The funds are reconciled again a year later. Reconciling between State funds and Federal funds each quarter would not provide any additional information.

Corrective Action Plan: None

Contact: Kim Collins

Anticipated Completion Date: Not Applicable

APA Response: Reconciling in total does not ensure Federal and State funds have been charged in accordance with the appropriate matching rate. Although the Agency's policy is to match each transaction, this process can be overridden. The Agency does not have adequate procedures to ensure Federal share amounts reported agree to actual Federal expenditures, State share amounts reported agree to actual State expenditures, or to ensure errors are detected and corrected in a timely manner.

Finding #10-25-39

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

Grant Number & Year: All open including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: Per 42 CFR § 447.253 (October 1, 2009), "The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers." Per the Nebraska Medicaid State Plan, Appendix 4-19A § 10-010.03B8a, "Facilities will be subject to a preliminary and a final reconciliation of Medicaid payments to allowable Medicaid costs. A preliminary reconciliation will be made within six months following receipt by the Department of the facility's cost report. A final reconciliation will be made within 6 months following receipt by the Department of the facility's final settled cost report."

Per the Nebraska Medicaid State Plan, Appendix 4-19A § 10-010.03A, Definitions, the following definition applies to payment for hospital inpatient services: "Base Year: the period covered by the most recent final-settled Medicare cost report, which will be used for purposes of calculating prospective rates."

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.

Per Title 471 NAC 34-005.02, the Agency pays for rural health clinic (RHC) services provided by provider-based clinics that are associated with hospitals of less than 50 beds at the lower of cost or charges as established by the Agency.

A good internal control plan requires procedures be in place to ensure a second individual be involved in the hospital cost reports process. Good internal control also requires the results of audits be reviewed to determine whether costs have been accurately reported and whether any payment adjustments are appropriate.

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

- The Agency does not adequately track hospital cost reports to ensure they are audited
- The Agency did not use final-settled cost reports when calculating inpatient rates for non-critical access hospitals
- For 2 of 10 hospital cost reports tested, the cost report was not reviewed timely and the new outpatient cost rate was not entered into MMIS timely;
- There was a lack of segregation of duties over the hospital cost reports process;
- The determination to pay one rural health clinic at 100% of charges was not documented; and
- The Agency does not perform a final adjustment for outpatient rates for non-critical access hospitals.

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 2009 and effective October 1, 2009, and the rates will be updated for inflation each subsequent fiscal year. The source of the data for the study was raw claims data from State fiscal years 2006 and 2007 and cost information from the 2007 cost reports. Only one of the 35 hospital cost reports was audited.

All hospital cost reports are audited by an independent auditor. Audits used to be performed by Blue Cross Blue Shield (BCBS) but are now performed by Wisconsin Physician Services (WPS). The Federal government contracts with independent auditors to perform cost report audits on all facilities that have Medicare beds, and Nebraska Medicaid uses these audited cost reports to calculate a rate for outpatient services and to make an annual adjusting payment to critical access hospitals for inpatient services. All Nebraska Medicaid hospitals have Medicare beds, so the Agency relies on these audits for all the Medicaid hospitals. Original cost reports are due to the Agency five months after the end of the hospital's fiscal year. There is no timeline for final, audited cost reports. When BCBS was performing the cost report audits they would send a copy to the Agency. Since WPS took over, this does not occur. WPS would charge the Agency for copies of the audited cost reports, so it was decided to instead get the audited cost reports directly from the hospitals. The Agency does not have an adequate system to ensure final audited cost reports are received. Staff has not received many final cost reports dating several years back. We tested ten hospitals and noted the last audit received for critical access hospitals was for either 2005 or 2006. We also noted the Agency does not track final cost reports for non-critical access hospitals because staff does not update the rates for these types of hospitals. Furthermore, the Agency does not have a process to compare audited cost reports to cost reports used in determining hospital rates to determine if any adjustments are appropriate.

Outpatient rates and critical access inpatient rates for hospitals are determined based on the cost report each hospital files with the Agency each year. 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. A second individual should be involved in the process to ensure rates are being calculated correctly.

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. Five months after the end of each hospital's fiscal year, their cost report is due to the Agency. Then, within a month the Agency is supposed to calculate the outpatient rate and enter it onto MMIS. Two cost reports reviewed for outpatient rates were found to be reviewed and entered into MMIS two months late.

Outpatient rates for RHCs are supposed to be based on the lower of cost or charges. The Agency could not provide documentation to support that this determination was made for Boone County Medical Clinic. Total outpatient costs paid to this provider for the fiscal year were $62,886.

The Federal share of inpatient hospital payments for the fiscal year totaled $118,683,954; outpatient hospital totaled $60,767,598. A similar finding was noted in our prior audit report.

Cause: The staff person had not collected all the final, audited cost reports yet because she had only been in the position for one year and there were other things to attend to. She also stated she had higher priorities to attend to than the updating of outpatient rates on MMIS.

Effect: Without procedures to ensure all final audited cost reports are received, there is an increased risk the Agency would be unaware of issues arising from the audited cost reports. When inpatient rates for non-critical access hospitals are based on inappropriate source data, there is an increased risk calculated rates will not be representative of actual costs. In addition, when final adjustments are made to only critical access hospitals and not all hospitals, there is an increased risk the Agency is not treating both types of hospitals equitably. 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. 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 documentation is not maintained to support the method of paying RHCs, there is an increased they are not being paid in accordance with NAC.

Recommendation: We recommend the Agency implement procedures to ensure all final cost reports are received timely, inpatient rates for non-critical access hospitals are calculated with the appropriate source data, a second individual reviews the hospital cost reports process, all cost reports are reviewed timely, new rates are calculated timely, and support is maintained for calculation of all rates. We further recommend the Agency implement procedures to compare hospital submitted cost reports to Medicare audited cost reports and make rate adjustments as appropriate.

Management Response: The Agency agrees with the condition reported. There is no fixed point in time for when a cost report becomes final. The most current cost report is used in calculations. When we receive an amended cost report, we reevaluate the original calculations to see if an adjustment is necessary. Cost reports are reviewed timely and support is maintained for all rates.

Corrective Action Plan: Cost reports will be reviewed timely. We will work with WPS (our Medicare fiscal intermediary) to see if there is a more efficient (and timely) way to receive audited cost reports.

Contact: Kim Collins

Anticipated Completion Date: June 30, 2011

<u>Finding #10-25-40</u>

Program: CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Suspension & Debarment

Grant Number & Year: All open including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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 aged and disabled waiver providers were not suspended or debarred by the Federal government.

Questioned Costs: None

Context: We tested 25 aged and disabled waiver providers of which four earned more than $25,000 in Federal funds from the Agency during the fiscal year. We reviewed their provider agreements and noted all were on the March 2008 version which does not have a suspension and debarment clause.

Cause: The Agency's procedure is to add a clause to the service provider agreement with the aged and disabled waiver provider. This clause was added to the November 2009 version of the boiler plate agreement. In previous versions, the clause was not included in the agreement. The clause is still not adequate because it does not refer to the EPLS. It refers instead to the List of Excluded Individuals/Entities (LEIE). The LEIE only contains exclusion actions taken by the U.S. HHS Office of the Inspector General. The EPLS contains exclusion actions taken by various Federal agencies.

Effect: The Agency could be unaware of contracts with suspended or debarred parties.

Recommendation: We recommend the Agency implement procedures to ensure all aged and disabled waiver providers' service provider agreements contain the correct language referring to the EPLS to ensure compliance with Federal suspension and debarred requirements.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is in the process of revising provider agreements to contain the correct language referring to the EPLS. The Agency will instruct local staff on how to complete this check and document it as part of resource development functions.

Contact: Kay Wenzl, Administrator, HCBS Waiver Services Unit

Anticipated Completion Date: February 1, 2011

Finding #10-25-41

Program: CFDA 93.778 Medical Assistance Program; ARRA – Medical Assistance Program - Eligibility

Grant Number & Year: All open including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: 42 CFR § 435.916 (October 1, 2009) states, "The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months." A good internal control plan requires policies to ensure eligibility determinations are completed every 12 months.

Condition: Five of 100 Medicaid recipients tested did not have eligibility determinations completed every 12 months.

Questioned Costs: Unknown

Context: Reviews were 2 to 6 months late as noted below:
- two recipients had eligibility redeterminations in March 2009 and May 2010
- one recipient was reviewed in April 2009 with no other reviews through June 2010
- one recipient had redeterminations in February 2009 and June 2010
- one recipient had redeterminations in September 2008 and March 2010

Cause: Unknown

Effect: Lack of compliance with Federal regulations increases the risk that ineligible individuals will receive services and that Federal funds would be misused.

Recommendation: We recommend the Agency review their policies to ensure that Federal regulations are adhered to.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A memo was released to Administrative Staff on December 30, 2009, to review cases timely and use the NFOCUS supports developed to track reviews. These supports include: N-FOCUS Reports that have Case Activity Summary Reports and Case Review Reports available online to assist the Social Service Workers in managing their caseloads for overdue Eligibility Reviews.

Effective in October 1, 2007, the Agency began supervisory review of Kids Connection case files utilizing the Nebraska Economic Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The review information is captured on the NEARS system for use in targeting corrective action and staff training.

In addition to the NEARS Supervisory review, the Agency has developed a team of Program Accuracy Specialists (PAS) who will be performing daily case readings at the local offices and Customer Service Center (CSC).

Medicaid cases will be automatically sent a review letter the month prior to their review due date. If the household fails to respond and complete the review, an alert will be created in NFOCUS that will notify a Social Service Worker that the case needs to be closed for failure to complete a review. This will prevent Kids Connection cases from continuing without an annual review. Reports will be monitored and reviewed to determine that this process is working correctly and changes will be made accordingly.

Contact: Teri Chasten, Economic Assistance Administrator

Anticipated Completion Date: April 1, 2011

Finding #10-25-42

Program: CFDA 93.778 Medical Assistance Program; ARRA – Medical Assistance Program – Allowable Costs & Eligibility

Grant Number & Year: Various including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: States are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by the Centers for Medicare and Medicaid Services (CMS). The MEQC system redetermines eligibility for individual sampled cases of beneficiary eligibility made by State Medicaid agencies, or their designees. However, most States including Nebraska are operating MEQC pilots or have been given a waiver from the traditional MEQC program described in regulation. The pilots and waivers differ from the traditional MEQC program by performing special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration (42 USC 1396b; 42 CFR §§ 431.800 through 431.865). Per 42 CFR § 431.810(b) (October 1, 2009) "The agency must conduct MEQC reviews in accordance with the requirements specified in Sec. 431.812 and other instructions established by CMS." OMB Circular A-133 § 300(b) 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." 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, 2009), "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." 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. A good internal control plan requires that supervisor reviews be documented and records be maintained to support MEQC results.

Condition: The Agency did not maintain documentation to support MEQC results entered into the Quality Control database. In addition, supervisory reviews of these results were not documented and adequate procedures were not performed to ensure third party liability information discrepancies were corrected.

Questioned Costs: Unknown

Context: As part of the State's Medicaid pilot, the Quality Control (QC) Unit 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. The results of these reviews are entered into a database for a QC supervisory review and forwarded to the Medicaid Unit and the supervisor of the responsible case worker for appropriate corrective action, if necessary. Per discussion with Agency staff, support was not maintained for the results entered into the database and QC supervisory reviews were not documented.

During our testing of 25 QC cases, we noted the QC Unit identified 10 unacceptable findings with third-party liability discrepancies. We tested the 10 unacceptable findings to determine if corrective action had been taken on the errors noted. As of June 2010, corrective action had not been taken on one of the unacceptable findings tested. The QC review of this case occurred in February 2010. A similar finding was noted in the prior audit.

Cause: Unknown

Effect: When appropriate internal controls are not in place and proper corrective actions are not taken, there is an increased risk incorrect case reviews will go undetected and 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 the QC Unit and appropriate internal controls are established.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: QC Unit is forwarding all findings to the Medicaid Division to review cases to ensure that corrective action has been taken as needed.

Contact: Jo Ann Ragan, Quality Control Manager

Anticipated Completion Date: All areas in Management response and Corrective Action Plan are presently being performed.

Finding #10-25-43

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

Grant Number & Year: All open including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: 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." A good internal control plan requires policies are in place for a documented review of quarterly reports.

Condition: The Agency did not have a policy requiring a documented review of quarterly reports submitted from their Managed Care Plans and Enrollment Broker.

Questioned Costs: Unknown

Context: The Agency contracts with two Managed Care Plans and an Enrollment Broker. Each entity submits a quarterly report to the Agency which details provider accessibility and recipient grievances. The Agency maintained the reports on file but there was no evidence of review.

Cause: Staff indicated they had reviewed the reports, but had neglected to document their review.

Effect: When proper internal controls are not in place, there is an increased risk Federal funds will be misused or lost. When procedures are not documented, there is no evidence to support the appropriate reviews were performed.

Recommendation: We recommend the Agency establish appropriate controls which require documented reviews of quarterly reports submitted from contracted entities.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A spreadsheet has been developed and is being used to document reviews of the quarterly reports submitted from the Managed Care Plans and the Enrollment Broker.

Contact: Heather Leschinsky, Managed Care Program Coordinator

Anticipated Completion Date: Completed August 1, 2010

<u>Finding #10-25-44</u>

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

Grant Number & Year: All open including #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

Criteria: 42 CFR § 455.1 (October 1, 2009) sets forth requirements for a State fraud detection and investigation program, including a method to verify whether services reimbursed by Medicaid were actually furnished to recipients. Good internal control requires cases are reviewed and appropriate dispositions are made in a timely manner.

Condition: A review of one Medicaid case referred to the Program Integrity Unit was not completed on a timely basis.

Questioned Costs: Unknown

Context: A Medicaid case involving suspected provider fraud was opened in August 2009. Supporting documentation for the review had been received by the Unit in February 2010; however, as of June 30, 2010, no further action had been taken on the case. Total fiscal year payments to the provider after the case was referred to the Program Integrity Unit were $362,629.

Cause: Unknown

Effect: When case reviews are not completed timely and payments continue for questioned services, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency review procedures to ensure cases referred to the Program Integrity Unit are reviewed and appropriate dispositions are made on a timely basis.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: This case review has been completed – one overpayment identified (claim #315809179). Refund requested 10/4/10 – refund received 11/27/10. Program Integrity will review procedures to ensure cases referred to Program Integrity are worked in a timely basis. This definition will be included in the Program Integrity Methods and Procedures - Reviews Overview plan.

Contact: Karen Cheloha, Interim Unit Manager

Anticipated Completion Date: Completed November 27, 2010

DEPARTMENT OF ROADS

Finding #10-27-01

Program: CFDA #20.205 – Highway Planning and Construction and Highway Planning and Construction Recovery – Allowable Costs/Cost Principles

Grant Number & Year: Various, including appropriation codes L050, L1C0, L240, LS30, L010, L220, C200, C230, and C250

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.

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, 2010, for projects with Federal participation was $6,419,758. 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 2010.
- The Agency could not provide the email sent to FHWA to inform them of the payroll additive rate change in July 2009.

Questioned Costs: None

Context: In a letter dated January 11, 2005, FHWA approved the additive rate calculation methodologies for the fiscal years 2005 through 2008. Approval was not on hand for the fiscal year 2009 and 2010 payroll rate methodologies.

Effective July 1, 2009, the payroll additive rate was changed from 67% to 76%. Controller Division could not provide email support for the Auditor of Public Accounts (APA) to verify FHWA was informed of this rate change.

Cause: In the fiscal year 2009 audit, it was noted that methodology approval had expired at the end of fiscal year 2008. Due to completion of the 2009 audit late in fiscal year 2010, this condition was not corrected until fiscal year 2011. The Controller Division could locate the internal email informing staff of the payroll additive rate change; however, the external email to FHWA could not be located.

Effect: The Agency was not in compliance with the requirements for payroll additive rate methodology approval.

Recommendation: We recommend the Agency continue to ensure payroll additive methodologies are reapproved prior to approval expiration. We also recommend the Agency keep a copy of the email sent to FHWA to inform them of any rate change.

Management Response: While not in compliance during the period covered by this audit, the Agency is currently in compliance.

Corrective Action Plan: See Management Response

Contact: Steve Maraman, Finance Administrator

Anticipated Completion Date: Complete

Finding #10-27-02

Program: CFDA 20.205 – Highway Planning and Construction and Highway Planning and Construction Recovery – Subrecipient Monitoring

Grant Number & Year: Various, including appropriation codes H230, L230, L250, L110, L220, H220, Q220, C200, Q200, C250, and L1C0

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-133 § 400(d) states a pass-through entity shall, "…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 [Research and Development], and name of Federal agency…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." 31 USC § 7502(f)(2) (February 1, 2010) states, "Each pass-through entity shall provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means…" 2 CFR § 176.210

(April 23, 2009) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program. Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above." 23 CFR 1.9 (April 1, 2010) states, "Federal funds shall not be paid on account of any cost incurred prior to authorization by the Administrator to the State highway department to proceed with the project or part thereof involving such cost." 23 CFR 630.106 (April 1, 2010) states, "The State transportation department (STD) must obtain an authorization to proceed from the FHWA before beginning work on any Federal-aid project." A good internal control plan requires adequate supporting documentation be obtained to ensure expenses were incurred after Federal authorization and State notice to proceed dates. A good internal control plan also requires procedures to ensure future environmental commitments and on-going maintenance provisions are met.

Condition: For the fiscal year ended June 30, 2010, the Agency had 51 subrecipients. During our review of subrecipient monitoring we noted the following:

- Two of seven subrecipient awards tested did not have the proper award information communicated to the subrecipient prior to award disbursement.

- Two of seven subrecipient awards tested did not make ARRA subrecipient aware of the requirement to report ARRA awards separately on their Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) prior to award disbursement. In addition, the Agency failed to communicate award information, including separate identification of ARRA awards on the SEFA and SF-SAC, to ARRA subrecipients before each disbursement.

- For two of seven subrecipients, project agreement did not inform subrecipient of A-133 audit requirements.

- Four of seven subrecipient projects tested did not have documentation on file to support site visits were being made.

The Agency's Audit Division's review of Local Public Agencies (LPAs) and LPA procedures also noted the following:

- Right-of-Way review process does not include a determination that right-of-way expenses were incurred after Federal authorization and State notice to proceed dates.

- Agency currently does not have a process in place to ensure project environmental commitments made by the LPAs are completed.

- Agency currently does not have procedures to ensure reviews of maintenance provisions of enhancement projects occur.

- Local project billing review does not include obtaining detailed supporting documentation of costs.

Questioned Costs: None

Context: For two awards the contract did not include award information such as CFDA title and number, award name and number, and name of Federal agency. Both contracts were for rural roads and were entered into in 2005 and 2003. These same two contracts also did not include information regarding A-133 audit requirements.

For two ARRA awards, the Agency did not ensure subrecipient was made aware of the requirement to separately identify ARRA funds on their SEFA and SF-SAC. The Agency also did not make subrecipient aware of CFDA title and number, award name and number, and name of Federal agency prior to each disbursement.

The Agency's Audit Division does send a letter out at the end of the LPA's fiscal year which includes dollar amounts awarded to subrecipients, CFDA title and number, award name and number, name of Federal agency, and A-133 audit requirements. In addition, this letter states ARRA award amounts need to be separately indentified on the subrecipient's SEFA.

Per discussion with Agency personnel, it appears site visits for projects were being made; however, documentation of these visits was not kept. Starting in December 2009 the Agency implemented new policies and procedures which required site visits to be documented.

The Agency does not have procedures in place to ensure local expenditures were incurred after the Federal authorization and/or State notice to proceed dates at the time the expense is reimbursed to the LPA. The Agency's Audit Division does review more detailed documentation at the conclusion of the project to ensure all costs are eligible based on work dates, Federal authorization dates, and State notice to proceed dates. Furthermore, the Agency does not have procedures to ensure future and on-going environmental and/or maintenance commitments in local agreements are met.

Cause: The Urban and Rural sections of the Government Affairs Division were split many years ago into two different offices. During this time the sections did not have much communication between each other. Therefore, when the Urban section added award information to their agreements the Rural section was unaware of the addition. The Rural section did not start putting award information into their agreements until 2008 or 2009 when the Government Affairs Division was transformed into the Local Projects Division and both the Rural and Urban sections were under the same roof.

In December 2009 the Agency began letting contracts for LPAs and paying vendors for LPA projects directly. At this point there was some confusion as to whether LPAs would still be considered subrecipients.

Effect: The Agency is not in compliance with the requirements of OMB Circular A-133 and other applicable Federal regulations. Additionally, there is an increased risk site visits may not be completed as required if documentation of site visits is not kept on file. Furthermore, there is an increased risk ineligible costs may be reimbursed if sufficient supporting documentation is not received and reviewed at the time the cost is reimbursed.

Recommendation: We recommend the Agency ensure all award information is communicated to the subrecipient before Federal funds are disbursed. In addition, we recommend ARRA award information be communicated to subrecipients not only at the time of award but before each disbursement. We also recommend the Agency ensure documentation is on file to show site visits to subrecipient projects are made. Finally, we recommend the Agency ensure sufficient documentation is on file at the time of reimbursement to ensure only eligible costs are reimbursed and procedures be in place to ensure future and on-going environmental and/or maintenance commitments are met.

> **Management Response:** This Agency does inform all subrecipients of the data required by Federal awards through formal agreements signed by the subrecipient and the Agency. The subrecipient will be informed upon award and when the project is ready to be closed out. The technical ability to inform the subrecipient of data requirements on each payment is not practical, or reasonable and will not be done; consequently, we disagree with this recommendation. Per your audit comments, "starting in December 2009, our Agency implemented new policies and procedures that required site visits to be documented" and we are doing that. Currently, we are ensuring that sufficient documentation is on file at the time of reimbursement and this action is in accordance with the Local Public Agency Manual that has been approved by the Federal Highway Administration.
>
> **Corrective Action Plan:** See Management Response
>
> **Contact:** Steve Maraman, Finance Administrator
>
> **Anticipated Completion Date:** Complete

APA Response: As noted above, for ARRA funding 2 CFR § 176.210 requires recipients to separately identify to each subrecipient, at the time of disbursement of funds, the Federal award number, CFDA number, and amount of ARRA funds.

Finding #10-27-03

Program: CFDA 20.205 – Highway Planning and Construction – Subrecipient Monitoring

Grant Number & Year: Appropriation codes H230, H660, HY10, HY20, LY10, LY20, LY30, LY60, LY90, L230, L680, Q200, Q230, Q920,

Federal Grantor Agency: U.S. Department of Transportation

Criteria: Local Public Agencies guidelines Chapter 12.5 *Construction Engineering Agreement* (May 2009) states, "Costs for Construction Engineering (CE) are eligible for Federal-aid providing Federal requirements have been followed. The LPA may select a consultant (see Chapter 4) to perform this function if they lack staff or the expertise needed to perform the engineering and management duties during construction. A consulting firm cannot perform both the preliminary engineering and construction engineering services on the same project." Additionally, a good internal control plan requires a separate firm provide preliminary and construction engineering services. OMB Circular A-133 § 400 requires pass-through entities advise subrecipients of requirements imposed on them by Federal laws, regulation, and provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity. OMB Circular A-133 § 400 also requires pass-through entities to monitor the activities of subrecipients as necessary to ensure awards are used in compliance with laws, regulations, and the provisions of contracts or grant agreements. U.S. Department of Transportation's Administration of Engineering and Design Related Services Contracts – Questions and Answers states, "Can a contract be modified to add work that was not included in the qualification based selection criteria used to evaluate proposals? No. Any modifications of the contract to add work beyond the scope of work the contractor was qualified for would in effect circumvent the Brooks Act qualification based evaluation and selection procedures." A good internal control plan requires subrecipients adequately review reimbursements to ensure payments are only for eligible costs. Additionally, a good internal control plan requires procedures be in place to ensure cost estimates used to allocate eligible and non-eligible costs are accurate at the completion of the project.

Condition: For the period September 1, 2004, through August 31, 2009, the APA conducted an attestation review of the City of Lincoln's Antelope Valley Project. Funding sources for this project included city, university, private entities, FHWA, and the U.S. Army Corp of Engineers (USACE). For the fiscal year ended June 30, 2010, the Agency reimbursed the City $4.4 million of FHWA funds for Antelope Valley Projects. During the APA review of the City of Lincoln's Antelope Valley Project, we noted the following for the fiscal year ended June 30, 2010, which would impact Agency reimbursement of FHWA funds:

- The City of Lincoln (City) contracted with the same firm to provide both preliminary and construction engineering services.

- For two contracts tested, amendments resulted in material deviations from the original Request for Proposals (RFPs). No separate procurement solicitation for these additional services was made by the City of Lincoln.

- At the time of the APA's attestation review, the Agency had not yet formally requested the City provide auditing procedures nor provided the City with suggested audit procedures to be performed for the Antelope Valley construction engineering services contract.

- For three Antelope Valley projects tested neither the City nor the Agency had reviewed the completed projects to determine if percentage amounts billed to FHWA on cost estimates were greater than, equal to, or less than actual eligible costs. For these same projects, the APA noted costs incorrectly coded as well as reimbursement requests which did not include a detailed breakdown of costs or the previous amount of requests.

Questioned Costs: Unknown

Context: The preliminary engineering agreement was signed in October 1995 and the construction engineering agreement was signed in September 2003. The City has paid more than $30 million and $9.9 million respectively under these two contracts through August 31, 2009. The City requested a waiver to continue using the same firm for both preliminary and construction engineering services for all projects which had not been started at the time of the APA's review. FHWA denied the City a waiver for these projects which had not been started.

The engineering services RFP originally covered Phase I through IV. The Final Design and Construction Phase Services (Phase V) were not part of the original scope of the work and were not included in the RFP. The original contract and amendments one through five had a total cost of $9.7 million. Amendments six through twelve were for Phase V. Total additional costs associated with these amendments were $23.1 million. The construction management RFP originally covered six projects. Amendments one through three to the construction management contract not only added additional costs for the original six projects but also added four additional projects that were not listed in the RFP. Amendments four through six also added additional projects. The total cost of projects included in the original RFP up to August 31, 2009, was $3.4 million. The total cost of projects not included in the original RFP up to August, 31, 2009, was $6.5 million. Other amendments to the construction management contract provided services which were beyond those considered to be normal and customary program management and construction phase services. These services totaled $1.6 million.

The Agency drafted the procedures to be used for the audit of the construction engineering contract on January 3, 2011. The expected start date for this audit work is May 1, 2011, and the estimated completion date is no later than August 31, 2011.

During our testing of the O Street Bridge and Roadway, the J Street Bridge, and the Big T Bridge and Roadway projects we noted errors in the estimated costs used to calculate FHWA eligible costs, estimated project construction costs which were significantly lower than the actual construction costs, and bills which were not reduced by the non-FHWA eligible share of costs. Most of these errors should have been corrected and adjusted for at the completion of the projects when actual and estimated eligible costs were compared; however, neither the Agency nor the City had procedures in place to review and adjust for actual versus estimated costs. Additionally, we noted $1 million of the J Street Bridge project engineering service costs were coded by the Agency as construction costs and three reimbursement requests did not include a detailed breakdown of requested costs or did not include the amounts of previous requests.

Cause: Prior to May 2009, the LPA manual did not require a separate firm perform preliminary and construction engineering services. FHWA guidelines do not specifically state that two different firms must perform these services and FHWA did not begin enforcing this requirement until May 2009 when the LPA manual was changed.

The City justified services outside the original RFP due to the following statements included in the RFP/amendments: "…the City exercises it's right to enter into this amendment with Parsons Brinckerhoff Quade & Douglas Inc. for subsequent phase(s) services without new solicitation" and "Additional Construction Phase and Other Services: Based on the firm(s) performance and at the sole option of JAVA [Joint Antelope Valley Authority], additional services during the construction phase or additional projects may be negotiated at a later time."

Effect: Without a separation of providers for the preliminary and construction engineering services there is an increased risk that services and charges made by the contractor may not meet Federal regulations. When additional work not discussed in the original RFP is added to a contract by amendment and a new RFP is not issued, the City is unable to ensure the most qualified firm is performing all the contract work. When the Agency does not go back after project completion to determine if the reimbursement was within an eligible amount or obtain a reimbursement request detailing the cost breakdown and previous billing amounts, there is an increased risk costs above those eligible may be reimbursed.

Recommendation: We recommend the Agency:

- Ensure the City comply with the FHWA's decision on the waiver request to not allow the same consulting firm to perform both the preliminary and construction engineering services on Antelope Valley projects that have not yet been started.
- Require the City to issue a new RFP when additional construction or engineering projects/phases, not included in the original RFP, are undertaken.
- Ensure the City's contract for an audit of the construction engineering services contract is completed. After audit completion, the Agency should review the audit and determine all required steps were completed and follow up on all audit findings to ensure corrective action is taken.
- Work with the City to recalculate the amount of eligible FHWA costs based on actual construction costs for each project.
- Compare FHWA reimbursements to the actual eligible construction costs to determine if FHWA funds were paid for ineligible costs.
- Ensure costs are coded correctly and reimbursement requests from LPAs include a detailed breakdown of costs as well as stating the amount of previous reimbursement requests.

Management Response: Though it occurred after this reporting period, we currently have authority by the Federal Highway Administration to perform pilot projects allowing the same consultant to perform both preliminary engineering and construction engineering on the same project. If the pilot projects prove out, there will not be a need to separate consultants, one for preliminary engineering and one for construction engineering. We concur, the City will be informed when additional construction and engineering costs will be incurred that were not covered by the original RFP, that a new RFP will need to be issued. The City will be informed of this requirement for all future projects. We concur, and we will ensure that the City's contract for an audit of the construction engineering services contract is completed. We will follow up after the City's audit is complete and ensure that the City has taken corrective action on all audit findings. We are currently in the process of reviewing Antelope Valley Projects and if any ineligible Federal costs were claimed by the City, we will ensure that the City makes reimbursement for any ineligible claims. We will ensure that costs are coded correctly and reimbursement requests from LPAs include a detailed breakdown of costs, as well as stating the amount of previous reimbursement requests.

Corrective Action Plan: We will notify or inform the City, as appropriate, on future projects as follows: 1) when new RFPs should be issued, 2) City's responsibility for auditing construction engineering services contract costs and we will do a follow up on any corrective actions defined within audit reports, 3) we will determine if any ineligible costs have been claimed for Federal reimbursement and if so, those funds will be returned to the Federal Highway Trust Fund, and 4) we will ensure that LPAs project costs are coded correctly and reimbursement requests from the LPAs include a detailed breakdown of costs claimed.

Contact: Steve Maraman, Finance Administrator

Anticipated Completion Date: The City of Lincoln and LPAs will be notified of all corrective actions needed, or procedures to follow by May 31, 2011.

MILITARY DEPARTMENT

<u>Finding #10-31-01</u>

Program: CFDA 12.401 – National Guard Military Operations and Maintenance (O&M) Projects – Cash Management

Grant Number & Year: Master Cooperative Agreement W91243-10-2-1000, FFY 2010

Federal Grantor Agency: U. S. Department of Defense

Criteria: Master Cooperative Agreement, Article V § 503 requires the advance payment method to be according to procedures established in NGR 5-1.

National Guard Regulation (NGR) 5-1 § 11-5(5) requires "A statement that the grantee agrees to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement by the State. (no more than 45 days)."

31 CFR § 205.33 (July 1, 2009) states, "(a) A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. 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… (b) Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B."

Condition: The timing of 4 of 40 drawdowns tested was not in compliance with the applicable funding technique.

Questioned Costs: None

Context: Funds were expended more than 45 days after being drawn. Funds were expended in 50, 61, 65, and 95 days. This exceeded the 45 day requirement by 5, 16, 20, and 50 days.

Cause: Per Agency staff, funds were drawn down in order to have adequate money available at the end of the State and Federal fiscal year.

Effect: Funds were held in excess of the time allowed.

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

Management Response: The Agency reaffirms the overall goal of efficient cash management. Federal program agencies and States should limit funds transfers to the minimum amounts necessary to meet program goals.

Corrective Action Plan: The Agency will continue to exercise all efforts to minimize the time between the drawdown of Federal funds and their disbursement for program purposes.

Contact: Ms. Shawn D. Fitzgerald

Anticipated Completion Date: Ongoing

Finding #10-31-02

Program: CFDA 12.400 – ARRA – Military Construction, National Guard; CFDA 12.401 – ARRA – National Guard Military Operations and Maintenance (O&M) Projects – Reporting

Grant Number & Year: Military Construction - Cooperative Agreement W91243-09-2-9002, FFY 2009; O&M - Cooperative Agreement Appendix W91243-09-2-9020, FFY 2009

Federal Grantor Agency: U.S. Department of Defense

Criteria: Section 1512 of the American Recovery and Reinvestment Act (ARRA) and Executive Office of the President Memorandum M-09-21 identify required data elements of Section 1512 reporting. The Total Federal Amount ARRA Funds Received/Invoiced is a key data element. The amount received/invoiced is defined for grants and loans as the amount of Recovery Acts funds received through drawdown, reimbursement or invoice and for Federally Awarded Contracts as the amount of Recovery Acts funds invoiced by the Federal contractor. A good internal control plan would include procedures which ensure the correct amounts are reported.

Condition: The total amount of ARRA funds reported for Military Construction and O&M as received/invoiced was incorrect for the quarter ended March 31, 2010.

Questioned Costs: None

Context: The amount reported as received/invoiced for Military Construction was $2,900,000 which was the grant amount. The correct received/invoiced amount was $622,677. The amount reported as received/invoiced for Military O&M was $3,226,172 which was the grant amount. The correct received/invoiced amount was $697,152.

Cause: The amount reported was the total amount of the grant award not the amount received/invoiced as of March 31, 2010.

Effect: The amount received/invoiced reported was incorrect.

Recommendation: Procedures should be implemented which ensure the correct amounts are reported.

Management Response: On July 23, 2010, the Federal Aid Compliance Specialist at the Department of Administrative Services-Accounting Division contacted the Nebraska Military Department Controller to report the total Federal ARRA funds received/invoiced should be the amount posted in EnterpriseOne at the end of the reporting period and not the total grant amount.

Corrective Action Plan: The Agency took corrective action on July 28, 2010. Comments were added to the Federal website during 2nd Quarter reporting to correct the amount of the total Federal ARRA funds received/invoiced.

Contact: Ms. Shawn D. Fitzgerald

Anticipated Completion Date: The correct amount was entered on July 28, 2010.

GAME AND PARKS COMMISSION

Finding #10-33-01

Program: CFDA 15.605 and 15.611 – Fish and Wildlife Cluster – Reporting and Matching

Grant Number & Year: All Open Grants including #F-161-B-2, November 18, 2009 to December 31, 2011

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

Criteria: OMB Circular A-133 § 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, 2009) 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.

OMB Circular A-133 § 105 requires internal control over Federal programs to provide reasonable assurance regarding the achievement of the following objective: Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports.

Condition: The Agency did not record transactions in EnterpriseOne, which is the official accounting system of the State, in a manner that adequately established whether a transaction was used for Federal reimbursement or State match. As a result, the Agency could not use EnterpriseOne to directly report Federal expenditures on the SEFA and other Federal reports. To report this information on the SEFA and other Federal reports required the Agency to prepare separate spreadsheets which summarizes accounting information from EnterpriseOne. In addition, our review of the SEFA spreadsheet noted the Agency overstated Federal expenditures reported for the SEFA by $14,703. This error was due to the Agency not properly using the correct column as their control figure to determine the calculated Federal expenditures for one grant.

Questioned Costs: Unknown

Context: During testing it could not be determined at the transaction level what was federally reimbursed and what was used for State match. The Agency's procedure was to record expenditures against one or more of the Agency's cash, Federal, or general funds for each grant project by a subsidiary account and calculate the reimbursable rate of the subsidiary expenditures to determine the amount of Federal dollars drawn down. The Federal reimbursable amount was based on the Federal/State match requirements of each grant.

As previously noted, due to the non-coding between Federal and State expenditures at the transaction level, the Agency tracked and reported Federal expenditures using a spreadsheet. From this spreadsheet for the fiscal year ended June 30, 2010, the Agency reported $10,685,188 in Federal expenditures to the Department of Administrative Services (DAS) State Accounting Division (State Accounting) for inclusion in the State's SEFA; however, the APA calculated $10,670,485, creating the $14,703 overstatement. The SEFA was subsequently adjusted. This has been a prior finding since the fiscal year ended June 30, 2007.

Cause: The Agency believes it would take significantly more time to split coding between Federal and State matching expenditures as transactions are processed. The Agency's procedures did not detect the reporting error in the spreadsheet.

Effect: When the Agency does not record transactions in a manner that adequately establishes whether a transaction was used for Federal reimbursement or State match it is not possible for the Agency to prepare Federal reports directly from EnterpriseOne and amounts reported to State Accounting for inclusion in the SEFA. In addition, we believe there is greater risk of reporting errors occurring and thus greater risk of noncompliance with Federal regulations, which could lead to the loss of Federal funding.

Recommendation: The Agency has concerns related to significantly increasing the time involved; therefore, we would recommend the Agency consider using EnterpriseOne, the official accounting system of the State, on at least a test basis for a few grants within the Fish and Wildlife Cluster, to record Federal program expenditures in such a manner that will adequately identify, at the transaction level, Federal and State Match, to reduce the risk of misstatements on the SEFA and other Federal reports and to help ensure compliance with Federal regulations. Also, for those grants accounted for on a test basis, the Agency should document the potential costs and benefits of using EnterpiseOne for all grants.

> **Management Response:** The Agency has and does adequately code transactions in EnterpriseOne, the official accounting system of the State, in a manner sufficient for determining that expenditures were/are not in violation of the restrictions and prohibitions of applicable statutes. All expenditures are clearly identified with a unique subsidiary that establishes the eligible grant expenditure. Regardless of the fund source, all expenditures must meet the Federal program criteria. Transactions are coded to allow for proper recording and preparation of financial statements and federal reports. The process was identified as the best method under the current State Accounting system at the time of the conversion from the former system, NAS, based on NIS/EnterpriseOne personnel recommendations at the time. Neither the Federal government nor the State of Nebraska requires the use of an EnterpriseOne report to prepare the SEFA, but as identified, the Agency does use an excel spreadsheet which is reconciled to

EnterpriseOne data, to make appropriate calculations for requesting reimbursement and reporting SEFA information. Internal controls exist to ensure that material misstatements do not occur in the financial information. The $14,703 variance identified was a human error, not material in nature or representative of a reportable weakness of the methodology used by the Agency. Each previous finding was of a different nature and in each case they were corrected and internal controls strengthened. In a period where both State and Federal governments are trying to be efficient and do more with less, we do not agree that this issue warrants an increase in the amount of State resources, and therefore Federal resources, to account for information which is adequately being tracked. It is our understanding that the Auditors found no incidents of inappropriate use of Federal funds based on the current level of tracking in the State Accounting system.

Administrative Services State Accounting concurs with our comments and offered the following: "*The official accounting system of the State is not the only acceptable source for determining the Federal reimbursement or State match criteria. An audit report finding of .1% overstatement of Federal expenditures (due to the use of a spreadsheet for tracking the Federal versus State components) does not constitute an inability to adequately report funding.*

State Accounting has worked with the agency to understand, review and suggest improvement to the spreadsheet in order to reduce errors. At this time, we recognize the spreadsheet is the most effective and efficient means for the agency to identify funds for Federal reimbursement" Email from Michael Keays, State Accounting Administrator.

Corrective Action Plan: Both State Accounting and the Agency have reviewed the preference of the State Auditor's office and determined it would take more Agency resources and increase risk over the current methodology. The Agency's procedures did capture the variance and reconcile it back to EnterpriseOne and were in place to ensure that the federal draw was not incorrectly calculated. We will continue to refine the compensating controls over our current methodology.

Administrative Services State Accounting has met with the Auditor's Office to further explain the use of the spreadsheet and explain why they support the Agency in its use.

Contact: Tammy Snyder

Anticipated Completion Date: N/A

APA response: Although expenditures are identified with a subsidiary ledger, the expenditures are not identified as whether paid with Federal or State funds. The Fish and Wildlife Cluster was the only major program for the State of

Nebraska that we could not identify at the transaction level whether the expenditure was paid for with Federal funds or with State funds. The Fish and Wildlife Cluster was the only major program that required the use of a manual spreadsheet to determine the amount reported on the SEFA. For Federal reporting, the total expenditures can be traced to EnterpriseOne; however, a calculation must be made to report Federal expenditures and State Match. We believe EnterpriseOne is less susceptible to human error than a manual spreadsheet.

We recommend the Agency work with the EnterpriseOne team to try to move toward accounting for the transactions on the State accounting system with Federal and State expenditures separately identified. The Agency could start with a few grants and then any issues that arise could be better analyzed to determine how to proceed in the future.

Finding #10-33-02

Program: CFDA 15.605 and 15.611 – Fish and Wildlife Cluster – Suspension and Debarment

Grant Number & Year: All Open Grants including #F-161-B-2, November 18, 2009 to December 31, 2011

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

Criteria: 2 CFR § 180.300 (January 1, 2009) states 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.

2 CFR § 180.220 (January 1, 2009) 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: For 2 of 3 contracts tested, the Agency did not verify the contractor was not suspended or debarred.

Questioned Costs: Unknown

Context: One contract was a statewide contract that had no clause and the Agency did not use EPLS to check the suspension and debarment status. The Agency has worked with the Department of Administrative Services to implement a clause into statewide contracts effective November 2010. The other contract had no clause and EPLS was also not reviewed. Per the Agency, suspension and debarment certifications or clauses were used for new contracts towards the end of the fiscal year, but this would not have ensured compliance for existing contracts during fiscal year 2010.

Cause: The Agency did not feel it was necessary to verify the status of contractors on EPLS if the contract went through or was recommended by Administrative Services Materiel Division or the vendor. Procedures to ensure compliance with suspension and debarment were not consistently followed or effective for all Agency divisions.

Effect: The Agency could be unaware that it is contracting with suspended or debarred parties, causing possible loss of Federal funds.

Recommendation: We recommend the Agency continue to implement suspension and debarment clauses into contracts, but also verify using EPLS once a fiscal year whether or not a vendor is currently suspended or debarred for contracts that are still in effect until the clause is put into a new contract.

> **Management Response:** As identified this was a previous finding reported last fiscal year. The Agency took steps to correct the matter internally and worked with Administrative Services Materiel Division to ensure that State contracts include suspension and debarment language. While neither of the contractors subject to the current findings were/are on the EPLS, the contracts were entered prior to the implementation of the corrective actions and were not retroactively acted upon. Since one of the contracts relates to a state approved contractor list authorized by the State Building Division, the Agency has contacted the State Building Division to apprise them of the issue.
>
> **Corrective Action Plan:** The Agency re-apprised both the Administrative Services Materiel Division and the State Building Division of this finding via email on March 1, 2011, and will continue to work internally to ensure that the appropriate suspension and debarment language is included in agency contracts and/or EPLS review is completed.
>
> **Contact:** Tammy Snyder
>
> **Anticipated Completion Date:** Done

APA Response: The Agency should ensure suspension and debarment requirements are complied with for covered transactions whether it is a State approved contractor or an agency contract.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #10-65-02

Program: CFDA 84.397 – State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act; CFDA 93.658 – Foster Care Title IV-E and ARRA Foster Care Title IV-E; CFDA 93.667 – Social Services Block Grant; due to the cross-cutting nature of this finding, all CFDAs with employee health insurance expenditures are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various including #S397A090028A, FFY 2009; #G0901NE1401, FFY 2009; #0G0901NESOSR, FFY 2009

Federal Grantor Agency: U.S. Department of Health & Human Services, U.S. Department of Education

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: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards…j. Be adequately documented."

Both 34 CFR § 80.20(a) and 45 CFR § 92.20(a) require a State to expend and account for Federal grant funds in accordance with State laws and procedures for its own funds.

Neb. Rev. Stat. § 84-305 (Reissue 2008) states, "The Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law. No provisions of state law shall be construed to change the nonpublic nature of the data obtained as a result of the access. When an audit or investigative finding emanates from nonpublic data which is nonpublic pursuant to federal or state law, all the nonpublic information shall not be made public."

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) is codified at 42 U.S.C. § 1320d et seq. The HIPAA Administrative Simplification Regulations are found at 45 CFR 160, 162, and 164. These include the Privacy Rule, which is located at 45 CFR Part 160 and Subparts A and E of Part 164. Though designed to protect the privacy of individually identifiable health information held by either a covered entity or a business associate thereof, HIPAA provides a number of important exceptions to that general rule.

According to 45 CFR § 160.203, "A standard, requirement or implementation specification adopted under . . . [HIPAA] that is contrary to a provision of State law preempts the provision of State law." However, that regulation sets out specific exceptions under which a covered entity is not required to comply with a contrary provision of HIPAA. Among those is one found at 45 CFR § 160.203(d), which says: "The provision of State law requires a health plan to report, or to provide access to, information for the purpose of management audits, financial audits, program monitoring and evaluation, or the licensure or certification of facilities or individuals." As explained at 42 U.S.C. § 1320d-7(c), "Nothing in this part shall limit the ability of a State to require a health plan to report, or to provide access to, information for management audits, financial audits, program monitoring and evaluation, facility licensure or certification, or individual licensure or certification."

Under 45 CFR § 164.512(d)(1), "A covered entity may disclose protected health information to a health oversight agency for oversight activities authorized by law, including audits…" 45 CFR § 164.501 defines a "health oversight agency" as "an agency or authority of the United States, a State, a territory, a political subdivision of a State or territory, or an Indian tribe, or a person or entity acting under a grant of authority from or contract with such public agency, including the employees or agents of such public agency or its contractors or persons or entities to whom it has granted authority, that is authorized by law to oversee the health care system (whether public or private) or government programs in which health information is necessary to determine eligibility or compliance, or to enforce civil rights laws for which health information is relevant."

To summarize, in conjunction with the authority granted under Neb. Rev. Stat. § 84-305, HIPAA provides specific exceptions under which the APA may access protected health information, such as those referencing conflicting State law and pertaining to health oversight agencies.

Condition: The Agency has not provided the Auditor of Public Accounts (APA) with the detailed health insurance claims data from the insurance administrator, despite the APA's willingness to receive the claims data with the names redacted. These data files are needed to determine that claims paid on behalf of the State of Nebraska (State) are for eligible participants and services.

Questioned Costs: Unknown

Context: The State maintains a self-funded health insurance program. For fiscal year 2010, the State received $179 million in contributions for both the employer and employee portions of health insurance premiums. Agencies of the State paid $146,709,545 for the employer share of health insurance premiums during fiscal year 2010. Of this total, $34,991,832 was paid with Federal funds. The following table represents the three major programs for which health insurance premium expenditures were material.

CFDA	Program	FY 2010 Health Insurance Premium Expenditures		
		Federal	**State**	**Total**
84.397	State Fiscal Stabilization Fund (SFSF) -Government Services, Recovery Act	$ 5,818,282	$ 0	$ 5,818,282
93.658	Foster Care Title IV-E and ARRA Foster Care Title IV-E	$ 1,532,952	$193,066	$ 1,726,018
93.667	Social Services Block Grant	$ 1,168,667	$ 0	$ 1,168,667

Self-funded insurance programs generally require the services of a third party to assist in administering the program. The State entered into an administrative services agreement with Blue Cross Blue Shield of Nebraska (BCBSNE) for medical services. Some of the services provided by BCBSNE include: preparing the Benefit Plan Document; preparing enrollment cards and Schedule of Benefits for disbursement to employees; and processing of claims. During fiscal year 2010, the State paid BCBSNE $5,383,634 to administer the State's health insurance program.

Despite utilizing BCBSNE to process its health insurance claims, the State is responsible for the payment of all health insurance claims incurred by State employees or their dependents. During fiscal year 2010, the State paid $121,940,740 of health insurance claims.

BCBSNE is considered a service organization and is required to receive a SAS 70 audit to assess its internal controls. BCBSNE received a SAS 70 audit from Eide Bailly LLP for the period August 1, 2009, through July 31, 2010. The SAS 70 report included an opinion on the design of controls at BCBSNE to provide reasonable assurance that specified control objectives would be achieved if the controls were complied with; however, it did not include substantive or compliance testing of eligibility and allowability of claims payments. Additionally, the APA was unable to obtain documentation to support that the SAS 70 audit tested controls relating specifically to the State's health insurance program.

The State entered into a pharmacy benefit management agreement with Express Scripts, Inc. (ESI) for prescription services. Some of the services provided by ESI include: providing and maintaining a network of participating pharmacies; operating a mail service pharmacy; and performing claims processing. During fiscal year 2010, the State paid ESI $1,108,285 to administer its prescription plan. Moreover, the State paid $30,528,909 for its prescription claims during this period. The APA was provided, directly from ESI, all the detailed prescription claims data for fiscal year 2010.

In April 2010, the APA obtained permission from the Legislative Performance Audit Committee to conduct a performance audit relating to the cost of health insurance for State employees. Audit fieldwork began shortly thereafter. As part of our testing, on

June 2, 2010, the APA requested the State's medical claims detail from BCBSNE. On July 7, 2010, BCBSNE notified the APA that this information was ready for delivery. However, as of January 20, 2011, the APA has not been provided with the detailed medical claims, despite the APA's willingness to receive the data with the names redacted.

Cause: The Agency has not provided the APA with the documentation requested.

Effect: Without the detailed claims data, the APA cannot determine if the claims paid on behalf of the State were proper and for eligible participants and services in accordance with allowable cost principles.

Recommendation: We recommend the Agency provide the requested health insurance claims data to the APA in accordance with Federal requirements and State statutes.

> **Management Response:** We have been openly working with the APA in developing an agreement to provide limited personal health claims data and for protections of any subsequent release of non-public information resulting from access to this data. Our compliance to provide the personal health claims information to the APA can be accomplished once an agreement can be reached for providing necessary protections of the data.
>
> **Corrective Action Plan:** A major goal of the State is to assure that individuals' personal health information is properly protected from the public. The State has spent a great deal of time determining how the State can comply with the APA's request and still protect employees' privacy. Through meetings with the APA and Administrative Services, the two offices have come to an agreement on a limited data set for personal health claims information. Our compliance to provide the personal health claims information to the APA can be accomplished once an agreement can be reached for providing necessary protections of the data.
>
> **Contact:** Roger Wilson, Administrator, Administrative Services
>
> **Anticipated Completion Date:** Our compliance to provide the personal health claims information to the APA can be accomplished once an agreement can be reached for providing necessary protections of the data.

APA Response: The Department of Administrative Services has not met the agreed-upon date, March 11, 2011, for delivery of the data despite the APA's willingness to receive the health care claims data with the names redacted, even though, as cited above, the APA in conjunction with the authority to access such records as granted under Neb. Rev. Stat. § 84-305, HIPAA provides specific

exceptions under which the APA may access protected health information. Currently, the APA has not been informed of any new date for the original or redacted health claims data, which are paid using both State and Federal funds, to be provided.

On March 28, 2011, subsequent to the end of fieldwork and the date of the report, the Agency provided the APA with the records with redacted information; however, the APA did not have sufficient time to verify the completeness of the data and test the records before the State of Nebraska Statewide Single Audit filing deadline of March 31, 2011.

ENERGY OFFICE

Finding #10-71-01

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons and ARRA – Weatherization Assistance for Low-Income Persons – Subrecipient Monitoring

Grant Number and Year: DE-EE0000196 and ARRA DE-EE0000137, FFY 2009

Federal Grantor Agency: U.S. Department of Energy

Criteria: OMB Circular A-133 § 400(d)(3) states a pass-through entity shall "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."

2 CFR 176.210(a) (January 1, 2009) states, "To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) [ARRA] as required by Congress and in accordance with 2 CFR 215.21 'Uniform Administrative Requirements for Grants and Agreements' and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds."

10 CFR 600.143 (January 1, 2009) states, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition."

A good internal control plan requires procedures to ensure compliance with Federal requirements.

Condition: We noted one subrecipient, the Community Action Partnership of Lancaster and Saunders Counties (CAPLSC) commingled ARRA and non-ARRA Weatherization funds. CAPLSC also limited competition for the replacement of furnaces and air conditioners without appropriate justification.

Questioned Costs: $8,622 known

Context: During on-site monitoring visits conducted in the first half of 2010 by the Agency Fiscal Compliance Analyst, and as we noted in testing, CAPLSC did not account for ARRA funds separately on their accounting system. CAPSLC was awarded $4,531,004 in ARRA funds and had received $646,613 through June 30, 2010. The Agency is currently working with the subrecipient to ensure ARRA funds are accounted for separately.

Based on the on-site monitoring conducted and other concerns noted by the Agency, we performed testing of 60 contractual payments of CAPLSC.

CAPLSC awards 12 to 18 month contracts to heating, ventilation, and air conditioning (HVAC) contractors for inspection and tune-up services for the Weatherization Assistance Program (Program). CAPLSC last requested bids for HVAC inspection and tune-up services on October 15, 2009. The request was sent to 32 different contractors. Six contractors requested bid packets, and two of the six submitted bids and were awarded contracts.

The letter indicated the CAPLSC ". . . is requesting bids on inspection, cleaning, tuning services and minor repairs for heating and cooling systems."

The letter did not indicate that only those vendors submitting bids and receiving service contracts would be considered for bidding on sales and installation of replacement units for Program projects by CAPLSC. The limiting of bidding for replacement units to the only two contractors to submit bids for inspection and other minor services is a limitation of competition as prohibited by 10 CFR 600.143.

We noted the following during our testing of 33 payments by CAPLSC for heating and air conditioner replacements:

- Two replacements tested did not have bids by both contractors documented. Questioned costs noted were $3,951 and $1,467.
- One replacement was billed in excess of the estimate by $702.
- One replacement was overpaid by CAPLSC by $5.
- One replacement was bid on by only one bidder, questioned costs of $186.

The following table represents CAPLSC payments to HVAC contractors for the fiscal year ended June 30, 2010:

Vendor	Inspection & Minor Services	Replacement	Total	% of Total CAPLSC Expenditures
Reinick Heating & Air	$ 18,677	$ 1,000,690	$ 1,091,367	44.83%
Cool Concepts	$ 8,580	$ 286,905	$ 295,485	12.14%

Total Federal expenditures by CAPLSC for the Program were $2,434,480 for the fiscal year. Reinick Heating & Air and Cool Concepts were the top two vendor recipients of Program Federal funds administered by CAPLSC.

Additionally, we noted the CAPLSC Weatherization Program Administrator and the owner of Reinick Heating and Air were neighbors, both residing on the same block of North 23rd Street. 10 CFR 600.142 (January 1, 2009) states, "No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award." While the relationship between the two parties noted does not fit the definition of the CFR, the relationship does have the appearance of being less than arm's length.

We further noted, the Agency performed additional monitoring procedures of CAPLSC after June 30, 2010, for the period April 2009 through September 2010. Those procedures determined the issue regarding separate accountability of ARRA funds had been corrected; however, additional issues related to eligibility and allowable costs were noted.

Cause: Unknown

Effect: Increased risk Federal awards will not be used for authorized purposes in accordance with Federal requirements. There is also an appearance of conflict of interest when the largest vendor is a neighbor of the Program Administrator and competition has been unreasonably limited.

Recommendation: We recommend the Agency implement procedures to ensure subrecipients are adequately monitored to ensure Federal awards are used for authorized purposes in accordance with State and Federal requirements. Due to the increased dollars and requirements for ARRA funds, the Agency may need to consider increasing the number of on-site visits performed or other procedures as necessary to resolve the issues noted. We also recommend the Agency take immediate action to ensure CAPLSC implements procedures to ensure open and free competition in the replacement of furnaces and air conditioners.

> **Management Response:** The Energy Office agrees with the Auditor's recommendations. Since the execution of ARRA contracts in April 2009, the Energy Office has completed a 5-day formal monitoring visit at each of the nine subgrantee organizations in the State. An additional visit by an independent auditing firm to conduct a review of Agreed Upon Procedures was completed at one subgrantee and is currently being conducted by the APA at CAPLSC. It is the intent of the Energy Office to conduct similar reviews of the remaining seven subgrantees. The second round of Formal Monitoring visits will begin in early 2011 as well. Additionally, Energy Office Weatherization Program Monitors inspect 30 percent of the units that are weatherized. These reviews include on-site inspections as well as file reviews including Davis-Bacon Act compliance.
>
> The Energy Office Weatherization Assistance Program (WAP) staff is requesting CAPLSC to re-open the HVAC bidding process and will provide specific recommendations regarding the bid solicitation and award process as well as

suggested actions that can be taken to address any perceived conflict of interest due to the proximity of residences between the owner of Reinick Heating and Air and the CAPLSC Weatherization Program Administrator.

CAPLSC has provided clarifications regarding the notes of the reviews of the HVAC replacements in correspondence to the APA dated September 28, 2010. The Energy Office will work with CAPLSC to recapture the $5 overpayment due to the misreading of the billing statement.

Corrective Action Plan:

1. The Energy Office will conduct a formal monitoring visit to the nine Weatherization subgrantees beginning January 2011.
2. The Energy Office will continue contracting to complete additional reviews of the nine Weatherization subgrantees using an Agreed Upon Procedures approach. To date, reviews have been completed for three of the nine Weatherization subgrantees.
3. The Energy Office will notify CAPLSC to re-issue a Request for Proposals for HVAC cleaning, tuning, repair, and replacement. The Energy Office will meet with CAPLSC to provide guidance on the bid solicitation and review process. The Energy Office worked with the CAPLSC Weatherization staff to revise their bidding process for both HVAC and Infiltration contractors. The revised process was designed to recruit additional bidders on HVAC maintenance, repair, and replacement as well as infiltration work that will help to ensure a fair and open process in awarding weatherization contracts.
4. The Energy Office will withhold $5 from the next CAPLSC Reimbursement Request in order to recapture the $5 overpayment.

Contact: Julie Hendricks, WAP/SEP Division Chief

Anticipated Completion Date: February 1, 2011

<u>Finding #10-71-02</u>

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons and ARRA – Weatherization Assistance for Low-Income Persons – Eligibility and Subrecipient Monitoring

Grant Number and Year: DE-EE0000196 and DE-EE0000196, FFY 2009

Federal Grantor Agency: U.S. Department of Energy

Criteria: 10 CFR § 440.22 (3)(b) (January 1, 2009) states, “A subgrantee may weatherize a building containing rental dwelling units using financial assistance for dwelling units eligible for weatherization assistance under paragraph (a) of this section, where: (1) The subgrantee has obtained the written permission of the owner or his agent…”

Sound business practices require procedures to ensure the weatherization of a subrecipient's dwelling units are reviewed and approved by the pass-through entity.

OMB Circular A-133 § 300(b) 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."

A good internal control plan requires supporting documentation of income verification be maintained in the application file, or two individuals from the subgrantee sign an income verification form.

Condition: Written permission of the property's owner was not documented in 3 of 25 applicants' files tested.

Dwelling units owned by a subrecipient were weatherized without the review and approval of the Agency.

Adequate supporting documentation of income verification was not maintained in 8 of 25 applicants' files tested.

Questioned Costs: Unknown

Context: One of two applicant's files tested from Blue Valley Community Action Program (BVCAP), a subrecipient of the Agency, had all paperwork signed by the owner's fiancé, who was living at the residence. Per review of the Seward County Assessors website, the owner's fiancé was not listed on the property's deed. The file did not have the written permission of the owner as required.

Two of eight applicants' files tested from Southeast Nebraska Community Action (SENCA), a subrecipient of the Agency, were for vacant rental units in a building owned and approved to be weatherized by SENCA. SENCA then requested reimbursement through the Weatherization Program from the Agency. The files did not have the written permission of SENCA as required. Also, since the subrecipient owned the units, approval by the Agency should have been obtained. A total of 1,433 dwellings were weatherized by nine subrecipients from July 1, 2009, through June 30, 2010.

The building SENCA owned had six dwelling units. Four of the six units were occupied by eligible individuals and two of the dwelling units were vacant at the time of weatherization. Total cost of weatherizing the units was $4,563, or $761 per unit. The subrecipient weatherized 16 dwelling units with an average cost of $6,723 per unit with non-ARRA funds and 46 dwelling units with an average cost of $6,021 per unit with ARRA funds.

Seven of eight applicants' files had an income verification form signed by the applicant and an individual from the subgrantee. There were no copies of supporting documentation for the income verification, such as tax returns or pay stubs, maintained in the files. One of eight applicant's files did not have any supporting documentation of verification of Supplementary Security Income (SSI). Per discussion with the subrecipient, the income was verified verbally. Eight of eight applicants met income guidelines based on information in the files.

The Agency had a total of nine subrecipients during the year.

Cause: Unknown

Effect: There is an increased risk of unauthorized dwelling units being weatherized when the written permission of the property's owner is not documented in the application file. There is also an increased risk of ineligible individuals receiving benefits when income is not adequately documented in the application file.

There is an increased risk of ineligible dwelling units being weatherized when subrecipients weatherize their own buildings without review and approval of the Agency.

Recommendation: We recommend written permission of the property owner is obtained, as required by Federal regulations, and maintained in the application file. We also recommend adequate supporting documentation of income verification be maintained in the application file.

We recommend the Agency implement procedures to ensure that all weatherization work performed on buildings owned by the subrecipient be reviewed and pre-approved by the Agency.

> **Management Response:** Management agrees with the APA's recommendations related to permission to weatherize a property, proper documentation of income eligibility, and requirements related to weatherization of a property owned by a subrecipient. The WAP/SEP Division Chief discussed the particular instance with the subgrantee and informed them that no further subgrantee-owned projects be undertaken without permission from the Energy Office.
>
> **Corrective Action Plan:** Subrecipients will be provided with information relating to the documentation of eligibility as well as documentation of permission to conduct weatherization services. Written notification will be given to subrecipients as to the types of supporting documentation required to verify income eligibility and to be included in project files. The 2010 State Weatherization Plan will be amended to require subgrantees to receive approval from the Energy Office in order to weatherize any units owned by the

subrecipient. The WAP/SEP Division Chief did discuss the particular instance with the subgrantee and informed them that no further subgrantee-owned projects be undertaken without permission from the Energy Office.

Contact: Julie Hendricks, WAP/SEP Division Chief

Anticipated Completion Date: November 30, 2010

<u>Finding #10-71-03</u>

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons – Subrecipient Monitoring

Grant Number and Year: DE-EE0000196, FFY 2009

Federal Grantor Agency: U.S. Department of Energy

Criteria: OMB Circular A-133 § 300(b) 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."

A good internal control plan requires procedures to ensure subrecipients' A-133 Single Audits of Federal Funds are submitted in a timely manner.

A good internal control plan also requires procedures to ensure subrecipients' A-133 Single Audits of Federal Funds are reviewed and the review approved in a timely manner.

Condition: A-133 Single Audits of Federal Funds for the most recent fiscal year ended had not been received by the Agency for one of five subrecipients tested.

A-133 Single Audits of Federal Funds for the most recent fiscal year ended had been reviewed, but not yet approved by the Agency, for two of two subrecipients tested in a separate sample.

Questioned Costs: Unknown

Context: The subrecipient's Fiscal Year Ended September 30, 2009, A-133 Single Audit of Federal Funds had not been submitted to the Agency for review and approval as of July 23, 2010. We received an electronic copy of the audit which had been completed in December 2009. No questioned costs were noted.

One subrecipient's Fiscal Year Ended September 30, 2009, A-133 Single Audit of Federal Funds dated February 12, 2010, was not reviewed until July 9, 2010. Another subrecipient's Fiscal Year Ended September 30, 2009, A-133 Single Audit of Federal Funds dated December 28, 2009, was also not reviewed until July 9, 2010. The reviews of the audit reports had not yet been approved by the Weatherization Division Chief as of August 10, 2010.

The Agency had a total of nine subrecipients during the year.

Cause: The Agency did not have sufficient procedures to ensure timely submission, review, and approval of subrecipients' A-133 Single Audits of Federal Funds.

Effect: There is an increased risk of subrecipient Single audit findings going unnoted when procedures are not in place to receive, review, and approve the subrecipients' A-133 Single Audits of Federal Funds in a timely manner.

Recommendation: We recommend the Agency implement procedures to ensure subrecipients' A-133 Single Audits of Federal Funds are submitted, reviewed, and approved in a timely manner.

Management Response: Staff changes and an increased workload due to the receipt of ARRA funds resulted in a lengthened response time to review and approve subrecipients' A-133 Single Audits of Federal funds.

Corrective Action Plan: The Energy Office Weatherization staff implemented the following procedures to ensure timely receipt, approval, and review of A-133 Single Audits of Federal Funds from Weatherization Program sub-grantees:

1. The Energy Office Fiscal staff developed a schedule of sub-grantee audit submission dates based on receipt of the prior year's A-133 Single Audit of Federal Funds;
2. The Energy Office Fiscal staff will send written notification to sub-grantees no later than 30 days prior to the A-133 Single Audit of Federal Funds due date to ensure timely submission;
3. The Energy Office Fiscal staff will review and provide the audits to the WAP/SEP Division Chief no later than 30 days after receipt by the Energy Office.
4. The WAP/SEP Division Chief will review and issue a letter of approval to the sub-grantee for the audit within 10 days of receipt from the Fiscal Analyst.

Contact: Julie Hendricks, WAP/SEP Division Chief

Anticipated Completion Date: September 30, 2011

Finding #10-71-04

Program: CDFA 81.042 – Weatherization Assistance for Low-Income Persons – Earmarking

Grant Number and Year: DE-FG26-03R830005, FFY 2008-2009

Federal Grantor Agency: U.S. Department of Energy

Criteria: 10 CFR § 440.18(e) (January 1, 2009) asserts that a State shall not spend more than 5% of an award for administrative expenses.

OMB Circular A-133 § 300(b) 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."

A good internal control plan requires procedures to ensure all Federal earmarking requirements are met.

Condition: The Agency's administrative expenses exceeded the 5% earmarking requirement for the FFY 2008-2009 grant period.

Questioned Costs: $11,278

Context: The total Weatherization grant for FFY 2008-2009 was $2,482,462. Agency administrative expenditures of $135,401 were charged to the grant, an amount equaling 5.45%. The Agency also expended $250,000 in proceeds from Stripper Well funds, which can also be used for administrative expenditures not exceeding 5% of the total amount. Agency administrative expenditures were 4.96% for Weatherization and Stripper Well funds combined, but no administrative expenditures were coded to Stripper Well funds.

Cause: Administrative expenses were not charged to Stripper Well funds.

Effect: The Agency was not in compliance with Federal requirements.

Recommendation: We recommend the Agency implement procedures to ensure all earmarking requirements are met. We further recommend $11,278 be returned to the grant by charging Stripper Well funds for the excess administrative expenditures.

Management Response: The Energy Office agrees that the $11,278 administrative expenses be transferred to Stripper Well funds.

Corrective Action Plan: A journal entry was made to distribute costs between U.S. Department of Energy funds and the Stripper Well funds so that administration costs do not exceed the allowable limit by funding source.

Contact: David Wesely, Business Manager

Anticipated Completion Date: Completed September 21, 2010

Finding #10-71-05

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons and ARRA – Weatherization Assistance for Low-Income Persons – Reporting

Grant Number and Year: DE-EE0000196 and DE-EE0000137, FFY 2009

Federal Grantor Agency: U.S. Department of Energy

Criteria: OMB Circular A-133 § 300 states, "An 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 that could have a material effect on each of its Federal programs."

A good internal control plan requires all Federal financial reports be reviewed and certified by a supervisor prior to being submitted.

10 CFR § 600.341(a)(1)(ii) (January 1, 2009) states, "The business portions of the reports must provide summarized details of the status of resources (Federal funds and non-Federal cost sharing or matching), including an accounting of expenditures for the period covered by the report."

Condition: Two of two SF-425 reports tested were not reviewed and certified by the Agency's Deputy Director or Weatherization Division Chief.

One of two SF-425 reports tested did not trace to supporting accounting records and did not have all applicable accounts included.

Questioned Costs: None

Context: The Program switched to a new online reporting system and the Deputy Director was not properly set up in the system to review and certify reports prior to submission. When APA discussed the issue, the Agency immediately set up the Deputy Director as a certifier on the system. The reports tested were the first quarterly reports submitted on the new system.

The SF-425 report for the non-ARRA grant did not include current period expenditures for the quarter ended March 31, 2010, totaling $1,352,654. The report was created and submitted by the Business Manager on April 29, 2010. The error was subsequently noted by the Business Manager and an email was sent to the reporting system help desk on May 5, 2010. Under the direction of the help desk, the reporting error was corrected by the Agency on the next quarterly report ended June 30, 3010, by reporting both quarters as current period expenditures. APA observed this report and noted expenditures for both quarters were reported.

Cause: New reporting system was not appropriately set up by Agency staff and reports were not reviewed and certified prior to submission.

Effect: There is an increased risk of reporting errors and noncompliance with Federal regulations when reports are not properly completed, reviewed, and certified.

Recommendation: We recommend the Agency implement procedures to ensure all reports are properly completed, reviewed, and certified.

> **Management Response:** In January 2010, the U.S. Department of Energy implemented a new web-based reporting system. The previous server-based system required the Deputy Director to review and approve the reports before they were submitted. The new web-based system does not require the same levels of approval before a report is submitted.
>
> **Corrective Action Plan:** The Energy Office Deputy Director was added as a user on the web-based system and given rights to approve and submit reports. All financial reports prepared by the Business Manager will be reviewed and submitted by either the Deputy Director or WAP/SEP Division Chief and a hard copy with a signature of that review and approval will be kept with the appropriate files.
>
> **Contact:** David Wesely, Business Manager
>
> **Anticipated Completion Date:** July 15, 2010

DEPARTMENT OF ECONOMIC DEVELOPMENT

Finding #10-72-01

Program: CFDA 14.255 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded) – Subrecipient Monitoring

Grant Number & Year: #B09DY310001, FFY2009

Federal Grantor Agency: U.S. Department of Housing and Urban Development

Criteria: 2 CFR § 176.210(c) (January 1, 2010) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds."

Condition: For 1 of 1 disbursement tested which was paid with American Recovery and Reinvestment Act (ARRA) funds, the Agency did not document at the time of disbursement the Federal award number and CFDA number. It was also noted, for 1 of 26 award documents to subrecipients, the Agency identified the wrong CFDA number.

Questioned Costs: None

Context: We tested 26 disbursements made to subrecipients, one of which was paid with ARRA funds. The Agency did not document to the subrecipient at the time of the disbursement, the Federal award number or the CFDA number. This same subrecipient had the wrong CFDA number on their award documentation. We identified during review of the Schedule of Expenditures of Federal Awards (SEFA), the Agency was using the wrong CFDA number, 14.253. The Agency then changed the CFDA to 14.255 on the SEFA, but did not communicate this change to the subrecipient.

Cause: Unknown

Effect: The Agency is not in compliance with Federal subrecipient monitoring and ARRA requirements.

Recommendation: We recommend the Agency implement procedures to ensure the proper information is included at the time of disbursement to the subrecipients of ARRA funds. We also recommend the Agency notify the subrecipient regarding the corrected CFDA number.

Management Response: We were previously aware of the CFDA numbering discrepancy noted in the finding. It can fairly be said there was ambiguity in information being provided by Federal agencies about proper CFDA number assignments at the early stages of the Federal stimulus (ARRA) funding. This ambiguity produced the CFDA numbering discrepancy at initial stages of the ARRA awarding process. Correct CFDA number assignments were made after the discrepancy was discovered.

Corrective Action Plan: We will implement a practice of providing notational information showing CFDA numbers on disbursement documents provided to subrecipients.

Contact: Don Fertig, Legal Counsel and Deputy Director for Administrative Services, Nebraska Department of Economic Development

Anticipated Completion Date: January 31, 2011

DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #10-84-01

Program: CFDA 66.040 – State Clean Diesel Grant ARRA – Allowable Costs/Cost Principles

Grant Number & Year: #2D-97706001, Project Period March 31, 2009 through March 31, 2011

Federal Grantor Agency: U.S. Environmental Protection Agency

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 allowable to Federal awards under provisions of this Circular; be authorized or not prohibited under State or local laws and regulations; conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items; 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.

OMB Circular A-133 § 300(b) requires that auditees "Maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grants agreements that could have a material effect on each of its Federal programs."

Grant Agreement #2D-97706001, Programmatic Conditions #10 Scrapping or remanufacture: The recipient agrees to complete scrappage or remanufacture in the case of repowers and replacements for all projects funded under this assistance agreement, including subawards/subgrants. Scrappage is defined as a permanently disabled engine or vehicle, no longer suitable for use. Engine scrappage can be completed by drilling a hole in the engine block and manifold. Vehicle scrappage requires permanently disabling the chassis, e.g cutting it in half. Tire scrappage can be completed in accordance with local or State requirements. Section C – The replacement vehicle, engine, or equipment will be of the same type and similar gross vehicle weight rating or horsepower as the vehicle, engine, or equipment being replaced (e.g., a 300 horsepower bulldozer is replaced by a bulldozer of similar horsepower).

Grant Agreement #2D-97706001, Programmatic Conditions #12 Equipment Disposition: Recipient agrees that at the end of the project period the equipment acquired under this assistance agreement will be subject to the property disposition regulations at 40 CFR 30.34 or 40 CFR 31.32, as applicable. Equipment is defined as tangible non-expendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. Specifically, the recipient is instructed to continue to use the equipment purchased under this assistance agreement in the project or program for which it was acquired for the remainder of its useful life, whether or not the project or program continues to be supported by Federal funds and shall not encumber the equipment without approval of the Environmental Protection Agency (EPA).

Nebraska Department of Environmental Quality (Agency) contract Section II – Conditions of Contract, Section A – Work Description and Schedule, Sub-Section 2, states "The subrecipient must demonstrate that they selected the lowest and/or most cost-effective bid."

Condition:
1) We tested seven expenditures and noted all seven did not have adequate supporting documentation for reimbursement of actual expenses incurred.
2) Seven of seven expenditures tested did not have contract language outlining disposition of items purchased with ARRA funding.
3) Seven of eight expenditures tested did not have adequate supporting documentation for scrapping of the vehicle, engine, or equipment being replaced.
4) Five of eight expenditures tested did not have adequate supporting documentation for determining if vehicle, engine, or equipment was replaced with a like size and type.
5) Two of ten expenditures tested did not have adequate supporting documentation for showing that the recipient chose the most cost effective bid.

Questioned Costs: Unknown

Context: Total amount of grant was $1,730,000; we tested $113,972. There were 70 expenditures in total, we tested 7 expenditures. Testing was expanded to 10 expenditures for three compliance requirements (scrapping of equipment, like size and type of equipment, and determining the most cost effective bid).

1) The Agency allowed invoice or purchase orders for request of reimbursement. The Auditor of Public Accounts (APA) observed that most invoices/purchase orders did not have any supporting documentation attached to support the invoice was paid by the recipient. The Agency was able to make available a few contract files that did have adequate support for proof of payment by the recipient. Of the 7 documents tested by the APA, 3 were paid from invoices, 2 were paid from quotes, 1 from a work order, and 1 from a purchase order. None of the documents tested had any indication on them to support the items were actually paid for by the recipient.

2) APA observed that the contract did not inform the recipient of their obligation on the disposition of an item purchased with ARRA monies. All contracts lacked the necessary information.

3) The Agency allowed a statement from the recipient on the final report stating the recipient disposed or scrapped the vehicle, engine, or equipment in accordance with the contract. APA observed that most statements did not have supporting documentation attached to support that the vehicle, engine, or equipment were actually scrapped. Of the 8 documents tested by the APA, 7 documents had only a statement attesting that the recipient disposed of the items as per the contract agreement, and 1 document had a statement and an invoice from a vendor stating the vendor was sending the engine back to the manufacturer for remanufacturing. APA also noted an EPA Review dated November 23, 2010, which stated "NDEQ [Nebraska Department of Environmental Quality] had indicated during the audit that they required sub-grantees with projects involving the repower or replacement of vehicles, engines or equipment to submit a written statement that the item had been scrapped and/or photos indicating that holes had been drilled into the engine block." EPA stated that they could not find in the contract a requirement for such a submittal or language indicating that this requirement be documented and files maintained for subsequent inspection. EPA's recommendation was as follows: "Could NDEQ clarify how they verified that vehicles, engines or equipment had been scrapped, to include the drilling of hole in the engine block." It was also recommended that the Agency use leftover funds in the travel budget (approximately $3,000) to conduct the inspections.

4) The Agency allowed recipients to submit invoices, which did not have enough supporting information. APA observed that most invoices did not have enough information to determine if the vehicle, engine, or equipment being replaced was of like size and type. Of the 8 documents tested by the APA, only 3 had adequate documentation to show the vehicle, engine, or equipment was replaced with a like size and type of vehicle, engine, or equipment. One document had an invoice for a 350 horse power engine, which was replacing a 435 horsepower engine. One document had an invoice for a school bus, but lacked information in the application to determine what size school bus the school was replacing. One document was a quote that was vague in its description of the equipment purchased; therefore, APA was unable to determine if it was like size and type. Two documents were work orders but the description was very vague; therefore, was unable to determine if it was of like size and type.

5) The Agency required recipients to demonstrate that they selected the lowest and/or most cost effective bid. APA observed that a few applications did not show why a recipient chose a particular vendor. Of the 10 documents tested by the APA, 2 did not have any support for why the recipient chose the vendor; therefore, we were unable to determine if they chose the most cost effective option.

Cause: Contract lacked necessary language. Insufficient supporting documentation required.

Effect: Without procedures to ensure adequate internal controls over Federal programs, there is an increased risk recipients' expenditures are not allowable. Without procedures in place to ensure recipients are notified of pertinent ARRA and compliance information at each disbursement of funds, there is an increased risk of noncompliance with Federal regulations. Without procedures to ensure adequate documentation is obtained, there is an increased risk recipients are in noncompliance with Federal regulations and an increased risk of misuse of Federal Funds. Without documentation to support that the Agency adequately monitors recipients, there is an increased risk of noncompliance with Federal regulations.

Recommendation:
1) We recommend the Agency obtain adequate supporting documentation for expense reimbursement claims (i.e. canceled check to the vendor, an invoice from the third party vendor faxed to the Agency showing amount actually paid for the vehicle, engine, or equipment).

2) We recommend the Agency notify recipients of all pertinent ARRA requirements, compliance requirements, and grant agreement programmatic conditions in a separate letter (i.e. disposition requirements as stated in compliance supplement).

3) We recommend the Agency obtain adequate supporting documentation for a vehicle, engine, or equipment that was scrapped (i.e. support from a third party vendor supporting the vehicle, engine, or equipment was turned over to that vendor to be scrapped). We further recommend the Agency perform monitoring to ensure that recipients are conforming to the requirements stated in the contract, and the grant agreement programmatic conditions.

4) We recommend the Agency obtain adequate supporting documentation for a vehicle, engine, or equipment replacement to ensure items being replaced are of a like size and type (i.e. support from a third party vendor detailing the vehicle, engine, or equipment purchased).

5) We recommend the Agency obtain adequate supporting documentation for vehicle, engine, or equipment purchases to ensure the items purchased are the most cost effective for that specific job.

Management Response:
(1) The Agency's management recognizes the importance of sufficient documentation to ensure that the grant recipient used the funds appropriately.
(2) The Agency's management recognizes the importance of ensuring that the grantee is aware of the obligation to continue to use and maintain the equipment for its useful life.

(3) The Agency's management agrees it is important to ensure that, where required, proper documentation is obtained to show that equipment is adequately scrapped. Such documentation may include, but not be limited to: photos of equipment, third party vendor verification, and/or the Agency's inspection of said equipment.
(4) The Agency's management agrees it is important to ensure that equipment be replaced with like size and type and that if there are deviations, adequate explanation is provided to document the decisions.
(5) The Agency's management recognizes the importance of sufficient documentation to ensure that the grant recipient used the funds appropriately.

Corrective Action Plan:
(1) The Agency is reviewing each file to ensure that sufficient documentation exists supporting each payment made to each grantee. Where additional documentation is needed, the Agency will follow up with the grantee and require the submission of additional documentation, such as a receipt, an invoice marked "paid," canceled check, or other similar documentation. Additionally, on-site inspections will be conducted at a minimum of 25% of the grant recipients' locations to ensure that proper equipment has been correctly installed and that the appropriate records are being maintained.

(2) The Agency is reviewing each file to determine which grantees are subject to this particular requirement. Some grant funded items were less than $5,000 per unit and did not fall under the useful life requirement. The Agency will notify all appropriate grant recipients of all pertinent ARRA requirements, compliance requirements, and grant agreement programmatic requirements (disposition requirements) via letter, including a calculation of the useful life of the equipment. The Agency will require grant recipients to notify us should they take the equipment out of service or dispose of it before the end of its useful life.

(3) The Agency is reviewing each file to determine which grantees are subject to equipment scrappage requirements. Many grants funded add-on equipment only and did not have equipment to be scrapped (APUs, nose cones, etc.). Where adequate documentation does not exist in the file, the Agency will require grant recipients to provide proper documentation. The Agency will also inspect a minimum of 25% of the grant recipients. Inspections will include a check on the disposition of scrapped equipment.

(4) In one case identified in the audit where an engine was replaced with a smaller, more efficient engine, the Agency requested the explanation from the grant recipient for the file, post-audit. The Agency is reviewing each file to determine which grant recipients had similar situations, but did not provide adequate explanations. Where additional documentation is needed, the Agency will require grant recipients to provide a proper explanation and documentation for the file. The Agency will also inspect a minimum of 25% of grant recipients.

(5) The Agency is reviewing each file to ensure that sufficient documentation exists supporting each payment made to each grantee. Where additional documentation is needed, the Agency will follow up with the grantee and require the submission of additional documentation. Additionally, on-site inspections will be conducted at a minimum of 25% of the grant recipients' locations to ensure that proper documentation is being maintained.

Contact: Thomas R. Lamberson

Anticipated Completion Date: March 31, 2011

<u>Finding #10-84-02</u>

Program: CFDA 66.040 – State Clean Diesel Grant ARRA – Reporting

Grant Number & Year: #2D-97706001, Project Period March 31, 2009 through March 31, 2011

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The American Recovery and Reinvestment Act (ARRA) requires quarterly 1512 reports and an annual SF 425 Federal Financial Status Report to be filed. Also, a good internal control plan includes a process to ensure the data reported on Federal financial reports agree to financial records, and that an adequate supervisory review is documented prior to submission of the report.

Condition: The Agency did not submit a SF 425 Federal Financial Status Report (SF 425) for the Clean Diesel ARRA Grant in a timely manner. It was further noted the Agency did not reconcile amounts reported on the SF 425 to accounting records. We also noted the Agency did not reconcile amounts reported on the ARRA 1512 report to accounting records. It was further noted there was no documented supervisory review of the ARRA 1512 report or the SF 425 report.

Questioned Costs: Unknown

Context: Historically for grants, the EPA has not required a SF 425 report to be submitted until the close of the grant period. However, for the ARRA grant there is a requirement for an annual SF 425 report. The annual SF 425 report was filed on October 29, 2010, and should have been filed in April 2010. The SF 425 report did not reconcile to the accounting records, due to $288 of April 2010 costs being included in the January – March 2010 SF 425 report. Another requirement for the ARRA grant is that a 1512 report be submitted quarterly. The quarterly reports were submitted; however, the amounts reported were not reconciled to the accounting records. The 1512 report was off $1,062 due to FFY 2009 money being reported as FFY 2010 expenses. APA reviewed the June 30, 2010, 1512 ARRA report and the error was corrected by the Agency on their own. However, there was still no documented supervisory review of the 1512 ARRA report.

Cause: Unknown

Effect: There is potential noncompliance with Federal regulations and an increased risk of incorrect reporting.

Recommendation: We recommend the Agency improve reporting procedures to ensure all reports are being filed in a timely manner, that amounts reported on Federal reports, such as the SF 425 report and the ARRA 1512 report reconcile to accounting records, and document the supervisory review of all reports prior to submission.

Management Response: The Agency's management recognizes the importance of sufficient documentation to ensure that the grant recipient used the funds appropriately.

Corrective Action Plan: Annual Interim Federal Financial Reports (FFR) for the Diesel Emissions Reduction Act (DERA) ARRA grant have been filed with the EPA. The FFR filed has the signature of Martie Guthrie, Budget Officer III.

The 1512 report information is reconciled to the State Accounting system and provided to programs for reporting by Martie Guthrie, Budget Officer III. The program inputs the information onto NE.gov (Nebraska's reporting website). The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date. Any information that is questioned is reviewed and changed if necessary. The 1512 report will also be reviewed, and approval documented by Tom Lamberson, Deputy Director.

Contact: Thomas R. Lamberson

Anticipated Completion Date: March 31, 2011

Finding #10-84-03

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF) and ARRA – Subrecipient Monitoring, Davis-Bacon Act, Procurement, and Suspension and Debarment

Grant Number & Year: All open including #CS-31000109, FFY 2009; #2W-97705101, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 2 CFR § 176.210(c) (April 23, 2009) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of

Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

2 CFR § 176.210(d) (April 23, 2009) states, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."

Title 131 NAC 8-004.03 states, "The annual principal and interest payment due from a loan recipient shall commence no later than one year after Initiation of Operation or no later than three years from the date of the loan contract, whichever occurs first."

A good internal control plan requires procedures be in place to:

- complete a loan award checklist for every project to ensure all administrative and mailing procedures have been completed for all loans awarded,
- complete a documented review of the monthly payroll certifications by the project engineer,
- complete a documented review of the specifications to ensure current wage rates, and
- adequately monitor subrecipients' compliance with Federal requirements, including not doing business with suspended or debarred parties, and for ARRA funds, Buy-American procurement policies.

Condition: Documentation of loan files could be improved.

Questioned Costs: Unknown

Context: During testing it was noted:

- For 1 of 13 loans tested, the repayment of the loan did not commence according to regulations. This was noted in the prior audit. (State Rules and Regulations)
- For 5 of 18 loans tested, the loan award checklist was not on file. (Davis-Bacon Act)
- For 2 of 3 loans tested, the review of monthly payroll certifications by the project engineer was not documented.
- For 1 of 3 loans tested, the review of specifications for current wage rates was not documented. (Davis-Bacon Act)
- For 1 of 2 loans tested, there was no documentation to support subrecipient monitoring of suspended and debarred entities and Buy-American procurement policies. (Subrecipient Monitoring and Suspension/Debarment)

- For 15 of 15 loans tested, the loan agreement and disbursements did not contain the CFDA number and title, the award name and number, and for ARRA funding, the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC. (Subrecipient Monitoring)

Cause: Unknown

Effect: There is an increased potential for noncompliance with Agency rules and regulations as well as Federal grant compliance requirements.

Recommendation: We recommend the following:
- Procedures be improved to ensure the principal loan repayment begins in accordance with rules and regulations.
- A loan award checklist be completed for every loan that is awarded.
- Procedures be improved to ensure documentation is maintained to support a review of:
  - monthly payroll certifications,
  - current wage rate specifications,
  - subrecipient monitoring of suspended and debarred entities, and
  - Buy-American procurement policies.
- The Agency separately identify to subrecipients the CFDA number and title and the award name and number at the time of the subaward for all grants and additionally for ARRA funding at the time of disbursement of funds. In addition, for ARRA funding, identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC.

Management Response: The Agency's management recognizes the importance of a good internal control plan for loan processing and monitoring, to ensure necessary steps are completed, as well as compliance with Federal regulations are documented and fulfilled.

Corrective Action Plan: The Agency has begun modification of our internal control plan to implement the suggested recommendations. The Agency has reinstituted a comprehensive loan award checklist for every project. Subrecipient compliance with all Federal requirements will continue to be monitored and documented. Project engineers will initial their reviews of monthly payroll certifications and will document current wage rate compliance during the initial review of specifications and during on-site project inspection visits.

Due to the fluid nature of construction projects, the award name and number at the time of the subaward for all grants may need to be adjusted at the time of disbursement but will be recorded and documented accordingly.

Contact: Pat Rice, Water Quality Division Assistant Director
Rick Bay, Section Supervisor, Water Quality Financial Assistance Section

Anticipated Completion Date: January 1, 2011

Finding #10-84-04

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF) ARRA – Reporting

Grant Number & Year: #2W-97705101, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The ARRA grant agreement requires "an Interim Financial Status Report (FSR) is to be submitted to the appropriate EPA Grants Management Office 90 days after the anniversary of the project period start date." Also, a good internal control plan includes a process to ensure the data reported on Federal financial reports agree to financial records and that an adequate supervisory review is documented prior to submission of the report.

Condition: The Agency did not submit a FSR for the ARRA grant for the period ended October 1, 2009. It was also noted the Agency did not reconcile amounts reported on the ARRA 1512 report to accounting records. It was further noted there was no documented supervisory review of the 1512 Report or the annual report submitted to the EPA.

Questioned Costs: Unknown

Context: Historically the EPA has not required FSRs for the capitalization grants to be submitted until the close of the grant period. However, for the ARRA grant there is a requirement for an annual FSR. The annual ARRA report was not filed. Another requirement for the ARRA grant is that a 1512 report be submitted quarterly. The quarterly reports were submitted; however, the amounts reported were not reconciled to the accounting records. The capitalization grants also require an annual report be filed with the EPA. These annual reports were submitted; however, there was no documented supervisory review of the reports.

Cause: Unknown

Effect: There is potential noncompliance with Federal regulations and an increased risk of incorrect reporting.

Recommendation: We recommend the Agency improve reporting procedures to:

- submit annual FSR for the ARRA grant,
- reconcile amounts reported on Federal reports, such as the 1512 report, to accounting records, and
- document a supervisory review of all reports prior to submission.

Management Response: Management recognizes the importance of timely filing of required reports, as well as documented reconciliation of submitted numbers to accounting records.

Corrective Action Plan: Annual October 1, 2009 and October 1, 2010 Interim FFRs for the CWSRF ARRA grant have been filed with the EPA. The FFR filed has the signature of Martie Guthrie, Budget Officer III, who has verified the information reported reconciles to the State Accounting System.

The 1512 report information is reconciled to the State Accounting System and provided to programs for reporting by Martie Guthrie, Budget Officer III. The program inputs the information onto NE.gov. The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date. Any information that is questioned is reviewed and changed if necessary. The 1512 report will also be reviewed with approval documented by Rick Bay, Section Supervisor, Water Quality Financial Assistance Section.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

APA Response: The Agency's response to Finding #10-84-04 noted above indicated: "The 1512 report information is reconciled to the State Accounting System and provided to programs for reporting by Martie Guthrie, Budget Officer III." They also noted: "The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date." The Agency prepares its 1512 report from a separate record-keeping system specifically designed for the program and there was no reconciliation between the 1512 report prepared from this system and amounts recorded in the State Accounting System. We believe a reconciliation between the Agency's separate record-keeping system for the program and the State Accounting System would help ensure accurate 1512 reporting. Controls to ensure accurate 1512 reporting should be performed at the Agency before it is submitted to State Accounting and the EPA.

Finding #10-84-05

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF) and ARRA – Earmarking and Program Income

Grant Number & Year: All open including #CS-31000109, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 40 CFR § 35.3120(g) (July 1, 2009) states, "(1) Money in the SRF may be used for the reasonable costs of administering the SRF, provided that the amount does not exceed 4 percent of all grant awards received by the SRF. Expenses of the SRF in excess of the amount permitted under this section must be paid for from sources outside the SRF. (2) Allowable administrative costs include all reasonable costs incurred for management of the SRF program and for management of projects receiving financial assistance from the SRF. Reasonable costs unique to the SRF, such as costs of servicing loans and issuing debt, SRF program start-up costs, financial management, and legal consulting fees, and reimbursement costs for support services from other State agencies are also allowable. (3) Unallowable administrative costs include the costs of administering the construction grant program under section 205(g), permit programs under sections 402 and 404 and Statewide wastewater management planning programs under section 208(b)(4)."

33 U.S.C. § 1383(g) (1998) states, "The State may provide financial assistance from its water pollution control revolving fund only… if such project is on the State's priority list under section 1296 of this title. Such assistance may be provided regardless of the rank of such project on such list."

40 CFR § 35.3150(a) (July 1, 2009) states, "The State must prepare a plan identifying the intended uses of the funds in the SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public comment and review before being submitted to EPA. EPA must receive the IUP prior to the award of the capitalization grant." 40 CFR § 35.3150(b) (July 1, 2009) states, "(i) The IUP must contain a list of publicly owned treatment works projects on the State's project priority list… to be constructed with SRF assistance… (ii) The IUP must also contain a list of nonpoint source and national estuary protection activities… that the State expects to fund from its SRF."

A good business plan would include written Agency policies to inform employees of how to code their time spent working on various projects and what are allowable costs for the SRF program, including when time should be charged to the SRF program.

Condition: No written guidance was available to support the definition of potential CWSRF projects and whether or not work done on potential CWSRF projects is an allowable use of the 4% administration funds.

Questioned Costs: Unknown

Context: The Agency prepares an annual IUP that includes a list of potential needs or projects to be considered for funding through the CWSRF program. To be eligible for SRF funding, a project must be listed on the IUP. During discussions with the Agency it was noted the IUP includes a list of potential needs or projects to be considered for funding through the CWSRF program. Discussions also indicated that engineering work is done on many projects prior to being funded by the CWSRF in order to evaluate the project. This cost is being charged to the CWSRF and paid with the 4% administration funds. Questions were raised regarding whether or not these engineering reviews are an allowable use of the 4% administration funds. The Agency spoke with EPA staff and received email assurances that these costs were allowable as long as they were incurred on a "potential SRF project." However, it appears there is no written guidance from the EPA to define a "potential SRF project" and the Clean Water Act only states it "may be used for the reasonable costs of administering the SRF." Without written guidance to support the use of SRF funds for potential SRF projects, APA could not determine whether or not these costs are appropriate for the administration of the SRF program.

Cause: Unknown

Effect: There is an increased risk of noncompliance with Federal grant compliance requirements.

Recommendation: We recommend the Agency work with the EPA to provide formal, written guidance regarding what is a potential SRF project and that potential SRF projects are included as part of the administration of the SRF program. We also recommend the Agency develop written procedures for charging time to the SRF program.

Management Response: The Agency has and continues to use the 4% State Revolving Fund Administrative Fee in compliance with 40 CFR § 35.3120(g). Additionally, in 2008, the Agency obtained written documentation for uses of the administrative fee from Sheila Platt in the EPA's Washington, D.C. office. The documentation from Sheila Platt is used by Agency employees who prepare and review time as support for charging engineering reviews for potential SRF projects to the SRF program. This documentation was provided to the APA.

Corrective Action Plan: From the EPA's website, a potential SRF project is defined as the capacity of potential recipients of loans from the SRF, where capacity means the technical, financial, and managerial capabilities of a water system for proper long-term operations. The Agency has contacted the Director of the EPA's Office of Wastewater Management to obtain written assurance that this is the definition of a "potential SRF project." Per the APA's recommendation, the Agency will also obtain formal, written approval again from the EPA that potential SRF projects are part of the administration of the SRF program. However, the Agency feels this is redundant, since the Agency has written documentation from Sheila Platt, who is in the EPA's Washington, D.C. office. This documentation was provided to the APA.

The Agency will comply with the APA's recommendation to develop written procedures for charging time to the SRF program. However, there have not been any problems resulting from following the current system for establishing and managing time categories when requested by program administrators.

Contact: Pat Rice, Water Quality Division Assistant Director

Anticipated Completion Date: March 31, 2011

Finding #10-84-06

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) and ARRA – Subrecipient Monitoring, Davis-Bacon Act, Procurement, and Suspension and Debarment

Grant Number & Year: All open including #FS-99780509, FFY 2009; #2F-97705601, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 2 CFR § 176.210(c) (April 23, 2009) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

2 CFR § 176.210(d) (April 23, 2009) states, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."

A good internal control plan requires procedures be in place to:

- complete a loan award checklist for every project to ensure all administrative and mailing procedures have been completed for all loans awarded,
- complete a documented review of the monthly payroll certifications by the project engineer,
- complete a documented review of the specifications to ensure current wage rates, and
- adequately monitor subrecipients' compliance with Federal requirements, including not doing business with suspended or debarred parties, and for ARRA funds, Buy-American procurement policies.

Condition: Documentation of loan files could be improved.

Questioned Costs: Unknown

Context: During testing it was noted:

- For 4 of 15 loans tested, the loan award checklist was not on file.
- For 4 of 4 loans tested, the review of monthly payroll certifications by the project engineer was not documented. (Davis-Bacon Act)
- For 4 of 4 loans tested, the review of specifications for current wage rates was not documented. (Davis-Bacon Act)
- For 4 of 4 loans tested, there was no documentation to support subrecipient monitoring of suspended and debarred entities and Buy-American procurement policies. (Suspension and Debarment)
- For 15 of 15 loans tested, the Agency did not separately identify the CFDA number and title, the award name and number at the time of the subaward and disbursement of funds; and for ARRA funding, did not identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC. (Subrecipient Monitoring)

Cause: Unknown

Effect: There is an increased potential for noncompliance with Agency rules and regulations as well as Federal grant compliance requirements.

Recommendation: We recommend the following:

- A loan award checklist is completed for every loan that is awarded.
- Procedures be improved to ensure documentation is maintained to support a review of:
  - monthly payroll certifications,
  - current wage rate specifications,
  - subrecipient monitoring of suspended and debarred entities, and
  - Buy-American procurement policies.
- The Agency separately identify the CFDA number and title, the award name and number at the time of the subaward for all grants, and additionally for ARRA funding at the time of disbursement of funds. In addition, for ARRA funding, identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC.

  Management Response: Agency management recognizes the importance of a good internal control plan for loan processing and monitoring, to ensure necessary steps are completed, as well as compliance with Federal regulations are documented and fulfilled.

Corrective Action Plan: The Agency has begun modification of our internal control plan to implement the suggested recommendations. The Agency has reinstituted a comprehensive loan award checklist for every project. Subrecipient compliance with all Federal requirements will continue to be monitored and documented. Project engineers will initial their reviews of monthly payroll certifications and will document current wage rate compliance during the initial review of specifications and during on-site project inspection visits.

Due to the fluid nature of construction projects, the award name and number at the time of the subaward for all grants may need to be adjusted at the time of disbursement but will be recorded and documented accordingly.

Contact: Pat Rice, Water Quality Division Assistant Director
Rick Bay, Section Supervisor, Water Quality Financial Assistance Section

Anticipated Completion Date: January 1, 2011

Finding #10-84-07

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) ARRA – Reporting

Grant Number & Year: #2F-97705601, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The ARRA grant agreement requires "an Interim Financial Status Report (FSR) is to be submitted to the appropriate EPA Grants Management Office 90 days after the anniversary of the project period start date." Also, a good internal control plan includes a process to ensure the data reported on Federal financial reports agree to financial records and that an adequate supervisory review is documented prior to submission of the report.

Condition: The Agency did not submit a FSR for the ARRA grant for the period ended October 1, 2009. It was also noted, the Agency did not reconcile amounts reported on the ARRA 1512 report to accounting records. It was further noted there was no documented supervisory review of the ARRA 1512 report or the annual report submitted to the EPA.

Questioned Costs: Unknown

Context: Historically, the EPA has not required FSRs for the capitalization grants to be submitted until the close of the grant period. However, for the ARRA grant there is a requirement for an annual FSR. Another requirement for the ARRA grant is that an ARRA 1512 report is submitted quarterly. The ARRA 1512 reports were submitted; however, the amounts reported were not reconciled to the accounting records. The capitalization grants also require an annual report be filed with the EPA. These annual reports were submitted; however, there was no documented supervisory review of the report.

Cause: Unknown

Effect: There is potential noncompliance with Federal regulations and an increased risk of incorrect reporting.

Recommendation: We recommend the Agency improve reporting procedures to:
- submit annual FSRs for the ARRA grant,
- reconcile amounts reported on Federal reports, such as the ARRA 1512 report, to accounting records, and
- document a supervisory review of all reports prior to submission.

Management Response: Management recognizes the importance of timely filing of required reports, as well as documented reconciliation of submitted numbers to accounting records.

Corrective Action Plan: Annual October 1, 2009 and October 1, 2010 Interim Federal Financial Reports (FFR) for the DWSRF ARRA grant have been filed with the EPA. The FFR filed has the signature of Martie Guthrie, Budget Officer III, who has verified the information reported reconciles to the State Accounting System.

The 1512 report information is reconciled to the State Accounting System and provided to programs for reporting by Martie Guthrie, Budget Officer III. The program inputs the information onto NE.gov. The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date. Any information that is questioned is reviewed and changed if necessary. The 1512 report will also be reviewed, and approval documented by Rick Bay, Section Supervisor, Water Quality Financial Assistance Section.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

APA Response: The Agency's response to Finding #10-84-07 noted above indicated: "The 1512 report information is reconciled to the State Accounting System and provided to programs for reporting by Martie Guthrie, Budget Officer III." They also noted: "The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date."

The Agency prepares its 1512 report from a separate record-keeping system specifically designed for the program and there was no reconciliation between the 1512 report prepared from this system and amounts recorded in the State Accounting System. As a result there was an error in the 1512 report in the amount of $212,136 as submitted by the Agency. We believe a reconciliation between the Agency's separate record-keeping system for the program and the State Accounting System would have caught this error. We understand this error was detected by State Accounting staff, not by Agency staff. Controls to ensure accurate 1512 reporting should be performed at the Agency before it is submitted to State Accounting and the EPA.

Finding #10-84-08

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) – Matching

Grant Number & Year: #FS-9970509, FFY 2009

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 40 CFR § 35.3550(g)(2) (July 1, 2009), requires "a State must deposit the match into the Fund on or before the date that a State receives each payment for the capitalization grant."

Condition: The Agency did not deposit the 20% State match into the DWSRF trust fund on or before they received the first payment for the capitalization grant.

Questioned Costs: Unknown

Context: The State match was met with three journal entries to transfer money from the cash fund (28630) to the trust fund (68483) for reimbursement payments to communities totaling $1,629,200 made during the period March 24, 2010, through April 13, 2010. However, the first drawdown of the Federal grant was February 17, 2010.

Cause: Unknown

Effect: There is an increased risk of noncompliance with Federal regulations.

Recommendation: We recommend the Agency ensure the State match is deposited in accordance with 40 CFR § 35.3550(g)(2) as noted above.

Management Response: The 20% State Match for the 2009 capitalization grant was met with administrative cash funds and therefore had no bearing on the trust fund (as it would, had the match been met by bonding). Capitalization grant match is an allowable use of the administrative cash funds. While management agrees the segregation of the 20% cash match would be prudent, in the Agency's opinion, we had match funds on hand in the program funds in order to allow the Agency to begin expending the 2009 capitalization grant funds at the time they began to be paid out.

Corrective Action Plan: The Agency will take note to segregate the cash match funds in a separate administration fund in the future, should we choose to cash match a grant again.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-13-01	84.027 84.173	Special Education Grants Subrecipient Monitoring	The corrective action plan is complete.	No current finding
09-13-02	10.553 10.555	School Breakfast Program National School Lunch Eligibility	The corrective action plan is complete. Have added to the CRE review form.	Repeated with changes Finding 10-13-01
09-13-03	10.556	Special Milk Program Subrecipient Monitoring	The corrective action plan is complete. All entities are on a ten year review cycle with no exceptions.	No current finding
07-13-02	84.010	Title I Grants to Local Educational Agencies Special Tests and Provisions	The corrective action plan is complete.	No current finding

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-23-01 08-23-04	17.225 17.207 17.801 17.804 17.258 17.259 17.260	Unemployment Insurance Employment Services Cluster WIA Cluster Allowable Costs/Cost Principles	Corrective action in progress. The anticipated completion date is September 2010.	Repeated with changes Finding 10-23-01

Nebraska Department of Labor (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-23-02	17.225 17.207 17.801 17.804 17.258 17.259 17.260	Unemployment Insurance Employment Services Cluster WIA Cluster Allowable Costs/Cost Principles	Corrective action in progress. The anticipated completion date is December 2010.	Repeated with changes Finding 10-23-02
09-23-03	17.225 17.207 17.801 17.804 17.258 17.259 17.260	Unemployment Insurance Employment Services Cluster WIA Cluster Allowable Costs/Cost Principles	Corrective action in progress. The anticipated completion date is September 2010.	Repeated with changes Finding 10-23-01
09-23-04	17.207 17.801 17.804	Employment Services Cluster Cash Management	Corrective action in progress. The anticipated completion date is December 2010.	Modifications in progress, estimated completion December 2010.
09-23-05 08-23-06	17.258 17.259 17.260	WIA Cluster Reporting	Corrective action in progress. The anticipated completion date is September 2010.	Repeated with changes Finding 10-23-07
09-23-06 08-23-10	17.258 17.259 17.260	WIA Cluster Subrecipient Monitoring	Corrective action in progress. The anticipated completion date is September 2010.	Repeated with changes Finding 10-23-03

Nebraska Department of Labor (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-23-07 08-23-07 08-23-08	17.258 17.259 17.260	WIA Cluster Period of Availability & Earmarking	Corrective action in progress. The anticipated completion date is October 2010.	Repeated with changes Finding 10-23-08 2008 questioned costs are in Federal appeal process
09-23-08 08-23-02 08-23-03	17.258 17.259 17.260	WIA Cluster Allowability & Cash Management	Corrective action in progress. The anticipated completion date is December 2010.	Repeated with changes Finding 10-23-06
09-23-09	17.225	Unemployment Insurance Cash Management	Corrective action in progress. The anticipated completion date is September 2010.	Repeated with changes Finding 10-23-10
09-23-10 08-23-05	17.225	Unemployment Insurance Reporting	The Department of Administrative Services was notified that all numbers for the SEFA must have sign off from the Controller. Once SEFA numbers are submitted with proper Controller sign off the agency will consider this completed. The anticipated completion date is December 2010.	Repeated with changes Finding 10-23-12
09-23-11	17.225	Unemployment Insurance Reporting	Corrective action in progress. The anticipated completion date is October 2010.	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
09-25-02	93.778 93.575 93.596	Medicaid Program Child Care Cluster Allowable Costs/Cost Principles	Corrective action plan was completed by April 30, 2010.	No current finding

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
09-25-03 08-25-26 07-26-26 06-26-02	93.563 93.575 93.596	Child Support Enforce. Child Care Cluster Allowable Costs/Cost Principles	The corrective action plan is complete.	No current finding
09-25-04 08-25-27 07-26-28 06-26-04 05-26-01	Various	Various Allowable Costs/Cost Principles	The corrective action plan is complete.	No current finding
09-25-05 08-25-19 07-26-17	93.767	Children's Health Insurance Program Reporting	The corrective action plan is complete.	No current finding
09-25-06 08-25-21 07-26-22 06-26-07	93.778	Medicaid Matching/Reporting	The corrective action plan is complete.	Repeated with changes Finding 10-25-38
09-25-07 08-25-22	93.778	Medicaid Allowability/Subrecipient Monitoring	The corrective action plan is complete.	Repeated with changes Finding 10-25-34
09-25-08	93.778	Medicaid Allowability	No action necessary.	No current finding
09-25-09	93.778	Medicaid Matching	The corrective action plan is complete.	No current finding
09-25-10	93.778	Medicaid Special Tests & Provisions	The corrective action plan is complete.	Repeated with changes Finding 10-25-39

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
09-25-11	93.778	Medicaid Allowability	The corrective action plan was completed as of June 30, 2010.	Repeated with changes Finding 10-25-37
09-25-12	93.778	Medicaid Allowable Costs/Cost Principles	The corrective action plan is complete.	Repeated with changes Finding 10-25-42
09-25-13	93.563	Child Support Enforcement Suspension & Debarment	The corrective action plan is complete.	No current finding
09-25-14 06-26-25 05-26-07 04-26-02 03-26-04	93.563	Child Support Enforcement Subrecipient Monitoring /Matching	The corrective action plan is complete.	No current finding
09-25-15 08-25-18 07-26-16	93.667	Social Services Block Grant Allowability	The corrective action plan is complete, except for updating of the NAC 473 regulations. The agency has an approved regulation development request on this project and they have been working with the regulatory and legal staff on the needed updates. The updates are in process but not yet completed. The anticipated completion date is by June 30, 2011.	Repeated with changes Finding 10-25-32
09-25-16	93.667	Social Services Block Grant Allowability	As of June 30, 2010, the requested documentation has not been received from the Nebraska Department of Education. The estimated completion date is by June 30, 2011.	No current finding
09-25-17 08-25-17	93.667	Social Services Block Grant Allowability	The corrective action plan is complete.	No current finding

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
09-25-18 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	The corrective action plan is complete.	Repeated with changes Finding 10-25-29
09-25-19 08-25-14	93.658	Foster Care Matching	The corrective action plan is complete.	No current finding
09-25-20	93.069	Public Health Emergency Preparedness Reporting	The corrective action plan is complete.	No current finding
09-25-21	93.069	Public Health Emergency Preparedness Allowable Costs/Cost Principles	The corrective action plan is complete.	No current finding
09-25-22	93.069	Public Health Emergency Preparedness Subrecipient Monitoring	The corrective action plan is complete.	No current finding
09-25-23	93.283	CDC Investigations and Technical Assistance Matching	The corrective action plan is complete.	No current finding
09-25-24 08-25-07 07-26-05	93.283	CDC Investigations and Technical Assistance Reporting	The corrective action plan is complete.	No current finding
09-25-25 08-25-05 07-26-04	93.283	CDC Investigations and Technical Assistance Subrecipient Monitoring	The corrective action plan is complete.	Repeated with changes Finding 10-25-18

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
09-25-26	93.283	CDC Investigations and Technical Assistance Allowability	Essential services formula was developed and given to auditors by June 30, 2010. Confirmation of receipt of refunds was not completed by April 30, 2010. There are seven clinical providers that have not submitted refunds. The refunds owed to the department will be deducted from the total to be reimbursed for essential services. Essential services are expected to be processed and paid by the end of August 2010. The plan has been discussed with the State Auditor's office.	No current finding
09-25-27	10.569	Emergency Food Assistance Program Eligibility	Corrective action plan was completed as of July 1, 2010.	Repeated with changes Finding 10-25-08
09-25-28	10.569	Emergency Food Assistance Program Subrecipient Monitoring	Corrective action plan was completed as of July 1, 2010.	Repeated with changes Finding 10-25-09
09-25-29	10.569	Emergency Food Assistance Program Special Tests & Provisions	Corrective action plan was completed as of July 1, 2010.	No current finding
09-25-30	10.568 10.569	Emergency Food Assistance Program Suspension & Debarment	Corrective action plan was completed as of July 1, 2010.	Repeated with changes Finding 10-25-09
09-25-31	10.555 10.559	School Lunch Program Summer Food Service Program for Children Special Tests & Provisions	Corrective action plan was completed as of July 1, 2010.	Repeated with changes Finding 10-25-04
09-25-32 08-25-25	93.268	Immunization Grants Reporting	The corrective action plan was completed as of June 30, 2010.	No current finding
09-25-33	93.268	Immunization Grants Special Tests & Provisions	The corrective action plan is complete.	Repeated with changes Finding 10-25-17

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
09-25-34	93.268	Immunization Grants Suspension & Debarment	The corrective action plan is complete.	Repeated with changes Finding 10-25-16
09-25-35 08-25-12 07-26-12	93.575 93.596	Child Care Cluster Allowability/Eligibility	The corrective action plan is complete	Repeated with changes Finding 10-25-28
09-25-36	93.575 93.596	Child Care Cluster Suspension & Debarment	45 CFR 98.2 defines “child care certificate” as an assistance to the parent, not to the provider; therefore not required to check whether providers funded by certificates are on EPLS. .	Resolved
09-25-37	93.575 93.596	Child Care Cluster Allowable Costs/Cost Principles	The corrective action plan is complete.	No current finding
09-25-38 08-25-02	10.557	WIC Subrecipient Monitoring	The corrective action plan is complete.	No current finding
09-25-39	10.557	WIC Subrecipient Monitoring/ Suspension & Debarment	WIC is on schedule to meet the October 1, 2010 completion date in the corrective action plan.	Repeated with changes Finding 10-25-06
09-25-40 08-25-08 07-26-06 06-26-20 05-26-15 05-26-14 04-26-07	93.558	TANF Allowability/Eligibility	Hearing date was held on July 2, 2010. Child and Family Services are waiting on further approval to meet the October 1, 2010 completion date in the corrective action plan.	Repeated with changes Finding 10-25-19 and 10-25-20
09-25-41 08-25-09 07-26-08 06-26-21 05-26-20	93.558	TANF Special Tests and Provisions	Modification of the report was complete as of July 1, 2010.	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
09-25-42	93.558	TANF Allowability	The agency has not gotten a final confirmation from the federal government. The agency met with the TANF staff from the regional office on September 16, 2010 and provided a detailed review of the revisions for the 2005, 2006, and 2007 reports. They asked for revised reports as of the end of the federal fiscal year for each of the grants. The agency expects to have these reports completed and submitted by the first week in October. At this time, the agency is estimating a final confirmation by March 2011.	No current finding. Prior finding pending final confirmation from Federal government.
09-25-43	93.558	TANF Cash Management	Corrective action plan was completed as of May 15, 2010.	No current finding

Nebraska Department of Roads

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-27-01	20.205	Highway Planning & Construction Davis-Bacon Act	The corrective action plan is complete and ongoing.	No current finding
09-27-02	20.205	Highway Planning & Construction Subrecipient Monitoring	The corrective action plan is complete and ongoing.	Repeated with changes Finding 10-27-02 and 10-27-03
09-27-03	20.205	Highway Planning & Construction Allowable Costs/Cost Principles	Agency sent the Federal Highway Administration (FHWA), on July 12, 2010, the fiscal year 2011 payroll additive rate and detailed calculation. The agency requested a methodology review and approval of the rate by FHWA. FHWA said they would review the rate and respond to the agency by November 30, 2010.	Repeated with changes Finding 10-27-01

Nebraska Game and Parks Commission

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-33-01 08-33-01 07-33-01	15.605 15.611	Fish and Wildlife Cluster Reporting/Matching	Corrective action plan is complete and ongoing. The agency met with State Accounting to review and improve their method of obtaining SEFA numbers.	Repeated with changes Finding 10-33-01
09-33-02	15.605 15.611	Fish and Wildlife Cluster Suspension & Debarment	A debarment and suspension clause has been included in all agency construction project contracts. 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 meet with State Purchasing and a debarment and suspension clause is going to be added to all State contracts.	Repeated with changes Finding 10-33-02

Nebraska Energy Office

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-71-01	81.042	Weatherization Assistance Reporting	Corrective action has been taken by the agency. The agency requested written verification from the Department of Energy that the matter has been resolved. The written acceptance of the corrective action from the Department of Energy is pending.	No current finding

Commission for the Blind and Visually Impaired

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
09-81-01	84.126 84.390	Vocational Rehabilitation Vocational Rehabilitation-ARRA Allowability	The corrective action plan is complete.	No current finding