

**STATE OF NEBRASKA**  
**STATEWIDE SINGLE AUDIT**  
**Year Ended June 30, 2011**

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**Issued on March 27, 2012**

STATE OF NEBRASKA

Basic Financial Statements and  
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2011

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Financial Section:</b>	
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	17
Statement of Activities .....	18
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets .....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	23
Statement of Net Assets – Proprietary Funds.....	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	25
Statement of Cash Flows – Proprietary Funds .....	26
Statement of Fiduciary Net Assets – Fiduciary Funds .....	28
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	29
Statement of Net Assets – Component Units .....	30
Statement of Activities – Component Units.....	31
Notes to the Financial Statements.....	32
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund.....	49
Budgetary Comparison Schedule – Cash Funds.....	50
Budgetary Comparison Schedule – Construction Funds .....	51
Budgetary Comparison Schedule – Federal Funds.....	52
Budgetary Comparison Schedule – Revolving Funds .....	53
Notes to Required Supplementary Information .....	54
Information About Infrastructure Assets Reported Using the Modified Approach .....	55

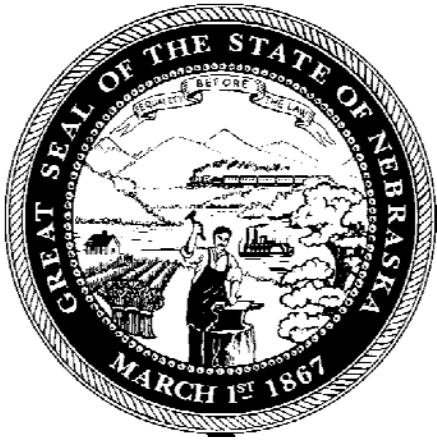
STATE OF NEBRASKA

Basic Financial Statements and  
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2011

**TABLE OF CONTENTS**  
(Continued)

	<b>Page</b>
<b>Single Audit Section:</b>	
Schedule of Expenditures of Federal Awards – By Federal Agency.....	57
Schedule of Expenditures of Federal Awards – By State Agency.....	77
Notes to the Schedule of Expenditures of Federal Awards .....	97
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	101
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 .....	103
Schedule of Findings and Questioned Costs.....	112
Summary Schedule of Prior Audit Findings.....	333



# FINANCIAL SECTION

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# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2011, 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 University of Nebraska Foundation and the Nebraska State College System Foundations which represent 29% and 19% of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the College Savings Plan which represents 17% and 23% of the assets and revenues of the aggregate remaining fund information. The 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 in the aggregate discretely presented component units for the University of Nebraska Foundation and the Nebraska State College System Foundations and the aggregate remaining fund information for the College Savings Plan are 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 University of Nebraska Foundation, Nebraska State College System Foundations, and the College Savings Plan 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, 2011, 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 29, 2011, 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 29, 2011

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, 2011. 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 one new standard in 2011 required by the Governmental Accounting Standards Board (GASB): Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which resulted in new fund balance classifications on the Balance Sheet for Governmental Funds.

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, 2011 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, 2011 by \$11.2 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 2011 resulting in an increase in net assets of \$470 million. This increase in net assets was more than eight times the increase in 2010, primarily due to a \$313 million increase in tax revenues.

### Fund Level:

General Fund receipts for 2011 were \$77 million above the original budgeted amount and above the final budget by \$63 million. Expenditures were \$291 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$69 million in excess revenues prior to a legislatively mandated property tax relief transfer of \$112 million and \$60 million in other financing sources, causing an increase in fund balances of \$17 million, and thereby increasing the fund balance on June 30, 2011 to \$733 million. Other governmental funds revenues exceeded expenditures by \$194 million, chiefly due to unrealized market gains. Offsetting these operating gains, such other funds paid \$22 million in net other financing uses. This \$172 million net increase resulted in raising such fund balances at June 30, 2011 to \$2,114 million.

The \$344 million of net assets of the Unemployment Insurance Fund represents eighty-two percent of the enterprise funds. Such fund had a \$105 million increase in net assets for 2011 compared to a \$30 million decrease in 2010, a \$135 million difference. This was due to business assessment fees collected from employers exceeding the unemployment insurance claims by \$55 million, and \$11 million in investment income.

## **Long-term Liabilities:**

Long-term liabilities shown on the government-wide financial statements totaled \$501 million at June 30, 2011, which is a \$9 million increase from the prior year. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due 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 93% 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 approximately one-fourth of their funding) but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State’s only two discretely presented component units. While presented in this report, each of these two units has separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

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

## **Fund Financial Statements**

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

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

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

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

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

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

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

## **Component Units Financial Statements**

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

## **Notes to the Financial Statements**

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

## **Required Supplementary Information**

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

## Other Supplementary Information

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

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

### Net Assets

The State's assets totaled \$12,890 million at June 30, 2011 as compared to \$12,441 million at June 30, 2010. As total liabilities only totaled \$1,676 million, net assets amounted to \$11,214 million as of June 30, 2011. As of June 30, 2010, these amounts were \$1,697 million and \$10,744 million, respectively. By far the largest portion of the State of Nebraska's net assets (71 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, dams, etc.). The State uses these capital assets to provide services to citizens; thus, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future 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 chiefly represent 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	
	2011	2010	2011	2010	2011	2010
Current and Other						
Non-current Assets	\$ 4,362	\$ 4,176	\$ 511	\$ 416	\$ 4,873	\$ 4,592
Capital Assets	8,010	7,843	7	6	8,017	7,849
<b>Total Assets</b>	<b>12,372</b>	<b>12,019</b>	<b>518</b>	<b>422</b>	<b>12,890</b>	<b>12,441</b>
Non-current Liabilities	428	423	73	69	501	492
Other Liabilities	1,148	1,171	27	34	1,175	1,205
<b>Total Liabilities</b>	<b>1,576</b>	<b>1,594</b>	<b>100</b>	<b>103</b>	<b>1,676</b>	<b>1,697</b>
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,983	7,820	7	6	7,990	7,826
Restricted	2,006	1,754	345	241	2,351	1,995
Unrestricted	807	851	66	72	873	923
<b>Total Net Assets</b>	<b>\$ 10,796</b>	<b>\$ 10,425</b>	<b>\$ 418</b>	<b>\$ 319</b>	<b>\$ 11,214</b>	<b>\$ 10,744</b>

Over 74% of the State's non-capital assets consist of cash and investments. It should be noted that \$233 million in 2011 and \$356 million in 2010 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.) Receivables, chiefly from taxes and the federal government, represent 20% of the non-capital assets.

Liabilities largely reflect three groupings which represent 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 \$514 million (\$457 million in 2010); tax refunds payable of \$353 million (\$319 million in 2010); 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 \$501 million (\$492 million in 2010). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling \$137 million for 2011 (\$133 million for 2010), Medicaid claims for \$190 million (\$192 million in 2010) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$130 million in 2011 (\$130 million for 2010). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 7 to the Financial Statements), which totaled \$27 million at June 30, 2011. There was also \$16 million of obligations under other financing arrangements (See Note 8 to the Financial Statements).

The \$371 million increase in net assets of Governmental Activities, offset by a decrease of \$44 million in unrestricted net assets, was due to the \$163 million increase in the net investment in capital assets and the \$252 million increase in restricted net assets. The major cause of the increase was a \$313 million increase in taxes collected.

At the end of June 30, 2011, 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 2011, 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	
	2011	2010	2011	2010	2011	2010
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$ 554	\$ 553	\$ 579	\$ 557	\$ 1,133	\$ 1,110
Operating Grants and Contributions	2,939	2,841	-	-	2,939	2,841
Capital Grants and Contributions	29	25	-	-	29	25
General Revenues						
Taxes	3,967	3,654	-	-	3,967	3,654
Unrestricted Investment Earnings	214	216	16	20	230	236
Miscellaneous	3	(2)	-	-	3	(2)
<b>Total Revenues</b>	<b>7,706</b>	<b>7,287</b>	<b>595</b>	<b>577</b>	<b>8,301</b>	<b>7,864</b>
<b>EXPENSES</b>						
General Government	477	472	-	-	477	472
Conservation of Natural Resources	156	148	-	-	156	148
Culture - Recreation	29	24	-	-	29	24
Economic Development and Assistance	111	95	-	-	111	95
Education	1,807	1,713	-	-	1,807	1,713
Higher Education - Colleges and Universities	561	571	-	-	561	571
Health and Social Services	3,069	3,010	-	-	3,069	3,010
Public Safety	362	373	-	-	362	373
Regulation of Business and Professions	121	132	-	-	121	132
Transportation	697	736	-	-	697	736
Interest on Long-term Debt	1	2	-	-	1	2
Unemployment Insurance	-	-	329	432	329	432
Lottery	-	-	102	99	102	99
Excess Liability	-	-	20	7	20	7
Cornhusker State Industries	-	-	13	12	13	12
<b>Total Expenses</b>	<b>7,391</b>	<b>7,276</b>	<b>464</b>	<b>550</b>	<b>7,855</b>	<b>7,826</b>
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	315	11	131	27	446	38
Transfers	32	32	(32)	(32)	-	-
Contributions to Permanent Fund Principal	24	16	-	-	24	16
<b>Increase (Decrease) in Net Assets</b>	<b>371</b>	<b>59</b>	<b>99</b>	<b>(5)</b>	<b>470</b>	<b>54</b>
<b>Net Assets - Beginning</b>	<b>10,425</b>	<b>10,366</b>	<b>319</b>	<b>324</b>	<b>10,744</b>	<b>10,690</b>
<b>Net Assets - Ending</b>	<b>\$ 10,796</b>	<b>\$ 10,425</b>	<b>\$ 418</b>	<b>\$ 319</b>	<b>\$ 11,214</b>	<b>\$ 10,744</b>

## Governmental Activities

Governmental activities increased the State's net assets by \$371 million in 2011 (\$59 million increase in 2010). Governmental activities represent 93% of all the primary government's revenues. Program revenues of governmental activities were \$3,522 million and were used to partially offset program expenses of \$7,391 million, leaving net expenses of \$3,869 million. Only 6% of total expenses were spent on general government expenses. General taxes, investment earnings, miscellaneous, contributions to the permanent fund principal, and transfers all totaling \$4,240 million, were \$371 million more than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were up \$313 million compared to a decrease of \$133 million in 2010. Program revenues also increased 3% from 2010, chiefly due to income from grants being up \$98 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, which is most of the \$115 million increase in program expenses. These increases in tax revenue and program revenue were the chief reasons the change in net assets was \$312 million higher in 2011 than the \$149 million increase recorded in 2010. While the General Fund has more investments than other programs, it maintains safer investments and actually showed a decrease in investment income in 2011 over 2010 of \$37 million, due to declining interest rates.

Program expenses, net of revenue, increased by \$12 million in 2011, as shown below:

### GOVERNMENTAL ACTIVITIES (in millions of dollars)

<b>Program Expenses, Net of Revenue</b>	<b>2011</b>	<b>2010</b>
General Government	\$ (373)	\$ (359)
Conservation of Natural Resources	(28)	(17)
Culture - Recreation	(8)	(3)
Economic Development and Assistance	(30)	(34)
Education	(1,186)	(1,210)
Higher Education - Colleges and University	(561)	(571)
Health and Social Services	(1,166)	(1,109)
Public Safety	(217)	(225)
Regulation of Business and Professions	18	4
Transportation	(317)	(332)
Interest on Long-Term Debt	(1)	(1)
<b>Subtotal</b>	<b>(3,869)</b>	<b>(3,857)</b>
<b>General Revenues</b>		
Taxes	3,967	3,654
Unrestricted Investment Earnings	214	216
Miscellaneous	3	(2)
<b>Transfers</b>	<b>32</b>	<b>32</b>
<b>Contributions to Permanent Fund Principal</b>	<b>24</b>	<b>16</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 371</b>	<b>\$ 59</b>

Four functional areas of the State comprise 83% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Education expenses were up \$94 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 \$59 million mainly because increased aid from federal ARRA funds. Transportation expenses were down \$39 million chiefly due to decreased highway construction. All the other functional areas had small variances in net expenses.

## **Business-type Activities**

The business-type activities increased the State's net assets by \$99 million for 2011, which was net of a \$32 million transfer to the governmental activities. Most of the \$579 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 operating income of \$94 million in 2011. This gain, when combined with the \$11 million in investment income, produced a \$105 million increase in net assets for the Unemployment Insurance Fund. Lottery revenues of \$132 million generated net revenue of \$31 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. At June 30, 2011, the State's Governmental Funds reported combined ending fund balances of \$2,847 million. Of this amount, \$469 million is nonspendable, either due to its form or legal constraints, and \$1,543 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted by enabling legislation, and public school land lease revenues are included in restricted fund balance. An additional \$383 million of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$33 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining \$419 million is unassigned and available for appropriations.

#### ***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 \$345 million. However, such refunds payable are only \$12 million more than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by \$746 million.

On June 30, 2010, the General Fund had a positive fund balance of \$716 million. While expenditures increased \$79 million, revenues increased by \$234 million in 2011. This \$155 million increase was more than the \$95 million decrease that occurred in 2010, resulting in an operating decrease of the fund balance of \$43 million in 2011. This operating decrease in 2011, when coupled with the \$60 million of other financing sources, caused the General Fund balance to increase by \$17 million, ending with a fund balance of \$733 million.

Revenues in 2011, significantly more than anticipated, were up \$234 million over 2010 chiefly due to an increase in income tax revenue of \$207 million (a 12% increase) over 2010 and an increase in sales and use tax revenue of \$76 million (a 6% increase) over 2010. Investment income was down \$37 million due to the declining interest rates. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending. Net increases in expenditures were caused chiefly in four areas. Health and Social Services and Public Safety expenditures increased \$71 million and \$28 million, respectively, which offset budgeted decreases in Education and Higher Education expenditures of \$15 million and \$11 million, respectively.

To compensate for any downturns in revenues, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General Fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in the General Fund cash account to do so. No such need existed in 2011.

The Cash Reserve Fund was at \$575 million at the beginning of 2010. In 2010 there was a statutory transfer from the Fund to the General Fund of \$105 million. In 2010 there were also other net transfers out of the Fund of \$3 million, leaving a Cash Reserve Fund balance at June 30, 2010 of \$467 million. In 2011 there was a statutory transfer from the Fund to the General Fund of \$154 million, leaving a Fund balance of \$313 million at June 30, 2011. This balance is reflected as committed to economic stabilization on the governmental funds balance sheet.

### ***Other Governmental Funds***

Other governmental fund balances totaled \$2,114 million at June 30, 2011. Of this amount, \$468 million is nonspendable, either due to its form or legal constraints, and \$1,543 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional \$70 million of total fund balance has been committed to specific purposes. The remaining \$33 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent.

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 \$693 million. The non-major special revenue fund balances totaled \$754 million.

Governmental funds other than the General Fund saw an increase in fund balances of \$172 million. The fund balances of the following funds increased: the Highway Fund (\$52 million), the Health and Social Service Fund (\$54 million) and the Permanent School Fund (\$86 million). The Federal Fund decreased by \$7 million and the other Nonmajor Funds decreased by \$13 million.

The Highway Fund had a \$16 million increase in sales and use taxes and a \$18 million increase in petroleum taxes, which offset a \$32 million decrease in federal grants revenue. However, \$15 million of decreases in operating expenses (namely highway construction) was the chief reason the Highway Fund had a \$52 million increase in its fund balance in 2011 as opposed to a \$41 million increase in 2010.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2011 the State received a large boost in federal grants and contracts of \$127 million, investment income decreased \$4 million and other revenue decreased \$2 million. Expenditures in 2011 increased by \$118 million for Education and \$24 million for Conservation of Natural Resources mainly due to increases in ARRA funding and by \$21 million for Economic Development and Assistance due to increases for community programs. Revenues exceeded expenditures by \$5 million before transfers. Transfers out decreased \$31 million, which was related to



decreased ARRA funding for water treatment, so at the end of 2011 there was a net decrease in the fund of \$7 million, compared to a \$7 million increase in 2010.

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 \$38 million increase in investment income in 2011 (chiefly unrealized gains in the market value of investments) compared to a \$101 million increase in 2010, which was the main reason there was a \$47 million increase in the net change in fund balance in 2011, as opposed to a \$79 million increase in 2010.

The Permanent School Fund had a \$36 million increase in revenue, chiefly due to a \$27 million increase in investment income caused by unrealized gains in the market value of investments in 2011, as opposed to a \$99 million investment income increase in 2010 (when compared to 2009). Since expenditures increased \$7 million in 2011, there was a \$86 million increase in fund balance in 2011, as opposed to a \$57 million increase in 2010, a change of \$29 million.

The Nonmajor Funds revenues and expenditures both remained about the same between 2010 and 2011 and revenues about equaled expenditures. However, there were \$30 million in net transfers out for the Nonmajor Funds in 2011 versus \$6 million in net transfers in for 2010 (there were significant one-time transfers to the General Fund in 2010 and 2011). As a result, the net change in fund balances decreased \$13 million in 2011 as opposed to a \$5 million decrease in 2010.

## **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 \$344 million at the end of 2011. This fund's net assets increased \$105 million in 2011, because business assessment fees exceeded unemployment claims paid out by \$55 million, and other revenues increased \$44 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 \$27 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 an operating loss of \$11 million and earned \$5 million in investment earnings for a net asset decrease of \$6 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 \$1,641 million to \$9,607 million in 2011 due primarily to a rising market in 2011, which increased the market value of investments by \$1,566 million. (In 2010 there was a \$930 million appreciation of investments.) Interest and dividend income in 2011 was \$138 million versus \$115 million in 2010. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by \$42 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled \$650 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 2011 the State started to rebound from the effects of the national recession. Forecasted revenues, upon which the State's budgeted General Fund expenditures are based, were anticipated to increase in 2011 by \$221 million over 2010 net tax revenue of \$3,070 million. Because revenues showed a declining trend before starting to show an increasing trend during 2011, the State's Forecasting Board made three new forecasts throughout the year. At the end, the forecasted net tax revenues were \$15 million above the original forecast. However, that increased forecast was still less than actual tax revenues of \$3,368 million by \$63 million, leaving the State with actual tax revenues, net of refunds, of \$77 million more than the original budget on a budgetary basis. Even though tax revenues were starting to increase, they were still below pre-recession tax revenues of 2008. To offset this reduced revenue, agencies continued to watch their General Fund expenditures and spent \$235 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, caused the State to finish 2011 with General Fund revenues of \$103 million more than expenditures on a budgetary basis, prior to net transfers out. There was a net \$52 million transferred out for specific purposes, causing the fund balance on a budgetary basis to increase from \$762 million to \$813 million in 2011.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2011, the State had invested \$8.0 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 2011 totaled \$50 million, compared to \$45 million for 2010.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 553	\$ 548	\$ -	\$ -	\$ 553	\$ 548
Buildings and Equipment	401	359	7	6	408	365
Infrastructure	6,986	6,852	-	-	6,986	6,852
<b>Subtotal</b>	<b>7,940</b>	<b>7,759</b>	<b>7</b>	<b>6</b>	<b>7,947</b>	<b>7,765</b>
Construction in Progress	70	84	-	-	70	84
<b>Total</b>	<b>\$ 8,010</b>	<b>\$ 7,843</b>	<b>\$ 7</b>	<b>\$ 6</b>	<b>\$ 8,017</b>	<b>\$ 7,849</b>

Infrastructure (roads, bridges, dams, etc.) is by far the largest group of assets owned by the State. GASB Statement No. 34 requires the State to select one of two methods to account for its infrastructure assets. One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

In assessing the condition of State roads, the State's goal is to maintain at least an overall system rating of 72 or above using the Nebraska Serviceability Index. The most recent condition assessment, completed for calendar year 2010, indicated an overall system rating of 80, a rating that has been very consistent over the past six years.

For 2011, it was estimated that the State needed to spend \$267 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$218 million on roads in 2011, compared to \$270 million in 2010. For 2012, it is estimated that the State needs to spend \$288 million, an increase from actual 2011 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 \$139 million on capitalized infrastructure and land purchases relating to roads in 2011 (\$115 million in 2010), most notably reconstructing (a) Interstate 80 between I-180 in Omaha and Lincoln, (b) I-80 westbound bridge over the Missouri River, (c) Highway 275 South Omaha bridge, and (d) Highway 71 from I-80 north to Kimball. Major land purchases included land purchased near four State highways. At June 30, 2011, the State had contractual commitments of \$563 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 3 to the financial statements.) These commitments are \$84 million more than at June 30, 2010 as a result of new highway construction and repair work being financed by the federal government.

During 2011, the State added \$95 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 3 to the financial statements.

## Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated. For further detail and analysis of long-term debt, see Notes 7 and 13 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2011	2010
<b>Capitalized Leases:</b>	\$ 27	\$ 23

There were no new bonds issued or outstanding in 2011 or 2010. Two new capitalized leases were added in 2011 (three leases were added in 2010). Bonds and Certificates of Participation for leases issued on behalf of the State maintain an Aa2 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**

The national economy is improving, which has resulted in forecasted growth in tax receipts. Tax revenues have improved and have exceeded projections during the last year. Net General Fund revenues for 2012 are currently projected to exceed actual 2011 revenues by \$143 million. The State has a low unemployment rate and has had no borrowing or repayment due to the federal government for the State's Unemployment Insurance Fund. The Legislature has responded to the market effect on defined benefit plans by increasing employer and employee contributions to maintain funded ratios.

The State does face many challenges in the coming years. LB84 earmarking of one quarter of one percent of the State's sales tax for state, county and municipal road construction starting in 2013 will create future financing challenges for the General Fund. National healthcare policy, including expansion of the Medicaid program to additional people and the ongoing increase in healthcare costs present some additional challenges. Another area of concern is the school finance formula that provides for growth in aid to education for K-12 schools and special education that is greater than growth in historical tax receipts.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2011, this Fund had a \$313 million balance. A transfer of \$145 million was made from the General Fund in July 2011 as statutorily required. From the Cash Reserve Fund there were \$9 million of other statutory disbursements, resulting in a balance of \$449 million at November 30, 2011. Future significant statutory disbursements from this fund in the next two years include \$105 million to be transferred to the General Fund. With the improved revenue forecast, the State currently projects an additional \$52 million transfer into the Cash Reserve Fund in July 2012.

## **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 or by going online to their websites. 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 or online at <http://www.nebraska.edu/administration/business-and-finance/accounting-and-finance.html>. 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 or online at <http://www.nscs.edu/>.

State of Nebraska  
**STATEMENT OF NET ASSETS**  
 June 30, 2011

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 176,833	\$ 311,943	\$ 488,776	\$ 505,076
Receivables, net of allowance				
Taxes	377,769	-	377,769	-
Due from Federal Government	368,769	-	368,769	-
Other	157,156	66,001	223,157	312,853
Internal Balances	(1,153)	1,153	-	-
Due from Primary Government	-	-	-	354
Investments	2,746,873	118,491	2,865,364	1,806,467
Loans Receivable	277,006	-	277,006	36,919
Investment in Joint Venture	-	-	-	275,175
Other Assets	12,310	3,203	15,513	45,547
Restricted Assets:				
Cash and Cash Equivalents	21,624	-	21,624	315,078
Other	-	2,247	2,247	30,966
Securities Lending Collateral	224,690	8,024	232,714	-
Capital assets:				
Land	553,391	315	553,706	75,386
Infrastructure	6,985,740	-	6,985,740	-
Construction in Progress	69,763	-	69,763	171,621
Land Improvements	-	-	-	169,608
Buildings and Equipment	973,447	13,241	986,688	2,375,232
Less Accumulated Depreciation	(572,212)	(6,747)	(578,959)	(836,923)
Total Capital Assets, net of depreciation	8,010,129	6,809	8,016,938	1,954,924
Total Assets	<u>\$ 12,372,006</u>	<u>\$ 517,871</u>	<u>\$ 12,889,877</u>	<u>\$ 5,283,359</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 497,854	\$ 15,713	\$ 513,567	\$ 186,026
Tax Refunds Payable	353,358	-	353,358	-
Due to Other Governments	12,584	-	12,584	-
Deposits	9,928	-	9,928	12,170
Due to Component Units	354	-	354	-
Unearned Revenue	49,299	2,931	52,230	104,465
Obligations under Securities Lending	224,690	8,024	232,714	-
Noncurrent Liabilities:				
Due within one year	229,797	41,807	271,604	117,060
Due in more than one year	197,895	31,166	229,061	704,915
Total Liabilities	<u>\$ 1,575,759</u>	<u>\$ 99,641</u>	<u>\$ 1,675,400</u>	<u>\$ 1,124,636</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	\$ 7,982,821	\$ 6,809	\$ 7,989,630	\$ 1,163,850
Restricted for:				
Education	20,158	-	20,158	1,553,551
Health and Social Services	489,804	-	489,804	-
Conservation of Natural Resources	484,158	-	484,158	-
Transportation	217,946	-	217,946	-
Licensing and Regulation	66,484	-	66,484	-
Other Purposes	115,309	2,247	117,556	292,400
Unemployment Insurance Benefits	-	343,484	343,484	-
Debt Service and Construction	16,233	-	16,233	305,676
Permanent Trusts:				
Nonexpendable	461,161	-	461,161	-
Expendable	135,497	-	135,497	-
Unrestricted	806,676	65,690	872,366	843,246
Total Net Assets	<u>\$ 10,796,247</u>	<u>\$ 418,230</u>	<u>\$ 11,214,477</u>	<u>\$ 4,158,723</u>

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

State of Nebraska  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

(Dollars in Thousands)

<b>FUNCTIONS/PROGRAMS</b>	<b>PROGRAM REVENUES</b>			
	<b>EXPENSES</b>	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General Government	\$ 476,622	\$ 88,550	\$ 13,357	\$ 1,478
Conservation of Natural Resources	155,692	36,263	91,620	279
Culture – Recreation	28,837	18,657	2,466	-
Economic Development and Assistance	111,096	1,007	80,141	-
Education	1,807,170	36,545	584,790	405
Higher Education - Colleges and University	561,090	-	-	-
Health and Social Services	3,069,195	112,145	1,790,796	-
Public Safety	361,921	26,973	90,923	27,072
Regulation of Business and Professions	121,616	135,820	3,444	-
Transportation	696,727	98,151	281,629	-
Interest on Long-term Debt	1,153	-	-	-
Total governmental activities	<u>7,391,119</u>	<u>554,111</u>	<u>2,939,166</u>	<u>29,234</u>
Business-type activities:				
Unemployment Insurance	329,576	422,977	-	-
Lottery	101,625	131,919	-	-
Excess Liability	19,623	8,943	-	-
Cornhusker State Industries	13,451	15,568	-	-
Total business-type activities	<u>464,275</u>	<u>579,407</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,855,394</u>	<u>\$ 1,133,518</u>	<u>\$ 2,939,166</u>	<u>\$ 29,234</u>
<b>COMPONENT UNITS:</b>				
University of Nebraska	\$ 1,820,509	\$ 869,499	\$ 348,526	\$ 10,276
State Colleges	102,647	37,191	17,499	2,406
Total Component Units	<u>\$ 1,923,156</u>	<u>\$ 906,690</u>	<u>\$ 366,025</u>	<u>\$ 12,682</u>

General revenues:  
Income Taxes  
Sales and Use Taxes  
Petroleum Taxes  
Excise Taxes  
Business and Franchise Taxes  
Other Taxes  
Unrestricted Investment earnings  
Miscellaneous  
Payments from 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			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (373,237)	\$ -	\$ (373,237)	\$ -
(27,530)	-	(27,530)	-
(7,714)	-	(7,714)	-
(29,948)	-	(29,948)	-
(1,185,430)	-	(1,185,430)	-
(561,090)	-	(561,090)	-
(1,166,254)	-	(1,166,254)	-
(216,953)	-	(216,953)	-
17,648	-	17,648	-
(316,947)	-	(316,947)	-
(1,153)	-	(1,153)	-
<u>(3,868,608)</u>	<u>-</u>	<u>(3,868,608)</u>	<u>-</u>
-	93,401	93,401	-
-	30,294	30,294	-
-	(10,680)	(10,680)	-
-	2,117	2,117	-
<u>-</u>	<u>115,132</u>	<u>115,132</u>	<u>-</u>
<u>(3,868,608)</u>	<u>115,132</u>	<u>(3,753,476)</u>	<u>-</u>
-	-	-	(592,208)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,551)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(637,759)</u>
1,889,796	-	1,889,796	-
1,545,494	-	1,545,494	-
321,919	-	321,919	-
135,250	-	135,250	-
65,630	-	65,630	-
9,243	-	9,243	-
214,054	16,254	230,308	65,271
2,590	-	2,590	397,018
-	-	-	561,090
23,635	-	23,635	-
32,055	(32,055)	-	-
<u>4,239,666</u>	<u>(15,801)</u>	<u>4,223,865</u>	<u>1,023,379</u>
371,058	99,331	470,389	385,620
<u>10,425,189</u>	<u>318,899</u>	<u>10,744,088</u>	<u>3,773,103</u>
<u>\$ 10,796,247</u>	<u>\$ 418,230</u>	<u>\$ 11,214,477</u>	<u>\$ 4,158,723</u>

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

June 30, 2011

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
<b>ASSETS:</b>							
Cash and Cash Equivalents	\$ 6,787	\$ 1,508	\$ 440	\$ 318	\$ 6,411	\$ 13,205	\$ 28,669
Cash on Deposit with Fiscal Agents	-	-	-	-	-	21,624	21,624
Investments	862,366	202,182	87,167	462,495	542,791	589,872	2,746,873
Securities Lending Collateral	90,996	21,334	9,636	23,412	20,751	58,561	224,690
Receivables, net of allowance							
Taxes	333,196	44,326	-	-	-	247	377,769
Due from Federal Government	11	30,018	337,160	-	-	1,580	368,769
Loans	-	-	7,252	352	-	269,402	277,006
Other	31,348	9,947	36,410	32,877	32,487	11,828	154,897
Due from Other Funds	92,819	618	489	2,528	-	3,771	100,225
Inventories	780	3,682	2,807	218	-	405	7,892
Prepaid Items	5	14	4	-	-	72	95
Other	442	-	-	-	-	2,252	2,694
<b>TOTAL ASSETS</b>	<b>\$ 1,418,750</b>	<b>\$ 313,629</b>	<b>\$ 481,365</b>	<b>\$ 522,200</b>	<b>\$ 602,440</b>	<b>\$ 972,819</b>	<b>\$ 4,311,203</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Accounts Payable and Accrued Liabilities	\$ 91,885	\$ 60,212	\$ 224,664	\$ 7,841	\$ 28,847	\$ 29,162	\$ 442,611
Tax Refunds Payable	345,316	8,042	-	-	-	-	353,358
Due to Other Governments	3,414	7,988	-	-	-	1,182	12,584
Deposits	442	1,102	6,514	314	221	1,335	9,928
Due to Other Funds	34,415	1,565	97,812	595	5	7,779	142,171
Due to Component Units	354	-	-	-	-	-	354
Obligations under Securities Lending	90,996	21,334	9,636	23,412	20,751	58,561	224,690
Claims Payable	89,645	-	96,050	-	-	-	185,695
Deferred Revenue	28,836	-	38,041	18,573	7,231	-	92,681
<b>TOTAL LIABILITIES</b>	<b>685,303</b>	<b>100,243</b>	<b>472,717</b>	<b>50,735</b>	<b>57,055</b>	<b>98,019</b>	<b>1,464,072</b>
<b>FUND BALANCES:</b>							
<b>Nonspendable:</b>							
Inventories and Prepaid Items	785	3,696	2,811	218	-	477	7,987
Endowment Principal	-	-	-	-	441,596	19,565	461,161
<b>Restricted for:</b>							
Education	-	-	-	-	103,789	22,727	126,516
Health and Social Services	-	-	-	470,604	-	29,076	499,680
Conservation of Natural Resources	-	-	-	-	-	484,158	484,158
Transportation	-	209,690	-	-	-	8,663	218,353
Licensing and Regulation	-	-	-	-	-	66,484	66,484
Economic Development	-	-	-	-	-	33,803	33,803
Public Safety	-	-	-	-	-	36,817	36,817
Culture – Recreation	-	-	-	-	-	13,426	13,426
Other Purposes	-	-	5,837	-	-	41,956	47,793
Debt Service	-	-	-	-	-	16,233	16,233
<b>Committed to:</b>							
Economic Stabilization	313,202	-	-	-	-	-	313,202
Other Purposes	-	-	-	-	-	69,619	69,619
<b>Assigned to:</b>							
Education	-	-	-	-	-	536	536
Health and Social Services	-	-	-	643	-	-	643
Licensing and Regulation	-	-	-	-	-	29,332	29,332
Economic Development	-	-	-	-	-	12	12
Culture – Recreation	-	-	-	-	-	64	64
Other Purposes	-	-	-	-	-	1,852	1,852
Unassigned	419,460	-	-	-	-	-	419,460
<b>TOTAL FUND BALANCES</b>	<b>733,447</b>	<b>213,386</b>	<b>8,648</b>	<b>471,465</b>	<b>545,385</b>	<b>874,800</b>	<b>2,847,131</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,418,750</b>	<b>\$ 313,629</b>	<b>\$ 481,365</b>	<b>\$ 522,200</b>	<b>\$ 602,440</b>	<b>\$ 972,819</b>	<b>\$ 4,311,203</b>

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



State of Nebraska

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

June 30, 2011

(Dollars in Thousands)

**Total fund balances for governmental funds** \$ 2,847,131

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	553,391	
Infrastructure	6,985,740	
Construction in progress	69,763	
Other capital assets	891,237	
Accumulated depreciation	<u>(518,420)</u>	7,981,711

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 43,865

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. 74,381

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	(5,829)	
Obligations under other financing arrangements	(16,220)	
Compensated absences	(124,245)	
Claims and judgments	<u>(4,547)</u>	<u>(150,841)</u>

**Net assets of governmental activities** \$ 10,796,247

*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, 2011

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
<b>REVENUES:</b>							
Income Taxes	\$ 1,882,245	\$ -	\$ -	\$ 6,978	\$ -	\$ -	\$ 1,889,223
Sales and Use Taxes	1,371,597	168,839	-	-	-	3,867	1,544,303
Petroleum Taxes	-	308,662	-	-	4,096	13,258	326,016
Excise Taxes	72,852	-	-	6,677	-	55,721	135,250
Business and Franchise Taxes	48,053	-	-	-	-	17,577	65,630
Other Taxes	207	2,758	-	-	-	6,278	9,243
Federal Grants and Contracts	39	253,062	2,671,227	62	-	43,549	2,967,939
Licenses, Fees and Permits	20,793	84,006	623	45,859	860	129,937	282,078
Charges for Services	3,148	11,029	21,264	27,943	-	33,395	96,779
Investment Income	23,238	5,467	2,034	74,463	84,175	20,132	209,509
Rents and Royalties	-	447	21	348	33,856	20,486	55,158
Surcharge	-	-	-	-	-	54,452	54,452
Other	5,017	1,838	3,888	7,952	19,063	31,544	69,302
<b>TOTAL REVENUES</b>	<b>3,427,189</b>	<b>836,108</b>	<b>2,699,057</b>	<b>170,282</b>	<b>142,050</b>	<b>430,196</b>	<b>7,704,882</b>
<b>EXPENDITURES:</b>							
Current:							
General Government	356,110	-	8,094	-	-	86,270	450,474
Conservation of Natural Resources	32,444	-	68,068	-	-	55,756	156,268
Culture – Recreation	5,826	-	2,260	-	-	22,204	30,290
Economic Development and Assistance	6,235	-	81,389	-	-	25,882	113,506
Education	1,156,414	-	585,345	-	56,211	12,836	1,810,806
Higher Education - Colleges and University	546,351	-	-	-	-	14,739	561,090
Health and Social Services	1,140,769	-	1,822,967	114,225	-	1,928	3,079,889
Public Safety	221,803	-	116,198	-	-	37,333	375,334
Regulation of Business and Professions	3,764	-	3,467	-	-	115,621	122,852
Transportation	-	800,737	5,879	-	-	25,778	832,394
Capital Projects	-	-	-	-	-	16,676	16,676
Debt Service:							
Principal	-	-	-	-	-	3,380	3,380
Interest	-	-	-	-	-	647	647
<b>TOTAL EXPENDITURES</b>	<b>3,469,716</b>	<b>800,737</b>	<b>2,693,667</b>	<b>114,225</b>	<b>56,211</b>	<b>419,050</b>	<b>7,553,606</b>
Excess of Revenues Over (Under) Expenditures	(42,527)	35,371	5,390	56,057	85,839	11,146	151,276
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers In	74,349	27,773	-	1,146	-	72,416	175,684
Transfers Out	(14,799)	(11,242)	(11,940)	(3,695)	-	(101,953)	(143,629)
Proceeds from Other Financing Arrangements	-	-	-	-	-	5,195	5,195
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>59,550</b>	<b>16,531</b>	<b>(11,940)</b>	<b>(2,549)</b>	<b>-</b>	<b>(24,342)</b>	<b>37,250</b>
Net Change in Fund Balances	17,023	51,902	(6,550)	53,508	85,839	(13,196)	188,526
<b>FUND BALANCES, JULY 1</b>	<b>716,424</b>	<b>161,484</b>	<b>15,198</b>	<b>417,957</b>	<b>459,546</b>	<b>887,996</b>	<b>2,658,605</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 733,447</b>	<b>\$ 213,386</b>	<b>\$ 8,648</b>	<b>\$ 471,465</b>	<b>\$ 545,385</b>	<b>\$ 874,800</b>	<b>\$ 2,847,131</b>

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

State of Nebraska

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

For the Year Ended June 30, 2011

(Dollars in Thousands)

**Net change in fund balances—total governmental funds** \$ 188,526

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	198,105	
Depreciation expense	<u>(40,626)</u>	157,479

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

Other financing arrangements	<u>(5,195)</u>	(5,195)
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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:

Other financing arrangement payments	3,380	
Capital lease payments	<u>2,586</u>	5,966

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.

20,001

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.

2,222

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:

Increase in compensated absences	(101)	
Decrease in claims and judgments	<u>2,160</u>	<u>2,059</u>

**Change in net assets of governmental activities** \$ 371,058

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

State of Nebraska  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2011

(Dollars in Thousands)	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			<b>GOVERNMENTAL</b>
	<b>UNEMPLOYMENT INSURANCE</b>	<b>NONMAJOR ENTERPRISE FUNDS</b>	<b>TOTALS</b>	<b>ACTIVITIES - INTERNAL SERVICE FUNDS</b>
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 275,230	\$ 36,713	\$ 311,943	\$ 148,833
Receivables, net of allowance	52,040	13,961	66,001	2,052
Due from Other Funds	-	1,255	1,255	18,864
Inventories	-	2,621	2,621	425
Prepaid Items	-	582	582	1,204
<b>TOTAL CURRENT ASSETS</b>	<b>327,270</b>	<b>55,132</b>	<b>382,402</b>	<b>171,378</b>
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	2,247	2,247	-
Long-Term Investments	54,592	63,899	118,491	-
Securities Lending Collateral	5,761	2,263	8,024	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	1,067	12,174	13,241	82,210
Less Accumulated Depreciation	(906)	(5,841)	(6,747)	(53,792)
Total Capital Assets, net	161	6,648	6,809	28,418
<b>TOTAL NONCURRENT ASSETS</b>	<b>60,514</b>	<b>75,057</b>	<b>135,571</b>	<b>28,418</b>
<b>TOTAL ASSETS</b>	<b>\$ 387,784</b>	<b>\$ 130,189</b>	<b>\$ 517,973</b>	<b>\$ 199,796</b>
<b>LIABILITIES AND NET ASSETS</b>				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 849	\$ 14,864	\$ 15,713	\$ 27,567
Due to Other Funds	3	99	102	6,209
Capital Lease Obligations	-	-	-	4,723
Claims, Judgments and Compensated Absences	37,509	4,298	41,807	26,930
Unearned Revenue	-	2,931	2,931	483
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,361</b>	<b>22,192</b>	<b>60,553</b>	<b>65,912</b>
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	16,756
Claims, Judgments and Compensated Absences	17	31,149	31,166	42,747
Obligations under Securities Lending	5,761	2,263	8,024	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>5,778</b>	<b>33,412</b>	<b>39,190</b>	<b>59,503</b>
<b>TOTAL LIABILITIES</b>	<b>44,139</b>	<b>55,604</b>	<b>99,743</b>	<b>125,415</b>
NET ASSETS:				
Invested in Capital Assets, net of related debt	161	6,648	6,809	6,939
Restricted for:				
Lottery Prizes, Noncurrent	-	2,247	2,247	-
Unemployment Insurance Benefits	343,484	-	343,484	-
Unrestricted	-	65,690	65,690	67,442
<b>TOTAL NET ASSETS</b>	<b>343,645</b>	<b>74,585</b>	<b>418,230</b>	<b>74,381</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 387,784</b>	<b>\$ 130,189</b>	<b>\$ 517,973</b>	<b>\$ 199,796</b>

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, 2011

(Dollars in Thousands)	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL</u>
	<u>UNEMPLOYMENT INSURANCE</u>	<u>NONMAJOR ENTERPRISE FUNDS</u>	<u>TOTALS</u>	<u>ACTIVITIES - INTERNAL SERVICE FUNDS</u>
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 379,351	\$ 155,885	\$ 535,236	\$ 360,976
Other	<u>43,626</u>	<u>545</u>	<u>44,171</u>	<u>1,241</u>
TOTAL OPERATING REVENUES	<u>422,977</u>	<u>156,430</u>	<u>579,407</u>	<u>362,217</u>
<b>OPERATING EXPENSES:</b>				
Personal Services	5,318	5,722	11,040	35,686
Services and Supplies	33	32,222	32,255	107,952
Lottery Prizes	-	76,871	76,871	-
Unemployment Claims	324,155	-	324,155	-
Insurance Claims	-	19,236	19,236	194,181
Depreciation	<u>70</u>	<u>648</u>	<u>718</u>	<u>9,136</u>
TOTAL OPERATING EXPENSES	<u>329,576</u>	<u>134,699</u>	<u>464,275</u>	<u>346,955</u>
Operating Income (Loss)	<u>93,401</u>	<u>21,731</u>	<u>115,132</u>	<u>15,262</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment Income	11,248	5,006	16,254	4,545
Gain (Loss) on Sale of Capital Assets	-	-	-	553
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>(359)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>11,248</u>	<u>5,006</u>	<u>16,254</u>	<u>4,739</u>
Income (Loss) Before Transfers	104,649	26,737	131,386	20,001
Transfers Out	<u>-</u>	<u>(32,055)</u>	<u>(32,055)</u>	<u>-</u>
Change in Net Assets	104,649	(5,318)	99,331	20,001
<b>NET ASSETS, JULY 1</b>	<u>238,996</u>	<u>79,903</u>	<u>318,899</u>	<u>54,380</u>
<b>NET ASSETS, JUNE 30</b>	<u>\$ 343,645</u>	<u>\$ 74,585</u>	<u>\$ 418,230</u>	<u>\$ 74,381</u>

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, 2011

(Dollars in Thousands)

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			<b>GOVERNMENTAL</b>
	<b>UNEMPLOYMENT INSURANCE</b>	<b>NONMAJOR ENTERPRISE FUNDS</b>	<b>TOTALS</b>	<b>ACTIVITIES - INTERNAL SERVICE FUNDS</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash Received from Customers	\$ 420,687	\$ 140,678	\$ 561,365	\$ 24,269
Cash Received from Interfund Charges	-	14,769	14,769	337,862
Cash Paid to Employees	(5,317)	(5,724)	(11,041)	(35,571)
Cash Paid to Suppliers	(16)	(31,195)	(31,211)	(97,014)
Cash Paid for Lottery Prizes	-	(76,526)	(76,526)	-
Cash Paid for Insurance Claims	(335,580)	(4,020)	(339,600)	(189,964)
Cash Paid for Interfund Services	(6)	(1,152)	(1,158)	(8,481)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>79,768</u>	<u>36,830</u>	<u>116,598</u>	<u>31,101</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers Out	-	(32,055)	(32,055)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and Construction of Capital Assets	(223)	(1,456)	(1,679)	(7,891)
Proceeds from Sale of Capital Assets	-	-	-	895
Principal Paid on Capital Leases	-	-	-	(4,097)
Interest Paid on Capital Leases	-	-	-	(359)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(223)</u>	<u>(1,456)</u>	<u>(1,679)</u>	<u>(11,452)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of Investment Securities	(5,532)	(136,077)	(141,609)	-
Proceeds from Sale of Investment Securities	-	135,924	135,924	-
Interest and Dividend Income	11,306	3,475	14,781	4,685
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>5,774</u>	<u>3,322</u>	<u>9,096</u>	<u>4,685</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	85,319	6,641	91,960	24,334
<b>CASH AND CASH EQUIVALENTS, JULY 1</b>	<u>189,911</u>	<u>30,072</u>	<u>219,983</u>	<u>124,499</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<u>\$ 275,230</u>	<u>\$ 36,713</u>	<u>\$ 311,943</u>	<u>\$ 148,833</u>

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

State of Nebraska  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Continued)**  
For the Year Ended June 30, 2011

(Dollars in Thousands)

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			<b>GOVERNMENTAL</b>
	<b>UNEMPLOYMENT INSURANCE</b>	<b>NONMAJOR ENTERPRISE FUNDS</b>	<b>TOTALS</b>	<b>ACTIVITIES - INTERNAL SERVICE FUNDS</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>				
<b>FLOW FROM OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$ 93,401	\$ 21,731	\$ 115,132	\$ 15,262
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	70	648	718	9,136
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	(1,839)	(496)	(2,335)	506
(Increase) Decrease in Due from Other Funds	-	1,115	1,115	(127)
(Increase) Decrease in Inventories	-	69	69	(116)
(Increase) Decrease in Prepaid Items	-	(158)	(158)	(58)
(Increase) Decrease in Long-Term Deposits	-	(357)	(357)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	782	683	1,465	2,261
Increase (Decrease) in Due to Other Funds	1	(19)	(18)	485
Increase (Decrease) in Claims Payable	(11,465)	15,216	3,751	4,217
Increase (Decrease) in Unearned Revenue	(1,182)	(1,602)	(2,784)	(465)
Total Adjustments	(13,633)	15,099	1,466	15,839
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 79,768</b>	<b>\$ 36,830</b>	<b>\$ 116,598</b>	<b>\$ 31,101</b>
<b>NONCASH TRANSACTIONS</b> (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	\$ -	\$ -	\$ -	\$ 10,810
Change in Fair Value of Investments	-	1,544	1,544	-
Total Noncash Transactions	\$ -	\$ 1,544	\$ 1,544	\$ 10,810

State of Nebraska  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2011

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,621	\$ 21,256	\$ 82,632
Investments:			
U.S. Treasury Notes and Bonds	111,237	-	-
U.S. Treasury Bills	6,540	-	-
Government Agency Securities	32,936	-	-
Corporate Bonds	618,751	-	-
International Bonds	72,070	-	-
Equity Securities	1,526,782	-	-
Private Equity	244,665	-	-
Options	(1,419)	-	-
Mortgages	543,470	-	-
Private Real Estate	231,375	-	-
Asset Backed Securities	91,873	-	-
Municipal Bonds	42,743	-	-
Commingled Funds	5,822,292	2,391,598	-
Guaranteed Investment Contracts	111,153	-	-
Short Term Investments	185,439	1,308	-
Total Investments	<u>9,639,907</u>	<u>2,392,906</u>	<u>-</u>
Securities Lending Collateral	335,769	-	-
Receivables:			
Contributions	24,386	-	-
Interest and Dividends	15,714	584	454
Other	539,408	-	461
Total Receivables	<u>579,508</u>	<u>584</u>	<u>915</u>
Due from Other Funds	28,345	-	-
Capital Assets:			
Buildings and Equipment	23,075	-	-
Less Accumulated Depreciation	(21,286)	-	-
Total Capital Assets, net	<u>1,789</u>	<u>-</u>	<u>-</u>
Other Assets	-	15,680	-
<b>TOTAL ASSETS</b>	<b><u>\$ 10,589,939</u></b>	<b><u>\$ 2,430,426</u></b>	<b><u>\$ 83,547</u></b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 646,543	\$ 890	\$ 10,323
Due to Other Governments	16	-	51,975
Deposits	-	800	-
Due to Other Funds	194	13	-
Obligations under Securities Lending	335,769	-	-
Capital Lease Obligations	83	-	-
Accrued Compensated Absences	276	-	-
Other Liabilities	-	-	21,249
<b>TOTAL LIABILITIES</b>	<b><u>\$ 982,881</u></b>	<b><u>\$ 1,703</u></b>	<b><u>\$ 83,547</u></b>
<b>NET ASSETS</b>			
Held in Trust for:			
Pension Benefits	\$ 9,607,058	\$ -	\$ -
College Savings Plan	-	2,392,783	-
Other Purposes	-	35,940	-
<b>TOTAL NET ASSETS</b>	<b><u>\$ 9,607,058</u></b>	<b><u>\$ 2,428,723</u></b>	<b><u>\$ -</u></b>

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, 2011

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
<b>ADDITIONS:</b>		
Contributions:		
Participant Contributions	\$ 196,406	\$ 650,122
Client Contributions	-	169
State Contributions	98,507	-
Political Subdivision Contributions	135,323	-
Court Fees	3,507	-
Total Contributions	<u>433,743</u>	<u>650,291</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,566,152	225,603
Interest and Dividend Income	138,189	44,797
Securities Lending Income	2,790	-
Total Investment Income	<u>1,707,131</u>	<u>270,400</u>
Investment Expenses	23,058	16,091
Securities Lending Expenses	939	-
Total Investment Expense	<u>23,997</u>	<u>16,091</u>
Net Investment Income	<u>1,683,134</u>	<u>254,309</u>
Escheat Revenue	-	7,938
Other Additions	106	5,654
TOTAL ADDITIONS	<u>2,116,983</u>	<u>918,192</u>
<b>DEDUCTIONS:</b>		
Benefits	451,941	543,100
Refunds	11,425	-
Amounts Distributed to Outside Parties	-	13,766
Administrative Expenses	7,001	2,203
Other Deductions	5,634	-
TOTAL DEDUCTIONS	<u>476,001</u>	<u>559,069</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	1,640,982	-
College Savings Plan	-	360,493
Other Purposes	-	(1,370)
<b>NET ASSETS-BEGINNING OF YEAR</b>	<u>7,966,076</u>	<u>2,069,600</u>
<b>NET ASSETS-END OF YEAR</b>	<u><u>\$ 9,607,058</u></u>	<u><u>\$ 2,428,723</u></u>

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

State of Nebraska  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
June 30, 2011

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 475,484	\$ 29,592	\$ 505,076
Receivables, net of allowance			
Loans	34,533	2,386	36,919
Other	309,045	3,808	312,853
Due from Primary Government	-	354	354
Investments	1,770,433	36,034	1,806,467
Investment in Joint Venture	275,175	-	275,175
Other Assets	40,661	4,886	45,547
Restricted Assets:			
Cash and Cash Equivalents	279,844	35,234	315,078
Investments Held by Trustee	30,634	332	30,966
Capital assets:			
Land	74,058	1,328	75,386
Land Improvements	143,813	25,795	169,608
Construction in Progress	155,979	15,642	171,621
Buildings and Equipment	2,201,875	173,357	2,375,232
Less Accumulated Depreciation	(768,127)	(68,796)	(836,923)
Total Capital Assets, net of depreciation	<u>1,807,598</u>	<u>147,326</u>	<u>1,954,924</u>
Total Assets	<u>\$ 5,023,407</u>	<u>\$ 259,952</u>	<u>\$ 5,283,359</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 175,848	\$ 10,178	\$ 186,026
Deposits	11,872	298	12,170
Deferred Revenue	104,184	281	104,465
Noncurrent Liabilities:			
Due within one year	113,979	3,081	117,060
Due in more than one year	661,019	43,896	704,915
Total Liabilities	<u>\$ 1,066,902</u>	<u>\$ 57,734</u>	<u>\$ 1,124,636</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, net of related debt	\$ 1,044,719	\$ 119,131	\$ 1,163,850
Restricted for:			
Education	1,553,551	-	1,553,551
Other Purposes	249,328	43,072	292,400
Construction and Debt Service	275,402	30,274	305,676
Unrestricted	833,505	9,741	843,246
Total Net Assets	<u>\$ 3,956,505</u>	<u>\$ 202,218</u>	<u>\$ 4,158,723</u>

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

State of Nebraska  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
For the Year Ended June 30, 2011

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 1,118,877	\$ 59,331	\$ 1,178,208
Supplies and materials	286,922	10,101	297,023
Contractual services	128,296	3,099	131,395
Repairs and maintenance	57,795	2,394	60,189
Utilities	36,854	3,913	40,767
Communications	13,425	755	14,180
Depreciation	92,194	5,360	97,554
Scholarships and fellowships	69,835	6,342	76,177
Other	16,311	11,352	27,663
Total Operating Expenses	<u>1,820,509</u>	<u>102,647</u>	<u>1,923,156</u>
Program Revenues:			
Charges for Services	869,499	37,191	906,690
Operating Grants and Contributions	348,526	17,499	366,025
Capital Grants and Contributions	10,276	2,406	12,682
Total Program Revenues	<u>1,228,301</u>	<u>57,096</u>	<u>1,285,397</u>
Net (Expense) Revenue	<u>(592,208)</u>	<u>(45,551)</u>	<u>(637,759)</u>
General Revenue:			
Interest and investment earnings	63,038	2,233	65,271
Miscellaneous	386,567	10,451	397,018
Payments from the State of Nebraska	508,514	52,576	561,090
Total General Revenues	<u>958,119</u>	<u>65,260</u>	<u>1,023,379</u>
Change in Net Assets	365,911	19,709	385,620
Net Assets - Beginning - As Restated	<u>3,590,594</u>	<u>182,509</u>	<u>3,773,103</u>
Net Assets - Ending	<u>\$ 3,956,505</u>	<u>\$ 202,218</u>	<u>\$ 4,158,723</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended June 30, 2011

(dollars expressed in thousands)

**1. Summary of Significant Accounting Policies**

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

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

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

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

**Blended Component 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 may be found on the [State Colleges'](#) website under [Audit Reports](#).

**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; 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 University Technology Development Center, formed for the purpose of supporting the research mission of the University and advance technology transfer globally; 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 may be found on the [University's Accounting and Finance](#) website.

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 \$2,352,481 of restricted net assets, of which \$1,405,954 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.

The State also 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 pronounce-

ments 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, 2011, 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.

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. Fund Balance.** In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature (the highest level of decision making authority for the State), such as an appropriation or legislation. Assigned fund balance is constrained by the Legislature’s intent to be used for specific purposes, by directive of the Executive Committee of the Legislature or in some cases by legislation. Unrestricted balances are used in the order listed above when expenditures are made which could be used from any of those categories.

The State maintains a stabilization fund reported as committed fund balance. The Cash Reserve Fund is part of the General Fund and was established by State Statute to be used as a reserve when the cash balance of the General Fund is insufficient to meet General Fund current obligations and for legislatively mandated transfers to other funds. Additions to the fund are made when actual General Fund revenues exceed certified projections for a fiscal year.

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

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

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

## 2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2011 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, 2011, the carrying amounts of the State's deposits were \$51,645 and the bank balances were \$94,157. 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 \$31,089 at June 30, 2011.

**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, 2010. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2011.

The primary government's investments at June 30, 2011 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, 2011**

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
<b>Debt Securities</b>				
U.S. Treasury Notes and Bonds	\$ 1,017,745	1.95	\$ 111,237	7.07
U.S. Treasury Bills	350	0.55	6,540	0.39
Government Agency Securities	560,486	1.75	32,936	4.56
Corporate Bonds	1,093,653	3.93	618,751	4.59
International Bonds	9,284	4.61	72,070	5.61
Mortgages	63,429	5.86	543,470	6.35
Asset Backed Securities	1,958	2.52	91,873	3.22
Commingled Funds	140,531	4.56	935,168	4.29
Municipal Bonds	9,659	10.50	42,743	10.66
Guaranteed Investment Contracts	5,681	2.73	111,153	2.73
Short Term Investments	133,560	0.00	186,747	0.00
	<u>3,036,336</u>		<u>2,752,688</u>	
<b>Other Investments</b>				
Equity Securities	71,610		1,526,782	
Private Equity	22,120		244,665	
Commingled Funds	612,617		7,278,722	
Options	(290)		(1,419)	
Private Real Estate	8,511		231,375	
U.S. Treasury Investment Pool	270,768		-	
Less: Component Unit Investment in State Investment Pool	(589,044)		-	
Total Investments	<u>3,432,628</u>		<u>12,032,813</u>	
<b>Securities Lending Short-term Collateral Investment Pool</b>				
	232,714		335,769	
Total	<u>\$ 3,665,342</u>		<u>\$ 12,368,582</u>	

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

**Credit Risk of Debt Securities.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. The primary government's rated debt investments as of June 30, 2011 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, 2011

	FAIR	QUALITY RATINGS						
	VALUE	AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 560,486	\$ 560,486	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	1,093,653	165,259	268,153	596,541	44,429	6,442	5,987	6,842
International Bonds	9,284	5,787	855	750	1,708	-	-	184
Mortgages	63,429	64,135	491	2,681	686	807	509	(5,880)
Asset Backed Securities	1,958	1,365	-	-	193	-	-	400
Commingled Funds	140,531	-	-	-	-	-	-	140,531
Short Term Investments	133,560	-	-	-	-	-	-	133,560
Municipal Bonds	9,659	1,550	2,582	4,982	-	145	-	400

## FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2011

	FAIR	QUALITY RATINGS						
	VALUE	AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 34,271	\$ 25,480	\$ 2,089	\$ 2,684	\$ -	\$ 2,500	\$ 560	\$ 958
Corporate Bonds	621,533	45,247	52,677	174,047	152,374	103,030	72,590	21,568
International Bonds	72,691	30,201	3,718	7,990	20,736	7,866	135	2,045
Mortgages	533,541	385,291	7,616	21,932	6,774	5,242	10,275	96,411
Asset Backed Securities	92,366	72,206	3,346	8,459	4,252	-	324	3,779
Commingled Funds	964,171	-	-	-	-	-	-	964,171
Short Term Investments	182,909	-	-	-	-	-	-	182,909
Municipal Bonds	42,305	9,689	12,236	18,931	1,449	-	-	-

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2011 is as follows:

**Disclosure Regarding Deposits and Investments:**

Total Investments	\$ 16,033,924
Carrying amount of Deposits	51,645
Total	<u>\$ 16,085,569</u>

**Statement of Net Assets:**

Cash and Cash Equivalents	\$ 488,776
Investments	2,865,364
Restricted Cash and Cash Equivalents	21,624
Securities Lending Collateral	232,714

**Statement of Fiduciary Net Assets:**

Cash and Cash Equivalents	108,509
Investments	12,032,813
Securities Lending Collateral	335,769
Total	<u>\$ 16,085,569</u>

**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, 2011, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (6 percent) and Federal Home Loan Bank (7 percent). At June 30, 2011, 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 from 31 to 36 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.

**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, 2011**

Currency	SHORT TERM	EQUITY	DEBT
	INVESTMENTS	SECURITIES	SECURITIES
Australian Dollar	\$ 26	\$ 913	\$ 251
Brazilian Real	315	9	535
Canadian Dollar	5	216	5,643
Columbian Peso	-	-	96
Czech Koruna	-	50	-
Euro Currency	(33)	8,834	1,624
Hong Kong Dollar	25	1,198	-
Indian Rupee	-	-	253
Indonesian Rupiah	-	102	363
Japanese Yen	48	4,003	-
Mexican Peso	100	392	505
New Zealand Dollar	-	-	175
Norwegian Krone	9	-	-
Philippine Peso	4	118	-
Polish Zloty	-	195	-
Pound Sterling	23	3,378	-
Singapore Dollar	-	527	329
South African Rand	-	158	-
South Korean Won	-	846	311
Swedish Krona	-	626	-
Swiss Franc	12	2,329	-
Thailand Baht	-	39	-
Total	<u>\$ 534</u>	<u>\$ 23,933</u>	<u>\$10,085</u>

**FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2011**

Currency	SHORT TERM	EQUITY	DEBT
	INVESTMENTS	SECURITIES	SECURITIES
Argentine Peso	\$ 5	\$ -	\$ -
Australian Dollar	258	14,468	1,716
Brazilian Real	712	3,187	2,551
Canadian Dollar	9	17,500	29,493
Chilean Peso	-	-	546
Columbian Peso	-	-	636
Czech Koruna	271	1,059	-
Danish Krone	25	4,925	-
Euro Currency	2,124	283,177	25,618
Hong Kong Dollar	421	41,114	-
Indian Rupee	-	-	1,682
Indonesian Rupiah	-	1,272	1,620
Israeli Shekel	75	-	-
Japanese Yen	856	103,105	-
Malaysian Ringgit	85	2,777	-
Mexican Peso	389	4,110	2,958
New Zealand Dollar	-	-	1,149
Norwegian Krone	5	6,888	-
Philippine Peso	35	292	1,123
Polish Zloty	-	5,373	-
Pound Sterling	419	123,720	1,991
Singapore Dollar	51	8,512	2,466
South African Rand	-	6,430	-
South Korean Won	108	31,431	2,166
Swedish Krona	-	19,575	-
Swiss Franc	126	69,364	-
Thailand Baht	158	8,363	-
Total	<u>\$ 6,132</u>	<u>\$ 756,642</u>	<u>\$ 75,715</u>

**Derivative Financial Instruments.** Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets,

reference rates or financial indices. 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, 2011 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

**DERIVATIVE INVESTMENTS AT JUNE 30, 2011**

**FIDUCIARY FUND**

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	\$ 1,197	\$ 731	\$ 59,876
Fixed Income Futures	-	6,229	1,020,626
Fixed Income Options	(1,288)	2,959	(280,850)
Futures Options	-	114	-
FX Forwards	106	(6,113)	164,895
Interest Rate Swap	(468)	(3,826)	113,324
Rights	-	504	-
Warrants	1	1	6

**DERIVATIVE INVESTMENTS AT JUNE 30, 2011**

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	\$ 237	\$ 252	\$ 22,994
Fixed Income Futures	-	1,040	229,000
Fixed Income Options	(290)	609	(68,600)
Futures Options	-	17	-
FX Forwards	16	(714)	18,004
Interest Rate Swap	27	(1,052)	25,824
Rights	-	12	-
Warrants	-	-	1

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2011, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the notional amount for Futures and Options was calculated as contract size

times the number of contracts. The State is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Nebraska Investment Council's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Plans have never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at June 30, 2011, was \$1,949 for the Fiduciary Fund and \$434 for Governmental and Business-Type Activities. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is \$2,383. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 87 percent for the Fiduciary Fund and 84 percent for the Governmental and Business-Type Activities, held with five counterparties. The counterparties are rated A or AA.

The State is exposed to interest rate risk on its interest rate swaps. Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed versus variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the State's interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Markets Association) reference rate. Foreign currency risk for derivative instruments at June 30, 2011 are as follows:

**DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2011  
FIDUCIARY FUND**

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	\$ -	\$ 124	\$ -
Brazilian Real	657	(11)	-
Canadian Dollar	-	(132)	-
Swiss Franc	-	1	-
Yuan Renminbi	-	173	-
Euro Currency	(199)	(126)	-
Pound Sterling	-	75	-
Japanese Yen	-	(196)	-
Mexican Peso	233	296	-
Norwegian Krone	-	(99)	-
Total	<u>\$ 691</u>	<u>\$ 105</u>	<u>\$ -</u>

**DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2011  
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	\$ -	\$ 27	\$ -
Brazilian Real	314	(7)	-
Canadian Dollar	-	(37)	-
Yuan Renminbi	-	80	-
Euro Currency	(78)	(21)	-
Pound Sterling	-	(1)	-
Japanese Yen	-	(12)	-
Mexican Peso	60	10	-
Norwegian Krone	-	(23)	-
Total	<u>\$ 296</u>	<u>\$ 16</u>	<u>\$ -</u>

**Synthetic Guaranteed Investment Contracts (SGICs).** In the fiduciary fund, Defined Contribution Plans, employees are eligible to participate in SGICs. The contracts provided an average crediting rate of 3.87 percent during fiscal year 2011. The fair value of these contracts is \$122,154, and the contract value is \$117,438. The effective duration and credit rating for the investments underlying the SGICs are presented below. There was no foreign currency risk for the underlying investments.

SGIC Components	Fair Value
Underlying Investments	\$ 122,154
Wrap Contract	-
Total	<u>\$ 122,154</u>

	EFFECTIVE DURATION	FAIR VALUE	Investments Underlying SGICs Quality Ratings at June 30, 2011					
			AAA	AA	A	BBB	BB	UNRATED
Asset Backed Securities	2.01	\$ 10,468	\$ 10,037	\$ 26	\$ 373	\$ 32	\$ -	\$ -
Corporate Bonds	2.60	56,150	2,651	12,104	27,107	13,711	-	577
Government Agency Securities	2.77	9,626	9,626	-	-	-	-	-
International Bonds	1.92	1,409	640	-	769	-	-	-
Mortgages	2.55	34,170	32,932	250	760	-	-	228
Short Term Investments	0.00	2,157	-	-	-	-	-	2,157
US Treasury Notes	3.28	8,174	8,174	-	-	-	-	-
		<u>\$ 122,154</u>						

### 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 548,156	\$ 5,235	\$ -	\$ 553,391
Infrastructure	6,852,227	133,513	-	6,985,740
Construction in progress	84,478	45,553	60,268	69,763
Total capital assets, not being depreciated	7,484,861	184,301	60,268	7,608,894
Capital assets, being depreciated:				
Buildings and improvements	493,230	44,933	-	538,163
Equipment	398,875	48,144	11,735	435,284
Total capital assets, being depreciated	892,105	93,077	11,735	973,447
Less accumulated depreciation for:				
Buildings and improvements	232,569	14,320	-	246,889
Equipment	300,970	35,441	11,088	325,323
Total accumulated depreciation	533,539	49,761	11,088	572,212
Total capital assets, being depreciated, net	358,566	43,316	647	401,235
Governmental activities capital assets, net	<u>\$ 7,843,427</u>	<u>\$ 227,617</u>	<u>\$ 60,915</u>	<u>\$ 8,010,129</u>
<b>Business-type activities:</b>				
<b>Unemployment Insurance</b>				
Equipment, being depreciated	\$ 870	\$ 223	\$ 26	\$ 1,067
Less accumulated depreciation	862	70	26	906
Total Unemployment Insurance, net	8	153	-	161
<b>Nonmajor Enterprise Funds</b>				
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	1,194	-	6,945
Equipment	4,968	261	-	5,229
Total capital assets, being depreciated	10,719	1,455	-	12,174
Less accumulated depreciation for:				
Buildings and improvements	1,675	173	-	1,848
Equipment	3,519	474	-	3,993
Total accumulated depreciation	5,194	647	-	5,841
Total capital assets, being depreciated, net	5,525	808	-	6,333
Total Nonmajor Enterprise, net	5,840	808	-	6,648
Business-type activities capital assets, net	<u>\$ 5,848</u>	<u>\$ 961</u>	<u>\$ -</u>	<u>\$ 6,809</u>

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

Governmental activities:	
General Government	\$ 14,228
Conservation of Natural Resources	1,360
Culture – Recreation	1,423
Economic Development and Assistance	322
Education	1,047
Health and Social Services	1,150
Public Safety	13,093
Regulation of Business and Professions	1,619
Transportation	15,519
Total depreciation expense -	
Governmental activities	<u>\$ 49,761</u>

**Construction Commitments.** At June 30, 2011, the State had contractual commitments of approximately \$562,892 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 305,233
State funds	240,069
Local funds	17,590
	<u>\$ 562,892</u>

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

**4. Interfund Balances**

Due To/From Other Funds at June 30, 2011 consists of the following:

<b>DUE FROM</b>	<b>DUE TO</b>								<b>TOTALS</b>
	<b>General Fund</b>	<b>Highway Fund</b>	<b>Federal Fund</b>	<b>Health and Social Services</b>	<b>Nonmajor Governmental Funds</b>	<b>Nonmajor Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Pension Trust</b>	
General Fund	\$ -	\$ 212	\$ 22	\$ 18	\$ 957	\$ 203	\$ 4,658	\$ 28,345	\$ 34,415
Highway Fund	-	-	112	4	93	909	447	-	1,565
Federal Fund	87,401	14	-	2,481	2,338	52	5,526	-	97,812
Health and Social Services	-	-	350	-	1	10	234	-	595
Permanent School Fund	-	-	-	-	-	-	5	-	5
Nonmajor Governmental Funds	786	110	-	6	161	31	6,685	-	7,779
Unemployment Fund	-	-	-	2	-	-	1	-	3
Nonmajor Enterprise Funds	-	17	-	-	4	-	78	-	99
Internal Service Funds	4,632	265	5	17	217	48	1,025	-	6,209
Pension Trust	-	-	-	-	-	1	193	-	194
Private Purpose Trust	-	-	-	-	-	1	12	-	13
<b>TOTALS</b>	<b>\$ 92,819</b>	<b>\$ 618</b>	<b>\$ 489</b>	<b>\$ 2,528</b>	<b>\$ 3,771</b>	<b>\$ 1,255</b>	<b>\$ 18,864</b>	<b>\$ 28,345</b>	<b>\$ 148,689</b>

Interfund receivables and payables are recorded for: (1) short term borrowings, (2) billing for services provided between agencies, (3) pension liabilities, and (4) risk management liabilities. All interfund receivables and payables are considered short term in nature.

Interfund transfers at June 30, 2011 consist of the following:

<b>TRANSFERRED FROM :</b>	<b>TRANSFERRED TO:</b>				<b>TOTALS</b>
	<b>General Fund</b>	<b>Highway Fund</b>	<b>Health and Social Services</b>	<b>Nonmajor Governmental Funds</b>	
General Fund	\$ -	\$ -	\$ -	\$ 14,799	\$ 14,799
Highway Fund	1,064	-	-	10,178	11,242
Federal Fund	-	-	-	11,940	11,940
Health & Social Services Fund	3,680	-	-	15	3,695
Nonmajor Governmental Funds	69,605	27,773	330	4,245	101,953
Nonmajor Enterprise Funds	-	-	816	31,239	32,055
<b>TOTALS</b>	<b>\$74,349</b>	<b>\$27,773</b>	<b>\$ 1,146</b>	<b>\$ 72,416</b>	<b>\$ 175,684</b>

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

## 5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2011 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	\$ 11,225	\$ 3,857	\$ 4,152	\$ 583	\$ -	\$ 2,704	\$ 1,087	\$ 2	\$ 165	\$ 23,775
Payables and Accruals	80,660	49,598	220,512	7,258	28,847	25,490	25,809	815	14,578	453,567
Due to Fiduciary Funds *	-	-	-	-	-	-	28,345	-	-	28,345
Miscellaneous	-	6,757	-	-	-	968	2	32	121	7,880
<b>TOTALS</b>	<b>\$ 91,885</b>	<b>\$ 60,212</b>	<b>\$ 224,664</b>	<b>\$ 7,841</b>	<b>\$ 28,847</b>	<b>\$ 29,162</b>	<b>\$ 55,243</b>	<b>\$ 849</b>	<b>\$ 14,864</b>	<b>\$ 513,567</b>

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

## 6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2011 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<b>Governmental Activities:</b>					
Claims Payable	\$ 256,091	\$ 1,710,857	\$ 1,711,759	\$ 255,189	\$ 212,294
Capital Lease Obligations	23,181	10,810	6,683	27,308	7,115
Obligations Under Other Financing Arrangements	14,405	5,195	3,380	16,220	1,360
Compensated Absences	128,786	13,057	12,868	128,975	9,028
Totals	<u>\$ 422,463</u>	<u>\$ 1,739,919</u>	<u>\$ 1,734,690</u>	<u>\$ 427,692</u>	<u>\$ 229,797</u>
<b>Business-type Activities:</b>					
<b>Unemployment Insurance:</b>					
Claims Payable	\$ 48,972	\$ 324,115	\$ 335,580	\$ 37,507	\$ 37,507
Compensated Absences	19	3	3	19	2
Totals for Unemployment Insurance	<u>48,991</u>	<u>324,118</u>	<u>335,583</u>	<u>37,526</u>	<u>37,509</u>
<b>Nonmajor Enterprise Funds:</b>					
Claims Payable	19,478	19,236	4,020	34,694	4,246
Compensated Absences	758	48	53	753	52
Totals for Nonmajor Enterprise Funds	<u>20,236</u>	<u>19,284</u>	<u>4,073</u>	<u>35,447</u>	<u>4,298</u>
Totals for Business-type Activities	<u>\$ 69,227</u>	<u>\$ 343,402</u>	<u>\$ 339,656</u>	<u>\$ 72,973</u>	<u>\$ 41,807</u>

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. Obligations under other financing arrangements have been liquidated in the special revenue funds.

## 7. Lease Commitments

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

The minimum annual lease payments (principle and interest) and the present value of future minimum payments for capital leases as of June 30, 2011 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2012	\$ 7,615
2013	6,849
2014	5,140
2015	3,505
2016	2,427
2017-2021	3,206
Total Minimum Payments	28,742
Less: Interest and executory costs	1,434
Present value of net minimum payments	<u>\$ 27,308</u>

Capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of property and equipment under capital leases as of June 30, 2011:

	GOVERNMENTAL ACTIVITIES
Equipment	\$ 38,136
Less: accumulated depreciation	(15,019)
Carrying value	<u>\$ 23,117</u>

The minimum annual lease payments for operating leases as of June 30, 2011 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2012	\$ 7,736
2013	2,554
2014	2,432
2015	1,703
2016	1,504
2017-2021	4,259
2022-2026	2,274
2027-2031	1,508
2032-2036	861
Total	<u>\$ 24,831</u>

Primary Government operating lease payments for the year ended June 30, 2011 totaled \$13,212.

**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, 2011, 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

\$38,678 were received under these and other lease agreements for the year ended June 30, 2011.

## 8. 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 0.90 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$ 1,360	\$ 677	\$ 2,037
2013	1,605	610	2,215
2014	1,665	545	2,210
2015	1,715	476	2,191
2016	2,530	386	2,916
2017-2021	5,565	972	6,537
2022-2026	1,780	163	1,943
Total	<u>\$ 16,220</u>	<u>\$ 3,829</u>	<u>\$ 20,049</u>

## 9. Contingencies and Commitments

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

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

**Litigation.** The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from



alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the State for these proceedings. It is the State's opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State's financial position.

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

The State is in non-binding arbitration with Kansas and Colorado relating to water usage in the Republican River Basin. It is alleged that Nebraska is consuming more water than 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.

## 10. 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 \$50,672 at a discounted rate of 3.5 percent (\$10,323).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2011, and 2010, were as follows:

	Fiscal Year	
	2011	2010
Beginning Balance	\$ 63,730	\$ 64,311
Current Year Claims and Changes in Estimates	(188,747)	182,300
Claim Payments	189,964	(182,881)
Ending Balance	<u>\$ 64,947</u>	<u>\$ 63,730</u>

## 11. Pension Plans

### Plans Administered by the Public Employees Retirement Board

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

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

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

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

**State Employees' Retirement.** The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. 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 year ended December 31, 2010.

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, 2010, there were 16,462 active members and 4,313 inactive members. Members contributed \$31,538 and the State contributed \$49,096 during the year ended December 31, 2010, 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, 2010.

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 for the first four and one half percent and 100 percent for the extra one and two percent.

As of December 31, 2010, there were 7,619 active members and 1,832 inactive members. Members contributed \$11,233 and counties contributed \$16,590 during the year ended December 31, 2010, which was equal to required contributions.

**School Retirement.** The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 276 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 8.28% of their compensation through August 31, 2011 and was 8.88% after August 31, 2011. 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 one and nine percent of their salary.

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

Members are required to contribute sixteen percent of their monthly salary, and State Patrol contributes sixteen 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
<b>State Cash Balance</b>						
12/31/2010	\$ 714,132	\$ 762,680	\$ 48,548	93.6 %	\$ 449,206	10.8 %
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
<b>County Cash Balance</b>						
12/31/2010	\$ 206,036	\$ 221,080	\$ 15,044	93.2 %	\$ 183,968	8.2 %
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)
<b>School</b>						
6/30/2011	\$ 7,267,497	\$ 9,039,745	\$ 1,772,248	80.4 %	\$ 1,590,226	111.4 %
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
<b>Judges'</b>						
6/30/2011	\$ 125,191	\$ 128,265	\$ 3,074	97.6 %	\$ 18,182	16.9 %
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)
<b>State Patrol</b>						
6/30/2011	\$ 279,193	\$ 339,554	\$ 60,361	82.2 %	\$ 26,195	230.4 %
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

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2010	12/31/2010	6/30/2011	6/30/2011	6/30/2011
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	24 years	24 years	27 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.

THREE - YEAR TREND INFORMATION			
YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
<b>State Cash Balance</b>			
12/31/2010	\$30,837	100%	\$ -
12/31/2009	30,327	100%	-
12/31/2008	29,204	100%	-
<b>County Cash Balance</b>			
12/31/2010	\$11,379	100%	\$ -
12/31/2009	10,559	100%	-
12/31/2008	9,840	100%	-
<b>School</b>			
6/30/2011	\$41,747	89%	\$ -
6/30/2010	21,380	100%	-
6/30/2009	20,621	100%	-
<b>Judges'</b>			
6/30/2011	\$ 3,580	100%	\$ -
6/30/2010	3,615	100%	-
6/30/2009	3,491	100%	-
<b>State Patrol</b>			
6/30/2011	\$ 7,173	83%	\$ -
6/30/2010	6,260	100%	-
6/30/2009	5,385	100%	-

## 12. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2011:

<b>Governmental Activities:</b>	
General Fund	\$ 82,059
Federal Fund	11,372
Health and Social Services Fund	1,245
Total Governmental Activities	<u>\$ 94,676</u>
<b>Business-type Activities:</b>	
Unemployment Insurance	\$ 4,354
Total Business-type Activities	<u>\$ 4,354</u>

Of the taxes and other receivables, \$25,319 and \$18,546, 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.

## 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, 2011, 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, 2011.

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, 2011
<b>COMPONENT UNITS</b>		
University of Nebraska	0.85%-6.00%	\$ 684,785
Nebraska State Colleges	0.60%-5.05%	42,725
Component Units Total		<u>\$ 727,510</u>

COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$ 47,045	\$ 32,135	\$ 79,180
2013	39,010	30,404	69,414
2014	56,770	28,637	85,407
2015	63,725	26,820	90,545
2016	43,035	24,057	67,092
2017 - 2021	212,600	89,856	302,456
2022 - 2026	100,885	54,333	155,218
2027 - 2031	75,510	32,502	108,012
2032 - 2036	55,090	16,088	71,178
2037 - 2041	33,840	3,244	37,084
Total	<u>\$ 727,510</u>	<u>\$ 338,076</u>	<u>\$ 1,065,586</u>

## 14. Restatement

The State Colleges component unit increased Net Assets – Beginning on the Statement of Activities – Component Units by \$29 to reflect capitalization of assets that had previously been expensed and a change in capitalization policy that removed assets that had previously been capitalized.

State of Nebraska  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**

For the Year Ended June 30, 2011

(Dollars in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ 3,291,025	\$ 3,305,778	\$ 3,368,433	\$ 62,655
Federal Grants and Contracts	118	118	118	-
Sales and Charges	23,851	23,851	23,851	-
Other	32,053	32,053	32,053	-
<b>TOTAL REVENUES</b>	<b>3,347,047</b>	<b>3,361,800</b>	<b>3,424,455</b>	<b>62,655</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	262,226	267,149	252,288	14,861
Conservation of Natural Resources	48,052	48,052	34,975	13,077
Culture – Recreation	6,588	6,588	5,844	744
Economic Development and Assistance	9,352	9,293	6,521	2,772
Education	1,709,952	1,709,032	1,676,517	32,515
Health and Social Services	1,323,845	1,253,047	1,124,505	128,542
Public Safety	243,295	254,155	217,291	36,864
Regulation of Business and Professions	4,566	4,566	3,758	808
Transportation	6	6	-	6
Capital Projects	5,100	5,100	-	5,100
<b>TOTAL EXPENDITURES</b>	<b>3,612,982</b>	<b>3,556,988</b>	<b>3,321,699</b>	<b>235,289</b>
Excess of Revenues Over (Under) Expenditures	(265,935)	(195,188)	102,756	297,944
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	229,109	229,109	229,109	-
Transfers Out	(280,803)	(280,803)	(280,803)	-
Other	91	91	91	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(51,603)</b>	<b>(51,603)</b>	<b>(51,603)</b>	<b>-</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(317,538)	(246,791)	51,153	297,944
<b>FUND BALANCES, JULY 1</b>	<b>762,334</b>	<b>762,334</b>	<b>762,334</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 444,796</b>	<b>\$ 515,543</b>	<b>\$ 813,487</b>	<b>\$ 297,944</b>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2011, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2011	
General	\$ 500,285
Cash Reserve	313,202
Budgetary fund balances	813,487
<b>DIFFERENCES DUE TO BASIS OF ACCOUNTING:</b>	
Record taxes receivable	333,196
Record tax refund liability	(345,316)
Record State contributions due pension funds	(28,345)
Record claims payable	(89,645)
Record other net accrued receivables and liabilities	50,070
GAAP fund balance, June 30, 2011	<u>\$ 733,447</u>

See independent auditors' report

State of Nebraska  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CASH FUNDS**

For the Year Ended June 30, 2011

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ 112,829	\$ 112,829	\$ 112,829	\$ -
Federal Grants and Contracts	337,100	337,100	337,100	-
Sales and Charges	495,974	495,974	495,974	-
Other	211,249	211,249	211,249	-
<b>TOTAL REVENUES</b>	<u>1,157,152</u>	<u>1,157,152</u>	<u>1,157,152</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	238,480	241,050	194,671	46,379
Conservation of Natural Resources	122,700	135,823	57,015	78,808
Culture – Recreation	35,968	35,968	22,861	13,107
Economic Development and Assistance	59,130	59,871	24,340	35,531
Education	618,137	624,862	389,131	235,731
Health and Social Services	189,061	189,318	111,745	77,573
Public Safety	59,382	59,381	35,612	23,769
Regulation of Business and Professions	229,788	216,665	119,625	97,040
Transportation	771,970	776,970	632,842	144,128
Capital Projects	77,473	77,473	23,882	53,591
<b>TOTAL EXPENDITURES</b>	<u>2,402,089</u>	<u>2,417,381</u>	<u>1,611,724</u>	<u>805,657</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,244,937)</u>	<u>(1,260,229)</u>	<u>(454,572)</u>	<u>805,657</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	1,149,594	1,149,594	1,149,594	-
Transfers Out	(625,956)	(625,956)	(625,956)	-
Other	2,068	2,068	2,068	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>525,706</u>	<u>525,706</u>	<u>525,706</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(719,231)</u>	<u>(734,523)</u>	<u>71,134</u>	<u>805,657</u>
<b>FUND BALANCES, JULY 1</b>	<u>828,390</u>	<u>828,390</u>	<u>828,390</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 109,159</u>	<u>\$ 93,867</u>	<u>\$ 899,524</u>	<u>\$ 805,657</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2011, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2011	
Cash	\$ 899,524
Construction	21,248
Federal	89,516
Revolving	294,618
Budgetary fund balances	1,304,906
Unbudgeted fund balances	1,638,226
Non-major fund balances	(1,156,073)
Differences due to basis of accounting	(548,175)
GAAP fund balance, June 30, 2011	<u>\$ 1,238,884</u>
Actual Fund Balances of Major Funds, June 30, 2011	
Highway	\$ 213,386
Federal	8,648
Health and Social Services	471,465
Permanent School	545,385
GAAP fund balance, June 30, 2011	<u>\$ 1,238,884</u>

See independent auditors' report

State of Nebraska  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CONSTRUCTION FUNDS**  
For the Year Ended June 30, 2011

(Dollars in Thousands)

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	854	854	854	-
<b>TOTAL REVENUES</b>	<b>854</b>	<b>854</b>	<b>854</b>	<b>-</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	3,036	3,036	2,401	635
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	25,953	25,170	6,468	18,702
<b>TOTAL EXPENDITURES</b>	<b>28,989</b>	<b>28,206</b>	<b>8,869</b>	<b>19,337</b>
Excess of Revenues Over (Under) Expenditures	(28,135)	(27,352)	(8,015)	19,337
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	307	307	307	-
Transfers Out	-	-	-	-
Other	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>307</b>	<b>307</b>	<b>307</b>	<b>-</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(27,828)	(27,045)	(7,708)	19,337
<b>FUND BALANCES, JULY 1</b>	<b>28,956</b>	<b>28,956</b>	<b>28,956</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 1,128</b>	<b>\$ 1,911</b>	<b>\$ 21,248</b>	<b>\$ 19,337</b>

See independent auditors' report

State of Nebraska

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

For the Year Ended June 30, 2011

(Dollars in Thousands)

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,923,134	2,923,134	2,923,134	-
Sales and Charges	19,478	19,478	19,478	-
Other	9,979	9,979	9,979	-
<b>TOTAL REVENUES</b>	<u>2,952,591</u>	<u>2,952,591</u>	<u>2,952,591</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	15,475	16,506	8,808	7,698
Conservation of Natural Resources	109,584	132,086	85,180	46,906
Culture – Recreation	6,147	6,159	2,383	3,776
Economic Development and Assistance	134,474	134,922	83,155	51,767
Education	1,325,677	1,389,513	1,083,409	306,104
Health and Social Services	1,739,861	1,821,014	1,565,005	256,009
Public Safety	212,609	229,700	126,023	103,677
Regulation of Business and Professions	5,130	5,867	3,936	1,931
Transportation	7,241	7,241	5,879	1,362
Capital Projects	347	347	183	164
<b>TOTAL EXPENDITURES</b>	<u>3,556,545</u>	<u>3,743,355</u>	<u>2,963,961</u>	<u>779,394</u>
Excess of Revenues Over (Under) Expenditures	<u>(603,954)</u>	<u>(790,764)</u>	<u>(11,370)</u>	<u>779,394</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	22,847	22,847	22,847	-
Transfers Out	(22,035)	(22,035)	(22,035)	-
Other	6,002	6,002	6,002	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>6,814</u>	<u>6,814</u>	<u>6,814</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(597,140)</u>	<u>(783,950)</u>	<u>(4,556)</u>	<u>779,394</u>
<b>FUND BALANCES, JULY 1</b>	<u>94,072</u>	<u>94,072</u>	<u>94,072</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (503,068)</u>	<u>\$ (689,878)</u>	<u>\$ 89,516</u>	<u>\$ 779,394</u>

See independent auditors' report



State of Nebraska

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

For the Year Ended June 30, 2011

(Dollars in Thousands)

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	1,988	1,988	1,988	-
Sales and Charges	531,661	531,661	531,661	-
Other	165,027	165,027	165,027	-
<b>TOTAL REVENUES</b>	<b>698,676</b>	<b>698,676</b>	<b>698,676</b>	<b>-</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	269,386	270,703	170,162	100,541
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	3,560	3,560	1,588	1,972
Education	726,999	790,583	467,954	322,629
Health and Social Services	-	-	-	-
Public Safety	29,300	31,325	15,794	15,531
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,029,245</b>	<b>1,096,171</b>	<b>655,498</b>	<b>440,673</b>
Excess of Revenues Over (Under) Expenditures	(330,569)	(397,495)	43,178	440,673
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	61,283	61,283	61,283	-
Transfers Out	(57,208)	(57,208)	(57,208)	-
Other	1,009	1,009	1,009	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>5,084</b>	<b>5,084</b>	<b>5,084</b>	<b>-</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(325,485)	(392,411)	48,262	440,673
<b>FUND BALANCES, JULY 1</b>	<b>246,356</b>	<b>246,356</b>	<b>246,356</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ (79,129)</b>	<b>\$ (146,055)</b>	<b>\$ 294,618</b>	<b>\$ 440,673</b>

See independent auditors' report

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2011

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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 2011, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2011, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

State of Nebraska

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

For the Year Ended June 30, 2011

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

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

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

**Measurement Scale**

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

**Established Condition Level**

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

**Assessed Condition**

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

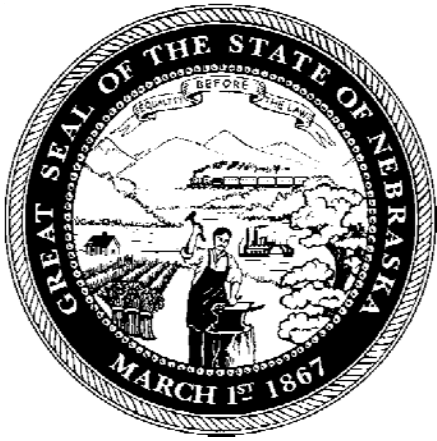
<u>Calendar Year</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Very Good	31%	32%	32%	33%	42%	39%
Good	44%	47%	47%	49%	38%	46%
Fair	22%	19%	19%	17%	19%	12%
Poor	3%	2%	2%	1%	1%	3%
Overall System Rating	80	81	82	82	83	84

**Estimated and Actual Costs to Maintain**

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, the actual cost of system preservation is greater than estimated as a result of maintaining the system at a NSI level higher than the base level established for GASB-34 purposes (72 base versus 80 actual).

<u>Fiscal Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Estimated	\$ 288	\$ 267	\$ 211	\$ 206	\$ 155	\$ 148
Actual		218	270	239	208	167
Difference		(49)	59	33	53	19

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# SINGLE AUDIT SECTION

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Agriculture, U.S. Department of</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$ 905,353
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025	153,944
Total Plant and Animal Disease, Pest Control, and Animal Care			<u>1,059,297</u>
Avian Influenza Indemnity Program	Game and Parks Commission	10.029	130
Wetlands Reserve Program	Game and Parks Commission	10.072	359,671
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093	14,588
2009 Aquaculture Grant Program	Agriculture, Department of	10.103	40,413
Federal-State Marketing Improvement Program	Agriculture, Department of	10.156	7,960
Market Protection and Promotion	Agriculture, Department of	10.163	76,637
Specialty Crop Block Grant Program	Agriculture, Department of	10.169	29,084
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170	195,778
Grants for Agricultural Research_Competitive Research Grants	Corn Board	10.206	42,165
State Mediation Grants	Agriculture, Department of	10.435	156,791
Rural Community Development Initiative	Economic Development, Department of	10.446	23,760
Food Safety Cooperative Agreements	Agriculture, Department of	10.479	177,309
SNAP Cluster:			
Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.551	253,704,030
ARRA State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.561 ^	449,207
ARRA State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.561 ^	14,533,424
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			<u>14,982,631</u>
Total SNAP Cluster			<u>268,686,661</u>
Child Nutrition Cluster:			
School Breakfast Program	Education, Department of	10.553	12,279,602
National School Lunch Program	Education, Department of	10.555	54,867,327
National School Lunch Program	Department of Health and Human Services	10.555	9,052,124
Total National School Lunch Program			<u>63,919,451</u>
Special Milk Program for Children	Education, Department of	10.556	56,795
Summer Food Service Program for Children	Education, Department of	10.559	2,303,814
Summer Food Service Program for Children	Department of Health and Human Services	10.559	49,747
Total Summer Food Service Program for Children			<u>2,353,561</u>
Total Child Nutrition Cluster			<u>78,609,409</u>

^ - Amounts taken from financial status reports.  
ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Agriculture, U.S. Department of, Continued:</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health and Human Services	10.557	31,320,155
Child and Adult Care Food Program	Education, Department of	10.558	30,237,921
Child and Adult Care Food Program	Department of Health and Human Services	10.558	266,791
Total Child and Adult Care Food Program			<u>30,504,712</u>
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,242,671
State Administrative Expenses for Child Nutrition	Department of Health and Human Services	10.560	223,912
Total State Administrative Expenses for Child Nutrition			<u>1,466,583</u>
Commodity Supplemental Food Program	Department of Health and Human Services	10.565	3,250,178
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Department of Health and Human Services	10.568	25,160
ARRA   Emergency Food Assistance Program (Administrative Costs) Recovery	Department of Health and Human Services	10.568	114,580
Total Emergency Food Assistance Program (Administrative Costs)			139,740
Emergency Food Assistance Program (Food Commodities)	Department of Health and Human Services	10.569	2,879,904
Total Emergency Food Assistance Cluster			<u>3,019,644</u>
Team Nutrition Grants	Education, Department of	10.574	116,656
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576	250,536
ARRA   WIC Grants To States (WGS)	Department of Health and Human Services	10.578	69,883
Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579	226,824
Supplemental Nutrition Assistance Program, Outreach/Participation Program	Department of Health and Human Services	10.580 ^	38,039
Fresh Fruit and Vegetable Program	Education, Department of	10.582	954,495
Cooperative Forestry Assistance	Game and Parks Commission	10.664	20,546
Schools and Roads Cluster:			
Schools and Roads - Grants to States	Education, Department of	10.665	584,376
Rural Development, Forestry, and Communities Recovery	Game and Parks Commission	10.672	9,900
Public Television Station Digital Transition Grant Program	Educational Telecommunications Commission	10.861	53,261
Soil and Water Conservation	Natural Resources, Department of	10.902	4,653
Environmental Quality Incentives Program	Game and Parks Commission	10.912	4,363
National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03	17
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A	152,401
<b>Total U.S. Department of Agriculture</b>			<u>\$ 421,526,875</u>

^ - Amounts taken from financial status reports.

ARRA - American Recovery and Reinvestment Act

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Commerce, U.S. Department of</b>			
Public Telecommunications Facilities Planning and Construction	Educational Telecommunications Commission	11.550	\$ 129,671
Public Works and Economic Development Cluster:			
Economic Adjustment Assistance	Economic Development, Department of	11.307	205,315
Public Safety Interoperable Communications Grant Program	Military Department	11.555	1,494,200
ARRA Broadband Technology Opportunities Program (BTOP) Recovery	Library Commission	11.557	504,068
ARRA State Broadband Data and Development Grant Program Recovery	Public Service Commission	11.558	315,876
Manufacturing Extension Partnership	Economic Development, Department of	11.611	459,625
<b>Total U.S. Department of Commerce</b>			<u>\$ 3,108,755</u>
<b>Corporation for National and Community Service</b>			
State Commissions	Department of Health and Human Services	94.003	\$ 198,835
Learn and Serve America_School and Community Based Programs	Education, Department of	94.004	94,762
AmeriCorps	Department of Health and Human Services	94.006	1,702,013
ARRA AmeriCorps Recovery	Department of Health and Human Services	94.006	132,927
Total AmeriCorps			<u>1,834,940</u>
Program Development and Innovation Grants	Department of Health and Human Services	94.007	30,357
Training and Technical Assistance	Department of Health and Human Services	94.009	58,133
<b>Total Corporation for National and Community Service</b>			<u>\$ 2,217,027</u>
<b>Defense, U.S. Department of</b>			
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	\$ 158,692
Military Construction, National Guard	Military Department	12.400	27,749,866
ARRA Military Construction, National Guard Recovery	Military Department	12.400	1,566,404
Total Military Construction, National Guard			<u>29,316,270</u>
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	13,726,184
ARRA National Guard Military Operations and Maintenance (O&M) Projects Recovery	Military Department	12.401	1,244,939
Total National Guard Military Operations and Maintenance (O&M) Projects			<u>14,971,123</u>
National Guard ChalleNGe Program	Military Department	12.404	315,305
<b>Total U.S. Department of Defense</b>			<u>\$ 44,761,390</u>

^ - Amounts taken from financial status reports.  
ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.



STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, U.S. Department of</b>			
Adult Education - Basic Grants to States	Education, Department of	84.002	\$ 2,140,868
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	Education, Department of	84.010	57,996,252
ARRA    Title I Grants to Local Educational Agencies, Recovery Act	Education, Department of	84.389	<u>17,143,543</u>
Total Title I, Part A Cluster			<u>75,139,795</u>
Migrant Education_State Grant Program	Education, Department of	84.011	5,577,308
Title I State Agency Program for Neglected and Delinquent Children	Education, Department of	84.013	446,926
Special Education Cluster (IDEA):			
Special Education_Grants to States	Education, Department of	84.027	71,664,449
Special Education_Preschool Grants	Education, Department of	84.173	2,137,944
ARRA    Special Education Grants to States, Recovery Act	Education, Department of	84.391	25,773,585
ARRA    Special Education - Preschool Grants, Recovery Act	Education, Department of	84.392	<u>534,531</u>
Total Special Education Cluster (IDEA)			<u>100,110,509</u>
Career and Technical Education -- Basic Grants to States	Education, Department of	84.048	6,740,076
Career and Technical Education -- National Programs	Education, Department of	84.051	7,404
Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069	566,751
Vocational Rehabilitation Cluster:			
Rehabilitation Services_Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Commission for the	84.126	2,865,419
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126	<u>15,366,919</u>
Total Rehabilitation Services_Vocational Rehabilitation Grants to States			<u>18,232,338</u>
ARRA    Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, Department of	84.390	1,015,878
ARRA    Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Blind and Visually Impaired, Commission for the	84.390	<u>202,071</u>
Total Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act			<u>1,217,949</u>
Total Vocational Rehabilitation Cluster			<u>19,450,287</u>
Migrant Education_Coordination Program	Education, Department of	84.144	80,238
Rehabilitation Services_Client Assistance Program	Education, Department of	84.161	134,018
Independent Living State Grants Cluster:			
Independent Living_State Grants	Blind and Visually Impaired, Commission for the	84.169	24,660
Independent Living_State Grants	Education, Department of	84.169	<u>186,260</u>
Total Independent Living_State Grants			<u>210,920</u>

^ - Amounts taken from financial status reports.  
ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, U.S. Department of, Continued:</b>			
ARRA Independent Living State Grants, Recovery Act	Blind and Visually Impaired, Commission for the	84.398	17,450
ARRA Independent Living State Grants, Recovery Act	Education, Department of	84.398	67,220
Total Independent Living State Grants, Recovery Act			<u>84,670</u>
Total Independent Living State Grants Cluster			<u>295,590</u>
Independent Living Services for Older Individuals Who Are Blind Cluster:			
ARRA Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired, Commission for the	84.177	165,552
ARRA Independent Living Services for Older Individuals Who are Blind, Recovery Act	Blind and Visually Impaired, Commission for the	84.399	73,344
Total Independent Living Services for Older Individuals Who Are Blind Cluster			<u>238,896</u>
Early Intervention Services (IDEA) Cluster:			
ARRA Special Education-Grants for Infants and Families	Education, Department of	84.181	2,427,181
ARRA Special Education-Grants for Infants and Families, Recovery Act	Education, Department of	84.393	1,200,901
Total Early Intervention Services (IDEA) Cluster			<u>3,628,082</u>
Safe and Drug-Free Schools and Communities_National Programs	Education, Department of	84.184	17,093
Byrd Honors Scholarships	Education, Department of	84.185	246,750
Safe and Drug-Free Schools and Communities_State Grants	Education, Department of	84.186	686,649
Safe and Drug-Free Schools and Communities_State Grants	Department of Health and Human Services	84.186	130,103
Total Safe and Drug-Free Schools and Communities_State Grants			<u>816,752</u>
Supported Employment Services for Individuals with the Most Significant Disabilities	Blind and Visually Impaired, Commission for the	84.187	51,766
Education of Homeless Children and Youth Cluster:			
ARRA Education for Homeless Children and Youth	Education, Department of	84.196	266,079
ARRA Education for Homeless Children and Youth, Recovery Act	Education, Department of	84.387	116,978
Total Education of Homeless Children and Youth Cluster			<u>383,057</u>
Star Schools	Education, Department of	84.203	1,003
Even Start_State Educational Agencies	Education, Department of	84.213	236,455
Assistive Technology	Education, Department of	84.224	596,620
Tech-Prep Education	Education, Department of	84.243	1,279,050
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Commission for the	84.265	22,717
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	12,140
Total Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training			<u>34,857</u>
Twenty-First Century Community Learning Centers	Education, Department of	84.287	5,809,511

^ - Amounts taken from financial status reports.  
ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, U.S. Department of, Continued:</b>			
Foreign Language Assistance	Education, Department of	84.293	136,828
Parental Information and Resource Centers	Education, Department of	84.310	28,321
Educational Technology State Grants Cluster:			
Educational Technology State Grants	Education, Department of	84.318	730,581
ARRA   Educational Technology State Grants, Recovery Act	Education, Department of	84.386	1,522,517
Total Educational Technology State Grants Cluster			<u>2,253,098</u>
Special Education - State Personnel Development	Education, Department of	84.323	351,645
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	86,190
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330	20,000
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Corrections, Department of	84.331	3,665
Reading First State Grants	Education, Department of	84.357	917,976
Rural Education	Education, Department of	84.358	54,227
English Language Acquisition Grants	Education, Department of	84.365	2,638,620
Mathematics and Science Partnerships	Education, Department of	84.366	886,375
Improving Teacher Quality State Grants	Education, Department of	84.367	12,896,633
Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367	299,179
Total Improving Teacher Quality State Grants			<u>13,195,812</u>
Grants for State Assessments and Related Activities	Education, Department of	84.369	5,066,764
Striving Readers	Education, Department of	84.371	25,508
Statewide Data Systems Cluster:			
Statewide Data Systems	Education, Department of	84.372	441,217
Special Education_Technical Assistance on State Data Collection	Education, Department of	84.373	152,531
School Improvement Grants Cluster:			
School Improvement Grants	Education, Department of	84.377	1,425,514
ARRA   School Improvement Grants, Recovery Act	Education, Department of	84.388	1,511,463
Total School Improvement Grants Cluster			<u>2,936,977</u>
College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378	685,037

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, U.S. Department of, Continued:</b>			
State Fiscal Stabilization Fund Cluster:			
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, Department of	84.394	131,044,956
ARRA State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	Corrections, Department of	84.397	18,803,473
Total State Fiscal Stabilization Fund Cluster			<u>149,848,429</u>
Education Jobs Fund	Education, Department of	84.410	31,667,388
<b>Total U.S. Department of Education</b>			<u>\$ 435,426,270</u>
<b>U.S. Election Assistance Commission</b>			
Help America Vote Act Requirements Payments	Secretary of State	90.401	\$ 765,838
<b>Total U.S. Election Assistance Commission</b>			<u>\$ 765,838</u>
<b>Energy, U.S. Department of</b>			
National Energy Information Center	Energy Office	81.039	\$ 6,000
State Energy Program	Energy Office	81.041	138,749
ARRA State Energy Program Recovery	Energy Office	81.041	13,596,155
Total State Energy Program			<u>13,734,904</u>
Weatherization Assistance for Low-Income Persons	Energy Office	81.042	1,713,561
ARRA Weatherization Assistance for Low-Income Persons Recovery	Energy Office	81.042	13,161,799
Total Weatherization Assistance for Low-Income Persons			<u>14,875,360</u>
State Energy Program Special Projects	Energy Office	81.119	(13,299)
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy Office	81.122	235,354
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Game and Parks Commission	81.122	9,694
Total Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery			<u>245,048</u>
ARRA Energy Efficient Appliance Rebate Program (EEARP) Recovery	Energy Office	81.127	1,684,051
ARRA Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy Office	81.128	3,187,343
<b>Total U.S. Department of Energy</b>			<u>\$ 33,719,407</u>

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Environmental Protection Agency, U.S.</b>			
State Indoor Radon Grants	Department of Health and Human Services	66.032	\$ 144,515
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	394,159
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Department of Health and Human Services	66.034	24
ARRA State Clean Diesel Grant Program Recovery	Environmental Quality, Department of	66.040	507,143
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	140,475
State Public Water System Supervision	Department of Health and Human Services	66.432	1,133,665
State Underground Water Source Protection	Oil and Gas Commission	66.433	90,062
Targeted Watersheds Grants	Environmental Quality, Department of	66.439	404,625
ARRA Water Quality Management Planning Recovery	Environmental Quality, Department of	66.454	126,027
Water Quality Management Planning	Environmental Quality, Department of	66.454	128,786
Total Water Quality Management Planning			<u>254,813</u>
ARRA Capitalization Grants for Clean Water State Revolving Funds Recovery	Environmental Quality, Department of	66.458	9,422,500
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	6,603,632
Total Capitalization Grants for Clean Water State Revolving Funds			<u>16,026,132</u>
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	3,160,096
Regional Wetland Program Development Grants	Game and Parks Commission	66.461	108,242
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	33,237
Wastewater Operator Training Grant Program	Environmental Quality, Department of	66.467	7
ARRA Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Quality, Department of	66.468	3,063,647
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	2,511,107
Total Capitalization Grants for Drinking Water State Revolving Funds			<u>5,574,754</u>
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Department of Health and Human Services	66.471	483,720
Water Protection Grants to the States	Department of Health and Human Services	66.474	48,281
Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804	562,968
Performance Partnership Grants	Agriculture, Department of	66.605	428,392
Performance Partnership Grants	Environmental Quality, Department of	66.605	4,940,240
Total Performance Partnership Grants			<u>5,368,632</u>
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608	76,870
Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700	167,686

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Environmental Protection Agency, U.S., Continued:</b>			
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Department of Health and Human Services	66.707	192,694
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802	330,524
ARRA   Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Quality, Department of	66.805	959,961
Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805	916,299
Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			<u>1,876,260</u>
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	190,153
Superfund State and Indian Tribe Core Program Cooperative Agreements	Department of Health and Human Services	66.809	16,562
Total Superfund State and Indian Tribe Core Program Cooperative Agreements			<u>206,715</u>
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	661,376
<b>Total U.S. Environmental Protection Agency</b>			<u>\$ 37,947,675</u>
<b>Equal Employment Opportunity Commission, U.S.</b>			
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	\$ 396,111
<b>Total U.S. Equal Employment Opportunity Commission</b>			<u>\$ 396,111</u>
<b>General Services Administration</b>			
Donation of Federal Surplus Personal Property	Corrections, Department of	39.003	\$ 856,584
<b>Total General Services Administration</b>			<u>\$ 856,584</u>
<b>Health and Human Services, U.S. Department of</b>			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Department of Health and Human Services	93.006	\$ 119,766
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Department of Health and Human Services	93.041	32,649
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	Department of Health and Human Services	93.042	63,237
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Department of Health and Human Services	93.043	138,267
Aging Cluster:			
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Department of Health and Human Services	93.044	2,260,424
Special Programs for the Aging_Title III, Part C_Nutrition Services	Department of Health and Human Services	93.045	3,829,062
Nutrition Services Incentive Program	Department of Health and Human Services	93.053	1,247,610
Total Aging Cluster			<u>7,337,096</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
 For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Special Programs for the Aging_ Title IV_ and Title II_Discretionary Projects	Department of Health and Human Services	93.048	379,647
National Family Caregiver Support, Title III, Part E	Department of Health and Human Services	93.052	868,547
Public Health Emergency Preparedness	Department of Health and Human Services	93.069	8,651,755
Medicare Enrollment Assistance Program	Department of Health and Human Services	93.071	15,325
Lifespan Respite Care Program	Department of Health and Human Services	93.072	360
Emergency System for Advance Registration of Volunteer Health Professionals	Department of Health and Human Services	93.089	29,118
ARRA Guardianship Assistance Recovery	Department of Health and Human Services	93.090 ^	10,407
Affordable Care Act (ACA) Personal Responsibility Education Program	Department of Health and Human Services	93.092	4,877
Food and Drug Administration_Research	Agriculture, Department of	93.103	2,020
Maternal and Child Health Federal Consolidated Programs	Department of Health and Human Services	93.110	570,357
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Department of Health and Human Services	93.116	208,328
Emergency Medical Services for Children	Department of Health and Human Services	93.127	99,776
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Department of Health and Human Services	93.130	154,006
Injury Prevention and Control Research and State and Community Based Programs	Department of Health and Human Services	93.136	441,639
Projects for Assistance in Transition from Homelessness (PATH)	Department of Health and Human Services	93.150	301,346
Family Planning_Services	Department of Health and Human Services	93.217	1,991,502
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	279,560
Affordable Care Act (ACA) Abstinence Education Program	Department of Health and Human Services	93.235	413
Grants to States to Support Oral Health Workforce Activities	Department of Health and Human Services	93.236	562,821
State Rural Hospital Flexibility Program	Department of Health and Human Services	93.241	696,298
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Department of Health and Human Services	93.243	2,851,414
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Supreme Court, Nebraska	93.243	107,259
Universal Newborn Hearing Screening	Department of Health and Human Services	93.251	244,842
Occupational Safety and Health Program	Department of Health and Human Services	93.262	55,284
Immunization Cluster:			
Immunization Grants	Department of Health and Human Services	93.268	21,981,643
ARRA ARRA - Immunization	Department of Health and Human Services	93.712	1,038,402
Total Immunization Cluster			<u>23,020,045</u>
Drug Abuse and Addiction Research Programs	Department of Health and Human Services	93.279	88,631
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Department of Health and Human Services	93.283	10,179,230
Small Rural Hospital Improvement Grant Program	Department of Health and Human Services	93.301	577,830
ARRA ARRA - State Primary Care Offices	Department of Health and Human Services	93.414	25,170

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Food Safety and Security Monitoring Project	Agriculture, Department of	93.448	378,159
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	247,988
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Department of Health and Human Services	93.505	59,188
Strengthening Public Health Infrastructure for Improved Health Outcomes	Department of Health and Human Services	93.507	283,526
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511	216,241
Affordable Care Act - Medicare Improvements for Patients and Providers	Department of Health and Human Services	93.518	14,725
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	Department of Health and Human Services	93.521	38,413
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Insurance, Department of	93.525	104,019
Transitional Living for Homeless Youth	Department of Health and Human Services	93.550	150,000
Promoting Safe and Stable Families	Department of Health and Human Services	93.556	1,595,432
TANF Cluster:			
Temporary Assistance for Needy Families	Department of Health and Human Services	93.558 ^	38,932,282
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program Recovery	Department of Health and Human Services	93.714	8,642,807
Total TANF Cluster			<u>47,575,089</u>
ARRA - Child Support Enforcement			
Child Support Enforcement	Department of Health and Human Services	93.563 ^	24,898,097
ARRA - Child Support Enforcement	Department of Health and Human Services	93.563 ^	822,582
Total Child Support Enforcement	Department of Health and Human Services		<u>25,720,679</u>
Refugee and Entrant Assistance_State Administered Programs	Department of Health and Human Services	93.566	2,813,234
Low-Income Home Energy Assistance	Department of Health and Human Services	93.568	21,947,893
Low-Income Home Energy Assistance	Energy Office	93.568	3,864,042
Total Low-Income Home Energy Assistance			<u>25,811,935</u>
CSBG Cluster:			
Community Services Block Grant	Department of Health and Human Services	93.569	4,872,701
ARRA - Community Services Block Grant	Department of Health and Human Services	93.710	1,363,419
Total CSBG Cluster			<u>6,236,120</u>
CCDF Cluster:			
Child Care and Development Block Grant	Department of Health and Human Services	93.575 ^	30,094,127
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Department of Health and Human Services	93.596 ^	21,286,808
ARRA - Child Care and Development Block Grant	Department of Health and Human Services	93.713 ^	4,041,021
Total CCDF Cluster			<u>55,421,956</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
Refugee and Entrant Assistance_Discretionary Grants	Department of Health and Human Services	93.576	445,733
State Court Improvement Program	Supreme Court, Nebraska	93.586	326,601
Grants to States for Access and Visitation Programs	Department of Health and Human Services	93.597	89,857
Chafee Education and Training Vouchers Program (ETV)	Department of Health and Human Services	93.599	542,609
Head Start Cluster:			
Head Start	Education, Department of	93.600	131,672
ARRA     ARRA - Head Start	Education, Department of	93.708	32,310
Total Head Start Cluster			<u>163,982</u>
Adoption Incentive Payments	Department of Health and Human Services	93.603	225,488
Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617	59,667
Developmental Disabilities Basic Support and Advocacy Grants	Department of Health and Human Services	93.630	406,419
Children's Justice Grants to States	Department of Health and Human Services	93.643	150,156
Stephanie Tubbs Jones Child Welfare Services Program	Department of Health and Human Services	93.645	445,009
Foster Care_Title IV-E	Department of Health and Human Services	93.658 ^	17,743,618
ARRA     Foster Care_Title IV-E Recovery	Department of Health and Human Services	93.658 ^	767,879
Total Foster Care_Title IV-E			<u>18,511,497</u>
Adoption Assistance	Department of Health and Human Services	93.659 ^	10,642,993
ARRA     Adoption Assistance Recovery	Department of Health and Human Services	93.659 ^	957,357
Total Adoption Assistance			<u>11,600,350</u>
Social Services Block Grant	Department of Health and Human Services	93.667	9,708,729
Child Abuse and Neglect State Grants	Department of Health and Human Services	93.669	144,469
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	Department of Health and Human Services	93.671	856,902
Chafee Foster Care Independence Program	Department of Health and Human Services	93.674	1,453,504
ARRA     ARRA - Preventing Healthcare-Associated Infections	Department of Health and Human Services	93.717	107,787
ARRA     ARRA - State Grants to Promote Health Information Technology	Administrative Services, Department of	93.719	3,104,003
ARRA     ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Department of Health and Human Services	93.723	478,694
ARRA     ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding			
ARRA     Opportunities Announcement (FOA) Recovery	Department of Health and Human Services	93.724	55,320
ARRA     ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	Department of Health and Human Services	93.725	93,276
ARRA     Children's Health Insurance Program	Department of Health and Human Services	93.767 ^	38,531,746
ARRA     Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Department of Health and Human Services	93.768	711,106

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Health and Human Services, U.S. Department of, Continued:</b>			
	Medicaid Cluster:		
ARRA	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Department of Health and Human Services	32,419
	State Medicaid Fraud Control Units	Attorney General	525,355
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Department of Health and Human Services	93.777 ^ 4,526,873
	Medical Assistance Program	Department of Health and Human Services	93.778 ^ 1,008,146,420
ARRA	Medical Assistance Program Recovery	Department of Health and Human Services	93.778 ^ 124,936,502
	Total Medical Assistance Program		<u>1,133,082,922</u>
	Total Medicaid Cluster		<u>1,138,167,569</u>
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779 489,654
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780 1,900,402
	Money Follows the Person Rebalancing Demonstration	Department of Health and Human Services	93.791 1,357,242
	National Bioterrorism Hospital Preparedness Program	Department of Health and Human Services	93.889 3,040,768
	Grants to States for Operation of Offices of Rural Health	Department of Health and Human Services	93.913 173,834
	HIV Care Formula Grants	Department of Health and Human Services	93.917 2,807,368
	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938 310,277
	HIV Prevention Activities_Health Department Based	Department of Health and Human Services	93.940 1,264,139
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Department of Health and Human Services	93.944 182,495
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Department of Health and Human Services	93.946 131,413
	Block Grants for Community Mental Health Services	Department of Health and Human Services	93.958 1,904,542
	Block Grants for Prevention and Treatment of Substance Abuse	Department of Health and Human Services	93.959 7,683,003
	Preventive Health Services_Sexually Transmitted Diseases Control Grants	Department of Health and Human Services	93.977 433,473
	Preventive Health and Health Services Block Grant	Department of Health and Human Services	93.991 1,716,417
	Maternal and Child Health Services Block Grant to the States	Department of Health and Human Services	93.994 4,346,722
	Tissue Residue Inspection Contract	Agriculture, Department of	HHSF223200840005I 3,864
	Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C 37,950
	Food Inspection	Agriculture, Department of	HHSF223200940012C 45,140
	Feed Establishment & BSE Inspection Contract	Agriculture, Department of	HHSF223200840123C 89,075
	FDA Partnership Agreement	Agriculture, Department of	N/A 5,999
<b>Total U.S. Department of Health and Human Services</b>			<u>\$ 1,481,079,776</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Homeland Security, U.S. Department of</b>			
Pilot Demonstration or Earmarked Projects	Military Department	97.001	\$ 312,122
Homeland Security Cluster:			
Homeland Security Grant Program	Military Department	97.067	9,105,479
Homeland Security Grant Program	Motor Vehicles, Department of	97.067	150,780
Total Homeland Security Cluster			<u>9,256,259</u>
Boating Safety Financial Assistance	Game and Parks Commission	97.012	491,668
Pre-Disaster Mitigation (PDM) Competitive Grants	Military Department	97.017	(6,152)
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	65,944
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036	21,521,497
Hazard Mitigation Grant	Military Department	97.039	4,118,273
National Dam Safety Program	Natural Resources, Department of	97.041	258,472
Emergency Management Performance Grants	Military Department	97.042	2,756,103
State Fire Training Systems Grants	Fire Marshal	97.043	17,673
Cooperating Technical Partners	Natural Resources, Department of	97.045	390,560
Map Modernization Management Support	Natural Resources, Department of	97.070	6,522
Buffer Zone Protection Program (BZPP)	Military Department	97.078	309,855
<b>Total U.S. Department of Homeland Security</b>			<u>\$ 39,498,796</u>
<b>Housing &amp; Urban Development, U.S. Department of</b>			
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	\$ 27,791,502
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Economic Development, Department of	14.255	2,945,820
Total CDBG - State-Administered Small Cities Program Cluster			<u>30,737,322</u>
ARRA Emergency Shelter Grants Program	Department of Health and Human Services	14.231	2,637,942
Emergency Shelter Grants Program	Department of Health and Human Services	14.231	654,226
Total Emergency Shelter Grants Program			<u>3,292,168</u>
Home Investment Partnerships Program	Economic Development, Department of	14.239	6,312,626
Housing Opportunities for Persons with AIDS	Department of Health and Human Services	14.241	528,485
Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401	187,686
<b>Total U.S. Department of Housing &amp; Urban Development</b>			<u>\$ 41,058,287</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Institute of Museum and Library Services</b>			
Grants to States	Library Commission	45.310	\$ 1,324,222
National Leadership Grants	Historical Society	45.312	35,382
Laura Bush 21st Century Librarian Program	Library Commission	45.313	37,411
<b>Total Institute of Museum and Library Services</b>			<u>\$ 1,397,015</u>
<b>Interior, U.S. Department of</b>			
Water Reclamation and Reuse Program Recovery	Game and Parks Commission	15.504	\$ 119,889
Cultural Resources Management	Historical Society	15.511	42,101
Water Conservation Field Services Program (WCFSP)	Game and Parks Commission	15.530	4,543
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Game and Parks Commission	15.605	5,850,651
Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611	5,839,949
Total Fish and Wildlife Cluster			<u>11,690,600</u>
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	8,122
Fish and Wildlife Management Assistance	Historical Society	15.608	216,439
Total Fish and Wildlife Management Assistance			<u>224,561</u>
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	464,553
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	5,081
Landowner Incentive Program	Game and Parks Commission	15.633	449,679
State Wildlife Grants	Game and Parks Commission	15.634	3,012,394
Challenge Cost Share	Game and Parks Commission	15.642	35,278
U.S. Geological Survey_ Research and Data Collection	Natural Resources, Department of	15.808	32,528
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	904,803
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916	170,574
<b>Total U.S. Department of Interior</b>			<u>\$ 17,156,584</u>
<b>Justice, U.S. Department of</b>			
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission for	16.017	\$ 158,509
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	Corrections, Department of	16.203	22,165
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523	417,709
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Attorney General	16.528	92,441
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	507,009
Missing Children's Assistance	State Patrol	16.543	244,890

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ARRA - American Recovery and Reinvestment Act  
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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Justice, U.S. Department of, Continued:</b>			
Title V_Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548	37,270
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550	56,596
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	222,206
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	434,097
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,563,582
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	59,087
Drug Court Discretionary Grant Program	Supreme Court, Nebraska	16.585	85,723
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	1,019,500
ARRA Violence Against Women Formula Grants Recovery	Law Enforcement and Criminal Justice, Commission for	16.588	530,189
Total Violence Against Women Formula Grants			<u>1,549,689</u>
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	Attorney General	16.590	5,843
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	120,836
State Criminal Alien Assistance Program	Corrections, Department of	16.606	535,967
Bulletproof Vest Partnership Program	State Patrol	16.607	26,701
Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission for	16.609	94,241
Public Safety Partnership and Community Policing Grants	State Patrol	16.710	286,834
Public Safety Partnership and Community Policing Grants	Law Enforcement and Criminal Justice, Commission for	16.710	11,804
Total Public Safety Partnership and Community Policing Grants			<u>298,638</u>
Enforcing Underage Drinking Laws Program	Roads, Department of	16.727	385,953
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission for	16.738	1,475,535
ARRA Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Law Enforcement and Criminal Justice, Commission for	16.803	2,131,415
Total JAG Program Cluster			<u>3,606,950</u>
Criminal and Juvenile Justice and Mental Health Collaboration Program	Department of Health and Human Services	16.745	130,170
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	State Patrol	16.748	1,691
Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750	58,290
Edward Byrne Memorial Competitive Grant Program	Law Enforcement and Criminal Justice, Commission for	16.751	110,989
ARRA Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	State Patrol	16.800	190,177
ARRA Recovery Act - State Victim Assistance Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.801	343,227

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

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<b>Justice, U.S. Department of, Continued:</b>			
ARRA Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Attorney General	16.810	294,435
ARRA Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	State Patrol	16.810	428,699
Total Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program			<u>723,134</u>
John R. Justice Prosecutors and Defenders Incentive Act High Intensity Drug	Law Enforcement and Criminal Justice, Commission for State Patrol	16.816 IG-02-0104, I5PMWP634Z	3,621 <u>1,060,901</u>
<b>Total U.S. Department of Justice</b>			<u>\$ 14,148,302</u>
<b>Labor, U.S. Department of</b>			
Labor Force Statistics	Labor, Department of	17.002	\$ 898,515
Compensation and Working Conditions	Worker's Compensation Court	17.005	46,163
Employment Service Cluster:			
ARRA Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	5,608,832
ARRA Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, Department of	17.207	1,861,860
Total Employment Service/Wagner-Peyser Funded Activities			<u>7,470,692</u>
Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	811,598
Local Veterans' Employment Representative Program	Labor, Department of	17.804	135,993
Total Employment Service Cluster			<u>8,418,283</u>
ARRA Unemployment Insurance - Federal	Labor, Department of	17.225	4,467,094
ARRA Unemployment Insurance - Federal Recovery	Labor, Department of	17.225	143,859,045
Unemployment Insurance - State	Labor, Department of	17.225	176,555,972
Unemployment Insurance - Admin	Labor, Department of	17.225	19,419,812
ARRA Unemployment Insurance - Admin Recovery	Labor, Department of	17.225	1,813,548
Total Unemployment Insurance			<u>346,115,471</u>
ARRA Senior Community Service Employment Program Recovery	Department of Health and Human Services	17.235	43,029
Senior Community Service Employment Program	Department of Health and Human Services	17.235	1,005,707
Total Senior Community Service Employment Program			<u>1,048,736</u>
Trade Adjustment Assistance	Labor, Department of	17.245	1,053,854

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
 For the Fiscal Year Ended June 30, 2011

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<b>Labor, U.S. Department of, Continued:</b>			
WIA Cluster:			
ARRA	WIA Adult Program	Labor, Department of	3,005,617
	WIA Adult Program Recovery	Labor, Department of	1,342,295
	Total WIA Adult Program		<u>4,347,912</u>
ARRA	WIA Youth Activities	Labor, Department of	2,177,262
	WIA Youth Activities Recovery	Labor, Department of	13,976
	Total WIA Youth Activities		<u>2,191,238</u>
ARRA	WIA Dislocated Workers	Labor, Department of	1,673,736
	WIA Dislocated Workers Recovery	Labor, Department of	1,351,527
	Total WIA Dislocated Workers		<u>3,025,263</u>
	WIA Dislocated Worker Formula Grants	Labor, Department of	525,476
	Total WIA Cluster		<u>10,089,889</u>
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	187,041
	Temporary Labor Certification for Foreign Workers	Labor, Department of	60,783
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Labor, Department of	878,821
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Education, Department of	133
	Consultation Agreements	Labor, Department of	546,447
	Veterans' Employment Program	Labor, Department of	404
	WIA Dislocated Workers NAT RES - TAT	Labor, Department of	1,203
	<b>Total U.S. Department of Labor</b>		<u>\$ 369,345,743</u>
	<b>National Aeronautics and Space Administration</b>		
	2010 K-12 Summer of Innovation (SOI) Capacity Building	Education, Department of	\$ 49,033
	<b>National Aeronautics and Space Administration</b>		<u>\$ 49,033</u>
	<b>National Archives and Records Administration</b>		
	National Historical Publications and Records Grants	Historical Society	\$ 1,191
	<b>Total National Archives and Records Administration</b>		<u>\$ 1,191</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

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<b>National Endowment for the Arts</b>			
Promotion of the Arts_Grants to Organizations and Individuals	Historical Society	45.024	\$ 10,000
ARRA Promotion of the Arts_Partnership Agreements	Arts Council	45.025	25,146
Promotion of the Arts_Partnership Agreements	Arts Council	45.025	889,753
Total Promotion of the Arts_Partnership Agreements			<u>914,899</u>
<b>Total National Endowment for the Arts</b>			<u>\$ 924,899</u>
<b>Social Security Administration</b>			
Disability Insurance/SSI Cluster:			
Social Security_Disability Insurance	Education, Department of	96.001	\$ 10,449,746
Supplemental Security Income	Education, Department of	96.006	436,977
Supplemental Security Income	Blind and Visually Impaired, Commission for the	96.006	271,131
Total Supplemental Security Income			<u>708,108</u>
<b>Total Social Security Administration</b>			<u>\$ 11,157,854</u>
<b>Transportation, U.S. Department of</b>			
ARRA Airport Improvement Program Recovery	Aeronautics, Department of	20.106	\$ 21,754
Airport Improvement Program	Aeronautics, Department of	20.106	22,891,359
Total Airport Improvement Program			<u>22,913,113</u>
Highway Research and Development Program	Education, Department of	20.200	114,350
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Roads, Department of	20.205	154,136,449
ARRA Highway Planning and Construction Recovery	Roads, Department of	20.205	92,077,481
Total Highway Planning and Construction			<u>246,213,930</u>
Recreational Trails Program	Game and Parks Commission	20.219	256,986
Total Highway Planning and Construction Cluster			<u>246,470,916</u>
National Motor Carrier Safety	State Patrol	20.218	2,636,445
Fuel Tax Evasion-Intergovernmental Enforcement Effort	State Patrol	20.240	13,222
Metropolitan Transportation Planning	Roads, Department of	20.505	415,543
Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	3,534,530
ARRA Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	366,302
Total Formula Grants for Other Than Urbanized Areas			<u>3,900,832</u>
Transit Services Programs Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	1,063,420

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By Federal Agency**  
For the Fiscal Year Ended June 30, 2011

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<b>Transportation, U.S. Department of, Continued:</b>			
Highway Safety Cluster:			
State and Community Highway Safety	Roads, Department of	20.600	2,758,289
Alcohol Impaired Driving Countermeasures Incentive Grants I	Roads, Department of	20.601	1,067,352
Occupant Protection Incentive Grants	Roads, Department of	20.602	426,109
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Motor Vehicles, Department of	20.605	113,355
State Traffic Safety Information System Improvement Grants	Roads, Department of	20.610	436,352
Incentive Grant Program to Prohibit Racial Profiling	Roads, Department of	20.611	253,251
Incentive Grant Program to Increase Motorcyclist Safety	Roads, Department of	20.612	45,953
Total Highway Safety Cluster			<u>5,100,661</u>
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614	125,097
E-911 Grant Program	Public Service Commission	20.615	325,811
Pipeline Safety Program Base Grants	Fire Marshal	20.700	246,778
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	207,368
<b>Total U.S. Department of Transportation</b>			<u>\$ 283,533,556</u>
<b>Veterans Affairs, U.S. Department of</b>			
Veterans State Domiciliary Care	Department of Health and Human Services	64.014 ^	\$ 1,395,823
Veterans State Nursing Home Care	Department of Health and Human Services	64.015 ^	14,124,205
State Cemetery Grants	Department of Veterans' Affairs	64.203	1,240,196
<b>Total U.S. Department of Veterans Affairs</b>			<u>\$ 16,760,224</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,256,837,192</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Administrative Services, Department of</b>			
ARRA    ARRA - State Grants to Promote Health Information Technology	Health and Human Services, U.S. Department of	93.719	\$    3,104,003
<b>Total Department of Administrative Services</b>			<u>\$    3,104,003</u>
<b>Aeronautics, Department of</b>			
ARRA    Airport Improvement Program Recovery	Transportation, U.S. Department of	20.106	\$        21,754
Airport Improvement Program	Transportation, U.S. Department of	20.106	22,891,359
<b>Total Department of Aeronautics</b>			<u>\$    22,913,113</u>
<b>Agriculture, Department of</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$        905,353
2009 Aquaculture Grant Program	Agriculture, U.S. Department of	10.103	40,413
Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156	7,960
Market Protection and Promotion	Agriculture, U.S. Department of	10.163	76,637
Specialty Crop Block Grant Program	Agriculture, U.S. Department of	10.169	29,084
Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170	195,778
State Mediation Grants	Agriculture, U.S. Department of	10.435	156,791
Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479	177,309
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	250,536
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	428,392
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700	167,686
Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103	2,020
Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448	378,159
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	247,988
Tissue Residue Inspection Contract	Health and Human Services, U.S. Department of	HHSF2232008400051	3,864
Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C	37,950
Food Inspection	Health and Human Services, U.S. Department of	HHSF223200940012C	45,140
Feed Establishment & BSE Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200840123C	89,075
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	152,401
FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	5,999
<b>Total Department of Agriculture</b>			<u>\$    3,398,535</u>
<b>Arts Council</b>			
ARRA    Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025	\$        25,146
Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025	889,753
<b>Total Arts Council</b>			<u>\$        914,899</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
 For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Attorney General</b>			
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Justice, U.S. Department of	16.528	\$ 92,441
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	Justice, U.S. Department of	16.590	5,843
ARRA Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	294,435
Medicaid Cluster:			
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	525,355
<b>Total Attorney General</b>			<u>\$ 918,074</u>
<b>Blind and Visually Impaired, Commission for the</b>			
Vocational Rehabilitation Cluster:			
ARRA Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	\$ 2,865,419
ARRA Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	202,071
Total Vocational Rehabilitation Cluster			<u>3,067,490</u>
Independent Living State Grants Cluster:			
ARRA Independent Living_State Grants	Education, U.S. Department of	84.169	24,660
ARRA Independent Living State Grants, Recovery Act	Education, U.S. Department of	84.398	17,450
Total Independent Living State Grants Cluster			<u>42,110</u>
Independent Living Services for Older Individuals Who are Blind Cluster:			
ARRA Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	165,552
ARRA Independent Living Services for Older Individuals Who are Blind, Recovery Act	Education, U.S. Department of	84.399	73,344
Total Independent Living Services for Older Individuals Who are Blind Cluster			<u>238,896</u>
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	51,766
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	22,717
Disability Insurance/SSI Cluster:			
Supplemental Security Income	Social Security Administration	96.006	271,131
<b>Total Commission for the Blind and Visually Impaired</b>			<u>\$ 3,694,110</u>
<b>Corn Board</b>			
Grants for Agricultural Research_Competitive Research Grants	Agriculture, U.S. Department of	10.206	\$ 42,165
<b>Total Corn Board</b>			<u>\$ 42,165</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Corrections, Department of</b>			
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	Justice, U.S. Department of	16.203	\$ 22,165
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	535,967
Donation of Federal Surplus Personal Property	General Services Administration	39.003	856,584
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Education, U.S. Department of	84.331	3,665
State Fiscal Stabilization Fund Cluster:			
ARRA     State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	Education, U.S. Department of	84.397	18,803,473
<b>Total Department of Corrections</b>			<u>\$ 20,221,854</u>
<b>Economic Development, Department of</b>			
Rural Community Development Initiative	Agriculture, U.S. Department of	10.446	\$ 23,760
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	17
Public Works and Economic Development Cluster:			
Economic Adjustment Assistance	Commerce, U.S. Department of	11.307	205,315
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	459,625
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	27,791,502
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			
ARRA     Recovery	Housing & Urban Development, U.S. Department of	14.255	2,945,820
Total CDBG - State-Administered Small Cities Program Cluster			<u>30,737,322</u>
Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	6,312,626
<b>Total Department of Economic Development</b>			<u>\$ 37,738,665</u>
<b>Education, Department of</b>			
Child Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	\$ 12,279,602
National School Lunch Program	Agriculture, U.S. Department of	10.555	54,867,327
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	56,795
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	2,303,814
Total Child Nutrition Cluster			<u>69,507,538</u>
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	30,237,921
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,242,671
Team Nutrition Grants	Agriculture, U.S. Department of	10.574	116,656

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, Department of, Continued:</b>			
Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579	226,824
Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582	954,495
Schools and Roads Cluster:			
Schools and Roads - Grants to States	Agriculture, U.S. Department of	10.665	584,376
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging			
ARRA Industry Sectors Recovery	Labor, U.S. Department of	17.275	133
Highway Research and Development Program	Transportation, U.S. Department of	20.200	114,350
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002	2,140,868
Title I, Part A Cluster:			
ARRA Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	57,996,252
Title I Grants to Local Educational Agencies, Recovery Act	Education, U.S. Department of	84.389	17,143,543
Total Title I, Part A Cluster			<u>75,139,795</u>
Migrant Education_State Grant Program	Education, U.S. Department of	84.011	5,577,308
Title I State Agency Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013	446,926
Special Education Cluster (IDEA):			
ARRA Special Education_Grants to States	Education, U.S. Department of	84.027	71,664,449
Special Education_Preschool Grants	Education, U.S. Department of	84.173	2,137,944
ARRA Special Education Grants to States, Recovery Act	Education, U.S. Department of	84.391	25,773,585
ARRA Special Education - Preschool Grants, Recovery Act	Education, U.S. Department of	84.392	534,531
Total Special Education Cluster (IDEA)			<u>100,110,509</u>
Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048	6,740,076
Career and Technical Education -- National Programs	Education, U.S. Department of	84.051	7,404
Vocational Rehabilitation Cluster:			
ARRA Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	15,366,919
Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	1,015,878
Total Vocational Rehabilitation Cluster			<u>16,382,797</u>
Migrant Education_Coordination Program	Education, U.S. Department of	84.144	80,238
Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161	134,018

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, Department of, Continued:</b>			
Independent Living State Grants Cluster:			
	Independent Living_State Grants	Education, U.S. Department of	84.169 186,260
ARRA	Independent Living State Grants, Recovery Act	Education, U.S. Department of	84.398 67,220
	Total Independent Living State Grants Cluster		<u>253,480</u>
Early Intervention Services (IDEA) Cluster:			
	Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181 2,427,181
ARRA	Special Education - Grants for Infants and Families, Recovery Act	Education, U.S. Department of	84.393 1,200,901
	Total Early Intervention Services (IDEA) Cluster		<u>3,628,082</u>
	Safe and Drug-Free Schools and Communities_National Programs	Education, U.S. Department of	84.184 17,093
	Byrd Honors Scholarships	Education, U.S. Department of	84.185 246,750
	Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186 686,649
Education of Homeless Children and Youth Cluster:			
	Education for Homeless Children and Youth	Education, U.S. Department of	84.196 266,079
ARRA	Education for Homeless Children and Youth, Recovery Act	Education, U.S. Department of	84.387 116,978
	Total Education of Homeless Children and Youth Cluster		<u>383,057</u>
	Star Schools	Education, U.S. Department of	84.203 1,003
	Even Start_State Educational Agencies	Education, U.S. Department of	84.213 236,455
	Assistive Technology	Education, U.S. Department of	84.224 596,620
	Tech-Prep Education	Education, U.S. Department of	84.243 1,279,050
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265 12,140
	Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287 5,809,511
	Foreign Language Assistance	Education, U.S. Department of	84.293 136,828
	Parental Information and Resource Centers	Education, U.S. Department of	84.310 28,321
Educational Technology State Grants Cluster:			
	Educational Technology State Grants	Education, U.S. Department of	84.318 730,581
ARRA	Education Technology State Grants, Recovery Act	Education, U.S. Department of	84.386 1,522,517
	Total Educational Technology State Grants Cluster		<u>2,253,098</u>
	Special Education - State Personnel Development	Education, U.S. Department of	84.323 351,645
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326 86,190
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330 20,000

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
 For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Education, Department of, Continued:</b>			
Reading First State Grants	Education, U.S. Department of	84.357	917,976
Rural Education	Education, U.S. Department of	84.358	54,227
English Language Acquisition Grants	Education, U.S. Department of	84.365	2,638,620
Mathematics and Science Partnerships	Education, U.S. Department of	84.366	886,375
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	12,896,633
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	5,066,764
Striving Readers	Education, U.S. Department of	84.371	25,508
Statewide Data Systems Cluster:			
Statewide Data Systems	Education, U.S. Department of	84.372	441,217
Special Education_Technical Assistance on State Data Collection	Education, U.S. Department of	84.373	152,531
School Improvement Grants Cluster:			
School Improvement Grants	Education, U.S. Department of	84.377	1,425,514
ARRA    School Improvement Grants, Recovery Act	Education, U.S. Department of	84.388	1,511,463
Total School Improvement Grants Cluster			<u>2,936,977</u>
State Fiscal Stabilization Fund Cluster:			
ARRA    State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, U.S. Department of	84.394	131,044,956
Education Jobs Fund	Education, U.S. Department of	84.410	31,667,388
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	279,560
Head Start Cluster:			
Head Start	Health and Human Services, U.S. Department of	93.600	131,672
ARRA    ARRA - Head Start	Health and Human Services, U.S. Department of	93.708	32,310
Total Head Start Cluster			<u>163,982</u>
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	310,277
Learn and Serve America_School and Community Based Programs	Corporation For National and Community Service	94.004	94,762
Disability Insurance/SSI Cluster:			
Social Security_Disability Insurance	Social Security Administration	96.001	10,449,746
Supplemental Security Income	Social Security Administration	96.006	436,977
Total Disability Insurance/SSI Cluster			<u>10,886,723</u>
2010 K-12 Summer of Innovation (SOI) Capacity Building	National Aeronautics and Space Administration	NNX10AU47A	49,033
<b>Total Department of Education</b>			<u>\$ 526,284,384</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Educational Telecommunications Commission</b>			
Public Television Station Digital Transition Grant Program	Agriculture, U.S. Department of	10.861	\$ 53,261
Public Telecommunications Facilities Planning and Construction	Commerce, U.S. Department of	11.550	129,671
<b>Total Educational Telecommunications Commission</b>			<u>\$ 182,932</u>
<b>Energy Office</b>			
National Energy Information Center	Energy, U.S. Department of	81.039	\$ 6,000
State Energy Program	Energy, U.S. Department of	81.041	138,749
ARRA State Energy Program Recovery	Energy, U.S. Department of	81.041	13,596,155
Total State Energy Program			<u>13,734,904</u>
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	1,713,561
ARRA Weatherization Assistance for Low-Income Persons Recovery	Energy, U.S. Department of	81.042	13,161,799
Total Weatherization Assistance for Low-Income Persons			<u>14,875,360</u>
State Energy Program Special Projects	Energy, U.S. Department of	81.119	(13,299)
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122	235,354
ARRA Energy Efficient Appliance Rebate Program (EEARP) Recovery	Energy, U.S. Department of	81.127	1,684,051
ARRA Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy, U.S. Department of	81.128	3,187,343
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	3,864,042
<b>Total Energy Office</b>			<u>\$ 37,573,755</u>
<b>Environmental Quality, Department of</b>			
State Memorandum of Agreement Program for the Reimbursement of Technical Services Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Defense, U.S. Department of	12.113	\$ 158,692
ARRA State Clean Diesel Grant Program Recovery	Environmental Protection Agency, U.S.	66.034	394,159
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.040	507,143
Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.419	140,475
ARRA Water Quality Management Planning Recovery	Environmental Protection Agency, U.S.	66.439	404,625
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	126,027
Total Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	<u>128,786</u>
ARRA Capitalization Grants for Clean Water State Revolving Funds Recovery	Environmental Protection Agency, U.S.	66.458	9,422,500
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	6,603,632
Total Capitalization Grants for Clean Water State Revolving Funds			<u>16,026,132</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Environmental Quality, Department of, Continued:</b>			
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	3,160,096
Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463	33,237
Wastewater Operator Training Grant Program	Environmental Protection Agency, U.S.	66.467	7
ARRA Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Protection Agency, U.S.	66.468	3,063,647
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	2,511,107
Total Capitalization Grants for Drinking Water State Revolving Funds			<u>5,574,754</u>
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	4,940,240
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	76,870
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	330,524
ARRA Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Protection Agency, U.S.	66.805	959,961
Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805	916,299
Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			<u>1,876,260</u>
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	190,153
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	661,376
<b>Total Department of Environmental Quality</b>			<u>\$ 34,729,556</u>
<b>Equal Opportunity Commission</b>			
Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 187,686
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002	396,111
<b>Total Equal Opportunity Commission</b>			<u>\$ 583,797</u>
<b>Fire Marshal</b>			
Pipeline Safety Program Base Grants	Transportation, U.S. Department of	20.700	\$ 246,778
Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804	562,968
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	17,673
<b>Total Fire Marshal</b>			<u>\$ 827,419</u>
<b>Game and Parks Commission</b>			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 153,944
Avian Influenza Indemnity Program	Agriculture, U.S. Department of	10.029	130
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	359,671
Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093	14,588
Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664	20,546

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Game and Parks Commission, Continued:</b>			
Rural Development, Forestry, and Communities Recovery	Agriculture, U.S. Department of	10.672	9,900
Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912	4,363
Water Reclamation and Reuse Program Recovery	Interior, U.S. Department of	15.504	119,889
Water Conservation Field Services Program (WCFSP)	Interior, U.S. Department of	15.530	4,543
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Interior, U.S. Department of	15.605	5,850,651
Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611	5,839,949
Total Fish and Wildlife Cluster			<u>11,690,600</u>
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	8,122
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	464,553
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	5,081
Landowner Incentive Program	Interior, U.S. Department of	15.633	449,679
State Wildlife Grants	Interior, U.S. Department of	15.634	3,012,394
Challenge Cost Share	Interior, U.S. Department of	15.642	35,278
Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916	170,574
Highway Planning and Construction Cluster:			
Recreational Trails Program	Transportation, U.S. Department of	20.219	256,986
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	108,242
ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122	9,694
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	491,668
<b>Total Game and Parks Commission</b>			<u>\$ 17,390,445</u>
<b>Department of Health and Human Services:</b>			
Child Nutrition Cluster:			
National School Lunch Program	Agriculture, U.S. Department of	10.555	\$ 9,052,124
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	49,747
Total Child Nutrition Cluster			<u>9,101,871</u>
SNAP Cluster:			
Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551	253,704,030
ARRA State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561 ^	449,207
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561 ^	14,533,424
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			<u>14,982,631</u>
Total SNAP Cluster			<u>268,686,661</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Department of Health and Human Services, Continued:</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	31,320,155
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	266,791
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	223,912
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	3,250,178
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	25,160
ARRA Emergency Food Assistance Program (Administrative Costs) Recovery	Agriculture, U.S. Department of	10.568	114,580
Total Emergency Food Assistance Program (Administrative Costs)			139,740
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	2,879,904
Total Emergency Food Assistance Cluster			3,019,644
ARRA WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578	69,883
Supplemental Nutrition Assistance Program, Outreach/Participation Program	Agriculture, U.S. Department of	10.580 ^	38,039
ARRA Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	2,637,942
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	654,226
Total Emergency Shelter Grants Program			3,292,168
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	528,485
Criminal and Juvenile Justice and Mental Health Collaboration Program	Justice, U.S. Department of	16.745	130,170
ARRA Senior Community Service Employment Program Recovery	Labor, U.S. Department of	17.235	43,029
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	1,005,707
Total Senior Community Service Employment Program			1,048,736
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014 ^	1,395,823
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015 ^	14,124,205
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	144,515
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	24
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	1,133,665
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471	483,720
Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474	48,281
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	192,694

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Department of Health and Human Services, Continued:</b>			
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	16,562
Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186	130,103
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006	119,766
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	32,649
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	63,237
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	138,267
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	2,260,424
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045	3,829,062
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053	1,247,610
Total Aging Cluster			<u>7,337,096</u>
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048	379,647
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052	868,547
Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069	8,651,755
Medicare Enrollment Assistance Program	Health and Human Services, U.S. Department of	93.071	15,325
Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072	360
Emergency System for Advance Registration of Volunteer Health Professionals	Health and Human Services, U.S. Department of	93.089	29,118
ARRA Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090 ^	10,407
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092	4,877
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	570,357
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	208,328
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	99,776
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130	154,006
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136	441,639
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	301,346
Family Planning_Services	Health and Human Services, U.S. Department of	93.217	1,991,502
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	413
Grants to States to Support Oral Health Workforce Activities	Health and Human Services, U.S. Department of	93.236	562,821

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Department of Health and Human Services, Continued:</b>			
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	696,298
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	2,851,414
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	244,842
Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262	55,284
Immunization Cluster:			
Immunization Grants	Health and Human Services, U.S. Department of	93.268	21,981,643
ARRA ARRA - Immunization	Health and Human Services, U.S. Department of	93.712	1,038,402
Total Immunization Cluster			<u>23,020,045</u>
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	88,631
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	10,179,230
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	577,830
ARRA ARRA - State Primary Care Offices	Health and Human Services, U.S. Department of	93.414	25,170
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505	59,188
Strengthening Public Health Infrastructure for Improved Health Outcomes	Health and Human Services, U.S. Department of	93.507	283,526
Affordable Care Act - Medicare Improvements for Patients and Providers	Health and Human Services, U.S. Department of	93.518	14,725
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	Health and Human Services, U.S. Department of	93.521	38,413
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	1,595,432
TANF Cluster:			
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558 ^	38,932,282
ARRA ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program Recovery	Health and Human Services, U.S. Department of	93.714	8,642,807
Total TANF Cluster			<u>47,575,089</u>
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563 ^	24,898,097
ARRA ARRA - Child Support Enforcement	Health and Human Services, U.S. Department of	93.563 ^	822,582
Total Child Support Enforcement			<u>25,720,679</u>
Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, U.S. Department of	93.566	2,813,234
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	21,947,893

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Department of Health and Human Services, Continued:</b>			
CSBG Cluster:			
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569 4,872,701
ARRA	ARRA - Community Services Block Grant	Health and Human Services, U.S. Department of	93.710 1,363,419
	Total CSBG Cluster		<u>6,236,120</u>
CCDF Cluster:			
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575 ^ 30,094,127
ARRA	ARRA – Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.713 ^ 4,041,021
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596 ^ 21,286,808
	Total CCDF Cluster		<u>55,421,956</u>
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576 445,733
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597 89,857
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599 542,609
	Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603 225,488
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630 406,419
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643 150,156
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645 445,009
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658 ^ 17,743,618
ARRA	Foster Care_Title IV-E Recovery	Health and Human Services, U.S. Department of	93.658 ^ 767,879
	Total Foster Care_Title IV-E		<u>18,511,497</u>
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659 ^ 10,642,993
ARRA	Adoption Assistance Recovery	Health and Human Services, U.S. Department of	93.659 ^ 957,357
	Total Adoption Assistance		<u>11,600,350</u>
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667 9,708,729
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669 144,469
	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	93.671 856,902
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674 1,453,504
ARRA	ARRA - Preventing Healthcare-Associated Infections	Health and Human Services, U.S. Department of	93.717 107,787
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, U.S. Department of	93.723 478,694
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding		
ARRA	Opportunities Announcement (FOA) Recovery	Health and Human Services, U.S. Department of	93.724 55,320

^ - Amounts taken from financial status reports.  
ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Department of Health and Human Services, Continued:</b>			
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program			
ARRA Recovery	Health and Human Services, U.S. Department of	93.725	93,276
Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767 ^	38,531,746
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768	711,106
Medicaid Cluster:			
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Health and Human Services, U.S. Department of	93.720	32,419
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, U.S. Department of	93.777 ^	4,526,873
Medical Assistance Program	Health and Human Services, U.S. Department of	93.778 ^	1,008,146,420
ARRA Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778 ^	124,936,502
Total Medical Assistance Program			<u>1,133,082,922</u>
Total Medicaid Cluster			<u>1,137,642,214</u>
Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791	1,357,242
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	3,040,768
Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913	173,834
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917	2,807,368
HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940	1,264,139
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944	182,495
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946	131,413
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	1,904,542
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	7,683,003
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	433,473
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,716,417
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	4,346,722
State Commissions	Corporation For National and Community Service	94.003	198,835
AmeriCorps	Corporation For National and Community Service	94.006	1,702,013
ARRA AmeriCorps Recovery	Corporation For National and Community Service	94.006	132,927
Total AmeriCorps			<u>1,834,940</u>
Program Development and Innovation Grants	Corporation For National and Community Service	94.007	30,357
Training and Technical Assistance	Corporation For National and Community Service	94.009	58,133
<b>Total Department of Health and Human Services:</b>			<u><u>\$ 1,809,587,069</u></u>

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ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Historical Society</b>			
Cultural Resources Management	Interior, U.S. Department of	15.511	\$ 42,101
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	216,439
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	904,803
Promotion of the Arts_Grants to Organizations and Individuals	National Endowment for the Arts	45.024	10,000
National Leadership Grants	Institute of Museum and Library Services	45.312	35,382
National Historical Publications and Records Grants	National Archives and Records Administration	89.003	1,191
<b>Total Historical Society</b>			<u>\$ 1,209,916</u>
<b>Insurance, Department of</b>			
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Health and Human Services, U.S. Department of	93.511	\$ 216,241
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Health and Human Services, U.S. Department of	93.525	104,019
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	489,654
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	1,900,402
<b>Total Department of Insurance</b>			<u>\$ 2,710,316</u>
<b>Labor, Department of</b>			
Labor Force Statistics	Labor, U.S. Department of	17.002	\$ 898,515
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	5,608,832
ARRA      Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, U.S. Department of	17.207	1,861,860
Total Employment Service/Wagner-Peyser Funded Activities			<u>7,470,692</u>
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	811,598
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	135,993
Total Employment Service Cluster			<u>8,418,283</u>
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	4,467,094
ARRA      Unemployment Insurance - Federal Recovery	Labor, U.S. Department of	17.225	143,859,045
Unemployment Insurance - State	Labor, U.S. Department of	17.225	176,555,972
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	19,419,812
ARRA      Unemployment Insurance - Admin Recovery	Labor, U.S. Department of	17.225	1,813,548
Total Unemployment Insurance			<u>346,115,471</u>
Trade Adjustment Assistance	Labor, U.S. Department of	17.245	1,053,854

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
 For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Labor, Department of, Continued:</b>			
WIA Cluster:			
ARRA	WIA Adult Program	Labor, U.S. Department of	3,005,617
	WIA Adult Program Recovery	Labor, U.S. Department of	1,342,295
	Total WIA Adult Program		<u>4,347,912</u>
ARRA	WIA Youth Activities	Labor, U.S. Department of	2,177,262
	WIA Youth Activities Recovery	Labor, U.S. Department of	13,976
	Total WIA Youth Activities		<u>2,191,238</u>
ARRA	WIA Dislocated Workers	Labor, U.S. Department of	1,673,736
	WIA Dislocated Workers Recovery	Labor, U.S. Department of	1,351,527
	Total WIA Dislocated Workers		<u>3,025,263</u>
	WIA Dislocated Worker Formula Grants	Labor, U.S. Department of	525,476
	Total WIA Cluster		<u>10,089,889</u>
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	187,041
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	60,783
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Labor, U.S. Department of	878,821
	Consultation Agreements	Labor, U.S. Department of	546,447
	WIA Dislocated Workers NAT RES - TAT	Labor, U.S. Department of	1,203
	Veterans' Employment Program	Labor, U.S. Department of	404
			<u>404</u>
	<b>Total Department of Labor</b>		<u>\$ 368,250,711</u>
<b>Law Enforcement and Criminal Justice, Commission for</b>			
	Sexual Assault Services Formula Program	Justice, U.S. Department of	\$ 158,509
	Juvenile Accountability Block Grants	Justice, U.S. Department of	417,709
	Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	507,009
	Title V_Delinquency Prevention Program	Justice, U.S. Department of	37,270
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	56,596
	Crime Victim Assistance	Justice, U.S. Department of	2,563,582
	Crime Victim Compensation	Justice, U.S. Department of	59,087
ARRA	Violence Against Women Formula Grants	Justice, U.S. Department of	1,019,500
	Violence Against Women Formula Grants Recovery	Justice, U.S. Department of	530,189
	Total Violence Against Women Formula Grants		<u>1,549,689</u>

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Law Enforcement and Criminal Justice, Commission for, Continued:</b>			
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	120,836
Project Safe Neighborhoods	Justice, U.S. Department of	16.609	94,241
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	11,804
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	1,475,535
ARRA Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	2,131,415
Total JAG Program Cluster			<u>3,606,950</u>
Edward Byrne Memorial Competitive Grant Program	Justice, U.S. Department of	16.751	110,989
ARRA Recovery Act - State Victim Assistance Formula Grant Program	Justice, U.S. Department of	16.801	343,227
John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816	3,621
<b>Total Commission for Law Enforcement and Criminal Justice</b>			<u>\$ 9,641,119</u>
<b>Library Commission</b>			
ARRA Broadband Technology Opportunities Program (BTOP) Recovery Grants to States	Commerce, U.S. Department of Institute of Museum and Library Services	11.557 45.310	\$ 504,068 1,324,222
Laura Bush 21st Century Librarian Program	Institute of Museum and Library Services	45.313	37,411
<b>Total Library Commission</b>			<u>\$ 1,865,701</u>
<b>Military Department</b>			
Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555	\$ 1,494,200
Military Construction, National Guard	Defense, U.S. Department of	12.400	27,749,866
ARRA Military Construction, National Guard Recovery	Defense, U.S. Department of	12.400	1,566,404
Total Military Construction, National Guard			<u>29,316,270</u>
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	13,726,184
ARRA National Guard Military Operations and Maintenance (O&M) Projects Recovery	Defense, U.S. Department of	12.401	1,244,939
Total National Guard Military Operations and Maintenance (O&M) Projects			<u>14,971,123</u>
National Guard ChalleNGe Program	Defense, U.S. Department of	12.404	315,305
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	207,368
Pilot Demonstration or Earmarked Projects	Homeland Security, U.S. Department of	97.001	312,122
Homeland Security Cluster:			
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	9,105,479

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ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Military Department, Continued:</b>			
Pre-Disaster Mitigation (PDM) Competitive Grants	Homeland Security, U.S. Department of	97.017	(6,152)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	21,521,497
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039	4,118,273
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042	2,756,103
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078	309,855
<b>Total Military Department</b>			<u>\$ 84,421,443</u>
<b>Motor Vehicles, Department of</b>			
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605	113,355
Homeland Security Cluster:			
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	150,780
<b>Total Department of Motor Vehicles</b>			<u>\$ 264,135</u>
<b>Natural Resources, Department of</b>			
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	\$ 4,653
U.S. Geological Survey_ Research and Data Collection	Interior, U.S. Department of	15.808	32,528
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	65,944
National Dam Safety Program	Homeland Security, U.S. Department of	97.041	258,472
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045	390,560
Map Modernization Management Support	Homeland Security, U.S. Department of	97.070	6,522
<b>Total Department of Natural Resources</b>			<u>\$ 758,679</u>
<b>Oil and Gas Commission</b>			
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	\$ 90,062
<b>Total Oil and Gas Commission</b>			<u>\$ 90,062</u>
<b>Postsecondary Education, Coordinating Commission for</b>			
Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069	\$ 566,751
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	299,179
College Access Challenge Grant Program	Education, U.S. Department of	84.378	685,037
<b>Total Coordinating Commission for Postsecondary Education</b>			<u>\$ 1,550,967</u>

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

STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>Public Service Commission</b>			
ARRA State Broadband Data and Development Grant Program Recovery	Commerce, U.S. Department of	11.558	\$ 315,876
E-911 Grant Program	Transportation, U.S. Department of	20.615	325,811
<b>Total Public Service Commission</b>			<u>\$ 641,687</u>
<b>Roads, Department of</b>			
Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	\$ 385,953
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205	154,136,449
ARRA Highway Planning and Construction Recovery	Transportation, U.S. Department of	20.205	92,077,481
Total Highway Planning and Construction Cluster			<u>246,213,930</u>
Metropolitan Transportation Planning	Transportation, U.S. Department of	20.505	415,543
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	3,534,530
ARRA Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	366,302
Total Formula Grants for Other Than Urbanized Areas			<u>3,900,832</u>
Transit Services Programs Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	1,063,420
Highway Safety Cluster:			
State and Community Highway Safety	Transportation, U.S. Department of	20.600	2,758,289
Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601	1,067,352
Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602	426,109
State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	436,352
Incentive Grant Program to Prohibit Racial Profiling	Transportation, U.S. Department of	20.611	253,251
Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	45,953
Total Highway Safety Cluster			<u>4,987,306</u>
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614	125,097
<b>Total Department of Roads</b>			<u>\$ 257,092,081</u>
<b>Secretary of State</b>			
Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	\$ 765,838
Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617	59,667
<b>Total Secretary of State</b>			<u>\$ 825,505</u>

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STATE OF NEBRASKA  
**Schedule of Expenditures of Federal Awards - By State Agency**  
For the Fiscal Year Ended June 30, 2011

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2011 Expenditures</u>
<b>State Patrol</b>			
Missing Children's Assistance	Justice, U.S. Department of	16.543	\$ 244,890
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	222,206
National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	434,097
Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607	26,701
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	286,834
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	Justice, U.S. Department of	16.748	1,691
Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750	58,290
ARRA Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	Justice, U.S. Department of	16.800	190,177
ARRA Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	428,699
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,636,445
Fuel Tax Evasion-Intergovernmental Enforcement Effort	Transportation, U.S. Department of	20.240	13,222
High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z	1,060,901
<b>Total State Patrol</b>			<u>\$ 5,604,153</u>
<b>Supreme Court, Nebraska</b>			
Drug Court Discretionary Grant Program	Justice, U.S. Department of	16.585	\$ 85,723
Substance Abuse and Mental Health Services_Projcts of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	107,259
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	326,601
<b>Total Nebraska Supreme Court</b>			<u>\$ 519,583</u>
<b>Veterans' Affairs, Department of</b>			
State Cemetery Grants	Veterans Affairs, U.S. Department of	64.203	\$ 1,240,196
<b>Total Department of Veterans' Affairs</b>			<u>\$ 1,240,196</u>
<b>Worker's Compensation Court</b>			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	\$ 46,163
<b>Total Worker's Compensation Court</b>			<u>\$ 46,163</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,256,837,192</u>

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ARRA - American Recovery and Reinvestment Act  
See accompanying Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2011

**(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, 2011.

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-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. 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.

STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2011

**Major Programs**—In accordance with OMB Circular A-133, major programs are determined using a risk-based approach.

(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 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, 2011, the inventory balance of nonmonetary assistance for food commodities at the State level was \$2,028,951.

STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2011

**(4) Commodity and Vaccine Programs**

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

<u>CFDA #</u>	<u>Program</u>	<u>Commodities</u>
10.555	National School Lunch Program	\$ 9,052,124
10.558	Child and Adult Care Food Program	266,791
10.559	Summer Food Service Program for Children	49,747
10.565	Commodity Supplemental Food Program	2,292,534
10.569	Emergency Food Assistance Program	2,879,904

The U.S. Department of Agriculture, upon direction from the Nebraska Department of Health and Human Services, delivers the commodities directly to the subrecipients for distribution. The Childhood Immunization Grants included expenditures of \$20,725,966 (\$20,046,725 CFDA #93.268 and \$679,241 CFDA #93.712 ARRA) of nonmonetary Federal assistance in the form of vaccines. The Public Health Emergency Preparedness Grant (CFDA #93.069) included expenditures of \$36,740 of nonmonetary Federal assistance in the form of vaccines.

**(5) Supplemental Nutrition Assistance Program (SNAP)**

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The 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 approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.



STATE OF NEBRASKA  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2011

**(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 (CFDA #39.003) program. Donated Federal surplus personal property in 2011 was valued at the historical cost of \$5,710,562 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	<b>Outstanding Balance at June 30, 2011</b>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 149,399,982
66.468	Capitalization Grants for Drinking Water State Revolving Funds	96,111,645
84.176	Paul Douglas Teacher Scholarship Loan Program	10,766

New loans provided from these programs totaling \$12,005,283 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, 2011, which collectively comprise the State of Nebraska's basic financial statements and have issued our report thereon dated December 29, 2011. 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 University of Nebraska Foundation, the Nebraska State College System Foundations, and the College Savings Plan, as described in our report on the State of Nebraska's financial statements. The financial statements of the University of Nebraska Foundation, the Nebraska State College System Foundations, and the College Savings Plan were not audited in accordance with *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

Management of the State of Nebraska is responsible for establishing and maintaining effective 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 the 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 #11-25-01, #11-65-01 and #11-65-02. 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 response 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  
December 29, 2011

Pat Reding, CPA, CFE  
Assistant Deputy Auditor



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2011. 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, 2011. 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-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska's compliance with those requirements.

### 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.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
93.044, 93.045 and 93.053	Aging Cluster	Reporting/Matching and Level of Effort	11-25-17
93.044, 93.045 and 93.053	Aging Cluster	Reporting	11-25-18

### 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.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
17.258, 17.259, 17.260, and 17.278	WIA Cluster	Reporting	11-23-04
10.568 and 10.569	Emergency Food Assistance Cluster	Subrecipient Monitoring/ Eligibility/Suspension and Debarment	11-25-09
10.569	Emergency Food Assistance Program (Food Commodities)	Reporting	11-25-11
10.569	Emergency Food Assistance Program (Food Commodities)	Special Tests and Provisions	11-25-12
93.044, 93.045, and 93.053	Aging Cluster	Allowability/ Subrecipient Monitoring	11-25-15
93.569 and 93.710	Community Services Block Grant	Cash Management	11-25-27

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
93.575, 93.596, and 93.713	Child Care and Development Fund Cluster	Allowable Costs/ Eligibility	11-25-31
93.575, 93.596, and 93.713	Child Care and Development Fund Cluster	Special Tests and Provisions	11-25-32
93.658	Foster Care Title IV-E	Allowability/Eligibility/ Period of Availability	11-25-34
93.658	Foster Care Title IV-E	Period of Availability/ Reporting	11-25-36
93.658	Foster Care Title IV-E	Allowable Costs	11-25-37
93.659	Adoption Assistance	Allowable Costs/ Eligibility	11-25-39
16.738 and 16.803	JAG Cluster	Allowable Costs/ Subrecipient Monitoring	11-78-01

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.

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
10.555 and 10.559	National School Lunch Program, Summer Food Service Program for Children	Special Tests and Provisions	11-25-06
93.044, 93.045, and 93.053	Aging Cluster	Cash Management	11-25-16

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State of Nebraska did not comply in all material respects, with the requirements applicable to the programs identified in the preceding paragraph that could have a direct and material effect on each of its other major Federal programs for the year ended June 30, 2011. 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, 2011.

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

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
10.558	Child and Adult Care Food Program	Suspension and Debarment	11-13-01
84.126 and 84.390	Vocational Rehabilitation Cluster	Allowable Costs	11-13-02
84.394	State Fiscal Stabilization Fund	Allowability/Period of Availability	11-13-03
84.181 and 84.393	Early Intervention Services (IDEA) Cluster	Allowability	11-13-04
96.001 and 96.006	Disability Insurance/SSI Cluster	Suspension and Debarment	11-13-05
96.001 and 96.006	Disability Insurance/SSI Cluster	Allowability	11-13-06
17.225, 17.258, 17.259, 17.260, and 17.278	Unemployment Insurance and WIA Cluster	Allowable Costs	11-23-01
17.258, 17.259, 17.260, and 17.278	WIA Cluster	Allowable Costs	11-23-02
17.258, 17.259, 17.260, and 17.278	WIA Cluster	Allowability/Eligibility	11-23-03
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Reporting	11-23-05

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
17.258, 17.259, 17.260, and 17.278	WIA Cluster	Cash Management	11-23-06
93.778	Medical Assistance Program	Allowable Costs	11-25-02
93.558	Temporary Assistance for Needy Families	Allowable Costs	11-25-03
93.658	Foster Care Title IV-E	Allowable Costs	11-25-04
93.575	Child Care and Development Block Grant	Period of Availability	11-25-05
10.555 and 10.559	National School Lunch Program and Summer Food Service Program for Children	Reporting	11-25-07
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Period of Availability	11-25-08
10.568	Emergency Food Assistance Program (Administrative Costs)	Allowability/Special Tests and Provisions	11-25-10
64.014 and 64.015	Veterans State Domiciliary Care and Veterans State Nursing Home Care	Reporting	11-25-13
93.044, 93.045, and 93.053	Aging Cluster	Subrecipient Monitoring	11-25-14
93.268	Immunization Grants	Allowable Costs	11-25-19
93.558	Temporary Assistance for Needy Families	Allowable Costs/Eligibility	11-25-20
93.558 and 93.714	Temporary Assistance for Needy Families and ARRA Emergency Contingency Fund for TANF State Program	Allowable Costs/Eligibility	11-25-21
93.558	Temporary Assistance for Needy Families	Reporting	11-25-22
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	11-25-23



<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
93.558	Temporary Assistance for Needy Families	Allowable Costs/Eligibility	11-25-24
93.563	Child Support Enforcement	Special Tests and Provisions	11-25-25
93.568	Low-Income Home Energy Assistance	Allowability/Eligibility	11-25-26
93.569 and 93.710	CSBG Cluster	Allowability/ Subrecipient Monitoring	11-25-28
93.569 and 93.710	CSBG Cluster	Eligibility	11-25-29
93.710	ARRA – Community Services Block Grant	Special Tests and Provisions	11-25-30
93.575, 93.596, and 93.713	CCDF Cluster	Special Tests and Provisions	11-25-33
93.658	Foster Care Title IV-E	Allowability	11-25-35
93.658	Foster Care Title IV-E	Subrecipient Monitoring	11-25-38
93.667	Social Services Block Grant	Allowability	11-25-40
93.667	Social Services Block Grant	Allowability	11-25-41
93.667	Social Services Block Grant	Suspension and Debarment	11-25-42
93.778	Medical Assistance Program	Matching/Reporting	11-25-43
93.778	Medical Assistance Program	Allowable Costs/ Eligibility	11-25-44
93.778	Medical Assistance Program	Allowability/Eligibility	11-25-45
93.778	Medical Assistance Program	Suspension and Debarment	11-25-46
93.778	Medical Assistance Program	Allowable Costs/ Subrecipient Monitoring	11-25-47

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
93.778	Medical Assistance Program	Special Tests and Provisions	11-25-48
93.778	Medical Assistance Program	Allowable Costs	11-25-49
93.778	Medical Assistance Program	Allowable Costs/ Matching	11-25-50
93.778	Medical Assistance Program	Eligibility	11-25-52
93.778	Medical Assistance Program	Allowable Costs	11-25-53
93.778	Medical Assistance Program	Allowable Costs	11-25-54
93.778	Medical Assistance Program	Eligibility	11-25-55
93.778	Medical Assistance Program	Eligibility	11-25-56
93.778	Medical Assistance Program	Allowable Costs/ Eligibility	11-25-57
93.778	Medical Assistance Program	Allowable Costs	11-25-58
20.205	Highway Planning and Construction	Davis Bacon Act	11-27-01
15.605 and 15.611	Fish and Wildlife Cluster	Reporting	11-33-01
16.738 and 16.803	Edward Byrne Memorial JAG and Recovery JAG	Reporting	11-65-03
93.778	Medical Assistance Program	Allowable Costs	11-65-04
93.719	State Grants to Promote Health Information Technology	Suspension and Debarment	11-65-05
93.719	State Grants to Promote Health Information Technology	Subrecipient Monitoring/ Special Tests and Provisions	11-65-06
93.568	Low-Income Home Energy Assistance	Reporting	11-71-01
93.568	Low-Income Home Energy Assistance	Suspension and Debarment	11-71-02

<b>CFDA #</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding #</b>
81.128	Energy Efficiency Conservation Block Grant	Allowable Costs	11-71-03
16.738 and 16.803	JAG Cluster	Cash Management	11-78-02
16.738 and 16.803	JAG Cluster	Subrecipient Monitoring	11-78-03
16.803	Recovery JAG	Reporting	11-78-04
16.738	Edward Byrne Memorial JAG	Allowability	11-78-05
84.126 and 84.390	Vocational Rehabilitation Cluster	Allowable Costs	11-81-01
66.458 and 66.468	Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds	Cash Management	11-84-01
66.458	Capitalization Grants for Clean Water State Revolving Funds	Cash Management/ Subrecipient Monitoring	11-84-02
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Cash Management/ Subrecipient Monitoring	11-84-03
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Reporting	11-84-04
66.458	Capitalization Grants for Clean Water State Revolving Funds	Reporting	11-84-05
66.040	State Clean Diesel Grant Program	Allowable Costs	11-84-06

### ***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 #11-23-04, #11-25-06, #11-25-09, #11-25-11, #11-25-12, #11-25-15, #11-25-16, #11-25-17, #11-25-18, #11-25-27, #11-25-31, #11-25-32, #11-25-34, #11-25-36, #11-25-37, #11-25-39, and #11-78-01 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 #11-13-01, #11-25-07, #11-25-10, #11-25-20, #11-25-22, #11-25-23, #11-25-24, #11-25-28, #11-25-35, #11-25-43, #11-25-45, #11-25-47, #11-25-48, #11-25-49, #11-25-50, #11-25-51, #11-65-03, #11-78-02, #11-78-03, #11-78-05, #11-84-01, #11-84-04, and #11-84-05 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 26, 2012

Pat Reding, CPA, CFE  
Assistant Deputy Auditor

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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 #11-25-01, #11-65-01 and #11-65-02. These findings were not considered to be material weaknesses.
- c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.
- d) 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 #11-13-01, #11-25-07, #11-25-10, #11-25-20, #11-25-22, #11-25-23, #11-25-24, #11-25-28, #11-25-35, #11-25-43, #11-25-45, #11-25-47, #11-25-48, #11-25-49, #11-25-50, #11-25-51, #11-65-03, #11-78-02, #11-78-03, #11-78-05, #11-84-01, #11-84-04, and #11-84-05.

We consider items #11-23-04, #11-25-06, #11-25-09, #11-25-11, #11-25-12, #11-25-15, #11-25-16, #11-25-17, #11-25-18, #11-25-27, #11-25-31, #11-25-32, #11-25-34, #11-25-36, #11-25-37, #11-25-39, and #11-78-01 to be material weaknesses in internal control over the major programs.

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

CFDA	10.551 and 10.561	SNAP Cluster
CFDA	10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster
CFDA	10.558	Child and Adult Care Food Program
CFDA	10.568 and 10.569	Emergency Food Assistance Cluster
CFDA	15.605 and 15.611	Fish and Wildlife Cluster

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

CFDA	16.738 and 16.803	JAG Program Cluster
CFDA	17.225	Unemployment Insurance
CFDA	17.258, 17.259, 17.260, and 17.278	WIA Cluster
CFDA	20.205 and 20.219	Highway Planning and Construction Cluster
CFDA	64.015	Veterans State Nursing Home Care
CFDA	66.458	Capitalization Grants for Clean Water State Revolving Funds
CFDA	66.468	Capitalization Grants for Drinking Water State Revolving Funds
CFDA	81.041	State Energy Program
CFDA	81.042	Weatherization Assistance for Low-Income Persons
CFDA	81.128	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery
CFDA	84.010 and 84.389	Title I, Part A Cluster
CFDA	84.027, 84.173, 84.391, and 84.392	Special Education Cluster (IDEA)
CFDA	84.126 and 84.390	Vocational Rehabilitation Cluster
CFDA	84.181 and 84.393	Early Intervention Services (IDEA) Cluster
CFDA	84.377 and 84.388	School Improvement Grants Cluster
CFDA	84.394 and 84.397	State Fiscal Stabilization Fund Cluster
CFDA	84.410	Education Jobs Fund
CFDA	93.044, 93.045, and 93.053	Aging Cluster
CFDA	93.268 and 93.712	Immunization Cluster

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

CFDA	93.558 and 93.714	TANF Cluster
CFDA	93.563	Child Support Enforcement
CFDA	93.568	Low-Income Home Energy Assistance
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	93.659	Adoption Assistance
CFDA	93.667	Social Services Block Grant
CFDA	93.719	State Grants to Promote Health Information Technology
CFDA	93.720, 93.775, 93.777, and 93.778	Medicaid Cluster
CFDA	96.001 and 96.006	Disability Insurance/SSI Cluster

- h) Dollar threshold used to distinguish between Type A and Type B programs: \$9,770,512
- i) The State did not qualify as a low-risk auditee.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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 #11-25-01**

**Accrual Information**

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires procedures to accurately report financial information to State Accounting.

During our audit of the 2011 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The Medicaid Estate Recovery receivable was overstated by \$691,070, as 10 of 15 accounts tested did not have a proper receivable balance recorded. Agency staff responsible for the proper record keeping of the receivable balances stated assumptions were made to determine account balances instead of detailed reviews of the case files. Several causes for the errors were: not properly reducing receivables when cases were closed, closing cases when a receivable still existed, not following policies for determining when to recognize a receivable, and lack of case file review to ensure receivables were accurate. Furthermore, the Agency did not document their consideration of allowance for doubtful accounts.
- The Third Party Liability receivable was overstated by \$121,525, as 2 of 15 claim submittals tested had inaccurate receivable balances recorded, due to the lack of proper updating of duplicate submittals recorded in the system. The Agency may send multiple claim submittals for one case, for instance when multiple insurance companies or attorneys are associated with one case. When an adjustment is made to a claim submittal, all claim submittals must be adjusted in the system.
- The NFOCUS receivable was understated by \$129,951, because the Agency did not include amounts for four programs in the calculation. The Agency also did not calculate the proper State and Federal shares, the General Fund was overstated and the Federal Fund was understated by \$207,144. Furthermore, the Agency did not document their consideration of allowance for doubtful accounts; the Agency only reduced the receivable for known write-offs.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- The Patient and County Billings receivable was overstated by \$1,606,134, because the Agency did not reduce write-offs and other uncollectible amounts from the calculation. Additionally, the Agency did not have documentation to support the reasonableness of the percentage used to calculate the allowance for doubtful accounts.
- The State Ward Education payable was overstated by \$53,201, primarily due to the Agency not updating a figure in the supporting documentation from the prior year.
- The Intergovernmental payable was overstated by \$1,572,079, because the Agency used a summary for an improper time period when it was reported to State Accounting.
- The State Disability payable was overstated by \$412,566, due to an incorrect calculation of the average amounts paid during April, May, and June.
- The funding for the Medicaid Disproportionate Share payable was incorrectly reported to State Accounting. The Agency reported \$346,689 in General Fund payables when the payable should have been reported in the Health and Social Services Fund.
- The Agency did not calculate the proper State and Federal shares for the NFOCUS payable, the General Fund was understated and the Federal Fund was overstated by \$466,305.

One additional finding was noted during testing of the Agency's trust fund bank activity reported to State Accounting. The Agency did not properly report receipt and disbursement activity causing the activity to be understated by \$494,280.

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

Without proper controls to ensure amounts reported to State Accounting are accurate, there is an increased risk of financial statement misstatements not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure amounts reported are complete and accurate, including properly recording allowances for doubtful accounts.

**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.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF ADMINISTRATIVE SERVICES**

**Finding #11-65-01**

**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 were correct. The errors included an overstatement of \$1,606,134 by the Department of Health and Human Services and an understatement of \$2,527,597 by the Department of Labor.
- Errors were also noted on information prepared by State Accounting to support entries made to the financial statements. Errors ranged from \$116,501 to \$8,575,906.
- The new Governmental Accounting Standards Board (GASB) Statement Number 54 (Statement), *Fund Balance Reporting and Governmental Fund Type Definitions*, was not adequately implemented. Several assigned fund balances did not have supporting documentation and were later determined to be restricted fund balances, the fund balances recorded in error were over \$36 million. Furthermore, several disclosures were not adequately prepared in compliance with the Statement. The Auditor of Public Accounts (APA) had to work extensively with State Accounting in order for the Statement to be implemented properly.
- The Derivative Financial Instruments disclosure was not in compliance with the GASB Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*. The disclosure did not include all derivative investments held by the State and Synthetic Guaranteed Investment Contracts (SGIC) was not included.

State Accounting did make correcting entries and revised disclosures for all material amounts as recommended by the APA. A similar finding was noted in previous reports.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

We recommend State Accounting continue to work with and train State agency personnel to ensure accrual information are supportable and have a sound accounting base. State Accounting should also have procedures in place to review and verify the information is supportable, reasonable, and accurate. We also recommend State Accounting ensure an adequate review and the proper implementation of internally prepared documentation to ensure accuracy.

**Management Response:** State Accounting has and will continue to work extensively with agencies to ensure that the amounts the agencies submit with the accrual questionnaires are correct. State Accounting has met with many of the larger agencies to discuss this issue and to help the agencies implement proper procedures for several years. Members from State Accounting are continuing to attend each exit conference and be a party to all discussions with the auditors and the agencies regarding this issue. State Accounting continues to meet with appropriate agencies to improve reporting methods. State Accounting has procedures to review work papers before they are given to the auditor. This year all work papers were reviewed by State Accounting employees, but some errors were still not discovered. State Accounting will again put strong emphasis on making our work papers correct and significant progress has been made in accrual reporting over the years.

**Finding #11-65-02**

**Health and Pharmacy Benefit Procedures**

The Agency's procedures for the Eligibility Audit for Health and Pharmacy Benefits states, "Each month 14 members are randomly chosen for the Eligibility Audit, 11 from the BCBS (Blue Cross Blue Shield) files and three from the ESI (Express Scripts, Inc.) files...Verification includes: verify that the employee is enrolled in the Medical plan that the claims were paid under, when the plan started and or stopped and any dependents covered including their age." A good internal control plan and sound business practice require verification procedures to ensure insurance claims paid by the State are proper and for eligible individuals only.

The APA selected 15 employees to test from the Agency's eligibility audits. We reviewed the Agency's documentation for verification of the employees' eligibility and all dependents of that employee enrolled in the plans. Of the 15 employees tested, 8 employees had dependents in the plans. The following issues were noted:

- DAS did not begin dependent eligibility testing until November 2010. Prior to this it was unknown if dependents covered in the plans were proper. Three of eight employees, with dependents, selected for testing by the APA were prior to dependent eligibility testing.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- Beginning in March 2011, eligibility procedures for ESI claims were no longer performed by the Agency. The Agency requested the member name and ID numbers be removed from reports provided by ESI, without this information the Agency was unable to perform eligibility procedures. It is unknown why the Agency requested the information be removed.
- One employee, with two dependent children over the age of 19, was tested by the Agency. The Agency obtained class schedules for both dependents to verify eligibility, however, the schedules did not identify the student's name, therefore, it was unknown if they were for the dependents tested and the Agency did not perform further procedures to verify.
- One employee was a retired State Patrol member and was eligible for continued health insurance coverage. The member's spouse was also covered under the plans. The Agency did not perform eligibility procedures to ensure the spouse was properly eligible for the plan.
- Two employees selected for testing by the APA had not responded to the Agency's request for information. The Agency stated their alternate procedures were to contact the member via telephone and contact the employing State agency. However, the Agency did not document further contact made with the individuals or the State agency, therefore, it was unknown if there were any further attempts made to obtain information to verify eligibility.
- During our review of user controls outlined in the ESI Statement on Auditing Standards Number 70 (SAS 70), we noted the Agency did not reconcile ESI invoices to reports detailing claims to ensure only eligible claims were paid. The Agency also did not review the Eligibility Summary and Error reports or reconcile the reports to transactions sent to ESI in order to identify input errors.

Without adequate procedures to ensure individuals in the health and pharmacy plans are eligible there is increased risk ineligible claims will be paid. Furthermore, when user controls identified in the SAS 70 are not addressed there is an increased risk of error in data supplied to and from ESI.

We recommend the Agency establish procedures to ensure individuals in the health and pharmacy plans are eligible and claims paid are accurate and proper. We also recommend the Agency implement procedures to ensure user controls identified in the ESI SAS 70 report are considered and documented.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** The Department of Administrative Services Wellness and Benefits division implemented an internal dependent audit process in November 2010 to randomly audit approximately 10-15 employees each month. Administrative Services will continue to improve the process to ensure that a sufficient review is in place to conduct these monthly checks of dependent eligibility. Beginning next plan year, Administrative Services will be requiring random audits to be conducted by our health care administrator. In addition, over 8,000 employees with enrolled dependents on July 1, 2011 were subject to a comprehensive dependent audit conducted by a specialized dependent audit firm.

The Department of Administrative Services Wellness and Benefits division has a review process in place for invoices from Express Scripts. In an effort to improve this review process, the division is working with Express Scripts to design a report that will allow dependent eligibility to be reviewed.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**DEPARTMENT OF EDUCATION**

**Finding #11-13-01**

**Program:** CFDA 10.558 – Child and Adult Care Food Program – Suspension and Debarment

**Grant Number & Year:** All open grants, including #2011IN109943, FFY 2011

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

**Criteria:** Per 2 CFR § 180.300 (January 1, 2010), 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 program participants were not suspended or debarred by the Federal government.

**Questioned Costs:** None

**Context:** We reviewed the annual agreements of 25 program participants and we noted their agreements did not include a certification or clause regarding suspension and debarment, nor did the Agency have documentation supporting the EPLS was checked. We reviewed the EPLS for the 25 program participants tested and found none of them on the list. There are approximately 352 program participants.

**Cause:** Per the Agency, they only require a clause in the program participant’s agreement regarding suspension and debarment if they state they plan on contracting with a Food Service Management Company to provide their meals.

**Effect:** The Agency could be unaware of contracts with suspended or debarred parties.

**Recommendation:** We recommend the Agency implement procedures to ensure all program participants’ agreements contain the correct language referring to the EPLS to ensure compliance with Federal suspension and debarment requirements.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** Nutrition Services will incorporate procedures to ensure all program participant agreements contain the correct language referring to the EPLS to ensure compliance with Federal suspension and debarment requirements.

**Corrective Action Plan:** A procedure for accessing the Excluded Parties List System (EPLS) website with step-by-step instructions for checking the EPLS will be created.

Nutrition Services will add to two currently existing, internal documents an additional step in the approval process for new Child and Adult Care Food Program institutions/sponsors. These two documents are the *CACFP Application Review Checklist* and the *Approval Process for New Institutions* (new center decision tree).

The Office Associate responsible for completing the *CACFP Application Review Checklist* will check the EPLS, notify the sponsor if the institution or Responsible Individual is on the EPLS and stop the application process. If the institution or Responsible Individual is not on the EPLS, the application process will continue. The Office Associate will initial and date the entry on the *CACFP Application Review Checklist*. The *CACFP Application Review Checklist* will be filed in the institution's permanent file in Nutrition Services.

Nutrition Services will add a section to the online program application (Colyar/CNP <http://cnp.education.ne.gov>) which must be approved annually, for the Responsible Individual to affirm the institution and/or the Responsible Individual has/have not been suspended or debarred.

**Contact:** Bev Benes, Director Nutrition Services

**Anticipated Completion Date:** March 15, 2012, for the edits to the *CACFP Application Review Checklist* and the *Approval Process for New Institutions*. June 1, 2012, for the change to the online program application (Colyar/CNP).

**Finding #11-13-02**

**Program:** CFDA 84.126 – Rehabilitation Services Vocational Rehabilitation Grants to States; CFDA 84.390 – Rehabilitation Services Vocational Rehabilitation Grants to States, Recovery Act – Allowable Costs/Cost Principles

**Grant Number & Year:** All open grants including H126A090039, FFY 2009; H126A100039, FFY 2010; H126A110039, FFY 2011; and H390A090039, FFY 2009

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** OMB Circular A-87, Attachment B, § 8(h)(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

**Condition:** A semi-annual certification for the employees time worked solely on the Vocational Rehabilitation program was not completed.

**Questioned Costs:** Unknown

**Context:** The Agency utilizes timesheets to record time worked and/or leave taken by employee. The Vocational Rehabilitation program utilizes the QUEST software system for time-keeping purposes. Agency timesheets used which are not from Quest include a statement which says “I certify the following is a true and accurate representation of time worked and leave taken by the indicated employee. I further certify that the employee worked 100% of the time in the program associated with the business unit stated below.” However, the QUEST timesheets used by Vocational Rehabilitation employees do not contain the statement for certification and there was no other semi-annual certification for those employees who worked solely on the Vocational Rehabilitation program.

We tested fourteen employees. Thirteen of fourteen employees recorded time worked and leave taken on timesheets from the QUEST system. All thirteen employees’ timesheets did not include a statement of certification of time spent solely on the Vocational Rehabilitation program and no other certification, made at least semi-annually, was completed.

Vocational Rehabilitation payroll costs for the fiscal year ended June 30, 2011, was \$9,294,297.

**Cause:** The Agency thought timesheets contained a statement to certify the time worked solely on the program; however, this statement was not added to the timesheets utilized by Vocational Rehabilitation employees in the QUEST system.

**Effect:** Noncompliance with Federal regulations which could result in unallowable costs charged and Federal sanctions.

**Recommendation:** We recommend the Agency implement procedures to ensure a certification of time worked and leave taken by employees who work solely on a single Federal program is completed at least semi-annually as required by Federal regulations.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** As a result of the CAFR testing done in 2011, the following was added to all VR timesheets beginning in August 2011:

*“This report has been electronically certified by (employee) on (date) and supervisor (supervisor) on (date) and is now locked in Quest II. Employee submission of this leave report through Quest II to their supervisor is the employee’s certification that the information in Quest II is a true and accurate representation of leave taken. It is further certification that the employee has worked or been on approved leave for at least 40 hours (or equivalent hours based on FTE) each week of this pay period. I further certify that the employee worked 100% of the time on the program they were assigned.”*

**Corrective Action Plan:** Completed

**Contact:** Cinda Wacker

**Anticipated Completion Date:** Completed

**Finding #11-13-03**

**Program:** CFDA 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act – Allowability/Period of Availability

**Grant Number & Year:** #S394A090028, FFY 2009

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

**Criteria:** Attachment T of the U.S. Department of Education grant award notification states, “recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.” The grant award notification also notes the funding period of June 19, 2009, to September 30, 2010. A good internal control plan requires procedures to ensure expenditures are adequately supported and obligations occurred during the period of availability as set forth in the grant award.

**Condition:** One of 25 School reimbursements tested did not have adequate supporting documentation.

**Questioned Costs:** \$24,425

**Context:** One reimbursement tested for \$24,425 was a journal entry charging salaries to the grant. The Agency did not have any documentation to support the underlying transactions were allowable and for obligations incurred during the period of availability. Total sample tested was \$2,722,674 and total expenditures were \$131,044,956. Based on the sample tested, the dollar error rate was 0.9% (\$24,425/\$2,722,674) which estimates the potential dollars at risk to be \$1,179,405 (dollar error rate multiplied by population).

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency relies on audits performed by independent auditors. Per 92 NAC Chapter 1.003.04B, “If a school district receives any funds from the American Recovery and Reinvestment Act of 2009 a separate schedule detailing all receipts and disbursement (by major object of expenditures) must be included. A review of how the school district spent all of the American Recovery and Reinvestment Act of 2009 funds compared to how the school districts planned on spending these funds shall be conducted and any discrepancies reported on this schedule.” Although the auditors are required to review ARRA expenditures compared to budgeted expenditures, these audits would not require specific individual transactions to be tested for allowability and period of availability.

**Effect:** Lack of adequate documentation increases the risk for unallowable expenditures to be reimbursed.

**Recommendation:** We recommend the Agency obtain and maintain adequate documentation for grant expenditures to support charges are allowable and within the period of availability.

**Management Response:** As this program has been “completed” we feel that corrective actions are not required at this time. If in the case there are future similar programs we, particularly for journal entries, will consider requesting additional documentation.

**Corrective Action Plan:** Completed

**Contact:** Bryce Wilson

**Anticipated Completion Date:** Completed

**APA Response:** The questioned costs should be resolved with the Federal grantor.

**Finding #11-13-04**

**Program:** CFDA 84.181 – Special Education Grants for Infants and Families; CFDA 84.393 – Special Education Grants for Infants and Families, Recovery Act – Allowability

**Grant Number & Year:** #H181A100033, FFY 2010; #H393A090033, FFY 2009

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

**Criteria:** OMB Circular A-87, Appendix A, Part 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 5 of 19 aid expenditures tested for the Early Intervention Program.

**Questioned Costs:** \$60,782

**Context:** We tested 26 expenditures, 19 of which were for aid to subrecipients. Five of the 19 did not have adequate support for \$60,782. The nineteen aid expenditures to subrecipients tested totaled \$126,945; and all aid expenditures to subrecipients totaled \$2,443,610 for the fiscal year ended June 30, 2011. The five expenditures noted 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. A similar finding was noted in the prior audit. After the prior audit the Agency implemented procedures to obtain supporting documentation with the expenditure and/or to perform on-site reviews. We noted on-site fiscal reviews were being performed, but the five expenditures noted did not have such a review for the time period of the payment tested.

**Cause:** The Agency implemented additional procedures after the finding was noted in the prior audit; however, these procedures were not in place for the entire fiscal year.

**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 ensure adequate supporting documentation for aid expenditures to subrecipients is reviewed and maintained.

**Management Response:** As you stated in this finding “A similar finding was noted in the prior audit. After the prior audit the Agency implemented procedures to obtain supporting documentation with the expenditure and/or to perform on-site reviews. We noted on-site fiscal reviews were being performed...” Therefore we consider that we have implemented procedures that address this finding.

**Corrective Action Plan:** See above

**Contact:** Gary Sherman

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Anticipated Completion Date:** Completed

**Finding #11-13-05**

**Program:** CFDA 96.001 – Social Security Disability Insurance; CFDA 96.006 Supplemental Security Income – Suspension and Debarment

**Grant Number & Year:** 04-1004NEDI00, FFY 2010; 04-1104NEDI00, FFY 2011

**Federal Grantor Agency:** Social Security Administration

**Criteria:** 2 CFR § 180.300 (January 1, 2010) 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 were not suspended or debarred from receiving Federal funds by checking the EPLS maintained by the General Services Administration.

**Questioned Costs:** Unknown

**Context:** The Agency pays vendors for consultative medical examinations making them subject to the suspension and debarment compliance requirements. The auditor reviewed the EPLS for vendors tested and found none of the vendors on the EPLS.

**Cause:** Unknown

**Effect:** The Agency could pay Federal funds to suspended or debarred entities or individuals.

**Recommendation:** We recommend the Agency implement procedures to ensure a documented review of the EPLS is performed for all covered transactions or alternatively, collecting a certification.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** This item pertains to the agency's purchase of consultative medical examinations to help determine eligibility for disability benefits. APA recommends that the agency verify that payments for such examinations not be made to entities who have been suspended or debarred from receiving Federal funds by checking the Excluded Parties List System (EPLS) maintained by the GSA. Rather than using the EPLS, the Agency, as prescribed by SSA regulations (See 20 CFR 404.1503a, 404.1519, and 404.1519g (b) and instructions (see <http://policynet.ba.ssa.gov/poms.nsf/lrx/0439569300>) uses a different system to accomplish the same purpose. The system is known as the "List of Excluded Individuals and Entities" (LEIE); this system is maintained by SSA Office of Inspector General for specific use in the disability program. The Nebraska version can be found at <http://exclusions.oig.hhs.gov/StateDetails.aspx?id=28>.

APA does not explain its conclusion that the Agency is required to use the EPLS in relation to consultative medical examination. APA only cites, as the basis for its recommendation, 2 CFR § 180.300, which refers to a "covered transaction with another person at the next lower tier .....". But APA has taken the quotation from this CFR out of context. The entire text can be found at <http://law.justia.com/cfr/title02/2-1.1.1.2.2.html>. Important portions of the entire OMB guideline make clear that it does NOT apply to the consultative medical examinations obtained by the Agency. The title of the OMB document makes clear that it applies to "grants and agreements," and the Agency does not disburse any funds for any such purpose. It further characterizes the disbursements to which it applies as "non procurement transactions," whereas Agency expenditures for consultative examinations are clearly procurement transactions for the purpose of obtaining (procuring) specific medical tests and examinations. Also, at 2 CFR § 180.970 the following are cited as examples to which the requirement applies: "grants; cooperative agreements; scholarships; fellowships; contracts of assistance; loans; loan guarantees; subsidies; insurances; payments for specified uses; and donation agreements." Finally, the document also makes clear (at 180.220) that it applies to transactions of \$25,000 or more. It says nothing about an accumulation of smaller transactions that sum to that amount. DDS has no such grants or contracts pertaining to consultative examinations. Based on our reading of the OMB document, use of the EPLS is not required. SSA, the funding source, agrees with this interpretation. We are open minded to a more detailed and persuasive analysis of why use of the EPLS might be required, but while awaiting that, our conclusion is that it simply does not apply.

**Corrective Action Plan:** None – the cited CFR does not apply to this program.

**Contact:** Douglas Willman

**Anticipated Completion Date:** N/A

STATE OF NEBRASKA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011

**APA Response:** In rejecting the APA's finding, the Agency asserts that SSA agrees with its determination that use of the EPLS is not required for the purchase of consultative medical examination services. However, the Agency has not provided the APA with documentation of any such formal determination by SSA. In the absence of supporting evidence for the claimed SSA pronouncement, the APA's interpretation of the applicable Federal requirements and guidelines remains unchanged.

Utilization of the General Service Administration's EPLS is not needed, according to the Agency, due to the Agency's current reliance upon the Office of Inspector General's (OIG) LEIE. This conclusion is flawed, however, by the failure of the Agency to recognize that the two Federal screening systems are not mutually exclusive. While LEIE provides information regarding individuals and entities precluded specifically from participation in Medicare, Medicaid, and other Federal health care programs, EPLS is relevant to the much broader issue of debarment from government contracts, benefits, or financial assistance. Thus, the fact that the OIG recommends screening through LEIE does not abrogate the need to comply with the mandatory EPLS usage provisions found in 2 CFR Part 180.

As pointed out in the Agency's response, the APA has noted that 2 CFR § 180.300 requires EPLS to be consulted whenever an entity enters "into a covered transaction with another person at the next lower tier . . ." Contrary to what the Agency claims, however, nothing in either OMB Circular A-133 nor 2 CFR Part 180 indicates that "consultative medical examinations obtained by the agency" are exempt from mandatory sanction screening through EPLS. Rather, those Federal requirements relating to EPLS usage are clearly applicable to the Agency's agreements with its medical providers.

To start, 2 CFR § 180.200 defines a "covered transaction" as a "nonprocurement or procurement transaction that is subject to the prohibitions in this part." The Agency emphasizes that, under 2 CFR § 180.220, a contract for goods or services must be "expected to equal or exceed \$25,000" in order to qualify as a covered transaction – arguing that "DDS has no such grants or contracts pertaining to consultative examinations." The Agency states also:

*"It further characterizes the disbursements to which it applies as 'non procurement transactions,' whereas Agency expenditures for consultative examinations are clearly procurement transactions for the purpose of obtaining (procuring) specific medical tests and examinations."*

The problem with the Agency's analysis is that it mischaracterizes the meaning of a nonprocurement transaction. According to 2 CFR § 180.210, "All nonprocurement transactions, as defined in § 180.970, are covered transactions unless listed in the exceptions under § 180.215." The definition for

STATE OF NEBRASKA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011

nonprocurement transaction found in 2 CFR § 180.970 states, “*Nonprocurement transaction* means any transaction, regardless of type (except procurement contracts), including, but not limited to the following . . .” Among the types of transactions listed are “cooperative agreements” and “payments for specified uses.”

In an email message dated December 8, 2011, Doug Willman explained, “[T]he expenditures in question do not occur under contracts at all . . .” Taking him at his own word, it is evident that the \$25,000 limit set out in 2 CFR § 180.220 is inapplicable, as it applies only to “contracts” for good or services. Moreover, given that nonprocurement transactions are defined under 2 CFR § 180.970 as “any transaction, regardless of type,” with the exception of “procurement contracts,” the APA is left with no other alternative but to conclude that – in the absence of any “contracts at all,” as made clear by Mr. Willman – the payments must arise from nonprocurement transactions.

Even if, as pointed out by the Agency, the payments are made “for the purpose of obtaining (procuring) specific medical tests and examinations,” without the requisite contractual agreements, those specific undertakings must be classified as nonprocurement transactions. Whether the transactions could be classified as “cooperative agreements” or “payments for specified uses” is uncertain; however, regardless of their specific descriptions, it is evident that they must be treated as nonprocurement transactions. As stated clearly in 2 CFR § 180.210, moreover, all nonprocurement transactions, unless specifically exempted, are covered transactions.

We recommend that absent written verification from the Federal Grantor that EPLS provisions do not apply to the Program, the Agency comply with 2 CFR Part 180.

**Finding #11-13-06**

**Program:** CFDA 96.001 – Social Security Disability Insurance; CFDA 96.006 Supplemental Security Income – Allowability

**Grant Number & Year:** 04-1004NEDI00, FFY2010; 04-1104NEDI00, FFY2011

**Federal Grantor Agency:** Social Security Administration

**Criteria:** OMB Circular 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.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

American Institute of Certified Public Accountants (AICPA) Professional Standards AU Section 316.04 *Consideration of Fraud in a Financial Statement Audit* states “Although this section focuses on the auditor’s consideration of fraud in an audit of financial statements, it is management’s responsibility to design and implement programs and controls to prevent, deter, and detect fraud. That responsibility is described in section 110.03, which states, “Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.” Management, along with those charged with governance, should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those charged with governance fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.”

American Institute of Certified Public Accountants (AICPA) Professional Standards AU Section 316 Appendix .85 A.2 notes the following example of risk factors relating to misstatements arising from fraudulent financial reporting. Attitudes/Rationalizations – “Risk factors reflective of attitudes/rationalizations by those charged with governance, management, or employees that allow them to engage in and/or justify fraudulent financial reporting, may not be susceptible to observation by the auditor. Nevertheless, the auditor who becomes aware of the existence of such information should consider it in identifying the risks of material misstatement arising from fraudulent financial reporting. For example, auditors may become aware of the following information that may indicate a risk factor: Ineffective communication, implementation, support, or enforcement of the entity’s values or ethical standards by management or the communication of inappropriate values or ethical standards.

An essential part of a good internal control plan is ensuring procedures are in place to encourage employees to report suspected improprieties to management. Management must set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud.”

**Condition:** While the Agency had a policy (Administrative Memorandum #610) which addressed reporting Fraud, Waste, or Violations of Law, the tone of managements’ attitude to encouraging employees to report suspected improprieties was unacceptable.

**Questioned Costs:** None

**Context:** The response by the Disability Determination Section Senior Administrator to the internal control question “Are employees encouraged to report suspected improprieties to management?” was “No. DDS believes that employees would report egregious cases without such encouragement and they would come to light anyway.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

DDS wants employees to focus on the content of the jobs they were hired to do and turning them into fraud reporters would diminish this and lead to a lot of wheel spinning with no forward motion.”

**Cause:** Unknown

**Effect:** Suspected improprieties may not be reported to management.

**Recommendation:** We recommend documented procedures in addition to the current policy be implemented which encourage employees to report suspected improprieties to management.

**Management Response:** The condition reported by the APA takes note of the tone of management’s response to the portion of the audit background questionnaire having to do with encouraging employees to report suspected improprieties. The APA is correct. The writer of the questionnaire apologizes for the inappropriate tone and offers as explanation only the frustration resulting from a shrinking staff, an increasing workload, and the impact on public service of spending more and more time on administrative tasks.

Turning from tone to substance, the APA recommendation appears not to be grounded in any authority. Typically, an audit finding or recommendation begins with the statute, regulation, OMB circular, etc. which requires some action and then explains how agency practices do not comport with the authority. For this recommendation, APA references only OMB A-133 (requiring compliance with laws, regulations, and provisions of contracts) and two long paragraphs from the Professional Standards of the AICPA. Those two paragraphs describe the need to prevent fraudulent financial statements. From this source APA appears to derive an entirely separate concept – the requirement that employees be encouraged to report suspected “improprieties.” In other words, there is no logical or substantive connection between the recommendation and its authoritative source.

The Agency has a stated policy (Administrative Memorandum #610) that encourages employees to report fraud, waste, or violations of law. All Agency employees receive an annual reminder. There being no known or suspected instances of impropriety, in management’s view, this is sufficient. As for the attempted use of fraudulent information to attempt to gain eligibility for disability benefits, the Agency utilizes the procedures established by SSA to refer such instances to the Federal Office of Inspector General. Again, the writer apologizes for the inappropriate tone in the background questionnaire.

**Corrective Action Plan:** None, existing Agency procedures are adequate and APA has cited no authoritative basis for its finding.

**Contact:** Douglas Willman

STATE OF NEBRASKA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011

**Anticipated Completion Date:** N/A

**APA Response:** The authoritative basis is OMB Circular A-133. As noted above, OMB Circular A-133 requires the auditee to maintain internal control over Federal programs. OMB Circular A-133 Compliance Supplement Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing, for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that, when present and operating effectively, may ensure compliance with program requirements. The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. The COSO framework contains five control components needed to help assure sound business objectives. The first control component is Control Environment. The Control Environment sets the tone of an organization influencing the control consciousness of its people. The Control Environment includes the communication and enforcement of integrity and ethical values.

Although the Agency has a policy that encourages employees to report fraud, waste, or violations of law, the response by the Disability Determination Section Senior Administrator indicates the Agency is not setting the proper tone and corrective action needs to be taken.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF LABOR**

**Finding #11-23-01**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – 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 CFDA's are also impacted – Allowable Costs/Cost Principles

**Grant Number & Year:** Various, including WIA grant #AA-18655-09-55-A-31, FFY 2011; WIA ARRA grant #AA-17135-08-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 personnel 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.” 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.” OMB Circular A-87, Attachment C, § D(4) further states, “All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.”

The Agency’s CAP states:

- “Allocation costs will be charged out as soon as administratively possible but always completed prior to fiscal year end except for the last period which will be completed no later than 30 days after fiscal year end.”
- “All technology costs will be allocated to the agency-wide based on the number of the computers each subledger has assigned to it...If a subledger is funded by more than one fund source, the technology costs will be allocated to the various

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- fund sources based upon each fund source's assigned computing units breakdown of time charged measured over a prescribed period determined by management."
- "Costs at One-Stop Career Centers will be allocated in accordance with the cost allocation plan of the MOU [Memorandum of Understanding] applicable to such leased facility."
  - "Other costs (including dues, license, fees, etc.) will be allocated as a direct cost if it is determined to solely or primarily benefit a particular funding stream(s). Otherwise if the cost benefits all funding sources, the cost will be allocated based upon each fund source's proportional share of all time paid to each fund source for the month when the cost is incurred."
  - "Local and long distance telephone charges and communication costs which benefit more than one fund source, but less than all fund sources will be directly charged to the benefiting fund sources in accordance with paragraph V(A)(1)(a)..." Section V(A)(1)(a) states, "If a direct cost item primarily benefits two or more fund sources but not NDOL-wide operations, and the cost item represents costs primarily related to or represented by staffing, costs will be directly attributed to fund sources by allocating within a subledger based on each fund sources proportional share of time paid within the subledger for the month in which the charge is 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. Furthermore, good internal control requires all indexed indirect cost allocation percentages be supported.

**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 through June 30, 2010. During the fiscal year ended June 30, 2011, the Agency used 17 business units to collect indirect costs. Fourteen of these business units allocated costs using a variable monthly rate, while three of these business units allocated costs using a fixed indexed percentage. For the fiscal year ended June 30, 2011, 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 recorded to allocating business units to test. Of these ten disbursement documents, five 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 three audits also noted expenditures not in compliance with OMB Circular A-87.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** Unknown

**Context:** When testing the May 2011 indirect cost allocations, we noted the following:

- The Agency’s CAP was provisionally accepted through the fiscal year ended June 30, 2010. The Agency did not submit a CAP for the fiscal year ended June 30, 2011, to the U.S. Department of Labor (USDOL) until June 30, 2011. As of February 27, 2012, this CAP had not been approved by USDOL.
- The Agency’s CAP states allocation costs will be charged out as soon as administratively possible but should always be completed prior to fiscal year end, except for the last period, which will be completed no later than 30 days after fiscal year end. As of June 30, 2011, April and May desktop computer costs as well as the entire year of the National Association of State Workforce Agencies (NASWA), postage, general safety, and Workforce Investment Act (WIA) administration costs had not been allocated. These costs totaled \$153,199. These allocations were performed by July 30, 2011.
- Allocations involving general overhead and benefits costs were based on hours charged to various programs during the month; however, this hour basis excluded overtime exempt hours, which were coded to the Agency’s programs for salaried workers. May 2011 overtime exempt hours totaled 89 hours.
- During fiscal year 2011 we noted \$2,115 in life insurance costs were coded to a subledger which did not have payroll hours coded to it; therefore, the benefit allocations for this subledger did not take place. These life insurance costs should have been coded to the Human Resources subledger.
- The Agency’s calculation of indexed percentages for the allocation of desktop computers contained a formula error in the calculation of staff computers for safety business units in the Financial Services, Procurement, and Human Resources’ subledgers. The formula for public computers for Career Center, UI Benefits Claims, and UI Benefits Adjudicators was not in accordance with the CAP. The formula used to determine indexed percentages for these subledgers used number of participants rather than payroll hours. In addition, we noted 213 overtime exempt hours which were excluded from the calculation of project percentages.

The APA calculated the following over and (under) allocation of indirect costs for May 2011 by CFDA for the issues noted above:

<b>CFDA</b>	<b>APA Allocated Amount</b>	<b>EnterpriseOne Allocated Amount (JAs)</b>	<b>Variance Over/(Under) Allocated To</b>
10.561	\$ 3,995	\$ 3,998	\$ 3
17.002	11,793	11,829	36
17.207	87,026	86,821	(205)
17.225	172,578	172,674	96

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

<b>CFDA</b>	<b>APA Allocated Amount</b>	<b>EnterpriseOne Allocated Amount (JAs)</b>	<b>Variance Over/(Under) Allocated To</b>
17.245	5,031	5,050	19
17.258	4,954	4,957	3
17.259	1,626	1,627	1
17.260	15,720	15,732	12
17.271	1,830	1,833	3
17.273	497	498	1
17.275	8,935	8,841	(94)
17.504	7,711	7,717	6
17.801	12,874	12,917	43
17.804	2,468	2,484	16
None - (Note 1)	18,649	18,665	16
Allocating - (Note 2)	26,621	26,665	44
Total	<u>\$ 382,308</u>	<u>\$ 382,308</u>	<u>\$ -</u>

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.

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. These RUCs are based on salary dollars for a quarter of the previous fiscal year. Five of the ten expenditures we tested related to charges allocated using RUCs. We noted the following concerning these five RUC allocations:

- 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 memorandum of understanding (MOU) applicable to such leased facility. While the MOU for these facilities does provide for costs to be allocated, it does not adequately describe the methodologies to be used for allocating the expenses to the Agency's programs. Likewise, the MOU makes no mention of the RUC. Three of the expenditures tested related to facility expenses such as rent charged back due to subleasing of office space and janitorial services. Janitorial expenditures tested totaled \$14. Total janitorial expenditures recorded to allocating business units for the fiscal year ended June 30, 2011, were \$75,128. Rent credits tested which related to subleasing totaled \$47. Total rent recorded to allocating business units for the fiscal year ended June 30, 2011, was \$29,689.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- Two expenditures related to shredding and communication costs. These costs were allocated using the RUC percentage; however, the CAP appears to require communication costs and “other costs” such as shredding, to be allocated based on time paid for the month in which the charge is incurred. Therefore, the CAP does not appear to allow the Agency to use salary dollars for a quarter to allocate shredding and communication costs at the Career Centers. Shredding expenditures tested totaled \$3. Total shredding/refuse expenditures recorded to allocating business units for the fiscal year ended June 30, 2011, were \$3,289. Communication costs tested totaled \$3. Total communications costs recorded to allocating business units for the fiscal year ended June 30, 2011, were \$281,490.

Additionally we noted three of the five expenditures above were not charged or assigned to such cost objectives in accordance with relative benefits received. Salary dollars for these three Career Centers excluded amounts coded to projects such as Alien Labor Certification, Unemployment Insurance, and Work Opportunity Tax Credit. Management excluded salary dollars for these projects as the Career Centers normally do not handle these programs but will on occasion do work on demand related to them. Therefore, expenditures were not charged or assigned to cost objectives in accordance with relative benefits received.

**Cause:** The programming for EnterpriseOne causes overtime exempt hours to be excluded. The CAP is too general and does not adequately address how facility costs for Career Centers should be allocated.

**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 submit their CAP to the cognizant agency six months prior to the beginning of the State’s fiscal year. We also 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 or MOUs be revised to include specific guidance regarding the basis (dollars, hours) and timeframe (previous month, quarter, etc.) that should be used to allocate costs.

**Management Response:** Although Management has made several strides in the area of our agency wide allocations based upon the staff hours, the allocation system developed by JD Edwards only allocates off the AA ledger which does not take into account any of the exempt hours which reside in the AU ledger, in the advanced variable allocation. Management has documented the procedures to run the allocations as well as review the agency variable allocations. The Career Centers allocations were outside the allocation process as performed by the system and was done as a manual process based upon the hours, each bill was coded to a specific spreadsheet distribution. Due to the manual process, it was not

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

possible, if changes were made to the spreadsheets, to track any and all changes which were performed during the year. These changes and decision were not brought to Management's attention nor did Management have knowledge. Since Management has not submitted the CAP as it is still working with consultants to develop solutions to meet APA recommendations, it is not possible to submit the CAP prior to the end of the fiscal year for even the current year. The desktop fee allocation will be revised to be less complex so it can be reviewed and errors such as was found during the 10-11 fiscal year will not happen.

**Corrective Action Plan:** Management is developing an automated process for all Career Center Costs. Costs will be allocated based upon hours as well as indirect costs which will remove the MOU from the equation. The desktop fee allocation will be revised to a less complicated formula so it can be reviewed and errors such as was found this year will not happen. The Desktop fees will follow this same basic premise as the Career Center Costs, however, in order to ensure that the Desktop fees will be completed this year; we are not able to follow the customized programming of the Career Center Costs.

**Contact:** Debbie Kay Ward, CPA CTP

**Anticipated Completion Date:** December 31, 2012

**Finding #11-23-02**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) Cluster – 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.”



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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 five hours to WIA-Adult and three hours to WIA-Dislocated Worker for every day worked of the pay period tested.
- One employee recorded three hours to WIA-Adult and five hours to WIA-Dislocated Worker for every day worked of the pay period tested.
- One employee recorded four hours to WIA-Adult, three hours to WIA-Dislocated Worker, and one hour to WIA-Administration for every day worked 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 for each of the days worked. 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. A similar finding was noted in our prior audit. The APA did note that at the end of March 2011 an email was sent out by the Agency's Human Resources department to all employees notifying them of a change in the policy for recording time. Auditor reviewed the Time and Pay History Detail report from EnterpriseOne, the State's accounting system, and noted that in April 2011 it appears the time being charged by these employees changed and they began recording actual hours.

**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 has documented timekeeping procedures in the NDOL Policy Manual. Management has made the Policy Manual available to all employees on the intranet. This Policy Manual contains supervisory certification procedures. In addition Management has and will include timekeeping procedures in new hire orientation and conduct training for all staff. Management has and will include a Timekeeping Procedures and Approval/

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Certification module in Management supervisory training. Management has conducted quarterly sampling of timesheets to audit compliance. In addition, finance will develop a process to document all required security access for appropriate personnel.

**Corrective Action Plan:**

April 2011

- Dissemination of email advising employees of the need to report actual hours worked by project.

May 2011

- The Agency will review appropriate EnterpriseOne security access levels for individuals requiring access to payroll functions and remove unauthorized users.
- The Agency will implement procedures to review the payroll totals report and document evidence of review.
- The Agency will provide general information on timekeeping procedures to all Agency staff via email.

June 2011

- Distribution of follow-up directive to Agency staff regarding time charging.

August 2011

- Review of timekeeping policy compliance will begin.
- Agency orientation for new hires will include a module on timekeeping procedures. And quarterly thereafter; management will sample timesheets to audit compliance.
- Dissemination of timekeeping policy.

October 2011

- All Agency staff will be trained on timekeeping procedures.
- Agency supervisory staff will be trained on timekeeping and approval/certification procedures.

**Contact:** Joyce Welsch

**Anticipated Completion Date:** October 2011

**Finding #11-23-03**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) and ARRA WIA Cluster – Allowability/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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** 20 CFR § 663.310 (April 1, 2010) 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.”

20 CFR § 664.200 (April 1, 2010) states, “An eligible youth is defined, under WIA sec. 101(3), as an individual who: (a) Is age 14 through 21; (b) Is a low income individual, as defined in the WIA section 101(25); and (c) Is within one or more of the following categories: (1) Deficient in basic literacy skills; (2) School dropout; (3) Homeless, runaway, or foster child; (4) Pregnant or parenting; (5) Offender; or (6) Is an individual (including a youth with a disability) who requires additional assistance to complete an educational program, or to secure and hold employment.”

Good internal control requires that eligibility be fully documented through the use of official supporting documentation.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** For 13 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.

For 1 of 6 youth participants tested, eligibility could not be fully determined, as the Eligibility Verification Checklist was incomplete, and there was no supporting documentation to show that there was in fact a youth barrier to employment.

**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 6 other individuals, their files stated they were not Pell grant recipients; however, there was no documentation on file supporting the approval or denial of the Pell grant. Total payments tested for Adult participants were \$7,346, and total payments tested for Dislocated Worker participants were \$9,411. Total aid payments made to Adult participants were \$2,321,849 for fiscal year 2011. Total aid payments made to Dislocated Worker participants were \$1,952,689 for fiscal year 2011.

Of the 6 youth participants tested, one had an incomplete Eligibility Checklist, as there were no criteria marked for a youth barrier requirement. There was no official documentation to support that the youth had a qualifying barrier to employment.

A similar finding was also noted in the prior audit.

**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. We also recommend that eligibility be fully documented using official supporting documentation.

**Management Response:** Management agrees with the APA's audit finding. However, management feels it has completed the necessary steps to address the issue. The audit pulled PY 10 participants and the PELL corrective action that was outlined in the CAP did not take effect until July 1, 2011. Since we have not enrolled any adults or dislocated workers in Occupational Skill Training in PY 11 it is difficult to say if what we put in place on July 1, 2011, to correct this finding

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

is effective. However, as we start to enroll again in March we will monitor the implementation of the PELL Grant Tracking Form and through our review process insure that proper documentation from the training vendor is on file to demonstrate that we are not using WIA funds to supplant PELL Grant funds.

The Condition as stated in the report would suggest that WIA eligibility could not be fully determined as a result of inadequate supporting documentation to determine if the individual did or did not receive a PELL Grant. Eligibility for WIA funding for Occupational Skill Training (OST) is connected with PELL grant eligibility and receipt of PELL grant funds. The Agency agrees documentation should be maintained on whether the PELL grant was awarded or denied and if awarded, the Agency should maintain a documented coordination of WIA funds and other grant sources to ensure WIA funds are needed.

**Corrective Action Plan:** Implementation of the PELL Grant Tracking Form and initiate review process on all new adult and dislocated worker enrollments from March 1, 2012 through June 30, 2012.

**Contact:** Jason Mauseth

**Anticipated Completion Date:** June 30, 2012

**Finding #11-23-04**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) and ARRA WIA Cluster – Reporting

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

**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.

**Questioned Costs:** None

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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:

CFDA	Originally Reported	Correct SEFA Amount	Variance
17.258 Adult	\$ 2,473,190	\$ 3,005,617	\$ 532,427
17.258 Adult ARRA	\$ 846,162	\$ 1,342,295	\$ 496,133
17.259 Youth	\$ 2,807,697	\$ 2,177,262	\$ (630,435)
17.259 Youth ARRA	\$ 282,987	\$ 13,976	\$ (269,011)
17.260 Dislocated Workers	\$ 2,802,374	\$ 1,673,736	\$(1,128,638)
17.260 Dislocated Workers ARRA	\$ 1,683,891	\$ 1,351,527	\$ (332,364)
17.278 Dislocated Workers	\$ 14,491	\$ 525,476	\$ 510,985
<b>TOTAL</b>	<b>\$ 10,910,792</b>	<b>\$ 10,089,889</b>	<b>\$ (820,903)</b>

The WIA expenditures that the Agency originally reported for the SEFA included expenditures incurred by a subrecipient but had not yet been paid by the Agency to the subrecipient and therefore were not Federal cash expenditures of the State for the fiscal year ended June 30, 2011.

Additionally, the Agency had expenditures of \$510,985 recorded to accounting system business units which were tied to grants AA20207AU0 and AA20207CZ0. According to the grant award documents, these grants were for CFDA 17.278; however, the business units were incorrectly tied to CFDA 17.260. The Agency did also correctly record \$14,491 in expenditures to a business unit related to these two grants with the correct CFDA of 17.278. The total expenditures recorded in the accounting system that should have been tied to CFDA 17.278 were \$525,476.

**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 agrees with the APA recommendation. Although the CFDA number changed in two instances, therefore the present methodology to copy prior year's parameters was incorrect. However, typically CFDA numbers do not change and copying it enables all allocations and other agency use codes which are extensive and are imperative to several of the procedures to be correct in the next program year/fiscal year. However this process would not account for a change to CFDA codes. Also the agreement

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

from the USDOL front page did not reflect the correct or updated new CFDA codes. It was only in the latter part of the year, the Financial Services Division was receiving a copy of the agreements with the USDOL. One of our subrecipients had expended funds under the correct CFDA number but had not been reimbursed by the State. This accounts for most of the amount above.

**Corrective Action Plan:** Management will ensure all USDOL agreements are routed to Finance so updated information will be available. Also Management will report the SEFA numbers on a cash basis for its subrecipients.

**Contact:** Debbie Kay Ward, CPA CTP

**Anticipated Completion Date:** December 2012

**Finding #11-23-05**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) and ARRA WIA Cluster – Reporting

**Grant Number & Year:** All open grants, including #AA-20207-10-55-A-31, FFY 2011; #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, 2010) 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, 2010) 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.”

Good business practice requires procedures to reconcile the accounting system to the submitted reports and to ensure amounts reported are accurate before submitted to the Federal Agency.

**Condition:** During testing of fourteen 9130 reports, we noted:

- Nine of fourteen reports tested had amounts reported that did not agree to supporting documentation, including nine reports that had cash receipts that agreed to the Federal draw system (PMS) but not to EnterpriseOne, the State

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

accounting system. We also noted four reports that had receipts divided between State and local programs that did not have documentation to support the receipts reported for each.

- One of fourteen reports tested showed cumulative cash receipts and cumulative cash disbursements greater than the cumulative Federal accrual expenditures reported. We also noted five additional reports that also showed cumulative cash receipts and cumulative cash disbursements greater than the cumulative Federal accrual expenditures reported.

**Questioned Costs:** Unknown

**Context:** For the fourteen 9130 quarterly reports tested, we obtained the three monthly fiscal reports and the related supporting documentation for the independent local area and the monthly reports from EnterpriseOne for the other local areas. We totaled the current month expenditures from all areas to arrive at the current quarterly expenditures. We reviewed and recalculated the series of spreadsheets used to determine the cumulative expenditures. We also agreed the total cash drawn for the quarter and the cumulative amount to the PMS Federal draw system and compared the receipts amount per the PMS system to the receipts recorded in EnterpriseOne. During testing, we noted the following:

- Nine reports showed an amount of cash receipts for the current quarter that agreed in total to the PMS Federal draw system, but did not agree to the receipts recorded in EnterpriseOne. The following variances were noted:

Grant	PMS Receipts	EnterpriseOne Receipts	Variance
State Adult FY11	\$ 147,480	\$ 81,535	\$ 65,945
State Youth ARRA	\$ 72,736	\$ 3,123	\$ 69,613
Local Youth PY10	\$ 694,843	\$ 73,987	\$ 620,856
Local Youth ARRA	\$ 72,736	\$ 3,123	\$ 69,613
State Dislocated Worker FY10	\$ 209,961	\$ -	\$ 209,961
State Dislocated Worker ARRA	\$ 297,064	\$ 346,847	\$ (49,783)
Local Dislocated Worker PY09	\$ 60,121	\$ 522,727	\$ (462,606)
Local Dislocated Worker FY10	\$ 615,468	\$ 63,132	\$ 552,336
Local Dislocated Worker ARRA	\$ 380,217	\$ 371,749	\$ 8,468

When receipts are recorded in EnterpriseOne they are deposited into the business unit where the related expenditure was recorded, although this may or may not be the grant the funds were drawn from on PMS. The process to implement a new series of business units related specifically to grant years was not completed during the fiscal year ended June 30, 2011. This resulted in expenditures recorded to grants with no available Federal funds. Funds were often drawn from grants but recorded in



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

EnterpriseOne in a business unit related to a different grant. A series of adjusting journal entries were processed in April 2011 to reclassify the recording of expenditures incurred during the period of July through December 2010 to their correct grant. The adjusting journal entries to reclassify the remaining expenditures from January through June 2011 were not processed as of June 30, 2011. The adjusting journal entries needed to reclassify the recording of cash receipts for the entire fiscal year were also not processed as of June 30, 2011. It was noted the amounts for cash receipts reported on the 9130 reports agreed to the cash drawn from PMS, but not the State accounting records.

- One report tested included \$26,892 on line 10g for the Federal share of unliquidated obligations, however this amount did not agree to supporting documentation on file. The variance was \$847 under-reported.
- The amount of cash receipts reported on the 9130 report was split between the State and local program based on the percentage of expenditures coded to each. However, we noted this methodology was not used on the four reports tested and there was no other documentation to support the actual amounts reported.

One report tested reported cumulative cash receipts and cash disbursements that exceeded the cumulative Federal share of accrual expenditures. During testing we also noted five additional reports with cumulative cash receipts and cash disbursements that 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 included:

Grant	9130 Report		
	Cash Disbursements	Federal Accrual Expenditures	Variance
Local Dislocated Worker PY09	\$ 527,394	\$ 522,762	\$ 4,632
State Dislocated Worker PY09	\$ 105,478	\$ 14,703	\$ 90,775
Rapid-Response PY09	\$ 70,319	\$ -	\$ 70,319
Local Youth PY09	\$ 1,433,312	\$ 1,067,790	\$ 365,522
State Adult PY08	\$ 55,937	\$ 50,045	\$ 5,892
State Adult FY09	\$ 266,332	\$ 125,451	\$ 140,881

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

**Cause:** The Agency began using a new series of business units to identify receipts and expenditures for specific grants. This conversion affected the PY09 grants and newer grants; however it was not completed at June 30, 2011. The receipts recorded in EnterpriseOne have not been reclassified to agree to the PMS Federal draw system.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Without adequate procedures to ensure amounts reported reconcile to the accounting system, there is a risk amounts reported are not correct.

**Recommendation:** We recommend the Agency improve procedures to ensure all amounts reported are reconciled to EnterpriseOne, and adequate supporting documentation is maintained for all reported amounts.

**Management Response:** Management acknowledges the need to have the general ledger be the system of record. The process to move two years of activity was extensive and time consuming. Although Management was anticipating the moves of the expenses during the draw process, the moves were actually not completed by fiscal year end. It was more important to record the draws to match where the funds came from. It was anticipated this process of recording the revenues to the correct grant, would result in fewer moves on the revenue side. However due to the volume and the timing differences, not all expenses were moved until October 31, 2011, for the Program. Special funds and administrative funds are still in the process of being adjusted. The one exception to the Program is Lincoln. Until the expenses are reconciled to the general ledger, draws cannot be adjusted. There will be a move to sync the revenues and expenses to PMS once all expenses are finalized. Also in the process many of these grants have State funds which are part of the settlement and therefore there will be a final reconciliation of the grants once the Agency has received their instructions from the USDOL. This process will impact the general ledger.

**Corrective Action Plan:** All expenditures will be recorded to the correct business units. All draws will then be adjusted to reflect the expenditure to revenue relationship. Management will also start a process where administrative expenses are broken down by the original funding streams. This will alleviate the need for the draws to be drawn in a method which does not reflect the amounts based on the funding.

**Contact:** Debbie Kay Ward, CPA CTP

**Anticipated Completion Date:** August 15, 2012

**Finding #11-23-06**

**Program:** CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) and ARRA WIA Cluster – Cash Management

**Grant Number & Year:** All open grants, including #AA-20207-10-55-A-31, FFY 2011; #AA-18655-09-55-A-31, FFY 2010; #AA-17135-08-55-A-31, FFY 2009

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** Per 31 CFR § 205.11(b) (July 1, 2010), “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, 2010) 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, 2010) provides, in part: “Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to... (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.” 29 CFR § 97.20(b)(2) (July 1, 2010) also states, in part: “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... expenditures, and income.” A good internal control plan requires:

- cash draw amounts be adequately supported,
- procedures to ensure amounts are not drawn twice, and
- a reconciliation between estimated and actual allocations as well as anticipated and actual expenditures.

**Condition:** Cash draws were not adequately supported by documentation of anticipated expenditures; the anticipated expenditure amounts reported by the Agency did not agree to direct expenditure amounts recorded in EnterpriseOne; and cash draw totaling \$15,096 was never disbursed.

We also noted reconciliation procedures to compare estimated allocations to actual allocations were not performed in a timely manner. We further noted receipts from local area reimbursements were not used to offset the related expenditures and reduce the anticipated expenditures.

**Questioned Costs:** Unknown

**Context:** We tested 8 of 81 Federal cash draws. Some draws had more than one issue. We noted the following:

- For seven cash draws tested, the anticipated expenditures were recorded in EnterpriseOne to business units related to specific grants; however, the draw from the PMS Federal draw system was made from different grants. It was also noted the receipts were recorded in EnterpriseOne to the same business unit as the expenditure and not to the grants where the PMS draw was made from. The amounts drawn from one grant but recorded to a different grant ranged from \$16,696 to \$144,078 and totaled \$455,703 for the seven draws.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- For two cash draws, the anticipated expenditures detail included expenditures and a journal entry that were deleted after the funds were drawn but before the payment was made. One draw, done July 27, 2010, included a deleted journal entry of \$6. It was noted the funds drawn for this deleted transaction were never disbursed but remained as cash on hand. The cash on hand was an adjustment to the next draw done in August. One draw, done March 31, 2011, included deleted expenditures of \$15,090. The cash on hand was not adjusted until the May 4, 2011 draw, which was not timely.
- For two cash draws, the amount drawn did not agree to supporting documentation of anticipated expenditures. The amounts were not drawn from the grant where the expenditures were recorded because of data entry errors in the preparation of the draw amounts. Amounts drawn incorrectly were \$645 and \$543.
- Two cash draws included estimated allocations which were not reconciled with the actual allocations in a timely manner. These cash draws occurred during March 2011. On May 4, 2011, the entire cash on hand as of that day was used to reduce that cash draw, in effect the Agency returned all of their cash on hand.
- We noted the Agency's weekly cash draw was for actual expenditures and estimated allocations. On March 14, 2011, there were two draws done; one draw for the actual expenditures and estimated allocations and the second draw for actual allocations totaling \$21,473, of which \$20,026 was for WIA. The Agency did not adjust for the cash on hand and timely reconciliations of estimated and actual allocations were not performed. This was not corrected until the May 4, 2011, draw when the excess cash was returned.
- For one cash draw the receipts from local area reimbursements were not used to offset the related expenditures. The local area offices sub-lease part of their office space and receive monthly lease payments that the Agency uses to offset their cost. The draw for these expenditures did not include the reimbursement amounts.
- We also noted one cash draw identified \$2,648 of anticipated expenditures that were not included in the draw. Per discussion with the Agency staff, these expenditures would have been paid by "extra funds" on hand.

Cash draws during fiscal year 2011 totaled \$9,802,517.

A similar finding was noted in the three prior audits.

**Cause:** The Agency began a new business unit numbering system that identified specific grants by separate business units. However, this change was not completed during the fiscal year ended June 30, 2011. As a result, expenditures were often coded to business units/grants that no longer had funds available in the PMS Federal

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

draw system. The draw request was prepared but when the Agency staff attempted to request those funds they realized there were no more funds available. Typically the draw was then made from the next available grant for that program. The receipt of those funds was then recorded in EnterpriseOne in the business unit/grant where the expenditures were coded and not to business units/grants where the funds were actually drawn. The Agency is in the process of correcting this problem by processing a series of adjusting journal entries to reclassify the expenditures. Adjusting journal entries were performed in April 2011 for expenditures between July and December 2010. The adjusting entries to reclassify the expenditures recorded between January through June 2011 were not completed until after June 30, 2011. No adjusting journal entries to reclassify receipts for July 2010 through June 2011 were completed as of June 30, 2011.

**Effect:** Noncompliance with regulations could result in Federal sanctions. Inadequate reconciliation procedures and miscoding of transactions also increases this risk for loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency ensure Federal draw amounts are fully supported. We also recommend the Agency improve review procedures to ensure the cash draws are made accurately and in agreement with supporting documentation.

**Management Response:** Management agrees with the findings above. Once all transfers are recorded on the expenditure side the draw side will be reconciled. All draws were done for one day of the week. If a transaction happened to be posted in the general ledger for another day, such as the receipt, the draw would not pick this up. At present the only report available for cash is at the fund level which can and does often include dozens of accounts. There is no solution to the journal entry or IBT, because the State accounting system requires the draw and funds to be available prior to the posting of the transaction. However, the amounts running through the purchase order system will be posted prior to the draw.

**Corrective Action Plan:** All revenues will be adjusted to PMS. All draws effective March 1<sup>st</sup> will include all dates and all accounts. A procedure will be implemented, to not delete but rather void any transaction which has been drawn for, thereby allowing the transaction to flow back through the draw process. All excess cash will be returned as soon as all the accounts are reconciled. New reports will be developed to aid in the reconciliation of cash. All accounts payable transactions will be posted prior to the draw as well as payroll. All estimated allocations will be shored up as soon as possible after all the actuals are done. This will have to be the next payroll cycle, as not enough expenditures are available to offset the payback during a week where only the accounts payable for the agency hit. At the same time any other necessary adjustments will be performed.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Debbie Kay Ward, CPA, CTP

**Anticipated Completion Date:** October 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Finding #11-25-02**

**Program:** Various including CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles

**Grant Number & Year:** Various including #05-1105NE5ADM, FFY 2011

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

**Criteria:** 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.”

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 debt collection costs were being charged to Federal programs.

**Questioned Costs:** \$5,854

**Context:** Unallowable debt collection costs were noted in the prior audit in Finding #10-25-02. The corrective action plan stated “the Agency will identify all amounts paid during the year for debt collection services and return the full amount...The Agency will implement coding that will identify the unallowable item to be removed from the costs allocated to Federal programs.” The Agency did identify all amounts paid during the year for debt collection services and did return the full amount to Federal programs. However, the Agency did not change the cost allocation to keep debt collection costs from being charged to Federal funds. We noted \$5,854 was charged to Federal funds for debt collection costs for State fiscal year 2011.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** When the Agency was addressing the error last year, one staff person pulled the payments to the debt collection vendor and asked if there were any more, and was told that was all. The staff person misinterpreted this to mean that the activity ended when it was actually just that particular vendor that ended. A new vendor performed the debt collection activities in State fiscal year 2011.

**Effect:** Noncompliance with Federal regulations.

**Recommendation:** We recommend the Agency implement procedures to ensure debt collection costs are not charged to Federal programs. We further recommend the Agency implement procedures to ensure corrective action plans are fully completed.

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

**Corrective Action Plan:** An accounting code was established which will be used to report the debt collection efforts. The code is not included for cost allocation purposes. The total of the payments made and included in the allocation will be identified and adjusted from the grants in the quarter after the audit is issued.

**Contact:** Larry Morrison, Grants and Cost Accounting Manager

**Anticipated Completion Date:** May 15, 2012

**Finding #11-25-03**

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

**Grant Number & Year:** #G1102NETANF, FFY 2011; #G1002NETANF, FFY 2010

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

**Criteria:** OMB Circular A-87, Attachment A § 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. A good internal control plan also requires procedures to ensure corrective action plans are implemented.

**Condition:** During testing of the IST NFOCUS Applications allocation for the quarter ended March 31, 2011, it was noted the number of recipients used in calculating the costs allocated to the Temporary Assistance for Needy Families (TANF) program included recipients of cash assistance from the Solely State-Funded Program.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** \$32,129

**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 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 and included in the calculation of costs to be charged to the State. For the quarter tested, there were 30,087 TANF recipients of which 4,621 should have been charged to the Solely State-Funded Program, resulting in questioned costs of \$32,129.

A similar finding was noted in the fiscal year 2010 Statewide Single Audit. The Agency's corrective action plan stated this issue would be corrected beginning the quarter ended December 31, 2010; however, this did not occur. The current summary schedule of prior audit findings states the change will be implemented August 15, 2011.

**Cause:** The necessary statistical information was compiled but was not incorporated into the cost allocation because the Agency was not satisfied the data was correct.

**Effect:** Federal funds were overcharged while State funds were undercharged.

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

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

**Corrective Action Plan:** The statistics to be used were verified and the process to allocate the Solely State Program to State Only was implemented for the quarter ended September 30, 2011. The other quarters beginning October 2009 will be recalculated and adjusted from the grants in the quarter after the audit is issued.

**Contact:** Larry Morrison, Grants and Cost Accounting Manager

**Anticipated Completion Date:** May 15, 2012

**Finding #11-25-04**

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

**Grant Number & Year:** #1101NE1401, FFY 2011; #1001NE1401, FFY 2010

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Criteria:** The approval letter for the Service Areas portion of the Cost Allocation Plan (CAP), dated November 30, 2009, states “this approval is continuous until the allocation method(s) shown in this plan is outdated as a result of...other changes that make necessary the submission of an amendment or new plan by you.” The approval letter further states “approval of the plan/amendment cited above is predicated upon conditions that...the allocation methods proposed result in an equitable distribution of costs to programs.” Per OMB Circular A-87 c(3)(a), “a cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received.” A good internal control plan requires procedures be in place to ensure proposed changes to the CAP are appropriately implemented.

**Condition:** The Agency proposed, but did not implement, an amendment to their Cost Allocation Plan.

**Questioned Costs:** Unknown

**Context:** There are two versions of the cost allocation plan related to Children and Family Services Specialist Training (300/014):

**The Approved Version:**

There are approximately 70 trainees in the Children and Family Services Training Program at any one time. The cost center also includes the interagency agreement with the University of Nebraska to manage and deliver the training program. The direct and indirect costs of the cost center will be allocated to the benefiting programs based on Children and Family Services elements (Codes 14 through 24) of the Protective Services RMTS [Random Moment Time Study]. *(Added 01/01/2009)*

**The Proposed Version:**

There are approximately seventy trainees in the Children and Family Services Training program at any one time. The cost center also includes the interagency agreement with the University of Nebraska to manage and deliver the training program. The direct and indirect costs of the cost center will be allocated to the benefiting programs using a two tiered allocation process. First, an allocation will be made based on the number of training hours during the prior year specifically related to Juvenile Services and Intake as a percent of the total training hours. The amount allocated to Juvenile Services and Intake will be directly charged to the State/Child Welfare Services program. The

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

remaining amount will be moved into the pool for further allocation. Second, the portion of the first allocation not related to Juvenile Services and Intake will be allocated to the benefiting programs based on Children and Family Services elements (Codes 14 through 24) of the Protective Services RMTS. *(Added 07/01/2010)*

The difference is the proposed version first allocates some of the training costs to Juvenile Services and Intake before allocating the rest based on the Protective Services RMTS. Per the Agency, at one point the Agency was in discussions with the Federal government regarding this issue and because of that conversation, the Agency updated the CAP to allocate some costs to Juvenile Services and Intake. This is a State program, so the final result of this change in the CAP would be more charged to State funds and less to Federal funds.

The allocation method was supposed to change as of July 1, 2010. However, per the Agency, they did not make the change. We brought this to the Agency's attention on May 13, 2011, but at this point they stated they were aware of the issue. They said they were not going to make the change until the proposed version is actually approved. The majority of the CAP is not approved at this time, but has been implemented by the Agency. The cost related to Service Areas was approved on November 30, 2009. The approval of this one section is the result of a settlement between the Agency and the Federal government with regards to foster care training costs.

The Agency has two arguments for its position. Firstly, the Agency argues that the cost allocation method they are using is okay because it has actually been approved by the Federal government. We believe the conversation with the Federal government and the subsequent modification to the CAP shows that both parties felt a change was necessary, effectively making the prior approval invalid. Secondly, the Agency does not feel this issue is significant because when and if the Federal government approves the proposal, the Agency will go back and correct the prior CAPs. We believe the Agency should not pick and choose when to implement changes to the CAP. Once a change is identified as needing to be made and the change has been incorporated into the proposed CAP, then the actual cost allocation should reflect this change. Additionally, due to numerous issues the Agency is still working through with the Federal government, it could be some time before this particular amendment gets approved. Furthermore, costs are not being charged in accordance with relative benefits received as required by OMB A-87.

**Cause:** The Agency's usual practice is to immediately implement any proposed changes to the CAP. However, in this case, the Agency decided they are not going to make any adjustments. If their proposed change does get approved, they will go back and correct the prior allocations. They do not feel there is an issue here because the costs are in fact being allocated based on the approved CAP. When and if the Federal government approves the proposal, the Agency will go back and correct the prior allocations.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** The implementation of the proposed plan would result in increased allocation to State funds versus Federal funds. The decision to delay the implementation of the change results in fewer State dollars and more Federal dollars being used currently, which will need to be reversed in the future when the proposal gets approved. A decision to delay implementation of necessary changes creates an opportunity to inappropriately manage funds.

**Recommendation:** We recommend the Agency adjust prior allocations to reflect the Agency's proposed change to the Children and Family Services Specialist Training (300/014) cost center. In the future, when both the Federal government and the Agency agree that a change to the CAP needs to be made, the implementation of this change should not be delayed.

**Management Response:** The Agency agrees with the condition reported by the APA, however, the Agency does not agree with the recommendation. The regulations allow the Agency to implement or not implement prior to approval of the proposed cost allocation changes, therefore, the Agency can decide when to implement the proposed changes.

**Corrective Action Plan:** The Agency does not believe a corrective action plan is required.

**Contact:** Larry Morrison, Grants and Cost Accounting Management

**Anticipated Completion Date:** Not Applicable

**APA response:** As noted above, when both the Federal government and the Agency agree that a change to the CAP needs to be made, the implementation of that change should not be delayed.

**Finding #11-25-05**

**Program:** CFDA 93.575 – Child Care and Development Block Grant – Period of Availability

**Grant Number & Year:** #G0901NECCDF, FFY 2009

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

**Criteria:** Grant award terms and condition number six states, "Discretionary funds must be obligated by September 30, 2010 and liquidated by September 30, 2011." 45 CFR § 98.60(d)(5) (October 1, 2010) states, "Obligations may include subgrants or contracts that require the payments of funds to a third party (e.g., subgrantee or contractor). However the following are not considered third party subgrantees or contractors: ... (ii) Another entity at the same level of government as the lead

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

agency.” 45 CFR § 98.67 (October 1, 2010) requires fiscal control and accounting procedures be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of Federal requirements. A good internal control plan should include procedures to ensure that expenditures are made within the period of availability of the grant and are recorded both timely and accurately in the accounting system.

**Condition:** Expenditures for the 2009 Child Care grant were made outside the period of availability.

**Questioned Costs:** \$168,062

**Context:** Expenditures for one of fifteen employee paychecks tested were made after the period of availability for the award. Additional review noted other expenditures for the 2009 Child Care grant were made after the period of availability.

Total expenditures between October 1, 2010, and May 18, 2011, for the 2009 grant were \$773,686. The majority of the expenditures after October 1, 2010, were not obligated as of October 1, 2010. The total expended after the period of availability was \$673,126. When this matter was brought to the attention of the Department of Health and Human Services (Agency), they processed a journal entry on June 30, 2011, moving these costs to another grant.

Additionally, costs of \$71,536 were noted for the Agency relating to other business units used for the 2009 Child Care grant. The Agency utilizes a Cost Allocation Plan (CAP) to charge administrative costs to grants, which results in a timing issue between when the costs are incurred and paid and when the Agency charges the Federal grant. The Agency had supported costs through the CAP for the 2009 Child Care grant within the period of availability; however, the Agency did not process a journal entry in a timely manner to “true up” the costs and draw the Federal funds. Instead the Agency drew the funds through current expenditures.

We reviewed other business units for the 2009 grant that might be outside of the period of availability, including payments made to or by the Nebraska Department of Education (NDE) through a Memorandum of Understanding (MOU) with the Agency. We limited this additional review to payroll. There are also operating cost disbursements and miscellaneous adjustments that may be outside the period of availability. As noted above, 45 CFR § 98.60(d)(5) precludes funds expended through contracts with entities “at the same level of government as the lead agency” from being considered obligated. NDE made \$168,062 in Child Care grant expenditures for payroll after the period of availability.

When informed that the Auditor of Public Accounts (APA) does not consider NDE to constitute a different level of government for purposes of ensuring that funds are properly obligated pursuant to 45 CFR § 98.60(d)(5), the Agency contacted the

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Administration for Children and Families (ACF), a division of the U.S. Department of Health and Human Services, requesting an opinion on the matter. Based upon the information provided by the Agency, the ACF determined that NDE is not an “entity at the same level of government as the lead agency,” as prohibited under 45 CFR § 98.60(d)(5). Thus, according to the ACF, the funds in question were properly obligated.

As the information provided by the Agency to ACF appeared incomplete, the APA requested a revised opinion. In doing so, the APA provided the ACF with a lengthy analysis, citing both relevant case law and Federal regulatory guidance, supporting the initial determination that the NDE is, in fact, an “entity at the same level of government as the lead agency.” Among the authorities referenced was 56 FR 26194-01, issued on June 6, 1991, which sets out the “interim final rule” for the implementation of 45 CFR §§ 98 and 99. The following discussion is provided regarding the language in 45 CFR § 98.60(d)(5):

*“We define obligation to include subgrants or contracts which will require the payment of funds from the Grantee to a third party (e.g., subgrantee or contractor). For this purpose, the following are not considered third party subgrantees or contractors: (1) a local office of the Lead Agency; (2) another entity at the same level of government; or (3) a local office of another entity at the same level of government. For example, if a State Grantee transferred a portion of its funds to the State Department of Education, we would not consider those funds to be obligated. The State Department of Education would have to obligate the funds for Block Grant administration, services, or activities in order for the funds to be considered obligated. This is based on the definition of Grantee which includes the entire legal entity even if a particular component of the entity is designated in the grant award document.” (Emphasis added.)*

It is important to note that the very example offered above of a transaction that does not qualify as a “payment of funds from the Grantee to a third party (e.g., subgrantee or contractor)” for purposes of establishing an obligation under 45 CFR § 98.60(d)(5) is precisely the same as that challenged by the APA – namely, the Agency, as the State Grantee, has transferred a portion of its funds to the State Department of Education, the NDE. As pointed out, “the definition of Grantee . . . includes the entire legal entity even if a particular component of the entity is designated in the grant award document.” Thus, it is clear that the Agency and the NDE occupy the same level of government, meaning that a transfer of funds from the former to the latter does not constitute an obligation under 45 CFR § 98.60(d)(5).

The ACF declined to offer any written guidance in response to the APA’s request for a revised opinion. Instead, the ACF felt it was more appropriate to include this finding in the Statewide Single Audit, and have the matter addressed through the resolution process.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency did not properly and timely account for expenditures charged through the CAP to draw the Child Care funds. For NDE expenditures, the Agency believed its MOU with NDE obligated the funds.

**Effect:** Expenditures were unallowable as they were not obligated by September 30, 2010.

**Recommendation:** We recommend procedures be implemented to ensure expenditures are obligated by the date required under grant awards. We further recommend the Agency perform timely entries to account for Federal costs charged but not drawn.

**Management Response:** The Agency does not agree with the condition reported by the APA. As the Federal grantor agency, the ACF notified the Agency that the MOU with NDE appropriately obligated the funds from payment during the third year of the period of availability.

**Corrective Action Plan:** The Agency does not believe a corrective action plan is required.

**Contact:** Larry Morrison, Grants and Cost Accounting Management

**Anticipated Completion Date:** Not Applicable

**Finding #11-25-06**

**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, 2010) 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 § 250.15(c) (January 1, 2010) states, “If a distributing agency improperly distributes or uses any donated foods, or causes loss of or damage to a donated food through its failure to provide proper storage, care, or handling, the distributing agency shall, at the Department’s option: (1) Replace the donated food in its distributing program in kind, or, in the case of section 6 donated foods, where replacement in kind may not be practicable, with other similar foods, or (2) pay to the Department the value of the donated food as determined by the

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

Department.” 7 CFR § 250.16(a)(1) (January 1, 2010) 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 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 for most of the fiscal year 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 reports generated from the FDP system did not accurately report the activity during fiscal year 2011. For one of ten distributions tested, the disbursement in the FDP system did not match the manifest.

**Questioned Costs:** Unknown

**Context:** The Agency distributed a total of \$9,101,870 in food commodities under CFDA 10.555 and 10.559 during the fiscal year. We noted the following:

- Most receipts, distributions, and adjustments for the fiscal year were not entered into the FDP system until after the fiscal year ended.
- The few transactions that were entered into FDP did not have a review by a second individual to ensure they were entered correctly. The receipts, issuances, and adjustments are entered into FDP by an accountant. These transactions were not reviewed by the Food Distribution Coordinator or a second individual.
- It was noted in the prior year’s audit that the FDP system was not programmed to handle direct shipments that several schools began receiving during fiscal year 2010; this was not adequately corrected during fiscal year 2011. The Agency was unable to provide detail to support the direct shipments to the schools. The report provided did not have the number of cases or the dollar value of commodities shipped to the schools.
- For CFDA 10.555, we noted significant variances from prior year reported receipts and ending inventory; however, the Agency was unable to provide explanations or support the reason for these variances.

	<b>Receipts</b>	<b>Ending Inventory</b>
FY 2010	\$ 11,019,485	\$ 3,403,839
FY 2011	\$ 7,766,104	\$ 1,936,029
Decrease	\$ 3,253,381	\$ 1,467,810
% Decrease	29.52%	43.12%



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- For one distribution tested, the Agency stated the distributor picked up 682 cases of green beans, but only 676 cases were delivered to the school, a shortage of 6 cases. Per the Agency, they were able to correct the school’s inventory, but in doing so would cause the Agency’s report in FDP to be incorrect. The Agency did not bill the carrier until December 28, 2011, after we brought this to their attention.

We observed the physical inventory count conducted June 21, 2011, at the contracted warehouse. The following was noted:

- The Agency did not have specific written procedures for conducting an annual physical inventory. This was noted in our previous audit report.
- For 8 of 16 items tested, the count from the Agency’s physical inventory spreadsheet did not agree to the count in FDP. The variances ranged from 1 to 1,790. The Agency was unable to provide support for the variances.

Product #	Product Description	Cases per Physical Inventory Count	Cases per FDP System	Variance
1416-20	Beef Breaded Stick	402	403	-1
C22225P	Beef, Charbroiled Patties	403	466	-63
20334	Turkey, Corn Dogs Nugget	889	2,679	-1,790
3731-328	Chicken, Breaded Patty	827	1,471	-644
7800P	Chicken, 8pc Breaded	48	74	-26
CP111025	Chicken, Smoked Teriyaki	56	58	-2
3734	Pork, Rib Patty	335	356	-21
5641	Pork Sausage Links	14	16	-2

- For one of five adjustments tested, the Agency was unable to provide adequate support for the adjustment. During the physical inventory count, item #2241, spicy popcorn chicken, showed a total count of 683 cases and the FDP system showed a count of 1,573 cases, a difference of 890 cases. The Agency made the adjustment in FDP of 890; however, they had not researched this variance nor did they bill back the carrier or the warehouse for this variance.

A similar finding was noted in our previous audit report. The Agency’s Corrective Action Plan from the prior year audit stated management would provide oversight of the information and review reports on a regular basis to ensure accuracy.

**Cause:** Inadequate review. Information was not entered into FDP timely. Per the Agency, shortages due to carrier loss and hedges in their FDP system played a factor in the variances noted in inventory numbers.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** When there is a lack of review of activity over commodities, there is an increased risk of lost 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 FDP in a timely manner and having a second individual review these entries. We also recommend the Agency develop specific written procedures over the physical inventory process. We further recommend the Agency maintain all documentation of the physical inventory including adjustments between the physical count and FDP. Any variances noted should be researched and the carrier or warehouse billed, if applicable.

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

**Corrective Action Plan:** The Agency's FDP experienced staffing changes during the State fiscal year ended June 30, 2011. Recognizing that inventory transactions were not adequately reviewed, the Agency implemented a process in May 2011 that requires the FDP Coordinator to review each invoice submitted for payment by the State's warehouse. The Agency is currently in the process of hiring another employee that will enable a two-fold review of inventory transactions, prior to a final spot check review by the Coordinator. The Coordinator has been in constant communication with the USDA for training and is developing procedures and processes for all areas related to FDP including controls and procedures over receipts, issuances, and adjustments of inventory transactions in the FDP database. A process for conducting physical inventory at the storage facility was created last year and will be expanded and updated.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** May 31, 2012

**Finding #11-25-07**

**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:** 7 CFR § 250.16(a) (January 1, 2010) states, "General requirements. (1) Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods." OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

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 Auditor of Public Accounts (APA). The Agency provided the APA with a Year End Report for commodities which was later changed. The Agency was not able to provide documentation from the FDP system to support the figures they reported. We noted the following:

CFDA 10.559 – Summer Food Program:

- The fiscal year 2011 beginning inventory figures did not agree to the fiscal year 2010 ending inventory. Three revisions were provided to the APA for the reporting of commodities for fiscal year 2010. The third revision was received by the APA on October 14, 2010, which reported an ending inventory of 10 cases, 300 pounds, and valued at \$474. However, the beginning inventory figures reported for fiscal year 2011 were zero for cases, pounds, and value. The Agency did not have support from the FDP system for the beginning inventory figures.
- The gain/loss/transfer figures were backed into. The Agency did not have support from the FDP system for these figures.
- The ending inventory figures did not trace to the FDP. The Agency did not have support from the FDP system for these figures.

CFDA 10.555 – National School Lunch Program:

- The Agency initially reported the ending inventory value as \$2,595,728 which was actually the ending inventory in pounds. The ending value was \$1,936,029, per a FDP report.

The SEFA amount reported for the National School Lunch commodities was:

	Originally Reported	Revised	Change
CFDA 10.555	\$ 7,125,534	\$ 9,052,124	\$ 1,926,590

A similar finding was noted in our previous report.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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 condition reported.

**Corrective Action Plan:** The reports generated from the FDP database were not reliable due to several programming issues. The FDP Coordinator is working with IS&T staff to resolve the issues. A new software system is being explored that will more accurately and efficiently provide the data and reports that are required by Federal regulations. Until new software can be implemented, FDP staff will continue to work with IS&T staff to obtain valid data for reporting purposes.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** Ongoing

**Finding #11-25-08**

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

**Grant Number & Year:** #3NE700706, FFY 2010

**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 four payments for the FFY 2010 grant were made after the 90 day liquidation period for obligations incurred prior to the grant period end.

**Questioned Costs:** \$348,650

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

**Context:** The grant period ended September 30, 2010, and the 90 day liquidation period ended December 29, 2010. The following four payments were paid after the liquidation period:

<b>Payment Date</b>	<b>Amount</b>	<b>Number of Days After the Liquidation Period</b>
1/1/2011	\$ 269,865	3 Days
1/1/2011	\$ 55,109	3 Days
1/4/2011	\$ 21,176	6 Days
1/5/2011	\$ 2,500	7 Days
<b>Total</b>	<b>\$ 348,650</b>	

A similar finding was noted in the prior audit. For the FFY 2011 grant which closed September 30, 2011, the Agency notified all subrecipients that funding requests were due by November 25, 2011, to correct this problem.

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

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

**Recommendation:** We recommend the Agency 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:** On October 24, 2011, the WIC Program sent notice to WIC local agencies that the date of submission for 2011 final closeout reports was November 25, 2011. The Program will work with Accounting staff on payment timelines to assure liquidation within 90 day after the end of the grant year. Regarding the questioned costs for the grant period ended September 30, 2010, the USDA has allowed the Agency to expend obligations past the 90 day liquidation period in previous grant years.

**Contact:** Peggy Trouba, Program Manager

**Anticipated Completion Date:** December 29, 2011

**Finding #11-25-09**

**Program:** CFDA 10.568, 10.568 ARRA, & 10.569 – Emergency Food Assistance Cluster – Subrecipient Monitoring/Eligibility/Suspension and Debarment

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Grant Number & Year:** 3NE840006 for FFY 2010 and 2011; 3NE400516 for FFY 2010 and 2011

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

**Criteria:** 7 CFR § 251.4(d)(2) (January 1, 2010) 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, 2010) 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, 2010) states a recipient agency must have a tax exempt status. 7 CFR § 251.10(e)(2) (January 2010) states “...the State agency monitoring system must include: An annual review of at least 25 percent of all eligible recipients 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.” 2 CFR § 180.300 (January 1, 2010) 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 transactions with that person.

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.”

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. (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.” 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.” 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 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. A good internal control plan requires procedures to ensure subrecipient agencies are monitored in compliance with Federal requirements.

**Condition:** The Agency did not have adequate procedures to ensure: Eligible Recipient Agencies (ERAs) did not receive excessive commodities; individual household recipients’ and ERA’s eligibility determinations were adequately documented; 25% of ERAs received an annual site visit; A-133 audits were obtained from subrecipients receiving \$500,000 or more in Federal funds; food banks were monitoring the suspension and debarment status of food pantries.

**Questioned Costs:** Unknown

**Context:** The Agency conducted two site monitoring visits during the State fiscal year ended June 30, 2011. There are approximately 80 ERAs in the State that received commodities directly or indirectly from the Agency. The Nebraska Food Distribution Coordinator requested a waiver of the annual site visit requirements on September 9, 2011, for the Federal fiscal year ended September 30, 2011. A request for clarification was received from a USDA Program Specialist on September 30, 2011, and then another response on October 7, 2011, stating “On second thought...this is now a moot point since we are in FY 2012. I would say just do your best to meet the requirement in FY 2012. But if you find that you’re unable to do so, try to request a waiver earlier in the fiscal year.” Key components of these site reviews include determinations if the recipient agency is receiving excessive commodities, reviews of documentation of eligibility determinations for recipient agencies and individual households, and reviews of documentation of suspension and debarment of recipient agencies and individual households. Additionally, two of three direct subrecipient ERAs of the Agency did not have adequate documentation of their tax-exempt status.

One of three direct subrecipient ERAs (Together Inc. of Metropolitan Omaha) did not submit a copy of their annual A-133 audit to the Agency. The Agency had collected a certification from the ERA that they were required to have an A-133 audit, but the

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

certification was not sent to the Financial Administrator III and they were unaware that the Agency should be receiving the ERA's A-133 audit. Per review of the Federal Audit Clearinghouse, the ERA submitted its fiscal year ended December 31, 2009 audit to the Clearinghouse on February 15, 2011, over four months after its due date of September 30, 2010. As of February 10, 2012, the ERA had not submitted its fiscal year ended December 31, 2010 audit, which was due to the Clearinghouse by September 30, 2011.

One of three direct subrecipient ERAs (Food Bank for the Heartland, Inc.) had an audit finding, including questioned costs of \$83,099, regarding their inventory system for TEFAP in their fiscal year ended June 30, 2011, A-133 report received by the Agency on January 31, 2012. Per discussion with the Financial Administrator III, the Agency did not plan on following up on this finding as it did not involve cash funds and the finding had not been referred to the Nebraska Food Distribution Coordinator for the program's follow-up.

**Cause:** Limited Agency staffing to administer the program.

**Effect:** Without adequate procedures to ensure compliance with Federal requirements, 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:** The Food Distribution Program (FDP) has incorporated additional requirements into the FY2011/2012 sub-grants. In addition, FDP staff will create a TEFAP handbook that will be shared with each agency that enters into a sub-grant agreement with the State Distributing Agency. Subrecipients will be responsible to distribute this handbook to ERAs they enter into agreements with. FDP staff will work closely with our Federal partners to ensure thoroughness and accuracy of the information that will be provided. The Agency has hired an Internal Auditor who will review the current procedures for collection of A-133 audits from subrecipients.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** September 30, 2012

**Finding #11-25-10**

**Program:** CFDA 10.568 – ARRA – Emergency Food Assistance Program (Administrative Costs) – Allowability/Special Tests and Provisions



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Grant Number & Year:** All open grants including 3NE840006 (2010CC200343)

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

**Criteria:** 2 CFR § 225, Appendix A, part C.1. states, “To be allowable under Federal awards, costs must meet the following general criteria:...j. Be adequately documented.” 2 CFR § 176.210(c) 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.”

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 all expenditures of Federal funds have adequate supporting documentation.

**Condition:** We noted two of two expenditures tested did not have adequate supporting documentation and were for the prior program year. We also noted the two expenditures did not communicate the required ARRA information at the time of disbursement.

**Questioned Costs:** \$109,808 known

**Context:** Two expenditures for reimbursement of Eligible Recipients Agencies (ERAs) administrative expenditures did not have signed Records of Expenditures Under TEFAP Financial Assistance reports. The Food Distribution Coordinator indicated the reports were submitted electronically as attachments to emails, but the emails were not printed and were no longer available due to email account space limitations. Their expenditure reports were for October 1, 2009, through September 30, 2010, because the Agency used ARRA funds awarded in SFY 2010. The subaward agreements were for October 1, 2010, through September 30, 2011, and stated, “DHHS agrees to issue a monthly payment for the services specified herein. The monthly payment will be based upon actual expenditures made by the Sub-recipient and reported monthly on Record of Expenditures Under TEFAP Financial Assistance.”

The Agency did not notify the subrecipient at the time of disbursement the Federal award number, CFDA number, and the amount of ARRA funds for both expenditures tested. A similar finding was noted in the prior audit.

**Cause:** Emails with electronic signatures were not maintained.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** There is an increased risk that expenditures are not allowable if adequate supporting documentation is not maintained. There is also an increased risk subrecipients may not be aware that a disbursement contains ARRA funds if the required information is not communicated.

**Recommendation:** We recommend the Agency maintain adequate supporting documentation for all expenditures, including emails if they are used as an electronic signature of reports submitted to the Agency. We also recommend the Agency implement procedures to ensure subrecipients of ARRA funds are notified at the time of disbursement the Federal award number, CFDA number, and the amount of ARRA funds.

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

**Corrective Action Plan:** The Agency's FDP Coordinator is working closely with the USDA to ensure the expenditure reports submitted by the subrecipients are in compliance with Federal regulations. FDP staff also will create a TEFAP Handbook that will outline the necessary documentation requirements for both the ERAs and the Agency. FDP staff will work closely with our Federal partners to ensure thoroughness and accuracy of the information that will be provided in the Handbook.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** September 30, 2012

**Finding #11-25-11**

**Program:** 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 Expenditures of Federal Awards (SEFA) in accordance with § 310 including total Federal awards expended for each individual Federal program and the CFDA number.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

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.”

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 adequate procedures to ensure the SEFA is properly presented.

**Condition:** The Agency did not accurately report Federal expenditures for commodities on the SEFA. A similar finding was noted in the prior audit.

**Questioned Costs:** None

**Context:** The information for commodities was prepared by the Agency Food Distribution Coordinator. The information is given to the Cost Accountant, who submits the expenditures for the SEFA to the Department of Administrative Services (DAS). DAS compiles the information for all agencies and reports to the auditor. Per the fiscal year 2010 Statewide Single audit, it was noted the ending commodities amount on the SEFA report of \$401,866 did not agree to the actual amount of commodities on hand at the end of fiscal year 2010 of \$152,290. An adjustment of \$249,576 had been made to the fiscal year 2010 Ending Inventory. Per the fiscal year 2011 Statewide Single audit, the Beginning Inventory was \$401,866; it does not appear the Food Distribution Coordinator used the adjusted fiscal year 2010 Ending Inventory as the Beginning Inventory on the fiscal year 2011 SEFA.

	Originally Reported	Revised	Change
CFDA 10.569	\$ 3,129,480	\$ 2,879,904	\$ 249,576

Additionally, the Agency provided individual reports of commodities distributed to the three direct subrecipient ERAs. These reports were from the USDA and from their own FDP system and totaled \$2,920,137, which was \$40,233 more than the commodities issued by the Agency based on beginning inventory, receipts, and ending inventory.

**Cause:** The Agency did not accurately report beginning inventory.

**Effect:** Noncompliance with Federal requirements.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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 condition reported.

**Corrective Action Plan:** The Agency's FDP experienced a process change in the spring of 2010 in which TEFAP foods began to ship directly to the subrecipients. FDP software is not programmed to accommodate inventory transactions that ship directly to subrecipients. The FDP Coordinator has been in constant communication with the USDA for training and is developing procedures and processes for all areas related to FDP including controls and procedures over receipts, issuances, and adjustments of inventory transactions. The Coordinator has been actively researching new software to support the Food Distribution Program, including viewing demonstrations of software and obtaining pricing information. FDP staff will create a TEFAP Handbook that will outline the necessary documentation requirements for inventory transactions for both the ERAs and the Agency. The FDP Handbook will also include procedures for the compilation, review, and submission of the SEFA.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** September 30, 2012

**Finding #11-25-12**

**Program:** 10.569 – Emergency Food Assistance Program (Food Commodities) – 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, 2010) 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, 2010) states “Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods...”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 adequate review over commodities to ensure the commodities are recorded accurately.

**Condition:** Receipts, issuances, 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 the direct subrecipient Eligible Recipient Agencies (ERAs) began receiving during State fiscal year 2010.

**Questioned Costs:** Unknown

**Context:** The Agency distributed a total of \$2,879,904 in food commodities under CFDA 10.569 during the fiscal year. We noted the following:

- Most of the activity of receipts, issuances, and adjustments were not entered into the FDP system during fiscal year 2011.
- The few transactions that were entered into FDP did not have a review by a second individual to ensure they were entered correctly. The receipts, issuances, and adjustments are entered into FDP by an Accountant. These transactions were not reviewed by the Food Distribution Coordinator or a second individual.
- The Agency indicated numerous reporting problems with the FDP system.
- Ending inventory for State fiscal year 2010 was not correctly updated in FDP and as a result, beginning inventory for State fiscal year 2011 was overstated, resulting in an understatement of commodities issued.

**Cause:** Inadequate review by Agency staff.

**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 FDP 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.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** The Agency's FDP experienced a process change in the spring of 2010 in which TEFAP foods began to ship directly to the subrecipients. FDP software is not programmed to accommodate inventory transactions that ship directly to subrecipients. The FDP Coordinator has been in constant communication with USDA for training and is developing procedures and processes for all areas related to FDP including controls and procedures over receipts, issuances, and adjustments of inventory transactions. The Coordinator has been actively researching new software to support the Food Distribution Program, including viewing demonstrations of software and obtaining pricing information. FDP staff will create a TEFAP Handbook that will outline the necessary documentation requirements for inventory transactions for both the ERAs and the Agency.

**Contact:** Pam Schoenrock, Food Distribution Coordinator

**Anticipated Completion Date:** September 30, 2012

**Finding #11-25-13**

**Program:** CFDA 64.014 – Veterans State Domiciliary Care; CFDA 64.015 – Veterans State Nursing Home Care – Reporting

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

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

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

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

**Questioned Costs:** None

**Context:** The State of Nebraska has four State veterans' homes. These homes provide information to the Agency as to the amounts of Federal expenditures for

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

reporting on the State's SEFA. The Agency then reports the expenditures for the SEFA to DAS, who compiles the information for all agencies and reports to the auditor.

During our review of the supporting documentation for the amounts reported on the SEFA, we noted that three of the four veterans' homes reported amounts based upon their monthly claims to the USVA for reimbursement. The fourth veterans' home reported the amount based upon the actual amounts received from the USVA during the fiscal year.

Per discussion, the Agency agreed the amounts reported for the SEFA should be reported in a consistent manner between the four State veterans' homes based on the actual monthly claims as this would more accurately reflect expenditures for these Federal programs.

The amounts reported were as follows:

CFDA #	Program	Amount Initially Reported	Corrected SEFA Amount	Variance
64.014	Veterans State Domiciliary Care	\$ 1,321,487	\$ 1,395,823	\$ 74,336
64.015	Veterans State Nursing Home Care	\$ 13,547,279	\$ 14,124,205	\$ 576,926

**Cause:** The Agency did not verify the amounts to supporting documentation to ensure the State veterans' homes were providing information consistently and accurately.

**Effect:** Noncompliance with Federal regulations 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 Agency revised the SEFA on September 28, 2011. For future years, the Veterans Home Fiscal Analyst will communicate standardized reporting to each veterans home. The Fiscal Analyst will also review the supporting documentation from each veterans home prior to the amounts being reported on the SEFA.

**Contact:** Beth Wewel, Veterans Home Fiscal Analyst

**Anticipated Completion Date:** Revision to SEFA submitted on September 28, 2011. Remaining corrective action steps will be ongoing.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-14**

**Program:** CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Subrecipient Monitoring

**Grant Number & Year:** All open including #AANET3SP, FFY 2011; #AANENSIP, FFY 2011

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

**Criteria:** OMB Circular A-133 § .400(d) states, “A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award, year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award. (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.”

**Condition:** The Agency did not properly notify subrecipients of Federal award information.

**Questioned Costs:** None

**Context:** Award information provided to the Area Agencies on Aging (AAA) for CFDA 93.044 – Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers and 93.045 – Special Programs for the Aging Title III, Part C Nutrition Services did not include the award name and number or the Federal awarding agency. For CFDA 93.053 – Nutrition Services Incentive Program (NSIP) no award information was communicated to the AAA. The Agency reimburses the AAA for NSIP using a rate of reimbursement of \$0.57 per eligible meal. If there are remaining funds at the end of the year the Agency determines the percentage of meals served at each of the AAA during the current fiscal year and gives the remaining funds by percentage to each of the AAA for their use. Subrecipients were awarded \$7,149,140 during fiscal year 2011.

**Cause:** The Agency uses the same form each year to award a new grant. The form does not include award name and number or Federal awarding agency. The Agency does not consider NSIP an award but a payment to a provider. Per A-133 guidance NSIP award amounts are subrecipient as the AAA: 1) determine who is eligible to receive what Federal financial assistance, 2) are responsible for adherence to applicable Federal program compliance requirements, 3) are responsible for programmatic decision making, and 4) have their performance measured against whether the objectives of the Federal program have been met.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Without notification of award information, there is an increased risk for error at the subrecipient level.

**Recommendation:** We recommend the Agency include all required information on subrecipient award documents for CFDA 93.044 and 93.045. We further recommend the Agency ensure an award notification is provided to subrecipients for CFDA 93.053.

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

**Corrective Action Plan:** The State Unit on Aging is now using the Agency sub grant forms to issue awards to the Area Agencies on Aging (AAA). These forms include the CFDA numbers, the Federal awarding agency name and number. These sub grants are being used for all Title III, Title VII, NSIP, Senior Companion, and CASA funds that are issued through the State Unit on Aging.

**Contact:** Susan Buettner, Deputy Director, Programs Administrator

**Anticipated Completion Date:** October 1, 2011

**Finding #11-25-15**

**Program:** CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Allowability and Subrecipient Monitoring

**Grant Number & Year:** All open including #AANET3SP, FFY 2011; #AANENSIP, FFY 2011

**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 agreement and that performance goals are achieved.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 does not have sufficient procedures in place to monitor the allowability of expenditures by requiring the submission of detailed supporting documentation with the AAA's monthly reimbursement requests or through the review of expenditure detail during on-site reviews. The AAA are required to submit A-133 audits; however, the A-133 audit for one of two AAA tested did not have the Aging Cluster tested as a major program.

**Questioned Costs:** Unknown

**Context:** The Agency disbursed \$7,149,140 in aid to the AAA during fiscal year 2011. 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. We also noted the NSIP invoices listed the number of individuals for which a meal was provided. The Agency checked the number of individuals to the Agency's Nebraska Aging Management Information System (NAMIS) to ensure the proper number of meals were recorded; however, this review was not documented. Twenty-five monthly expense reports and NSIP requests, totaling \$244,209, were tested during the audit. All 25 lacked adequate documentation.

In addition, the AAA monthly expense reports included a signature line for the AAA Director to certify the expenditures requested were correct and complete. We noted two of 25 expenditures tested were not documented as reviewed by the AAA Director. Both monthly requests were submitted by the Blue Rivers Area Agency on Aging. These two monthly requests tested totaled \$35,894.

Furthermore, we noted the A-133 audits performed by independent auditors could not be relied upon for adequate monitoring for one of two AAA tested because 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. Expenditures to this one subrecipient totaled \$1,085,479 in fiscal year 2011. This finding was also noted in the prior year.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency receives monthly expense reports from the AAA in order to reimburse them for expenses incurred; however, the Agency did not perform procedures to ensure the monthly reports were proper by tracing them to supporting documentation either by requiring detailed support to be submitted with the reports or through on-site fiscal monitoring activities.

**Effect:** When subrecipient A-133 audits do not have program funds included as major programs, and when additional subrecipient monitoring procedures are not in place to review expenditure detail, there is an increased risk subrecipients may be spending Federal funds for unallowable costs.

**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.

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

**Corrective Action Plan:** As part of the 2011 AAA monitoring process, two new tools are being used to review the fiscal processes at each AAA. These documents were reviewed and approved for use by Grants Management. One document, the Fiscal Monitoring Tool for Area Agencies on Aging, reviews the internal control and another is the Site Visit Review Document that provides a financial overview. A reconciliation of one monthly expenditure report is also being done at each AAA.

Blue River AAA and all AAAs have been instructed to include a Director's signature on all fiscal documents. If a Director's signature is not included the document is returned and signature requested before the document will be processed.

**Contact:** Susan Buettner, Deputy Director, Programs Administrator

**Anticipated Completion Date:** March 31, 2012

**Finding #11-25-16**

**Program:** CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Cash Management

**Grant Number & Year:** All open including #AANET3SP, FFY 2011; #AANENSIP, FFY 2011

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** 31 CFR § 205.33(a) (July 1, 2010) 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.”

45 CFR § 92.37(a) (October 1, 2010) states, “States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. 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.”

U.S. Department of Health and Human Services’ Grants Policy Statement, issued by the U.S. Department of Health and Human Services Office of the Assistant Secretary for Resources and Technology Office of Grants January 1, 2007, Part I HHS Grants Process, Payments Section, Cash Request Subsection I-38, states, “If the cash request is for an advance payment, the recipient may request funds monthly on the basis of expected disbursements during the succeeding month and the amount of Federal funds already on hand.”

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 including minimizing the time advanced funds are held on hand.

**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 AAA.

**Questioned Costs:** Unknown

**Context:** The Agency policy was to allow the AAA to request up to two months of estimated expenses. 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 eight of 25 expenditures tested were not spent within two months. In these eight cases, estimated funds were used from three to five months after the original request was made. The Agency disbursed \$7,149,140 in aid to the AAA during fiscal year 2011. A similar finding was noted in the prior audit.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency provides AAA the ability to request two months expenditures in advance. The Agency monitors cash on hand; however, it does not make any adjustments to cash advance requests that are excessive. Additionally, no consequences are imposed for AAA over-estimating cash needs.

**Effect:** Noncompliance with Federal regulations which could result in Federal sanctions. Additionally, without adequate monitoring procedures, there is an increased risk Federal awards could be used for improper/unallowable costs.

**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 agrees with the condition reported.

**Corrective Action Plan:** As of July 2011, AAA are only approved for one month financial advances.

**Contact:** Susan Buettner, Deputy Director, Programs Administrator

**Anticipated Completion Date:** July 31, 2011

**Finding #11-25-17**

**Program:** CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Reporting/Matching and Level of Effort

**Grant Number & Year:** All open including #AANET3SP, FFY 2011; #AANENSIP, FFY 2011

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

**Criteria:** 45 CFR § 92.20(a) (October 1, 2010) states, “A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. 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.”

Department of Health and Human Services Program Instructions AoA-PI-08-05 state, “Reporting for the second six months of a fiscal year (April 1-September 30) is due in the Regional Office by October 30.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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:** Several errors were noted during testing of the fiscal year 2011 financial status report for the semi-annual period April 1, 2010, through September 30, 2010. 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:

- Third party (in-kind) contributions, line 10e, were over-reported by \$329,842. Per the AAA report spreadsheets used to track Aging Cluster expenditures, the cumulative amount of in-kind contributions were \$1,090,557 and not the \$1,420,399 reported by the Agency. The variance between the amount reported and the amount supported by AAA report spreadsheets was mainly due to a reporting error in third party contributions the APA had noted in the previous year's audit which had not been corrected or accounted for in the April 1, 2010, through September 30, 2010, financial status report tested.
- The Agency can obtain data relating to the State's administrative expenditures directly from the State's accounting system when preparing the financial status report; however, due to cash advances and AAA contributions, data relating to AAA expenditures cannot be obtained directly from the State's accounting system. In order to track these AAA expenditures, the Agency prepares an Excel spreadsheet from the monthly AAA reports which are sent to the Agency for reimbursement. This AAA report spreadsheet is then used to prepare significant portions of the financial status report. Due to data entry errors and formula errors, the Agency did not report the correct amounts on the financial status report tested. Due to these data entry/formula errors, as well as the uncorrected in-kind contribution error noted above, total outlays were over-reported by \$13,793; all other recipient outlays were under-reported by \$317,801; total recipient share of net outlays were over-reported by \$12,041; Federal share of net outlays, total unliquidated obligations, and Federal share of unliquidated obligations were over-reported by \$1,751; and disbursed program income and total program income realized were under-reported by \$36,915. Examples of some of the AAA report spreadsheet errors noted include the following:
  - The State portion of the Federal share of administration costs (reported as part of line 10j) excluded a journal entry for \$385.
  - The AAA portion of the Federal share of net outlays for Title III C1 – Congregate Nutrition Services (reported as part of line 10j) was over-reported by \$1,457. This was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted because of data entry errors.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- The State portion of the recipient share of net outlays for Title III C1 – Congregate Nutrition Services (reported as part of line 10i) was under-reported by \$1,458. This was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted due to a data entry error.
- The AAA portion of the Federal share of net outlays for Title III C2 – Home-Delivered Nutrition Services (reported as part of line 10j) was under-reported by \$1. This was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted due to a data entry error.
- The State portion of the recipient share of net outlays for Title III D – Disease Prevention and Health Promotion (reported as part of line 10i) was over-reported by \$314. This was due to a formula error in the AAA report spreadsheet for calculating the fiscal year ended September 30, 2010, amount. A cell reference was incorrect for the West Central Nebraska Area Agency on Aging (WCNAAA) resulting in the inclusion of \$498 in Federal funds and the exclusion of \$184 in State funds.
- The AAA portion of the recipient share of net outlays for Title III D – Disease Prevention and Health Promotion (reported as part of line 10i) was over-reported by \$184. This was due to a formula error in the AAA report spreadsheet for calculating the fiscal year ended September 30, 2010, amount. A cell reference was incorrect for WCNAAA leading the inclusion of \$184 in State funds.
- The AAA portion of the Federal share of net outlays for Title III E – National Family Caregiver Support Program (reported as part of line 10j) was over-reported by \$679. This was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted due to a data entry error.
- The State portion of the recipient share of net outlays for Title III E – National Family Caregiver Support Program (reported as part of line 10i) was over-reported by \$12,970. This was due to a formula error in the AAA report spreadsheet for calculating the fiscal year ended September 30, 2010, amount. A cell reference was incorrect for the Blue Rivers Area Agency on Aging (BRAAA) leading the inclusion of \$12,601 in Federal funds. The remaining \$369 variance was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted due to a data entry error.
- The AAA portion of the recipient share of net outlays for Title III E – National Family Caregiver Support Program (reported as part of line 10i) was over reported by \$1,726. This was due to a formula error in the AAA report spreadsheet for calculating the fiscal year ended September 30, 2010, amount. A cell reference incorrectly included \$1,694 in State administration funds. The remaining \$32 variance was due to the Agency changing the AAA report spreadsheets after the financial status report was submitted due to a data entry error.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- APA noted expenditures shown as fiscal year ended September 30, 2010, amounts on the April and May 2010 monthly summaries for the South Central Nebraska Area Agency on Aging (SCNAAA) and the Aging Office of Western Nebraska (AOWN) but shown as fiscal year ended September 30, 2009, amounts on the April through June quarterly summaries. Per discussion with the Agency, the April through June quarterly summaries were incorrect.
- Disbursed program income (line 10r) was under reported by \$36,915. Of this amount \$18,234 was under-reported for Title III C1 – Congregate Nutrition Services and \$18,719 was under-reported for Title III C2 – Home-Delivered Nutrition Services due to the exclusion of the final adjustment amounts from the AAA report spreadsheets. Title III E – National Family Caregiver Support Program was over-reported by \$38 due to the AAA report spreadsheets being changed after the financial status report submission due to a data entry error.

We also noted the financial status report for the period April 1, 2010, through September 30, 2010, was due on October 30, 2010, but was not submitted by the Agency until January 12, 2011. The Agency did not receive approval from the U.S. Department of Education for a late submission.

Furthermore, the maintenance of effort expenditures are accumulated from the Agency's analysis and monitoring reports which are prepared from the State's accounting system and the AAA report spreadsheets. During our financial status report testing we noted several problems with these AAA report spreadsheets. Additionally, these AAA report spreadsheets are prepared from the monthly AAA reports; however, the monthly AAA 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.

A similar finding was noted in the prior audit.

**Cause:** Errors noted in the report were due to improper formulas or data entry errors. The reporting process is manual and cumbersome, which increases the risk for errors to occur and not be detected. Spreadsheets are compiled from AAA's monthly billings which are summed quarterly and in turn are used to report semi-annual expenditures. 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.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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:** After the quarter tested, responsibility for preparation of the financial status reports was transferred to the Grants Management Unit. As part of the reporting process the reports will be reviewed by the Unit Manager. A change was implemented in collection of report data to obtain Federal and State MOE amounts from the State's accounting system. As part of the 2011 AAA monitoring process, two new tools are being used to review the fiscal processes at each AAA. These documents were reviewed and approved for use by Grants Management. One document, the Fiscal Monitoring Tool for Area Agencies on Aging, reviews the internal control and another is the Site Visit Review Document that provides a financial overview. A reconciliation of one monthly expenditure report is also being done at each AAA.

**Contact:** Susan Buettner, Deputy Director, Programs Administrator and Larry Morrison, Cost Accounting Manager

**Anticipated Completion Date:** March 31, 2012

**Finding #11-25-18**

**Program:** CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Reporting

**Grant Number & Year:** All open including #AANET3SP, FFY 2011; #AANENSIP, FFY 2011

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

**Criteria:** 2 CFR § 170.320 (September 14, 2010) states, “Federal financial assistance subject to the Transparency Act means assistance that non-Federal entities described in § 170.105 receive or administer in the form of (a) Grants ...”

2 CFR § 170 Appendix A § I.a.1 (September 14, 2010) states, “Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).” § I.a.2.ii. states, “For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 all obligations meeting the requirements of 2 CFR § 170 are reported and these sub-award obligations be reported accurately.

**Condition:** We tested three of eight subrecipients to determine if subaward information reported on the Federal transparency website was correct and reported in the required timeframe. During our testing we noted the reports were not submitted in a timely manner, key data elements were incorrectly reported, and actions that obligated \$25,000 or more were not reported. We also noted the Agency did not have documented internal controls related to transparency reporting.

**Questioned Costs:** None

**Context:** During our review of Federal transparency reporting we tested three subrecipients and noted the following concerning sub-award reporting:

- For all three subrecipients, the obligation date reported for sub-awards made under grant number 11AANET3SP was October 1, 2010; however, the award notifications to the AAA were made June 28, 2010. The APA could not determine if these award notifications were for 11AANET3SP as the grant number is not included on the sub-award notification. Additionally, the AAA sub-award notification occurred before the U.S. Department of Health and Human Services had awarded grants 11AANET3SP and 11AANENSIP to the Agency. The Agency was not awarded 11AANET3SP and 11AANENSIP funds until October 21, 2010, and January 19, 2011, respectively.
- For these three subrecipients, the Agency reported \$4,968,791 in sub-awards under CFDA 93.045; however, \$1,921,091 of this amount should have been reported under CFDA 93.044, \$610,742 should have been reported under CFDA 93.052, \$26,840 should have been reported under CFDA 93.042, and \$272,329 should have been reported under CFDA 93.043. CFDA 93.052, 93.042, and 93.043 are not part of the Aging Cluster.
- For all three subrecipients, the date of report submission for sub-awards under grant number 11AANET3SP was December 30, 2010. If the obligation date for these sub-awards was October 1, 2010, transparency reporting should have been submitted by November 30, 2010.
- The Agency does not send out sub-award notifications for funds awarded under CFDA 93.053. The Agency disburses CFDA 93.053 funds throughout the year on a reimbursement basis. The reimbursement amount is based on the number of eligible meals served times \$0.57. Since no sub-award notification is sent out for this CFDA, the Agency took the \$571,467 awarded to them by the U.S. Department of Health and Human Services times a percentage of meals served at each of the AAA during Federal fiscal year 2010 to determine the sub-award amount to be reported for transparency purposes. On June 2, 2011, the U.S. Department of Health and Human Services increased the Agency's award amount

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

to \$1,264,384. This increase in Federal funding would appear to result in modifications over \$25,000 for each AAA if the same awarding formula was used; however, no modifications for any of the AAA were reported on the transparency website. Additionally, because there is no sub-award notification, the APA could not determine if transparency reporting was timely.

- For two subrecipients we noted the Agency reported the sub-award modification amount made in November and not the original grant amount effective October 1, 2010.
- When reporting sub-awards the Agency included administration, Community Aging Services Act (CASA), State, and Federal funds. The Agency should have only reported federally funded sub-award amounts. The total Aging Cluster funds reported for these three subrecipients was \$4,968,791; however, the Federal portion of Aging Cluster funds was only \$2,338,046, a variance of \$2,630,745. Of this amount \$909,911 related to incorrect CFDA identification, see first bullet above, and the remaining \$1,720,834 related to non-Federal amounts being reported.
- For one subrecipient we noted a sub-award modification over \$25,000 was not reported for Title III C1 – Congregate Nutrition Services. The sub-award increased from \$409,913 to \$447,487 in January 2011, an increase of \$37,574.

Through discussion with Agency personnel, it appears controls may have been in place for transparency reporting; however, these controls were not documented by the Agency and, based on the errors noted, were not effective.

**Cause:** The Transparency Act compliance requirement was new for fiscal year 2011. Agency personnel were not sure how to go about reporting changes in sub-award amounts and there was also confusion as to the amounts to be reported.

**Effect:** Without controls to ensure all required sub-award obligations are reported accurately and in a timely manner, there is an increased risk of improper reporting and noncompliance with Federal regulations which could result in sanctions.

**Recommendation:** We recommend the Agency ensure Federal reporting is proper and agrees to supporting documentation. We also recommend the Agency implement procedures to ensure reports are submitted in a timely manner and all obligating actions of \$25,000 or more are reported on the transparency website. Furthermore, we recommend the Agency ensure controls related to transparency reporting are documented.

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

**Corrective Action Plan:** The State Unit on Aging is working with finance staff within the Grants Management section to insure that the Federal reporting is correct. Procedures for completing the Federal reporting will be documented with a process that assures timely reporting.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Susan Buettner, Deputy Director, Programs Administrator and Larry Morrison, Cost Accounting Manager

**Anticipated Completion Date:** June 30, 2012

**Finding #11-25-19**

**Program:** CFDA 93.268 – Immunization Grants – Allowable Costs/Cost Principles

**Grant Number & Year:** #5H23IP722562-08, FFY 2010; #5H23IP722562-09, FFY 2011

**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.

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:** The Agency did not have adequate procedures to verify reimbursements to local health departments were for actual costs. We also noted the summary schedule of prior audit findings did not properly represent the status of Finding #10-25-15 from the prior year.

**Questioned Costs:** Unknown

**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 obtain 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 \$351,292 in fiscal year 2011. Total reimbursed to all 27 local health departments under agreement in fiscal year 2011 was \$861,680.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 through June 30, 2011. No reviews of the four local health departments selected for testing were performed by the independent contractor during the fiscal year ended June 30, 2011.

The summary schedule of prior audit findings for Finding #10-25-15 states the corrective action was complete as of December 29, 2010; however, the Agency's corrective action for the prior year included evaluating the requirements of the independent contract for financial review and ensure they include adequate testing of records. As of August 30, 2011, this action was not complete.

**Cause:** Adequate procedures had not been implemented and no changes to the contract in effect for financial reviews were made.

**Effect:** Without procedures to ensure reimbursements to local health departments are for actual costs, 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 including obtaining detailed support of testing performed by the independent contractor and procedures for sampling expenditures by providers not reviewed by the independent contractor.

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

**Corrective Action Plan:** The Agency will evaluate their procedures to ensure that reimbursements to local health departments are for actual costs.

**Contact:** Barbara Ludwig, Immunization Program Manager

**Anticipated Completion Date:** Evaluation of the continued use of the independent contractor by December 31, 2011. Evaluation of the procedures by December 31, 2011, and ongoing.

**Finding #11-25-20**

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

**Grant Number & Year:** #G0802NETANF, FFY 2008; #G0902NETANF, FFY 2009

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Criteria:** Per 468 NAC 3-005.02B1, “Child of a Ward: If a ward who is receiving a foster care payment has a child living with him/her in a foster home, group home, or child caring institution, the ward’s child may receive a separate foster care grant...The ward’s child is not eligible for a grant from ADC funds. Neither the ward nor the ward’s child is included in the foster family’s ADC unit.”

According to 42 USC 608(a)(4) (2010), a State may not provide assistance to an individual who is under age 18, is unmarried, has a minor child at least 12 weeks old, and has not successfully completed high school or its equivalent unless the individual either participates in education activities directed toward attainment of a high school diploma or its equivalent or participates in an alternative education or training program approved by the State.

The State Plan for TANF effective October 1, 2010, states “this solely state-funded program allows Nebraska to exempt from the work participation requirements and federal time limits those families where the adult or minor parent is incapacitated with medically determinable physical, mental or emotional impairment or who has significant barriers to participation in approved work activities.” A good internal control plan requires procedures to ensure that individuals exempt from Employment First are paid with State Only Funds.

The Nebraska State Plan for TANF effective October 1, 2010, states “failure of a dependent child age 16, 17, or 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 to ensure children age 16, 17, or 18 are either going to school or enrolled in Employment First.

A good internal control plan requires procedures be in place to ensure income is adequately verified and documentation maintained.

**Condition:** 5 of 41 TANF cash assistance payments tested were not in compliance with Federal and State requirements.

**Questioned Costs:** \$581 known

**Context:** We noted the following:

- For one payment tested, the child was in a group home and the State was paying the home \$150 per day for the child’s care. Therefore, the family was ineligible for TANF. Additionally, the child was under 18, unmarried, had a minor child at least 12 weeks old, and the Agency did not adequately verify the child’s school attendance.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- For one payment tested, the parent was exempted from Employment First due to incapacity and should not have been paid with Federal dollars. The case should have been in the Solely State-Funded Program for Specified Exemptions and the payment would not have qualified toward Nebraska's maintenance-of-effort requirement.
- 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 one payment tested, the child was not in Employment First and the caseworker verified the child was not attending school. Therefore this child should have been excluded from the unit.
- For one payment tested, the Agency had support for \$61 in unearned income but unearned income per the family's TANF budget was \$89. This resulted in an underpayment to the family.
- For one payment tested, the income per the family's TANF budget did not correspond to the income per the family's self-employment ledgers for three months. For six more months, the self-employment ledgers were missing.

Federal payment errors noted were \$581 in overpayments and \$22 in underpayments. The total Federal sample tested was \$9,032 and total Federal TANF cash assistance payments for the fiscal year were \$19,757,264. Based on the sample tested, the case error rate was 12.20% (5/41). The dollar error rate for the sample was 6.43% for overpayments (\$581/\$9,032) and 0.24% for underpayments (\$22/\$9,032) which estimates the potential dollars at risk for fiscal year 2011 to be \$1,270,392 in overpayments and \$47,417 in underpayments for a net effect of \$1,222,975 in overpayments (dollar error rate multiplied by population).

A similar finding was noted in previous audit reports.

**Cause:** Inadequate procedures.

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

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

**Management Response:** The Agency agrees with the condition reported. The Agency would 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:** The Agency has recently updated the Nebraska Economic Assistance Review System (NEARS) to allow for a more accurate and complete review of TANF cases. The Agency also has a group of Program

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Accuracy Specialists (PAS) who review all Economic Assistance cases, including TANF. This group will review at least ten (10) TANF program cases per month for accuracy. The results of these reviews will be stored in NEARS and the data used to monitor trends and create training. The PAS meet on a monthly basis to discuss trends and training needs surrounding programs including TANF.

**Contact:** Teri Chasten, Administrator

**Anticipated Completion Date:** September 1, 2012

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

**Finding #11-25-21**

**Program:** CFDA 93.558 – Temporary Assistance for Needy Families; CFDA 93.714 – ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families State Program – Allowable Costs/Cost Principles and Eligibility

**Grant Number & Year:** All open grants including #G1002NETANF, FFY 2010; #G1001NETAN2, FFY 2010

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

**Criteria:** The Nebraska State Plan effective October 1, 2010, states “Supportive services will be provided to the extent determined necessary to permit the individual to participate in any *Employment First* approved work activity, including the administrative process of orientation, assessment, self-sufficiency planning, and Self-Sufficiency Contract development, if no other source is available. Case management and necessary supportive services may be provided for the duration of the client’s participation in all *Employment First* approved work activities...”

Per Title 468 NAC 2-020.08, “Applicants for ADC cash assistance are eligible for supportive services only if they are participating in Employment First orientation, assessment, self-sufficiency planning, Self-Sufficiency Contract development, community service, job search, or employment.”

Per 42 USC § 608(a)(1) (2010), “A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to a family, unless the family includes a minor child who resides with the family (consistent with paragraph (10)) or a pregnant individual.”

Per 42 USC § 608(a)(10)(A) (2010), “A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance for a minor child who has been, or is expected by a parent (or other caretaker relative) of the child



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

to be, absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days as the State may provide for in the State plan submitted pursuant to section 602 of this title.”

**Condition:** One of two supportive service payments tested was not allowable as the payment was for an ineligible TANF recipient.

**Questioned Costs:** \$25 known

**Context:** The Agency provides supportive services to TANF recipients who participate in Employment First to assist the individual with job related costs such as fuel or clothing. One of two payments tested was for the cost of vehicle fuel for 37 recipients during August 2010. For one of these 37 recipients, the Agency discovered in December 2011 the minor child had not been in the household since April 2009 and therefore the individual was not eligible to receive the supportive service of \$25 for vehicle fuel in August 2010. The Agency set up a receivable amount to collect from the individual the TANF overpayments; however, the \$25 supportive service payment tested was not included in this receivable amount. Additionally, we noted the receivable amount did not include State Transitional TANF payments made to the individual for the months of October 2010 to February 2011 totaling \$290. These State Transitional payments are used to meet the TANF maintenance of effort requirement.

The Federal payment error noted was \$25. The total Federal sample tested was \$2,304 and total Federal TANF supportive service payments for fiscal year 2011 were \$4,951,860. The dollar error rate for the sample was 1.09% ( $\$25/\$2,304$ ) which estimates the potential dollars at risk for fiscal year 2011 to be \$53,975 (dollar error rate multiplied by population).

**Cause:** The TANF recipient failed to report to the Agency that the minor child was no longer in the household. The Agency stated they do not have a mechanism in place to recover supportive service payments when TANF benefits have been determined to be overpaid.

**Effect:** Noncompliance with Federal requirements and increased risk for misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure compliance with State and Federal regulations. We also recommend the Agency strengthen procedures to ensure all payments are included in the accounts receivable amount when it is determined a TANF recipient was overpaid.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** The Agency agrees with the condition reported. The Agency would 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:** The Agency will develop a plan to include Employment First Supportive Service payments in an accounts receivable when the Agency is collecting on a fraud related overpayment. The Agency has strengthened the procedures around the creation of accounts receivables. The responsibility to create overpayments has been limited to a smaller group of Lead Social Service Workers and Program Accuracy Specialists. These groups have received additional training on overpayments.

**Contact:** Teri Chasten, Administrator

**Anticipated Completion Date:** September 1, 2012

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

**Finding #11-25-22**

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

**Grant Number & Year:** All open including #G1102NETANF, FFY 2011; #G1001NETAN2, FFY 2010

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

**Criteria:** Administration for Children and Families (ACF) instructions requires the ACF-199 report to correctly account for adult work participation activities. ACF instructions also require the ACF-209 report to correctly report the type of family for work participation.

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

**Condition:** The Agency did not perform a review of individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. We tested eleven cases for key line items and noted two of these cases had inaccurately reported key line items.

**Questioned Costs:** None

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Context:** The Agency's procedure is to review three cases from the ACF-199 and three cases from the ACF-209 per month to ensure the data is being reported accurately on the reports. However for State fiscal year 2011 the Agency had not performed this review.

During testing of the ACF-199 and ACF-209 reports, we noted the following:

- The ACF-209 report classified a family as a 1-parent family when it was actually a 2-parent family. Per the Agency, the caseworker erroneously removed one parent from the unit (who was ineligible for assistance as a convicted drug felon but should still be in the unit) and closed the TANF case. When the worker reopened the TANF case, they should have re-ran the budget to put the parent back in the case but they did not, so the ACF-209 data run identified the family as 1-parent. If the family had been correctly identified, this was a solely State funded case and should not have been on the ACF-209 report.
- For one case per NFOCUS there was eight hours of job search/job readiness for the month but these hours were not included on the ACF-199 report. The worker correctly recorded all hours on the NFOCUS narrative at the beginning of the month, but did not record the job search/job readiness hours in the Employment First (EF) participant history screen until the end of the month, after the data pull for the ACF-199 occurred. The ACF-199 pulls from the EF participant history screen, not the narratives, so inaccurate information was pulled.

**Cause:** Per the Agency, they did not devote adequate resources to the reviews of the ACF-199 and ACF-209 reports. The errors found in the reports were due to caseworker errors and not errors in the way the Agency pulls information from NFOCUS to report on the ACF-199 and ACF-209 reports.

**Effect:** Increased risk of significant information for the ACF-199 and ACF-209 reports being reported incorrectly which could result in Federal sanctions.

**Recommendation:** We recommend the Agency compare the submitted report to individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. We further recommend the Agency implement procedures to ensure caseworkers accurately and timely update NFOCUS.

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

**Corrective Action Plan:** The Agency will create a plan to ensure the accuracy of the ACF-199 and the ACF-209 report by using a valid sample. The plan will include a process to ensure information on the reports match information on NFOCUS.

**Contact:** Teri Chasten, Administrator

**Anticipated Completion Date:** September 1, 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-23**

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

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

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

**Criteria:** A good internal control plan requires procedures to ensure tracking of the work participation requirement is correct.

Per 45 CFR § 261.62(a) (October 1, 2010), “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...”

Per 45 CFR § 261.60(c) (October 1, 2010), “For unsubsidized employment, subsidized employment, and OJT, a State may report projected actual hours of employment participation for up to six months based on current, documented actual hours of work. Any time a State receives information that the client’s actual hours of work have changed, or no later than the end of any six-month period, the State must re-verify the client’s current actual average hours of work, and may report these projected actual hours of participation for another six-month period.”

**Condition:** One of nine case review listings tested did not agree to the Agency’s Work Participation Rate (WPR) Validations spreadsheet. Additionally, the Employment First (EF) hours reported in the Agency’s case file system did not agree to supporting documentation for 6 of 25 cases tested.

**Questioned Costs:** None

**Context:** The Agency maintains a WPR Validation spreadsheet which lists the five different service areas and for each month identifies the following: EF contractor reported work participation rate, the number of cases the Agency reviewed each month, the number of cases found to be incorrect, the adjusted work participation rate based upon the number of cases found incorrect, and a work participation rolling average. Each month the Agency reviews 10% of the cases that the EF contractor reported as meeting the required work participation and then adjusts the work participation rate by the number of errors found. We tested nine Agency review listings and found one that did not agree to the WPR Validation spreadsheet. For the Western Service Area for September 2010, three cases were noted as incorrect by the Agency; however, four cases should have been noted.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

From the nine review listings noted above, we selected 25 cases to test to ensure the Agency's review was proper. For 5 of the 25 cases tested, the Agency found that the TANF participant was not meeting the required work participation; however, the EF hours were not corrected in the case file system. Information in the case file system is used to populate the ACF-199 and ACF-209 reports. Three of these five cases were shown as meeting the work participation on the ACF-199 report when they actually did not meet the requirement. The other two cases were not shown as meeting the required participation on the ACF-199 report due to other edit checks in the ACF-199 report. Although these two cases were correctly shown as not meeting the work participation, the fact that the hours were not updated in the case file system shows the Agency's procedures aren't adequate to ensure participation hours are updated once the reviews are complete. Thus if the Agency resubmits the ACF-199/209 reports, hours will not be corrected on the resubmitted reports.

For 1 of 25 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; however, during review of supporting documentation we determined this individual did not meet the requirement. The Agency allowed the EF contractor to project unsubsidized employment for longer than six months.

A similar finding was noted in the prior report.

**Cause:** The EF hours could not be changed in the case file system after one month following the quarter end. For example the July, August, and September 2010 hours could not be changed after October 31, 2010. Due to timing, the Agency case reviews were not always completed prior to this timeframe. A system change was done on March 20, 2011, to allow EF hours to be changed for 12 months. According to a TANF IT Business Analyst, once this system change was done, the Agency could have changed March 2010 hours.

Since the Agency is performing TANF case reviews every 12 months, the Agency stated they allowed the EF contractors to project employment hours up to 12 months; however, that is not in compliance with regulations.

**Effect:** Without adequate controls in place, the EF participation rate could be incorrectly reported, which could result in Federal sanctions.

**Recommendation:** We recommend the Agency implement procedures to ensure EF participation hours are correctly reported.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** The Agency has implemented procedures to enhance current monitoring of Work Participation Rate (WPR) information provided on the ACF-199 report. The Employment First Program Accuracy Specialists (PAS) have been instructed in proper procedures to update the Nebraska Economic Assistance Review System (NEARS) at the time they complete their WPR Validation spreadsheet. The TANF Policy Unit will monitor NEARS at the time the WPR Validation spreadsheet is received to ensure the number of incorrect cases is accurately reflected.

There are now written procedures in place for the Employment First PAS to monitor cases that need NFOCUS participation hours updated as a result of the monthly review of cases.

If the entry of participation hours in NFOCUS must be updated due to a case review, the contractor will have 5 working days to update the hours. The EF PAS will monitor to assure the entry has been updated. If the contractor fails to update the hours within the 5 working days, the EF PAS will contact their Contract Manager and Contractor Project Manager. The Contractor Project Manager will notify the Contract Manager and EF PAS when NFOCUS is updated.

The Agency will develop a method to re-verify employment hours for Employment First participants every six months.

**Contact:** Teri Chasten, Administrator

**Anticipated Completion Date:** September 1, 2012

**Finding #11-25-24**

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

**Grant Number & Year:** #G1102NETANF, FFY 2011

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

**Criteria:** Per the Nebraska State Plan for TANF, effective October 1, 2010, the Agency will use TANF funds to provide an array of Safety and In-Home Services to families whose children have been determined to be unsafe in the family home or to the community, based on the safety assessment conducted by the Agency. The services provided will meet the first statutory purpose of TANF: to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives. The eligibility criteria will be needs based, as indicated by the family's program eligibility status for TANF, Supplemental Nutrition Assistance Program (SNAP), Social Security Income, or Medicaid. Family Support Services are allowable under the direction of the case manager via the safety plan and/or the case plan.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Per 45 CFR § 263.2(b)(2) (October 1, 2010), an eligible family for TANF must include a child living with a custodial parent or other adult caretaker relative. Per the Nebraska State Plan for TANF, effective October 1, 2010, eligibility for TANF is limited to needy families with dependent children. Usually, the child shares the same household with the parent, relative, guardian or conservator. However, a home is considered to exist as long as the parent or relative exercises responsibility for the care and control of the child, even though circumstances may require the temporary absence of either from the customary family setting. Allowable absences include emergency situations that deprive the child of a parent, relative, guardian, or conservator's care (may not continue beyond three months, except in case of extended hospitalization).

Article III(D)(1)(b)(1) of the Family Support and Visitation Contract states, "Staff providing Family Support services shall have a minimum of a Bachelors Degree unless a staff equivalency petition is approved." A good internal control plan requires procedures be in place to ensure the provisions of service contracts, including those pertaining to the qualifications of service provider staff, are met.

OMB Circular A-87 requires allowable costs to be, among other things, necessary, reasonable, and adequately documented. OMB Circular A-87 mandates also that allowable costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Per OMB Circular A-133, an Agency is responsible for ensuring compliance with Federal requirements through the use of sound internal controls. A good internal control plan must include procedures to ensure rates charged to TANF are reasonable, necessary, and adequately documented.

**Condition:** We tested one journal entry that charged TANF for State child welfare costs and tested ten claims within the entry. We noted five claims tested did not comply with Federal and State requirements. More than one type of error was noted for one of these five claims.

**Questioned Costs:** \$1,451 known

**Context:** The Agency's new TANF State Plan, effective October 1, 2010, allows for the payment of certain child welfare costs from Federal TANF funds. To identify the claims eligible for Federal funds, the Agency performed an NFOCUS query based on service date, which was supposed to pull cases for certain child welfare service types (e.g., family support services and tracker services), for children who were in the home and whose families were in an active TANF, Medicaid, or SNAP case. After performing the query, the Agency transferred the total payments from State general funds to Federal TANF funds. The Agency performed three such entries during State fiscal year 2011, totaling \$3,007,026. We tested one of these entries, which was for service dates October through December 2010, totaling \$1,065,538.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

We noted the following during our testing:

- For one claim tested, the children were not in the home during the service date, November 2010. In fact, they were in foster care from October 8, 2010, through January 22, 2011, for a total of 106 days. Despite allowing a child to be out of the home for up to 90 days, the State Plan specifies, “A home is considered to exist as long as the parent or relative *exercise [sic] responsibility for the care and control of the child*, even though circumstances may require the temporary absence of either from the customary family setting.” (Emphasis added.) These children were removed from the home via a court order and placed in the custody of the Agency. The parent may be participating in the case plan to work towards returning a child to the home; however, until the child is actually returned, the parent is not the primary caregiver, does not exercise control of the child, and does not provide financial responsibility for the care of the child in the custody of the Agency. Therefore, this payment was not allowable for TANF. Questioned costs on this claim were \$353.
  
- For another claim tested, the children were not in the home during the service date, November 2010. They had been out of the home since April 3, 2009. The service paid was family support services, and the service recipient was one of the parents. The Agency stated this payment appeared in both the NFOCUS query and the subsequent journal entry because the parent was involved in a separate case with another child, and that child was in the home and a recipient of Medicaid. We noted the case plan authorizing the family support services was written on behalf of the children in the original master case. Because the family support services were intended to benefit the children who were not in the home, this payment was not allowable for TANF. Questioned costs on this claim were \$705.
  
- A provision of some of the contracts with the service providers of family support services states, “Staff providing Family Support services shall have a minimum of a Bachelors [sic] Degree unless a staff equivalency petition is approved.” From the six applicable line items tested, we noted two workers did not have a Bachelor’s degree or a staff equivalency petition. One of the employees had a high school diploma, and the other had two years of college. Questioned costs on one of these claims totaled \$200; the other claim’s costs were already questioned per the previous bullet point.

The amount of compensation the Agency paid the contractors was based upon the understanding, as reflected in the express terms of the service contract, that only qualified workers would perform the agreed-upon family support services. By enlisting workers lacking the required educational credentials, contractors were able to pay those individuals considerably less than would have been required to retain qualified staff. At the same time, the contractors continued to be compensated by the Agency for those services in the full amount specified by the



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

terms of the service contract for qualified workers. To illustrate, one worker with two years of college but no Bachelor's degree was paid \$12 per hour, which was significantly less than the \$47 per hour the Agency reimbursed the contractor for the Family Support services provided. Because not all of the workers were qualified, the Agency did not have adequate documentation to support that the \$47 reimbursement rate was reasonable.

- Two claims were rejected claims. These claims were not paid through NFOCUS, a subsystem of the State's accounting system used to record detailed information regarding clients and services. As a result, we were unable to trace the service provided to a specific payment. Moreover, because the Lead Contractors received lump sum payments for all services provided, the Agency failed to reconcile those payments to either Federal or non-Federal activities. Instead, the Agency assigned Lead Contractor payments to Federal activities – doing so without any supporting evidence. The Agency should not assign lump sum payments to Federal activities without documentation to support the accuracy of such an assignment. The Agency must differentiate and reconcile Lead Contractor payments to total claims – Federal and non-Federal alike – and, if the claims total is greater than the amount paid, only the prorated amount should be charged.

Effective November 1, 2009, the Agency contracted with six private entities to serve as the Lead Contractors in providing child welfare services. Beginning in November 2009 through December 31, 2010, each Lead Contractor received a monthly lump sum equal to 1/12 of its yearly contract amount. This was reduced by any direct payments billed through NFOCUS from the previous month. The direct services were charged through NFOCUS. The remainder of the monthly contract amount was then paid to the contractor in a lump sum.

The claims processed and paid through NFOCUS were identified as “paid” claims. However, any claim processed through NFOCUS that exceeded the monthly contract amount was identified as “rejected.” The Agency prepared a journal entry during the fiscal year to charge rejected child welfare claims by transferring the costs from State child welfare funds to Federal TANF funds. However, the Agency did not consider all rejected claims, both eligible and ineligible for TANF, in determining which rejected claims could be transferred from lump sum payments. Therefore, the Agency did not perform procedures uniformly for Federal and non-Federal claims, as required by OMB Circular A-87. To be allowable, Federal TANF funds should only be charged in a proportionate share of TANF-eligible rejected claims to total rejected claims.

Beginning January 1, 2011, the Agency changed its process for paying Lead Contractors. We tested two rejected claims, with rejected dates of January 20, 2011, and January 25, 2011, totaling \$193. The Agency now pays Lead Contractors for services each month in two installments through EnterpriseOne. Nevertheless, the Lead Contractors are still required to submit their claims for

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

processing through NFOCUS; however, all claims for the Lead Contractors are identified as “rejected” and not paid through NFOCUS. The Agency did not reconcile the claims processed through NFOCUS to what they paid the Lead Contractors through EnterpriseOne. The Agency charged TANF for TANF-eligible rejected claims but did not consider all rejected claims or the total amount paid to Lead Contractors compared to total submitted claims. To comply with OMB Circular A-87, the Agency must reconcile actual payments to all rejected claims, charging TANF only for the proportionate share of claims.

The total Federal questioned costs noted during testing were \$1,451, of which \$1,258 was for paid claims, and \$193 was for rejected claims. The total Federal sample tested was \$11,081, of which \$193 was for rejected claims. Total transfers to TANF from child welfare for the fiscal year were \$3,007,026, of which \$433,112 was for rejected claims, and the total number of claims was 7,499. Based on the sample tested, the case error rate was 50% (5/10). The dollar error rate for the sample tested was 11.55% for paid claims (\$1,258/\$10,888) and 100% for rejected claims (\$193/\$193), which estimates the potential dollars at risk for fiscal year 2011 to be \$730,399 (dollar error rate multiplied by aid amount; \$297,287 for paid claims and \$433,112 for rejected claims).

**Cause:** The Agency did not ensure its NFOCUS query was working properly by identifying only claims allowable for TANF. The Agency failed to verify that contractors had complied with provisions of their service contracts concerning staff qualifications. The Agency changed the process for how the Lead Contractors were paid and how the claims entered into NFOCUS were handled; claims are no longer tied to a specific payment.

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

**Recommendation:** We recommend the Agency implement procedures to ensure compliance with Federal and State regulations. The Agency should review carefully its NFOCUS query to ensure it is picking up only line items allowable for TANF. Additionally, the Agency should perform ongoing monitoring of compliance with the terms of the service contracts, including a periodic review of the qualifications of service provider staff. The Agency should also review its rate structure for child welfare services to ensure that amounts paid to providers for such services are not excessive. Finally, the Agency should review procedures for rejected claims in NFOCUS to ensure all Federal charges are in accordance with Federal regulations.

**Management Response:** The Agency agrees with the condition reported. The Agency would 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.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** The Agency will consult with the ACF Division of Cost Allocation for any necessary revisions in how expenditures paid to a lead contractor are assigned for Federal claiming and will amend and adjust how claims are made based on that consultation. The Agency will also review the NFOCUS query used to claim TANF funds to assure accuracy for claiming purposes. A monitoring system will be identified for periodic review of the qualifications of service provider staff.

**Contact:** Chris Hanus, Child Welfare Unit Administrator

**Anticipated Completion Date:** September 1, 2012

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

**Finding #11-25-25**

**Program:** CFDA 93.563 – Child Support Enforcement – Special Tests and Provisions

**Grant Number & Year:** #1104NE4004, FFY 2011

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

**Criteria:** Per 45 CFR § 303.3(b) (October 1, 2010), “the IV-D agency must attempt to locate all noncustodial parents or their sources of income and/or assets when location is necessary to take necessary action. Under this standard, the IV-D agency must:...(3) Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources . . . and ensure that location information is sufficient to take the next appropriate action in a case.”

**Condition:** We tested 15 cases for establishment of paternity and support obligations, and noted for one of these cases an address lead was not verified to determine the location of the alleged noncustodial parent.

**Questioned Costs:** None

**Context:** The Agency was attempting to locate the alleged noncustodial parent in order to establish paternity and a support obligation. However, an address lead for the noncustodial parent was identified on November 17, 2010, and this address lead was never verified.

**Cause:** Lack of follow up by the caseworker.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Without procedures to ensure all address leads are verified, there is an increased risk that noncustodial parents will not be located in order to establish paternity and support obligations.

**Recommendation:** We recommend the Agency implement procedures to ensure address leads are verified.

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

**Corrective Action Plan:** The Agency has policies and procedures in place that provide staff clear direction on how to process a location lead. The Agency will send a memo to all state and county Child Support Enforcement staff regarding this audit finding and remind them of the importance of following up on location leads by using the policies and procedures currently in place. The case found in error was reviewed and appropriate action related to the location lead was completed.

**Contact:** Byron Van Patten, Administrator

**Anticipated Completion Date:** February 1, 2012

**Finding #11-25-26**

**Program:** CFDA 93.568 – Low-Income Home Energy Assistance – Allowability and Eligibility

**Grant Number & Year:** G10B1NELIEA, FFY 2010; G11B1NELIEA, FFY 2011

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

**Criteria:** Per OMB Circular A-87 to be allowable, costs must be authorized or not prohibited under State or local laws or regulations; conform to Federal laws, terms, and conditions of the award; and be adequately documented.

Per 476 NAC 5-006: The situation demanding crisis assistance must constitute a threat to client health and may result from the following types of emergencies: blizzard; extreme cold weather; power outage; fuel shortage; natural disaster; or outstanding fuel bill.

A good internal control plan requires procedures to ensure supporting documentation is maintained.

**Condition:** One of 40 assistance payments tested was not in compliance with Federal and State requirements.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** \$155

**Context:** One of 40 payments tested did not have documentation regarding outstanding bill/disconnect/shut off notice or payment history for crisis payment.

Total questioned costs noted during testing were \$155. The total sample tested was \$7,926 and total energy assistance payments were \$18,647,626. Based on the sample tested, the case error rate was 2.5% (1/40). The dollar error rate for the sample was 1.96% (\$155/\$7,926) which estimates the potential dollars at risk for fiscal year 2011 to be \$365,493 (dollar error rate multiplied by assistance).

**Cause:** Unknown

**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.

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

**Corrective Action Plan:** A memo will be distributed to staff reminding them of the documentation requirements for crisis assistance.

**Contact:** Teri Chasten

**Anticipated Completion Date:** April 1, 2012

**Finding #11-25-27**

**Program:** CFDA 93.569 – Community Services Block Grant; CFDA 93.710 – ARRA – Community Services Block Grant – Cash Management

**Grant Number & Year:** #G11B1NECOSR, FFY 2011; #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, 2010), States should exercise sound cash management in funds transfers to subgrantees. Per the March 2011 OMB Circular A-133 Compliance Supplement, “pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.” A good internal control plan requires procedures be in place to ensure cash advances to subrecipients are for the subrecipients’ immediate cash needs only.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** The Agency's policy was to advance eligible entity subrecipients funds whenever a grant award was received by the Federal government. The Agency also advanced funds to a discretionary grant subrecipient irrespective of its cash needs. These procedures do not ensure advances are for immediate cash needs only.

**Questioned Costs:** Unknown

**Context:** Subrecipients fall into one of two categories: eligible entity subrecipients and discretionary grant subrecipients. Eligible entity subrecipients are the nine community action agencies in Nebraska and, per Federal regulations, they receive at least 90% of the Community Services Block Grant (CSBG) allotment. Discretionary grants are awarded to other subrecipients who, like the eligible entity subrecipients, also work to reduce poverty and revitalize low-income communities. We tested three eligible entity subrecipients and one discretionary grant subrecipient for cash management compliance.

At the beginning of each grant year the Agency predetermines the amount of the award to eligible entity subrecipients based on their respective poverty populations. Then, each time a Federal award comes in to the Agency (seven times during the fiscal year for the 2011 grant); the Agency distributes the award to these subrecipients, independent of actual spending by these subrecipients. Therefore at any one time, eligible entity subrecipients have received either too much or too few funds from the CSBG to meet their immediate cash needs. We tested three eligible entity subrecipients and noted that variances during the fiscal year ranged from the subrecipient having received \$384,125 of funds in excess of its expenditures, to the subrecipient needing \$11,236 to cover expenditures incurred.

A similar finding was noted in our prior audit. The Agency's prior corrective action plan stated the Agency "will create monitoring tools for effectively checking cash management." The Agency did develop a cash management monitoring tool (spreadsheet) to compare quarterly expenditures reported by the eligible entity subrecipients to the quarterly disbursements by the Agency. However, no actions were taken based on the results of this spreadsheet; the Agency uses it for informational purposes only.

Current procedures are not adequate. For example, one eligible entity subrecipient had reported \$194,684 of expenditures as of March 31, 2011, (for the first two quarters of the FFY 2011 grant) and they had already been paid \$281,664, leaving \$86,980 of funds still available to be spent. Since their average quarterly expenditures for the first two quarters were \$97,342 ( $\$194,684/2$ ), it would be reasonable to assume that, through June 30, 2011, they would only need to be advanced approximately an additional \$10,362 ( $\$97,342 - \$86,980$ ) in order to meet current expenses. However, the Agency distributed \$35,000 to the subrecipient on April 1, 2011, \$48,551 on May 13, 2011, and \$77,809 on June 13, 2011. On June 30,

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

2011, the subrecipient reported quarterly expenditures of only \$82,386 and, therefore, had \$165,954 of funds in excess of expenditures for the 2011 grant. It appears that none of the payments made during the quarter were necessary to meet the subrecipient's immediate cash needs.

Additionally, the Agency disclosed that, despite the fact that their cash management monitoring tool showed the eligible entity subrecipients generally had funds in excess of reported expenditures during the year, some subrecipients contacted the Agency and stated they needed the next CSBG advancement as soon as possible because they would otherwise not be able to meet current expenses. Per the Agency, what is probably happening is that the eligible entity subrecipients are using CSBG money in the interim to pay for expenses that could be charged to other grants. Once the subrecipients are reimbursed for their expenses from the other grants, the subrecipient replenishes the CSBG funds. The Agency does not identify this as a major concern because the expenditures incurred for the other grants would likely be allowable under CSBG, considering CSBG's very broad allowability guidelines. However, subrecipients must use CSBG funds for allowable purposes and these funds should be accounted for in their budget and in their expenditure reports to the Agency.

The Agency also distributed funds to the discretionary grant subrecipient tested irrespective of its immediate cash needs. On September 2, 2010, the Agency distributed its entire 2010 sub-award of \$83,711 to the subrecipient; as of June 30, 2011, \$62,124 of these funds remained. After we identified these remaining funds, the Agency met with the subrecipient and reclassified many previously unassigned expenses to CSBG, and showed the grant was completely spent. The 2011 sub-award was distributed in monthly installments; however, the subrecipient had not been reporting sufficient expenditures on their monthly expenditure reports to justify the monthly cash infusions.

**Cause:** The Agency created a cash management monitoring tool, but they did not use it to adjust payments to eligible entity subrecipients. The Agency had not considered monitoring cash management compliance for discretionary grant subrecipients.

**Effect:** Without procedures to ensure all subrecipients are only advanced enough funds to meet their immediate cash needs, there is an increased risk of noncompliance with cash management regulations.

**Recommendation:** We recommend the Agency implement procedures to ensure subrecipients are advanced funds to meet their immediate cash needs only.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** The Agency has revised the FY2012 subgrants to allow the Agency to make revisions to the payment structure as necessary to meet immediate cash needs. The CSBG Program Specialist will work with the Internal Auditor to develop procedures to ensure cash advances to subrecipients are for the subrecipients' immediate cash needs only.

**Contact:** Jennifer Dreibelbis, CSBG Program Specialist

**Anticipated Completion Date:** December 31, 2011

**Finding #11-25-28**

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

**Grant Number & Year:** #G11B1NECOSR, FFY 2011; #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 (ARRA) 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.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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 three of nine eligible entity subrecipients and one of thirteen discretionary grant 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. A similar finding was noted in the prior audit.

**Questioned Costs:** Unknown

**Context:** Eligible entity 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 onsite reviews. Due to this lack of review, we could not determine whether subrecipient expenditures were for allowable activities, 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. All three subrecipients tested had an A-133 audit for the fiscal year ended September 30, 2010, each had CSBG as a major program and there were no audit findings related to allowable activities, allowable costs, or procurement. This provides some level of assurance that for the first quarter of State fiscal year 2011 expenditures were for allowable activities, allowable costs, and met procurement guidelines.

The Agency also has financial reviews performed by an independent contractor. Two of three eligible entity subrecipients tested had a financial review performed by a contractor for one quarter during State fiscal year 2011. However, this does not provide assurance that expenditures were for allowable costs and met procurement guidelines, because we could not determine which, if any, 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. We 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. We also could not determine what specific procedures the contractor performed.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

In addition, the Agency is required to conduct a full onsite review every three years of eligible entity subrecipients 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. In the prior audit, we noted the checklist was not completely filled out nor was there adequate documentation to support the Agency's review. In the current year, we tested three of nine subrecipients. One subrecipient's site visit occurred prior to our prior audit, and for this subrecipient, the onsite review checklist was only partially completed. The other two subrecipients' site visits occurred after our prior audit, and for one of these subrecipients, the site visit checklist was completed; however, several important questions regarding allowability and procurement were noted "not viewed." Per the Agency, testing was not performed because the Program Specialist was unsure of what was needed to complete all the steps. For the other subrecipient, the onsite review checklist was only partially completed because the Program Specialist decided to truncate the review to focus on staff feelings over the imminent departure of the executive director. This is not a valid reason to shorten the onsite review.

Originally, the Agency did not require expenditure reports or conduct site visits for the discretionary grant subrecipient tested. Due to audit findings of the discretionary grant subrecipient noted by several Federal grantors primarily related to financial management, the Agency began requiring the subrecipient to submit expenditure reports of CSBG funds expended as of December 31, 2010, and monthly thereafter. The expenditure reports include a breakdown of the period's expenses by cost categories: payroll, travel, operating, etc. The expenditure reports were reviewed by Agency staff; however, the Agency did not verify the expenditures to timesheets, invoices, or detailed supporting documentation. It does not appear the Agency reviewed the monthly reports carefully. We noted the report submitted for February 2011 was in fact a report for February 2010. Additionally, the Program Specialist did not understand how the expenditure reports worked. For one award, the Program Specialist believed the grant had been completely spent when in fact the grant still had a large balance of funds remaining.

The Agency did not perform any site visits for the discretionary grant subrecipient. The Agency did notify the subrecipient of their intentions to perform a site visit no later than November 2010; however, this did not occur. The Agency also did not perform any other financial monitoring procedures.

Total payments made to the three eligible entity subrecipients tested during State fiscal year 2011 were \$1,487,870 and total aid payments to all eligible entity subrecipients were \$5,758,866. Total payments made to the one discretionary grant subrecipient tested during State fiscal year 2011 was \$169,414 and total aid payments to all discretionary grant subrecipients was \$339,481.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency developed procedures to verify eligible entity subrecipients' expenditures on quarterly reports; however, these procedures were not implemented during the fiscal year. The onsite reviews were not completed for different reasons, as noted above. The Agency's primary focus was on the eligible entity subrecipients and not the discretionary grant subrecipients.

**Effect:** Without procedures to ensure adequate subrecipient monitoring, there is an increased risk subrecipients' expenditures are not allowable.

**Recommendation:** We recommend subrecipient monitoring be improved to provide reasonable assurance subrecipients' expenditures are allowable. For financial reviews performed by the contractor, we recommend the Agency obtain a complete understanding of the extent of transactions reviewed and what specific procedures are performed, to determine the extent of reliance, if any, that the work performed ensures subrecipient compliance with Federal regulations. If there is no coverage for a particular period, we recommend the Agency perform procedures to satisfy that expenditures are allowable. Expenditures need to be reviewed for both eligible entity and discretionary grant subrecipients. We further recommend the Agency fully perform and document their onsite reviews to ensure compliance with CSBG program requirements. This must include gaining the necessary competence to complete the reviews. The Agency should also consider the need to perform onsite reviews of discretionary grant subrecipients.

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

**Corrective Action Plan:** Beginning July 1, 2011, the Agency started requiring subrecipients to provide selected documentation for each quarter's financial report. This process will continue to be reviewed and enhanced.

**Contact:** Jennifer Dreibelbis, CSBG Program Specialist

**Anticipated Completion Date:** March 1, 2012

**Finding #11-25-29**

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

**Grant Number & Year:** #G11B1NECOSR, FFY 2011; #G10B1NECOSR, FFY 2010; #G0901NECOS2, FFY 2009 ARRA

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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. A good internal control plan also requires that this eligibility verification be adequately documented.

**Condition:** The Agency was unable to provide adequate documentation 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?

In the prior audit we noted the subrecipient onsite visit checklist was not consistently completed. Additionally there was no documentation to support that eligibility verifications actually occurred. After our audit, the Agency implemented procedures to better document their eligibility testing. We could verify eligibility testing was performed for a sample of emergency payments and a sample of case files. However, while adequate identifying information was available for the emergency payments test, there was not adequate identifying information on the Agency’s workpapers to allow us to determine which specific cases were reviewed for the case files test.

In the current year, we tested three of nine subrecipients. One subrecipient’s site visit occurred prior to our prior audit, and for this subrecipient, the subrecipient onsite visit checklist’s questions related to eligibility were left blank. In addition, there was no documentation to support that eligibility verification actually occurred. The other two subrecipients’ site visits occurred after our prior audit, and for these subrecipients, we could verify that eligibility testing was occurring; however, we could not determine which specific cases were reviewed for the case files test.

Additionally, we noted \$161,371 of direct assistance to clients coded to CSBG during the fiscal year per the subrecipients’ quarterly reports. The Agency did not specifically test these payments that were actually made with CSBG funds. Rather,

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

the Agency tested a random sample of emergency payments and case files, with the reasoning that the costs actually charged to CSBG (primarily salaries and operating expenses) were used to support the direct assistance payments.

**Cause:** There was a similar finding in the prior audit. After the audit, the Agency implemented procedures to verify eligibility. However, they did not adequately document which specific files were reviewed. Additionally, they did not specifically test payments that were actually made with CSBG funds.

**Effect:** Without documentation to support that the Agency adequately monitors subrecipients' eligibility determinations, there is the risk ineligible clients will receive funds.

**Recommendation:** We recommend the Agency continue to monitor subrecipients' eligibility determinations and strengthen their documentation of reviews. We further recommend the Agency specifically test the direct assistance payments that were actually made with CSBG funds.

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

**Corrective Action Plan:** The Agency will revise the two client file review documents to include a list of specific case files with identifying information. The CSBG Program Specialist is attending Monitoring Training in November 2011 to work with the National Association for State Community Services Programs and other states in attendance for best practices concerning monitoring and evaluation of agencies. The Agency will revise desk monitoring and onsite review monitoring tools based on information gained from this conference.

**Contact:** Jennifer Dreibelbis, CSBG Program Specialist

**Anticipated Completion Date:** January 31, 2012

**Finding #11-25-30**

**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)

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** The Agency notified subrecipients of the Federal award number and CFDA number at the time of the subaward but not at the time of the disbursement of funds.

**Questioned Costs:** None

**Context:** A similar finding was noted in our prior audit report. The final ARRA payments were made to subrecipients on July 15, 2010, which was prior to our fieldwork date for our prior audit. Since there was no additional ARRA payments, the Agency's corrective action plan stated if similar legislation is proposed in the future, the Agency will ensure all policies and procedures are followed.

Total ARRA payments made during State fiscal year 2011 were \$1,363,419.

**Cause:** Agency staff was unaware of the additional ARRA requirement to notify subrecipients of the Federal award number and CFDA number 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 ensure that all Federal regulations are followed.

**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:** Not applicable

**Finding #11-25-31**

**Program:** CFDA 93.575, 93.596, and 93.713 – Child Care and Development Fund Cluster (CCDF) and ARRA CCDF – Allowable Costs/Cost Principles and Eligibility

**Grant Number & Year:** Various including #G1101NECCDF, FFY 2011; #G0901NECCD7, FFY 2009

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** Per 45 CFR § 98.20 (October 1, 2010), in order to be eligible for services, a child shall be under 13 years of age and reside with a parent or parents who are working or attending a job training or educational program.

Per Title 392 NAC 1-003, an infant is defined as a child age six weeks to 18 months, and a toddler is defined as a child age 18 months to 3 years.

Per Title 392 NAC 4-003.08A, “The local office administrator or his/her designee may approve an exception for an increased rate for a child with special needs...” A good internal control plan requires procedures be in place to ensure the approval of an exception for an increased rate for a child with special needs be adequately documented.

Per Title 392 NAC 2-003.04B, “The worker must review and document each client’s need for child care whenever necessary (at least every 12 months).”

A good internal control plan requires procedures be in place to ensure child care is only paid for times authorized by the caseworker, amounts are properly billed, self-certification checklists of license-exempt providers are adequately reviewed, and attendance sheets are properly signed.

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:** 14 of 40 Child Care payments tested were not in compliance with Federal and State requirements. We also noted the summary schedule of prior audit findings did not properly represent the status of prior year finding #10-25-28.

**Questioned Costs:** \$621 known

**Context:** Some payments had more than one type of error. We noted the following during our testing:

- For four payments tested, the parent was not working or participating in a job training or educational program. Therefore, the family was not eligible to receive a child care subsidy.
- For two payments tested, the amount of hours or days billed by the provider exceeded the service authorization.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- For five payments tested, payment amount was incorrect due to attendance sheet miscalculations.
- For one payment tested, the child's birth date was not verified.
- For one payment tested, the child was misclassified as a toddler and they should have been classified as an infant, resulting in an underpayment to the provider.
- Child care for children with special needs can be paid at a higher rate than for other children; however, this rate needs to be agreed upon by the provider and the Agency. For one payment tested, the special needs rate was not formally approved by the provider or the Agency.
- The Agency requires each license-exempt provider to complete a self-certification checklist where they certify they comply with various State and Federal requirements. For one payment tested, the license-exempt provider's self-certification checklist contained several answers that should have resulted in further investigation by the Agency.
- For one payment tested, the annual eligibility redetermination was six months late.
- For two payments tested, the attendance sheet was not signed by the provider.

Federal payment errors noted were \$621 in overpayments and \$46 in underpayments. The total Federal sample tested was \$4,583 and total Child Care Federal assistance claims for the fiscal year were \$46,800,698. Based on the sample tested, the case error rate was 35% (14/40). The dollar error rate for the sample was 13.55% for overpayments (\$621/\$4,583) and 1% for underpayments (\$46/\$4,583) which estimates the potential dollars at risk for fiscal year 2011 to be \$6,341,495 in overpayments and \$468,007 in underpayments for a net effect of \$5,873,488 in overpayments (dollar error rate multiplied by population).

Allowability issues were noted in the prior audit and the Agency developed a corrective action plan in response to this finding. The summary schedule of prior audit findings states the corrective action plan was completed July 1, 2011.

The corrective action plan stated, in part, "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." When we asked about the status of this System Change Request, the Agency responded it is scheduled to be worked on sometime in spring 2012.

The corrective action plan stated, in part, "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." When we asked about the status of the electronic claims process, the Agency responded the process is currently being tested with two major providers, and if all goes well, it is expected that it will be offered to all providers in November 2011.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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, adequately supported, and in accordance with State and Federal regulations. We also recommend the Agency consider having a separate individual review the billing documents for mathematical accuracy to ensure providers are appropriately paid. We further recommend the Agency implement procedures to ensure the summary schedule of prior audit findings accurately represents the status of prior audit findings.

**Management Response:** The Agency agrees with the condition reported. The Agency would 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:** The errors outlined above fall into three categories: client error or misuse, provider error or misuse, or worker error.

For the client issues, while the Agency can and does review a sample of cases after the fact and collects overpayments, it is not reasonable to review every case on a continuous basis. If a client's circumstances change and they continue to use child care, the Agency is not likely to know that unless that is reported either by the client or a third party. The Agency does follow up on change in circumstances reported by the client or a third party.

In regards to provider errors, Agency employees provide technical assistance to providers who consistently make errors in their calculations.

For worker errors, any common themes are addressed in training provided to workers and in topics addressed by supervisors. A memo will be sent to local office staff sharing the results of the audit and highlighting the areas that need more attention to reduce the amount of errors in the future. Resource Development workers will be asked to emphasize with providers the importance of staying within the authorized amount of care. For documentation of a higher rate paid for a child with special needs, Resource Development workers will be asked to obtain an addendum signed by the provider which will be scanned into N-FOCUS with the Provider Agreement.

In October 2011, the Agency created an Internal Auditor position to review corrective action plans and ensure that prior year audit findings are being reported on the summary schedule correctly.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Teri Chasten, Administrator

**Anticipated Completion Date:** Communication with local office staff will be completed by March 1, 2012.

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

The Agency states they review a sample of cases after the fact; the Agency also states it is not reasonable to review every case on a continuous basis. We noted 4 of 40 cases with this error which is a 10% noncompliance rate. We believe the Agency could benefit from a more thorough review of child care cases to ensure these cases have adequate documentation to support the parent was working or participating in a job training or educational program. For example, two of the exceptions noted had an Employment First (EF) related issue which could have been quickly identified through a review of NFOCUS. One parent was not cooperating with EF and the other parent was EF exempt due to pregnancy, but did not have an approval to continue using child care. If the Agency had identified these misuses of child care and ended the recipients' service authorizations, the Agency could have avoided further misuse of Federal and State funds.

Considering there have been similar findings in the past 4 Single audits and a 35% case error rate in the current year, we do not believe that merely sending a memo to local office staff sharing the results of the audit and highlighting areas that need more attention will be sufficient action to correct the problems noted.

**Finding #11-25-32**

**Program:** CFDA 93.575, 93.596, and 93.713 – Child Care and Development Fund (CCDF) and ARRA CCDF Cluster – Special Tests and Provisions

**Grant Number & Year:** Various including #G1101NECCDF, FFY 2011; #G0901NECCD7, FFY 2009

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

**Criteria:** Per 45 CFR § 98.41 (October 1, 2010), the State must have requirements designed to protect the health and safety of children. Such requirements shall include the prevention and control of infectious diseases (including immunizations), building and physical premises safety, and minimum health and safety training appropriate to the provider setting.

**Condition:** The Agency did not have adequate procedures in place to ensure health and safety requirements were met for child care providers.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** Unknown

**Context:** The Agency has two tiers of providers that are subject to health and safety requirements. These are child care centers and family child care homes. Each type of provider is subject to separate but similar State regulations. The Agency conducts inspections of child care providers at least annually and documents their review on a checklist. Any deficiencies noted are carried forward to a compliance review form and the child care inspection specialist ensures the deficiencies are corrected.

We reviewed the State's health and safety requirements for child care providers and we tested 35 child care providers subject to the health and safety requirements and we noted the following:

- The Agency does not have regulations for or verify compliance with requirements for prevention and control of infectious diseases for child care centers. Specifically, the regulations for family child care homes require notification of parents if an outbreak occurs, and require the isolation of severely ill children. There are no such regulations for child care centers. The Agency is aware of these deficiencies in their regulations and attempted to update their regulations in 2000 but were unsuccessful. The Agency is currently attempting to update their regulations again. Therefore, the Agency was not in compliance with regulations for the prevention and control of infectious diseases for all 21 child care centers tested.
- The Agency appears to have adequate health and safety requirement regulations for family child care homes but they do not verify all of these requirements on a regular basis. The child care inspection specialists complete a full review of family child care homes when the homes are first licensed, but annually thereafter they only complete a shortened review which does not verify all health and safety requirements. We specifically noted these short checklists do not address that the parents are notified if an outbreak occurs, severely ill children are isolated, lead-based paint is not exposed, buildings are constructed to prevent rodents from entering, and electrical outlets within the reach of children are safe. Of the 35 child care providers tested, 14 were family child care homes. Three of these had a full review completed recently as they were new licensees. The other 11 only had a short review completed, with the last full review completed ranging as far back as 1995.
- Depending on the city or county, the Agency depends on local fire departments or the State Fire Marshal to conduct fire inspections for child care centers. The Agency considers an inspection within two years to be current. The Agency makes a referral to the fire department when an inspection is due but the Agency does not pay for these inspections and cannot control the timing of the inspections. We tested 21 child care centers and noted three of these did not have

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

a fire inspection performed within the last two years. All three exceptions are for referrals made to the Omaha Bureau of Fire Prevention. The most recent inspections for these providers occurred February 6, 2007, August 8, 2007, and February 22, 2008, which is not within two years of the State fiscal year 2011.

- For several large counties, the Agency relies on the local health departments to conduct building and physical premise safety inspections for child care centers. The Agency considers an inspection within two years to be current. The Agency makes a referral to the health department when an inspection is due but the Agency does not pay for these inspections and cannot control the timing of the inspections. We tested 21 child care centers and noted five of these did not have an approved building and physical premise safety inspection performed within the last two years. All five exceptions are for referrals made to the Douglas County Health Department. The most recent inspections for four of these providers occurred September 7, 2007, February 25, 2008, March 19, 2008, and August 22, 2008. For one provider, the most recent inspection occurred February 8, 2009, but it was never approved. It appears issues were noted but the Douglas County Health Department never got around to a follow-up inspection to approve the provider.
- For two providers tested, a question was marked as noncompliant on the checklist but no deficiency was noted on the compliance review form. For one provider, the question was for immunization records and for the other provider, the question was for CPR training.
- For one provider tested, the checklist was not signed by the provider, to document the provider was informed of issues noted.

**Cause:** The Agency stated that due to a heavy workload, they do not have time to perform a full review on family child care homes to address all health and safety requirements. The Agency cannot directly control the timing of the fire inspections or the building and physical safety inspections that are performed by third parties. However, they stated they did not realize the Omaha Bureau of Fire Prevention and the Douglas County Health Department were so far behind on their inspections, and the Agency stated they will be meeting with these entities in the near future to attempt to resolve these issues. The Agency disagrees that we should place any bearing on whether the checklist marks a question as noncompliant. The Agency stated the checklist is an internal document only and any deficiencies would be noted on the compliance review form. The Agency stated the signature of the licensee on the checklist is not a requirement.

**Effect:** Without adequate procedures to ensure health and safety requirements are met, there is an increased risk of noncompliance with Federal regulations and the risk that children will be spending time in facilities where all health and safety requirements have not been met.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Recommendation:** We recommend the Agency implement procedures to ensure all health and safety requirements are met for child care providers.

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

**Corrective Action Plan:** Child Care Licensing regulation revisions will be given to the Director of the Division of Public Health for approval by January 31, 2012. From there regulations will need to be approved by the Attorney General and the Governor before they can become effective. The Agency will work with the various agencies to ensure the revisions are made as timely as possible.

The items noted by the APA will be added to the annual inspection process for family child care home inspections.

The Agency will begin tracking of biennial Fire Safety Referrals and Sanitation Referrals in January 2012. A meeting with the Omaha Fire Prevention Bureau and Douglas County Health Department will be requested.

The Agency will clarify its policies and procedures regarding how a determination of compliant versus noncompliant is made on the compliance review form.

The Agency will request that the compliance review form be signed by each provider at the conclusion of the inspection.

**Contact:** Pat Urzedowski, Administrator

**Anticipated Completion Date:** The regulation revisions will be provided to the Director by January 31, 2012. The annual inspection process will be updated by January 31, 2012. Communication with the Omaha Fire Prevention Bureau and Douglas County Health Department will be initiated by January 31, 2012, and completed by March 31, 2012. The Agency will clarify its policies and procedures by March 31, 2012, and require signatures on all compliance review forms effective January 1, 2012.

**Finding #11-25-33**

**Program:** CFDA 93.575, 93.596, and 93.713 – Child Care and Development Fund (CCDF) and ARRA CCDF Cluster – Special Tests and Provisions

**Grant Number & Year:** Various including #G1101NECCDF, FFY 2011; #G0901NECCD7, FFY 2009

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** Per 45 CFR § 98.60(i) (October 1, 2010), “Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud.” A good internal control plan requires procedures be in place to ensure referred cases are reviewed and appropriate dispositions are made in a timely manner.

**Condition:** We tested nine cases referred to the Special Investigations Unit (SIU) and noted three reviews were not completed on a timely basis.

**Questioned Costs:** Unknown

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

- For one case, fraud was discovered and work was completed on the case in January 2008. After that, the investigator attempted to contact the recipient but they did not respond until the investigator began proceedings to disqualify the recipient in August 2010, two and a half years after fraud was discovered.
- For one case, fraud was discovered and work was completed in 2008 but the case was not set up for an intentional program violation hearing until December 2010, two years later.
- One case was referred to the SIU in June 2009 but work did not begin on the case until September 2010, over one year after referral. The case was not worked until it was reassigned to an investigator with a smaller caseload.

**Cause:** Per the Agency, they did not devote adequate resources to ensuring all referred cases are reviewed and appropriate dispositions are made in a timely manner.

**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 Special Investigations Unit are reviewed and appropriate dispositions are made on a timely basis.

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

**Corrective Action Plan:** The Agency will review all current pending child care fraud investigations for timeliness and collaborate with assigned investigators and monitor child care fraud case progression on a monthly basis to assure timeliness.

**Contact:** Jana McDonough, Fraud Investigator Supervisor

**Anticipated Completion Date:** Review of all current pending child care fraud investigations by January 31, 2012.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-34**

**Program:** CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Allowability/Eligibility/Period of Availability

**Grant Number & Year:** #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010; #0G1101NE1401, FFY 2011; #0G1001NE1402, FFY 2011

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

**Criteria:** Per 45 CFR § 1356.22(b) (October 1, 2010), “Federal financial participation is available only for voluntary foster care maintenance expenditures made within the first 180 days of the child’s placement in foster care unless there has been a judicial determination by a court of competent jurisdiction, within the first 180 days of such placement, to the effect that the continued voluntary placement is in the best interests of the child.”

Per 42 USC § 671(a)(20)(A) (2011), the foster family home must have met a criminal records check, including a fingerprint-based check.

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 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 allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-87 states also that allowable costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Per 45 CFR § 92.23(a) (October 1, 2010), “Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period . . .” Per 45 CFR § 95.13(a) (October 1, 2010), “We consider a State agency’s expenditure for assistance payments under title I, IV-A, IV-E, X, XIV, or XVI (AABD) to have been made in the quarter in which a payment was made to the assistance recipient, his or her protective payee, or a vendor payee . . .”

According to the Lead Contractors’ Service Contract Amendment 7, dated December 2010, “Monthly payments under Article II. CONSIDERATION B. 6 are contingent upon full and complete performance of the contract obligations but are not contingent upon the dollar amount of statements for services submitted through N-FOCUS, beginning January 1, 2011.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Per 42 USC § 675(4)(A) (2010), “The term ‘foster care maintenance payments’ means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child’s personal incidentals, liability insurance with respect to a child, reasonable travel to the child’s home for visitation, and reasonable travel for the child to remain in the school in which the child is enrolled at the time of placement. In the case of institutional care, such term shall include the reasonable costs of administration and operation of such institution as are necessarily required to provide the items described in the preceding sentence.”

**Condition:** We tested 40 Foster Care payments and noted 20 payments did not comply with Federal and State requirements. More than one type of error was noted for some of these 20 payments.

**Questioned Costs:** \$13,611

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

- For one case, no voluntary placement was on file for the child, for the beginning of the month, nor was there a judicial determination within 180 days.
- For one Tribal custody case, a criminal records check, including a fingerprint-based check was not done on the foster home. A similar finding was noted in the prior audit.
- Four cases lacked adequate supporting documentation to determine whether the payment was made correctly to the subcontractor or to the foster parent. In two of these four cases, the Lead Contractor went out of business in April 2010, and the Agency did not obtain all documentation to support that payment was made to the subcontractor or foster parent. For one of the four cases, the subcontractor went out of business and the Agency did not obtain documentation to support that the payment was made to the foster parent. In one of the four cases, the subcontractor did not provide the Agency with sufficient information to show that the payment was made to the foster parent.
- Two cases were for payments to Lead Contractors, where the amount charged for maintenance was greater than the amount paid for maintenance to the subcontractor or foster parent. Per Federal regulations, maintenance does not include Lead Contractor administrative or operating costs; therefore, no claim amount in excess of the subcontractor payment is allowable.

Cases	Federal Share of Claim to Lead Contractor	Federal Share of Lead Contractor Payment to Subcontractor or Foster Parent	Unallowable Maintenance
Case 1	\$ 1,700	\$ 1,364	\$ 336
Case 2	\$ 408	\$ 306	\$ 102
<b>Total</b>	<b>\$ 2,108</b>	<b>\$ 1,670</b>	<b>\$ 438</b>



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- Four cases did not agree to the rate schedule the Lead Contractor provided the Agency. All four cases involved the same Lead Contractor. For three claims, the rate schedule was \$86 per day. However, one claim was paid at \$64 per day, one claim was paid at \$54 per day, and one claim was paid at \$32 per day. The rate schedule for the fourth claim was \$46 per day but it was paid at only \$38 per day. The total amount of these under-billings ranged from \$24 to \$1,620. A similar finding was noted in the prior audit.
- Fourteen cases were rejected claims. These claims were not paid through NFOCUS, a subsystem of the State's accounting system used to record detailed information regarding clients and services. As a result, we were unable to trace the service provided to a paid claim. These claims were also not applied uniformly to Federal and non-Federal activities.

Effective November 1, 2009, the Agency contracted with six private entities to serve as the Lead Contractors in providing service delivery and coordination services for IV-E and non-IV-E children and families. Beginning in November 2009 through December 31, 2010, the Lead Contractors received a monthly lump sum equal to 1/12 of their yearly contract amount. This was reduced by any direct payments billed through NFOCUS from the previous month. The direct services to children were charged through NFOCUS, with some being charged IV-E and others charged non-IV-E, based on the child's eligibility. The remainder of the monthly contract amount was then paid to the contractor in a lump sum.

The claims processed and paid through NFOCUS were identified as "paid" claims. However, any claim processed through NFOCUS that exceeded the monthly contract amount was identified as "rejected." We tested 14 rejected claims with service dates from March 4, 2010, to February 3, 2011. The Agency prepared a journal entry during the fiscal year to charge rejected IV-E claims by transferring the costs from State child welfare funds to Federal IV-E funds. However, the Agency did not consider all rejected claims, both IV-E and non-IV-E, in determining which rejected claims could be transferred from lump sum payments. Therefore, the Agency did not perform procedures uniformly for Federal and non-Federal claims, as required by OMB Circular A-87. To be allowable, Federal IV-E funds should only be charged in a proportionate share of IV-E rejected claims to total rejected claims.

Beginning January 1, 2011, the Agency changed its process for paying Lead Contractors. The Agency now pays Lead Contractors for services each month in two installments through EnterpriseOne. Nevertheless, the Lead Contractors are still required to submit their claims for processing through NFOCUS; however, all claims for the Lead Contractors are identified as "rejected" and not paid through NFOCUS. The Agency did not reconcile the claims processed through NFOCUS to what they paid the Lead Contractors through EnterpriseOne. The Agency

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

charged IV-E for IV-E rejected claims but did not consider non-IV-E rejected claims or the total amount paid to Lead Contractors compared to total submitted claims. To comply with OMB Circular A-87, the Agency must reconcile actual payments to all rejected claims, and charge IV-E only for the proportionate share of claims.

In addition, the Agency used the date in the “status change” field in NFOCUS as the date of the rejected claim. This is not an appropriate date, as it is merely a date the claim was entered or changed in NFOCUS and does not reflect when the vendor was paid. Because the Lead Contractors are paid each month for that month’s services, as opposed to being paid based on when claims are submitted, the Agency should use the date of service. Three of the rejected claims tested were for dates of service prior to the grant award charged and were claimed as current quarter expenditures and were not, therefore, within the period of availability. The total Federal share of rejected claims charged to IV-E for service dates December 1, 2009, to April 30, 2011, was \$2,204,007.

Furthermore, as noted in our attestation report of Child Welfare Reform Contract Expenditures from July 1, 2009, through March 31, 2011, reconciliations were not performed between billings sent/billed to the Agency by the Lead Contractors to the corresponding claims recorded in NFOCUS. As a subsystem of the State’s accounting system used to record detailed information regarding clients and services, NFOCUS should contain claims data that is complete and accurate. However, the Agency lacked documentation to support that all claims for services provided by the Lead Contractors and their subcontractors were recorded in NFOCUS. As a result, it is difficult, if not impossible, to determine when Lead Contractor claims data in NFOCUS is complete and accurate.

The Lead Contractors indicated that they lacked formal processes for determining whether all claims for services were sent to the Agency, or any issues associated with such claims had been resolved. If discrepancies were found with any service claims received, the Agency’s local service areas reviewed and returned those claims to the responsible Lead Contractor for correction. Neither the Agency nor the Lead Contractors monitored the resolution of these discrepancies or issues to ensure that accurate information was then entered into NFOCUS. Furthermore, upon reaching the maximum amount of compensation allowed for services under their respective service contracts, two Lead Contractors acknowledged the possibility that they stopped sending claims to the Agency to be entered into NFOCUS. We were unable to obtain records for another Lead Contractor.

Also, the Agency was delinquent in entering claims in NFOCUS. For instance, we observed Southeast service area claims sheets submitted in March 2011 that were finally being entered into NFOCUS in June 2011, some three months after receipt. Similarly, we noted a box of claims totaling \$4,478,367 that had been

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

received by the Agency but not yet entered into NFOCUS. This amount could include duplicate claims, as the claims were not tested. Aside from the documents in that box, the Agency had no other record of those claims or the billed amounts. Another possible contributing factor to NFOCUS variances is the fact that Lead Contractors have 90 days to submit claims.

The total Federal questioned costs noted during testing were \$13,611, of which \$3,186 was for paid claims and \$10,425 was for rejected claims. The total Federal sample tested was \$26,480, of which \$10,425 was rejected claims. Total Federal aid expenditures for the fiscal year were \$7,585,510 of which \$2,204,007 was for rejected claims, and the total number of claims was 18,324. Based on the sample tested, the case error rate was 50% (20/40). The dollar error rate for the sample tested was 19.84% for paid claims (\$3,186/\$16,055) and 100% for rejected claims (\$10,425/\$10,425) which estimates the potential dollars at risk for fiscal year 2011 to be \$3,271,697 (dollar error rate multiplied by aid amount; \$1,067,690 for paid claims and \$2,204,007 for rejected claims).

**Cause:** There was inadequate caseworker review and inadequate controls over processing claims. The Agency changed the process for how the Lead Contractors were paid and how the claims entered into NFOCUS were handled; individual claims are no longer paid through NFOCUS.

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

**Recommendation:** We recommend the Agency review its procedures for rejecting claims in NFOCUS and ensure all Federal charges are in accordance with Federal regulations. We recommend also that the Agency implement procedures to ensure: 1) all voluntary placement agreements are on file; 2) all foster families have a criminal records check, including a fingerprint-based check; and 3) all supporting documentation is obtained when a Lead Contractor or subcontractor goes out of business. We recommend further that maintenance charges include only costs as defined by 42 USC § 675(4)(A). Finally, we recommend the Agency implement procedures to ensure all rates agree to supporting documentation, and the rates charged are reasonable and in accordance with Federal regulations.

**Management Response:** The Agency partially agrees with the condition reported. The Agency disagrees with the APA's statement that the Federal claim amount cannot exceed the amount paid by the lead agency to its' subcontractor. The Agency can contract for maintenance and pay the contractor accordingly; the cost of the contractor to produce the service is not relevant to the amount that the Agency can claim.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

The Agency would 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:** Additional training on parameters for Federal financial participation for voluntary foster care maintenance expenditures was provided to Income Maintenance Foster Care staff and their supervisors on October 26, 2011. Federal funds have been or will be unclaimed for the case in question.

Tribal social services staff received training regarding the required criminal history checks and notice was given to the tribes that without documentation of the required checks, tribally licensed foster homes no longer are considered to be eligible for IV-E payments. In December 2011, a review was done of all tribal homes shown on N-FOCUS as tribally licensed. The IV-E indicator on each home was changed to non IV-E unless the Agency had documentation that the required checks have been made. Any payments rendered from IV-E for children in the homes without documentation of the required checks beginning September 1, 2011, have been or will be unclaimed.

The Agency has established a new Quality Assurance position for Child Welfare and is currently seeking a qualified individual to fill the position. That position will, in part, be responsible for establishing procedures that assure proper documentation for all Foster Care, IV-E and non-IV-E services.

The Agency will establish a process that reconciles the claims for services to the payments made to the Lead Contractors prior to including the claims on the Federal financial report.

**Contact:** Margaret Bitz, Unit Administrator and Larry Morrison, Cost Accounting Manager

**Anticipated Completion Date:** September 30, 2012

**APA Response:** The extrapolation method is in accordance with auditing standards. As noted above, Federal regulations define foster care maintenance payments as payments to cover the cost of providing food, clothing, shelter, and daily supervision. These items are provided by the foster family. When the Lead Contractor is paid more than the amount subsequently paid to the foster family, those excess funds are not for food, clothing, or shelter to the child; instead, they constitute administrative costs and profit, not maintenance, as defined by Federal regulations.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-35**

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

**Grant Number & Year:** #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010; #0G1101NE1401, FFY 2011; #0G1101NE1402, FFY 2011

**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 requires allowable costs to be necessary, reasonable, and adequately documented. Per 45 CFR § 92.22(a) (October 1, 2010), “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, 2010), “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 Sec. 92.36 but does not apply to the procurement of equipment, supplies, and general support services.”

Per 42 USC § 675(4)(A) (2010), “The term ‘foster care maintenance payments’ means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child’s personal incidentals, liability insurance with respect to a child, reasonable travel to the child’s home for visitation, and reasonable travel for the child to remain in the school in which the child is enrolled at the time of placement. In the case of institutional care, such term shall include the reasonable costs of administration and operation of such institution as are necessarily required to provide the items described in the preceding sentence.”

**Condition:** During the fiscal year, the Agency had three Lead Contractors to provide safety and in-home services to both IV-E and non-IV-E children. We tested the rates charged for IV-E services and noted the following: 1) the rates were not appropriately approved by the Agency; 2) the rates did not agree to the contractors’ schedules of

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

rates; 3) the rates for out-of-home care varied significantly across contractors, from \$35 per day to \$92 per day; and 4) the Agency did not have any documentation to support that the rates were reasonable. Additionally, we noted the Agency has not yet received approval from the Federal government for Lead Contractor services, leading to questions regarding the allowability of the Lead Contractor costs.

**Questioned Costs:** Unknown

**Context:** Lead 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. The shift in the way the Agency purchased services for foster children was a result of the Reform.

Under the Reform, the Agency allowed Lead Contractors to set their own rates for direct services. Per the Service Contracts, the Lead Contractors were to submit a schedule of rates, and this schedule was to be approved by the Agency. We observed emails that indicated personnel in the individual service areas were aware of and accepted the rates. Additionally, the Agency entered the rates into NFOCUS; however, the individual service areas did not formally approve those rates until the new rates became effective January 2011. The rates the Agency paid for services varied significantly among the Lead Contractors – with no documentation to support the reason for those variances. The Agency did not obtain the rates the Lead Contractors were going to pay their subcontractors and foster families or the rates the subcontractors were going to pay their foster families in order to ensure the rates being billed to the Agency were reasonable, and the contractors received only a reasonable profit. Rates paid to Lead Contractors in excess of the rates Lead Contractors paid to subcontractors and foster families should not be claimed as maintenance. Rates for out-of-home care ranged from \$35 to \$92, and the Agency could not provide documentation to support that these rates were reasonable. A similar finding was noted in the 2010 Statewide Single Audit, and the Agency's corrective action plan did not adequately address the finding.

In addition to the service contracts with the Lead Contractors, the Agency entered into contracts with other contractors to provide out-of-home care. The rates paid under those separate contracts were \$24, \$42, and \$65 per day for out-of-home care, based upon the child's needs, and were effective July 1, 2010, through September 30, 2010. New contracts were entered into effective October 1, 2010, through June 30, 2011. The rates on the new contracts were \$32, \$43, and \$69 per day for out-of-home care, also based upon the child's needs. There was no documentation supporting that these rates were reasonable.

The total Federal share of claims paid through NFOCUS to Lead Contractors for the fiscal year was \$1,130,865. The total Federal share of rejected claims charged to IV-E for the fiscal year was \$2,204,007. These rejected claims were for status change

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

dates of May through June 2010 and January through June 2011. The Agency had not charged rejected claims with status change dates of July 2010 through December 2010 as of June 30, 2011.

**Cause:** The Agency delegated the approval and monitoring of the rates to the individual service areas. No central authority oversaw the rates until January 2011.

**Effect:** Aid expenses are charged to the Federal fund at the Federal Medical Assistance Percentage (FMAP), which was 66.76% for FFY 2010 and 63.76% for FFY 2011. Administration expenses are charged only 50% to the Federal fund. 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.

When the Agency allows the Lead Contractors to set their own rates with no documentation supporting those rates, there is an increased risk the rates established may not be reasonable, and the Agency cannot ensure compliance with 45 CFR § 92.22(a) (October 1, 2010).

**Recommendation:** We recommend the Agency implement procedures to ensure all rates charged are appropriately approved by the Agency, the rates agree to the contractors' rate schedules, and the rates charged are reasonable and in accordance with Federal requirements.

**Management Response:** The Agency partially agrees with the condition reported. The Agency disagrees that the rates were not appropriately approved by the Agency and that the rates charged by Lead Contractors were not reasonable. The Agency did approve the rates submitted by the Lead Contractors and the rates previously paid by the Agency were considered in reviewing the rates.

**Corrective Action Plan:** A team has been established in the Southeast and Eastern Service Areas to review the contractor's current schedule of rates and adjustment of rates. The Lead Contractor is to provide additional justification if the rate is notably different from the Agency or the other Lead Contractor rate for service. The Billing and Payment staff have been directed that if a Lead Contractor submits an invoice for an amount higher than the approved rate, the Agency will only charge up to the highest approved rate for that particular service. The Agency will not enter any invoices into NFOCUS for services if the rate has not been approved. The Agency approved rates for one Lead Contractor on August 1, 2011, and the other on February 1, 2012.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Lindy Bryceson, CFS Administrator

**Anticipated Completion Date:** Ongoing

**Finding #11-25-36**

**Program:** CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Period of Availability/Reporting

**Grant Number & Year:** #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010; #0G1101NE1401, FFY 2011; #0G1101NE1402, FFY 2011

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

**Criteria:** 45 CFR § 92.20(a) (October 1, 2010) requires fiscal control and accounting procedures of the State sufficient to permit both preparation of required reports and the tracing of funds to expenditures adequate to establish that the use of these funds were not in violation of applicable regulations. OMB Circular A-87 states that allowable costs must be necessary, reasonable, and adequately documented. Per 45 CFR § 95.13(a) (October 1, 2010), “We consider a State agency’s expenditure for assistance payments under title I, IV-A, IV-E, X, XIV, or XVI (AABD) to have been made in the quarter in which a payment was made to the assistance recipient, his or her protective payee, or a vendor payee . . .”

A good internal control plan requires procedures to reconcile submitted reports to the accounting system. EnterpriseOne is the State’s accounting system. Such reconciliation should include procedures to ensure all adjustments and reconciling items are resolved in a timely manner.

**Condition:** The Agency did not properly reconcile EnterpriseOne general ledger expenditures to the September 30, 2010, quarterly financial report. The adjustment to EnterpriseOne for items noted in the September 30, 2010, reconciliation was not performed in a timely manner. The Agency also reported rejected claims on the December 31, 2010, and the March 31, 2011, quarterly financial reports. These rejected claims do not appear to have been reported in the correct period and are also invalid, as the amounts do not represent actual payments to the Lead Contractors. (See explanation of rejected claims in Finding #11-25-34)

**Questioned Costs:** \$2,164,706

**Context:** The Agency included \$1,853,042 in rejected claims (\$1,237,091 Federal share) on the September 30, 2010, quarterly report. Of this amount, \$1,128,465 was for May 2010 and \$724,577 was for June 2010 status change dates. The service dates for these claims were from November 2009 through May 2010 but were reported as current assistance. Those claims were never entered into the State’s accounting



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

system, EnterpriseOne. It was noted on the Agency's spreadsheet that this entry needed to be made; however, there was also a note to postpone the entry. As a result, the entry was never entered into EnterpriseOne. Also, while in the process of gathering information based on our request, the Agency realized that it had duplicated the May 2010 claims of \$1,128,465 on the September 2010 quarterly report (\$753,363 Federal share). Furthermore, as the Agency did not reconcile all claims (IV-E and non-IV-E) to the amounts actually paid to the Lead Contractors, there was no assurance that the amount of rejected claims charged to IV-E was appropriate.

The Agency also reported \$7,625 in rejected claims (\$5,090 Federal share) on the December 31, 2010, quarterly financial report and \$1,443,701 in rejected claims (\$922,525 Federal share) on the March 31, 2011, quarterly financial report. The service dates for these rejected claims were from June 2010 through February 2011. These claims were entered into NFOCUS for the Lead Contractors under the Reform but were not paid through NFOCUS. Rather, the Lead Contractors received lump sum payments through EnterpriseOne. The Agency did not reconcile the claims processed through NFOCUS to what the Lead Contractors were paid through EnterpriseOne.

Additionally, the Agency decided to use the "status change" field in NFOCUS to identify the date of the rejected claims. The status change date is used to identify the date of the adjustment when completing the quarterly financial reports. This is not an appropriate date to use for identifying claims dates, as it is merely a date the claim was entered or changed in NFOCUS and does not reflect when the vendor was paid. Because the Lead Contractors are paid each month for that month's services, as opposed to when claims are submitted, the Agency should identify the rejected claims by the date of service. Using the status change date gives rise to the risk that past claims will be misidentified as current quarter claims. As the Agency did not reconcile all claims (IV-E and non-IV-E) to the amounts actually paid to the Lead Contractors, moreover, there was no assurance that the amount of rejected claims charged to IV-E was appropriate.

**Cause:** The reconciliation of EnterpriseOne to the quarterly financial reports did not ensure reconciling items were properly adjusted in a timely manner. The Agency changed the process for how the Lead Contractors would be paid and how claims entered into NFOCUS would be handled; claims are rejected rather than paid individually.

**Effect:** A lack of adequate controls increases the risk of both inaccurate Federal reporting and inadequate support for the financial reports. Without adequate review and controls to ensure claims are paid per Federal requirements, there is an increased risk of Federal noncompliance and loss or misuse of Federal funds.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Recommendation:** We recommend the Agency review its process of reconciling EnterpriseOne with the quarterly financial reports. This reconciliation should ensure all adjustments are made in a timely manner. We recommend further that the Agency review its procedures for reporting rejected claims to ensure amounts are appropriate and in accordance with Federal regulations.

**Management Response:** The Agency partially agrees with the condition reported. The Agency prepared a reconciliation that agreed the EnterpriseOne general ledger expenditures to the September 30, 2010, quarterly report. The Agency does not agree that there is a basis in this finding to question costs of \$2,164,706.

**Corrective Action Plan:** The Agency will prepare entries in EnterpriseOne each quarter based on the results of the reconciliation. The amounts reported in NFOCUS do not reflect payments made to the Lead Contractors but rather are the amounts charged by the Lead Contractors for services rendered. The Agency will report amounts charged by the Lead Contractors in the actual period that the payment is made to the Lead Contractor rather than the NFOCUS process date. The Agency, also, will reconcile IV-E and non-IV-E claims to the total payments to assure the total NFOCUS charges do not exceed the amount paid and adjust the IV-E claim as necessary.

**Contact:** Larry Morrison, Cost Accounting Manager

**Anticipated Completion Date:** May 15, 2012

**APA Response:** A reconciliation is not complete until all necessary adjustments are performed. The rejected claims reported were not reconciled to the Lead Contractor payments to determine if those claims were actually paid. As there was not adequate support that the claims were paid, the amounts were questioned.

**Finding #11-25-37**

**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; #0G1101NE1401, FFY 2011; #0G1101NE1402, FFY 2011

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

**Criteria:** A good internal control plan requires that documentation be maintained to support the amounts paid to Lead Contractors under service contracts. Additionally, OMB Circular A-87, which sets out criteria for determining allowable expenditures of Federal award monies, requires that costs be necessary, reasonable, and adequately documented. That same Federal circular states:

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

*“A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:*

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.*
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.*
- c. Market prices for comparable goods or services.*
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.*
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award’s cost.”*

Additionally, good internal control requires the Agency to monitor closely the financial activity reported by Lead Contractors to ensure that such information is correct, accurate, and supported by adequate documentation.

**Condition:** As noted in our attestation report of Child Welfare Reform Contract Expenditures from July 1, 2009, through March 31, 2011, contract amendments significantly increased amounts paid to Lead Contractors for IV-E and non-IV-E services. Due to the Agency’s lack of documentation, we were unable to determine whether the payments to the Lead Contractors were in accordance with OMB Circular A-87 criteria. We noted further that the Agency did not perform any financial reviews of Lead Contractors for the period July 1, 2009, through March 31, 2011.

**Questioned Costs:** Unknown

**Context:** The original service contract amounts for fiscal year 2011 totaled \$107,396,893; however, by July 1, 2010, only three of five Lead Contractors remained. On September 30, 2010, Boys and Girls Home (BGH) ceased performance, leaving only Nebraska Families Collaborative (NFC) and KVC Behavioral Healthcare Nebraska, Inc. (KVC). Amendments increased the original service contract with BGH by \$6,255,271 for July 2010 through September 2010. Amendments also increased the NFC and KVC contract amounts by a total of \$27,472,498 for 2011.

The Agency did not provide adequate explanations for the increases provided, as well as how the dollar amounts for those amendment increases were determined.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

After several requests for the above documentation, the Agency responded that the amounts paid to the Lead Contractors, along with the amendments to the service contracts, were the product of negotiations between the parties; however, no support was provided to substantiate either the necessity of the dramatic increase in expenditures or a reasonable basis for the amounts paid.

**Cause:** The following are the explanations offered by the Agency for the increased Lead Contractor funding resulting from the service contract amendments:

*Amendment #1 (January 2010): The funding available to the contractors was determined by a formula based upon the total funds the Agency had used to purchase services within the previous year, minus an agreed-upon estimated amount of funds necessary for the Agency to pay remaining service claims received between July 1, 2009, and June 30, 2010, for direct services provided outside of these contracts. In subsequent meetings between the Agency and the contractors, it was agreed that the Agency had been conservative in the estimation of funds needed to pay prior service claims. Based upon that conclusion, the Agency agreed to hold back fewer funds.*

*Amendment #5 (October 2010): Contracts were developed with KVC and NFC for a one-time payment in the sum of \$6,000,000. With the Agency, the contractors were to develop strategies and targeted improvements to obtain timely permanency for children, and decrease the frequency and duration of out-of-home and congregate placements and increase the utilization of children and families served in the family home. When non-medically necessary treatment is ordered by the court, the parties will work together to identify alternatives for the court's consideration.*

*Amendment #7 (December 2010): Contracts were developed with KVC and NFC for a one-time payment in the sum of \$19,000,000 – an amount resulting from the general fund dollars freed up by the one-time Temporary Assistance for Needy Families (TANF) dollars. The following is a breakdown of the funding:*

- *\$10.1 million from the following:*
  - *\$3.8 million – Federal emergency TANF funds for Employment First activities,*
  - *\$2.3 million – Federal funds for Aid to Dependent Children cash grants, and*
  - *\$4.0 million – Federal funds for child welfare family preservation*
- *\$4.6 million from the estimated annual savings resulting from moving case management activities from the public sector to the private sector (NFC and KVC); and*
- *\$4.3 million from unspent general funds retained from State Fiscal Year (SFY) 2009 and SFY 2010.*

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Payments to Lead Contractors may not be reasonable. Because expenditures reported by Lead Contractors may be inaccurate, failure to perform such financial reviews could cause the Agency to agree to unnecessary contract costs.

**Recommendation:** We recommend the Agency implement procedures to control service contract costs, as well as to ensure that such costs are in accordance with Federal regulations. To help accomplish this, we further recommend that the Agency monitor Lead Contractors' financial records.

**Management Response:** The Agency partially agrees with the condition reported. The Agency acknowledges that the amount of money devoted to child welfare has increased significantly. The scope of services and compensation provisions of the contracts were amended in response to indications that anticipated goals and objectives were taking longer than initially planned. The amendments to the contracts resulted after negotiation between the parties. This investment of additional funds has been to maintain the integrity of the system. The Agency believes the amounts being paid to the Lead Contractors are necessary and reasonable.

**Corrective Action Plan:** The Lead Contractors are required under the contract to submit monthly financial statements for the Agency to review. Beginning in August 2011, the Agency implemented additional oversight functions related to review of the financial statements of the Lead Contractors. The Agency will continue to review and enhance its procedures and internal controls to adequately monitor the finances of the Lead Contractors.

**Contact:** Vicki Maca, Families Matter Administrator

**Anticipated Completion Date:** August 31, 2011 and ongoing

**Finding #11-25-38**

**Program:** CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Subrecipient Monitoring

**Grant Number & Year:** #0G1001NE1401, FFY 2010; #0G1001NE1402, FFY 2010; #0G1101NE1401, FFY 2011; #0G1101NE1402, FFY 2011

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

**Criteria:** Per 45 CFR § 92.22(a) (October 1, 2010), “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.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Per OMB Circular A-133 § 210(d), “In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.”

**Condition:** The Agency considers the Lead Contractors to be vendors and not subrecipients.

**Questioned Costs:** Unknown

**Context:** Per OMB Circular A-133 § 210(c)(3), operating in a competitive environment is one determining characteristic of a vendor – not one of a subrecipient. Concluding accurately whether the Lead Contractors are subrecipients is important, as Federal requirements do not allow profits to subrecipients.

With regard to the Service Contracts, we noted the following – all of which, per OMB Circular A-133 § 210, indicate a subrecipient relationship: (1) the contracts were not competitively bid; (2) the Lead Contractors provide services that are key to the operation of the Federal program; (3) performance of the Lead Contractors is measured against whether the objectives of the Federal program are met; and (4) the Lead Contractors are subject to compliance requirements of the Federal program.

The Agency’s determination that the Lead Contractors are vendors and not subrecipients appears questionable. Although OMB Circular A-133 § 210(b) acknowledges that determining whether an entity is a subrecipient or vendor is a matter of judgment, we believe that characteristics attributable to the Lead Contractors are indicative of a subrecipient relationship.

**Cause:** Per the Agency, the contractors do not determine eligibility for the services in question. In addition, they do not have ultimate responsibility for programmatic decision making, as all case plans must receive Agency approval. Many vendor relationships have characteristics of a subrecipient relationship. Nevertheless, the Agency believes that the Lead Contractors more closely resemble vendors than subrecipients.

**Effect:** A lack of adequate consideration given to the accurate identification of subrecipients increases the risk of noncompliance with Federal requirements, as well as the risk of resultant Federal sanctions.

**Recommendation:** We recommend the Agency review its vendor versus subrecipient determinations with the Federal Grantor Agency.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** The Agency met with the Federal Grantor Agency in November 2011 to discuss the Agency's determination that the agreements with Lead Contractors constituted a vendor relationship. The Agency has received no notification from the Federal Grantor Agency that the Agency's determination is in error.

**Contact:** Larry Morrison, Cost Accounting Manager

**Anticipated Completion Date:** November 9, 2011

**Finding #11-25-39**

**Program:** CFDA 93.659 – Adoption Assistance; ARRA – Adoption Assistance – Allowable Costs/Cost Principles/Eligibility

**Grant Number & Year:** #1101NE1407, FFY 2011; #1101NE1403, FFY 2011

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

**Criteria:** Per 42 USC § 673(2)(A) (2010), to be eligible for Federal adoption assistance, the child must have been removed from the home of a relative and placed in foster care in accordance with a voluntary placement agreement or in accordance with a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child. A good internal control plan requires procedures be in place to ensure funding sources are not inadvertently changed from State-only to IV-E when making other changes to the case.

Per 42 USC § 675(3) (2010), a requirement for the subsidized adoption agreement is that it be signed. The Agency's subsidized agreement form PS-AS-52 signatures section has space for both the worker and the supervisor to sign the agreement, indicating their review and approval of the terms. A good internal control plan requires procedures be in place to ensure both the worker and the supervisor sign this document.

Per 45 CFR § 1356.41 (October 1, 2010), for nonrecurring expenses of adoption, the agreement must indicate the nature and amount of the non-recurring expenses to be paid.

Per 42 USC § 671(a)(20)(C) (2010), the prospective adoptive parent(s) must have satisfactorily met a child abuse and neglect registry check.

A good internal control plan requires procedures be in place to ensure the Agency pay the adoptive parents the amount indicated on the subsidized adoption agreement.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** 6 of 40 adoption payments tested were not in compliance with Federal and State requirements.

**Questioned Costs:** \$693 known

**Context:** We noted the following:

- For one payment tested, the subsidized adoption agreement was not signed by any Agency personnel.
- For two payments tested, the subsidized adoption agreement was only signed by one Agency employee and not by two employees as is typically required. For one of these payments, the adoption subsidy was paid with State-only funds through July 2010. As of August 2010 the funding was changed to IV-E. Activity occurred on the case at this time because the family moved out of State, so the worker went into NFOCUS to remove Nebraska Medicaid coverage and NFOCUS changed the funding to IV-E. The worker did not go back to ensure the funding was correct. To be eligible for IV-E funding, the original court order that removes the child from the home must state that continuation in the home would be contrary to the welfare of the child. In this case, the court order did not contain that wording.
- For one payment tested, the subsidized adoption agreement called for a \$741 monthly maintenance payment but the Agency was paying \$742 per month for an overpayment of \$1.
- For one payment tested, the Agency did not have supporting documentation to show a child abuse and neglect registry check was performed for one of the adoptive parents. The Agency performed a registry check at the time of the audit and the adoptive parent was not on the child abuse and neglect registry.
- For one payment tested, the subsidized adoption agreement did not indicate an amount for legal expenses.

Federal payment errors noted were \$693. The total Federal sample tested was \$10,054 and Federal Adoption Assistance payments for fiscal year 2011 were \$10,940,254. Based on the sample tested, the case error rate was 15% (6/40). The dollar error rate for the sample was 6.89% ( $\$693/\$10,054$ ) which estimates the potential dollars at risk for fiscal year 2011 to be \$753,784 (dollar error rate multiplied by population).

**Cause:** Ineffective review.

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



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Recommendation:** We recommend the Agency implement procedures to ensure all subsidized adoption agreements are reviewed and approved by both the worker and the supervisor, and the agreements are completed and used in setting up the monthly payment rate to the adoptive parents. We further recommend the Agency exercise care when changing funding sources in NFOCUS, to ensure payments are made with the correct funds. Finally, we recommend the Agency maintain adequate documentation to support child abuse and neglect registry checks were performed for adoptive parents.

**Management Response:** The Agency partially agrees with the condition reported. For one of the payments tested, the condition noted is that the subsidy agreement was signed by one rather than two Agency employees as is typically required. In this particular case, the worker and the supervisor had signed the determination of eligibility for subsidy and application for subsidy forms, so it is clear that the information was reviewed by two Agency employees, even though the worker did not sign the subsidy agreement. The Federal requirement is that the agreement must be signed by the adoptive parent(s) and the Agency so we believe the Federal requirement was met. The Agency would 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:** Additional training on Federal Adoption Assistance is being planned for Children and Family Services staff and Income Maintenance Foster Care staff. For each case in which an error was identified, the involved workers and supervisors will receive training specific to the error and the Agency will unclaim the amounts previously reported as Federal amounts.

**Contact:** Margaret Bitz, Unit Administrator

**Anticipated Completion Date:** September 30, 2012

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

**Finding #11-25-40**

**Program:** CFDA 93.667 – Social Services Block Grant – Allowability

**Grant Number & Year:** #0G1101NESOSR, FFY 2011; #0G1001NESOSR, FFY 2010

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** Title 45 CFR § 96.30(a) (October 1, 2010) states, "... a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds." Title 473 NAC 2-007.03B, Resource Development, states, "When the worker assigned resource development responsibilities and a provider negotiate a rate that exceeds the maximum unit rate the worker shall - . . . 2. Initiate Form DSS-2A requesting a specific unit rate exceeding the maximum. . ." Title 473 NAC 2-005.04B, Client Relatives as Providers, states, "The Department discourages authorization of providers who are related to the clients they serve. Before considering a relative provider, the worker shall determine that the provider would not donate his/her service to the client at no cost." Title 473 NAC 5-002.06, 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. 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 procedures to ensure services were authorized, received, and in accordance with State and Federal requirements. This would include having clients sign documentation to indicate services were received, if the client does not approve the services, the Agency should have other procedures to ensure the services were actually provided.

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 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 Finding #10-25-32.

**Questioned Costs:** \$173

**Context:** For 17 claims tested, there was not adequate supporting documentation for the services provided and/or the rates paid were not in accordance with NAC regulations.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- 1 claim's supporting documentation could not be located.
- 1 claim did not have a detailed timesheet documenting the services performed.
- 1 claim's provider was paid for 8 hours of service in a week and was only authorized for 4 hours.
- 1 claim's timesheet totalled 66 hours of service, the provider billed and was paid for 70 hours of service; however, provider was only authorized for 33 hours of service.
- 1 claim the provider billed for 4 chore tasks; two shopping trips, one visit to son, and one doctor visit. Shopping was not authorized on the needs assessment, the visit to son is not a covered service, and the doctor visit should have been billed under transportation based on mileage.
- 1 claim charged for grocery shopping twice during the week; only once per week is allowable.
- 1 claim was for live-in daily home care for daughter, however, the needs assessment only authorized 2 hours chore per week. Also this was a relative provider with no documentation that they would not perform the services at no cost.
- 2 additional claims were for relative providers with no documentation that they would not perform the service at no cost.
- 3 additional claims and 1 claim noted above, were not supported by a client signature as evidence of services received.
- 5 additional claims and 2 of the claims noted above were not paid in accordance with Title 473 NAC. As noted in prior audits, the Agency needs to have the NAC Manual updated and approved as soon as possible. This was noted in the fiscal year 2008, 2009, and 2010 audits. The summary schedule of prior audit findings for Finding #10-25-32 states the corrective action is complete; however, the updating of Title 473 NAC regulations is still in process.

The total Federal questioned costs noted during testing were \$173. The total Federal sample tested was \$1,478 and total Social Services Block Grant (SSBG) Federal assistance payments for fiscal year 2011 were \$2,974,686. Based on the sample tested, the case error rate was 42.50% (17/40). The dollar error rate for the sample was 11.71% (\$173/\$1,478) which estimates the potential dollars at risk for fiscal year 2011 to be \$348,336 (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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

supported by adequate documentation. We further recommend the Agency implement procedures to update NAC regulations as needed. The Agency should also ensure the summary schedule of prior audit findings is properly presented.

**Management Response:** The Agency agrees with the condition reported, although the Agency would 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:** The Agency will review the current provider billing form and determine if changes are warranted. The Agency will increase the number of cases reviewed throughout the year for additional quality assurance measures. The Agency will provide guidance to economic assistance staff and resource developers on authorizing, reviewing, and processing claims for the SSBG program. The Agency will also complete the regulation changes to the Title 473 NAC Manual to remove the rates.

**Contact:** Heather Krieger, Unit Manager

**Anticipated Completion Date:** The provider billing form will be reviewed by December 31, 2011. Increased case review procedures will be implemented by June 30, 2012. Guidance will be provided to economic assistance staff and resource developers by March 31, 2012. The proposed revisions to the Title 473 NAC Manual will be submitted to the Governor's Policy Research Office by December 31, 2011.

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

**Finding #11-25-41**

**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:** Title 45 CFR § 96.30 (October 1, 2010) requires fiscal control and accounting procedures to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant. Per Public Law 107-300 a duplicate payment is an improper payment. A good internal control plan requires procedures to ensure transactions are not charged twice to Federal grants.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** The Agency charged the same transactions to two different SSBG grants.

**Questioned Costs:** \$30,953 known

**Context:** The Agency paid SSBG claims with 85% State Funds and 15% Federal Funds from April 2010 through September 30, 2010. In October 2010, the Agency processed a journal entry charging the Social Services Emergency Disaster Relief grant for claims allowable under that grant. However, these claims had previously been paid 15% by regular SSBG grant funds. Therefore, the same transactions were charged to both SSBG grants. The total of the journal entry was \$206,351 of which 15% was charged to both grants, for questioned costs of \$30,953.

**Cause:** Agency indicated they have additional allowable SSBG claims paid with State funds.

**Effect:** Without adequate fiscal control and accounting procedures, there is an increased risk for loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to adequately identify Federal expenditures on the accounting system at the transaction detail level. We further recommend the Agency implement procedures to ensure no transaction is charged to Federal funds twice.

**Management Response:** The Agency agrees with the condition reported. Although there was a duplication of specific claims, the Agency had other paid services paid by State funds that qualified for Federal coverage, therefore, the amount claimed for the two grants is allowable.

**Corrective Action Plan:** The Agency has completed the entries necessary to remove charges made to the Social Service Block Grant that had been properly applied to the Social Service Disaster Relief grant and to apply other eligible costs to the block grant.

**Contact:** Kim Collins, Program Analyst & Research Administrator and Larry Morrison, Cost Accounting & Grants Manager

**Anticipated Completion Date:** November 17, 2011

**Finding #11-25-42**

**Program:** CFDA 93.667 – Social Services Block Grant – Suspension & Debarment

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

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Criteria:** Per 2 CFR § 180.300 (January 1, 2010), 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:** For 4 of 4 covered transactions tested, the Agency obtained a certification the provider was not on the List of Excluded Individuals/Entities (LEIE), which contains exclusion actions taken by the U.S. Department of Health and Human Services Office of the Inspector General; however, the Agency did not have documentation the provider was not on the EPLS.

**Questioned Costs:** None

**Context:** The Agency’s procedure is to add a clause to the service provider agreement with the social services block grant provider. This clause was added to the November 2009 version of the boiler plate agreement. The 2009 clause was not adequate because it did not refer to the EPLS. It referred instead to the LEIE. The EPLS contains exclusion actions taken by various Federal agencies. The Agency updated the form January 2011; however, for the covered transaction tested the new form was not used. Two of the provider agreements were signed before January 2011, but two provider agreements were signed in February 2011. There were 22 SSBG service providers paid over \$25,000 during fiscal year 2011 totaling \$1,862,539. This was also a finding in the prior audit.

**Cause:** Agency updated form in January 2011, but new form was not in use for transactions tested.

**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. If the provider agreement does not contain the required certification, the Agency should check the EPLS before payment is made to the provider.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** The Agency shall review the implementation of the new provider enrollment form that includes the EPLS language for all new and existing providers and direct that older form versions not be used. All providers identified in the audit without an EPLS have since received one.

**Contact:** Heather Krieger, Unit Manager

**Anticipated Completion Date:** The Agency will provide direction to the Resource Developers by December 31, 2011, with any changes to be done by January 31, 2012.

**Finding #11-25-43**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Matching/Reporting

**Grant Number & Year:** #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010; #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Title 45 CFR § 92.20 (October 1, 2010) requires fiscal control and accounting procedures of the State be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that the use of these funds were not in violation of applicable regulations. Title 42 CFR § 433.10 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.

**Condition:** Both of the CMS-64 reports tested did not agree to supporting documentation or were incorrectly calculated. It was also noted two FMAP percentages tested were incorrect; the FMAP percentage is used to determine the Federal share of expenditures. Reconciliation procedures were performed in total and not considered by Federal and State funding sources. Reconciliation procedures were not adequate as there were numerous mathematical and data entry errors noted.

**Questioned Costs:** Unknown

**Context:** We reviewed the reports for the quarters ended December 31, 2010, and March 31, 2011, and noted the following:

- The Agency did not have written procedures regarding report preparation and reconciliation to the accounting records.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- Various amounts reported on the quarterly CMS-64 reports were calculated in error because the spreadsheets used to summarize the information contained errors in formulas or information was entered incorrectly as follows:
  - The December 2010 report contained data entry errors including:
    - A \$90,000 error that resulted in the amount of Children’s Health Insurance Program (CHIP) being under-reported while the amount of Medicaid was over reported.
    - The amount of cash collections and recoupments for Developmental Disabilities – Adult Day Waiver was understated by \$375 due to an error in the spreadsheet formula.
  - The March 2011 report contained data entry errors including:
    - The amount reported for two developmental disability waivers were not reduced for the Money Follows Person (MFP) amounts. The Developmental Disabilities Adult Comp Waiver was over-reported by \$165,095 and the Waiver – Aged and Disabled amount was over-reported by \$116,970 for a total of \$282,065. As of August 2011 the amounts for various developmental disability waivers had not been reconciled for the December 2010 or March 2011 reports. The amounts for cash collections and recoupments had not been reconciled for the December 2010 or March 2011 reports and per the Agency has not been done since the March 2010 report. Had these amounts been reconciled, the error regarding MFP amounts should have been detected.
    - An error in a spreadsheet formula used to calculate the amount of refunds and cancellations resulted in the current expenditures to be under-reported by \$193,420 and the prior period adjustment on Line 9 was over-reported by the same amount.
    - An error in a spreadsheet formula used to calculate the school-based services expenditures resulted in the amount reported being under-reported by \$180,238.
    - The amount reported for Payment Error Rate Measurement (PERM) program recoveries of \$2,353 was reported twice as it was included in the Line 9.C.1 amount as well as manually adjusted on Line 9A. An \$828 error in the amount reported for the ARRA share of the PERM recoveries was also noted.
    - The amount reported for Personal Care Aids was incorrectly calculated because it included \$1,004 for cash collections and recoupments twice, resulting in the amount being under-reported.
  - It was also noted during separate testing, the September 2010 report included a prior period adjustment to Line 10b of (\$24,446,123) for managed care because there was an error in reporting the Medicaid and CHIP amounts for the June 2010 report because the two amounts were switched. The net adjustment was a \$408,967 increase to Medicaid.
- Various amounts reported on the quarterly CMS-64 reports did not agree to supporting documentation as follows:



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- The adjustments for State Plan Amendments (SPA) that have not yet received Federal approval, did not agree to the State accounting system, EnterpriseOne. In the December 2010 quarter, this adjustment totaled \$2,394,356 and in the March 2011 quarter, this adjustment totaled \$2,376,325. These two reconciling items have not been resolved.
- The amount of reported expenditures for Legal Permanent Residents (LPR) for the March 2011 quarter was reduced by \$1,419,360; however, the State accounting system showed the reduction to be \$1,426,234, for a variance of \$(6,874).
- The Agency's policy is to match each individual document paid to ensure match requirements were met. We reviewed four payment types that appeared to have an incorrect FMAP applied and noted:
  - The December 2010 quarter included a document for a refund that was calculated incorrectly or contained a data entry error resulting in the Federal share of the expenditure being short by a variance of \$3.
  - The March 2011 quarter included \$419,307 of expenditures that were split using the FMAP percentage from September 2010. The result was the Federal share of Medicaid was overcharged by \$8,889.
- 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 were met; however, as noted above errors do occur. A similar finding was noted in our 2006, 2007, 2008, 2009, and 2010 audit reports.

**Cause:** Per discussion with Agency staff, they have reconciled some subsidiaries in the past only to find the variances are timing differences that are corrected in the subsequent quarter. They have decided to rely on their reconciliation process and experience and knowledge of the person performing the reconciliation to identify any significant variances that may be a result of something besides a timing variance. They have taken this position because of the complicated and time-consuming process to reconcile individual categories. Also per the Agency regarding SPAs, in the past CMS allowed states to claim expenditures prior to approval which resulted in these amounts; however, CMS changed its position in 2011 and no longer allowed these pre-approval expenditures. The Agency expects the SPAs to be approved and therefore has not made any adjusting entries in EnterpriseOne. However if the SPA is not approved and no amounts are recorded in EnterpriseOne we believe expenditures should not be reported on the CMS-64 report.

**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.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Recommendation:** We recommend the Agency improve procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the State accounting system. 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 agrees with the condition reported.

**Corrective Action Plan:** Written procedures regarding report preparation and reconciliation do exist. For all items listed under Context, corrections either have been made in prior CMS-64 submissions or will be made on the December 31, 2011, CMS-64 submission. A detailed reconciliation process is currently in place to reconcile total funds. 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. The reconciliation process will be modified to include reconciling between Federal funds and State match each quarter.

**Contact:** Kim Collins, Programs Analyst and Research Administrator

**Anticipated Completion Date:** July 30, 2012

**APA Response:** We requested the Agency's written procedures during fieldwork and were informed by Agency staff that the procedures were not complete.

**Finding #11-25-44**

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

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per the Nebraska Medicaid State Plan Attachment 2.2-A A #9, children are eligible for Medicaid if they were born after April 30, 1979, are between the ages of six and 19, with family incomes at or below 100 percent of the Federal poverty levels. Per Title 477 NAC 2-009, all income of the client and responsible relative, whether earned or unearned, must be considered. A good internal control plan requires procedures be in place to ensure all applicable income is considered in the computation of the budget.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

A good internal control plan requires procedures be in place to ensure all social security numbers (SSNs) of Medicaid recipients are verified. Per 42 CFR § 435.910(g) (October 1, 2010), “the agency must verify each SSN of each applicant and recipient with SSA, as prescribed by the Commissioner, to insure that each SSN furnished was issued to that individual, and to determine whether any others were issued.”

**Condition:** During our testing of a random sample of 25 Medicaid claims, we noted one payment was made with Medicaid funds when it should have been paid with CHIP funds. For another payment, the recipient’s social security number was not verified.

**Questioned Costs:** \$115 known

**Context:** Income was calculated incorrectly for one case because the Agency did not include the child’s social security income in the budget. If the income is included, the child is no longer eligible for Medicaid under the School Age Medical subprogram but is eligible for the Kids Connection subprogram under the Children’s Health Insurance Program, which has more relaxed eligibility requirements than Medicaid.

The child with the unverified social security number was adopted from another state. There was a discrepancy between the child’s social security number in NFOCUS and the adoption agreement.

Federal payment errors noted were \$115. The total Federal sample tested was \$1,604. We sampled from regular Medicaid payments made to providers other than hospitals for the time period July 1, 2010, through May 31, 2011, which were \$232,223,332. Based on the sample tested, the case error rate was 8% (2/25). The dollar error rate for the sample was 7.17% (\$115/\$1,604) which estimates the potential dollars at risk for the time period July 1, 2010, through May 31, 2011, to be \$16,650,413 (dollar error rate multiplied by population).

**Cause:** In both instances, the problem was a lack of effective oversight. The Agency did not catch the income error for the November payment tested, but did correct starting December 2010.

**Effect:** Without procedures to ensure income is calculated correctly, there is an increased risk ineligible recipients will receive Medicaid. Without procedures to ensure social security numbers are verified, there is an increased risk of noncompliance with Federal regulations and increased risk ineligible recipients receive Medicaid.

**Recommendation:** We recommend the Agency implement procedures to ensure income is calculated correctly to determine eligibility for Medicaid. We further recommend the Agency implement procedures to ensure social security numbers of all Medicaid recipients are verified.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** On September 21, 2011, the interface between NFOCUS and the Social Security Administration (SSA) was strengthened and now provides additional verification of citizenship along with the verification of the Social Security Numbers.

**Contact:** Teri Chasten, Economic Assistance Administrator

**Anticipated Completion Date:** July 1, 2012

**APA Response:** The corrective action plan does not address procedures to ensure income is calculated correctly to determine eligibility for Medicaid.

**Finding #11-25-45**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowability/Eligibility

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** OMB Circular A-87 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 5-005E2, “if transportation is provided by the housekeeper, s/he may be approved and bill for additional mileage as a transportation provider. Additional payment for time is not allowed.” A good internal control plan requires procedures be in place to ensure mileage is allowed for medical transportation only on days having documented medical appointments.

Per 480 NAC 5-002, clients eligible for waiver services must be eligible for the Nebraska Medical Assistance Program. Per 465 NAC 2-001.02A, if the client submits a request for a hearing within ten days following the date the notice is mailed, the staff shall not take the adverse action until a fair hearing decision is rendered. Per 465 NAC 6-008.06, unless appealed to the District Court, the decision of the Director is final. The Division, District, or Local Office Administrator (as appropriate) shall take immediate steps to enforce the Director’s decision in the office to which the finding and order applies.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** We tested 25 home-based claims for the aged and disabled waiver and noted three payments were not in compliance with Federal and State requirements.

**Questioned Costs:** \$1,090 known

**Context:** We noted the following:

- One provider billed for full days of chore service while simultaneously billing an hourly rate for medical transportation. The service coordinator caught this issue in the month following the payment tested. Additionally, the provider billed for mileage for medical transportation on days where no record of medical appointments could be found.
- One recipient was not eligible for Medicaid at the date of service, March 2011. In May 2010 the State Review Team determined the recipient was no longer disabled and no longer eligible for Medicaid. The recipient appealed the decision and the hearing date was set for August 2010. At the hearing, the State Review Team's decision was upheld. In December 2010 the Legal Department of the Agency upheld the decision again. However, the recipient's case file was not updated to reflect this finding and the recipient's Medicaid eligibility remained active until August 2011.
- One payment was missing the Individual Provider Record of Services; therefore, no client signature could be observed to ensure the service was reviewed and approved by the client.

Federal payment errors noted were \$1,090. The total Federal sample tested was \$2,909 and total home-based aged and disabled waiver payments for fiscal year 2011 were \$22,442,832. Based on the sample tested, the case error rate was 12% (3/25). The dollar error rate for the sample was 37.47% (\$1,090/\$2,909) which estimates the potential dollars at risk for fiscal year 2011 to be \$8,409,329 (dollar error rate multiplied by population). A similar finding was noted in our prior Single Audit reports.

**Cause:** Inadequate review and follow-up procedures.

**Effect:** Without 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 mileage is allowed for medical transportation only on days having documented medical appointments. The Agency should ensure Medicaid eligibility is cutoff at the appropriate time.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** The Agency will share findings of the audit with contracted services coordination agencies and review the regulation at 480 NAC 5-005E2. Services Coordinators will be re-trained on the policy that day rate chore providers are not to be authorized additional time for medical and non-medical transportation. Training will also be provided to waiver staff regarding documentation of service provision and the necessity of Individual Provider Record of Services forms to be received and reviewed for accuracy prior to submitting the claim for payment.

In May 2011 DHHS implemented a broker to coordinate and approve non-emergency medical transportation. Each trip is prior authorized, rather than a blanket year-long service authorization. In addition, the medical service provider (e.g. physician, dentist, therapist) must sign a document indicating the client received services in their office. This must be submitted to the broker in order for a claim to be paid to the transportation provider. This practice ensures that medical transportation, including mileage, is allowed only when the client has a documented medical appointment.

With the full implementation of the ACCESSNebraska system, cases that are in the appeals process are assigned to a specific Lead Social Service Worker while the case is in appeal. Once the appeal decision has been issued the assigned Lead Social Service Worker will be notified and will take the action to close the case as necessary.

**Contact:** Kay L. Wenzl, Administrator, HCBS Waivers and Community Supports Unit

**Anticipated Completion Date:** April 1, 2012

**Finding #11-25-46**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Suspension and Debarment

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per 2 CFR § 180.300 (January 1, 2010), 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.”

**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 two were paid more than \$25,000 in Federal funds from the Agency during the fiscal year. We reviewed their provider agreements and noted they were on a previous version, which does not have a suspension and debarment clause.

This issue was also noted in our prior audit. The corrective action plan stated, in part, “The Agency is in the process of revising provider agreements to contain the correct language referring to the EPLS.” The summary schedule of prior audit findings stated this finding was corrected February 1, 2011. However, the Agency stated they did not begin to use the new form until July 1, 2011.

**Cause:** The Agency’s procedure is to add a clause to the provider’s service agreement. The Agency did not add correct wording to the boilerplate agreement until the new version, which was dated November 2010. The new version was not used until July 2011.

**Effect:** The Agency could be unaware of contracts with suspended or debarred parties.

**Recommendation:** We recommend the Agency continue to use its new version of the service provider agreement to ensure compliance with Federal suspension and debarment requirements. We further recommend the Agency implement procedures to ensure the summary schedule of prior audit findings is properly presented.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** The Agency will continue to use the revised provider agreement form which includes language regarding EPLS.

**Contact:** Kay L. Wenzl, Administrator, HCBS Waivers and Community Supports Unit

**Anticipated Completion Date:** This was completed July 2011.

**Finding #11-25-47**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowable Costs/Cost Principles and Subrecipient Monitoring

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011

**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 ...(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, 2010) 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. In addition, procedures were not in place to appropriately account for administration payments received from subrecipients.

**Questioned Costs:** \$376,945

**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



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.

The Agency paid a total of \$22,931,461 in Federal funds to the Nebraska Medicaid School Consortium and the NASB Medicaid Consortium during the year, who then distributed the funds to schools.

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 2011, the Agency received \$753,889. 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 \$376,945; however, it was not credited to the Medicaid grant.

A similar finding was noted in the prior audit.

**Cause:** The Agency has not taken timely corrective action to ensure amounts claimed are correct, and the Agency disagrees that the Federal portion of the 3% payment should be credited back to Medicaid.

**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. 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. The Agency does not agree with the recommendation that the program income discussed in the finding should be credited to the Medicaid Grant since it is payment of a service fee from local administrative funds. The fee is used to cover the State match requirement for the Medicaid administration grant.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** Although the Agency disagrees with the reported condition, consultants for both Consortiums are working on a system that will give us electronic access to their time-studies and financial calculations. This would allow the Division to access data that would ensure amounts claimed are correct, without the need for on-site reviews.

**Contact:** Jon Sterns, Early Development Coordinator and Willard Bouwens, Financial Services Administrator

**Anticipated Completion Date:** Not Applicable

**APA Response:** Since the contract and the consideration paid relate to Medicaid claims, 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 #11-25-48**

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

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per 42 CFR § 447.253 (October 1, 2010), “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 the Nebraska Medicaid State Plan, Appendix 4.19-A § 10-010.03B1b, “Peer Group Base Payment Amounts will be increased by 0.5% for the rate period beginning October 1, 2009 and ending June 30, 2010. This rate increase will not be carried forward in subsequent years. Peer Group Base Payment Amounts excluding the 0.5% increase for the rate period beginning October 1, 2009 and ending June 30, 2010, will be increased by .5% for the rate period beginning July 1, 2010.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Per Title 471 NAC 10-010.06, the effective date of the cost-to-charges ratio is the first day of the month following the Agency's receipt of the cost report.

A good internal control plan requires procedures be in place to ensure 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. Good internal control also requires procedures be in place to ensure inflationary adjustments are entered appropriately in MMIS.

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

- The Agency did not adequately track hospital cost reports to ensure they were audited.
- The Agency did not use final-settled cost reports when calculating inpatient rates for non-critical access hospitals.
- The Agency did not pay inpatient costs for non-critical access hospitals in accordance with State regulations.
- For 5 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 Agency does not perform a final adjustment for outpatient rates for non-critical access hospitals and the final adjustment for critical access hospitals was not timely.

**Questioned Costs:** \$253,297 known

**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 were 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. An audited cost report was only utilized for one of the 35 hospitals.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Additionally, the Agency identified that for the entire fiscal year, they had been overpaying non-critical access hospitals for inpatient claims by 0.5% due to a misinterpretation of the Agency's regulations. This resulted in questioned costs of \$253,297. The Agency is actively working to resolve the overpayment.

All hospital cost reports are audited by an independent auditor. The Federal government contracts with independent auditors to perform cost report audits on all facilities that have Medicare beds. Nebraska Medicaid uses cost reports to calculate a rate for outpatient services and in the past used the audits to make an annual adjusting payment to critical access hospitals for inpatient services. All Nebraska Medicaid hospitals have Medicare beds, so if obtained, the Agency could rely on these audits for all the Medicaid hospitals. Original cost reports from the hospitals 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. During the fiscal year, the Agency got an estimate from the independent auditor to receive copies of all final audited cost reports from 2006 through 2009. The estimated cost was \$2,153. The Agency did not elect to pay this cost to get the audited cost reports. Additionally, 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 2005 or 2006, and one critical access hospital did not have any audited cost reports on file. 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. Per the Agency, a second individual does verify the staff person's work on a periodic basis; however, this review was not documented.

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 into MMIS. Five cost reports reviewed for outpatient rates were found to be reviewed and entered into MMIS between one and six months late.

The Federal share of inpatient hospital payments for the fiscal year totaled \$108,742,931; outpatient hospital payments totaled \$45,922,099. A similar finding was noted in our prior audit report.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** Per the Agency, they did not devote adequate resources to ensuring there were audits of hospital cost reports and updating of rates.

**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. When inflationary adjustments to inpatient rates are not adequately reviewed, there is an increased risk the rates will not be in compliance with State regulations. 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, and any verification of that review is not documented, 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.

**Recommendation:** We recommend the Agency devote adequate resources to the hospital cost reports process. They should 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, any adjustments to rates are in compliance with State regulations, a second individual reviews the hospital cost reports process, all cost reports are reviewed timely, and new rates are calculated timely. 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 most of the conditions reported. Hospital cost reports are tracked in a spreadsheet maintained by Agency staff. 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. The Agency identified the discrepancy in payment for inpatient cost to non-critical access hospitals. This finding was self-disclosed to the auditor and has been resolved.

**Corrective Action Plan:** Review of cost reports and calculation of outpatient cost rates will be timelier, as additional resources have been redirected to this process. This additional resource will also increase the segregation of duties. The Agency has identified five new hospitals. Cost reports have been requested. When the cost reports are received, cost settlement amounts will be calculated.

**Contact:** Kim Collins, Programs Analyst and Research Administrator

**Anticipated Completion Date:** June 30, 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-49**

**Program:** Various including CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles

**Grant Number & Year:** Various, including #051105NE5ADM, FFY 2011

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

**Criteria:** Per OMB Circular A-87, Attachment B § 8(h)(1), “charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.” A good internal control plan requires procedures be in place to ensure journal entries do not mistakenly affect the allocation of costs.

**Condition:** The Agency transferred \$750,000 of payroll costs from the general fund to Medicaid. The transfer was intended to be temporary; however, the Agency neglected to reverse the transfer. Because a reversing transfer was not made, the Agency cannot tie \$750,000 worth of payroll costs charged to Medicaid to individual paystubs and timesheets. Additionally, the transfer affected the cost allocation, which caused Federal programs to be under and overcharged.

**Questioned Costs:** \$183,604

**Context:** Per the Agency, they routinely adjust the funding source of individual employees who work on both State and Federal activities, in order to most closely reflect what is actually being earned by individual grants through the cost allocation plan and in order to manage the funds. In this instance, the general fund was particularly low. Normally, the Agency would have changed the funding source for the individual employees to Medicaid for all their individual paystubs. However, per the Agency, due to vacations and illnesses they did not have the manpower to get this accomplished in time for the payroll run. Therefore, in order to ensure the general fund was not overspent, they made this transfer. As a result of this transfer, the Agency cannot tie \$750,000 worth of payroll costs charged to Medicaid to individual paystubs and timesheets. The business units charged index to different cost allocation cost centers, causing variances in charges to State and Federal programs.

Errors to Federal programs over \$1,000 were as follows:

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

Federal Program	Amount Over (Under) Charged
10.561 SNAP	\$ 56,247
93.558 TANF	\$ 33,151
93.568 LIHEAP	\$ 23,775
93.575 Child Care	\$ 5,580
93.658 Foster Care	\$ (52,333)
93.667 SSBG	\$ (19,411)
93.767 CHIP	\$ 14,260
93.778 Medicaid	\$ 50,591

**Cause:** This was intended to be a temporary transfer; however, the Agency did not make the reversing transfer. The Agency believes no error would occur if the business units charged had indexed to the same cost center. They stated transferring costs between funds is not a significant issue, since they can prove Medicaid earned more than it had spent. We disagree because large, unsubstantiated transfers such as these make it impossible to determine which funds paid for which individuals' payroll.

**Effect:** Various Federal and State programs were under or overcharged because the Agency forgot to reverse a transfer. When payroll transfers between funds occur, there is an increased risk the Agency will not be able to tie payroll costs charged to grants, to corresponding paystubs and timesheets.

**Recommendation:** We recommend the Agency correct under and overcharges to Federal grants. We further recommend the Agency implement procedures to ensure journal entries are adequately supported and grants are properly charged.

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

**Corrective Action Plan:** The Finance section implemented a process for a review of all journal entries by a second staff member familiar with the need for the adjustment to assure that the entries are adequately supported and necessary for the business of the Agency. Also any journal entries related to a grant are requested through the Agency's Grants Management Office. A correcting entry for cost allocation was entered into the allocation process for the quarter ended September 30, 2011, and Federal claims adjusted accordingly.

**Contact:** Don Swartz, Accounting Manager and Larry Morrison, Grants Management and Cost Accounting Manager

**Anticipated Completion Date:** December 31, 2011

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-25-50**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowable Costs/Cost Principles/Matching

**Grant Number & Year:** #051005NE5MAP, FFY 2010; #051005NEARRA, FFY 2010

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

**Criteria:** A good internal control plan requires procedures be in place to ensure journal entries are performed correctly.

**Condition:** During testing of journal entries, we noted an entry performed to transfer State disability claims to Medicaid undercharged Medicaid by \$402,358 including undercharging Federal funds by \$275,468.

**Questioned Costs:** None

**Context:** A total of \$2,412,456 of disability claims were retroactively determined to be Medicaid eligible due to the clients being on disability longer than twelve months. The journal entry tested moved the expense from State Disability to Medicaid based on the applicable Federal Medical Assistance Percentage at the time the original claim was generated.

The Agency accidentally got off a column when preparing the spreadsheet, causing the Federal Medical Assistance Percentage charged to be incorrect and causing Medicaid to be undercharged by \$402,358 with Federal funds being undercharged by \$275,468. In the prior year, a different error occurred where the wrong Federal medical assistance percentage was input into the spreadsheet causing Federal funds to be undercharged by \$2,371.

**Cause:** The process by which the Agency transfers State disability claims to Medicaid is a manual process involving large spreadsheets and various calculations, which makes the process inherently prone to error. The Agency did not take adequate steps, which could include a more careful check by the preparer, or a more thorough review by a second individual to ensure errors do not occur.

**Effect:** Without procedures to ensure journal entries are performed correctly, there is an increased risk Federal funds will be undercharged or overcharged.

**Recommendation:** We recommend the Agency implement procedures to ensure the State Disability journal entry is performed correctly. This should include adding check totals to the spreadsheet to ensure all detail from one tab properly flows to the next tab. This should also include having a thorough, documented review by a second individual.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** A correcting entry was made on the September 30, 2011, CMS-64. The process has been modified to include check totals on the spreadsheet. The review by a second individual is documented through the approval of the requested journal entry.

**Contact:** Kim Collins, Programs Analyst and Research Administrator

**Anticipated Completion Date:** December 30, 2011

**Finding #11-25-51**

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

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per 42 CFR § 447.253 (October 1, 2010), “The Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and Federal laws, regulations, and quality and safety standards...The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.”

Per the Nebraska Medicaid State Plan, Attachment 4.19-D § 12-011.11 Audits, the Agency will perform at least one desk audit and may perform subsequent desk audits and/or a periodic field audit of each cost report. Selection of subsequent desk audits and field audits will be made as determined necessary by the Agency to maintain the integrity of the Nebraska Medical Assistance Program.

A good internal control plan requires procedures be in place to ensure long-term care facilities considered to be high risk are field audited in order to maintain the integrity of Medicaid.

**Condition:** We noted the Agency did not perform any field audits on long-term care facilities for the last three years.

**Questioned Costs:** Unknown

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Context:** The last field audit was completed July 2008 for fiscal years ended 2005 and 2006. We tested 25 desk audits and noted the audit program of the desk audit for one facility stated a field audit should be performed due to high risk related to salaries, but none was performed. We noted the total Federal payments to this facility for State fiscal year 2011 were \$227,259.

**Cause:** The Agency did not devote adequate resources to perform field audits. Field audits were performed in years when there were four audit staff members; now there are only two audit staff members. The Agency will note on their workpapers when there is high risk, but the risk assessment is not taken to the next level because field audits are not performed due to lack of staffing. The Agency noted if the analysis was taken to the next level, they might not decide to field audit this particular facility anyway, because they have relatively small Medicaid reimbursements.

**Effect:** Although the State Plan does not require a field audit on any one cost report, it is unlikely the Agency's risk assessment, if fully completed, would determine there were zero cost reports requiring field audits in the past three years. The risk is the Agency is not performing adequate review over cost reports to ensure only necessary and reasonable costs are used to determine rates for long-term care facilities.

**Recommendation:** We recommend the Agency complete its risk assessments of long-term facility cost reports. If field audits are determined to be necessary, we recommend the Agency devote adequate resources to ensure the field audits are performed.

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

**Corrective Action Plan:** The Agency conducted a field audit of the facility referenced in the audit report for the State fiscal year ended June 30, 2010, on September 8, 2011. The written audit results have not yet been issued.

The Agency's desk audit involves a much more detailed review than typical "desk audits," which tend to consist of a limited-scope examination of documents. The Agency's current nursing facility desk audit process is functionally similar to a field audit, as it involves a detailed review of the extensive supporting documentation requested from the provider. Examples of documents reviewed as part of the Agency's desk audit include but are not limited to: loan documents, lease agreements, depreciation schedules, property tax statements, mileage logs, census forms and detailed general ledgers with copies of invoices.

The Agency will continue to perform detailed desk audits of nursing facility cost reports. Should the desk audit indicate a need for a field audit, a field audit will be performed.

**Contact:** Cindy Kadavy, Unit Manager

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Anticipated Completion Date:** July 1, 2011

**Finding #11-25-52**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Eligibility

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** 42 CFR § 435.916 (October 1, 2010) 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 twelve months.

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:** Three of 105 Medicaid recipients tested did not have eligibility determinations completed every twelve months. Additionally, the Agency’s prior corrective action plan for a similar finding was not stated correctly and did not adequately address the audit finding.

**Questioned Costs:** Unknown

**Context:** Reviews were 5 to 13 months late as noted below:

- One recipient had eligibility redeterminations in April 2009 and May 2011.
- One recipient had eligibility redeterminations in October 2008 and September 2010.
- One recipient had eligibility redeterminations in October 2009 and March 2011.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

A similar finding was noted in the prior audit. The Agency's prior corrective action plan stated, in part, "a memo was released to Administrative Staff on December 30, 2009, to review cases timely and use the NFOCUS supports developed to track reviews." In the current year, we requested a copy of this memo and the Agency provided us a memo dated January 30, 2009. The memo was written in response to a similar Children's Health Insurance Program finding from several years back. The Agency stated it appeared there was a mistype in the prior corrective action plan in regards to the release date of the memo. The memo written January 30, 2009, would not have been in response to our prior audit, which was for the period July 1, 2009, through June 30, 2010.

**Cause:** Per the Agency, it appeared there was a mistype in the prior corrective action plan in regards to the release date of the memo.

**Effect:** Lack of compliance with Federal regulations increases the risk ineligible individuals will receive services and Federal funds would be misused. The Agency did not remind its workers of eligibility requirements as a result of the prior finding, which increases the risk that workers will continue to perform eligibility reviews late.

**Recommendation:** We recommend the Agency review their policies to ensure compliance with Federal regulations. We further recommend the Agency implement procedures to ensure corrective action plans are correctly stated and adequately address the audit finding.

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

**Corrective Action Plan:** All Medicaid cases now are 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 the case needs to be closed for failure to complete a review. This alert will create a work task that will instruct a Social Service Worker to close the case for failure to complete their review. This will prevent Medicaid cases from continuing without a review at twelve months.

The Agency will conduct training with waiver supervisors to remind them of the requirement that a level of care assessment is required to be completed at least every twelve months. Additionally, on a quarterly basis, a sample of client files are reviewed to assure that this annual level of care assessment is completed. If errors are found in the client file, staff must take remedial action to correct the error.

The Agency now has an internal auditor who is responsible for follow-up and oversight of corrective action plans based on audit findings.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Teri Chasten, Economic Assistance Administrator and Kay L. Wenzl, Administrator, HCBS Waivers and Community Supports Unit

**Anticipated Completion Date:** April 1, 2012

**Finding #11-25-53**

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

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per 42 CFR § 433.138 (October 1, 2010), “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.” A good internal control plan requires procedures be in place to ensure private insurance leads for Medicaid recipients are adequately followed up on to determine whether third party liability exists.

**Condition:** The Agency did not follow up on insurance leads from the Children Have a Right to Support system (CHARTS).

**Questioned Costs:** Unknown

**Context:** During major program testing of Child Support Enforcement, we noted a child who was covered under private insurance per CHARTS, the Agency’s child support tracking system. We also noted this child was receiving Medicaid. CHARTS provides Medicaid with possible insurance coverage but the Medicaid unit does not follow up on these leads to determine whether there is third party liability. A total of \$1,019 was paid on behalf of this child for Medicaid, with a Federal share of \$682.

**Cause:** Per the Agency, since late 2007, due to concerns about accuracy and lack of detail, the private insurance information from CHARTS has not been entered into MMIS. We observed a spreadsheet the Agency stated was completed in 2007 that showed for a sampling of insurance policies from CHARTS, significant deficiencies in the information existed. The Agency did not attempt to find ways to make the data more usable.

**Effect:** There is the risk the Agency is paying claims that would otherwise be covered by private insurance, which could result in a loss of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure all private insurance leads are followed up on for Medicaid recipients.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Corrective Action Plan:** MLTC organized an interdivisional meeting with members of CHARTS, Medicaid Claims (MLTC), Children and Family Services (CFS), Information Systems & Technology (IS&T) personnel, to discuss how Coordination of Benefits/Third Party Liability (COB/TPL) could best utilize CHARTS insurance data. Initial meetings were held in November and December, 2011. The discussions led to an awareness that the data available from CHARTS is of varying reliability. Our ultimate goal is to create an interface from CHARTS to the MMIS TPL database for all reliable CHARTS insurance information. The remaining data from CHARTS that is of less certain reliability is expected to be reported to the COB/TPL Unit to be used as an additional resource for follow-up.

The COB/TPL unit is already utilizing limited CHARTS data as a resource for potential TPL leads, and is in the process of comparing the data to information already contained within the MMIS-TPL database. Medicaid Claims is working with CHARTS, CFS, and IS&T to categorize the CHARTS data into two groups. The first group would interface directly with the MMIS-TPL database, as it would include data that has been deemed to come from a source identified as reliable (such as the National Medical Support Services). Other available data would be reported to COB/TPL Unit for additional verification. Both MLTC-MMIS (SCR #5530) and CFS (SCR #12302) have written System Change Requests (SCRs) to enable this new procedure to be developed and implemented concurrently to ensure all private insurance leads are followed up on for Medicaid recipients.

**Contact:** Bob Kane, Administrator

**Anticipated Completion Date:** Preliminary implementation has already taken place and full implementation is anticipated by December 31, 2012.

**Finding #11-25-54**

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

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** Per the Social Security Act § 1902(a)30(A), a State plan for medical assistance must provide such methods and procedures relating to the payment for care and services under the plan as may be necessary to assure that payments are consistent with efficiency, economy, and quality of care.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Per a letter from the Centers for Medicare and Medicaid Services (CMS) dated June 4, 2010, CMS “performed an analysis of O/P Mental Health and Substance Abuse Services, Day Treatment Services, Treatment Foster Care Services, Treatment Group Home Services, Residential Treatment Center Services, and Specialized Mental Health and Substance Abuse Services...” and “the current approved State plan for Nebraska does not identify the payment rate for the above mentioned services, nor does it identify a methodology for determining the payment rate.”

Per the State of Nebraska’s response dated August 25, 2010, “Nebraska will submit a State Plan Amendment to be effective July 1, 2011 that will include a comprehensive description of all behavioral health services and reimbursement methodology currently in the EPSDT section of the Nebraska State Plan. This SPA will insure that Mental Health services are located appropriately in the State Plan...”

OMB Circular A-87 states, “To be allowable under Federal awards, costs must...be adequately documented.” A good internal control plan also requires procedures be in place to ensure documents submitted to the Federal government are complete.

**Condition:** The Agency did not adequately identify the payment rate for mental health services in their State Plan, nor did they identify a methodology for determining the payment rates. Specifically, the Agency did not have adequate supporting documentation for the rates for Comprehensive Child and Adolescent Assessments (CCAAs).

**Questioned Costs:** Unknown

**Context:** We tested a claim, which was for a comprehensive child and adolescent assessment (CCAA). The service is a multidisciplinary comprehensive assessment of State wards under the age of 19, to be used by treating professionals to determine a diagnosis and develop a comprehensive plan of care with treatment goals and objectives along with appropriate strategies and methods of intervention for the child or adolescent or their family. The service may only be provided by preferred Managed Care contractors.

The claim billed for the following:

H2000 Comprehensive Multidisciplinary Evaluation	\$ 992.49
Incentive	201.26
Telehealth Bonus	75.00
Total	<u>\$ 1,268.75</u>

The \$992.49 base payment is the basic cost for providing the service. The \$201.26 incentive payment is for providers who complete the assessment within ten days of assignment. The \$75 telehealth bonus was only given to the one provider tested; per the Agency they incur additional costs due to not having a qualified psychiatrist available in the western portion of the State.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

We first attempted to find the rate online, because per Attachment 4.19-B of the State Plan, “except as otherwise noted in the plan, state developed fee schedule rates are the same for both government and private providers and the fee schedule and any annual/periodic adjustments to the fee schedule are published at <http://www.dhhs.ne.gov/med/provhome.htm>.” However, for procedure code H2000, we could only find services billed at the rates of \$258.08 and \$518.11. This code is used for multiple, various types of assessments.

The CCAAs were a part of the Medicaid 1915(b) waiver. The waiver does not describe what the rates for CCAAs are, or how the rates are determined. The waiver simply makes assurances the waiver program is less expensive than regular Medicaid.

On June 4, 2010, the Federal government stated they performed an analysis of outpatient mental health and substance abuse services, day treatment services, treatment foster care services, treatment group home services, residential treatment center services, and specialized mental health and substance abuse services. The letter requires these services (which include CCAAs) to be a part of the State Plan and no longer in the waiver program. The State responded on August 25, 2010, and stated they will ensure mental health services are located appropriately in the State Plan by July 1, 2011. On May 18, 2011, the State submitted the State Plan Amendment (SPA) to the Federal government. We observed the entire amendment and the rates and noted that while the State does appear to be complying with the Federal requirement to make the plan more comprehensive, specifically, the CCAAs were not included. We discussed with the Agency and they agreed this was a technical oversight.

We reviewed an Agency internal document and found limited support for the base payment of \$992.49 and the incentive of \$201.26 but could find no support for the telehealth bonus of \$75. The limited support was only a spreadsheet stating what the rates were; the spreadsheet did not describe a methodology for determining the rates. There was no documentation to support the rates were reasonable and in accordance with Federal regulations.

It is unacceptable that the information about CCAA and its rate were not communicated to the Federal government as part of the first SPA. Per discussion with the Agency, despite reviews by multiple individuals, they were not aware the SPA was missing language and rates for the CCAAs until we brought it to their attention.

The total paid for CCAAs during State fiscal year 2011 was \$1,607,667 with \$1,071,366 the Federal share.

**Cause:** Unknown



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Without procedures to ensure rates are appropriately communicated to the Federal government, there is an increased risk the rates charged are not allowable.

**Recommendation:** We recommend the Agency ensure its State Plan adequately describes rates for all services. We further recommend the Agency implement procedures to ensure rates for CCAAs are reasonable and appropriately communicated to the Federal government in accordance with the State Plan.

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

**Corrective Action Plan:** Consistent with our previous discussions, the Comprehensive Child and Adolescent Assessment (CCAA) rates are now included on the fee schedule and posted online. The Agency hired additional consultants to insure that our SPA had “Mental Health services...located appropriately in the State Plan.” We believe that this condition has been fulfilled, and that the CCAA is covered in the State Plan via the sections on practitioners and assessments within the Rehabilitation Services category. The specific descriptions of the CCAA service are located in State regulations for children. These updated regulations were completed in draft form in March 2011, and have since been through public hearing.

**Contact:** Susan Buettner, Deputy Director, Programs Administrator

**Anticipated Completion Date:** April 30, 2012

**Finding #11-25-55**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Eligibility

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

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

**Criteria:** 42 CFR § 435.940, § 435.945, and § 435.952 (October 1, 2010) “requires certain Federally-funded, State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance...the agency must request and use information timely...the agency must review and compare against the case file all information received...to determine whether it affects the applicant’s or recipient’s eligibility or amount of medical assistance payment.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** During our testing of 25 Managed Care claims, we noted one recipient tested had income on the Income Eligibility Verification System (IEVS) that was not verified by the Agency.

**Questioned Costs:** None

**Context:** One recipient had significant income appearing on IEVS as early as April 2010 but the Agency did not begin the process of verification of this income until June 2011, or fourteen months after the information first appeared on IEVS, which is not timely. The Agency determined in July 2011 this income did not belong to the recipient. It appears someone else was using the recipient's social security number to obtain employment.

**Cause:** Unknown

**Effect:** Without procedures to ensure all possible income is investigated timely, there is an increased risk ineligible individuals will receive services and Federal funds would be misused.

**Recommendation:** We recommend the Agency implement procedures to ensure any possible income of recipients is investigated timely for purposes of determining Medicaid eligibility.

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

**Corrective Action Plan:** With the full implementation of ACCESSNebraska, the Agency has directed staff to document in narrative format all questionable issues discovered during a review of eligibility or upon receipt of an Interface alert, such as IEVS. In the previous case assignment system, Social Service Workers may not have clearly documented all questionable information they had been aware of. In order to ensure expectations around documentation is clear, a Narrative Development and Training work group has been formed to establish narrative standards and develop training to support these standards. Once the standards have been developed a statewide training of staff will occur.

**Contact:** Teri Chasten, Economic Assistance Administrator

**Anticipated Completion Date:** August 1, 2012

**Finding #11-25-56**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Eligibility

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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

**Criteria:** Qualified aliens, as defined at 8 USC § 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five-year bar under the terms of 8 USC § 1613.

**Condition:** We tested a journal entry, which transferred \$4,306,527 (\$2,872,263 Federal share) of managed care claims from the State-only medical program to Medicaid. We tested 20 claims included in this journal entry and noted for one of twenty, the recipient was not eligible for Medicaid.

**Questioned Costs:** \$5,771 known

**Context:** In April 2009, the Federal government allowed states the option to extend Medicaid coverage to qualified alien children and pregnant women who are residing lawfully in the United States who have not met the 5-year bar. The State did elect to extend Medicaid coverage to this group. NFOCUS logic was updated to code claims for these types of recipients to Medicaid. Based on information input by the caseworkers, NFOCUS has logic built into the system, which determines whether recipients of Medical assistance are coded to Medicaid or State-only. To get to the correct coding (Medicaid or State-only) for managed care claims, on a monthly basis, NFOCUS is supposed to share its logic with the managed care system. That way, NFOCUS and managed care match. However, for a time, this updating did not occur. When this was realized, the Agency reviewed its managed care claims back to April 2009 and found, based on the NFOCUS coding, claims which were originally coded State-only could have been eligible for Medicaid. In reviewing the logic, the Agency additionally identified legal permanent residents other than pregnant women or children who have met the 5-year bar, which were coded to State-only and should have been coded to Medicaid. The journal entry tested charged the costs of these claims to Medicaid.

We tested twenty claims included in the journal entry and noted for one of twenty, the recipient was not eligible for Medicaid. The recipient was a non-pregnant woman who had been a legal permanent resident for less than five years; therefore, she should have been in the State-only medical program.

Federal payment error noted was \$5,771. The total Federal sample tested was \$8,561 and the total Federal share for the entire journal entry was \$2,872,263. The Agency additionally made a similar journal entry for non-managed care claims for \$629,217 (\$421,660 Federal share).

**Cause:** The Agency could not determine the cause of this error.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Without procedures to ensure Medicaid eligibility is correctly determined, there is an increased risk of ineligible recipients receiving Medicaid.

**Recommendation:** We recommend the Agency implement procedures to ensure Medicaid eligibility is determined correctly per Federal and State regulations.

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

**Corrective Action Plan:** Beginning in July 2011, the Division of Medicaid and Long-Term Care and the Division of Children and Family Services began to hold regular administrative meetings to work together on identifying issues or changes related to Federal and State regulations that affect Medicaid eligibility. These meetings assist in the identification of system changes that need to be made in order to ensure Medicaid eligibility is determined correctly. A representative from Medicaid and Long-Term Care also attends the ACCESSNebraska team meetings that the Division of Children and Family Services holds monthly.

Through the Nebraska Economic Assistance Review System (NEARS) case reviews and the annual Medicaid QC pilot, cases are reviewed to ensure eligibility is determined correctly. Cases identified as needing correction are followed up to ensure they are corrected. Program Accuracy Specialists (PAS) have been hired by the Agency and are staffed in the various Customer Service Centers across the State. These PAS review cases and hold regular meetings to discuss issues discovered through case reads and the Medicaid pilot. The PAS develop supports to share with Social Service Workers to ensure correct eligibility determinations are made.

**Contact:** Teri Chasten, Economic Assistance Administrator

**Anticipated Completion Date:** Ongoing

**Finding #11-25-57**

**Program:** CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowable Costs/Cost Principles/Eligibility

**Grant Number & Year:** All open including #051105NE5MAP, FFY 2011; #051105NEARRA, FFY 2011; #051105NEEXTN, FFY 2011

**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 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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, 2010) “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 assess if new earned income received during the initial six months of Medical Assistance has been acted on for determination of ongoing Medicaid eligibility. A good internal control system also requires procedures to ensure any discrepancies noted are resolved and corrected in a timely manner.

**Condition:** The Agency did not have adequate procedures to ensure all Quality Control (QC) Unit case review findings were followed up on by appropriate caseworkers to ensure they were corrected.

**Questioned Costs:** Unknown

**Context:** As part of the State’s Medicaid pilot, the QC Unit reviewed a sample of cases on a monthly basis as part of the pilot program. The results of these reviews were entered into a database for a QC supervisory review and forwarded to the Medicaid Unit and the supervisor of the responsible caseworker for appropriate corrective action, if necessary. During our testing of 25 QC cases, we noted the Unit identified two unacceptable findings with no action taken on the new hire alert. We tested the two unacceptable findings to determine if corrective action had been taken on the errors noted. As of August 2011, corrective action had not been taken on one of the unacceptable findings tested. The QC review of this case occurred in July 2010. A similar finding was noted in the prior audit.

**Cause:** Unknown

**Effect:** When appropriate corrective action is not taken, there is an increased risk Federal funds will be spent on medical services for individuals who are ineligible.

**Recommendation:** We recommend the Agency strengthen their procedures to ensure appropriate corrective actions are taken on all findings noted by the QC Unit.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** A written process has been developed by the Agency to ensure all Quality Control (QC) review findings are followed up and corrected as needed. Medicaid Eligibility Policy staff will review QC findings. Cases requiring correction will be communicated to eligibility staff by means of a high priority work task. In addition, Policy staff will complete a narrative in the NFOCUS system indicating what actions are required to correct the case. Cases will be corrected within 30 days. Eligibility Policy staff will maintain a spreadsheet listing the cases that require correction and will monitor to ensure the cases are corrected within the 30 day period. The tracking spreadsheet will be submitted to the appropriate Agency Administrator on a monthly basis. The written process will be communicated to CFS Economic Assistance field staff, supervisors, as well as to QC.

**Contact:** Sam Kaplan, Administrator

**Anticipated Completion Date:** The written process has been drafted and will be distributed to field staff no later than January 31, 2012, for implementation.

**Finding #11-25-58**

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

**Grant Number & Year:** #051005NE5MAP, FFY 2010

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

**Criteria:** OMB Circular A-133 § 300(b) requires the auditee to “maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.” A good internal control plan requires procedures be in place to ensure amounts paid to hospitals are correct and any incorrect payments are resolved.

**Condition:** The Agency was aware the disproportionate share hospital payment was incorrect for two hospitals; however, they did not adequately follow up to ensure the incorrect payments were resolved.

**Questioned Costs:** \$84,216

**Context:** The hospitals in question are in Pool 6 for Disproportionate Share Hospital (DSH) payments. To calculate the DSH payment, per 471 NAC 10-010.03H3a(6)(2), “the costs for uncompensated care resulting from participating in the county administered general assistance (GA) program will be reported and funding transferred by the county; and costs for the state administered public behavioral

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

health system will be reported by each hospital and funding transferred to the Medicaid agency.” These funds represent the State match for DSH and they are coded to the Agency’s cash fund. The Agency then makes a payment to the hospital for an amount equal to this State share (already paid by the hospital) plus the Federal share. The net effect is the hospital gets the Federal share for DSH, because the hospital contributes the State match.

During July and August 2010, a mistake was made for three of the DSH hospitals, which caused the amounts they were paid to be incorrect. For all three hospitals, the Agency inadvertently paid them the same amount that they paid them in the previous month, instead of paying the hospitals the correct amount based on the checks sent in by the hospitals.

One hospital was properly corrected.

One hospital was overpaid \$139,061, Federal share \$84,216. The hospital sent in a refund check but it was coded in its entirety to the cash fund because the Agency was short money in the fund and otherwise would not have been able to pay another hospital its DSH payment. The transfer back to the Federal fund did not occur during the State fiscal year. It was not corrected until we questioned whether the issue was resolved. We noted questioned costs of \$84,216 because the Agency did not repay the Federal fund during the fiscal year.

One hospital was underpaid by \$67,065, Federal share \$40,615. Besides being brought up by us in the prior year, an Agency staff person noticed the error when compiling the CMS-64 report. In October 2010, this staff person notified the Agency accounting staff that this would be a reconciling amount for the quarter ended September 30, 2010, report and they requested that someone inform them when the Agency made the payment so they could make a note of it. There was no payment made or additional follow up until we questioned whether the issue was resolved. As of September 13, 2011, the Agency still owed the hospital \$67,065.

**Cause:** Inadequate follow-up by the Agency.

**Effect:** Without procedures to ensure hospitals are paid the correct amounts, there is an increased risk payments are incorrect, resulting in loss or misuse of Federal funds.

**Recommendation:** We recommend the Agency implement procedures to ensure payments made to hospitals are correct and any incorrect payments are resolved timely.

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action Plan:** All payments and fund transfers have been corrected pending verification of the amount paid to Faith Regional Hospital. DSH payments to hospitals are made timely and correctly based on accurate calculations. Faith Regional Hospital has been contacted to verify the underpayment of \$67,065. If confirmed, the Agency will make the payment.

**Contact:** Don Swartz, Accounting Manager and Margaret Booth, Medical Services Unit Manager

**Anticipated Completion Date:** January 31, 2012

**APA Response:** The corrective action plan only addresses the errors noted. The Agency should also implement procedures to prevent similar errors from occurring in the future.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF ROADS**

**Finding #11-27-01**

**Program:** CFDA 20.205 – Highway Planning and Construction and ARRA – Highway Planning and Construction – Davis-Bacon Act

**Grant Number & Year:** Various, including appropriation codes C200, C230, L010, L01E, L050, L05E, and L24E

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

**Criteria:** 29 CFR § 5.5(a)(3) (July 1, 2010) states payroll and basic records relating thereto shall be maintained by the contractor during the course of the work and such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid, and daily and weekly number of hours worked. The contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the agency which is a party to the contract. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Each payroll submitted shall be accompanied by a “Statement of Compliance” signed by the contractor or subcontractor.

The 2002 Construction Manual § 103.26(B)(1) states, “On selected Federal-aid contracts, the contractor and each subcontractor are required to submit to the Project Manager a certified copy of each weekly payroll and Statement of Compliance – Form WH 348 or a contractor’s form with identical wording. The payrolls and Statement of Compliance are to be submitted within seven days after the date the employees are paid.”

A good internal control plan would require final payroll dates in the Agency’s SiteManager agree to support.

**Condition:** Contractors and subcontractors are required to submit to the Agency Project Manager a certified copy of each weekly payroll and Statement of Compliance – Form WH 348 or a contractor’s form with identical wording. The payrolls and Statement of Compliance are to be submitted within seven days after the date the employees are paid. When payrolls are received, the Project Manager records the receipt on Form DR 84 entitled “*Record of Contractor Payrolls Received.*” Upon receiving the final payroll from the contractor and any subcontractors, the Project Manager will go into SiteManager to record the date the final payroll was received. SiteManager integrates field-based data collection, administration of contractor records, contractor payments, project oriented civil rights monitoring, and materials management. The final review team often uses SiteManager completion dates to complete their final review checklist for completed projects. We noted one of thirteen contracts tested had the wrong final payroll received date recorded in SiteManager. Additionally, during testing we noted the Agency did not obtain certified payrolls from all subcontractors.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** Unknown

**Context:** SiteManager listed an incorrect final payroll received date for project number MAPA-5097(2). For this project SiteManager showed the final payroll received date as August 23, 2010; however, per the DR 84 the final payroll was received September 8, 2010.

For project number BR-4-4(103), two subcontractors did not have DR 84s completed or certified payrolls submitted to the Agency. Missing DR 84s and certified payrolls were not caught until we inquired about subcontractor work. One subcontractor had submitted their certified payroll to the contractor who in turn did not forward the payroll onto the Agency. The other subcontractor's certified payroll was not received or requested until January 2012. Both subcontractors worked short days on the project. SiteManager showed the final payroll received date as December 4, 2010, for this project and the project was released to the Controller Division for payment of retainage on February 16, 2011.

**Cause:** One subcontractor was only on the job a half day. The other subcontractor worked a week of short days on the project. Because these two subcontractors had short days on the project the payrolls and DR 84s were overlooked.

The project consultant did not understand the Agency's policy concerning final payroll dates in SiteManager. The project consultant thought only the prime contractor's final payroll received date needed to be entered in SiteManager; however, the policy is to enter the last payroll received date for the project as a whole. The last payroll received date may therefore be either the prime contractor's or a subcontractor's.

**Effect:** When an incorrect date is entered into SiteManager or DR 84s are not completed for all subcontractors, the final review team may sign off on a project and release the project to the Controller Division for payment of retainage even though all required reports have not been received.

**Recommendation:** We recommend the Agency implement procedures to ensure all payrolls have been received before a date is entered into SiteManager and the date entered corresponds to the final payroll noted on the DR 84.

**Management Response:** We concur with this finding.

**Corrective Action Plan:** We will remind all Project Managers and Project Final Review personnel to check the dates for the final payroll as submitted to dates as entered into the project management system. The importance of accurately recording this payroll data will also be reiterated during the annual project managers' conference.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Claude Oie, Construction Engineer

**Anticipated Completion Date:** July 1, 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**GAME AND PARKS COMMISSION**

**Finding #11-33-01**

**Program:** CFDA 15.605 and 15.611 – Fish and Wildlife Cluster – Reporting

**Grant Number & Year:** All open Grants including #F-19-T-21, December 1, 2006 – November 30, 2012

**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, 2010) requires fiscal control and accounting procedures of the State be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

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 summarized accounting information from EnterpriseOne. During our review of the SEFA spreadsheet, we noted the Agency overstated previous year reported Federal expenditures for the SEFA by \$11,204.

**Questioned Costs:** Unknown

**Context:** For the fiscal year 2010 SEFA, Federal expenditures for two grants were over-reported. During our review of the 2011 SEFA, we noted that the Grant Inception Expenses column of the Agency's spreadsheet did not agree to the prior year spreadsheet plus the prior year reported expenditures. The Agency explained that after the 2010 audit, they reexamined every grant historically and that for 2010 the amount reported did not match the amount requested for two grants. The Federal expenditures for the prior year SEFA were overstated for Grant #F-19-T-21 by \$5,602 and for Grant #W-19-T-21 by \$5,602, a total of \$11,204. A finding regarding SEFA errors has been reported each year, beginning with the fiscal year ended June 30, 2007.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.

We tested 8 reports and noted for 6 reports the Federal expenditures reported did not agree to Federal fund expenditures recorded in EnterpriseOne and the State expenditures reported did not agree to State expenditures in EnterpriseOne. The Agency prepares the reports by taking the total expenditures and multiplying by the Federal matching percentage to split the costs reported between Federal and State. The expenditures reported in total did agree to total expenditures per EnterpriseOne. A similar finding was noted in the prior audit.

Grant #	Per Report		Total per Reports and per EnterpriseOne	Per EnterpriseOne	
	State Match Expenditures	Federal Expenditures		State Match Expenditures	Federal Expenditures
FW-6-C-70F	\$ 22,257	\$ 51,000	\$ 73,257	\$ 73,257	\$ -
F-166-R-6	23,649	44,023	67,672	34,360	33,312
F-180-R-1	177,008	371,967	548,975	181,357	367,618
F-82-E-21	128,164	384,491	512,655	512,655	-
F-183-B-1	8,719	26,156	34,875	18,109	16,766
W-92-HM-1	-	-	-	-	-
W-95-C-1	2,800	8,400	11,200	2,800	8,400
F-168-T-7	40,328	103,375	143,703	143,703	-

After the prior audit the Agency contacted the U.S. Fish and Wildlife Service for a ruling whether it was acceptable to use an Excel spreadsheet to calculate the State expenditure and the amount that is reimbursable by the Federal government. A Management Analyst replied in part "After conferring with staff of DOI Office of Inspector General, DOI Office of Financial Management, and the Wildlife and Sport Fish Restoration program, I have determined that it may be inappropriate for the Service to comment on or endorse any accounting procedures or internal controls that do not conform to the State's established accounting policies. . . The Service relies on the Single Audit process to provide assurance that adequate financial management systems are used to account for financial assistance awards. The draft finding (Finding #10-33-01) correctly cites the Federal requirements for financial administration by States and local governments found in 43 CFR Part 12. . . Therefore, as long as an agency follows its own accounting policies and is able to prepare accurate reports, the Service will not comment on or endorse specific, internal procedures." A Federal management decision in accordance with OMB Circular A-133 has not yet been issued.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency disagrees with the finding and believes it would take significantly more time to split coding between Federal and State matching expenditures as transactions are processed. Also, the State Accounting Administrator has approved Game and Parks' procedures for accounting for reimbursable grants.

**Effect:** Inaccurate SEFA reporting could lead to the incorrect determination of major programs and noncompliance with OMB Circular A-133. There is greater risk of reporting errors occurring and thus greater risk of noncompliance with Federal regulations which could lead to loss of Federal funding.

**Recommendation:** We request a management decision by the U.S Department of Interior. We further recommend that in the absence of such a decision supporting the Agency's position, that the Agency record in EnterpriseOne, the official accounting system of the State, 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.

**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 per 43 CFR § 12.60(a) (October 1, 2010). 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. Additionally, the Federal Financial Reports do not designate a fund level that must be used at the State accounting system level. As identified, the Agency does use an excel spreadsheet which is reconciled to EnterpriseOne data, to calculate Schedule of Expenditures of Federal Awards (SEFA) reporting information. We have determined to properly report our Federal funds, the methodology we use provides better information than the methodology recommended by the Auditor of Public Accounts. The State Accounting Administrator has concurred that our current methodology is the most cost beneficial approach to reporting accurate information in the SEFA.

Circular A-133 § 105 requires a process designed to provide reasonable assurance regarding the reliability of financial reporting and does not specifically prescribe a basis for preparing the SEFA. While we acknowledge the preparation of the SEFA is a responsibility of the auditee, it is considered supplementary information. The SEFA serves as the primary basis for the auditor's

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

determination of major programs for the purpose of establishing the scope of the single audit, thus we also acknowledge that accuracy is important and have implemented sufficient controls and additional compensating controls to provide a SEFA that is in accordance with OMB Circular A-133, Section 310 (b). For the auditor to provide an opinion on whether or not the SEFA is presented fairly in all material respects in relation to the auditee's financial statement as a whole, the SEFA must be able to be reconciled back to the underlying accounting and other records used in preparing the financial statements. The examples provided in the chart above in fact demonstrate an ability to reconcile to the underlying accounting.

In the fiscal year ended June 30, 2010 SEFA, the grants which were overstated for expenditures are grants where expenditures are allowable expenditures for both matching funds and reimbursement from the Federal government. Future outlays associated with the grant will determine if these particular expenditures will be reimbursed or used as match. They were originally included in the SEFA as our understanding is the SEFA is used to identify Federal funds that an agency receives and to determine major programs that should be audited. The Agency felt that identifying the expenditures even though reimbursement may not be requested was a conservative approach to ensure that a major program was correctly identified. The language in OMB Circular A-133 Section 205 (a) states that the determination of when an award is expended should be based on when the activity related to the award occurs. After the fiscal year ended June 30, 2010 audit, we reevaluated these grants and since match is not recorded on the SEFA, these inception-to-date expenditures were adjusted. The variance identified was 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.

As indicated, Administrative Services State Accounting concurs with our comments and a Management Analyst of the U.S. Department of Interior deferred the issue to our own accounting policies, which have been approved by the 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

procedures did identify the prior year variance and correct the inception to date amounts used on the spreadsheet which did not affect the current year SEFA. Procedures 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.

**Contact:** Tammy Snyder

**Anticipated Completion Date:** N/A

**APA Response:** The Agency's response does not address the issues related to Financial Status Reports (FSRs). The Agency states the examples provided in the chart demonstrate an ability to reconcile to the underlying accounting. Although the chart shows the reports reconcile to the accounting records in total, the chart clearly shows that underlying transactions are not identified as to whether individual transactions are State match or are Federal expenditures. The Agency contends that as long as all transactions are allowable, the Federal grantor is satisfied with the Agency's methodology for reporting Federal expenditures and State match on the FSRs. We request written confirmation of such approval.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF ADMINISTRATIVE SERVICES**

**Finding #11-65-03**

**Program:** CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program (JAG); CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) – Program/Grants to States and Territories – Reporting

**Grant Number & Year:** 2009-DJ-BX-0001, FFY 2009; 2010-DJ-BX-0461, FFY 2010; 2009-SU-B9-0039, FFY 2009

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

**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 CFDA number. Good business practice and a good internal control plan require procedures be in place to ensure the SEFA is properly presented, grants are correctly shown in clusters on the SEFA, and the correct business unit type is used to account for pass through monies.

**Condition:** The CFDA number was incorrectly reported for the 2011 Justice Assistance Grants (JAG). The Commission on Law Enforcement and Criminal Justice (Crime Commission) reported expenditures under CFDA 16.579 and should have reported expenditures under CFDA 16.738. CFDA 16.738 and CFDA 16.803 were not shown as a cluster on the SEFA. The EnterpriseOne business unit set up by the State Patrol to account for the ARRA - JAG monies passed through to them from the Crime Commission was set up with a GX (Federal Grant – Budget Check) business unit type. A GS (State Grant) business unit type would have excluded them from the SEFA. The State Patrol did not make corrections to the SEFA when confirming the SEFA amounts to the Department of Administrative Services (DAS). The SEFA was adjusted after we brought the errors to the attention of DAS.

**Questioned Costs:** None

**Context:** The amount originally reported incorrectly as CFDA 16.579 in State fiscal year 2011 was \$1,459,104. The Budget Officer at State Patrol noted he was told by DAS-Budget Division that they should use the GX business unit type; however, per DAS he should have then reported as pass through when confirming the SEFA amounts to DAS. A total of \$913,045 was reported twice on the SEFA.

Following is the original SEFA reporting and the SEFA reporting after adjustments.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Original SEFA:**

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA#</u>	<u>2011 Expenditures</u>
<b>Justice, U.S. Department of</b>			
Edward Byrne Memorial Formula Grant Program	Crime Commission	16.579	\$ 1,459,104
Edward Byrne Memorial Formula Grant Program	State Patrol	16.579	<u>40,283</u>
Total Edward Byrne Memorial Formula Grant Program			<u>1,499,387</u>
Edward Byrne Memorial JAG Program	Crime Commission	16.738	<u>16,431</u>
ARRA Recovery Act - Edward Byrne Memorial - JAG Program Grants to States and Territories	Crime Commission	16.803	2,131,415
ARRA Recovery Act - Edward Byrne Memorial - JAG Program Grants to States and Territories	State Patrol	16.803	<u>872,762</u>
Total ARRA Recovery Act - Edward Byrne Memorial - JAG Program Grants to States and Territories			<u>3,004,177</u>
Total			<u>\$ 4,519,995</u>

**SEFA After Adjustments:**

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA#</u>	<u>2011 Expenditures</u>
<b>Justice, U.S. Department of</b>			
JAG Program Cluster:			
Edward Byrne Memorial JAG Program	Crime Commission	16.738	\$ 1,475,535
ARRA Recovery Act - Edward Byrne Memorial - JAG Program Grants to States and Territories	Crime Commission	16.803	<u>2,131,415</u>
Total JAG Program Cluster			<u>\$ 3,606,950</u>

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** At some point in time the Crime Commission started receiving grants from CFDA 16.738 instead of grants from CFDA 16.579. No change was made by the Crime Commission to the CFDA number attached to the business unit in EnterpriseOne used for JAG grants. It is unknown why the SEFA did not include the CFDA's as a cluster.

**Effect:** The SEFA was incorrect which could affect major program determination.

**Recommendation:** We recommend Federal expenditures be reported using the correct CFDA number. In addition, a correction should be made to the business units in EnterpriseOne used for the JAG grants to identify the appropriate CFDA number. We recommend DAS implement procedures to ensure grants are correctly reported in clusters on the SEFA. We also recommend procedures be implemented that prevent Federal pass through monies from being included twice on the SEFA.

**Management Response:** Since the program title is Edward Byrne Memorial for CFDA numbers 16.579 and 16.738, the Crime Commission was not aware that the CFDA number was 16.738 for all of this year's Edward Byrne Memorial grant money.

The JAG grants were not initially included as a program cluster on the SEFA because the June 2010 list of clusters was used and not the current March 2011 Compliance Supplement. When the new JAG cluster was brought to State Accounting's attention, the JAG cluster was added to the SEFA.

The decentralized operations of the State contributed to grant money received by one State agency, the Crime Commission, and passed on to another State agency, State Patrol, to be reported twice on the SEFA. The State has a procedure to identify pass through money by using a business unit type "GS", State Grant, for pass through money from another State agency. Since this was ARRA money, there are additional controls and business unit type "GS" could not be used. It is rare to have pass through money on ARRA grants but for the other agencies that have pass through ARRA money, they notified State Accounting and the pass through amount was not reported twice. State Patrol submitted their SEFA expenditures to State Accounting and did not adjust expenditures for the pass through from the Crime Commission.

**Corrective Action Plan:** The CFDA number was changed in the accounting system from 16.579 to 16.738 for this year's Edward Byrne Memorial grant money. The JAG cluster has been added to the SEFA and the JAG award amounts adjusted for the pass through to another State agency. The SEFA that will be submitted to the clearinghouse in March 2012 will be correct.

**Contact:** Amy Wilson, AS State Accounting

**Anticipated Completion Date:** Completed

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-65-04**

**Program:** Various including CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles

**Grant Number & Year:** Various

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

**Criteria:** Office of Management and Budget (OMB) Circular No. A-87, Attachment C – State/Local-wide Central Service Cost Allocation Plans, § B.2. states, allocated central service costs should be on a reasonable basis. OMB 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.”

Neb. Rev. Stat. § 81-1120(1) (Reissue 2008) states, “There is hereby created the Materiel Division Revolving Fund. The fund shall be administered by the materiel division of the Department of Administrative Services. The fund shall consist of (a) fees paid for printing, copying, central supply, and mailing services provided to state agencies and local subdivisions by the division and (b) assessments charged by the materiel administrator to state agencies, boards, and commissions for purchasing services provided by the division. Such assessments shall be adequate to cover actual and necessary expenses associated with providing the service. The fund shall be used to pay for expenses incurred by the division to provide such services.”

A good internal control plan and good accounting practice require policies and procedures to ensure assessments charged are accurately calculated, reasonably assessed, and adequately supported.

**Condition:** Purchasing assessments charged by DAS Materiel Division to agencies were not in accordance with Federal requirements.

**Questioned Costs:** Unknown

**Context:** Materiel charged several fees and assessments for the services they provided to State agencies for printing, copying, mailing, purchasing services, office supplies, surplus property, and contractual advertising. During testing of the fees and assessments charged by Materiel for purchasing services, we noted the following:

The purchasing assessment, totaling \$799,224, was allocated to each agency based upon three expenditure criteria: total goods and supplies purchased, total services purchased, and total expenditures. Materiel calculated each agency’s expenditures for the three categories and determined the percentage of expenditures for each. An

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

average percentage was then calculated and multiplied by the total amount determined necessary to cover the yearly administrative expenses; this was the amount the agencies were charged. Using Materiel's criteria, we noted the following:

- Materiel had a listing of specific agencies with accounts that were not to be included in the assessment calculation; one account grouping was aid payments made by three agencies, the Department of Administrative Services, the State Treasurer, and the Department of Education. However, there were 34 additional State agencies that also had aid payments that were not excluded from the calculation, totaling \$2.5 billion. If all aid payments had been excluded the assessments would have changed for all State agencies, with the largest under-assessment totaling \$34,322, for the Department of Roads and the largest over-assessment totaling \$80,660, for the Department of Health and Human Services. Materiel could not explain why all aid payments had not been excluded.
- The calculation for services purchased did not include the Attorney General's expenses totaling \$766,797. Additionally, Materiel's procedures were to exclude aid payments for the State Treasurer, totaling \$32 million; however, the payments were not properly excluded from the total expenditures calculation.
- Materiel's total expenditure calculation did not appear reasonable, as several accounts included in this calculation had already been included in the total goods and supplies purchased and services purchased calculations. Furthermore, Materiel included Agency payroll expenses in the assessment calculation. If these accounts were excluded from the total expenditures, this would cause additional changes in the assessments for all State agencies with the largest under-assessment totaling \$88,456, for the Department of Roads and the largest over-assessment totaling \$103,717, for the Department of Health and Human Services. DAS was the second largest under-assessment totaling \$15,557.

We reviewed the largest over-assessment calculated to determine the possible impact on the Department of Health and Human Services Federal programs. Based on our calculation nine Federal programs were over-charged a total of \$30,408. Variances ranged from \$406 for Adoption Assistance to \$10,547 for Medicaid.

**Cause:** Unknown

**Effect:** Without adequate policies and procedures to ensure assessments and fees are reasonable, properly calculated, and properly billed there is an increased risk fees and assessments charged to State agencies will be over or under assessed and expenditures to Federal programs will be over or under charged.

**Recommendation:** We recommend Materiel review policies and procedures for the calculation of assessments and fees charged to ensure calculations are reasonable, properly calculated, and in accordance with OMB Circular A-87.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** As part of Administrative Services preparation for future biennium rate analysis, the State Purchasing assessment methodology used for the FY2010 – FY2012 biennium was being reviewed. We communicated this to the State Auditor during the recent Materiel Division audit. The following points were developed as a result of this review and analysis for inclusion in a revised methodology for developing rates for the FY2012 – FY2014 biennium.

The value of goods and services purchased by Agencies directly reflect services performed and as such, each is a necessary component in our computations. We feel these must remain in our computations as previously utilized. Goods and services alone do not accurately reflect all the work required or provided by State Purchasing for Agencies. A third component, total agency dollars spent, allows the assessment to be distributed to agencies. We removed all government aid from this component but feel all remaining elements previously used are required for the State Purchasing assessment.

**Corrective Action Plan:** The revised State Purchasing assessment methodology and amounts will be finalized during the rate setting process to be published in the Budget Rate Book for budget preparation by agencies later this year.

**Contact:** Roger Wilson

**Anticipated Completion Date:** September 2012

**APA response:** As noted above, the inclusion of payroll expenses and the double counting of various expense accounts does not appear reasonable.

**Finding #11-65-05**

**Program:** CFDA 93.719 – State Grants to Promote Health Information Technology  
ARRA – Suspension and Debarment

**Grant Number & Year:** 90HT0041/01; March 15, 2010 through March 14, 2014

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

**Criteria:** 2 CFR § 180.300 (January 1, 2010) 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 EPLS; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.”

**Condition:** The Agency did not verify subrecipients were not suspended or debarred by checking the Excluded Parties List System (EPLS) prior to awarding funds.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Questioned Costs:** None

**Context:** The Agency disbursed \$3,037,372 to two subrecipients during the fiscal year ended June 30, 2011. The APA tested one of these subrecipients to ensure suspension and debarment requirements were being met. For this subrecipient we noted the Agency awarded funds in May of 2010; however, the Agency did not check the EPLS website prior to awarding funds, obtain a certification from the subrecipient prior to awarding funds, or add a clause or condition to each covered transaction. The Agency did a review of the EPLS website on June 3, 2011, upon learning of this compliance requirement.

**Cause:** This is the first major Federal grant the Agency has administered. The Agency was unaware of this compliance requirement until after attending a grant conference. The Agency checked EPLS immediately after becoming aware of the requirement.

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

**Recommendation:** We recommend the Agency ensure compliance with suspension and debarment by either checking the EPLS website prior to awarding funds, obtaining a certification regarding suspension and debarment prior to awarding funds, or adding a clause or condition to the covered transaction.

**Management Response:** Management agrees with the recommendation to ensure suspension and debarment requirements are met and has implemented procedures to be in compliance.

**Corrective Action Plan:** Management is currently requiring a documented review of the EPLS website prior to awarding contracts greater than \$25,000 for funds involving Federal grants. This procedure will be documented by the anticipated completion date identified below.

**Contact:** Anne Byers

**Anticipated Completion Date:** March 1, 2012

**Finding #11-65-06**

**Program:** CFDA 93.719 – State Grants to Promote Health Information Technology  
ARRA – Subrecipient Monitoring and Special Tests and Provisions

**Grant Number & Year:** 90HT0041/01; March 15, 2010 through March 14, 2014

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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**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. 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) (January 1, 2010) additionally 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.”

**Condition:** The Agency did not notify subrecipients of the Federal award number, CFDA number, amount of American Recovery and Reinvestment Act (ARRA) funds, and requirements to appropriately identify ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) at the time of each ARRA disbursement.

**Questioned Costs:** None

**Context:** The Agency disbursed \$3,037,372 to two subrecipients during the fiscal year ended June 30, 2011. The APA tested one subrecipient to ensure subrecipient monitoring and ARRA requirements were being met. During our testing we noted the Agency made the subrecipient aware of award information at the time of the award; however, the Agency failed to make the subrecipient aware of the Federal award number, CFDA number, amount of ARRA funds, and the requirement to separately identify ARRA funds on their SEFA and SF-SAC at the time ARRA funds were disbursed.

**Cause:** This is the first major Federal grant the Agency has administered. The Agency was unaware of this compliance requirement until the APA made them aware of it.

**Effect:** The Agency is not in compliance with Federal subrecipient monitoring and ARRA requirements.

**Recommendation:** We recommend the Agency ensure required award information is communicated to the subrecipients at the time ARRA funds are disbursed.

**Management Response:** Management agrees with the recommendation to communicate required award information to the subrecipients at the time ARRA funds are disbursed and has implemented procedures to address this issue. As a side note, management notes that subrecipients of the State HIE Cooperative



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

Agreement currently have no other grants from the State of Nebraska. Consequently, there was little risk of subrecipients being confused as to the source of the funds.

**Corrective Action Plan:** The grant manager will e-mail subrecipients the required award information each time a disbursement is made.

**Contact:** Anne Byers

**Anticipated Completion Date:** December 6, 2011

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**ENERGY OFFICE**

**Finding #11-71-01**

**Program:** CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

**Grant Number & Year:** #11B1NELIEA, FFY 2011

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

**Criteria:** 2 CFR 170 Appendix A § I.a.1 (September 14, 2010) states, “Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).” 2 CFR 170 Appendix A § I.a.2.ii (September 14, 2010) states, “For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)”

Open Government Directive – Federal Spending Transparency (April 6, 2010) establishes an October 1, 2010, deadline for Federal agencies to initiate sub-award reporting pursuant to P.L.109-282 the Federal Funding Accountability and Transparency Act.

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 all obligations meeting the requirements of 2 CFR 170 are reported.

**Condition:** The Agency was not reporting sub-award obligations over \$25,000 on the transparency reporting website.

**Questioned Costs:** None

**Context:** Low-Income Home Energy Assistance funds are awarded to the Nebraska Department of Health and Human Services by the Federal awarding agency. The Nebraska Department of Health and Human Services contracts with the Agency to provide funds to subrecipients who in turn assist low-income individuals with energy needs. The Agency is responsible for awarding, reimbursing, and monitoring subrecipients. Six sub-awards totaling \$3,167,051 were made between October 1, 2010, and June 30, 2011. None of these six awards were reported on the transparency website.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** The Agency was unaware of transparency reporting requirements. Additionally, the agreement between the Agency and the Nebraska Department of Health and Human Services does not address this reporting requirement and who would be responsible.

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

**Recommendation:** We recommend the Agency ensure Federal transparency reporting requirements are being met. All sub-award obligations of \$25,000 must be reported on the transparency website.

**Management Response:** The Agency has recently become aware of the Federal Funding Accountability and Transparency Act (FFATA) and the reporting requirements associated with sub-award obligations of \$25,000 to subrecipients. Additionally, the Agency believes it is the responsibility of the Nebraska Department of Health and Human Services (DHHS) to include in its contract with the Agency the FFATA transparency reporting requirements since DHHS is the recipient of the Low-Income Home Energy Assistance (LIHEAP) block grant funds and sub-awards a portion of these funds to the Agency for weatherization services.

**Corrective Action Plan:** To ensure compliance with the FFATA, the Agency staff will register to enter required information through the FFATA Sub-award Reporting System (FSRS) and enter required sub-award information as aid agreements/contracts are issued.

**Contact:** Bonnie Ziemann, Deputy Director

**Anticipated Completion Date:** Immediate implementation as contracts, greater than \$25,000, are issued.

**Finding #11-71-02**

**Program:** CFDA 93.568 – Low-Income Home Energy Assistance (LIHEAP) – Suspension and Debarment

**Grant Number & Year:** #11B1NELIEA, FFY 2011

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

**Criteria:** 2 CFR § 180.300 (January 1, 2010) 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 EPLS; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Condition:** The Agency did not verify subrecipients were not suspended or debarred by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction.

**Questioned Costs:** None

**Context:** The Agency subawards LIHEAP funds to 8 subrecipients. Subrecipients use these LIHEAP funds to provide low-cost residential weatherization to eligible individuals. The Agency did not have procedures to check the EPLS or obtain a certification statement from subrecipients prior to issuing sub-awards. A total of \$3,780,979 in LIHEAP funds were awarded during the fiscal year ended June 30, 2011. We reviewed EPLS for two of the eight subrecipients and noted neither entity was on the list.

**Cause:** Agency was unaware of compliance requirement.

**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 grant application assurances contain a certification regarding suspension and debarment.

**Management Response:** The Agency understands the audit finding.

**Corrective Action Plan:** The Agency WAP/SEP Division Chief will add to the LIHEAP Financial Assistance Award a “Certification Regarding Lobbying; Debarment, Suspension and Other Responsibility Matters; and Drug-free Workplace Requirements,” for all aid agreement/contracts issued to subrecipients. These compliance requirements are currently included in the Low Income Weatherization Assistance Program (WAP) aid agreements/contracts to the same subrecipients which also receive the LIHEAP funds.

**Contact:** Bonnie Ziemann, Deputy Director or Julie Hendricks, WAP/SEP Division Chief

**Anticipated Completion Date:** Completion date is March 2012. The Agency has implemented the recommendation and incorporated these provisions in all contract and aid agreement documents.

**Finding #11-71-03**

**Program:** CFDA 81.128 – Energy Efficiency Conservation Block Grant Program (EECBG) Recovery – Allowable Costs/Cost Principles

**Grant Number & Year:** #DE-EE0000667, 09-14-09 to 09-13-2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

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

**Criteria:** OMB Circular A-87, Attachment B, Section 8.d.(2), states “The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.”

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 paid leave be allocated to Federal grants in compliance with OMB Circular A-87.

**Condition:** We noted three of four Agency employees tested who worked on the EECBG did not allocate their paid leave according to OMB Circular A-87, Attachment B, Section 8.d.(2).

**Questioned Costs:** \$487 known

**Context:** We noted the following based on our testing of payroll leave charged to the EECBG program:

<b>Employee</b>	<b>Actual Hours Worked</b>	<b>Allocation of Leave Based on Actual Hours Worked</b>	<b>Leave Hours Charged</b>	<b>Questioned Costs</b>
1	11 hours	1.22 hours	2 hours	\$ 11
2	6 hours	2.57 hours	12 hours	\$ 209
3	0 hours	0 hours	12 hours	\$ 267
			<b>Total</b>	<b>\$ 487</b>

Total known questioned costs noted above were \$487 from a sample payroll population of \$7,183 resulting in an error rate of 6.78%. Total payroll population for EECBG was \$220,412, which estimates the potential dollars at risk to be \$14,944 (dollar error rate multiplied by population).

**Cause:** The Office did not have a policy or procedure directing employees how to allocate their paid leave to Federal grants in accordance with OMB Circular A-87.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Effect:** Paid leave was overcharged to EECBG.

**Recommendation:** We recommend the Agency develop and implement policies or procedures directing employees how to allocate paid leave to Federal grants in compliance with OMB Circular A-87.

**Management Response:** While the time sheets questioned did allocate leave, they did not reflect a cost distribution relative to the hours that were worked. It is management's intention that leave be distributed proportionately based on the hours worked in the various Agency programs.

**Corrective Action Plan:** The Agency will issue the following policy statement to Agency staff regarding this issue. "Leave usage shall be charged to funding sources proportionately to the hours worked in specific programs in the current pay-period. Time will not be charged in less than 15 minute increments."

**Contact:** David Wesely, Business Manager

**Anticipated Completion Date:** March 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**COMMISSION ON LAW ENFORCEMENT AND CRIMINAL JUSTICE**

**Finding #11-78-01**

**Program:** CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program; CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) – Program Grants to States and Territories – Allowable Costs/Cost Principles and Subrecipient Monitoring

**Grant Number & Year:** 2009-DJ-BX-0001, FFY 2009; 2010-DJ-BX-0461, FFY 2010; 2009-SU-B9-0039, FFY 2009

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

**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)(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 pass-through entity to establish controls which ensure subrecipients’ costs are allowable in accordance with applicable cost principles, allowable activities, and follow appropriate procurement procedures to ensure subrecipients use Federal awards in accordance with Federal compliance requirements.

**Condition:** For all eight expenditures to subrecipients tested and one of two expenditures to State agencies tested there was not adequate supporting documentation to determine the expenditures were allowable.

**Questioned Costs:** Unknown

**Context:** Total paid to subrecipients during the fiscal year ended June 30, 2011, was \$2,109,863. Subrecipients report expenditures each quarter to the Agency using a cash report. The cash reports include a breakdown of the quarter’s expenses by cost categories: Personnel, Consultants Contracts, Travel, Supplies/Operating/Expenses, Construction/Equipment Rental, Equipment, and Other. The cash reports were reviewed by Agency staff; however, no invoices or detailed supporting documentation was attached. There were procedures performed to verify the

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

quarterly reports agreed to subrecipient accounting records and supporting documentation when the contractor performed on-site reviews. However this review was limited. Due to this lack of supporting documentation, we could not determine whether subrecipient expenditures were for allowable activities, allowable costs, or whether they met procurement guidelines. The Agency does obtain subrecipient A-133 audits which would provide reliance if the Program was audited as a major program. Two of three subrecipients tested had an A-133 audit for their most recent fiscal year but the JAG Program was not a major program in these reports. The Agency has financial reviews performed by an independent contractor. These reviews are required in the first twelve months for new subrecipients and every three years for previous subrecipients. This review could occur at any point during the grant period and there is no final review before the grant is closed. One of three subrecipients tested had a financial review performed by a contractor during the fiscal year. This provides some level of assurance that the State's current fiscal year expenditures were for allowable costs and met procurement guidelines. However, the Auditor of Public Accounts (APA) could not determine what specific transactions the contractor reviewed because the work product submitted by the contractor to the Agency did not explain this in sufficient detail. Subrecipient monitoring was not adequate to support payments to subrecipients were for allowable activities, in accordance with allowable cost principles and per procurement requirements. The Agency also provided \$1,175,708 to four other State agencies, of which one of the two tested did not have adequate support for the expenditure.

**Cause:** Expenditures were not verified to supporting documentation because the Agency relied on financial reviews performed by a contractor. Although this provides some assurance, the contractor did not review each subrecipient every year and the review generally only covered one quarter of the fiscal year.

**Effect:** Without adequate monitoring procedures, there is an increased risk subrecipient expenditures are not allowable.

**Recommendation:** We recommend monitoring be improved to provide reasonable assurance subrecipient and pass through agency expenditures are allowable. This monitoring should include documented reviews of supporting documentation for the expenditures reported on the quarterly cash reports to ensure expenditures are allowable and in accordance with Federal regulations. This monitoring should also include consideration of whether subrecipient expenditures are covered by A-133 audits or financial reviews by the contractor. For onsite 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. Annual onsite reviews and final reviews before the grant is closed out should be considered.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** Currently, our financial monitor is a contracted position. In 2012, we plan to bring this position in-house as a part-time employee. This employee will be able to periodically review invoices and implement a desk review process to establish a more intensive monitoring schedule. All information in support of the desk review will be compiled and reviewed. After the review of all documentation, the subgrantee will be contacted if necessary to answer any unresolved questions.

**Corrective Action Plan:** A tracking system will be developed to ensure onsite monitors are conducted on a consistent and timely basis. We also plan to implement a final review prior to a grant being closed. The Financial Monitor employee will also perform periodic spot checks on subgrantees and review invoices or other relevant documents necessary to ensure the grant is operating in accordance with any special conditions.

**Contact:** Lisa Stamm

**Anticipated Completion Date:** We plan to hire the Financial Monitor position prior to March 1, 2012. A desk manual that explains the specifics of a financial monitor will be developed prior to July 1, 2012.

**Finding #11-78-02**

**Program:** CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program; CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) – Program Grants to States and Territories – Cash Management

**Grant Number & Year:** 2009-DJ-BX-0001, FFY 2009; 2010-DJ-BX-0461, FFY 2010; 2009-SU-B9-0039, FFY 2009

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

**Criteria:** 31 CFR § 205.33(a) (July 1, 2010) 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.” The Department of Justice had codified OMB Circular A-102 in 28 CFR 66. Per 28 CFR 66.20(B)(7) (July 1, 2010) “Grantees must monitor cash drawdowns by their subgrantees to assure they

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

conform substantially the same standards of timing and amount as apply to advances to the grantees.” A good internal control plan would include procedures which ensure the time between drawdown of Federal funds and disbursement are minimized. A reasonable timeframe was considered to be 30 days.

**Condition:** One of four Federal drawdowns tested was not expended within 30 days. Drawdowns exceeded immediate cash needs of the Agency. Five of eight disbursements to subrecipients tested and two of three disbursements to other State agencies tested were not expended within 30 days. The Agency did not have adequate procedures in place to ensure advances to subgrantees and other State agencies were as close as administratively feasible to actual cash outlay. Payments to subgrantees and other State agencies exceeded their immediate cash needs.

**Questioned Costs:** None

**Context:** The Agency disbursed \$3,285,571 in aid to subrecipients and other State agencies during fiscal year 2011. Eleven subrecipients received \$2,109,863. Four pass through agencies received \$1,175,708. The Agency policy was to allow subrecipients and pass through agencies to request up to 30 days of estimated expenses. The five subrecipients noted had not expended the grant funds in 157, 157, 87, 78, and 51 days. The two pass through agencies noted had not expended the grant funds in 130 and 75 days. The Agency drawdown was expended in 39 days.

**Cause:** Unknown

**Effect:** Federal funds are drawn down earlier than required to meet cash needs.

**Recommendation:** We recommend the Agency ensure compliance with Federal regulations by establishing procedures to ensure drawdowns are only made for immediate cash needs and ensure advances to subgrantees and other State agencies are as close as administratively feasible to actual cash outlay.

**Management Response:** This recommendation focuses on the Edward Byrne Memorial Justice Assistance Grant (JAG) program. The Federal guidelines allow for Nebraska to draw down the entire amount of the JAG funds, invest these monies, and use the interest earned for JAG purposes. We have not been using the option to draw down the entire grant award but, beginning with the 2012 JAG Award, we intend to draw down the 2012 funds in one lump sum. Therefore, the recommendation that we should ensure our drawdown is only for immediate cash needs will not apply to the 2012 JAG grant.

**DAS Response:** It is State Accounting’s understanding based on the US DOJ [Department of Justice] guidance cited below that an up-front draw down of all funds is allowable under the JAG Program.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

From the Bureau of Justice Assistance website at <http://www.ojp.usdoj.gov/BJA/grant/JAGFAQ.pdf>: Frequently asked questions for the Edward Byrne Memorial JAG Program (State and Local) CFDA #16.738.

Can a JAG grantee drawdown the full grant award amount in one transaction?  
Up front draw down of all funds is allowable under the JAG Program.

State Accounting requests a Federal ruling on whether Crime Commission can draw down up-front an entire award. It is planned for the future, to make up for some of the decrease in the award amount, that Crime Commission will draw down all of an award up-front to get the maximum amount of interest to use for the program.

**Corrective Action Plan:** For the 2011 and previous JAG awards we will review our procedures and train our staff to identify ways to ensure drawdowns by our subgrantees are only made for immediate cash needs.

**Contact:** Lisa Stamm

**Anticipated Completion Date:** May 1, 2012

**APA Response:** Code of Federal Regulations (CFRs) are law and have more authority than the guidance cited by DAS. We asked for regulations which exempted JAG from 31 CFR § 205.33 and DAS was unable to provide such regulations. We disagree that cash management will not apply to the 2012 grant. As noted above 31 CFR § 205.33 requires the timing of fund transfers to be as close as administratively feasible to the State's actual cash outlay.

**Finding #11-78-03**

**Program:** CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program; CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) – Program Grants to States and Territories – Subrecipient Monitoring

**Grant Number & Year:** 2010-DJ-BX-0461, FFY 2010; 2009-SU-B9-0039, FFY 2009

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

**Criteria:** 2 CFR § 176.210 (January 1,2010) 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

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.” 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.” A good internal control plan would include procedures which ensure all required information is communicated with the subrecipients.

**Condition:** The notice of grant award for all three subrecipient grant awards tested, two of which were ARRA grants, did not include the CFDA title, Federal award name, Federal award number, and the name of the Federal awarding agency. For both ARRA subrecipient grant awards tested the grant award did not include the requirement to provide appropriate identification in their SEFA and SF-SAC. One of two ARRA subrecipient grant awards did not specifically identify the grant award as ARRA. For both ARRA subrecipient grant awards tested the disbursements did not specifically identify the Federal award number, the CFDA number, the amount of ARRA funds, or the requirement to provide appropriate identification in their SEFA and SF-SAC.

**Questioned Costs:** None

**Context:** The Agency disbursed \$2,109,863 in aid to 11 subrecipients during fiscal year 2011.

**Cause:** The Agency was not aware of the requirements.

**Effect:** Without procedures in place to ensure subrecipients are notified of required information in the grant award and 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 all required information relating to the grant at the time the grant is awarded and at the time of the disbursement of funds.

**Management Response:** Subrecipients will be notified of all required information in the special conditions.

**Corrective Action Plan:** With the addition of the required information in the special conditions, the subrecipients are then required to sign the special conditions verifying they have read the terms. Funds are not disbursed to the subrecipient until the special conditions and grant award have been signed.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Lisa Stamm

**Anticipated Completion Date:** This information will be added to all Federal special conditions beginning with the first 2012 grant award cycle in May 2012.

**Finding #11-78-04**

**Program:** CFDA 16.803 Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) – Program Grants to States and Territories - Reporting

**Grant Number & Year:** 2009-SU-B9-0039, FFY 2009

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

**Criteria:** Subrecipient reporting Data Model V4.0 from the Recovery.gov website defines Total Federal Amount of ARRA Expenditure as: For reports prepared on a cash basis expenditures are the sum of the cash disbursements for direct charges for property and services; for the amount of indirect expense charged; and the amount of cash advance payments and payments made to subcontractors and subawardees. A good internal control plan would include procedures to ensure amounts are correctly reported.

**Condition:** The amount reported as expenditures on the ARRA 1512 report for the quarter ended March 31, 2011, was the amount spent by subrecipients which was not the same as the amount paid to subrecipients.

**Questioned Costs:** None

**Context:** The amount reported was \$1,835,211. The expenditures per the State's general ledger were \$1,910,227; a difference of \$75,016.

**Cause:** Unknown

**Effect:** The expenditure amount reported was less than the amount actually expended.

**Recommendation:** We recommend the Agency ensure reported expenditures agree to the general ledger.

**Management Response:** This issue has been corrected. All reported expenditures agree with the general ledger.

**Corrective Action Plan:** N/A

**Contact:** Lisa Stamm

**Anticipated Completion Date:** Completed

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Finding #11-78-05**

**Program:** CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant (JAG) – Program – Allowability

**Grant Number & Year:** 2009-DJ-BX-0001, FFY 2009

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

**Criteria:** OMB Circular A-87, Attachment B, Section 8, Subsection h(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.” Subsection 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 which meets the standards in subsection 8.h. (5) of this appendix. . .” A good internal control plan would include procedures be in place to ensure the required personal activity reports or periodic certifications are on file.

**Condition:** All three Attorney General employee timesheets tested did not identify the grant they worked on and did not include time worked. The timesheets only included leave used. There was no certification they worked 100% on the Justice Assistance grant.

**Questioned Costs:** Unknown

**Context:** The Agency passed through JAG funds to the Nebraska Attorney General. All three Attorney General employees tested for February 2011 did not have monthly personnel activity reports that recorded each employee’s actual time spent on different programs or certifications the employees worked solely on a single program for the period. The Attorney General spent \$194,453 of JAG funds for payroll in fiscal year 2011.

**Cause:** Unknown

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

**Recommendation:** We recommend payroll charges comply with OMB Circular A-87.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Management Response:** This finding involves employee timesheets associated with a JAG grant to the Attorney General. We will notify the Attorney General's office of this finding.

**Corrective Action Plan:** We will explain the finding to the Attorney General's office.

**Contact:** Lisa Stamm

**Anticipated Completion Date:** March 1, 2012

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2011

**COMMISSION FOR THE BLIND AND VISUALLY IMPAIRED**

**Finding #11-81-01**

**Program:** CFDA 84.126 – Rehabilitation Services Vocational Rehabilitation Grants to States; CFDA 84.390 – Rehabilitation Services Vocational Rehabilitation Grants to States, Recovery Act – Allowable Costs/Cost Principles

**Grant Number & Year:** All open grants including H126A090040, FFY 2009; H126A100040, FFY 2010; H126A110040, FFY 2011; and H390A090040, FFY 2009

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

**Criteria:** OMB Circular A-87, Attachment B § 8(d)(2) states, “The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.”

**Condition:** The Agency did not allocate leave hours used by employees equitably to Federal programs.

**Questioned Costs:** \$81 known

**Context:** The Agency had 47 employees with time charged to the Vocational Rehabilitation program. We selected two pay periods and one employee from each pay period to test. For one of two employees, vacation leave was not allocated to the various Federal programs the employee had worked on. The employee had received compensation for 54.5 hours of actual time worked and 25.5 hours of vacation leave. One hundred percent of the vacation leave hours were charged to CFDA 84.126. The following table shows the actual hours worked by CFDA and the allocation of vacation leave which should have occurred for the employee:

<b>CFDA Number</b>	<b>CFDA Description</b>	<b>Actual Hours Worked</b>	<b>Percentage of Actual Hours Worked</b>	<b>Allocation of Vacation Hours</b>
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	45 hours	83%	21 hours
84.169	Independent Living State Grants	2 hours	4%	1 hour
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	7.5 hours	13%	3.5 hours
<b>TOTAL</b>		<b>54.5 hours</b>		<b>25.5 hours</b>



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

We noted in October 2011 the Agency began allocating employee leave time to the various programs based upon the percentage of actual hours worked.

The overall effect of the errors noted above for the fiscal year ended was \$81 in vacation leave paid which was overcharged to the Vocational Rehabilitation Program. Total Federal payroll costs for the sample tested was \$3,299. Total Vocational Rehabilitation payroll costs for the fiscal year was \$1,836,548. Based on the sample tested, the dollar error rate for the sample was 2.46% ( $\$81/\$3,299$ ) which estimates the potential dollars at risk for fiscal year 2011 to be \$45,179 (dollar error rate multiplied by population.)

**Cause:** The Agency did not allocate leave time paid to employees to the various Federal programs as a majority of the time worked by employees was on the Vocational Rehabilitation Grants to States program.

**Effect:** Noncompliance with Federal regulations which could result in unallowable costs charged to the Program and Federal sanctions.

**Recommendation:** We recommend the Agency implement procedures to ensure fringe benefits are equitably allocated to Federal programs in accordance with OMB Circular A-87 requirements.

**Management Response:** Nebraska Commission for the Blind and Visually Impaired (NCBVI) acknowledges this finding during the time period tested.

**Corrective Action Plan:** NCBVI has implemented a process of submitting our time records into EnterpriseOne that gives the system keys which generate an allocation of leave hours and subsequent costs based on the ratio of work hours submitted by Federal grant. Our plan going forward is to monitor that the process continues effectively, to assure compliance with Federal regulations.

**Contact:** Bill Brown, Business Manager

**Anticipated Completion Date:** October 1, 2011

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**DEPARTMENT OF ENVIRONMENTAL QUALITY**

**Finding #11-84-01**

**Program:** CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds and ARRA CWSRF; CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds and ARRA DWSRF – Cash Management

**Grant Number & Year:** All open grants including #2W-97705101, FFY 2009 (ARRA); #CS-31000110, FFY 2010; #2F-97705601, FFY 2009 (ARRA); #FS-99780507, FFY 2007; #FS-99780509, FFY 2009; and #FS-9978510, FFY 2010

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** 31 CFR § 205.12(b)(5) (July 2010) states “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

Per the Environmental Protection Agency’s (EPA) Performance Evaluation Report dated September 22, 2011, “If a draw error of a substantial sum (i.e., \$500K) is made, the NDEQ should return the funds rather than use the book entry adjustment method, regardless of the limitations in the ASAP system for displaying available balances.”

Good internal controls and sound business practices require an adequate accounting of funds including tracking the amount spent from each grant, reconciling total draws with total expenditures, and maintaining documentation for figures used to support Federal draws were expended.

**Condition:** The Agency drew down \$2,808,754 in Federal funds for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) on April 7, 2011. The Agency had not incurred expenses to warrant this Federal draw. In addition, during testing the Agency did not initially provide the final copy of the draw spreadsheet used to track the excess funds to the Auditor of Public Accounts (APA).

**Questioned Costs:** None

**Context:** On April 7, 2011, the Agency drew down \$3,595,223 in Federal funds from the Federal Automated Standard Application for Payments (ASAP) System for the CWSRF and DWSRF programs in anticipation of a Federal government shutdown. Of this amount, \$786,469 could be paid out right away after invoices had been verified. The remaining \$2,808,754 was drawn in excess and should have been returned to the EPA within 30 days. The Agency reported they were not aware of a legitimate process to return these funds, and elected to keep the funds to use on future expenditures. The EPA performs biannual reviews of the State’s Clean and Drinking Water Revolving Funds. The EPA was aware of this large draw and reviewed it and incorporated this in their Performance Evaluation Report.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

In order to track how the early draws were paid, the Agency developed a spreadsheet where expenditures were grouped by grant and tracked until the early draw had been completely paid. Per the spreadsheet, the last expenditure paid from the early Clean Water draw was on June 23, 2011, and the last expenditure paid from the early Drinking Water draw was on June 27, 2011.

Based on the APA's review of the spreadsheet, we noted:

- There were variances between the original spreadsheet we received and the final one received from the EPA. Variances were not significant.
- Documentation was not readily available to support the expenditure and adjustment amounts on the spreadsheet. The APA was able to observe in the State's accounting system that these Federal funds were eventually disbursed; however, the Agency was unable to easily recreate some of the expenditure and adjustment figures included in their spreadsheet.
- The total draws did not agree to total expenditures on the spreadsheet. Expenditures exceeded cash draws by \$81,091 and the Agency was not able to explain these excess expenditures.

**Cause:** The Agency was not aware of a legitimate process to return excess funds.

**Effect:** The Agency was not in compliance with Federal regulations. Federal cash draws for funds not specifically requested by a political subdivision increase the risk Federal funds will be improperly used.

**Recommendation:** We recommend the Agency implement procedures to ensure that funds are only drawn on a reimbursement basis. We further recommend the Agency implement procedures to ensure that if excess funds of \$500,000 or more are drawn that they properly return them to the Federal government within 30 days.

**Management Response:** The situation described was an atypical one, in which the Agency reacted to legitimate reimbursement requests from SRF loan recipients. The problem occurred due to drawing Federal funds for reimbursements that ultimately were paid as recycled principal. EPA ASAP instructions did not provide the option of returning funds within 30 days if they were drawn incorrectly. The Agency used excess funds drawn as quickly as possible against other Federal draw needs within the Agency, per instructions within the EPA ASAP program.

**Corrective Action:** The Agency draws funds on a reimbursement basis the vast majority of time. We are now aware that if funds are drawn in error, they may be returned to the EPA within 30 days without affecting the grant balance. The Agency has also added the subledger (loan number) to receipts within the State Accounting System when draws are made, which will make it easier to match draw requests to specific expenditure payments.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Martie Guthrie, Budget Officer III

**Anticipated Completion Date:** Completed

**Finding #11-84-02**

**Program:** CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and ARRA CWSRF – Cash Management/Subrecipient Monitoring

**Grant Number & Year:** All open grants, including #CS-31000110, FFY 2010; #2W-97705101, FFY 2009 (ARRA)

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**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 ...”

2 CFR § 176.210(c) (January 1, 2011) 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) (January 1, 2011) 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.”

31 CFR § 205.12(b)(5) (July 1, 2010) states, “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

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.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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.

**Condition:** During State fiscal year 2011, the Agency paid out \$15,875,479 to 31 political subdivisions. During testing the APA selected 4 loans to political subdivisions who received a total of \$5,939,306 during the State fiscal year. During testing it was noted:

- For four of four loans, the loan agreement did not contain one or all of the following: the Federal award name, Federal award number, or CFDA Title. In addition, if the loan was ARRA funded, the loan did not include the requirement for the political subdivision to provide appropriate identification of ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA) and their SF-SAC (Data Collection Form). This was noted in the prior audit.
- For three of four loans, the loan award checklist was not on file. This was noted in the prior audit.
- For three of three loans tested, which received ARRA funds, the Agency did not notify the subrecipient of the award number of the funds disbursed during the fiscal year.
- For two of six payments the Agency did not pay the political subdivision before drawing the Federal funds. The two payments identified were paid using the early cash draw identified in Finding #11-84-01.

The summary schedule of prior audit findings for Finding #10-84-03 states the corrective action is complete. The Agency's corrective action was to reinstitute their loan checklist to ensure compliance requirements were met. The corrective action also included adding more items to review during their engineer's onsite checklist. While the Agency did address some of the items reported last year, there were other items that had not been adequately addressed as of June 30, 2011.

**Questioned Costs:** None

**Context:** During testing it was noted:

- The Agency sent out a letter to all political subdivisions, after the political subdivision's fiscal year end, which included the CFDA number, and whether ARRA funded. However, the letter did not include the Federal grant award number.
- In response to a potential Federal Government shutdown the Agency requested funds in advance of payment to the political subdivisions. This is related to Finding #11-84-01 above. One payment was made on April 26, 2011, for \$563,607 and the other payment was made on June 27, 2011, for \$34,732.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Cause:** During testing it was noted:

- The Agency started using a new template for loan contracts as of February 1, 2012, that now includes the CFDA number and title, as well as, the Federal grant award name and number.
- The Agency began using the loan checklist during the fiscal year. During testing, the APA observed the checklist in a loan file for a loan dated January 17, 2011.
- The Agency was not aware of a process to return excess funds.

**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:

- The Agency continue to use their updated loan agreement, which includes CFDA title and number, as well as, grant award name and number.
- A loan award checklist be completed for every loan that is awarded.
- The Agency incorporate the Federal grant award number in their annual correspondence with political subdivisions.
- The Agency only request Federal funds after they have made payment to political subdivisions.

**Management Response:** The Agency 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. Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were delayed.

**Corrective Action:** As of February 1, 2012, the Agency adopted and is using a new template for loan contracts that includes the CFDA number and title, as well as the Federal grant award name and number. The Agency will use the standard grant award number without the fiscal year extension, so that contracts would be inclusive of any currently open or future grants available for payment of reimbursement requests.

The Agency will continue to send out a yearly letter to remind political subdivisions of the Single Audit Act. The letter will provide amount of Federal and State loan funds, loan forgiveness and ARRA funds. The letter will contain CFDA name and number and the Federal grant award name and number.

The Agency will continue to include in the file of every loan awarded, the loan award checklist to ensure all administrative and mailing procedures have been completed for all loans awarded.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Pat Rice, Assistant Director, Water Division; Donna Garden, Supervisor Financial Assistance Section

**Anticipated Completion Date:** 2/1/12 – for new contract templates; 10/1/12 – for annual Single Audit Act letter to subdivisions

**Finding #11-84-03**

**Program:** CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF– Cash Management/Subrecipient Monitoring

**Grant Number & Year:** All open grants including #FS-99780509, FFY 2009; #FS-99780510, FFY 2010; #2F-977056010, FFY 2009 (ARRA)

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** 31 CFR § 205.12(b)(5) (July 1, 2010) states, “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

2 CFR § 176.210(c) (January 1, 2011) 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) (January 1, 2011) 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.”

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.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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. A good internal control plan requires adequate procedures be in place to ensure disbursements are recorded correctly which includes identifying which funding source is to be used.

**Condition:** During State fiscal year 2011 the Agency paid out \$4,372,384 to 42 political subdivisions. During testing the APA selected 5 loans to political subdivisions who received a total of \$3,440,045 during the State fiscal year and performed detail testing on \$1,105,464 of those disbursements. During testing it was noted:

- For 2 of 14 disbursements tested, the request for reimbursement was sent and reimbursement funds were received prior to the costs being paid to the community.
- For 5 of 5 loans tested, the loan agreement did not contain the CFDA (Catalog of Federal Domestic Assistance) number and title, or the award name and number. In addition, if the loan was ARRA funded, the loan did not include the requirement for the political subdivision to provide appropriate identification of ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA) and SF-SAC (Data Collection Form). This was noted in the prior audit.
- For 3 of 3 loans tested for ARRA funded disbursements, the Federal award number was not communicated to the community.
- For 4 of 5 loans tested, the loan award checklist was not on file. This was noted in the prior audit.
- During testing, auditor noted the April 21, 2011, disbursement to Bridgeport was coded incorrectly in the State accounting system (EnterpriseOne) which resulted in payment being made from the incorrect Federal grant.

The summary schedule of prior audit findings for Finding #10-84-06 states the corrective action is complete. The Agency's corrective action was to reinstitute their loan checklist to ensure compliance requirements were met. The corrective action also included adding more items to review during their engineer's onsite checklist. While the Agency did address some of the items reported last year, there were other items that had not been adequately addressed as of June 30, 2011.

**Questioned Costs:** Unknown

**Context:** During testing it was noted:

- In October 2010 the Agency drew down excess funds in error. These funds were used to make payments of \$17,901 to Gresham on November 22, 2010. In addition, a \$36,788 payment was made on April 21, 2011, to Bridgeport and this payment used funds drawn on April 7, 2011, which is explained in more detail in Finding #11-84-01.



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- During the State fiscal year ended June 30, 2011, the standard loan contract did not include the CFDA name and title, as well as the Federal award name and number. As of February 1, 2012, the standard loan contract has been revised and this information has been added.
- The Agency currently sends out a letter annually to each subrecipient that includes Federal dollars paid by the Agency. This letter includes CFDA information, ARRA funds paid, and SEFA and SF-SAC identification requirements. However, the Federal award number is not included in the letter.
- The Agency began using the loan checklist during the State fiscal year ended June 30, 2011. We noted a loan entered in November 2010 had a loan checklist in the loan file.
- A \$36,788 payment to Bridgeport was paid from the incorrect Federal grant.

**Cause:**

- Excess funds were drawn in October 2010 due to error and excess funds were drawn in April due to fear of a Federal government shutdown.
- The Agency is now using a loan template which includes the CFDA name and title, as well as the Federal award name and number.
- The Agency was not aware they needed to include the Federal award number on the letter sent to political subdivisions.
- The Agency started using the loan checklist during the State fiscal year ended June 30, 2011.
- Incorrect coding in EnterpriseOne was the result of a clerical error.

**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:

- The Agency implement procedures to ensure requests for Federal funds are only made after payment to the political subdivisions have been made.
- The Agency incorporate the Federal grant award number in their annual correspondence with political subdivisions.
- A loan award checklist is completed for every loan that is awarded.
- The Agency implement procedures to ensure disbursements are recorded to the correct business unit.

**Management Response:** The Agency 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. Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were delayed.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Corrective Action:** As of February 1, 2012, the Agency adopted and is using a new template for loan contracts that includes the CFDA number and title, as well as the Federal grant award name and number. The Agency will use the standard grant award number without the fiscal year extension, so that contracts would be inclusive of any currently open or future grants available for payment of reimbursement requests.

The Agency will continue to send out a yearly letter to remind political subdivisions of the Single Audit Act. The letter will provide amount of Federal and State loan funds, loan forgiveness and ARRA funds. The letter will contain CFDA name and number and the Federal grant award name and number.

The Agency will continue to include in the file of every loan awarded, the loan award checklist to ensure all administrative and mailing procedures have been completed for all loans awarded.

**Contact:** Pat Rice, Assistant Director, Water Division; Donna Garden, Supervisor Financial Assistance Section

**Anticipated Completion Date:** 2/1/12 – for new contract templates; 10/1/12 – for annual Single Audit Act letter to subdivisions

**Finding #11-84-04**

**Program:** CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Reporting

**Grant Number & Year:** #FS-99780505, FFY 2005; #2F-97705601, FFY 2009 (ARRA)

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** The Federal Financial Report (FFR), which replaced the Financial Status Report, requires total Federal program income earned to be reported.

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.”

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

A good internal control plan requires:

- Federal financial reports are reviewed by management level personnel not involved in report preparation and the review be adequately documented,
- adequate documentation be maintained to support figures reported,
- a process be in place to ensure data reported agrees to EnterpriseOne, the State's accounting system.

**Condition:** During testing it was noted:

- Two of two FFRs tested were not complete and accurate as program income was not reported.
- Two of two FFRs did not have documentation to support they were prepared and approved by separate individuals.
- The report used to prepare the March 2011 ARRA 1512 report could not be provided or regenerated.
- There was no documentation that EnterpriseOne data was compared to the system the Agency used to generate the data submitted on the March 2011 ARRA 1512 report. This was noted in the prior audit.
- There was no documented supervisory review of the 1512 report prior to the report being submitted to Recovery.gov. This was noted in the prior audit.
- While the receipts reported on the ARRA 1512 report were correct, the APA identified a variance of \$81,675 between the receipts reported on the 1512 report and the receipts recorded in EnterpriseOne. Since EnterpriseOne is the State's accounting system, all receipts and adjustments to receipts recorded on the Federal Automated Standard Application for Payments (ASAP) system should agree to EnterpriseOne.

The summary schedule of prior audit findings for Finding #10-84-07 states the corrective action is complete. The Agency's corrective action was to implement additional reviews and approvals prior to submitting reports. The APA could not observe any documentation to support the reviews or approvals were performed. As of June 30, 2011 this action was not complete.

**Questioned Costs:** Unknown

**Context:** During testing it was noted:

- The Agency is required to submit FFRs for non-ARRA grants after the close of the grant period and interim annual FFRs for the ARRA grant. For both the ARRA and fiscal year 2005 grant, the program income section was left blank on the FFR. The Agency is working with the EPA to address this.
- On October 19, 2010, there was an adjustment done in ASAP to transfer \$81,675 from other grants to the DWSRF ARRA grant. When this adjustment was done in ASAP, a similar entry should have been done in EnterpriseOne, the State's

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

accounting system, to transfer the revenues to the ARRA grant; however, this entry was not completed until May 4, 2011. Because the Agency used the ASAP system figures to report receipts they did not misreport DWSRF ARRA receipts.

**Cause:** During testing it was noted:

- The Agency was working with the EPA to determine how they should report program income on the FFR. An EPA approved methodology had not been determined.
- The Agency did not have documentation to support various reviews and approvals were done prior to report submission. In addition, the Agency did not have documentation to support reconciliations were performed between Federal and State information systems.
- The Agency did not regularly reconcile the Federal information system to the State's accounting system. As a result, an adjustment made in the Federal system and not made in the State's accounting system was not identified until seven months later.

**Effect:** The Agency was not in compliance with Federal requirements of the ARRA and fiscal year 2005 grant agreements. In addition, without adequate controls in place there is an increased risk reporting to the Federal government will be inaccurate.

**Recommendation:** We recommend the Agency continue to work with the EPA to develop an approved methodology for calculating and reporting program income. We also recommend the Agency implement procedures to ensure reports submitted to the Federal government have a documented supervisory review. We further recommend the Agency maintain documentation to support the figures included in the reports.

**Management Response:** On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with State Auditors. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were missed.

**Corrective Action:** Documentation will be saved that indicates supervisory approval for the submittal of the 1512 report, and the corresponding reconciliation of the PBR Federal information system to the State Accounting System for the same time period. On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with State Auditors. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Contact:** Martie Guthrie, Budget Officer III

**Anticipated Completion Date:** April 14, 2012

**Finding #11-84-05**

**Program:** CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and ARRA CWSRF – Reporting

**Grant Number & Year:** #CS-31000105, FFY 2005; #2W-97705101, FFY 2009 (ARRA)

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** The Federal Financial Report (FFR), which replaced the Financial Status Report, requires total Federal program income earned to be reported.

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:

- Federal financial reports are reviewed by management level personnel not involved in report preparation and the review be adequately documented,
- adequate documentation be maintained to support figures reported,
- a process be in place to ensure data reported agrees to EnterpriseOne, the State’s accounting system.

**Condition:** During testing it was noted:

- Two of two FFRs tested were not complete and accurate as program income was not reported.
- One of two FFRs had incorrectly overstated match expenditures by \$500,000. Even though match expenditures were overstated, the Agency still met their match requirement.
- The Agency did not have documentation to support FFRs submitted during the fiscal year ended June 30, 2011, were prepared and approved by separate individuals.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

- The Agency did not have documentation to support the figures reported on the March 2011 ARRA 1512 report.
- The Agency had no documentation to support that EnterpriseOne data was compared to the Federal system used to generate the data submitted on the March 2011 ARRA 1512 report. This was noted in the prior audit.
- There was no documented supervisory review of the 1512 report prior to the report being submitted to Recovery.gov. This was noted in the prior audit.

The summary schedule of prior audit findings for Finding #10-84-04 states the corrective action is complete. The Agency's corrective action was to implement additional reviews and approvals prior to submitting reports. The APA could not observe any documentation to support the reviews or approvals were performed. As of June 30, 2011, this action was not complete.

**Questioned Costs:** Unknown

**Context:** During testing it was noted:

- The Agency is required to submit FFRs for non-ARRA grants after the close of the grant period and interim annual FFRs for the ARRA grant. For both the ARRA and FFY05 grant, the program income section was left blank on the FFR. The Agency is working with the EPA to address this.
- The required match for Grant CS-31000105 was \$1,093,460. The Agency reported match of \$2,134,334 but only had actually spent \$1,634,334 on matching. Thus, the Agency had adequately met its matching requirement but misreported the amount spent as match.
- The Agency enters expenditure data into an EPA system as well as EnterpriseOne, the State's Accounting System. The Agency uses the EPA system to report financial information on the 1512 report, however, the Agency is unable to generate time specific reports from this system and thus they were not able to recreate the reports used to support the figures on the March 2011 ARRA 1512 report, nor did they maintain supporting documentation.

**Cause:** During testing it was noted:

- The Agency was working with the EPA to determine how they should report program income on the FFR. An EPA approved methodology had not been determined as of June 30, 2011.
- The Agency did not have documentation to support various reviews, approvals, and reconciliations between Federal and State information systems.

**Effect:** The Agency was not in compliance with Federal requirements of the ARRA and FFY05 grant agreements. In addition, without adequate controls in place to ensure compliance is met there is an increased risk of inaccurate reporting.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

**Recommendation:** We recommend the Agency continue to work with the EPA to develop an approved methodology for calculating and reporting program income. We also recommend the Agency implement procedures to ensure reports submitted to the Federal government have a documented supervisory review. We further recommend the Agency maintain the documentation to support the figures reported.

**Management Response:** On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with State Auditors. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were missed.

**Corrective Action:** Documentation will be saved that indicates supervisory approval for the submittal of the 1512 report, and the corresponding reconciliation of the PBR Federal information system to the State Accounting System for the same time period. On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with State Auditors. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

**Contact:** Martie Guthrie, Budget Officer III

**Anticipated Completion Date:** April 14, 2012

**Finding #11-84-06**

**Program:** CFDA 66.040 – State Clean Diesel Grant Program, ARRA – Allowable Costs/Cost Principles

**Grant Number & Year:** #2D-97706001, Project Period 3/31/09 thru 3/31/11

**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 the net of all applicable credits; and be adequately documented.

STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

OMB Circular A-133 § 300(b) requires the auditee “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 scrapping or remanufacture in the case of repowers and replacements for all projects funded under this assistance agreement, including subawards/subgrants. Scrapping is defined as a permanently disabled engine or vehicle, no longer suitable for use. Engine scrapping can be completed by drilling a hole in the engine block and manifold. Vehicle scrapping requires permanently disabling the chassis, e.g. cutting it in half.

Nebraska Department of Environmental Quality 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:** We tested five expenditures and noted two expenditures did not have adequate documentation for scrapping of the vehicle, engine, or equipment being replaced and one did not have documentation showing the recipient chose the most cost effective bid.

**Questioned Costs:** \$44,000

**Context:** Federal expenditures for the fiscal year totaled \$507,143. We tested five expenditures totaling \$33,276. We also reviewed Agency inspections performed as a result of the prior year finding.

The Agency allowed a statement and pictures from the recipient on the final report stating the recipient disposed or scrapped the vehicle, engine, or equipment in accordance with the contract. Both documents tested by the APA with disposals did have a statement and pictures attesting that the recipient disposed of the items as per the contract agreement. Auditor observed pictures of the engines that were disposed, but it was difficult to tell if the engine had being properly disposed of.

The Agency required recipients to demonstrate they selected the lowest and/or most cost effective bid. One document tested 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.

The Agency performed inspections of recipients to ensure that items were being properly scrapped or disposed. The Agency performed 15 inspections of 58 recipients, which is 25%. Of the 15 inspections the Agency performed, it was



STATE OF NEBRASKA  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

discovered that 2 did not have adequate documentation to support the Federal ARRA monies received and spent. One case was turned over to the Attorney General for possible recovery of the \$36,000. The other case for \$8,000 is in bankruptcy, the Agency is waiting to see if they will get the money from the bankruptcy hearing.

**Cause:** Insufficient supporting documentation.

**Effect:** Without adequate internal controls and supporting documentation there is an increased risk for unallowable expenditures and misuse of Federal Funds.

**Recommendation:** 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 maintain adequate documentation to support recipients chose the most cost effective bid.

**Management Response:** The Agency recognizes the issues related to DERA ARRA agreements and has implemented a new grant process which addresses those issues.

**Corrective Action:** The following actions have been taken:

The Agency has implemented a new process to address both scrappage and cost effective bids. The new process provides a fixed amount of rebate for each unit purchased. The rebate is less than the amount of a typical new unit; therefore the issue of lowest and/or most cost effective bids has been eliminated.

The Agency has put in place a new process to eliminate the issue regarding whether applicable vehicles, engines, and equipment, paid for with grant funds, are appropriately disposed or scrapped. The Agency has narrowed the types of eligible activities it will fund to only Auxiliary Power Units (APUs) on trucks currently operating without APUs. APUs are add-on installations, therefore scrappage of vehicles and equipment is not applicable.

**Contact:** Shelley Schneider, Air Division Administrator; Beverly Kellison, Planning Unit Supervisor, Air Division

**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
10-13-01 09-13-02	10.553 10.555	School Breakfast Program National School Lunch Eligibility	Completed and ongoing. The Nebraska Department of Education will continue to ensure Coordinated Review Effort (CRE) documentation for eligibility and compliance with Federal regulations is maintained in the School Food Authorities files.	No current finding
10-13-02	84.181 84.393	Early Intervention Services (IDEA) Cluster Allowability	Ongoing. The Nebraska Department of Education is in the process of reviewing procedures and is making changes to the procedures to ensure there is adequate detailed supporting documentation for aid expenditures.	Repeated with changes Finding 11-13-04
10-13-03	84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants Subrecipient Monitoring	Completed and ongoing. The Nebraska Department of Education will review their procedures to ensure the correct CFDA number is identified and all required information is provided to sub-recipients.	No current finding

**Public Service Commission**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-14-01	11.558	ARRA State Broadband Data and Development Grant Suspension & Debarment	Completed. The corrective action plan has been completed and the policy regarding compliance with the Excluded Parties List System (EPLS) was approved by the Commission on October 26, 2010.	No current finding

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

**Nebraska Department of Labor**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-23-01 09-23-01 09-23-03 08-23-04	17.225 17.258 17.259 17.260	Unemployment Insurance WIA Cluster Allowable Costs/Cost Principles	Management has developed written procedures for the allocation process. Management is in the process of documenting the changes in the Rent, Utility, and Communication (RUC) process. Several additional improvements including some programming changes will be performed in the upcoming months, including but not limited to a fix to the methodology for exempt additional hours worked. The anticipated completion date is September 30, 2011.	Repeated with changes Finding 11-23-01
10-23-02 09-23-02	17.258 17.259 17.260	WIA Cluster Allowable Costs/Cost Principles	Completed and ongoing.	Repeated with changes Finding 11-23-02
10-23-03 09-23-06 08-23-10	17.258 17.259 17.260	WIA Cluster Allowability & Subrecipient Monitoring	Supporting documentation was obtained for the July – November payment to the City of Lincoln. A subrecipient reporting template with supporting procedures will be completed by February 29, 2012.	No current finding
10-23-04	17.258 17.259 17.260	WIA Cluster Allowability & Eligibility	Met with Community College staff to establish procedures to report Pell grant award status for clients. Final procedures and training will be completed by August 31, 2011.	Repeated with changes Finding 11-23-03
10-23-05	17.259	WIA Youth Activities Eligibility & Earmarking	Training is scheduled for September 6, 2011, for WIA Reports available through NEworks. All three WIA local areas are invited to attend this training. The anticipated completion date is September 30, 2011.	No current finding
10-23-06 09-23-08 08-23-02 08-23-03	17.258 17.259 17.260	WIA Cluster Cash Management	The corrective action is complete and ongoing.	Repeated with changes Finding 11-23-06

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

**Nebraska Department of Labor (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-23-07 09-23-05 08-23-06	17.258 17.259 17.260	WIA Cluster Reporting	The anticipated completion date is September 30, 2011.	Repeated with changes Finding 11-23-05
10-23-08 09-23-07 08-23-07 08-23-08	17.258 17.259 17.260	WIA Cluster Period of Availability & Earmarking	The anticipated completion date is November 30, 2011.	No current finding
10-23-09	17.258 17.259 17.260	WIA Cluster Suspension & Debarment	The corrective action is complete.	No current finding
10-23-10 09-23-09	17.225	Unemployment Insurance Cash Management	The anticipated completion date is December 31, 2011.	No current finding
10-23-11	17.225	Unemployment Insurance Reporting	The anticipated completion date is December 31, 2011.	No current finding
10-23-12 09-23-10 08-23-05	17.225	Unemployment Insurance Reporting	The anticipated completion date is August 31, 2011.	No current finding
09-23-04	17.207 17.801 17.804	Employment Services Cluster Cash Management	A resolution is being discussed with the Federal Department of Labor.	No current finding

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

**Nebraska Department of Health and Human Services**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-25-02	93.596	Child Care Mandatory & Matching Funds Allowable Costs/Cost Principles	Completed November 15, 2010	Repeated with changes Finding 11-25-02
10-25-03	93.558	TANF Allowable Costs/Cost Principles	Scheduled to be completed August 15, 2011.	Repeated with changes Finding 11-25-03
10-25-04 09-25-31	10.555 10.559	School Lunch Program Summer Food Service Program for Children Special Tests & Provisions	Completed July 1, 2011	Repeated with changes Finding 11-25-06
10-25-05	10.555 10.559	School Lunch Program Summer Food Service Program for Children Reporting	The Food Distribution Program system correction is complete. The oversight is ongoing.	Repeated with changes Finding 11-25-07
10-25-06 09-25-39	10.557	WIC Suspension & Debarment	Completed September 29, 2010	No current finding
10-25-07	10.557	WIC Period of Availability	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. On schedule for a September 30, 2011, completion.	Repeated with changes Finding 11-25-08
10-25-08 09-25-27	10.568 10.569	Emergency Food Assistance Cluster Allowability, Cash Management & Eligibility	Completed March 31, 2011	Repeated with changes Finding 11-25-09 and 11-25-10

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

**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
10-25-09 09-25-28 09-25-30	10.568 10.569	Emergency Food Assistance Cluster Suspension & Debarment, Subrecipient Monitoring, Special Tests & Provisions	On schedule for completion by September 30, 2011.	Repeated with changes Finding 11-25-09 and 11-25-10
10-25-10	10.569	Emergency Food Assistance Program Reporting	Completed September 30, 2010	Repeated with changes Finding 11-25-11
10-25-11	93.044 93.045 93.053 93.705 93.707	Aging Cluster Allowability & Subrecipient Monitoring	Agency will review and update the subrecipient monitoring process to include more detailed financial review. On schedule to be completed by January 1, 2012.	Repeated with changes Finding 11-25-15
10-25-12	93.044 93.045	Aging Title III Part B and Title III Part C Maintenance of Effort & Reporting	On schedule to complete by January 1, 2012.	Repeated with changes Finding 11-25-17
10-25-13	93.044 93.045 93.053 93.705 93.707	Aging Cluster Cash Management	On schedule to complete by January 1, 2012.	Repeated with changes Finding 11-25-16
10-25-14	93.044 93.045 93.053 93.705 93.707	Aging Cluster Subrecipient Monitoring	On schedule to complete by January 1, 2012.	No current finding

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

**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
10-25-15	93.268	Immunization Grants Allowability	Completed December 29, 2010	Repeated with changes Finding 11-25-19
10-25-16 09-25-34	93.268 93.712	Immunization Grants Suspension & Debarment	Completed January 6, 2011	No current finding
10-25-17 09-25-33	93.268 93.712	Immunization Grants Special Tests & Provisions	Completed February 26, 2010	No current finding
10-25-18 09-25-25 08-25-05 07-26-04	93.283	CDC Investigations and Technical Assistance Subrecipient Monitoring	Completed January 31, 2011	No current finding
10-25-19 09-25-40 08-25-08 07-26-06 06-26-20 05-26-15 05-26-14 04-26-07	93.558	TANF Allowable Costs/Cost Principles & Eligibility	Completed April 1, 2011	Repeated with changes Finding 11-25-20
10-25-20	93.558	TANF Allowable Costs/Cost Principles	Completed April 1, 2011	No current finding
10-25-21	93.558	TANF Special Tests & Provisions	Completed June 1, 2011	Repeated with changes Finding 11-25-23
10-25-22	93.563	Child Support Enforcement Reporting	Completed June 30, 2011	No current finding

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

**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
10-25-23	93.563	Child Support Enforcement Allowable Costs/Cost Principles	Immediately Implemented - Completed	No current finding
10-25-24	93.569 93.710	Community Services Block Grant Cash Management & Special Tests & Provisions	Completed January 11, 2011	Repeated with changes Finding 11-25-27
10-25-25	93.569 93.710	Community Services Block Grant Allowability & Subrecipient Monitoring	Completed October 1, 2011	Repeated with changes Finding 11-25-28
10-25-26	93.569 93.710	Community Services Block Grant Eligibility	Completed March 15, 2011	Repeated with changes Finding 11-25-29
10-25-27	93.710	Community Services Block Grant Special Tests & Provisions	Completed January 11, 2011	Repeated with changes Finding 11-25-30
10-25-28 09-25-35 08-25-12 07-26-12	93.575 93.596 93.713	Child Care Cluster Allowability	Completed July 1, 2011	Repeated with changes Finding 11-25-31
10-25-29 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 Allowability & Eligibility	On schedule to complete by August 1, 2011.	Repeated with changes Finding 11-25-34



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

**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
10-25-30	93.658	Foster Care Allowable Costs/Cost Principles	Completed April 1, 2011	Repeated with changes Finding 11-25-35
10-25-31	93.658	Foster Care Allowable Costs/Cost Principles	Completed April 2, 2011	Pending resolution Repeated with changes Finding 11-25-35
10-25-32 09-25-15 08-25-18 07-26-16	93.667	Social Services Block Grant Allowability	Completed June 30, 2011	Repeated with changes Finding 11-25-40
10-25-33	93.667	Social Services Block Grant Suspension & Debarment	Completed December 31, 2010	Repeated with changes Finding 11-25-42
10-25-34 09-25-07 08-25-22	93.778	Medicaid Allowable Costs/Cost Principles & Subrecipient Monitoring	The Agency has contracted with two consortiums to ensure amounts claimed are correct. The Agency receives certification to that effect. 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.	Repeated with changes Finding 11-25-47
10-25-35	93.778	Medicaid Matching & Period of Availability	No corrective action in the existing MMIS. When a new MMIS is procured, adjustment processing based on original payment date may be considered.	No current finding
10-25-36	93.778	Medicaid Allowable Costs/Cost Principles	Completed June 1, 2011	No current finding

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

**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
10-25-37 09-25-11	93.778	Medicaid Allowability	Completed April 30, 2011	Repeated with changes Finding 11-25-45
10-25-38 09-25-06 08-25-21 07-26-22 06-26-07	93.778	Medicaid Matching & Reporting	No corrective action plan. The agency disagrees with the reported condition.	Repeated with changes Finding 11-25-43
10-25-39 09-25-10	93.778	Medicaid Special Tests & Provisions	Completed June 30, 2011	Repeated with changes Finding 11-25-48
10-25-40	93.778	Medicaid Suspension & Debarment	Completed February 1, 2011	Repeated with changes Finding 11-25-46
10-25-41	93.778	Medicaid Eligibility	Completed April 1, 2011	Repeated with changes Finding 11-25-52
10-25-42 09-25-12	93.778	Medicaid Allowable Costs/Cost Principles & Eligibility	All areas in management's response and corrective action plan are presently being performed.	Repeated with changes Finding 11-25-57
10-25-43	93.778	Medicaid Special Tests & Provisions	Completed August 1, 2010	No current finding
10-25-44	93.778	Medicaid Special Tests & Provisions	Completed November 27, 2010	No current finding

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

**Nebraska Department of Roads**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-27-01 09-27-03	20.205	Highway Planning & Construction Allowable Costs/Cost Principles	The Federal Highway Administration (FHWA) has informed the Nebraska Department of Roads of its approval of the payroll additive rate and methodology for fiscal year 2011-2012. The FHWA reviews the methodology used to determine the payroll additive rate every three years; consequently, the methodology will not be reviewed again until fiscal year 2014.	No current finding
10-27-02 09-27-02	20.205	Highway Planning & Construction Subrecipient Monitoring	Actions taken: 1) The Nebraska Department of Roads (NDOR) will notify subrecipients of the CFDA number, amount of disbursements, expenses incurred by NDOR and changes in federal funds obligated for each project where activity has occurred. This notification will occur at the end of each federal fiscal year. 2) NDOR has documented and implemented policies and procedures, per the Local Public Agency Manual that address site visits, proper and sufficient documentation for federal aid reimbursement, training, etc.	No current finding
10-27-03	20.205	Highway Planning & Construction Subrecipient Monitoring	The Federal Highway Administration (FHWA), Office of Technical Services, in Baltimore, MD., is in the process of performing a follow-up review and report of the Antelope Valley Project. The Nebraska Department of Roads (NDOR), with the aid of the City of Lincoln, has been submitting volumes of documents to the FHWA Baltimore Office for their review prior to their arrival the week of August 22 through 26. Upon finalization of the FHWA review and report, NDOR and the City of Lincoln will determine what actions will be necessary to comply with the findings of the 2010 State Auditor Single Audit Report and the FHWA review.	No current finding

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

**Military Department**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-31-01	12.401	National Guard Military Operations & Maintenance Projects Cash Management	Cash Management for Cooperative Agreements is ongoing. The Agency continues to exercise all efforts to minimize the time between the drawdown of Federal funds and their disbursement for program purposes.	No current finding
10-31-02	12.400 12.401	Military Construction, National Guard National Guard Military Operations & Maintenance Projects Reporting	The Agency took corrective action on July 28, 2010. Corrected amount was entered on July 28, 2010, and all subsequent reporting entries were correct.	No current finding

**Nebraska Game and Parks Commission**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-33-01 09-33-01 08-33-01 07-33-01	15.605 15.611	Fish and Wildlife Cluster Reporting/Matching	<p>The agency is following established internal accounting policies, which are in accordance with State Accounting. According to State Statute, the State Accounting Administrator develops necessary accounting policies and procedures and approves all proposed financial systems. The State Accounting Administrator has approved Game and Parks' procedures for accounting for reimbursable grants. The transactions are recorded in E1 and payments are generated from E1.</p> <p>The fiscal control and accounting procedures are sufficient to (1) Permit preparation of reports, 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. Since the controls and procedures are sufficient and Game and Parks are following accounting policies, the matter is considered resolved.</p>	Repeated with changes Finding 11-33-01

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

**Nebraska Game and Parks Commission (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-33-02 09-33-02	15.605 15.611	Fish and Wildlife Cluster Suspension & Debarment	The agency re-apprised both the Administrative Services Materiel Division and State Building Division of this finding via email on March 1, 2011, and continues to work internally to ensure that the appropriate suspension and debarment language is included in agency contracts and/or EPLS review is completed. The matter is resolved.	No current finding

**Department of Administrative Services**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-65-02	Various	Various Allowable Costs/Cost Principles	Administrative Services has delivered all information requested by the Auditor of Public Accounts (APA) in the file layouts with the data elements agreed to by both the APA and Administrative Services. No further action is required at this time.	Redacted information was provided No current finding

**Energy Office**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-71-01	81.042	Weatherization Assistance Subrecipient Monitoring	Additional monitoring and reviews have been performed and corrective action has been made to ensure open and free competition in procurement.	No current finding
10-71-02	81.042	Weatherization Assistance Eligibility & Subrecipient Monitoring	Corrective action plan is being followed.	No current finding

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

**Energy Office (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-71-03	81.042	Weatherization Assistance Subrecipient Monitoring	Audit received - corrective action plan in place.	No current finding
10-71-04	81.042	Weatherization Assistance Earmarking	Correcting entry made.	No current finding
10-71-05	81.042	Weatherization Assistance Reporting	Corrective action plan is being followed.	No current finding

**Department of Economic Development**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-72-01	14.255	Community Development Block Grant Subrecipient Monitoring	<p>Department of Economic Development was aware of the CFDA numbering discrepancy noted in the finding. In all fairness, there was ambiguity in information being provided by Federal agencies about proper CFDA number assignments at the early stages of the American Recovery and Reinvestment Act (ARRA). 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.</p> <p>The Department of Economic Development implemented a practice of providing notational information showing the federal award number and the CFDA number on reimbursements provided to CDBG ARRA subrecipients.</p>	No current finding

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

**Department of Environmental Quality**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-84-01	66.040	State Clean Diesel Grant ARRA Allowable Costs/Cost Principles	Completed	Repeated with changes Finding 11-84-06
10-84-02	66.040	State Clean Diesel Grant ARRA Reporting	Completed. Reports have been reviewed. The July 2011 review will be documented.	No current finding
10-84-03	66.458	Capitalization Grants for Clean Water State Revolving Fund Subrecipient Monitoring, Davis-Bacon, Procurement, Suspension & Debarment	Completed	Repeated with changes Finding 11-84-02
10-84-04	66.458	Capitalization Grants for Clean Water State Revolving Fund Reporting	Completed	Repeated with changes Finding 11-84-05
10-84-05	66.458	Capitalization Grants for Clean Water State Revolving Fund Earmarking & Program Income	The EPA Headquarters has committed to provide written documentation to the Nebraska Department of Environment Quality the week of July 11, 2011 that work on a potential SRF projects are part of the administration of the SRF program.	No current finding
10-84-06	66.468	Capitalization Grants for Drinking Water State Revolving Fund Subrecipient Monitoring, Davis-Bacon, Procurement, Suspension & Debarment	Completed	Repeated with changes Finding 11-84-03

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

**Department of Environmental Quality (Concluded)**

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
10-84-07	66.468	Capitalization Grants for Drinking Water State Revolving Fund Reporting	Completed	Repeated with changes Finding 11-84-04
10-84-08	66.468	Capitalization Grants for Drinking Water State Revolving Fund Matching	Completed	No current finding