STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2012

Issued on March 28, 2013

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2012

TABLE OF CONTENTS

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2012

TABLE OF CONTENTS
(Continued)

FINANCIAL SECTION

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
Mike Foley
State Auditor
Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2012, 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, the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associates, the Nebraska Utility Corporation, the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, the Nebraska State College System Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, and the Nebraska State Colleges Facilities Corporation which represent 45% and 43%, respectively, 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 16% of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in the aggregate discretely presented component units and the aggregate remaining fund information for the College Savings Plan is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Nebraska Foundation, the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associates, the Nebraska Utility Corporation, the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, the Nebraska State College System Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, the Nebraska State Colleges Facilities Corporation, 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 on 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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, 2012, and the respective changes in financial position, and where applicable, cash flows 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 January 16, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, the Budgetary Comparison Schedules on pages 51 through 56; and the Information About Infrastructure Assets Reported Using the Modified Approach on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SIGNED ORIGINAL ON FILE

Lincoln, Nebraska	Pat Reding, CPA, CFE
January 16, 2013	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, 2012. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

There were no new Governmental Accounting Standards Board (GASB) statements required to be implemented by The State of Nebraska (State) in 2012.

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, 2012 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, 2012 by $11.5 billion (presented as "net assets" in the CAFR). The majority of the net assets are represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, unrestricted net assets were reported as $1.0 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 2012 resulting in an increase in net assets of $304 million. This increase in net assets was comparable to the increase in 2011 of $470 million.

Fund Level:

General Fund receipts for 2012 were $105 million above the original budgeted amount and above the final budget by $53 million. Expenditures were $253 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $190 million in excess revenues prior to a legislatively mandated property tax relief transfer of $110 million in addition to other financing sources causing an increase in fund balances of $82 million, and thereby increasing the fund balance on June 30, 2012 to $815 million. Other governmental funds revenues exceeded expenditures by $51 million, chiefly due to unrealized market gains. Adding to these operating gains, such other funds received $36 million in net other financing sources. This $87 million net increase resulted in raising such fund balances at June 30, 2012 to $2,201 million.

The $403 million of net assets of the Unemployment Insurance Fund represents 82% of the enterprise funds. Such fund had a $59 million increase in net assets for 2012 compared to a $105 million increase in 2011, a $46 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 $550 million at June 30, 2012, which is a $49 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* (page 15) 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* (pages 16 and 17) 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 over one-fourth of their funding) but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State's only two discretely presented component units. While presented in this report, each of these two units has separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

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

Fund Financial Statements

This is the second set of financial statements presented in the CAFR. These statements are different from the government-wide statements in that some of these statements use a different accounting approach and focus on the near-term inflows and outflows of the State's operations. As previously noted, these Statements are commonly referred to as GAAP Fund Statements, as they are prepared in accordance with generally accepted accounting principles. The Fund Financial Statements (which begin on page 18) 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 (see pages 19 and 21).

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

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

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

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for state employees, county employees and public school employees (see Note 12 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions.

Component Units Financial Statements

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found immediately following the component units' financial statements beginning on page 30.

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 $13,229 million at June 30, 2012 as compared to $12,890 million at June 30, 2011. As total liabilities only totaled $1,711 million, net assets amounted to $11,518 million as of June 30, 2012. As of June 30, 2011, these amounts were $1,676 million and $11,214 million, respectively. By far the largest portion of the State of Nebraska's net assets (70 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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Current and Other Non-current Assets	$ 4,586	$ 4,362	$ 570	$ 511	$ 5,156	$ 4,873
Capital Assets	8,067	8,010	6	7	8,073	8,017
Total Assets	12,653	12,372	576	518	13,229	12,890
Non-current Liabilities	497	428	53	73	550	501
Other Liabilities	1,127	1,148	34	27	1,161	1,175
Total Liabilities	1,624	1,576	87	100	1,711	1,676
Net assets:						
Invested in Capital Assets, Net of Related Debt	8,041	7,983	6	7	8,047	7,990
Restricted	2,082	2,006	406	345	2,488	2,351
Unrestricted	906	807	77	66	983	873
Total Net Assets	$ 11,029	$ 10,796	$ 489	$ 418	$ 11,518	$ 11,214

Over 75% of the State's non-capital assets consist of cash and investments. It should be noted that $190 million in 2012 and $233 million in 2011 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.) Receivables, chiefly from taxes and the federal government, represent 19% of the non-capital assets.

Liabilities largely reflect three groupings which represent 94% 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 $507 million ($514 million in 2011); tax refunds payable of $370 million ($353 million in 2011); 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 $550 million ($501 million in 2011). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling $118 million for 2012 ($137 million for 2011), Medicaid claims for $252 million ($190 million in 2011), and the calculated amount for vested sick leave due employees when they retire and accrued vacation of $139 million in 2012 ($130 million for 2011). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), which totaled $25 million at June 30, 2012 and $15 million of obligations under other financing arrangements (See Note 9 to the Financial Statements). There was also a net pension obligation of $1.2 million (See Note 12 to the Financial Statements).

The $233 million increase in net assets of Governmental Activities, was due to the $58 million increase in the net investment in capital assets, the $76 million increase in restricted net assets, and the $99 million increase in unrestricted net assets. The major cause of the increase was a $279 million increase in taxes collected.

At the end of June 30, 2012, 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 2012, 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	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues						
Charges for Services	$ 581	$ 554	$ 479	$ 579	$ 1,060	$ 1,133
Operating Grants and Contributions	2,647	2,939	-	-	2,647	2,939
Capital Grants and Contributions	16	29	-	-	16	29
General Revenues						
Taxes	4,246	3,967	-	-	4,246	3,967
Unrestricted Investment Earnings	92	214	16	16	108	230
Miscellaneous	-	3	-	-	-	3
Total Revenues	7,582	7,706	495	595	8,077	8,301
EXPENSES						
General Government	461	477	-	-	461	477
Conservation of Natural Resources	151	156	-	-	151	156
Culture - Recreation	25	29	-	-	25	29
Economic Development and Assistance	103	111	-	-	103	111
Education	1,570	1,807	-	-	1,570	1,807
Higher Education - Colleges and Universities	557	561	-	-	557	561
Health and Social Services	3,140	3,069	-	-	3,140	3,069
Public Safety	366	362	-	-	366	362
Regulation of Business and Professions	122	121	-	-	122	121
Transportation	907	697	-	-	907	697
Interest on Long-term Debt	1	1	-	-	1	1
Unemployment Insurance	-	-	262	329	262	329
Lottery	-	-	114	102	114	102
Excess Liability	-	-	1	20	1	20
Cornhusker State Industries	-	-	11	13	11	13
Total Expenses	7,403	7,391	388	464	7,791	7,855
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	179	315	107	131	286	446
Transfers	36	32	(36)	(32)	-	-
Contributions to Permanent Fund Principal	18	24	-	-	18	24
Increase (Decrease) in Net Assets	233	371	71	99	304	470
Net Assets - Beginning	10,796	10,425	418	319	11,214	10,744
Net Assets - Ending	$ 11,029	$ 10,796	$ 489	$ 418	$ 11,518	$ 11,214

Governmental Activities

Governmental activities increased the State's net assets by $233 million in 2012 ($371 million increase in 2011). Governmental activities represent 94% of all the primary government's revenues. Program revenues of governmental activities were $3,244 million and were used to partially offset program expenses of $7,403 million, leaving net expenses of $4,159 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 $4,392 million, were $233 million more than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were up $279 million compared to an increase of $313 million in 2011. Program revenues decreased 8% from 2011, chiefly due to income from operating grants being down $292 million, some of which was due to reduced income from the American Recovery and Reinvestment Act (ARRA). The decrease in grant income resulted in decreased grant designated expenses. Increases in transportation expenses offset the reduced grant related expense, which resulted in the $12 million increase in program expenses. The increase in tax revenue and the increase in transportation expenses were the chief reasons the change in net assets was $138 million lower in 2012 than the $312 million increase recorded in 2011. While the General Fund has more investments than other programs, it maintains safer investments and actually showed an increase in investment income in 2012 over 2011 of $14 million, due to the increased invested balance.

Program expenses, net of revenue, decreased by $138 million in 2012, as shown below:

GOVERNMENTAL ACTIVITIES

(in millions of dollars)

	2012	2011
Program Expenses, Net of Revenue		
General Government	$ (353)	$ (373)
Conservation of Natural Resources	(41)	(28)
Culture - Recreation	2	(8)
Economic Development and Assistance	(29)	(30)
Education	(1,183)	(1,186)
Higher Education - Colleges and University	(557)	(561)
Health and Social Services	(1,326)	(1,166)
Public Safety	(235)	(217)
Regulation of Business and Professions	14	18
Transportation	(450)	(317)
Interest on Long-Term Debt	(1)	(1)
Subtotal	(4,159)	(3,869)
General Revenues		
Taxes	4,246	3,967
Unrestricted Investment Earnings	92	214
Miscellaneous	-	3
Transfers	36	32
Contributions to Permanent Fund Principal	18	24
Increase (Decrease) in Net Assets	$ 233	$ 371

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 down $237 million chiefly due to the decreased aid from ARRA funds. Health and Social Services was up $71 and Transportation expenses were up $210 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 $71 million for 2012, which was net of a $36 million transfer to the governmental activities. Most of the $479 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 $48 million in 2012. This gain, when combined with the $11 million in investment income, produced a $59 million increase in net assets for the Unemployment Insurance Fund. Lottery revenues of $151 million generated net revenue of $37 million, which was offset by the $36 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, 2012, the State's Governmental Funds reported combined ending fund balances of $3,016 million. Of this amount, $492 million is nonspendable, either due to its form or legal constraints, and $1,600 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 $457 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 $37 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining $430 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 $361 million. However, such refunds payable are $8 million less than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by $807 million.

On June 30, 2011, the General Fund had a positive fund balance of $733 million. Expenditures increased $163 million and revenues increased by $286 million in 2012. This $123 million increase was less than the $155 million increase that occurred in 2011, resulting in an operating increase of the fund balance of $80 million in 2012. This operating increase in 2012 caused the General Fund balance to increase by $82 million, ending with a fund balance of $815 million.

Revenues in 2012, significantly more than anticipated, were up $286 million over 2011 chiefly due to an increase in income tax revenue of $180 million (a 10% increase) over 2011, an increase in sales and use tax revenue of $75 million (a 5% increase) over 2011, and an increase in investment income of $14 million (a 60% increase) over 2011. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending. A net increase in expenditures was caused chiefly in three areas. Health and Social Services expenditures increased $157 million and Public Safety expenditures increased $17 million. These increases were offset by a decrease in General Government expenditures of $12 million.

To compensate for any downturns in revenues, the State has maintained a budgetary basis Cash Reserve Fund. While this Cash Reserve Fund is commingled with General Fund cash in the General Fund financial statements, it is separate and distinct in that, by State Statute, it can only be used (1) when the cash balance of the General Fund is insufficient to meet General Fund current obligations and (2) for legislatively mandated transfers to other funds. Any money transferred in accordance with item one above must be repaid as soon as there is sufficient cash in the General Fund cash account to do so. No such need existed in 2012.

The Cash Reserve Fund was at $467 million at the beginning of 2011. In 2011 there was a statutory transfer from the Fund to the General Fund of $154 million, leaving a Cash Reserve Fund balance at June 30, 2011 of $313 million. In 2012 there was a statutory transfer from the Fund to the General Fund of $37 million, other net transfers in of $144 million, and revenues of $9 million leaving a Fund balance of $429 million at June 30, 2012. The Cash Reserve Fund is reflected as committed to economic stabilization on the governmental funds balance sheet.

Other Governmental Funds

Other governmental fund balances totaled $2,201 million at June 30, 2012. Of this amount, $491 million is nonspendable, either due to its form or legal constraints, and $1,600 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $73 million of total fund balance has been committed to specific purposes. The remaining $37 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 $723 million. The non-major special revenue fund balances totaled $790 million.

Governmental funds other than the General Fund saw an increase in fund balances of $87 million. The fund balances of the following funds increased: the Highway Fund ($49 million), the Permanent School Fund ($17 million), and the other Nonmajor Funds ($41 million.) The Health and Social Service Fund decreased by $20 million and the Federal Fund had a slight increase.

The Highway Fund had a $15 million increase in sales and use taxes, a $71 million increase in federal grants revenue and a $107 million increase in operating expenses. These increases are why the Highway Fund had a $49 million increase in its fund balance in 2012 as opposed to a $52 million increase in 2011.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2012 there was a decrease in federal grants and contracts of $375 million due to the end of the ARRA program, investment income increased $2 million and other revenue decreased $2 million. Expenditures in 2012 decreased by $235 million for Education, $7 million for Conservation of Natural Resources, $11 million for Economic Development and Assistance, $104 million for Health and Social Services, and $12 million for Public Safety. Revenues exceeded expenditures by $6 million before transfers. Transfers out decreased $7 million in 2012 compared to a decrease of $31 million in 2011. At the end of 2012 there was a net increase in the fund of less than $1 million, compared to a $7 million decrease in 2011.

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 $75 million decrease in investment income in 2012 (chiefly unrealized losses in the market value of investments) compared to a $38 million increase in 2011, which was the main reason there was a $20 million decrease in fund balance in 2012, as opposed to a $54 million increase in 2011.

The Permanent School Fund had a $72 million decrease in revenue, chiefly due to a $66 million decrease in investment income caused by unrealized losses in the market value of investments in 2012, as opposed to a $27 million investment income increase in 2011 (when compared to 2010). Expenditures decreased $3 million in 2012. There was a $17 million increase in fund balance in 2012, as opposed to an $86 million increase in 2011, a change of $69 million.

The Nonmajor Funds revenues remained about the same between 2011 and 2012. Expenditures had a $17 million decrease in General Government and an $11 million increase in Capital Projects. There were $25 million in net transfers in for the Nonmajor Funds in 2012 versus $30 million in net transfers out for 2011. As a result, the fund balances increased $41 million in 2012 as opposed to a $13 million decrease in 2011.

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 $403 million at the end of 2012. This fund's net assets increased $59 million in 2012, because business assessment fees exceeded unemployment claims paid out by $55 million, which was offset by investment earnings of $11 million. Other proprietary or enterprise funds, the Lottery Fund, the Excess Liability Fund (the fund established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (an operation that utilizes incarcerated persons to manufacture and sell items) had combined income of $47 million prior to a $36 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 income of $5 million and earned $5 million in investment earnings for a net asset increase of $10 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net assets increased $3 million to $9,610 million in 2012 due to a flat market in 2012. Interest and dividend income in 2012 was $129 million versus $138 million in 2011. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $82 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $313 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 2012 the State continued 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 2012 by $133 million over 2011 net tax revenue of $3,368 million. Because revenues continued to show an increasing trend during 2012, the State's Forecasting Board made three new forecasts throughout the year. At the end, the forecasted net tax revenues were $52 million above the original forecast. However, that increased forecast was still less than actual tax revenues of $3,606 million by $53 million, leaving the State with actual tax revenues, net of refunds, of $105 million above the original budget on a budgetary basis. Even though tax revenues were starting to increase, they were slightly above pre-recession tax revenues of 2008. To offset this revenue, agencies continued to watch their General Fund expenditures and spent $269 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, caused the State to finish 2012 with General Fund revenues of $219 million more than expenditures on a budgetary basis, prior to net transfers out. There was a net $108 million transferred out for specific purposes, causing the fund balance on a budgetary basis to increase from $813 million to $924 million in 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the State had invested $8.1 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 2012 totaled $62 million, compared to $50 million for 2011.

CAPITAL ASSETS AS OF JUNE 30

(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Land	$ 558	$ 553	$ -	$ -	$ 558	$ 553
Buildings and Equipment	415	401	6	7	421	408
Infrastructure	7,012	6,986	-	-	7,012	6,986
Subtotal	7,985	7,940	6	7	7,991	7,947
Construction in Progress	82	70	-	-	82	70
Total	$ 8,067	$ 8,010	$ 6	$ 7	$ 8,073	$ 8,017

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 2011, indicated an overall system rating of 80, a rating that has been very consistent over the past six years.

For 2012, it was estimated that the State needed to spend $288 million to preserve and maintain the roads at the abovementioned level. The State actually spent $278 million on roads in 2012, compared to $218 million in 2011. For 2013, it is estimated that the State needs to spend $313 million, an increase from actual 2012 and an increase from the average of the previous five years.

The State also spent $30 million on capitalized infrastructure and land purchases relating to roads in 2012 ($139 million in 2011), most notably reconstructing (a) Interstate 80 between Omaha and Lincoln, (b) I-80 eastbound bridge over the Missouri River, (c) I-80 10th Street Bridge to Missouri River in Omaha, and (d) US-75 South of Bellevue. Major land purchases included land purchased near four State highways. At June 30, 2012, the State had contractual commitments of $734 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1.J and 4 to the financial statements.) These commitments are $172 million more than at June 30, 2011 as a result of new highway construction and repair work being financed by the federal government.

During 2012, the State added $82 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 4 to the financial statements.

Long-Term Debt

Long-term debt related to capital assets is minimal for reasons previously stated. For further detail and analysis of long-term debt, see Notes 8 and 13 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2012	2011
Capitalized Leases:	$ 25	$ 27

There were no new bonds issued or outstanding in 2012 or 2011. Two new capitalized leases were added in 2012 (two leases were added in 2011). 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 AAA rating for the State as a whole, and affirmed this rating in December 2012.

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 2013 are currently projected to exceed actual 2012 revenues by $129 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, which earmarks 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 increased participation in the Medicaid program 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, 2012, this Fund had a $429 million balance. A transfer of $105 million was made from the General Fund in July 2012 as statutorily required. From the Cash Reserve Fund there were $75 million of other statutory disbursements, resulting in a balance of $458 million at November 30, 2012. Future significant statutory disbursements from this fund in the next year include $78 million to be transferred to the General Fund. With the improved revenue forecast, the State currently projects an additional $58 million transfer into the Cash Reserve Fund in July 2013.

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, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2111 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, Box 94605, Lincoln, NE 68509-4605, (402) 471-2505 or online at http://www.nscs.edu/.

State of Nebraska

STATEMENT OF NET ASSETS

June 30, 2012

(Dollars in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 236,554	$ 368,507	$ 605,061	$ 558,944
Receivables, net of allowance				
Taxes	421,874	-	421,874	-
Due from Federal Government	315,909	-	315,909	-
Other	190,294	63,673	253,967	340,975
Internal Balances	(533)	533	-	-
Due from Primary Government	-	-	-	617
Investments	2,930,112	123,138	3,053,250	1,778,527
Loans Receivable	280,010	-	280,010	35,694
Investment in Joint Venture	-	-	-	282,013
Other Assets	16,318	3,696	20,014	52,138
Restricted Assets:				
Cash and Cash Equivalents	13,941	-	13,941	362,440
Other	-	2,381	2,381	33,572
Securities Lending Collateral	182,391	7,225	189,616	-
Capital assets:				
Land	557,614	315	557,929	76,255
Infrastructure	7,011,809	-	7,011,809	-
Construction in Progress	82,074	-	82,074	139,629
Land Improvements	-	-	-	186,297
Buildings and Equipment	1,020,548	12,991	1,033,539	2,531,703
Less Accumulated Depreciation	(605,537)	(6,927)	(612,464)	(912,397)
Total Capital Assets, net of depreciation	8,066,508	6,379	8,072,887	2,021,487
Total Assets	$ 12,653,378	$ 575,532	$ 13,228,910	$ 5,466,407
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 483,466	$ 23,515	$ 506,981	$ 168,240
Tax Refunds Payable	370,233	-	370,233	-
Due to Other Governments	23,375	-	23,375	-
Deposits	10,048	-	10,048	14,233
Due to Component Units	617	-	617	-
Unearned Revenue	57,076	2,579	59,655	120,974
Obligations under Securities Lending	182,391	7,225	189,616	-
Noncurrent Liabilities:				
Due within one year	294,843	32,565	327,408	111,578
Due in more than one year	202,529	20,872	223,401	700,479
Total Liabilities	$ 1,624,578	$ 86,756	$ 1,711,334	$ 1,115,504
NET ASSETS				
Invested in Capital Assets, net of related debt	$ 8,041,150	$ 6,379	$ 8,047,529	$ 1,193,428
Restricted for:				
Education	19,645	-	19,645	1,630,571
Health and Social Services	469,339	-	469,339	-
Conservation of Natural Resources	506,970	-	506,970	-
Transportation	262,330	-	262,330	-
Licensing and Regulation	77,753	-	77,753	-
Other Purposes	121,173	2,381	123,554	277,725
Unemployment Insurance Benefits	-	402,754	402,754	-
Debt Service and Construction	10,703	-	10,703	353,227
Permanent Trusts:				
Nonexpendable	478,849	-	478,849	-
Expendable	135,385	-	135,385	-
Unrestricted	905,503	77,262	982,765	895,952
Total Net Assets	$ 11,028,800	$ 488,776	$ 11,517,576	$ 4,350,903

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

(Dollars in Thousands)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	$ 460,612	$ 95,899	$ 10,931	$ 334
Conservation of Natural Resources	151,318	32,804	76,650	618
Culture – Recreation	24,752	22,984	3,879	-
Economic Development and Assistance	102,839	4,126	69,884	-
Education	1,570,235	36,831	350,349	-
Higher Education - Colleges and University	557,162	-	-	-
Health and Social Services	3,139,786	120,745	1,693,494	-
Public Safety	366,084	26,322	91,119	14,837
Regulation of Business and Professions	122,211	131,312	4,458	-
Transportation	907,173	110,842	346,061	-
Interest on Long-term Debt	1,204	-	-	-
Total governmental activities	7,403,376	581,865	2,646,825	15,789
Business-type activities:				
Unemployment Insurance	261,750	310,188	-	-
Lottery	113,935	150,612	-	-
Excess Liability	672	5,509	-	-
Cornhusker State Industries	11,621	12,053	-	-
Total business-type activities	387,978	478,362	-	-
Total Primary Government	$ 7,791,354	$ 1,060,227	$ 2,646,825	$ 15,789
COMPONENT UNITS:				
University of Nebraska	$ 1,826,480	$ 885,258	$ 327,802	$ 9,940
State Colleges	103,403	38,488	16,179	2,097
Total Component Units	$ 1,929,883	$ 923,746	$ 343,981	$ 12,037

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

Net Assets - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (353,448)	$ -	$ (353,448)	$ -
(41,246)	-	(41,246)	-
2,111	-	2,111	-
(28,829)	-	(28,829)	-
(1,183,055)	-	(1,183,055)	-
(557,162)	-	(557,162)	-
(1,325,547)	-	(1,325,547)	-
(233,806)	-	(233,806)	-
13,559	-	13,559	-
(450,270)	-	(450,270)	-
(1,204)	-	(1,204)	-
(4,158,897)	-	(4,158,897)	-
-	48,438	48,438	-
-	36,677	36,677	-
-	4,837	4,837	-
-	432	432	-
-	90,384	90,384	-
(4,158,897)	90,384	(4,068,513)	-
-	-	-	(603,480)
-	-	-	(46,639)
-	-	-	(650,119)
2,064,233	-	2,064,233	-
1,638,610	-	1,638,610	-
322,284	-	322,284	-
136,825	-	136,825	-
73,849	-	73,849	-
9,818	-	9,818	-
92,037	16,237	108,274	63,039
-	-	-	222,098
-	-	-	557,162
17,719	-	17,719	-
36,075	(36,075)	-	-
4,391,450	(19,838)	4,371,612	842,299
232,553	70,546	303,099	192,180
10,796,247	418,230	11,214,477	4,158,723
$ 11,028,800	$ 488,776	$ 11,517,576	$ 4,350,903

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

State of Nebraska

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	$ 34,074	$ 7,632	$ 2,688	$ 2,354	$ 4,291	$ 31,265	$ 82,304
Cash on Deposit with Fiscal Agents	-	-	-	-	-	13,941	13,941
Investments	964,295	232,260	87,394	439,628	578,552	627,983	2,930,112
Securities Lending Collateral	62,719	15,106	6,142	26,344	31,861	40,219	182,391
Receivables, net of allowance							
Taxes	368,445	52,596	-	-	-	833	421,874
Due from Federal Government	3	49,101	265,565	-	-	1,240	315,909
Loans	-	-	12,166	165	-	267,679	280,010
Other	37,516	9,831	41,455	33,752	49,778	13,666	185,998
Due from Other Funds	60,962	572	227	1,626	-	3,393	66,780
Inventories	945	8,885	2,087	332	-	628	12,877
Prepaid Items	8	8	4	-	-	135	155
Other	492	-	-	-	-	1,149	1,641
TOTAL ASSETS	$ 1,529,459	$ 375,991	$ 417,728	$ 504,201	$ 664,482	$ 1,002,131	$ 4,493,992
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	$ 87,315	$ 75,747	$ 155,552	7,267	63,303	35,853	425,037
Tax Refunds Payable	360,733	9,473	-	-	-	27	370,233
Due to Other Governments	10,878	11,325	-	-	-	1,172	23,375
Deposits	493	1,007	5,976	266	239	2,067	10,048
Due to Other Funds	35,624	1,161	68,575	506	9	7,030	112,905
Due to Component Units	617	-	-	-	-	-	617
Obligations under Securities Lending	62,719	15,106	6,142	26,344	31,861	40,219	182,391
Claims Payable	122,480	-	125,935	-	-	-	248,415
Deferred Revenue	33,802	-	46,346	18,548	6,559	-	105,255
TOTAL LIABILITIES	714,661	113,819	408,526	52,931	101,971	86,368	1,478,276
FUND BALANCES:							
Nonspendable:							
Inventories and Prepaid Items	953	8,893	2,091	332	-	763	13,032
Endowment Principal	-	-	-	-	459,334	19,515	478,849
Restricted for:							
Education	-	-	-	-	103,177	22,230	125,407
Health and Social Services	-	-	-	450,297	-	29,335	479,632
Conservation of Natural Resources	-	-	-	-	-	506,970	506,970
Transportation	-	253,279	-	-	-	9,837	263,116
Licensing and Regulation	-	-	-	-	-	77,753	77,753
Economic Development	-	-	-	-	-	33,351	33,351
Public Safety	-	-	-	-	-	33,527	33,527
Culture – Recreation	-	-	-	-	-	18,992	18,992
Other Purposes	-	-	7,111	-	-	43,069	50,180
Debt Service	-	-	-	-	-	10,703	10,703
Committed to:							
Economic Stabilization	383,379	-	-	-	-	-	383,379
Other Purposes	-	-	-	-	-	73,327	73,327
Assigned to:							
Education	-	-	-	-	-	103	103
Health and Social Services	-	-	-	641	-	-	641
Conservation of Natural Resources	-	-	-	-	-	64	64
Licensing and Regulation	-	-	-	-	-	34,112	34,112
Economic Development	-	-	-	-	-	55	55
Culture – Recreation	-	-	-	-	-	64	64
Other Purposes	-	-	-	-	-	1,993	1,993
Unassigned	430,466	-	-	-	-	-	430,466
TOTAL FUND BALANCES	814,798	262,172	9,202	451,270	562,511	915,763	3,015,716
TOTAL LIABILITIES AND FUND BALANCES	$ 1,529,459	$ 375,991	$ 417,728	$ 504,201	$ 664,482	$ 1,002,131	$ 4,493,992

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, 2012

(Dollars in Thousands)

Total fund balances for governmental funds		$ 3,015,716
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	557,614	
Infrastructure	7,011,809	
Construction in progress	82,074	
Other capital assets	938,244	
Accumulated depreciation	(550,351)	8,039,390
Certain tax revenues and charges are earned but not available and therefore are deferred in the funds.		49,021
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.		81,283
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	(3,437)	
Obligations under other financing arrangements	(14,860)	
Compensated absences	(133,127)	
Net pension obligation	(1,170)	
Claims and judgments	(4,016)	(156,610)
Net assets of governmental activities		$ 11,028,800

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, 2012

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	$ 2,062,125	$ -	$ -	$ 1,197	$ -	$ -	$ 2,063,322
Sales and Use Taxes	1,446,594	183,702	-	-	-	4,050	1,634,346
Petroleum Taxes	-	309,261	-	-	5,011	13,023	327,295
Excise Taxes	73,687	-	-	7,297	-	55,841	136,825
Business and Franchise Taxes	57,412	-	-	-	-	16,437	73,849
Other Taxes	1,147	2,824	-	-	-	5,847	9,818
Federal Grants and Contracts	842	323,654	2,296,301	133	-	41,675	2,662,605
Licenses, Fees and Permits	19,687	87,535	602	55,677	1,411	130,374	295,286
Charges for Services	2,258	20,792	22,316	25,302	-	31,965	102,633
Investment Income	37,275	7,658	3,582	(692)	17,782	22,343	87,948
Rents and Royalties	-	467	16	431	34,686	22,238	57,838
Surcharge	-	-	-	-	-	52,743	52,743
Other	12,144	2,726	1,695	13,697	11,636	30,332	72,230
TOTAL REVENUES	3,713,171	938,619	2,324,512	103,042	70,526	426,868	7,576,738
EXPENDITURES:							
Current:							
General Government	344,034	-	6,502	-	-	69,607	420,143
Conservation of Natural Resources	32,066	-	60,777	-	-	58,127	150,970
Culture – Recreation	5,408	-	2,973	-	-	20,053	28,434
Economic Development and Assistance	7,997	-	70,817	-	-	24,088	102,902
Education	1,158,746	-	350,370	-	53,400	19,440	1,581,956
Higher Education - Colleges and University	544,496	-	-	-	-	12,666	557,162
Health and Social Services	1,297,406	-	1,718,717	120,743	-	2,176	3,139,042
Public Safety	239,005	-	103,732	-	-	36,245	378,982
Regulation of Business and Professions	3,569	-	4,264	-	-	114,192	122,025
Transportation	-	907,565	406	-	-	24,474	932,445
Capital Projects	-	-	-	-	-	28,123	28,123
Debt Service:							
Principal	-	-	-	-	-	2,865	2,865
Interest	-	-	-	-	-	684	684
TOTAL EXPENDITURES	3,632,727	907,565	2,318,558	120,743	53,400	412,740	7,445,733
Excess (Deficiency) of Revenues Over (Under) Expenditures	80,444	31,054	5,954	(17,701)	17,126	14,128	131,005
OTHER FINANCING SOURCES (USES):							
Transfers In	48,117	24,292	-	906	-	97,358	170,673
Transfers Out	(47,210)	(6,560)	(5,400)	(3,400)	-	(72,028)	(134,598)
Proceeds from Other Financing Arrangements	-	-	-	-	-	1,505	1,505
TOTAL OTHER FINANCING SOURCES (USES)	907	17,732	(5,400)	(2,494)	-	26,835	37,580
Net Change in Fund Balances	81,351	48,786	554	(20,195)	17,126	40,963	168,585
FUND BALANCES, JULY 1	733,447	213,386	8,648	471,465	545,385	874,800	2,847,131
FUND BALANCES, JUNE 30	$ 814,798	$ 262,172	$ 9,202	$ 451,270	$ 562,511	$ 915,763	$ 3,015,716

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, 2012

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ 168,585
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	116,257	
Capital assets sold	(5,656)	
Depreciation expense	(52,922)	57,679
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	(1,505)	(1,505)
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	2,865	
Capital lease payments	2,392	5,257
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.		6,902
Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Unearned revenues decreased by this amount this year.		5,156
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	(8,882)	
Increase in net pension obligation	(1,170)	
Decrease in claims and judgments	531	(9,521)
Change in net assets of governmental activities		$ 232,553

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

State of Nebraska

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	$ 331,670	$ 36,837	$ 368,507	$ 154,919
Receivables, net of allowance	45,157	18,516	63,673	4,231
Due from Other Funds	-	637	637	16,433
Inventories	-	3,103	3,103	433
Prepaid Items	-	100	100	1,212
Other	-	493	493	-
TOTAL CURRENT ASSETS	376,827	59,686	436,513	177,228
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	2,381	2,381	-
Long-Term Investments	53,751	69,387	123,138	-
Securities Lending Collateral	3,496	3,729	7,225	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	761	12,230	12,991	82,304
Less Accumulated Depreciation	(674)	(6,253)	(6,927)	(55,186)
Total Capital Assets, net	87	6,292	6,379	27,118
TOTAL NONCURRENT ASSETS	57,334	81,789	139,123	27,118
TOTAL ASSETS	$ 434,161	$ 141,475	$ 575,636	$ 204,346
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	$ 1,024	$ 22,491	$ 23,515	$ 29,066
Due to Other Funds	-	104	104	808
Capital Lease Obligations	-	-	-	5,247
Claims, Judgments and Compensated Absences	26,794	5,771	32,565	27,827
Unearned Revenue	-	2,579	2,579	842
TOTAL CURRENT LIABILITIES	27,818	30,945	58,763	63,790
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	16,674
Claims, Judgments and Compensated Absences	6	20,866	20,872	42,599
Obligations under Securities Lending	3,496	3,729	7,225	-
TOTAL NONCURRENT LIABILITIES	3,502	24,595	28,097	59,273
TOTAL LIABILITIES	31,320	55,540	86,860	123,063
NET ASSETS:				
Invested in Capital Assets, net of related debt	87	6,292	6,379	5,197
Restricted for:				
Lottery Prizes, Noncurrent	-	2,381	2,381	-
Unemployment Insurance Benefits	402,754	-	402,754	-
Unrestricted	-	77,262	77,262	76,086
TOTAL NET ASSETS	402,841	85,935	488,776	81,283
TOTAL LIABILITIES AND NET ASSETS	$ 434,161	$ 141,475	$ 575,636	$ 204,346

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, 2012

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES:				
Charges for Services	$ 310,188	$ 168,174	$ 478,362	$ 360,027
Other	-	-	-	1,206
TOTAL OPERATING REVENUES	310,188	168,174	478,362	361,233
OPERATING EXPENSES:				
Personal Services	2,202	5,899	8,101	36,431
Services and Supplies	4,298	32,062	36,360	116,059
Lottery Prizes	-	87,393	87,393	-
Unemployment Claims	255,176	-	255,176	-
Insurance Claims	-	396	396	197,160
Depreciation	74	456	530	8,071
TOTAL OPERATING EXPENSES	261,750	126,206	387,956	357,721
Operating Income (Loss)	48,438	41,968	90,406	3,512
NONOPERATING REVENUES (EXPENSES):				
Investment Income	10,758	5,479	16,237	4,089
Gain (Loss) on Sale of Capital Assets	-	(22)	(22)	(291)
Other	-	-	-	(408)
TOTAL NONOPERATING REVENUES (EXPENSES)	10,758	5,457	16,215	3,390
Income (Loss) Before Transfers	59,196	47,425	106,621	6,902
Transfers Out	-	(36,075)	(36,075)	-
Change in Net Assets	59,196	11,350	70,546	6,902
NET ASSETS, JULY 1	343,645	74,585	418,230	74,381
NET ASSETS, JUNE 30	$ 402,841	$ 85,935	$ 488,776	$ 81,283

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, 2012

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	$ 317,208	$ 156,913	$ 474,121	$ 20,560
Cash Received from Interfund Charges	-	10,816	10,816	336,728
Cash Paid to Employees	(2,216)	(5,923)	(8,139)	(36,199)
Cash Paid to Suppliers	(4,301)	(33,152)	(37,453)	(104,070)
Cash Paid for Lottery Prizes	-	(86,393)	(86,393)	-
Cash Paid for Insurance Claims	(265,854)	(9,170)	(275,024)	(198,474)
Cash Paid for Interfund Services	(6)	(1,137)	(1,143)	(9,512)
NET CASH FLOWS FROM OPERATING ACTIVITIES	44,831	31,954	76,785	9,033
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(36,075)	(36,075)	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	(36,075)	(36,075)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(127)	(127)	(3,701)
Proceeds from Sale of Capital Assets	-	5	5	1,804
Principal Paid on Capital Leases	-	-	-	(4,723)
Interest Paid on Capital Leases	-	-	-	(408)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	(122)	(122)	(7,028)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(117,425)	(117,425)	-
Proceeds from Sale of Investment Securities	841	118,599	119,440	-
Interest and Dividend Income	10,768	3,193	13,961	4,081
NET CASH FLOWS FROM INVESTING ACTIVITIES	11,609	4,367	15,976	4,081
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,440	124	56,564	6,086
CASH AND CASH EQUIVALENTS, JULY 1	275,230	36,713	311,943	148,833
CASH AND CASH EQUIVALENTS, JUNE 30	$ 331,670	$ 36,837	$ 368,507	$ 154,919

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, 2012

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 48,438	$ 41,968	$ 90,406	$ 3,512
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	74	456	530	8,071
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	6,873	(859)	6,014	(2,171)
(Increase) Decrease in Due from Other Funds	-	618	618	2,431
(Increase) Decrease in Inventories	-	(482)	(482)	(8)
(Increase) Decrease in Prepaid Items	-	482	482	(8)
(Increase) Decrease in Long-Term Deposits	-	(479)	(479)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	162	(629)	(467)	3,562
Increase (Decrease) in Due to Other Funds	(3)	5	2	(5,401)
Increase (Decrease) in Claims Payable	(10,713)	(8,774)	(19,487)	(1,314)
Increase (Decrease) in Unearned Revenue	-	(352)	(352)	359
Total Adjustments	(3,607)	(10,014)	(13,621)	5,521
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 44,831	$ 31,954	$ 76,785	$ 9,033

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments. The following noncash transactions occurred during the year:

	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Capital Assets acquired through Capital Leases	$ -	$ -	$ -	$ 5,165
Change in Fair Value of Investments	-	2,384	2,384	-
Total Noncash Transactions	$ -	$ 2,384	$ 2,384	$ 5,165

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

State of Nebraska

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 3,448	$ 20,217	$ 91,316
Investments:			
U.S. Treasury Notes and Bonds	252,619	-	-
U.S. Treasury Bills	7,286	-	-
Government Agency Securities	21,782	-	-
Corporate Bonds	608,572	-	-
International Bonds	173,548	-	-
Equity Securities	1,347,932	-	-
Private Equity	346,126	-	-
Options	(565)	-	-
Mortgages	565,252	-	-
Private Real Estate	244,282	-	-
Asset Backed Securities	59,497	-	-
Municipal Bonds	42,876	-	-
Commingled Funds	5,698,552	2,474,940	-
Guaranteed Investment Contracts	117,990	-	-
Short Term Investments	189,458	497	-
Total Investments	9,675,207	2,475,437	-
Securities Lending Collateral	391,719	-	-
Receivables:			
Contributions	24,577	-	-
Interest and Dividends	16,300	536	474
Other	530,838	2	480
Total Receivables	571,715	538	954
Due from Other Funds	30,032	-	-
Capital Assets:			
Buildings and Equipment	23,075	-	-
Less Accumulated Depreciation	(22,981)	-	-
Total Capital Assets, net	94	-	-
Other Assets	-	15,921	-
TOTAL ASSETS	$ 10,672,215	$ 2,512,113	$ 92,270
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 669,985	$ 2,170	$ 18,989
Due to Other Governments	-	-	49,202
Deposits	-	800	-
Due to Other Funds	57	8	-
Obligations under Securities Lending	391,719	-	-
Accrued Compensated Absences	297	-	-
Other Liabilities	-	-	24,079
TOTAL LIABILITIES	$ 1,062,058	$ 2,978	$ 92,270
NET ASSETS			
Held in Trust for:			
Pension Benefits	$ 9,610,157	$ -	$ -
College Savings Plan	-	2,473,998	-
Other Purposes	-	35,137	-
TOTAL NET ASSETS	$ 9,610,157	$ 2,509,135	$ -

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, 2012

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	$ 207,048	$ 313,368
Client Contributions	-	140
State Contributions	100,891	-
Political Subdivision Contributions	145,582	-
Court Fees	3,490	-
Total Contributions	457,011	313,508
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(24,854)	(5,472)
Interest and Dividend Income	129,010	3,751
Securities Lending Income	2,956	-
Total Investment Income	107,112	(1,721)
Investment Expenses	21,377	12,275
Securities Lending Expenses	656	-
Total Investment Expense	22,033	12,275
Net Investment Income	85,079	(13,996)
Escheat Revenue	-	7,566
Other Additions	63	5,724
TOTAL ADDITIONS	542,153	312,802
DEDUCTIONS:		
Benefits	514,440	217,663
Refunds	12,354	-
Amounts Distributed to Outside Parties	-	12,664
Administrative Expenses	6,591	2,063
Other Deductions	5,669	-
TOTAL DEDUCTIONS	539,054	232,390
Change in Net Assets Held in Trust for:		
Pension Benefits	3,099	-
College Savings Plan	-	81,215
Other Purposes	-	(803)
NET ASSETS-BEGINNING OF YEAR	9,607,058	2,428,723
NET ASSETS-END OF YEAR	$ 9,610,157	$ 2,509,135

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

State of Nebraska

STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2012

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 531,448	$ 27,496	$ 558,944
Receivables, net of allowance			
Loans	33,262	2,432	35,694
Other	337,458	3,517	340,975
Due from Primary Government	-	617	617
Investments	1,741,045	37,482	1,778,527
Investment in Joint Venture	282,013	-	282,013
Other Assets	48,027	4,111	52,138
Restricted Assets:			
Cash and Cash Equivalents	322,527	39,913	362,440
Investments Held by Trustee	33,572	-	33,572
Capital assets:			
Land	74,862	1,393	76,255
Land Improvements	159,630	26,667	186,297
Construction in Progress	118,823	20,806	139,629
Buildings and Equipment	2,345,844	185,859	2,531,703
Less Accumulated Depreciation	(837,218)	(75,179)	(912,397)
Total Capital Assets, net of depreciation	1,861,941	159,546	2,021,487
Total Assets	$ 5,191,293	$ 275,114	$ 5,466,407
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 158,892	$ 9,348	$ 168,240
Deposits	14,029	204	14,233
Deferred Revenue	120,726	248	120,974
Noncurrent Liabilities:			
Due within one year	99,856	11,722	111,578
Due in more than one year	659,151	41,328	700,479
Total Liabilities	$ 1,052,654	$ 62,850	$ 1,115,504
NET ASSETS			
Invested in Capital Assets, net of related debt	$ 1,066,258	$ 127,170	$ 1,193,428
Restricted for:			
Education	1,630,571	-	1,630,571
Other Purposes	234,999	42,726	277,725
Construction and Debt Service	320,784	32,443	353,227
Unrestricted	886,027	9,925	895,952
Total Net Assets	$ 4,138,639	$ 212,264	$ 4,350,903

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, 2012

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	$ 1,140,520	$ 58,977	$ 1,199,497
Supplies and materials	260,324	12,192	272,516
Contractual services	124,265	3,755	128,020
Repairs and maintenance	62,366	1,853	64,219
Utilities	34,984	3,760	38,744
Communications	14,377	758	15,135
Depreciation	105,200	6,604	111,804
Scholarships and fellowships	67,820	5,618	73,438
Other	16,624	9,886	26,510
Total Operating Expenses	1,826,480	103,403	1,929,883
Program Revenues:			
Charges for Services	885,258	38,488	923,746
Operating Grants and Contributions	327,802	16,179	343,981
Capital Grants and Contributions	9,940	2,097	12,037
Total Program Revenues	1,223,000	56,764	1,279,764
Net (Expense) Revenue	(603,480)	(46,639)	(650,119)
General Revenue:			
Interest and investment earnings	60,946	2,093	63,039
Miscellaneous	217,960	4,138	222,098
Payments from the State of Nebraska	506,708	50,454	557,162
Total General Revenues	785,614	56,685	842,299
Change in Net Assets	182,134	10,046	192,180
Net Assets - Beginning	3,956,505	202,218	4,158,723
Net Assets - Ending	$ 4,138,639	$ 212,264	$ 4,350,903

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

1. Summary of Significant Accounting Policies

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

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

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

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

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 $2,487,282 of restricted net assets, of which $1,466,749 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 pronouncements issued on or before November 30, 1989 but not after, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. **Cash and Cash Equivalents.** In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2012, 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 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 more than one year 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 by passing a legislative bill), 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 considers restricted balances to have been spent when both restricted and unrestricted fund balance is available.

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, 2012 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, 2012, the carrying amounts of the State's deposits were $35,590 and the bank balances were $85,683. 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 $22,116 at June 30, 2012.

State of Nebraska (dollars expressed in thousands)

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, 2011. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2012.

The primary government's investments at June 30, 2012 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, 2012

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	$ 767,311	4.71	$ 252,619	7.25
U.S. Treasury Bills	7,666	0.80	7,286	0.55
Government Agency Securities	935,989	2.31	21,782	5.58
Corporate Bonds	1,186,990	4.15	608,572	4.73
International Bonds	4,683	5.51	173,548	8.63
Mortgages	79,109	2.77	565,252	3.64
Asset Backed Securities	1,716	2.62	59,497	4.77
Commingled Funds	150,881	4.40	886,431	4.30
Municipal Bonds	9,351	12.00	42,876	11.50
Guaranteed Investment Contracts	7,254	2.75	117,990	2.75
Short Term Investments	202,550	0.27	189,955	0.09
	3,353,500		2,925,808	
Other Investments				
Equity Securities	63,963		1,347,932	
Private Equity	35,244		346,126	
Commingled Funds	603,466		7,287,061	
Options	(140)		(565)	
Private Real Estate	16,556		244,282	
U.S. Treasury Investment Pool	325,522		-	
Less: Component Unit Investment in State Investment Pool	(646,468)		-	
Total Investments	3,751,643		12,150,644	
Securities Lending Short-term Collateral Investment Pool	189,616		391,719	
Total	$ 3,941,259		$ 12,542,363	

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, 2012 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.

State of Nebraska (dollars expressed in thousands)

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES INVESTMENTS AT JUNE 30, 2012

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 935,989	$ -	$ 884,549	$ -	$ -	$ -	$ -	$ 51,440
Corporate Bonds	1,186,990	84,443	315,815	691,223	70,372	6,823	4,641	13,673
International Bonds	4,683	1,789	967	445	1,356	126	-	-
Mortgages	79,109	6,794	61,990	3,400	961	308	474	5,182
Asset Backed Securities	1,716	17	1,182	16	149	-	352	-
Commingled Funds	150,881	-	-	-	-	-	-	150,881
Short Term Investments	202,550	-	-	3,081	-	-	-	199,469
Municipal Bonds	9,351	1,184	2,734	4,461	-	819	153	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2012

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 21,953	$ 331	$ 14,024	$ 5,374	$ -	$ -	$ 489	$ 1,735
Corporate Bonds	618,563	56,972	63,495	206,404	131,243	74,678	62,345	23,426
International Bonds	186,919	89,874	31,980	33,613	23,196	5,915	1,058	1,283
Mortgages	563,809	50,325	392,777	17,938	4,987	2,276	1,896	93,610
Asset Backed Securities	59,300	31,196	10,713	5,640	5,352	229	2,231	3,939
Commingled Funds	909,491	-	-	-	-	-	-	909,491
Short Term Investments	194,641	-	-	-	-	-	-	194,641
Municipal Bonds	42,665	10,314	10,737	19,162	1,186	1,266	-	-

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, 2012, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (10 percent) and Federal Home Loan Bank (10 percent). At June 30, 2012, 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 26 to 40 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.

State of Nebraska (dollars expressed in thousands)

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOREIGN CURRENCY AT JUNE 30, 2012

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 9	$ 305	$ 301
Brazilian Real	293	99	502
Canadian Dollar	2	632	1,788
Columbian Peso	-	-	98
Czech Koruna	-	59	-
Danish Krone	-	90	-
Euro Currency	31	7,212	1,028
Hong Kong Dollar	11	625	-
Indonesian Rupiah	2	95	-
Japanese Yen	44	3,553	-
Mexican Peso	156	427	501
New Zeland Dollar	-	-	180
Norwegian Krone	2	93	-
Philippine Peso	1	66	-
Polish Zloty	-	118	-
Pound Sterling	14	3,595	-
Singapore Dollar	10	597	-
South African Rand	1	30	-
South Korean Won	4	759	-
Swedish Krona	-	378	-
Swiss Franc	2	2,081	-
Thailand Baht	1	190	-
Total	$ 583	$ 21,004	$ 4,398

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2012

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 618	$ 15,739	$ 7,232
Brazilian Real	1,064	5,337	3,515
Canadian Dollar	584	24,821	32,975
Chilean Peso	-	-	476
Columbian Peso	-	-	650
Czech Koruna	-	1,244	-
Danish Krone	-	4,050	-
Euro Currency	6,289	226,561	116,649
Hong Kong Dollar	263	27,519	-
Indonesian Rupiah	-	2,318	-
Japanese Yen	1,822	100,215	25,567
Malaysian Ringgit	110	-	5,350
Mexican Peso	1,129	4,586	15,722
New Zealand Dollar	-	-	1,182
Norwegian Krone	73	2,114	-
Philippine Peso	36	-	1,272
Polish Zloty	270	2,450	-
Pound Sterling	1,187	125,604	27,672
Singapore Dollar	77	11,098	-
South African Rand	74	3,387	-
South Korean Won	14	30,353	-
Swedish Krona	219	13,813	8,879
Swiss Franc	17	56,307	-
Thailand Baht	17	13,303	-
Total	$ 13,863	$ 670,819	$ 247,141

State of Nebraska (dollars expressed in thousands)

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, 2012 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2012, 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, 2012

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 75	$ (244)	$ 11,913
Fixed Income Futures	-	1,093	8,400
Fixed Income Options	(139)	253	(21,800)
Futures Options	-	28	-
FX Forwards	101	548	23,401
Interest Rate Swap	991	(1,621)	21,722
Warrants	-	-	1

DERIVATIVE INVESTMENTS AT JUNE 30, 2012

FIDUCIARY FUND

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 222	$ (1,333)	$ 24,751
Fixed Income Futures	-	3,636	32,704
Fixed Income Options	(587)	1,097	(97,400)
Futures Options	-	113	-
FX Forwards	(146)	8,066	250,138
Interest Rate Swap	3,387	(7,303)	85,963
Rights	-	1	-
Warrants	1	-	6

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, 2012, 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, 2012, was $1,089 for Governmental and Business-Type Activities and $5,471 for the Fiduciary Fund. 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 $6,560. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 63 percent for the Governmental and Business-Type Activities and 47 percent for the Fiduciary Fund, held with three counterparties. The counterparties are rated A or AA.

State of Nebraska (dollars expressed in thousands)

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, 2012 are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2012
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Currency	Swaps	Forward Contracts	Fixed Income Options
Brazilian Real	$ 293	$ 43	$ -
Canadian Dollar	-	7	-
Yuan Renminbi	-	(19)	-
Euro Currency	191	62	-
Pound Sterling	363	4	-
Mexican Peso	144	(6)	-
Norwegian Krone	-	12	-
Total	$ 991	$ 103	$ -

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2012
FIDUCIARY FUND

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ 169	$ -
Brazilian Real	1,064	130	-
Canadian Dollar	-	(106)	-
Swiss Franc	-	42	-
Yuan Ranminbi	-	71	-
Danish Krone	-	(55)	-
Euro Currency	489	683	-
Pound Sterling	1,521	26	-
Japanese Yen	-	(822)	-
South Korean Won	-	90	-
Mexican Peso	590	(490)	-
Norwegian Krone	-	132	-
New Zealand Dollar	-	27	-
Polish Zloty	-	40	-
Swedish Krona	-	(115)	-
Singapore Dollar	-	31	-
Thailand Baht	-	1	-
Total	$ 3,664	$ (146)	$ -

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 3.40 percent during fiscal year 2012. The fair value of these contracts is $120,637, and the contract value is $115,717. The fair value of the wrap contract was $0. 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.

State of Nebraska (dollars expressed in thousands)

	EFFECTIVE DURATION	FAIR VALUE	Investments Underlying SGICs Quality Ratings at June 30, 2012					
			AAA	AA	A	BBB	BB	UNRATED
Asset Backed Securities	1.87	$ 13,021	$ 12,893	$ 5	$ 118	$ 5	$ -	$ -
Corporate Bonds	3.98	48,002	2,772	8,884	21,836	13,802	304	404
Government Agency Securities	4.04	12,616	-	10,184	409	-	-	2,023
International Bonds	2.58	2,792	1,215	835	742	-	-	-
Mortgages	1.87	27,666	4,601	21,084	773	-	-	1,208
Short Term Investments	-	1,501	-	-	-	-	-	1,501
US Treasury Notes	5.08	15,039	-	-	-	-	-	15,039
		$ 120,637						

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2012 is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 16,483,622
Carrying amount of Deposits	35,590
Total	$ 16,519,212
Statement of Net Assets:	
Cash and Cash Equivalents	$ 605,061
Investments	3,053,250
Restricted Cash and Cash Equivalents	13,941
Securities Lending Collateral	189,616
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	114,981
Investments	12,150,644
Securities Lending Collateral	391,719
Total	$ 16,519,212

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2012:

Governmental Activities:	
General Fund	$ 89,780
Federal Fund	9,025
Health and Social Services Fund	3,810
Total Governmental Activities	$ 102,615
Business-type Activities:	
Unemployment Insurance	$ 6,812
Total Business-type Activities	$ 6,812

Of the taxes and other receivables, $30,494 and $18,527, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund. The majority of the loans receivable balance is not expected to be collected in the next year.

State of Nebraska (dollars expressed in thousands)

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 553,391	$ 4,223	$ -	$ 557,614
Infrastructure	6,985,740	26,069	-	7,011,809
Construction in progress	69,763	15,702	3,391	82,074
Total capital assets, not being depreciated	7,608,894	45,994	3,391	7,651,497
Capital assets, being depreciated:				
Buildings and improvements	538,163	36,349	11,099	563,413
Equipment	435,284	45,505	23,654	457,135
Total capital assets, being depreciated	973,447	81,854	34,753	1,020,548
Less accumulated depreciation for:				
Buildings and improvements	246,889	15,806	5,694	257,001
Equipment	325,323	45,187	21,974	348,536
Total accumulated depreciation	572,212	60,993	27,668	605,537
Total capital assets, being depreciated, net	401,235	20,861	7,085	415,011
Governmental activities capital assets, net	$ 8,010,129	$ 66,855	$ 10,476	$ 8,066,508
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 1,067	$ -	$ 306	$ 761
Less accumulated depreciation	906	74	306	674
Total Unemployment Insurance, net	161	(74)	-	87
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	315	-	-	315
Capital assets, being depreciated:				
Buildings and improvements	6,945	-	-	6,945
Equipment	5,229	135	79	5,285
Total capital assets, being depreciated	12,174	135	79	12,230
Less accumulated depreciation for:				
Buildings and improvements	1,848	174	-	2,022
Equipment	3,993	282	44	4,231
Total accumulated depreciation	5,841	456	44	6,253
Total capital assets, being depreciated, net	6,333	(321)	35	5,977
Total Nonmajor Enterprise, net	6,648	(321)	35	6,292
Business-type activities capital assets, net	$ 6,809	$ (395)	$ 35	$ 6,379

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

Governmental activities:	
General Government	$ 17,752
Conservation of Natural Resources	1,305
Culture – Recreation	2,158
Economic Development and Assistance	279
Education	11,685
Health and Social Services	1,315
Public Safety	10,286
Regulation of Business and Professions	867
Transportation	15,346
Total depreciation expense - Governmental activities	$ 60,993

State of Nebraska (dollars expressed in thousands)

Construction Commitments. At June 30, 2012, the State had contractual commitments of approximately $734,435 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$ 365,372
State funds	356,999
Local funds	12,064
	$ 734,435

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.

5. Interfund Balances

Due To/From Other Funds at June 30, 2012 consists of the following:

DUE FROM	DUE TO: General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Pension Trust	TOTALS
General Fund	$ -	$ 219	$ 42	$ 152	$ 487	$ 166	$ 4,529	$ 30,029	$ 35,624
Highway Fund	-	-	109	2	131	314	605	-	1,161
Federal Fund	60,171	236	-	1,465	2,659	67	3,974	3	68,575
Health and Social Services	-	4	-	-	1	18	483	-	506
Permanent School Fund	-	-	-	-	-	-	9	-	9
Nonmajor Governmental Funds	791	47	76	7	52	21	6,036	-	7,030
Nonmajor Enterprise Funds	-	11	-	-	-	-	93	-	104
Internal Service Funds	-	55	-	-	62	50	641	-	808
Pension Trust	-	-	-	-	-	-	57	-	57
Private Purpose Trust	-	-	-	-	1	1	6	-	8
TOTALS	$ 60,962	$ 572	$ 227	$ 1,626	$ 3,393	$ 637	$ 16,433	$ 30,032	$ 113,882

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, 2012 consist of the following:

TRANSFERRED FROM:	TRANSFERRED TO: General Fund	Highway Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ -	$ -	$ 47,210	$ 47,210
Highway Fund	-	-	-	6,560	6,560
Federal Fund	-	-	-	5,400	5,400
Health & Social Services Fund	3,400	-	-	-	3,400
Nonmajor Governmental Funds	44,717	24,292	50	2,969	72,028
Nonmajor Enterprise Funds	-	-	856	35,219	36,075
TOTALS	$ 48,117	$ 24,292	$ 906	$ 97,358	$ 170,673

State of Nebraska (dollars expressed in thousands)

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.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2012 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	$ 11,845	$ 4,352	$ 5,086	$ 462	$ -	$ 3,050	$ 1,252	$ 1	$ 180	$ 26,228
Payables and Accruals	75,470	65,905	150,466	6,805	63,303	31,879	27,143	991	22,311	444,273
Due to Fiduciary Funds *	-	-	-	-	-	-	30,032	-	-	30,032
Miscellaneous	-	5,490	-	-	-	924	2	32	-	6,448
TOTALS	$ 87,315	$ 75,747	$ 155,552	$ 7,267	$ 63,303	$ 35,853	$ 58,429	$ 1,024	$ 22,491	$ 506,981

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

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2012 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 255,189	$ 1,768,425	$ 1,705,550	$ 318,064	$ 275,907
Capital Lease Obligations	27,308	5,165	7,115	25,358	7,677
Obligations Under Other Financing Arrangements	16,220	1,505	2,865	14,860	1,605
Compensated Absences	128,975	22,003	13,058	137,920	9,654
Net Pension Obligation	-	1,217	47	1,170	-
Totals	$ 427,692	$ 1,798,315	$ 1,728,635	$ 497,372	$ 294,843
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 37,507	$ 255,141	$ 265,854	$ 26,794	$ 26,794
Compensated Absences	19	2	15	6	-
Totals for Unemployment Insurance	37,526	255,143	265,869	26,800	26,794
Nonmajor Enterprise Funds:					
Claims Payable	34,694	396	9,170	25,920	5,721
Compensated Absences	753	37	73	717	50
Totals for Nonmajor Enterprise Funds	35,447	433	9,243	26,637	5,771
Totals for Business-type Activities	$ 72,973	$ 255,576	$ 275,112	$ 53,437	$ 32,565

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.

State of Nebraska (dollars expressed in thousands)

8. Lease Commitments

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

The minimum annual lease payments (principal and interest) and the present value of future minimum payments for capital leases as of June 30, 2012 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2013	$ 8,088
2014	6,382
2015	4,753
2016	3,684
2017	2,232
2018-2022	1,263
Total Minimum Payments	26,402
Less: Interest and executory costs	1,044
Present value of net minimum payments	$ 25,358

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, 2012:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 36,624
Less: accumulated depreciation	(16,481)
Carrying value	$ 20,143

The minimum annual lease payments for operating leases as of June 30, 2012 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2013	$ 6,737
2014	2,136
2015	1,684
2016	1,473
2017	1,012
2018-2022	3,904
2023-2027	865
2028-2032	365
Total	$ 18,176

Primary Government operating lease payments for the year ended June 30, 2012 totaled $13,800.

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, 2012, 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 $38,960 were received under these and other lease agreements for the year ended June 30, 2012.

State of Nebraska (dollars expressed in thousands)

9. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority (NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 0.90 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
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	1,395	294	1,689
2018-2022	4,750	749	5,499
2023-2027	1,200	92	1,292
Total	$ 14,860	$ 3,152	$ 18,012

10. Contingencies and Commitments

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

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

Litigation. The State is named as a party in legal proceedings that occur in the normal course of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contract, condemnation proceedings and other alleged violations of State and Federal laws. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the State for these proceedings. It is the State’s opinion that the ultimate liability for these and other proceedings is not expected to have a material adverse effect on the State’s financial position.

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. The Special Master issued a preliminary report on January 9, 2013 that recommended judgment be entered against Nebraska and in favor of Kansas in the amount of $5,000.

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

11. Risk Management

Through Administrative Services, the State maintains insurance and self-insurance programs. Workers’ compensation, employee health care, general liability and employee indemnification are generally self-insured. However, the State does carry surety bonds for constitutional officers. 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 $11,000 limit with a $25 deduction per loss. The State insures against property damage, maintaining a policy with a $250,000 limit and a $200 deductible 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.

State of Nebraska (dollars expressed in thousands)

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 $52,873 at a discounted rate of 2.0 percent ($6,493).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2012, and 2011, were as follows:

	Fiscal Year 2012	Fiscal Year 2011
Beginning Balance	$ 64,947	$ 63,730
Current Year Claims and Changes in Estimates	(197,788)	(188,747)
Claim Payments	198,474	189,964
Ending Balance	$ 65,633	$ 64,947

12. Pension Plans

Plans Administered by the Public Employees Retirement Board

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

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

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

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

State Employees' Retirement. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. Under the cash balance benefit, a member upon attainment of age 55, regardless of service, receives a retirement allowance equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment. Members have options on how to receive the payment. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the year ended December 31, 2011.

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, 2011, there were 16,119 active members, 4,878 inactive members, and 737 retirees or beneficiaries receiving benefits. Members contributed $31,225 and the State contributed $48,686 during the year ended December 31, 2011, 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 year ended December 31, 2011.

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. Effective April 2011, the age requirement for permanent part time employees decreased to age 18. 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, 2011, there were 7,652 active members, 2,099 inactive members, and 315 retirees or beneficiaries receiving benefits. Members contributed $11,499 and counties contributed $17,007 during the year ended December 31, 2011, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 271 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, increasing to 8.88% from September 1, 2011 through August 31, 2012. On September 1, 2012 the rate increased to 9.78%. 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 nineteen percent of their monthly salary, and State Patrol contributes nineteen 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.

State of Nebraska (dollars expressed in thousands)

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL) (Excess of Assets over AAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll
State Cash Balance						
12/31/2011	$ 743,971	$ 813,286	$ 69,315	91.5%	$ 458,827	15.1%
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
County Cash Balance						
12/31/2011	$ 220,663	$ 240,195	$ 19,532	91.9%	$ 193,269	10.1%
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
School						
6/30/2012	$ 7,358,964	$ 9,609,157	$ 2,250,193	76.6%	$ 1,593,185	141.2%
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
Judges'						
6/30/2012	$ 125,928	$ 137,465	$ 11,537	91.6%	$ 19,005	60.7%
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)
State Patrol						
6/30/2012	$ 282,811	$ 362,299	$ 79,488	78.1%	$ 25,794	308.2%
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

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2011	12/31/2011	6/30/2012	6/30/2012	6/30/2012
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	23 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%	4.0% to 9.0%	4.0%	4.0% to 9.5%

** Includes assumed inflation of 3.25% per year for School, Judges', Patrol and 3.5% for State and County

State of Nebraska (dollars expressed in thousands)

THREE - YEAR TREND INFORMATION

YEAR ENDED	ANNUAL PENSION COST (APC) COUNTIES AND SCHOOLS	STATE	TOTAL	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance					
12/31/2011	$ -	$ 31,188	$ 31,188 -	100%	$ -
12/31/2010	-	30,837	30,837	100%	-
12/31/2009	-	30,327	30,327	100%	-
County Cash Balance					
12/31/2011	$ 11,908	$ -	$ 11,908	100%	$ -
12/31/2010	11,379	-	11,379	100%	-
12/31/2009	10,559	-	10,559	100%	-
School					
6/30/2012	$ 145,582	$ 46,896	$ 192,478	88%	$ -
6/30/2011	135,328	41,747	177,075	89%	-
6/30/2010	128,845	21,380	150,225	100%	-
Judges'					
6/30/2012	$ -	$ 3,484	$ 3,484	100%	$ -
6/30/2011	-	3,580	3,580	100%	-
6/30/2010	-	3,615	3,615	100%	-
State Patrol					
6/30/2012	$ -	$ 7,730	$ 7,730	100%	$ 1,170
6/30/2011	-	7,173	7,173	83%	1,217
6/30/2010	-	6,260	6,260	100%	-

The Net Pension Obligation for the State Patrol Retirement plan decreased by $47 in 2012. The Annual Pension Cost for the State Patrol Retirement plan was calculated by taking the Annual Required Contribution of $7,775, adding $97 interest calculated on the Net Pension Obligation, and subtracting the $142 adjustment to the Annual Required Contribution.

Equal Retirement Benefit Fund. On January 1, 1984, the Equal Retirement Benefit Fund (ERBF) was created for the State and County Retirement Plans. Each State agency and county participating in the retirement system makes contributions to the fund at least annually, in addition to regular retirement contributions.

Upon retirement, any member with an accumulated account balance based on contributions made prior to January 1, 1984, has the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member’s regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2011, there was a balance of $483 in the State ERBF and a balance of $288 in the County ERBF.

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, 2012, there was no outstanding debt for either of these purposes.

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, 2012
COMPONENT UNITS		
University of Nebraska	1.00%-6.00%	$ 671,305
Nebraska State Colleges	0.30%-5.05%	49,128
Component Units Total		$ 720,433

State of Nebraska (dollars expressed in thousands)

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2013	$ 43,565	$ 30,237	$ 73,802
2014	56,611	29,542	86,153
2015	42,512	27,811	70,323
2016	43,033	26,137	69,170
2017	40,838	23,675	64,513
2018 - 2022	198,874	91,466	290,340
2023 - 2027	103,840	59,522	163,362
2028 - 2032	82,390	37,155	119,545
2033 - 2037	65,025	19,775	84,800
2038 - 2042	39,650	4,915	44,565
2043 - 2047	4,095	102	4,197
Total	$ 720,433	$ 350,337	$ 1,070,770

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2012

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 3,501,539	$ 3,553,440	$ 3,606,329	$ 52,889
Federal Grants and Contracts	850	850	850	-
Sales and Charges	21,460	21,460	21,460	-
Other	35,616	35,616	35,616	-
TOTAL REVENUES	3,559,465	3,611,366	3,664,255	52,889
EXPENDITURES:				
Current:				
General Government	257,724	256,757	239,160	17,597
Conservation of Natural Resources	46,072	48,123	31,897	16,226
Culture – Recreation	6,008	6,067	5,305	762
Economic Development and Assistance	14,689	14,689	7,231	7,458
Education	1,712,543	1,711,254	1,676,787	34,467
Health and Social Services	1,389,873	1,397,343	1,245,105	152,238
Public Safety	262,205	270,678	236,603	34,075
Regulation of Business and Professions	4,457	4,467	3,620	847
Transportation	-	-	-	-
Capital Projects	5,463	5,463	-	5,463
TOTAL EXPENDITURES	3,699,034	3,714,841	3,445,708	269,133
Excess (Deficiency) of Revenues Over (Under) Expenditures	(139,569)	(103,475)	218,547	322,022
OTHER FINANCING SOURCES (USES):				
Transfers In	231,584	231,584	231,584	-
Transfers Out	(339,366)	(339,366)	(339,366)	-
Other	188	188	188	-
TOTAL OTHER FINANCING SOURCES (USES)	(107,594)	(107,594)	(107,594)	-
Net Change in Fund Balance	(247,163)	(211,069)	110,953	322,022
FUND BALANCES, JULY 1	813,487	813,487	813,487	-
FUND BALANCES, JUNE 30	$ 566,324	$ 602,418	$ 924,440	$ 322,022

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2012, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2012	
General	$ 495,562
Cash Reserve	428,878
Budgetary fund balances	924,440
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	368,445
Record tax refund liability	(360,733)
Record State contributions due pension funds	(29,991)
Record claims payable	(122,480)
Record other net accrued receivables and liabilities	35,117
GAAP fund balance, June 30, 2012	$ 814,798

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2012

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ 107,341	$ 107,341	$ 107,341	$ -
Federal Grants and Contracts	390,920	390,920	390,920	-
Sales and Charges	533,298	533,298	533,298	-
Other	199,401	199,401	199,401	-
TOTAL REVENUES	1,230,960	1,230,960	1,230,960	-
EXPENDITURES:				
Current:				
General Government	189,789	193,943	182,722	11,221
Conservation of Natural Resources	118,012	120,573	55,096	65,477
Culture – Recreation	28,992	29,236	19,933	9,303
Economic Development and Assistance	52,999	54,146	23,300	30,846
Education	688,065	704,934	441,966	262,968
Health and Social Services	173,871	174,150	121,248	52,902
Public Safety	51,039	51,059	34,524	16,535
Regulation of Business and Professions	150,073	148,673	115,287	33,386
Transportation	800,036	808,851	720,005	88,846
Capital Projects	75,424	75,423	24,347	51,076
TOTAL EXPENDITURES	2,328,300	2,360,988	1,738,428	622,560
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,097,340)	(1,130,028)	(507,468)	622,560
OTHER FINANCING SOURCES (USES):				
Transfers In	1,153,958	1,153,958	1,153,958	-
Transfers Out	(577,530)	(577,530)	(577,530)	-
Other	3,937	3,937	3,937	-
TOTAL OTHER FINANCING SOURCES (USES)	580,365	580,365	580,365	-
Net Change in Fund Balance	(516,975)	(549,663)	72,897	622,560
FUND BALANCES, JULY 1	899,524	899,524	899,524	-
FUND BALANCES, JUNE 30	$ 382,549	$ 349,861	$ 972,421	$ 622,560

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2012, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2012	
Cash	$ 972,421
Construction	33,027
Federal	91,577
Revolving	332,948
Budgetary fund balances	1,429,973
Unbudgeted fund balances	1,612,573
Non-major fund balances	(1,208,086)
Differences due to basis of accounting	(549,305)
GAAP fund balance, June 30, 2012	$ 1,285,155
Actual Fund Balances of Major Funds, June 30, 2012	
Highway	$ 262,172
Federal	9,202
Health and Social Services	451,270
Permanent School	562,511
GAAP fund balance, June 30, 2012	$ 1,285,155

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2012

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	**FINAL BUDGET**	**ACTUAL**	**VARIANCE WITH FINAL BUDGET**
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	431	431	431	-
TOTAL REVENUES	431	431	431	-
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	18,298	18,298	802	17,496
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	19,136	19,685	12,850	6,835
TOTAL EXPENDITURES	37,434	37,983	13,652	24,331
Excess (Deficiency) of Revenues Over (Under) Expenditures	(37,003)	(37,552)	(13,221)	24,331
OTHER FINANCING SOURCES (USES):				
Transfers In	25,000	25,000	25,000	-
Transfers Out	-	-	-	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	25,000	25,000	25,000	-
Net Change in Fund Balance	(12,003)	(12,552)	11,779	24,331
FUND BALANCES, JULY 1	21,248	21,248	21,248	-
FUND BALANCES, JUNE 30	$ 9,245	$ 8,696	$ 33,027	$ 24,331

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2012

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,658,853	2,658,853	2,658,853	-
Sales and Charges	18,709	18,709	18,709	-
Other	5,892	5,892	5,892	-
TOTAL REVENUES	2,683,454	2,683,454	2,683,454	-
EXPENDITURES:				
Current:				
General Government	7,872	9,642	7,837	1,805
Conservation of Natural Resources	107,475	110,818	71,806	39,012
Culture – Recreation	5,433	7,796	3,003	4,793
Economic Development and Assistance	96,628	110,562	72,327	38,235
Education	1,196,443	1,202,149	974,093	228,056
Health and Social Services	1,689,875	1,696,946	1,446,819	250,127
Public Safety	180,691	195,578	106,069	89,509
Regulation of Business and Professions	5,021	11,433	4,246	7,187
Transportation	-	-	-	-
Capital Projects	144	144	-	144
TOTAL EXPENDITURES	3,289,582	3,345,068	2,686,200	658,868
Excess (Deficiency) of Revenues Over (Under) Expenditures	(606,128)	(661,614)	(2,746)	658,868
OTHER FINANCING SOURCES (USES):				
Transfers In	33,166	33,166	33,166	-
Transfers Out	(33,376)	(33,376)	(33,376)	-
Other	5,017	5,017	5,017	-
TOTAL OTHER FINANCING SOURCES (USES)	4,807	4,807	4,807	-
Net Change in Fund Balance	(601,321)	(656,807)	2,061	658,868
FUND BALANCES, JULY 1	89,516	89,516	89,516	-
FUND BALANCES, JUNE 30	$ (511,805)	$ (567,291)	$ 91,577	$ 658,868

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2012

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	1,999	1,999	1,999	-
Sales and Charges	554,554	554,554	554,554	-
Other	174,581	174,581	174,581	-
TOTAL REVENUES	731,134	731,134	731,134	-
EXPENDITURES:				
Current:				
General Government	221,645	221,872	176,239	45,633
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	555	555	497	58
Education	850,475	917,325	503,918	413,407
Health and Social Services	-	-	-	-
Public Safety	20,407	20,407	14,450	5,957
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	1,093,082	1,160,159	695,104	465,055
Excess (Deficiency) of Revenues Over (Under) Expenditures	(361,948)	(429,025)	36,030	465,055
OTHER FINANCING SOURCES (USES):				
Transfers In	50,951	50,951	50,951	-
Transfers Out	(50,808)	(50,808)	(50,808)	-
Other	2,157	2,157	2,157	-
TOTAL OTHER FINANCING SOURCES (USES)	2,300	2,300	2,300	-
Net Change in Fund Balance	(359,648)	(426,725)	38,330	465,055
FUND BALANCES, JULY 1	294,618	294,618	294,618	-
FUND BALANCES, JUNE 30	$ (65,030)	$ (132,107)	$ 332,948	$ 465,055

See independent auditors' report

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 2012, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2012, 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, 2012

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

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

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

Measurement Scale

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

Established Condition Level

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

Assessed Condition

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

Calendar Year	2011	2010	2009	2008	2007	2006
Very Good	33%	31%	32%	32%	33%	42%
Good	41%	44%	47%	47%	49%	38%
Fair	23%	22%	19%	19%	17%	19%
Poor	3%	3%	2%	2%	1%	1%
Overall System Rating	80	80	81	82	82	83

Estimated and Actual Costs to Maintain

The following table presents the State's estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). 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).

Fiscal Year	2013	2012	2011	2010	2009	2008
Estimated	$ 313	$ 288	$ 267	$ 211	$ 206	$ 155
Actual		278	218	270	239	208
Difference		(10)	(49)	59	33	53

See independent auditors' report


GREAT SEAL OF THE STATE OF NEBRASKA
EQUALITY BEFORE THE LAW
MARCH 1ST 1867

SINGLE AUDIT SECTION

Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
Agriculture, U.S. Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025		$ 702,854
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025		68,362
Total Plant and Animal Disease, Pest Control, and Animal Care				771,216
Avian Influenza Indemnity Program	Game and Parks Commission	10.029		130
Wetlands Reserve Program	Game and Parks Commission	10.072		283,008
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093		1,190,410
Market Protection and Promotion	Agriculture, Department of	10.163		68,727
Specialty Crop Block Grant Program	Agriculture, Department of	10.169		9,652
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170		277,799
State Mediation Grants	Agriculture, Department of	10.435		114,158
Rural Community Development Initiative	Economic Development, Department of	10.446		327
Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477		17,115
Food Safety Cooperative Agreements	Agriculture, Department of	10.479		138,284
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.551		258,086,160
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Department of Health and Human Services	10.561	^	14,852,302
Total SNAP Cluster				272,938,462
Child Nutrition Cluster:				
School Breakfast Program	Education, Department of	10.553		14,615,982
National School Lunch Program	Education, Department of	10.555		62,705,949
National School Lunch Program	Department of Health and Human Services	10.555		10,942,130
Total National School Lunch Program				73,648,079
Special Milk Program for Children	Education, Department of	10.556		59,199
Summer Food Service Program for Children	Education, Department of	10.559		2,716,180
Summer Food Service Program for Children	Department of Health and Human Services	10.559		33,425
Total Summer Food Service Program for Children				2,749,605
Total Child Nutrition Cluster				91,072,865
Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health and Human Services	10.557		32,884,643
Child and Adult Care Food Program	Education, Department of	10.558		32,521,145
Child and Adult Care Food Program	Department of Health and Human Services	10.558		250,157
Total Child and Adult Care Food Program				32,771,302

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
	Agriculture, U.S. Department of (Continued)				
	State Administrative Expenses for Child Nutrition	Education, Department of	10.560		1,234,355
	State Administrative Expenses for Child Nutrition	Department of Health and Human Services	10.560		155,246
	Total State Administrative Expenses for Child Nutrition				1,389,601
	Commodity Supplemental Food Program	Department of Health and Human Services	10.565		3,577,735
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Department of Health and Human Services	10.568		312,728
	Emergency Food Assistance Program (Food Commodities)	Department of Health and Human Services	10.569		1,578,530
	Total Emergency Food Assistance Cluster				1,891,258
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, Department of	10.572		77,685
	Team Nutrition Grants	Education, Department of	10.574		203,119
	Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		246,682
	WIC Grants To States (WGS)	Department of Health and Human Services	10.578		88,745
	Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579		85,614
	Supplemental Nutrition Assistance Program, Outreach/Participation Program	Department of Health and Human Services	10.580	^	147,127
	Fresh Fruit and Vegetable Program	Education, Department of	10.582		1,694,613
	Cooperative Forestry Assistance	Game and Parks Commission	10.664		109,104
	Rural Development, Forestry, and Communities	Game and Parks Commission	10.672		45,147
	Soil and Water Conservation	Natural Resources, Department of	10.902		14,876
	Environmental Quality Incentives Program	Game and Parks Commission	10.912		100,544
	National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03		5,469
	Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		163,603
	Total U.S. Department of Agriculture				$ 442,379,020
	Commerce, U.S. Department of				
	Economic Development Cluster:				
	Economic Adjustment Assistance	Economic Development, Department of	11.307		$ 4,191
	Public Safety Interoperable Communications Grant Program	Military Department	11.555		3,997,496
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Library Commission	11.557		1,085,225
ARRA	State Broadband Data and Development Grant Program Recovery	Public Service Commission	11.558		713,247
	Manufacturing Extension Partnership	Economic Development, Department of	11.611		582,908
	Total U.S. Department of Commerce				$ 6,383,067

^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, 2012

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Corporation for National and Community Service			
	State Commissions	Department of Health and Human Services	94.003	$ 209,436
	Learn and Serve America-School and Community Based Programs	Education, Department of	94.004	63,955
	AmeriCorps	Department of Health and Human Services	94.006	1,715,348
	Program Development and Innovation Grants	Department of Health and Human Services	94.007	56,721
	Training and Technical Assistance	Department of Health and Human Services	94.009	74,220
	Total Corporation for National and Community Service			$ 2,119,680
	Defense, U.S. Department of			
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	$ 128,511
	Military Construction, National Guard	Military Department	12.400	14,870,845
	National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	17,402,627
	National Guard ChalleNGe Program	Military Department	12.404	293,952
	Total U.S. Department of Defense			$ 32,695,935
	Education, U.S. Department of			
	Adult Education - Basic Grants to States	Education, Department of	84.002	$ 2,505,103
	Title I, Part A Cluster:			
	Title I Grants to Local Educational Agencies	Education, Department of	84.010	61,939,906
ARRA	Title I Grants to Local Educational Agencies, Recovery Act	Education, Department of	84.389	21,115,993
	Total Title I, Part A Cluster			83,055,899
	Migrant Education-State Grant Program	Education, Department of	84.011	6,535,639
	Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, Department of	84.013	269,335
	Special Education Cluster (IDEA):			
	Special Education-Grants to States	Education, Department of	84.027	31,081,670
	Special Education-Preschool Grants	Education, Department of	84.173	1,044,369
ARRA	Special Education Grants to States, Recovery Act	Education, Department of	84.391	29,546,421
ARRA	Special Education - Preschool Grants, Recovery Act	Education, Department of	84.392	1,307,852
	Total Special Education Cluster (IDEA)			62,980,312
	Career and Technical Education -- Basic Grants to States	Education, Department of	84.048	6,435,021

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Education, U.S. Department of (Continued)			
	Vocational Rehabilitation Cluster:			
	Rehabilitation Services-Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Commission for the	84.126	2,665,214
	Rehabilitation Services-Vocational Rehabilitation Grants to States	Education, Department of	84.126	15,185,132
	Total Rehabilitation Services-Vocational Rehabilitation Grants to States			17,850,346
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, Department of	84.390	591,049
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Blind and Visually Impaired, Commission for the	84.390	81,059
	Total Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act			672,108
	Total Vocational Rehabilitation Cluster			18,522,454
	Migrant Education-Coordination Program	Education, Department of	84.144	73,329
	Rehabilitation Services-Client Assistance Program	Education, Department of	84.161	126,295
	Independent Living State Grants Cluster:			
	Independent Living-State Grants	Blind and Visually Impaired, Commission for the	84.169	21,715
	Independent Living-State Grants	Education, Department of	84.169	235,007
	Total Independent Living-State Grants			256,722
	Independent Living Services for Older Individuals Who Are Blind Cluster:			
	Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired, Commission for the	84.177	95,032
	Early Intervention Services (IDEA) Cluster:			
	Special Education-Grants for Infants and Families	Education, Department of	84.181	2,725,494
ARRA	Special Education - Grants for Infants and Families, Recovery Act	Education, Department of	84.393	1,333,502
	Total Early Intervention Services (IDEA) Cluster			4,058,996
	Safe and Drug-Free Schools and Communities-National Programs	Education, Department of	84.184	49,426
	Safe and Drug-Free Schools and Communities-State Grants	Education, Department of	84.186	295,834
	Safe and Drug-Free Schools and Communities-State Grants	Department of Health and Human Services	84.186	165,186
	Total Safe and Drug-Free Schools and Communities-State Grants			461,020
	Supported Employment Services for Individuals with the Most Significant Disabilities	Blind and Visually Impaired, Commission for the	84.187	23,347
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, Department of	84.187	399,269
	Total Supported Employment Services for Individuals with the Most Significant Disabilities			422,616

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Education, U.S. Department of (Continued)			
	Education of Homeless Children and Youth Cluster:			
	Education for Homeless Children and Youth	Education, Department of	84.196	285,431
ARRA	Education for Homeless Children and Youth, Recovery Act	Education, Department of	84.387	60,675
	Total Education of Homeless Children and Youth Cluster			346,106
	Even Start-State Educational Agencies	Education, Department of	84.213	239,423
	Assistive Technology	Education, Department of	84.224	443,955
	Tech-Prep Education	Education, Department of	84.243	162,991
	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Commission for the	84.265	17,540
	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	52,685
	Total Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training			70,225
	Twenty-First Century Community Learning Centers	Education, Department of	84.287	5,315,088
	Foreign Language Assistance	Education, Department of	84.293	144,130
	Parental Information and Resource Centers	Education, Department of	84.310	12,618
	Educational Technology State Grants Cluster:			
	Educational Technology State Grants	Education, Department of	84.318	765,293
ARRA	Education Technology State Grants, Recovery Act	Education, Department of	84.386	1,289,724
	Total Educational Technology State Grants Cluster			2,055,017
	Special Education - State Personnel Development	Education, Department of	84.323	215,534
	Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	74,708
	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	25,623
	Rural Education	Education, Department of	84.358	46,418
	English Language Acquisition State Grants	Education, Department of	84.365	2,607,976
	Mathematics and Science Partnerships	Education, Department of	84.366	852,672
	Improving Teacher Quality State Grants	Education, Department of	84.367	10,177,286
	Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367	421,436
	Total Improving Teacher Quality State Grants			10,598,722
	Grants for State Assessments and Related Activities	Education, Department of	84.369	4,518,828
	Striving Readers	Education, Department of	84.371	34,776

^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, 2012

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Education, U.S. Department of (Continued)			
	Special Education-Technical Assistance on State Data Collection	Education, Department of	84.373	79,663
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, Department of	84.377	177,122
ARRA	School Improvement Grants, Recovery Act	Education, Department of	84.388	3,744,875
	Total School Improvement Grants Cluster			3,921,997
	College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378	1,247,041
	State Fiscal Stabilization Fund Cluster:			
ARRA	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, Department of	84.394	49,253,115
	Education Jobs Fund	Education, Department of	84.410	28,093,020
	Total U.S. Department of Education			$ 296,226,845
	U.S. Election Assistance Commission			
	Help America Vote Act Requirements Payments	Secretary of State	90.401	$ 1,281,550
	Total U.S. Election Assistance Commission			$ 1,281,550
	Energy, U.S. Department of			
	National Energy Information Center	Energy Office	81.039	$ 6,000
	State Energy Program	Energy Office	81.041	81,661
ARRA	State Energy Program Recovery	Energy Office	81.041	14,544,150
	Total State Energy Program			14,625,811
	Weatherization Assistance for Low-Income Persons	Energy Office	81.042	464,566
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy Office	81.042	14,684,062
	Total Weatherization Assistance for Low-Income Persons			15,148,628
	State Energy Program Special Projects	Energy Office	81.119	14,813
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy Office	81.122	53,011
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Game and Parks Commission	81.122	45,473
	Total Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery			98,484

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Energy, U.S. Department of (Continued)				
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy Office	81.128	3,544,340
Total U.S. Department of Energy				$ 33,438,076
Environmental Protection Agency, U.S.				
	State Indoor Radon Grants	Department of Health and Human Services	66.032	$ 154,479
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	252,694
ARRA	State Clean Diesel Grant Program Recovery	Environmental Quality, Department of	66.040	(35,910)
	State Clean Diesel Grant Program	Environmental Quality, Department of	66.040	341,378
	Total State Clean Diesel Grant Program			305,468
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	193,846
	Water Pollution Control State, Interstate, and Tribal Program Support	Game and Parks Commission	66.419	33,989
	Total Water Pollution Control State, Interstate, and Tribal Program Support			227,835
	State Public Water System Supervision	Department of Health and Human Services	66.432	582,674
	State Underground Water Source Protection	Oil and Gas Commission	66.433	81,862
	Targeted Watersheds Grants	Environmental Quality, Department of	66.439	69,439
	Water Quality Management Planning	Environmental Quality, Department of	66.454	79,073
ARRA	Capitalization Grants for Clean Water State Revolving Funds Recovery	Environmental Quality, Department of	66.458	53,197
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	2,410,050
	Total Capitalization Grants for Clean Water State Revolving Funds			2,463,247
	Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	3,143,182
	Regional Wetland Program Development Grants	Game and Parks Commission	66.461	111,664
ARRA	Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Quality, Department of	66.468	278,050
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	8,463,624
	Total Capitalization Grants for Drinking Water State Revolving Funds			8,741,674
	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Department of Health and Human Services	66.471	188,970
	Water Protection Grants to the States	Department of Health and Human Services	66.474	6,695
	Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804	457,548

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Environmental Protection Agency, U.S. (Continued)				
	Performance Partnership Grants	Agriculture, Department of	66.605	556,036
	Performance Partnership Grants	Environmental Quality, Department of	66.605	4,239,861
	Total Performance Partnership Grants			4,795,897
	Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608	8,973
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Department of Health and Human Services	66.707	242,162
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802	337,291
ARRA	Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Quality, Department of	66.805	88,915
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805	1,505,645
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			1,594,560
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	169,565
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Department of Health and Human Services	66.809	(1,079)
	Total Superfund State and Indian Tribe Core Program Cooperative Agreements			168,486
	State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	500,863
Total U.S. Environmental Protection Agency				$ 24,514,736
Equal Employment Opportunity Commission, U.S.				
	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	$ 426,015
Total U.S. Equal Employment Opportunity Commission				$ 426,015
General Services Administration				
	Donation of Federal Surplus Personal Property	Corrections, Department of	39.003	$ 997,066
Total General Services Administration				$ 997,066
Health and Human Services, U.S. Department of				
	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Department of Health and Human Services	93.006	$ 107,778
	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	26,340

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	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		86,781
	Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	Department of Health and Human Services	93.043		109,986
	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		2,099,512
	Special Programs for the Aging-Title III, Part C-Nutrition Services	Department of Health and Human Services	93.045		3,952,254
	Nutrition Services Incentive Program	Department of Health and Human Services	93.053		1,269,517
	Total Aging Cluster				7,321,283
	Lifespan Respite Care Program	Department of Health and Human Services	93.072		17,410
	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	Department of Health and Human Services	93.048		467,410
	National Family Caregiver Support, Title III, Part E	Department of Health and Human Services	93.052		712,539
	Public Health Emergency Preparedness	Department of Health and Human Services	93.069		8,163,288
	Medicare Enrollment Assistance Program	Department of Health and Human Services	93.071		3,933
ARRA	Guardianship Assistance Recovery	Department of Health and Human Services	93.090	^	48,035
	Affordable Care Act (ACA) Personal Responsibility Education Program	Department of Health and Human Services	93.092		148,279
	Food and Drug Administration-Research	Agriculture, Department of	93.103		907
	Maternal and Child Health Federal Consolidated Programs	Department of Health and Human Services	93.110		331,352
	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Department of Health and Human Services	93.116		219,317
	Emergency Medical Services for Children	Department of Health and Human Services	93.127		120,571
	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Department of Health and Human Services	93.130		159,637
	Injury Prevention and Control Research and State and Community Based Programs	Department of Health and Human Services	93.136		414,834
	Projects for Assistance in Transition from Homelessness (PATH)	Department of Health and Human Services	93.150		323,001
	Family Planning-Services	Department of Health and Human Services	93.217		2,365,185
	Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234		232,239
	Affordable Care Act (ACA) Abstinence Education Program	Department of Health and Human Services	93.235		126,694
	Grants to States to Support Oral Health Workforce Activities	Department of Health and Human Services	93.236		757,139
	State Rural Hospital Flexibility Program	Department of Health and Human Services	93.241		692,236

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Health and Human Services, U.S. Department of (Continued)			
	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	Department of Health and Human Services	93.243	4,006,707
	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	Supreme Court, Nebraska	93.243	144,414
	Total Substance Abuse and Mental Health Services - Projects of Regional and National Significance			4,151,121
	Universal Newborn Hearing Screening	Department of Health and Human Services	93.251	380,736
	Occupational Safety and Health Program	Department of Health and Human Services	93.262	37,450
	Immunization Cluster:			
	Immunization Cooperative Agreements	Department of Health and Human Services	93.268	22,200,273
ARRA	ARRA - Immunization	Department of Health and Human Services	93.712	119,168
	Total Immunization Cluster			22,319,441
	Drug Abuse and Addiction Research Programs	Department of Health and Human Services	93.279	116,849
	The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	Department of Health and Human Services	93.283	9,328,561
	Small Rural Hospital Improvement Grant Program	Department of Health and Human Services	93.301	582,648
ARRA	ARRA - State Primary Care Offices	Department of Health and Human Services	93.414	51,002
	Food Safety and Security Monitoring Project	Agriculture, Department of	93.448	365,335
	Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	194,270
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Department of Health and Human Services	93.505	561,199
	PPHF 2012 National Public Health Improvement Initiative	Department of Health and Human Services	93.507	879,691
	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511	379,463
	Affordable Care Act - Medicare Improvements for Patients and Providers	Department of Health and Human Services	93.518	47,820
	Centers for Disease Control and Prevention –Affordable Care Act (ACA) – Communities Putting Prevention to Work	Department of Health and Human Services	93.520	24,000
	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; PPHF	Department of Health and Human Services	93.521	243,980

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Insurance, Department of	93.525		1,024,465
	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	Department of Health and Human Services	93.539		316,749
	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	Department of Health and Human Services	93.544		94,293
	PPHF 2012: Nutrition, Physical Activity and Obesity Program - financed in part by 2012 Prevention and Public Health Funds (PPHF-2012)	Department of Health and Human Services	93.548		503,553
	Transitional Living for Homeless Youth	Department of Health and Human Services	93.550		250,000
	Promoting Safe and Stable Families	Department of Health and Human Services	93.556		1,475,346
	TANF Cluster:				
	Temporary Assistance for Needy Families	Department of Health and Human Services	93.558	^	36,154,854
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Department of Health and Human Services	93.714		7,504,458
	Total TANF Cluster				43,659,312
	Child Support Enforcement	Department of Health and Human Services	93.563	^	15,913,988
	Refugee and Entrant Assistance-State Administered Programs	Department of Health and Human Services	93.566		2,390,555
	Low-Income Home Energy Assistance	Department of Health and Human Services	93.568		45,105,758
	Low-Income Home Energy Assistance	Energy Office	93.568		1,900,938
	Total Low-Income Home Energy Assistance				47,006,696
	CSBG Cluster:				
	Community Services Block Grant	Department of Health and Human Services	93.569		4,196,189
	CCDF Cluster:				
	Child Care and Development Block Grant	Department of Health and Human Services	93.575	^	30,460,373
ARRA	ARRA – Child Care and Development Block Grant	Department of Health and Human Services	93.713	^	699,325
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Department of Health and Human Services	93.596	^	18,371,021
	Total CCDF Cluster				49,530,719
	Refugee and Entrant Assistance-Discretionary Grants	Department of Health and Human Services	93.576		758,483
	State Court Improvement Program	Supreme Court, Nebraska	93.586		384,876

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Grants to States for Access and Visitation Programs	Department of Health and Human Services	93.597		98,071
	Chafee Education and Training Vouchers Program (ETV)	Department of Health and Human Services	93.599		558,295
	Head Start Cluster:				
	Head Start	Education, Department of	93.600		131,804
ARRA	ARRA - Head Start	Education, Department of	93.708		124,051
	Total Head Start Cluster				255,855
	Adoption Incentive Payments	Department of Health and Human Services	93.603		378,401
	Voting Access for Individuals with Disabilities-Grants to States	Secretary of State	93.617		63,446
	Developmental Disabilities Basic Support and Advocacy Grants	Department of Health and Human Services	93.630		489,232
	Children's Justice Grants to States	Department of Health and Human Services	93.643		122,550
	Stephanie Tubbs Jones Child Welfare Services Program	Department of Health and Human Services	93.645		209,920
	Foster Care-Title IV-E	Department of Health and Human Services	93.658	^	16,252,385
ARRA	Foster Care-Title IV-E Recovery	Department of Health and Human Services	93.658	^	(77,831)
	Total Foster Care-Title IV-E				16,174,554
	Adoption Assistance	Department of Health and Human Services	93.659	^	10,674,381
ARRA	Adoption Assistance Recovery	Department of Health and Human Services	93.659	^	(1,566)
	Total Adoption Assistance				10,672,815
	Social Services Block Grant	Department of Health and Human Services	93.667		11,849,021
	Child Abuse and Neglect State Grants	Department of Health and Human Services	93.669		219,338
	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		833,900
	Chafee Foster Care Independence Program	Department of Health and Human Services	93.674		1,624,810
ARRA	ARRA - Preventing Healthcare-Associated Infections	Department of Health and Human Services	93.717		90,000
ARRA	ARRA - State Grants to Promote Health Information Technology	Administrative Services	93.719		2,497,528
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Department of Health and Human Services	93.723		419,389
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Department of Health and Human Services	93.724		4,999
ARRA	ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	Department of Health and Human Services	93.725		104,567
	Children's Health Insurance Program	Department of Health and Human Services	93.767	^	38,900,859
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Department of Health and Human Services	93.768		465,993

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2012 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Medicaid Cluster:				
ARRA	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Department of Health and Human Services	93.720		19,870
	State Medicaid Fraud Control Units	Attorney General	93.775		545,836
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Department of Health and Human Services	93.777	^	4,764,160
	Medical Assistance Program	Department of Health and Human Services	93.778	^	988,837,512
ARRA	Medical Assistance Program Recovery	Department of Health and Human Services	93.778	^	3,049,017
	Total Medical Assistance Program				991,886,529
	Total Medicaid Cluster				997,216,395
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779		468,671
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780		1,055,772
	Money Follows the Person Rebalancing Demonstration	Department of Health and Human Services	93.791		1,194,738
	National Bioterrorism Hospital Preparedness Program	Department of Health and Human Services	93.889		2,640,054
	Grants to States for Operation of Offices of Rural Health	Department of Health and Human Services	93.913		155,832
	HIV Care Formula Grants	Department of Health and Human Services	93.917		2,012,023
	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938		184,651
	HIV Prevention Activities-Health Department Based	Department of Health and Human Services	93.940		1,209,291
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Department of Health and Human Services	93.944		160,035
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Department of Health and Human Services	93.946		160,394
	Block Grants for Community Mental Health Services	Department of Health and Human Services	93.958		1,924,035
	Block Grants for Prevention and Treatment of Substance Abuse	Department of Health and Human Services	93.959		7,830,538
	Preventive Health Services-Sexually Transmitted Diseases Control Grants	Department of Health and Human Services	93.977		439,901
	Mental Health Disaster Assistance and Emergency Mental Health	Department of Health and Human Services	93.982		79,176
	Preventive Health and Health Services Block Grant	Department of Health and Human Services	93.991		1,547,216
	Maternal and Child Health Services Block Grant to the States	Department of Health and Human Services	93.994		4,073,972
	Tissue Residue Inspection Contract	Agriculture, Department of	HHSF223200840005I		6,938
	Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C		95,498
	Food Inspection	Agriculture, Department of	HHSF223200940012C		48,001

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

Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Health and Human Services, U.S. Department of (Continued)			
FDA Partnership Agreement	Agriculture, Department of	N/A	2,500
FDA Food Safety Grant	Agriculture, Department of	5R13FD003590-03	4,417
Total U.S. Department of Health and Human Services			$ 1,338,668,555
Homeland Security, U.S. Department of			
Pilot Demonstration or Earmarked Projects	Military Department	97.001	$ 68,125
Homeland Security Cluster:			
Homeland Security Grant Program	Military Department	97.067	7,764,731
Homeland Security Grant Program	Motor Vehicles, Department of	97.067	447,439
Total Homeland Security Cluster			8,212,170
Boating Safety Financial Assistance	Game and Parks Commission	97.012	459,519
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	82,177
Flood Mitigation Assistance	Natural Resources, Department of	97.029	18,609
Crisis Counseling	Military Department	97.032	102,674
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036	25,868,597
Hazard Mitigation Grant	Military Department	97.039	9,450,225
National Dam Safety Program	Natural Resources, Department of	97.041	206,129
Emergency Management Performance Grants	Military Department	97.042	3,299,690
State Fire Training Systems Grants	Fire Marshal	97.043	24,078
Cooperating Technical Partners	Natural Resources, Department of	97.045	269,012
Interoperable Emergency Communications	Military Department	97.055	164,451
Buffer Zone Protection Program (BZPP)	Military Department	97.078	437,416
Total U.S. Department of Homeland Security			$ 48,662,872
Housing & Urban Development, U.S. Department of			
CDBG - State-Administered CDBG Cluster			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Economic Development, Department of	14.228	$ 24,766,865
ARRA Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Economic Development, Department of	14.255	107,165
Total CDBG - State-Administered CDBG Cluster			24,874,030
Emergency Solutions Grant Program	Department of Health and Human Services	14.231	618,372

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Housing & Urban Development, U.S. Department of (Continued)				
	Home Investment Partnerships Program	Economic Development, Department of	14.239	3,953,469
	Housing Opportunities for Persons with AIDS	Department of Health and Human Services	14.241	487,264
ARRA	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Department of Health and Human Services	14.257	1,535,256
	Fair Housing Assistance Program-State and Local	Equal Opportunity Commission	14.401	178,433
Total U.S. Department of Housing & Urban Development				$ 31,646,824
Institute of Museum and Library Services				
	Grants to States	Library Commission	45.310	$ 1,350,838
	National Leadership Grants	Historical Society	45.312	2,600
	Laura Bush 21st Century Librarian Program	Library Commission	45.313	214,646
Total Institute of Museum and Library Services				$ 1,568,084
Interior, U.S. Department of				
ARRA	Water Reclamation and Reuse Program Recovery	Game and Parks Commission	15.504	$ 63,873
	Recreation Resources Management	Game and Parks Commission	15.524	14,591
	Fish and Wildlife Cluster:			
	Sport Fish Restoration Program	Game and Parks Commission	15.605	4,737,204
	Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611	5,509,373
	Total Fish and Wildlife Cluster			10,246,577
	Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	5,103
	Fish and Wildlife Management Assistance	Historical Society	15.608	10,703
	Total Fish and Wildlife Management Assistance			15,806
	Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	86,283
	Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	420
	Sportfishing and Boating Safety Act	Game and Parks Commission	15.622	205
	Landowner Incentive Program	Game and Parks Commission	15.633	463,475
	State Wildlife Grants	Game and Parks Commission	15.634	757,880
	Migratory Bird Joint Ventures	Game and Parks Commission	15.637	20,000
	Challenge Cost Share	Game and Parks Commission	15.642	2
	Research Grants (Generic)	Game and Parks Commission	15.650	39,279

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Interior, U.S. Department of (Continued)				
	U.S. Geological Survey- Research and Data Collection	Natural Resources, Department of	15.808	19,070
	U.S. Geological Survey- Research and Data Collection	Administrative Services	15.808	39,530
	Total U.S. Geological Survey- Research Data Collection			58,600
	National Spatial Data Infrastructure Cooperative Agreements Program	Administrative Services	15.809	28,766
	Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	685,501
	Outdoor Recreation-Acquisition, Development and Planning	Game and Parks Commission	15.916	449,097
Total U.S. Department of Interior				$ 12,930,355
Justice, U.S. Department of				
	Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission on	16.017	$ 158,693
	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	Corrections, Department of	16.203	34,021
	Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission on	16.523	523,227
	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Attorney General	16.528	86,568
	Juvenile Justice and Delinquency Prevention-Allocation to States	Law Enforcement and Criminal Justice, Commission on	16.540	567,403
	Missing Children's Assistance	State Patrol	16.543	268,778
	Title V-Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission on	16.548	47,573
	State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission on	16.550	46,858
	National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	134,669
	National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	457,163
	Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission on	16.575	2,548,411
	Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission on	16.576	18,429
	Drug Court Discretionary Grant Program	Supreme Court, Nebraska	16.585	100,927
	Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission on	16.588	1,030,541
ARRA	Violence Against Women Formula Grants Recovery	Law Enforcement and Criminal Justice, Commission on	16.588	199,141
	Total Violence Against Women Formula Grants			1,229,682
	Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission on	16.593	127,947
	State Criminal Alien Assistance Program	Corrections, Department of	16.606	200,000
	Bulletproof Vest Partnership Program	State Patrol	16.607	10,912
	Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission on	16.609	25,459
	Public Safety Partnership and Community Policing Grants	State Patrol	16.710	272,811
	Enforcing Underage Drinking Laws Program	Roads, Department of	16.727	422,437

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Justice, U.S. Department of (Continued)			
	JAG Program Cluster:			
	Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission on	16.738	1,668,403
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	Law Enforcement and Criminal Justice, Commission on	16.803	3,173,948
	Total JAG Program Cluster			4,842,351
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Department of Health and Human Services	16.745	45,856
	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	State Patrol	16.748	41,777
	Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750	100,948
	Edward Byrne Memorial Competitive Grant Program	Law Enforcement and Criminal Justice, Commission on	16.751	338,273
ARRA	Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	State Patrol	16.800	60,290
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.801	59,702
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Attorney General	16.810	253,489
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	State Patrol	16.810	202,018
	Total Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program			455,507
	John R. Justice Prosecutors and Defenders Incentive Act	Law Enforcement and Criminal Justice, Commission on	16.816	81,391
	Total U.S. Department of Justice			$ 13,308,063
	Labor, U.S. Department of			
	Labor Force Statistics	Labor, Department of	17.002	$ 859,952
	Compensation and Working Conditions	Worker's Compensation Court	17.005	43,644
	Employment Service Cluster:			
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	6,598,631
ARRA	Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, Department of	17.207	(207,159)
	Total Employment Service/Wagner-Peyser Funded Activities			6,391,472
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	757,391
	Local Veterans' Employment Representative Program	Labor, Department of	17.804	143,639
	Total Employment Service Cluster			7,292,502

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
Labor, U.S. Department of (Continued)				
	Unemployment Insurance - Federal	Labor, Department of	17.225	111,979,852
ARRA	Unemployment Insurance - Federal Recovery	Labor, Department of	17.225	4,168
	Unemployment Insurance - State	Labor, Department of	17.225	145,714,995
	Unemployment Insurance - Admin	Labor, Department of	17.225	18,970,862
ARRA	Unemployment Insurance - Admin Recovery	Labor, Department of	17.225	1,242,169
	Total Unemployment Insurance			277,912,046
	Senior Community Service Employment Program	Department of Health and Human Services	17.235	851,072
	Trade Adjustment Assistance	Labor, Department of	17.245	1,222,739
	WIA Cluster:			
	WIA Adult Program	Labor, Department of	17.258	2,268,897
ARRA	WIA Adult Program Recovery	Labor, Department of	17.258	303,812
	Total WIA Adult Program			2,572,709
	WIA Youth Activities	Labor, Department of	17.259	3,017,389
ARRA	WIA Youth Activities Recovery	Labor, Department of	17.259	186
	Total WIA Youth Activities			3,017,575
	WIA Dislocated Workers	Labor, Department of	17.260	365,369
ARRA	WIA Dislocated Workers Recovery	Labor, Department of	17.260	524,665
	Total WIA Dislocated Workers			890,034
	WIA Dislocated Worker Formula Grants	Labor, Department of	17.278	2,041,469
	Total WIA Cluster			8,521,787
	Incentive Grants - WIA Section 503	Labor, Department of	17.267	443,010
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271	205,952
	Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273	47,269
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Labor, Department of	17.275	2,142,717
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Education, Department of	17.275	360
	Total Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery			2,143,077
	Consultation Agreements	Labor, Department of	17.504	593,718
Total U.S. Department of Labor				$ 300,136,768

^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, 2012

Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
National Aeronautics and Space Administration			
Education	Education, Department of	43.008	$ 211,879
Total National Aeronautics and Space Administration			$ 211,879
National Archives and Records Administration			
National Historical Publications and Records Grants	Historical Society	89.003	$ 2,873
Total National Archives and Records Administration			$ 2,873
National Endowment for the Arts			
Promotion of the Arts-Partnership Agreements	Arts Council	45.025	$ 875,627
Total National Endowment for the Arts			$ 875,627
President, Executive Office of			
High Intensity Drug Trafficking Areas Program	State Patrol	95.001	$ 1,043,849
Total President, Executive Office of			$ 1,043,849
Small Business Administration			
State Trade and Export Promotion Pilot Grant Program	Economic Development, Department of	59.061	$ 3,384
Total Small Business Administration			$ 3,384
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security-Disability Insurance	Education, Department of	96.001	$ 10,128,455
Supplemental Security Income	Education, Department of	96.006	619,428
Supplemental Security Income	Blind and Visually Impaired, Commission for the	96.006	559,553
Total Supplemental Security Income			1,178,981
Total Social Security Administration			$ 11,307,436
Transportation, U.S. Department of			
Airport Improvement Program	Aeronautics, Department of	20.106	$ 22,047,226
Highway Research and Development Program	Education, Department of	20.200	5,792

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

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2012 Expenditures
	Transportation, U.S. Department of (Continued)			
	Highway Planning and Construction Cluster:			
	Highway Planning and Construction	Roads, Department of	20.205	265,245,803
ARRA	Highway Planning and Construction Recovery	Roads, Department of	20.205	18,002,527
	Total Highway Planning and Construction			283,248,330
	Recreational Trails Program	Game and Parks Commission	20.219	1,425,213
	Total Highway Planning and Construction Cluster			284,673,543
	Highway Training and Education	Education, Department of	20.215	50,317
	National Motor Carrier Safety	State Patrol	20.218	2,690,874
	Fuel Tax Evasion-Intergovernmental Enforcement Effort	State Patrol	20.240	(504)
	Metropolitan Transportation Planning	Roads, Department of	20.505	1,995,790
	Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	3,792,495
	Transit Services Programs Cluster:			
	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	1,186,430
ARRA	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	1,027,801
	Total Capital Assistance Program for Elderly Persons and Persons with Disabilities			2,214,231
	State Planning and Research	Roads, Department of	20.515	5,451,604
	Highway Safety Cluster:			
	State and Community Highway Safety	Roads, Department of	20.600	2,531,668
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Roads, Department of	20.601	1,194,531
	Occupant Protection Incentive Grants	Roads, Department of	20.602	183,408
	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Motor Vehicles, Department of	20.605	13,462
	State Traffic Safety Information System Improvement Grants	Roads, Department of	20.610	738,886
	Incentive Grant Program to Prohibit Racial Profiling	Roads, Department of	20.611	303,752
	Incentive Grant Program to Increase Motorcyclist Safety	Roads, Department of	20.612	85,907
	Total Highway Safety Cluster			5,051,614
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614	54,489
	Pipeline Safety Program State Base Grant	Fire Marshal	20.700	210,494
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	249,578
	Total U.S. Department of Transportation			$ 328,487,543

^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, 2012

Federal Agency/Program Title	**State Agency**	**CFDA or Grant #**		**2012 Expenditures**
Treasury, U.S. Department of				
State Small Business Credit Initiative Act of 2010	Economic Development, Department of	OMB Control # 1505-0227		$ 338,321
Total U.S. Department of Treasury				$ 338,321
Veterans Affairs, U.S. Department of				
Veterans State Domiciliary Care	Department of Health and Human Services	64.014	^	$ 1,426,426
Veterans State Nursing Home Care	Department of Health and Human Services	64.015	^	14,644,212
State Cemetery Grants	Department of Veterans' Affairs	64.203		325,048
Total U.S. Department of Veterans Affairs				$ 16,395,686
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 2,946,050,109

^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, 2012

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Administrative Services				
	U.S. Geological Survey - Research and Data Collection	Interior, U.S. Department of	15.808	$ 39,530
	National Spatial Data Infrastructure Cooperative Agreements Program	Interior, U.S. Department of	15.809	28,766
ARRA	ARRA - State Grants to Promote Health Information Technology	Health and Human Services, U.S. Department of	93.719	2,497,528
Total Administrative Services				$ 2,565,824
Aeronautics, Department of				
	Airport Improvement Program	Transportation, U.S. Department of	20.106	$ 22,047,226
Total Department of Aeronautics				$ 22,047,226
Agriculture, Department of				
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$ 702,854
	Market Protection and Promotion	Agriculture, U.S. Department of	10.163	68,727
	Specialty Crop Block Grant Program	Agriculture, U.S. Department of	10.169	9,652
	Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170	277,799
	State Mediation Grants	Agriculture, U.S. Department of	10.435	114,158
	Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477	17,115
	Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479	138,284
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, U.S. Department of	10.572	77,685
	Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	246,682
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	556,036
	Food and Drug Administration-Research	Health and Human Services, U.S. Department of	93.103	907
	Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448	365,335
	Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	194,270
	Tissue Residue Inspection Contract	Health and Human Services, U.S. Department of	HHSF2232008400051	6,938
	Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C	95,498
	Food Inspection	Health and Human Services, U.S. Department of	HHSF223200940012C	48,001
	Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	163,603
	FDA Partnership Agreement	Health and Human Services, U.S. Department of	N/A	2,500
	FDA Food Safety Grant	Health and Human Services, U.S. Department of	5R13FD003590-03	4,417
Total Department of Agriculture				$ 3,090,461
Arts Council				
	Promotion of the Arts-Partnership Agreements	National Endowment for the Arts	45.025	$ 875,627
Total Arts Council				$ 875,627

^ - 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, 2012

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Attorney General			
	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Justice, U.S. Department of	16.528	$ 86,568
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	253,489
	Medicaid Cluster:			
	State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	545,836
	Total Attorney General			$ 885,893
	Blind and Visually Impaired, Commission for the			
	Vocational Rehabilitation Cluster:			
	Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	$ 2,665,214
ARRA	Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	81,059
	Total Vocational Rehabilitation Cluster			2,746,273
	Independent Living State Grants Cluster:			
	Independent Living - State Grants	Education, U.S. Department of	84.169	21,715
	Independent Living Services for Older Individuals Who are Blind Cluster:			
	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	95,032
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	23,347
	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	17,540
	Disability Insurance/SSI Cluster:			
	Supplemental Security Income	Social Security Administration	96.006	559,553
	Total Commission for the Blind and Visually Impaired			$ 3,463,460
	Corrections, Department of			
	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	Justice, U.S. Department of	16.203	$ 34,021
	State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	200,000
	Donation of Federal Surplus Personal Property	General Services Administration	39.003	997,066
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Education, U.S. Department of	84.331	25,623
	Total Department of Corrections			$ 1,256,710

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Economic Development, Department of			
	Rural Community Development Initiative	Agriculture, U.S. Department of	10.446	$ 327
	National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	5,469
	Economic Development Cluster:			
	Economic Adjustment Assistance	Commerce, U.S. Department of	11.307	4,191
	Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	582,908
	CDBG - State-Administered CDBG Cluster:			
	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Housing & Urban Development, U.S. Department of	14.228	24,766,865
ARRA	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Housing & Urban Development, U.S. Department of	14.255	107,165
	Total CDBG - State-Administered CDBG Cluster			24,874,030
	Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	3,953,469
	State Trade and Export Promotion Pilot Grant Program	Small Business Administration	59.061	3,384
	State Small Business Credit Initiative Act of 2010	Treasury, U.S. Department of	OMB Control # 1505-0227	338,321
	Total Department of Economic Development			$ 29,762,099
	Education, Department of			
	Child Nutrition Cluster:			
	School Breakfast Program	Agriculture, U.S. Department of	10.553	$ 14,615,982
	National School Lunch Program	Agriculture, U.S. Department of	10.555	62,705,949
	Special Milk Program for Children	Agriculture, U.S. Department of	10.556	59,199
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	2,716,180
	Total Child Nutrition Cluster			80,097,310
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	32,521,145
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,234,355
	Team Nutrition Grants	Agriculture, U.S. Department of	10.574	203,119
	Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579	85,614
	Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582	1,694,613
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Labor, U.S. Department of	17.275	360
	Highway Research and Development Program	Transportation, U.S. Department of	20.200	5,792
	Highway Training and Education	Transportation, U.S. Department of	20.215	50,317

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Education, Department of (Continued)				
	Education	National Aeronautics and Space Administration	43.008	211,879
	Adult Education - Basic Grants to States	Education, U.S. Department of	84.002	2,505,103
	Title I, Part A Cluster:			
	Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	61,939,906
ARRA	Title I Grants to Local Educational Agencies, Recovery Act	Education, U.S. Department of	84.389	21,115,993
	Total Title I, Part A Cluster			83,055,899
	Migrant Education-State Grant Program	Education, U.S. Department of	84.011	6,535,639
	Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, U.S. Department of	84.013	269,335
	Special Education Cluster (IDEA):			
	Special Education-Grants to States	Education, U.S. Department of	84.027	31,081,670
	Special Education-Preschool Grants	Education, U.S. Department of	84.173	1,044,369
ARRA	Special Education Grants to States, Recovery Act	Education, U.S. Department of	84.391	29,546,421
ARRA	Special Education - Preschool Grants, Recovery Act	Education, U.S. Department of	84.392	1,307,852
	Total Special Education Cluster (IDEA)			62,980,312
	Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048	6,435,021
	Vocational Rehabilitation Cluster:			
	Rehabilitation Services-Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	15,185,132
ARRA	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	Education, U.S. Department of	84.390	591,049
	Total Vocational Rehabilitation Cluster			15,776,181
	Migrant Education-Coordination Program	Education, U.S. Department of	84.144	73,329
	Rehabilitation Services-Client Assistance Program	Education, U.S. Department of	84.161	126,295
	Independent Living State Grants Cluster:			
	Independent Living-State Grants	Education, U.S. Department of	84.169	235,007
	Early Intervention Services (IDEA) Cluster:			
	Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	2,725,494
ARRA	Special Education - Grants for Infants and Families, Recovery Act	Education, U.S. Department of	84.393	1,333,502
	Total Early Intervention Services (IDEA) Cluster			4,058,996
	Safe and Drug-Free Schools and Communities-National Programs	Education, U.S. Department of	84.184	49,426
	Safe and Drug-Free Schools and Communities-State Grants	Education, U.S. Department of	84.186	295,834
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	399,269

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Education, Department of (Continued)			
	Education of Homeless Children and Youth Cluster:			
	Education for Homeless Children and Youth	Education, U.S. Department of	84.196	285,431
ARRA	Education for Homeless Children and Youth, Recovery Act	Education, U.S. Department of	84.387	60,675
	Total Education of Homeless Children and Youth Cluster			346,106
	Even Start-State Educational Agencies	Education, U.S. Department of	84.213	239,423
	Assistive Technology	Education, U.S. Department of	84.224	443,955
	Tech-Prep Education	Education, U.S. Department of	84.243	162,991
	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	52,685
	Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	5,315,088
	Foreign Language Assistance	Education, U.S. Department of	84.293	144,130
	Parental Information and Resource Centers	Education, U.S. Department of	84.310	12,618
	Educational Technology State Grants Cluster:			
	Educational Technology State Grants	Education, U.S. Department of	84.318	765,293
ARRA	Education Technology State Grants, Recovery Act	Education, U.S. Department of	84.386	1,289,724
	Total Educational Technology State Grants Cluster			2,055,017
	Special Education - State Personnel Development	Education, U.S. Department of	84.323	215,534
	Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	74,708
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	20,000
	Rural Education	Education, U.S. Department of	84.358	46,418
	English Language Acquisition State Grants	Education, U.S. Department of	84.365	2,607,976
	Mathematics and Science Partnerships	Education, U.S. Department of	84.366	852,672
	Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	10,177,286
	Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	4,518,828
	Striving Readers	Education, U.S. Department of	84.371	34,776
	Special Education-Technical Assistance on State Data Collection	Education, U.S. Department of	84.373	79,663
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, U.S. Department of	84.377	177,122
ARRA	School Improvement Grants, Recovery Act	Education, U.S. Department of	84.388	3,744,875
	Total School Improvement Grants Cluster			3,921,997
	State Fiscal Stabilization Fund Cluster:			
ARRA	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education, U.S. Department of	84.394	49,253,115

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Education, Department of (Continued)			
	Education Jobs Fund	Education, U.S. Department of	84.410	28,093,020
	Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	232,239
	Head Start Cluster:			
	Head Start	Health and Human Services, U.S. Department of	93.600	131,804
ARRA	ARRA - Head Start	Health and Human Services, U.S. Department of	93.708	124,051
	Total Head Start Cluster			255,855
	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	184,651
	Learn and Serve America-School and Community Based Programs	Corporation For National and Community Service	94.004	63,955
	Disability Insurance/SSI Cluster:			
	Social Security-Disability Insurance	Social Security Administration	96.001	10,128,455
	Supplemental Security Income	Social Security Administration	96.006	619,428
	Total Disability Insurance/SSI Cluster			10,747,883
	Total Department of Education			$ 419,052,739
	Energy Office			
	National Energy Information Center	Energy, U.S. Department of	81.039	$ 6,000
	State Energy Program	Energy, U.S. Department of	81.041	81,661
ARRA	State Energy Program Recovery	Energy, U.S. Department of	81.041	14,544,150
	Total State Energy Program			14,625,811
	Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	464,566
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy, U.S. Department of	81.042	14,684,062
	Total Weatherization Assistance for Low-Income Persons			15,148,628
	State Energy Program Special Projects	Energy, U.S. Department of	81.119	14,813
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122	53,011
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy, U.S. Department of	81.128	3,544,340
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	1,900,938
	Total Energy Office			$ 35,293,541
	Environmental Quality, Department of			
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	$ 128,511

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Environmental Quality, Department of (Continued)				
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	252,694
ARRA	State Clean Diesel Grant Program Recovery	Environmental Protection Agency, U.S.	66.040	(35,910)
	State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040	341,378
	Total State Clean Diesel Grant Program			305,468
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	193,846
	Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439	69,439
	Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	79,073
ARRA	Capitalization Grants for Clean Water State Revolving Funds Recovery	Environmental Protection Agency, U.S.	66.458	53,197
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	2,410,050
	Total Capitalization Grants for Clean Water State Revolving Funds			2,463,247
	Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	3,143,182
ARRA	Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Protection Agency, U.S.	66.468	278,050
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	8,463,624
	Total Capitalization Grants for Drinking Water State Revolving Funds			8,741,674
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	4,239,861
	Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	8,973
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	337,291
ARRA	Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Protection Agency, U.S.	66.805	88,915
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805	1,505,645
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			1,594,560
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	169,565
	State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	500,863
Total Department of Environmental Quality				$ 22,228,247
Equal Opportunity Commission				
	Fair Housing Assistance Program-State and Local	Housing & Urban Development, U.S. Department of	14.401	$ 178,433
	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002	426,015
Total Equal Opportunity Commission				$ 604,448

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Fire Marshal				
	Pipeline Safety Program State Base Grant	Transportation, U.S. Department of	20.700	$ 210,494
	Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804	457,548
	State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	24,078
Total Fire Marshal				$ 692,120
Game and Parks Commission				
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$ 68,362
	Avian Influenza Indemnity Program	Agriculture, U.S. Department of	10.029	130
	Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	283,008
	Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093	1,190,410
	Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664	109,104
	Rural Development, Forestry, and Communities	Agriculture, U.S. Department of	10.672	45,147
	Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912	100,544
ARRA	Water Reclamation and Reuse Program Recovery	Interior, U.S. Department of	15.504	63,873
	Recreation Resources Management	Interior, U.S. Department of	15.524	14,591
	Fish and Wildlife Cluster:			
	Sport Fish Restoration Program	Interior, U.S. Department of	15.605	4,737,204
	Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611	5,509,373
	Total Fish and Wildlife Cluster			10,246,577
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	5,103
	Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	86,283
	Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	420
	Sportfishing and Boating Safety Act	Interior, U.S. Department of	15.622	205
	Landowner Incentive Program	Interior, U.S. Department of	15.633	463,475
	State Wildlife Grants	Interior, U.S. Department of	15.634	757,880
	Migratory Bird Joint Ventures	Interior, U.S. Department of	15.637	20,000
	Challenge Cost Share	Interior, U.S. Department of	15.642	2
	Research Grants (Generic)	Interior, U.S. Department of	15.650	39,279
	Outdoor Recreation-Acquisition, Development and Planning	Interior, U.S. Department of	15.916	449,097
	Highway Planning and Construction Cluster:			
	Recreational Trails Program	Transportation, U.S. Department of	20.219	1,425,213
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	33,989
	Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	111,664

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2012 Expenditures
	Game and Parks Commission (Continued)				
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122		45,473
	Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012		459,519
	Total Game and Parks Commission				$ 16,019,348
	Department of Health and Human Services				
	Child Nutrition Cluster:				
	National School Lunch Program	Agriculture, U.S. Department of	10.555		$ 10,942,130
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559		33,425
	Total Child Nutrition Cluster				10,975,555
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551		258,086,160
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	^	14,852,302
	Total SNAP Cluster				272,938,462
	Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557		32,884,643
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		250,157
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		155,246
	Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565		3,577,735
	Emergency Food Assistance Cluster:				
	Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568		312,728
	Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569		1,578,530
	Total Emergency Food Assistance Cluster				1,891,258
ARRA	WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578		88,745
	Supplemental Nutrition Assistance Program, Outreach/Participation Program	Agriculture, U.S. Department of	10.580	^	147,127
	Emergency Solutions Grant Program	Housing & Urban Development, U.S. Department of	14.231		618,372
	Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241		487,264
ARRA	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Housing & Urban Development, U.S. Department of	14.257		1,535,256
	Criminal and Juvenile Justice and Mental Health Collaboration Program	Justice, U.S. Department of	16.745		45,856
	Senior Community Service Employment Program	Labor, U.S. Department of	17.235		851,072
	Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	^	1,426,426
	Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	^	14,644,212
	State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032		154,479

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2012 Expenditures
	Department of Health and Human Services (Continued)				
	State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432		582,674
	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471		188,970
	Water Protection Grants to the States	Environmental Protection Agency, U.S.	66.474		6,695
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707		242,162
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		(1,079)
	Safe and Drug-Free Schools and Communities-State Grants	Education, U.S. Department of	84.186		165,186
	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006		107,778
	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		26,340
	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		86,781
	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		109,986
	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		2,099,512
	Special Programs for the Aging-Title III, Part C-Nutrition Services	Health and Human Services, U.S. Department of	93.045		3,952,254
	Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053		1,269,517
	Total Aging Cluster				7,321,283
	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	Health and Human Services, U.S. Department of	93.048		467,410
	National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052		712,539
	Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069		8,163,288
	Medicare Enrollment Assistance Program	Health and Human Services, U.S. Department of	93.071		3,933
	Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072		17,410
ARRA	Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090	^	48,035
	Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092		148,279
	Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110		331,352
	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116		219,317
	Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127		120,571
	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130		159,637
	Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136		414,834
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150		323,001

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Department of Health and Human Services (Continued)			
	Family Planning-Services	Health and Human Services, U.S. Department of	93.217	2,365,185
	Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	126,694
	Grants to States to Support Oral Health Workforce Activities	Health and Human Services, U.S. Department of	93.236	757,139
	State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	692,236
	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	4,006,707
	Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	380,736
	Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262	37,450
	Immunization Cluster:			
	Immunization Cooperative Agreements	Health and Human Services, U.S. Department of	93.268	22,200,273
ARRA	ARRA - Immunization	Health and Human Services, U.S. Department of	93.712	119,168
	Total Immunization Cluster			22,319,441
	Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	116,849
	The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	9,328,561
	Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	582,648
ARRA	ARRA - State Primary Care Offices	Health and Human Services, U.S. Department of	93.414	51,002
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505	561,199
	PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, U.S. Department of	93.507	879,691
	Affordable Care Act - Medicare Improvements for Patients and Providers	Health and Human Services, U.S. Department of	93.518	47,820
	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	Health and Human Services, U.S. Department of	93.520	24,000
	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; PPHF	Health and Human Services, U.S. Department of	93.521	243,980
	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	Health and Human Services, U.S. Department of	93.539	316,749
	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	Health and Human Services, U.S. Department of	93.544	94,293
	PPHF 2012: Nutrition, Physical Activity and Obesity Program - financed in part by 2012 Prevention and Public Health Funds (PPHF-2012)	Health and Human Services, U.S. Department of	93.548	503,553

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2012 Expenditures
	Department of Health and Human Services (Continued)				
	Transitional Living for Homeless Youth	Health and Human Services, U.S. Department of	93.550		250,000
	Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556		1,475,346
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	^	36,154,854
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Health and Human Services, U.S. Department of	93.714		7,504,458
	Total TANF Cluster:				43,659,312
	Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	^	15,913,988
	Refugee and Entrant Assistance-State Administered Programs	Health and Human Services, U.S. Department of	93.566		2,390,555
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		45,105,758
	CSBG Cluster:				
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569		4,196,189
	CCDF Cluster:				
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	^	30,460,373
ARRA	ARRA – Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.713	^	699,325
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	^	18,371,021
	Total CCDF Cluster				49,530,719
	Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services, U.S. Department of	93.576		758,483
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597		98,071
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599		558,295
	Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603		378,401
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630		489,232
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643		122,550
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645		209,920
	Foster Care-Title IV-E	Health and Human Services, U.S. Department of	93.658	^	16,252,385
ARRA	Foster Care-Title IV-E Recovery	Health and Human Services, U.S. Department of	93.658	^	(77,831)
	Total Foster Care-Title IV-E				16,174,554
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	^	10,674,381
ARRA	Adoption Assistance Recovery	Health and Human Services, U.S. Department of	93.659	^	(1,566)
	Total Adoption Assistance				10,672,815
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667		11,849,021
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669		219,338

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2012 Expenditures
	Department of Health and Human Services (Continued)				
	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		833,900
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674		1,624,810
ARRA	ARRA - Preventing Healthcare-Associated Infections	Health and Human Services, U.S. Department of	93.717		90,000
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, U.S. Department of	93.723		419,389
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Health and Human Services, U.S. Department of	93.724		4,999
ARRA	ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	Health and Human Services, U.S. Department of	93.725		104,567
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	^	38,900,859
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768		465,993
	Medicaid Cluster:				
ARRA	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	Health and Human Services, U.S. Department of	93.720		19,870
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, U.S. Department of	93.777	^	4,764,160
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	^	988,837,512
ARRA	Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778	^	3,049,017
	Total Medical Assistance Program				991,886,529
	Total Medicaid Cluster				996,670,559
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		1,194,738
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889		2,640,054
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		155,832
	HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		2,012,023
	HIV Prevention Activities-Health Department Based	Health and Human Services, U.S. Department of	93.940		1,209,291
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		160,035
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		160,394
	Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		1,924,035
	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		7,830,538
	Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		439,901
	Mental Health Disaster Assistance and Emergency Mental Health	Health and Human Services, U.S. Department of	93.982		79,176

^ - 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, 2012

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Department of Health and Human Services (Continued)			
	Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,547,216
	Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	4,073,972
	State Commissions	Corporation For National and Community Service	94.003	209,436
	AmeriCorps	Corporation For National and Community Service	94.006	1,715,348
	Program Development and Innovation Grants	Corporation For National and Community Service	94.007	56,721
	Training and Technical Assistance	Corporation For National and Community Service	94.009	74,220
	Total Department of Health and Human Services			$ 1,674,724,733
	Historical Society			
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	$ 10,703
	Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	685,501
	National Leadership Grants	Institute of Museum and Library Services	45.312	2,600
	National Historical Publications and Records Grants	National Archives and Records Administration	89.003	2,873
	Total Historical Society			$ 701,677
	Insurance, Department of			
	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Health and Human Services, U.S. Department of	93.511	$ 379,463
	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Health and Human Services, U.S. Department of	93.525	1,024,465
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	468,671
	Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	1,055,772
	Total Department of Insurance			$ 2,928,371
	Labor, Department of			
	Labor Force Statistics	Labor, U.S. Department of	17.002	$ 859,952
	Employment Service Cluster:			
	Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	6,598,631
ARRA	Employment Service/Wagner-Peyser Funded Activities Recovery	Labor, U.S. Department of	17.207	(207,159)
	Total Employment Service/Wagner-Peyser Funded Activities			6,391,472
	Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	757,391
	Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	143,639
	Total Employment Service Cluster			7,292,502

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	Labor, Department of (Continued)			
	Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	111,979,852
ARRA	Unemployment Insurance - Federal Recovery	Labor, U.S. Department of	17.225	4,168
	Unemployment Insurance - State	Labor, U.S. Department of	17.225	145,714,995
	Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	18,970,862
ARRA	Unemployment Insurance - Admin Recovery	Labor, U.S. Department of	17.225	1,242,169
	Total Unemployment Insurance			277,912,046
	Trade Adjustment Assistance	Labor, U.S. Department of	17.245	1,222,739
	WIA Cluster:			
	WIA Adult Program	Labor, U.S. Department of	17.258	2,268,897
ARRA	WIA Adult Program Recovery	Labor, U.S. Department of	17.258	303,812
	Total WIA Adult Program			2,572,709
	WIA Youth Activities	Labor, U.S. Department of	17.259	3,017,389
ARRA	WIA Youth Activities Recovery	Labor, U.S. Department of	17.259	186
	Total WIA Youth Activities			3,017,575
	WIA Dislocated Workers	Labor, U.S. Department of	17.260	365,369
ARRA	WIA Dislocated Workers Recovery	Labor, U.S. Department of	17.260	524,665
	Total WIA Dislocated Workers			890,034
	WIA Dislocated Worker Formula Grants	Labor, U.S. Department of	17.278	2,041,469
	Total WIA Cluster			8,521,787
	Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267	443,010
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271	205,952
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	47,269
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Recovery	Labor, U.S. Department of	17.275	2,142,717
	Consultation Agreements	Labor, U.S. Department of	17.504	593,718
	Total Department of Labor			$ 299,241,692
	Law Enforcement and Criminal Justice, Commission on			
	Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$ 158,693
	Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	523,227
	Juvenile Justice and Delinquency Prevention-Allocation to States	Justice, U.S. Department of	16.540	567,403
	Title V-Delinquency Prevention Program	Justice, U.S. Department of	16.548	47,573

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Law Enforcement and Criminal Justice, Commission on (Continued)				
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	46,858
	Crime Victim Assistance	Justice, U.S. Department of	16.575	2,548,411
	Crime Victim Compensation	Justice, U.S. Department of	16.576	18,429
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,030,541
ARRA	Violence Against Women Formula Grants Recovery	Justice, U.S. Department of	16.588	199,141
	Total Violence Against Women Formula Grants			1,229,682
	Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	127,947
	Project Safe Neighborhoods	Justice, U.S. Department of	16.609	25,459
	JAG Program Cluster:			
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	1,668,403
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	3,173,948
	Total JAG Program Cluster			4,842,351
	Edward Byrne Memorial Competitive Grant Program	Justice, U.S. Department of	16.751	338,273
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Justice, U.S. Department of	16.801	59,702
	John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816	81,391
Total Commission on Law Enforcement and Criminal Justice				$ 10,615,399
Library Commission				
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Commerce, U.S. Department of	11.557	$ 1,085,225
	Grants to States	Institute of Museum and Library Services	45.310	1,350,838
	Laura Bush 21st Century Librarian Program	Institute of Museum and Library Services	45.313	214,646
Total Library Commission				$ 2,650,709
Military Department				
	Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555	$ 3,997,496
	Military Construction, National Guard	Defense, U.S. Department of	12.400	14,870,845
	National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	17,402,627
	National Guard ChalleNGe Program	Defense, U.S. Department of	12.404	293,952
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	249,578
	Pilot Demonstration or Earmarked Projects	Homeland Security, U.S. Department of	97.001	68,125
	Homeland Security Cluster:			
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	7,764,731

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

State Agency/Program Title	Federal Agency	CFDA or Grant #		2012 Expenditures
Military Department (Continued)				
Crisis Counseling	Homeland Security, U.S. Department of	97.032		102,674
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036		25,868,597
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		9,450,225
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		3,299,690
Interoperable Emergency Communications	Homeland Security, U.S. Department of	97.055		164,451
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078		437,416
Total Military Department			$	83,970,407
Motor Vehicles, Department of				
Highway Safety Cluster:				
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605	$	13,462
Homeland Security Cluster:				
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		447,439
Total Department of Motor Vehicles			$	460,901
Natural Resources, Department of				
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	$	14,876
U.S. Geological Survey-Research and Data Collection	Interior, U.S. Department of	15.808		19,070
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023		82,177
Flood Mitigation Assistance	Homeland Security, U.S. Department of	97.029		18,609
National Dam Safety Program	Homeland Security, U.S. Department of	97.041		206,129
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045		269,012
Total Department of Natural Resources			$	609,873
Oil and Gas Commission				
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	$	81,862
Total Oil and Gas Commission			$	81,862
Postsecondary Education, Coordinating Commission for				
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	$	421,436
College Access Challenge Grant Program	Education, U.S. Department of	84.378		1,247,041
Total Coordinating Commission for Postsecondary Education			$	1,668,477

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

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
Public Service Commission				
ARRA	State Broadband Data and Development Grant Program Recovery	Commerce, U.S. Department of	11.558	$ 713,247
Total Public Service Commission				$ 713,247
Roads, Department of				
	Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	$ 422,437
	Highway Planning and Construction Cluster:			
	Highway Planning and Construction	Transportation, U.S. Department of	20.205	265,245,803
ARRA	Highway Planning and Construction Recovery	Transportation, U.S. Department of	20.205	18,002,527
	Total Highway Planning and Construction Cluster			283,248,330
	Metropolitan Transportation Planning	Transportation, U.S. Department of	20.505	1,995,790
	Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	3,792,495
	Transit Services Programs Cluster:			
	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	1,186,430
ARRA	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	1,027,801
	Total Capital Assistance Program for Elderly Persons and Persons with Disabilities			2,214,231
	State Planning and Research	Transportation, U.S. Department of	20.515	5,451,604
	Highway Safety Cluster:			
	State and Community Highway Safety	Transportation, U.S. Department of	20.600	2,531,668
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601	1,194,531
	Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602	183,408
	State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	738,886
	Incentive Grant Program to Prohibit Racial Profiling	Transportation, U.S. Department of	20.611	303,752
	Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	85,907
	Total Highway Safety Cluster			5,038,152
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614	54,489
Total Department of Roads				$ 302,217,528
Secretary of State				
	Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	$ 1,281,550
	Voting Access for Individuals with Disabilities-Grants to States	Health and Human Services, U.S. Department of	93.617	63,446
Total Secretary of State				$ 1,344,996

^ - 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, 2012

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2012 Expenditures
	State Patrol			
	Missing Children's Assistance	Justice, U.S. Department of	16.543	$ 268,778
	National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	134,669
	National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	457,163
	Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607	10,912
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	272,811
	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	Justice, U.S. Department of	16.748	41,777
	Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750	100,948
ARRA	Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	Justice, U.S. Department of	16.800	60,290
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	202,018
	National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,690,874
	Fuel Tax Evasion-Intergovernmental Enforcement Effort	Transportation, U.S. Department of	20.240	(504)
	High Intensity Drug Trafficking Areas Program	Executive Office of the President	95.001	1,043,849
	Total State Patrol			$ 5,283,585
	Supreme Court, Nebraska			
	Drug Court Discretionary Grant Program	Justice, U.S. Department of	16.585	$ 100,927
	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	144,414
	State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	384,876
	Total Nebraska Supreme Court			$ 630,217
	Veterans' Affairs, Department of			
	State Cemetery Grants	Veterans Affairs, U.S. Department of	64.203	$ 325,048
	Total Department of Veterans' Affairs			$ 325,048
	Worker's Compensation Court			
	Compensation and Working Conditions	Labor, U.S. Department of	17.005	$ 43,644
	Total Worker's Compensation Court			$ 43,644
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,946,050,109

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

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all Federal awards programs of the State of Nebraska (the State), except as noted in note 2 below. The State's reporting entity is defined in note 1(b) to the State's financial statements. Federal awards received directly from Federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective Federal agency. Due to the decentralized operations of the State, the accumulation of amounts passed to subrecipients by the State is not practical.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The State's reporting entity is defined in note 1(b) to the financial statements. The accompanying Schedule includes the Federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2012.

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.

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 the Federal financial status reports.

Grants Between State Agencies—Certain primary recipient State agencies pass grant money through to subrecipient State agencies. These transactions are only shown in the primary recipient's expenditures on the accompanying Schedule to avoid overstating the aggregate level of Federal awards expended by the State; nonetheless, purchases of services between State agencies using Federal monies are reported as expenditures by the purchasing agency and as revenue for services by the providing agency in the State's basic financial statements.

Matching Costs—The Schedule does not include matching expenditures from general revenues of the State.

Nonmonetary Assistance—The Schedule contains amounts for nonmonetary assistance programs. The Supplemental Nutrition Assistance Program (SNAP) is presented at the dollar value of food stamp benefits disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The Childhood Immunization vaccines are presented at the value assigned by the U.S. Department of Health and Human Services. Surplus property is presented at approximated market value.

Fixed-Price Contracts—Certain Federal awards programs are reimbursed based on a fixed price for a service and not the actual expenditure made by the State. Under these circumstances, the amounts shown on the Schedule represent the amount of assistance received from the Federal government, not the amount expended by the State.

(3) Nonmonetary Assistance Inventory

Nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2012, the inventory balance of nonmonetary assistance for food commodities at the State level was $2,168,199.

(4) Commodity and Vaccine Programs

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

CFDA #	Program	Commodities
10.555	National School Lunch Program	$ 10,942,130
10.558	Child and Adult Care Food Program	250,157
10.559	Summer Food Service Program for Children	33,425
10.565	Commodity Supplemental Food Program	2,745,121
10.569	Emergency Food Assistance Program	1,578,530

The U.S. Department of Agriculture, upon direction from the Nebraska Department of Health and Human Services, delivers a portion of the food commodities directly to the subrecipients for distribution. During the fiscal year, a total of $7,214,331 was delivered directly to subrecipients.

The Immunization Cooperative Agreements (CFDA No. 93.268) included expenditures of $20,632,524 of nonmonetary Federal assistance in the form of vaccines.

(5) Supplemental Nutrition Assistance Program (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

(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 No. 39.003) program. Donated Federal surplus personal property in 2012 was valued at the historical cost of $6,647,108 as assigned by the Federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule is 15% of the historical cost, which approximates the fair market value of the property.

(7) Federal Loans Outstanding

The State administers the following loan programs. The Federal government does not impose continuing compliance requirements other than repayment of the loans.

CFDA #	Program	Outstanding Balance at June 30, 2012
66.458	Capitalization Grants for Clean Water State Revolving Funds	$148,905,286
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$96,284,083

New loans provided from these programs totaling $5,169,718 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
Mike Foley
State Auditor
Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2012, which collectively comprise the State of Nebraska's basic financial statements and have issued our report thereon dated January 16, 2013. Our report includes 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 University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associations, the Nebraska Utility Corporation, the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, the Nebraska State College System Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, the Nebraska State Colleges Facilities Corporation 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 University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associations, the Nebraska Utility Corporation, the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, the Nebraska State College System Foundations, the Nebraska State College System Revenue and Refunding Bond Fund, the Nebraska State Colleges Facilities Corporation and the College Savings Plan were not audited in accordance with *Government Auditing Standards.* The financial statements of these entities were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

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 a 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 and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we and the other auditors 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 #12-23-01, #12-23-02, #12-25-01, and #12-65-01. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the State of Nebraska's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors 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
January 16, 2013

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
Mike Foley
State Auditor
Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

Independent Auditors' Report

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, 2012. 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, 2012. Our audit, described below, did not include the operations of the University of Nebraska or the State College System because the component units engaged other auditors to perform separate audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-l33, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-l33 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska's compliance with those requirements.

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 requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major Federal programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Allowability/ Subrecipient Monitoring	12-25-14
93.044, 93.045 and 93.053	Aging Cluster	Reporting	12-25-15
93.044 and 93.045	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers; Special Programs for the Aging Title III, Part C Nutrition Services	Allowability/Matching/ Earmarking/Subrecipient Monitoring	12-25-16
93.044, 93.045 and 93.053	Aging Cluster	Reporting	12-25-17
93.558	Temporary Assistance for Needy Families	Allowable Costs/ Eligibility/Special Tests and Provisions	12-25-20
93.558	Temporary Assistance for Needy Families	Allowable Costs/Eligibility	12-25-21
93.575 and 93.596	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Allowability/ Eligibility	12-25-31
81.042	Weatherization Assistance for Low-Income Persons	Eligibility/ Subrecipient Monitoring	12-71-02
81.042 and 93.568	Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance	Subrecipient Monitoring	12-71-03
16.738 and 16.803	JAG Program Cluster	Allowability/ Subrecipient Monitoring	12-78-01

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 requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
10.555	National School Lunch Program	Special Tests and Provisions	12-25-07
93.568	Low-Income Home Energy Assistance	Allowability	12-25-26
93.658	Foster Care Title IV-E	Allowability/ Eligibility/Period of Availability/Reporting	12-25-34
93.658	Foster Care Title IV-E	Subrecipient Monitoring/Reporting	12-25-35

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 referred to above that could have a direct and material effect on the major programs identified in the preceding paragraph. Also, in our opinion, except for the noncompliance described in the second 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, 2012.

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

CFDA #	Federal Program	Compliance Requirement	Finding #
10.555, 84.027, 84.173 and 84.391	National School Lunch Program; Special Education Grants to States; Special Education Preschool Grants; Special Education Grants to States, Recovery Act	Subrecipient Monitoring	12-13-01
10.553, 10.555, 10.556, 10.559 and 10.558	Child Nutrition Cluster, Child and Adult Care Food Program	Reporting	12-13-02
10.558	Child and Adult Care Food Program	Suspension and Debarment	12-13-03
10.558	Child and Adult Care Food Program	Eligibility	12-13-04

CFDA #	Federal Program	Compliance Requirement	Finding #
84.027	Special Education Grants to States	Reporting	12-13-05
84.027 and 84.173	Special Education Grants to States, Special Education Preschool Grants	Reporting	12-13-06
84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions	12-13-07
84.389	Title I Grants to Local Educational Agencies, Recovery Act	Reporting	12-13-08
84.010	Title I Grants to Local Educational Agencies	Reporting	12-13-09
84.010 and 84.389	Title I, Part A Cluster	Reporting	12-13-10
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Allowable Costs	12-23-03
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Allowable Costs	12-23-04
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Allowability/Subrecipient Monitoring	12-23-05
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Allowability/ Eligibility	12-23-06
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Reporting	12-23-07
17.258, 17.259, 17.260 and 17.278	WIA Cluster	Cash Management	12-23-08
93.575, 93.596, 93.658 and 93.778	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care Title IV-E, Medical Assistance Program	Allowable Costs	12-25-02
93.575	Child Care and Development Block Grant	Period of Availability	12-25-03

CFDA #	Federal Program	Compliance Requirement	Finding #
93.558, 93.575, 93.596 and 93.778	Temporary Assistance for Needy Families, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Medical Assistance Program	Allowable Costs	12-25-04
93.777 and 93.791	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare, Money Follows the Person Rebalancing Demonstration	Allowable Costs	12-25-05
93.558	Temporary Assistance for Needy Families	Cash Management	12-25-06
10.555	National School Lunch Program	Reporting	12-25-08
10.555	National School Lunch Program	Special Tests and Provisions	12-25-09
10.568 and 10.569	Emergency Food Assistance Cluster	Eligibility/ Subrecipient Monitoring	12-25-10
10.568	Emergency Food Assistance Program (Administrative Costs)	Allowability/ Subrecipient Monitoring	12-25-11
10.568	Emergency Food Assistance Program (Administrative Costs)	Period of Availability	12-25-12
10.568	Emergency Food Assistance Program (Administrative Costs)	Reporting	12-25-13
93.044, 93.045 and 93.053	Aging Cluster	Cash Management	12-25-18
93.268	Immunization Cooperative Agreements	Allowability	12-25-19
93.558	Temporary Assistance for Needy Families	Maintenance of Effort/ Reporting	12-25-22
93.558	Temporary Assistance for Needy Families	Reporting	12-25-23
93.558 and 93.714	TANF Cluster	Special Tests and Provisions	12-25-24
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	12-25-25

CFDA #	Federal Program	Compliance Requirement	Finding #
93.568	Low-Income Home Energy Assistance	Period of Availability	12-25-27
93.569	Community Services Block Grant	Cash Management/ Subrecipient Monitoring	12-25-28
93.569	Community Services Block Grant	Allowability/ Subrecipient Monitoring	12-25-29
93.575, 93.596 and 10.558	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Child and Adult Care Food Program	Allowability/Eligibility/ Special Tests and Provisions	12-25-30
93.575 and 93.596	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Special Tests and Provisions	12-25-32
93.575 and 93.596	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Allowable Costs/ Eligibility/Special Tests and Provisions	12-25-33
93.659	Adoption Assistance	Allowable Costs/Eligibility	12-25-36
93.667	Social Services Block Grant	Allowability	12-25-37
93.767	Children's Health Insurance Program	Matching/Reporting	12-25-38
93.767	Children's Health Insurance Program	Matching	12-25-39
93.778	Medical Assistance Program	Matching/Reporting	12-25-40
93.778	Medical Assistance Program	Matching	12-25-41
93.778	Medical Assistance Program	Special Tests and Provisions	12-25-42
93.778	Medical Assistance Program	Allowability	12-25-43
93.778	Medical Assistance Program	Allowability/Eligibility	12-25-44
93.778	Medical Assistance Program	Eligibility	12-25-45
93.778	Medical Assistance Program	Special Tests and Provisions	12-25-46

CFDA #	Federal Program	Compliance Requirement	Finding #
93.778	Medical Assistance Program	Special Tests and Provisions	12-25-47
93.778	Medical Assistance Program	Allowable Costs/Eligibility	12-25-48
93.778	Medical Assistance Program	Allowable Costs/ Subrecipient Monitoring	12-25-49
93.778	Medical Assistance Program	Allowability	12-25-50
93.994	Maternal and Child Health Services Block Grant to the States	Allowability	12-25-51
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability	12-25-52
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability/ Subrecipient Monitoring	12-25-53
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability	12-25-54
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Eligibility	12-25-55
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Reporting	12-25-56
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Matching/Reporting	12-25-57
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Reporting	12-31-01
93.778	Medical Assistance Program	Allowable Costs	12-65-02
81.042	Weatherization Assistance for Low-Income Persons	Cash Management	12-71-01
81.042 and 93.568	Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance	Reporting	12-71-04

CFDA #	Federal Program	Compliance Requirement	Finding #
16.738 and 16.803	JAG Program Cluster	Subrecipient Monitoring	12-78-02
16.738 and 16.803	JAG Program Cluster	Reporting	12-78-03
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Reporting	12-78-04
16.588	Violence Against Women Formula Grants Recovery	Allowability/ Subrecipient Monitoring	12-78-05
66.458	Capitalization Grants for Clean Water State Revolving Funds	Activities Allowed or Unallowed/Subrecipient Monitoring	12-84-01
66.458	Capitalization Grants for Clean Water State Revolving Funds	Program Income	12-84-02
66.458	Capitalization Grants for Clean Water State Revolving Funds	Cash Management	12-84-03
66.458	Capitalization Grants for Clean Water State Revolving Funds	Program Income/Reporting	12-84-04
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Activities Allowed or Unallowed/Subrecipient Monitoring	12-84-05
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Allowable Costs	12-84-06
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Cash Management	12-84-07
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Reporting	12-84-08

Internal Control Over Compliance

Management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Nebraska's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program 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 #12-25-07, #12-25-14, #12-25-15, #12-25-16, #12-25-17, #12-25-20, #12-25-21, #12-25-26, #12-25-31, #12-25-34, #12-25-35, #12-71-02, #12-71-03, and #12-78-01 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 #12-13-02, #12-13-03, #12-13-07, #12-13-09, #12-23-01, #12-23-06, #12-23-07, #12-25-02, #12-25-06, #12-25-08, #12-25-10, #12-25-11, #12-25-13, #12-25-18, #12-25-22, #12-25-23, #12-25-24, #12-25-30, #12-25-32, #12-25-36, #12-25-40, 12-25-46, #12-25-49, #12-25-52, #12-25-53, #12-71-01, and #12-78-03 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, 2013

Pat Reding, CPA, CFE
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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 #12-23-01, #12-23-02, #12-25-01 and #12-65-01. These findings were not considered to be material weaknesses.

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

d) Significant deficiencies in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as items #12-13-02, #12-13-03, #12-13-07, #12-13-09, #12-23-01, #12-23-06, #12-23-07, #12-25-02, #12-25-06, #12-25-08, #12-25-10, #12-25-11, #12-25-13, #12-25-18, #12-25-22, #12-25-23, #12-25-24, #12-25-30, #12-25-32, #12-25-36, #12-25-40, 12-25-46, #12-25-49, #12-25-52, #12-25-53, #12-71-01, and #12-78-03.

   We consider items #12-25-07, #12-25-14, #12-25-15, #12-25-16, #12-25-17, #12-25-20, #12-25-21, #12-25-26, #12-25-31, #12-25-34, #12-25-35, #12-71-02, #12-71-03, and #12-78-01 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Unqualified, Qualified, and Adverse.

f) The audit disclosed audit findings, which are required to be reported in accordance with section .510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III.

g) The following table shows programs that are considered to be major programs:

CFDA	10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
CFDA	10.558	Child and Adult Care Food Program
CFDA	10.568 and 10.569	Emergency Food Assistance Cluster
CFDA	14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)
CFDA	16.738 and 16.803	JAG Program Cluster
CFDA	17.258, 17.259 17.260 and 17.278	WIA Cluster

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	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	84.394	State Fiscal Stabilization Fund Cluster
CFDA	93.044, 93.045 and 93.053	Aging Cluster
CFDA	93.283	The Affordable Care Act: Centers for Disease Control and Prevention – Investigations and Technical Assistance
CFDA	93.558 and 93.714	TANF Cluster
CFDA	93.568	Low-Income Home Energy Assistance
CFDA	93.575, 93.596 and 93.713	CCDF Cluster
CFDA	93.658	Foster Care – Title IV-E
CFDA	93.659	Adoption Assistance
CFDA	93.767	Children's Health Insurance Program
CFDA	93.720, 93.775, 93.777 and 93.778	Medicaid Cluster
CFDA	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA	97.039	Hazard Mitigation Grant

h) Dollar threshold used to distinguish between Type A and Type B programs: $8,838,150

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

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

DEPARTMENT OF LABOR

Finding #12-23-01

Audit Requests for Information Denied

Neb. Rev. Stat. § 84-305 (Reissue 2008) provides, in relevant part:

> *"The Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law."*

Good business practice, which necessarily entails compliance with statutory directives, such as that referenced above, requires timely responses to both requests for audit documentation and access to financial systems by the Auditor of Public Accounts (APA).

Applicable professional financial auditing standards also mandate cooperation with a financial audit. Most specifically, U.S. Auditing Standards, AU § 316.04 provides, in relevant part:

> *"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."*

AU § 316.68 further states,

> *"The auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the audit. Conditions may be identified during fieldwork that change or support a judgment regarding the assessment of the risks, such as the following:*
>
> - *Unusual delays by the entity in providing requested information*
> - *Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques"*

Furthermore, the Appendix Examples of Fraud Risk Factors (A.2) to AU § 316 warns auditors against the following:

> *"Formal or informal restrictions on the auditor that inappropriately limit access to people or information…"*

> *"Domineering management behavior in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work…"*

During testing of the State Comprehensive Annual Financial Report (CAFR) the Nebraska Department of Labor (Agency) did not comply timely with the APA's requests for audit documentation and access to financial systems.

OnBase System Access

Several State agencies began using the OnBase System (OnBase) during the fiscal year ended June 30, 2012. OnBase was used to store payment related documentation and the approval process for payments entered into EnterpriseOne, the State's accounting system.

On August 15, 2012, the APA sent an email to all State agencies, requesting full inquiry-only access to OnBase to conduct the audit of the State's CAFR. The APA sent a second and third request to the Agency's Commissioner on October 4 and October 10, 2012, reiterating the initial request for inquiry-only access to OnBase. On October 11, 2012, the Commissioner replied that she did not believe the three systems currently maintained in OnBase were involved in the CAFR; therefore, not until OnBase was used for other systems would the Agency grant the APA access, as needed.

This began an extensive series of communications in which the APA made repeated requests for access to OnBase, and the Agency denied those requests. As of February 6, 2013, the APA had still been refused access to OnBase – some 175 days from the initial request.

Date	APA Request/Labor Response
8/15/2012	The APA requested, from all state agencies, inquiry-only access to OnBase.
10/4/2012	The APA sent another request to the Agency's Commissioner, requesting inquiry-only access to OnBase.
10/10/2012	The APA followed up on the status of the access request.
10/11/2012	The Commissioner stated there were three systems deployed in OnBase and, to her knowledge, those systems were not involved in the CAFR. The Agency would supply the requested access when other systems were deployed in OnBase, as needed.
10/11/2012	The APA and the Commissioner discussed the requested access further via phone.

Date	APA Request/Labor Response
10/31/2012	The APA sent an email to the Commissioner, explaining that the CAFR audit covers all State expenditures. Although the APA's request for access was made within the context of that audit, it appeared the Agency did not intend to provide such access. The APA asked the Commissioner to confirm her intentions regarding the APA's request for access.
11/15/2012	The APA sent a certified letter to the Commissioner, requesting access to OnBase.
11/29/2012	The APA received a letter from the Commissioner, stating the Agency would be happy to provide specific documents for a specific audit period.
11/29/2012	The APA again requested access to all Agency records in OnBase.
11/30/2012	The Commissioner replied that she would provide read-only access to all OnBase records for the Agency and requested a list of APA staff that needed such access.
11/30/2012	The APA provided the Commissioner with a list of APA staff needing access to OnBase.
12/13/2012	The APA followed up on the status of the request for access.
12/14/2012	The Commissioner stated that the APA's access was pending approval from the Agency's Federal partners to ensure compliance with Federal requirements. If the APA wanted immediate, read-only access to all OnBase records, the Commissioner said, a computer at the Agency's administrative office would be set up for the APA to access those records.
12/14/2012	The APA requested a copy of any correspondence between the Agency and its Federal partners regarding the APA's access to OnBase.
12/17/2012	The APA requested a complete listing of all Agency OnBase users for an information technology audit.
12/17/2012	The Commissioner sent a letter to the APA containing Agency email communications with the United States Department of Labor (USDOL) and the Social Security Administration (SSA). The Commissioner stated that, based upon the direction provided by the USDOL, the Agency would be unable to provide the APA access to OnBase in the manner requested. Federal regulations require a written agreement between the APA and the Agency in accordance with 20 CFR 603.10.
12/27/2012	The APA followed up on the status of the December 17, 2012, request for a complete listing of OnBase users.
12/27/2012	An Agency representative responded that she was waiting for the Commissioner's approval to provide the listing. She was beginning to prepare the listing and would provide it by December 31, 2012.

Date	APA Request/Labor Response
1/2/2013	The APA followed up on the status of the request for a listing of OnBase users.
1/2/2013	The Agency replied that the request was complete, and the APA would receive printed copies of the information that same day.
1/3/2013	The APA asked for electronic copies of the information requested.
1/3/2013	The Agency provided the requested electronic copies.
1/10/2013	The APA requested a meeting to discuss the systems contained within OnBase.
1/10/2013	The Agency indicated the meeting should include the individual in charge of internal security, who was out of the office until January 22, 2013.
1/11/2013	The APA requested we move forward with a meeting to discuss OnBase and any required follow up could be discussed at a later date.
1/11/2013	The Agency requested the appropriate internal security person be involved and requested the APA's questions.
1/11/2013	The APA provided general OnBase questions and asked if we could start testing the week of January 14, 2013.
1/11/2013	An Agency representative requested an agenda for the meeting and indicated some discussion items would involve Directors in each of the impacted areas.
1/11/2013	The APA requested contacts for the various areas and asked who could be contacted to discuss the process of assigning user access to OnBase. The APA requested a meeting with the Access Request Processing (ARP) OnBase contact.
1/14/2013	The ARP representative indicated he was available at anytime. A meeting was scheduled for January 16, 2013.
1/16/2013	The APA performed a walkthrough of the ARP process and was given contact information for the other systems in OnBase.
1/17/2013	The APA requested meetings with the contacts in charge of various systems within OnBase.
1/17/2013	The Agency provided contacts for the OnBase Unemployment Insurance (UI), NEworks, and Work Opportunity Tax Credit (WOTC) systems.
1/17/2013	The APA requested a meeting with the UI contacts. A meeting was arranged for January 18, 2013.
1/18/2013	The APA met with the Agency and walked through the UI process.
1/22/2013	The APA followed up on the status of the email sent January 17, 2013, requesting a meeting to walk through the NEworks and WOTC systems within OnBase. The APA scheduled a meeting for January 24, 2013, with the individual in-charge of internal security. The APA also requested a list of all changes made to OnBase.

Date	APA Request/Labor Response
1/24/2013	The APA met with the Agency's internal security. Testing of user access and OnBase changes was performed, and ARP controls were observed. The APA asked when access to OnBase documents would be granted and was told this was a question for management.
1/25/2013	The APA sent an email to the Commissioner asking for access to OnBase, from a computer at the Agency's administrative office, as offered by the Commissioner on December 14, 2012. The APA also followed up with Agency staff regarding the status of the meeting requested on January 17, 2013, and January 22, 2013.
1/25/2013	The Agency responded with available meeting times. A meeting was scheduled for February 1, 2013.
1/31/2013	The APA followed up on the status of the email sent to the Commissioner on January 25, 2013.
1/31/2013	The Commissioner responded about concerns with USDOL requirements and wanted clarification on what additional information the APA needed.
1/31/2013	The APA responded that IDs had been set up within the system but no passwords had been provided in order to access the system. Also, the IDs did not have access to documents stored in OnBase.
1/31/2013	The Commissioner said she would check into the issue and respond shortly.
2/1/2013	The APA completed a walkthrough of the NEworks and WOTC systems within OnBase and obtained the requested system screenshots.
2/4/2013	The APA followed up with the Commissioner on her January 31, 2013 email.
2/6/2013	The Commissioner asked about the specific audit and the period for the audit. She also indicated the APA would receive access to all documents except Unemployment Insurance in OnBase by February 19, 2013.

According to the Nebraska Attorney General, through Op. Att'y Gen. No. 07004 (Feb. 9, 2007), an agency's compliance with a statutory directive requiring access to records for audit purposes must occur within "a time frame that is reasonable under the circumstances." As the above chronology reveals, the Agency's refusal to comply with the APA's repeated requests for access to the OnBase system was unreasonable under any circumstances. Thus, the Agency clearly failed to comply with § 84-305.

CAFR Audit Testing

The annual State CAFR is supposed to be completed by December 31st of the reporting year in order for the State to receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA).

During testing, the Agency delayed compliance with the APA's requests for information regarding updating of memos and detailed testing of Agency financial transactions for up to 90 days. The APA had to follow up repeatedly on all outstanding requests in order to obtain the documentation necessary to complete testing. Furthermore, the Agency did not submit their signed representation letter until January 15, 2013. The APA requested the letter be returned by December 20, 2012. It is unknown why the Agency continually delayed, by as much as three months, complying with the APA's requests for information.

As a direct result of the Agency's ongoing delays to provide the APA with support in a timely manner, the APA was unable to complete the testing of the Agency's information until December 14, 2012.

When the Agency does not submit needed information timely to the auditors, there is an increased risk the CAFR will not be completed by December 31st.

> We recommend the Agency ensure all financial system access is provided to the APA in compliance with § 84-305 and as addressed by applicable professional auditing standards. We also recommend the Agency work to ensure supporting documentation is provided promptly upon request by the auditors.

Management Response: OnBase System Access The Nebraska Department of Labor (NDOL) is not aware of any documents that the agency has failed to provide to the Auditor of Public Accounts (APA). NDOL did not have any document storage of a financial nature in the OnBase System for the CAFR audit period ending June 30, 2012. The only operative OnBase system at NDOL for the CAFR audit period ending June 30, 2012 was Access Request Processing (ARP), which became operative on June 25, 2012. NDOL received a request for a meeting on ARP with the APA on January 11, 2013. NDOL performed a walkthrough of ARP with APA on January 16, 2013.

The level of access to OnBase that was requested by the APA is not allowed under the NDOL federal grants. NDOL received instructions from US Department of Labor (USDOL) regarding record access to unemployment documents on December 14, 2012. Said instructions were provided to the APA on December 17, 2012.

CAFR Audit Testing Management fully understands and respectfully disagrees. Out of the thousands of pages requested of specific documents, management only had one instance of the delay that is being reported above. The original request was part of the ICQ's and yet it was not an ICQ, which was perhaps the rationale for it being sidelined or delayed. Management asked for an outstanding list and went through this list weekly unless there were conflicts during the audit work period, as a way of making sure all requests were complied with as timely as possible. The document being used as an example of the unresponsiveness of management was received at the start of the audit. However it was not brought to management's attention during any of the weekly meetings, and was resent November 20th. At this point there was no clear directions on which information the auditor was looking for as the type of receipts that were being tracked were not designated in either the email or in the actual document itself. Further emails were exchanged. Answers were received on November 28th. Management then responded after interviewing several persons who were involved in the receipt process. This took two weeks to receive the answers, document the process and send the response back to APA. There were over one thousand one hundred emails received in the Controllers inbox related to this year's audit. Management acknowledges it is their responsibility to reply with all requests and will attempt to track all requests.

In reference to the comment on the Management Representation Letter, the representation letter states that the agency has provided all records requested for the audit period ending June 30, 2012. In a letter dated November 15, 2012, the APA indicated that the agency had failed to provide all documents requested. In an email note dated December 20, 2012, the agency requested clarification of this very issue from the APA, seeking an explanation of how the agency could in good conscience sign the representation letter. Until the issue of documentation was resolved, it would not have been appropriate for NDOL to sign a representation letter certifying that all documents requested had been provided. Additionally, the APA indicated in an email dated November 29, 2012 that the IT audit had been extended and the APA did not complete all field work for the audit until a walkthrough on February 1, 2013. Therefore the representation letter was signed before the audit was even completed.

APA Response: The APA requested access to OnBase on August 15, 2012. The APA was unable to determine that there were no financial records contained within the system or that the only operative system started on June 25, 2012, as we were not given access to review the information contained within the OnBase system.

As for the delays in information for CAFR testing, we incurred delays in several areas of testing, including analytical review, memos, and questionnaires. The APA CAFR audit team did not meet with the Agency weekly to go over outstanding items; instead, the Agency was contacted periodically throughout the week to follow up on outstanding items. Numerous emails were sent due to untimely responses to information requested and because the Agency's Controller requested she be carbon copied on all correspondence. The Agency also requested all initial correspondence be via email instead of personal contact.

Finding #12-23-02

Accrual Information

In preparation for the CAFR, the Department of Administrative Services State Accounting Division (State Accounting) obtains financial statement amounts from the Agency for the Unemployment Insurance Fund. A good internal control plan requires the Agency to have procedures to accurately report financial activity for the Unemployment Insurance Fund to State Accounting.

During testing of the Unemployment Insurance Fund financial statements, we noted the following:

- The Agency did not properly report unemployment insurance disbursements. The Agency reported $3,070,240 as miscellaneous operating expenses; however, only $931,111 of those expenses should have been recorded as operating expenses. The remaining $2,139,129 should have been reported as personal services expense on the financial statements. A similar adjustment was made during the prior audit.

- The Agency uses QuickBooks to record its financial activity for the Unemployment Insurance Fund. During the audit, we noted that receivable and payable balances in QuickBooks were not accurately recorded, as the Agency did not enter beginning balances when it began using the system in fiscal year 2010.

- The Agency did not calculate a reasonable contributions receivable allowance for doubtful accounts. An allowance for doubtful accounts is calculated to determine an estimated amount that will not be collected based upon past collection history. The calculation did not consider an aging analysis of accounts receivable.

Without proper controls to ensure amounts reported to State Accounting are accurate and complete, there is an increased risk of financial statement misstatement.

> We recommend the Agency implement procedures to ensure financial statement activity and accruals are complete and accurate when reported to State Accounting, including consideration of allowance for doubtful accounts. We also recommend the Agency ensure balances in QuickBooks are accurate and complete.

Management Response: Management had it broken out in the final report. On the draft report it was not broken out. This was only a change in the line item for the expenditure which DAS would have corrected when preparing the financial statements. There was no adjustment required.

The July 2009 opening balances were not factored in order to get the financial information off of spreadsheets, and into a financial system. Opening balances were not determinable, except for cash accounts, which were entered into the system. There is really no payables outstanding balance, except what would be due at the end of the year from US treasury, which is paid within, usually a one or two day settlement. After three years there should not be any outstanding balances, and if there were, they would be offset by an allowance by this point in time. There is no material amount to be reported. It would result in a gross up of the Accounts Receivable as well as gross up in the Allowance for Bad Debt.

The amount which would have required an allowance calculation was for a total of $1.4 million. DAS Accounting along with management decided that the amount was not material to estimate an allowance. The total amount of the contributions receivable was roughly $37.3 million of which $35.9 million were actually received prior to the completion of the CAFR file creation; therefore no allowance would be necessary since all funds were received in total. The remaining $1.4 million was not material enough to set up an allowance.

APA Response: The APA received the Agency's financials from the Department of Administrative Services – State Accounting Division (State Accounting) on October 10, 2012. The APA noted the error in miscellaneous operating expenses and brought it to the Agency's attention on October 12, 2012. The Agency responded to the APA on November 1, 2012, that a discussion was held with State Accounting regarding the error. The APA received revised financial statements on November 7, 2012, from State Accounting. The final CAFR report was corrected, after the adjustment was brought to the Agency's attention by the APA.

When the APA inquired why there was no allowance in the financial statements, the Agency's Accountant emailed the APA, and carbon copied the Agency's Controller, with their calculation for the allowance and stated the amount was immaterial. The allowance was calculated as a percentage of write-offs during the year. This rate was then multiplied by $1 million in receivables, for a calculated allowance of $827. However, the APA informed the Agency the allowance should be calculated on $37.3 million in contributions receivable and the rate should be based upon the history of collections, not write-offs. The figures included in the Agency's response were not provided during the audit.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #12-25-01

Accrual Information

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

We noted the following concerning payables and receivables reported by the Department of Health and Human Services (Agency) to State Accounting:

Description	Accrual type	Error	Amount
Medicaid Drug Rebate	Receivable	Understated	$ 5,948,143
Patient and County Billings	Receivable	Overstated	$ 5,050,690
Third Party Liability	Receivable	Overstated	$ 1,801,625
Medicaid Estate Recovery	Receivable	Overstated	$ 1,457,481
NFOCUS	Receivable	Overstated	$ 766,730
Women, Infants and Children Program	Receivable	Understated	$ 754,907
Women, Infants and Children Program	Payable	Understated	$ 961,811

Additional information is as follows:

- The Medicaid drug rebate receivable was understated by $5,948,143. Medicaid drug rebates were established by law to require drug manufacturers to provide rebates for their drug products paid for by Medicaid. The Agency did not include the physician administered rebate receivables for the 4th Quarter 2011 (billed in August 2012), 1st Quarter 2012 (billed in November 2012), and the 2nd Quarter 2012 (billed in February 2013).

- The patient and county billings receivable was overstated by $5,050,690. The receivable was calculated for the Lincoln, Norfolk, and Hastings Regional Centers, the Beatrice State Development Center (BSDC), and the Developmental Disabilities program. The overstatement was caused by the following:

  - The Agency erroneously included State funding at BSDC totaling $3,856,493.

  - Allowances for doubtful accounts were not considered, were not complete, or were not reasonably documented causing $1,174,095 in overstated receivables.

   - We tested 25 account balances and noted 10 of the 25 balances were not properly recorded or were not followed up timely, causing an overstatement of $20,102.

- The third party liability receivable was overstated by $1,801,625. The receivable is based upon claims filed with insurance companies, attorneys, etc. for payments made with Medicaid funds for individual claimants. The following was noted:

   - The Agency did not properly calculate the allowance for doubtful accounts causing an overstatement of $1,838,457.

   - Accounts with no activity for two years or more were not included in the receivable balance. These amounts had been removed from the Medicaid system; however, according to the Agency, they continued to attempt to collect the amounts. The Auditor of Public Accounts (APA) was unable to determine the total amount of these accounts as a comprehensive listing was not available. For 2 of 15 account balances tested, the amount did not agree to the Medicaid system due to the balances over two years old being excluded. The two accounts resulted in an understatement of $38,260.

   - For 1 of 15 account balances tested, the amount was not reduced for a payment made, causing an overstatement of $1,428.

- The Medicaid estate recovery receivable was overstated by $1,457,481. The receivable is based upon claims filed against the estates of deceased persons that received Medicaid assistance. We tested 15 account balances and noted 9 of the 15 balances were not properly recorded. The errors noted ranged from an understated balance of $5,341 to an overstated balance of $638,946. Furthermore, one account balance had not been followed up on since May 2011.

- The NFOCUS receivable was overstated by $766,730. The receivable consists of several Federal and State programs recorded in the NFOCUS system, including, but not limited to, Food Stamps, Aid to Dependent Children, and Child Care. The Agency did not determine an allowance for doubtful accounts for balances less than five years old. Accounts sent to the collection agency were not excluded even though the Agency does not expect to collect on these balances, causing an overstatement of $766,730.

- The Agency did not consider payables and receivables required to be reported for the Women, Infants, and Children (WIC) Program. Amounts payable to individuals, totaling $961,811, should have been reported to State Accounting. There was also a potential payable due to the Federal government, as amounts are drawn down in advance of services provided. The Agency was unable to determine the amount that would be due at June 30, 2012. There were also receivables totaling $754,907 for WIC rebates which were not reported.

State Accounting did make correcting entries for all material amounts as recommended by the 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. Also, lack of complete and accurate receivable information increases the risk all monies due the State may not be collected.

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

Management Response: The Department will review the items noted and implement any additional procedures deemed necessary to address the current year's identified misstatements.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #12-65-01

Review of CAFR Information

A good internal control plan requires an adequate review of draft financial reports and 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:

- The draft report submitted by the Department of Administrative Services State Accounting Division (State Accounting) was not complete and accurate. The first draft required substantial revisions for formatting and incorrect information, such as hidden rows on the financial statements, incorrect statistical information, etc. According to State Accounting this was the first year they used new report software. State Accounting subsequently submitted six revised draft reports prior to the final draft.

- State Accounting did not have adequate procedures to ensure the amounts submitted by State agencies were correct. The errors ranged from an overstatement of $5,032,592 to an understatement of $5,948,143 by the Department of Health and Human Services.

- Errors were also noted in information prepared by State Accounting to support entries made to the financial statements. Errors ranged from an understatement of $6,480,699 to an overstatement of $61,040,550.

State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). A similar finding was noted in previous reports.

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

We recommend State Accounting implement procedures to ensure draft reports are complete and accurate prior to submission to the auditors. Furthermore, we recommend State Accounting continue to work with State agency personnel to ensure accrual information is supportable and has 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 internally prepared documentation is accurate.

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 and State Accounting will again put strong emphasis on making our work papers correct. Significant progress has been made in accrual reporting over the years.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF EDUCATION

<u>Finding #12-13-01</u>

Program: Various including CFDA 10.555 – National School Lunch Program; CFDA 84.027 – Special Education Grants to States; CFDA 84.173 – Special Education Preschool Grants; CFDA 84.391 – ARRA – Special Education Grants to States, Recovery Act – Subrecipient Monitoring

Grant Number & Year: Various including #2011N109943L, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture, U.S. Department of Education

Criteria: OMB Circular A-133 § 400(d) states,

> *"A pass-through entity shall perform the following for the Federal awards it makes… (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."*

Condition: The Agency did not issue a management decision on audit findings within six months after receipt of subrecipients' audit reports and did not ensure that subrecipients took appropriate and timely corrective action.

Questioned Costs: Unknown

Context: We tested 15 of 125 schools A-133 audits. Five of the fifteen had Federal findings and three of the five did not have management decisions issued by the Agency.

One of the three subrecipient A-133 audits had a Federal audit finding related to segregation of duties for the National School Lunch Program.

Two of the three subrecipient A-133 audits had non-CFDA specific major Federal award programs audit findings related to either segregation of duties or lack of control over the process of preparing the schedule of expenditures of Federal awards. All the major programs listed for these two subrecipient A-133 audits were administered through the Agency.

Cause: Regarding the subrecipient A-133 audit with a CFDA specific major Federal award program audit finding, there was inadequate review of the subrecipient A-133 audit. The Agency indicated when findings are not CFDA specific, it is a judgment call on whether management decisions are issued.

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 procedures to ensure subrecipients take appropriate and timely corrective action for Federal findings.

> **Management Response:** A management decision was not issued by the Agency on the National School Lunch Program because of an unintentional oversight. Management decisions have not been issued in the past by the Agency on findings that were non-CFDA specific.
>
> **Corrective Action Plan:** Management decisions will be issued by the Agency in the future for all subrecipient A-133 audit findings that could affect grants administered by the Agency.
>
> **Contact:** Greg Prochazka, Administrative Specialist II
>
> **Anticipated Completion Date:** Ongoing

<u>Finding #12-13-02</u>

Program: CFDA 10.558 – Child and Adult Care Food Program (CACFP); CFDA 10.553, 10.555, 10.556 and 10.559 – Child Nutrition Cluster – Reporting

Grant Number & Year: #2012IN109943, FFY 2012; #2011IN109943, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

Per Appendix C of the *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting*, the subaward date "represents the time period (by Month and Year) for subawards made against that Federal Award Identifier Number (FAIN)." The subaward obligation/action date is the "date the subaward agreement was signed."

A good internal control plan requires procedures to ensure Transparency Act reporting is being performed as required by Federal regulations.

Condition: The Agency did not comply with Federal regulations regarding the Federal Funding Accountability and Transparency Act (Transparency Act).

Questioned Costs: None

Context: During our testing of 25 of the 510 reports filed pursuant to the Transparency Act, we noted the following:

- Transparency Act reporting was done in two waves for the Child Nutrition Cluster and CACFP during State fiscal year 2012. One wave of 74 reports occurred on February 3, 2012, and another wave of 436 reports occurred on May 21, 2012. We discovered that all the Transparency Act reports submitted on February 3, 2012, were duplicated on the May 21, 2012, submission. These were all for the 2011 grant. On February 3, 2012, they were reported as the 2011 grant, but on May 21, 2012, they were reported as the 2012 grant. A total of $9,713,035 was double-reported in this manner. None of the reports tested were submitted no later than the end of the month following the month in which the obligation was made. Subawards tested were reported 4 to 17 months late.

- We requested a list of all Transparency Act reports filed during State fiscal year 2012 from the Agency; however, the list provided only included the reports filed on February 3, 2012, and not the reports filed on May 21, 2012.

- The Agency failed to report any subawards for CFDA 10.559, the Summer Food Service Program for Children. A total of $2,454,081 was not reported due to this issue.

- The Agency's procedure was to accumulate the expenditures data at the end of the Federal fiscal year and report subrecipient totals that exceeded $25,000. This is not a timely method of reporting. Subawards should be reported once obligations exceed $25,000.

- The subaward date was reported as the month and year the report was filed, but should be the date the subrecipient could start spending the funds.

- The subaward obligation/action date was reported as the beginning of the Federal fiscal year, but should be the date the agreement was signed.

- For two subawards tested, the amounts reported did not agree to the amounts reported on the State's accounting system, with variances of $15 over-reported and $224 under-reported.

Cause: Transparency Act reporting was a new compliance requirement. The Agency failed to establish adequate internal controls over their Transparency Act reporting process.

Effect: Noncompliance with Federal regulations, which could result in sanctions by the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure that all required reporting is properly completed in accordance with Federal regulations.

> **Management Response:** The Agency has been working on policies and procedures to ensure FFATA reporting is completed timely and accurately. Due to the combination of FFATA reporting being a new requirement with minimal guidance and the slow responses to questions from the Federal Government, the Agency has had a difficult time meeting deadlines and reporting information correctly.
>
> **Corrective Action Plan:** The Agency will continue to seek guidance from the Federal Government to identify and implement improvements to the Agency's FFATA reporting process.
>
> **Contact:** Bryce Wilson, Administrative Specialist III
>
> **Anticipated Completion Date:** Ongoing

<u>Finding #12-13-03</u>

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

Grant Number & Year: All open grants, including #2012IN109943, FFY 2012

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 2 CFR § 180.300 (January 1, 2011), 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 tested 25 subrecipients of which 11 were paid more than $25,000 in Federal funds from the Agency during the fiscal year. We reviewed their annual agreements and noted they did not have a suspension and debarment clause or certification. The Agency also did not have documentation supporting the EPLS was checked. We reviewed the EPLS for the 11 subrecipients in question and none were found on the list. During State fiscal year 2012, 175 subrecipients were paid more than $25,000, totaling $30,000,462. This was a finding in the prior audit report.

Cause: The Agency's corrective action plan stated that they would update the subrecipient application "for the Responsible Individual to affirm the institution and/or the Responsible Individual has/have not been suspended or debarred." The Agency originally indicated the change would be made by March 15, 2012. Per the current year Summary Schedule of Prior Audit Findings,

> *"a work request has been submitted to the online database management company, Colyar Consulting Group, Inc., to include an attestation statement regarding Suspension and Debarment. However, due to a delay in the migration of the CNP system to the .net format, the online attestation required of all renewing programs will not be available until July 1, 2013."*

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 EPLS language to ensure compliance with Federal suspension and debarment requirements. If the Agency is unable to amend the participant agreements immediately, the Agency should perform interim procedures, such as documenting a check of the EPLS, to ensure compliance with suspension and debarment requirements.

Management Response: Nutrition Services is continuing to work with Colyar Consulting Group Inc on the delayed .net migration. For all new programs to Nutrition Services either the consultant or the office manager is checking the EPLS website to confirm the new program has not been suspended or debarred.

Corrective Action Plan: As recommended, interim procedures will be implemented to have either a program consultant or the office manager check the EPLS website to determine if an existing program is on the EPLS. An online note in the Colyar/CNP system will be added in the COMMENT section providing the date EPLS was checked, the result yes or no for suspension or excluded party, and the name of the person entering the comment.

Contact: Bev Benes, Director Nutrition Services

Anticipated Completion Date: March 1, 2013

Finding #12-13-04

Program: CFDA 10.558 – Child and Adult Care Food Program – Eligibility

Grant Number & Year: #2012IN1009943, FFY 2012; #2012IN202043, FFY 2012

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 7 CFR § 226.6(b)(2)(vii) (January 1, 2012), "Each renewing institution must submit information sufficient to document that it is financially viable." They must demonstrate they have sufficient financial resources to operate the CACFP on a daily basis, and they must be able to document financial viability through audits, financial statements, etc. A good internal control plan requires uniform written procedures for the approval of program applications.

Condition: Eight of 25 subrecipients tested showed a net loss with no explanation to substantiate financial viability, or not enough information was provided to determine the subrecipient was financially viable.

Questioned Costs: None

Context: Two of the eight subrecipients showed a net loss ranging from $7,088 to $37,586. The other six subrecipients did not provide sufficient documentation to determine their financial viability. The program had 363 subrecipients during the fiscal year.

Cause: There is a lack of uniformity in how financial viability is documented, leaving individual staff to determine if a subrecipient appears financially viable.

Effect: Without adequate controls to ensure compliance with regulations, there is an increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency create and follow uniform written procedures for the approval of program applications.

Management Response: At the time of the 2011 Audit, Nutrition Services had not implemented the changes to comply with the requirement that "Each renewing institution must submit information sufficient to document that it is financially viable."

A procedure was developed for FY2012-2013 which requires each Center to submit documentation to prove financial viability including their budget and general ledger. If a Center shows a loss they are required to submit an explanation as a file attachment to the Colyar/CNP online system. The assigned Consultant reviews the budget and explanation (if a net loss is reported) and will not approve the annual renewal until these documents are submitted, reviewed and approved by Nutrition Services.

CACFP required, annual training for all Centers has added the requirement for proving financial viability effective with the spring 2012 trainings. The spring 2013 trainings continue to include this topic.

Corrective Action Plan: Nutrition Services has requested that the .net version of the Colyar/CNP system include a text box for a Center to type an explanation on the Budget page if the Budget shows a net loss. Nutrition Services plans to have the .net version available to program participants for FY2014-15.

Contact: Bev Benes, Director Nutrition Services

Anticipated Completion Date: Interim procedure is in effect as of February 2012. Procedure for the Colyar/CNP system will be in effect for FY2014-15.

Finding #12-13-05

Program: CFDA 84.027 – Special Education Grants to States – Reporting

Grant Number and Year: #H027A110079, FFY 2011

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

Per Appendix C of the *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting*, the subaward date "represents the time period (by Month and Year) for subawards made against that Federal Award Identifier Number (FAIN)." The subaward obligation/action date is the "date the subaward agreement was signed."

Per OMB Circular A-133, the Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: We noted subawards that obligated $25,000 or more were not reported timely, key data elements were incorrectly reported, and not all subawards were reported.

Questioned Costs: None

Context: We obtained from the Agency a list of 224 subawards it reported for the Transparency Act. We also noted an additional 18 school districts with expenditures over $25,000 that were not included on the Agency's list. We tested 25 school districts and noted the following errors:

- No subaward information was reported for two schools. Our testing included three of the eighteen schools not on the Agency listing. Two of those three tested were not reported.

Subrecipient	Subaward Amount	Subaward Date
Beatrice Public Schools	$ 536,323	February 24, 2012
Lincoln Public Schools	$ 7,891,969	February 10, 2012

- The Agency did not report information in a timely manner for nineteen schools tested. The subawards were signed in February and March 2012 and were not reported until May 29, 2012; which was one to two months late.

- One school received a subaward for $190,105 that was incorrectly reported as $186,348.

- For 23 schools tested, the Agency did not report the obligation/action date correctly. The grant period was reported as the obligation/action date, but it should have been the date the subaward was signed.

- For 23 schools tested, the Agency did not report the subaward date correctly. The Agency reported the submission date instead of the date the subaward was available to make expenditures.

Cause: Transparency Act reporting was a new compliance requirement.

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

Recommendation: We recommend the Agency ensure Transparency Act 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 required obligating actions are reported.

Management Response: The Agency has been working on policies and procedures to ensure FFATA reporting is completed timely and accurately. Due to the combination of FFATA reporting being a new requirement with minimal guidance and the slow responses to questions from the Federal Government, the Agency has had a difficult time meeting deadlines and reporting information correctly.

Corrective Action Plan: The Agency will continue to seek guidance from the Federal Government to identify and implement improvements to the Agency's FFATA reporting process.

Contact: Bryce Wilson, Administrative Specialist III

Anticipated Completion Date: Ongoing

Finding #12-13-06

Program: CFDA 84.027 – Special Education Grants to States; CFDA 84.173 – Special Education Preschool Grants – Reporting

Grant Number & Year: #H027A110079, FFY 2011; #H173A110077, FFY 2011

Federal Grantor Agency: U.S. Department of Education

Criteria: Each State is required to report an unduplicated count of children with disabilities receiving special education and related services. Title 34 CFR § 300.645(c) (July 1, 2011) requires the State to "obtain certification from each agency and institution that an unduplicated and accurate count has been made." Title 34 CFR § 300.65(e) (July 1, 2011) requires the State to "ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count." A good internal control plan requires procedures be in place to ensure amounts reported are adequately documented and certified.

Condition: The Agency could not provide adequate documentation of the child counts reported on the *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act, as amended* for school year 2011-2012. The Agency also did not obtain certification from the school districts that an unduplicated and accurate count was made.

Questioned Costs: None

Context: The special education child counts reported are as of October 1. The Agency reported a total special education child count of 46,418 as of October 1, 2011, for the 2011-2012 school year. The Agency did not have documentation to support the October 2011 count as the system only maintained current information. The Agency provided a report from the Nebraska Student and Staff Record System (NSSRS) that showed the special education child count of 46,470 as of October 12, 2012.

Manual certification of special education child counts by the school districts was no longer required for school year 2011-2012. The approval of the child count was done through the NSSRS. However, the system did not include language that required the school districts to certify the child count was unduplicated and accurate.

Cause: The school districts were allowed to amend their child count data to account for errors in reporting and so the system only contains current data and cannot reproduce a point in time. The Agency did not keep a point in time data extraction of the child counts reported. The system does not include language regarding certification the special education child count is unduplicated and accurate.

Effect: Lack of adequate documentation and certification increases the risk for the number of children with disabilities receiving special education to be incorrectly reported to the U.S. Department of Education.

Recommendation: We recommend the Agency implement procedures to ensure the child count data reported is documented and support is maintained. We also recommend the Agency include language on the NSSRS that will require school districts to certify the special education child count is unduplicated and accurate.

Management Response: The Agency feels that our system allows for accurate and unduplicated data collection, as well as maintains the most accurate data to date. It is a system that was praised by federal officials from OSEP when they came for their on-sight visit in September, 2011.

Corrective Action Plan: The NSSRS data collections starting in the school year 12-13, have eliminated the allowance for corrections to the data submissions after the due date. This should rectify the issue of being unable to duplicate the original federal data submission. If a school district finds an error in their original submission, they are now required to submit a request for change to the Agency for review and approval or denial, ultimately by the Deputy Commissioner. In addition, the Agency has pulled the original data submission by district at the time of the submission and saved a file for audit review if necessary.

The Agency did away with the paper certification in favor of an online certification to both reduce the burden on the districts and to automate the process. When the district Administrator approves the collection, they are approving that the collection is complete and accurate. The language that appears on the approve screen reads: "Once your data is marked as approved, you will no longer be able to upload or process any template files. This status will remain until the administrator resets this status." Although the online approval does not include the language that certifies the data are unduplicated, the NSSRS system itself has a built in edit check that does not allow a student to be reported more than once or in more than one district. The Agency will discuss adding language that clarifies that the data are accurate and unduplicated at the time of the approval.

Contact: Gary Sherman, Director, Special Education

Anticipated Completion Date: Completed

<u>Finding #12-13-07</u>

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

Grant Number and Year: #S010A100027, FFY 2010

Federal Grantor Agency: U.S. Department of Education

Criteria: 20 USC § 6311(h)(4) (2011) requires each State to report annually "the number and names of each school identified for school improvement under section 6316(c) of this title, the reason why each school was so identified, and the measures taken to address the achievement problems of such schools." A good internal control plan requires that procedures be in place to ensure the submitted reports are accurate.

Condition: The Agency's 2011 Consolidated State Performance Report (CSPR) list of Title I Schools Identified for Improvement included data from the 2009-2010 school year, but should have included data from the 2010-2011 school year.

Questioned Costs: None

Context: During testing of the 2011 CSPR, we noted the data included was the same as the data included in the 2010 CSPR. We tested the 21 schools identified in the 2011 CSPR as in need of improvement and noted seven of these schools should not have been included on the 2011 CSPR. For 13 of the 14 remaining schools that were properly included in the 2011 CSPR, the CSPR incorrectly listed either the areas in which the school met or did not meet Annual Yearly Progress (AYP) or the school's improvement status.

We verified the list of schools identified as in need of improvement in the 2010-2011 State of the Schools Report available on the Agency's website was accurate. The Agency's website noted 80 schools as in need of improvement for the 2010-2011 State of the Schools Report, however, 66 of the 80 were not included in the 2011 CSPR.

Cause: The Agency uploaded data from the wrong school year for the 2011 CSPR. Neither the report preparer nor the report reviewer corrected this mistake.

Effect: Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure data for the correct school year is used to prepare the annual CSPR.

> **Management Response:** In mid-November, 2012, when it was discovered that the wrong "Needs Improvement" file had been uploaded to the 2010-11 CSPR (Consolidated State Performance Report), we contacted EDEN (Education Data Exchange Network) to ask about the process to upload the correct file. They told us that we could no longer submit information for the 2010-11 CSPR.

Corrective Action Plan: Beginning with the CSPR for 2011-12, EDEN has changed the process for gathering this information. Instead of uploading a file in the CSPR, the data is submitted via EDEN upload files and then this information pre-populates that section in the CSPR.

Contact: Diane Stuehmer, Federal Programs Administrator & Title I Director

Anticipated Completion Date: Completed

Finding #12-13-08

Program: CFDA 84.389 – ARRA – Title I Grants to Local Educational Agencies, Recovery Act – Reporting

Grant Number and Year: #S389A090027A, FFY 2009

Federal Grantor Agency: U.S. Department of Education

Criteria: The American Recovery and Reinvestment Act of 2009, Section 1512, Part (c), states that

> *"Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains – (1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities."*

Condition: The Agency reported an incorrect amount for Title I Total Federal Amount of ARRA Funds Received/Invoiced and Title I Federal ARRA expenditures. Both amounts were under-reported by $6,183,195.

Questioned Costs: None

Context: The Agency incorrectly reported financial information as of December 31, 2011, on the ARRA 1512 report for the quarter ended March 31, 2012. Total expenditures and total Federal receipts from the beginning of the grant to March 31, 2012, were both $47,200,852. The amount reported for both expenditures and receipts for the period was $41,017,657, resulting in a variance of $6,183,195.

Cause: The Agency reported the total ARRA expenditures and receipts as of December 31, 2011, not as of March 31, 2012.

Effect: Noncompliance with reporting requirements.

Recommendation: We recommend the Agency implement procedures to ensure the ARRA 1512 amounts are accurately reported.

Management Response: Initially there was some confusion as to what information needed to be submitted for the ARRA 1512 Report.

Corrective Action Plan: Procedures have been put in place to ensure correct reporting. Numbers on the final 1512 report were verified for accuracy.

Contact: Diane Stuehmer, Federal Programs Administrator & Title I Director

Anticipated Completion Date: Completed

Finding #12-13-09

Program: CFDA 84.010 – Title I Grants to Local Educational Agencies – Reporting

Grant Number and Year: #S010A110027, FFY 2011

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

Per Appendix C of the *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting*, the subaward date "represents the time period (by Month and Year) for subawards made against that Federal Award Identifier Number (FAIN)." The subaward obligation/action date is the "date the subaward agreement was signed."

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 policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: We noted subawards that obligated $25,000 or more were not reported timely, key data elements were incorrectly reported, not all subawards were reported, and not all subawards were reviewed by management before they were uploaded.

Questioned Costs: None

Context: We obtained from the Agency a list of 96 subawards reported for the Transparency Act. We also noted an additional 47 school districts with expenditures over $25,000 that were not included on the Agency's list. We tested fifteen school districts and noted the following:

- No subaward information was reported for three schools. Our testing included nine of the 47 schools not on the Agency listing. Three of those nine tested were not reported.

Subrecipient	Subaward Amount	Subaward Date
Norfolk Public Schools	$ 737,984	December 27, 2011
Omaha Public Schools	$ 21,702,195	March 21, 2012
Gering Public Schools	$ 422,769	December 20, 2011

- For twelve schools tested, the Agency did not report the obligation/action date correctly. The beginning of the grant period was reported as the obligation/action date, but it should have been the date the subaward was signed.

- For twelve schools tested, the Agency did not report the subaward date correctly. The Agency reported the submission date instead of the date the subaward was available to make expenditures.

- For six schools tested, the Agency did not provide support showing management review of the subawards before they were uploaded.

Cause: Transparency Act reporting was a new compliance requirement. The Agency did attempt to submit data for Norfolk Public Schools and received an error message. They informed the Federal Service Desk of this error after the deadline for report submission. As of November 27, 2012, the Agency had not yet submitted the data.

Effect: Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure Transparency Act reporting is proper and agrees to supporting documentation. We also recommend the Agency implement procedures to ensure all required obligating actions are reported.

Management Response: The Agency has been working on policies and procedures to ensure FFATA reporting is completed timely and accurately. Due to the combination of FFATA reporting being a new requirement with minimal guidance and the slow responses to questions from the Federal Government, the Agency has had a difficult time meeting deadlines and reporting information correctly.

Corrective Action Plan: The Agency will continue to seek guidance from the Federal Government to identify and implement improvements to the Agency's FFATA reporting process.

Contact: Bryce Wilson, Administrative Specialist III

Anticipated Completion Date: Ongoing

Finding #12-13-10

Program: CFDA 84.010 and 84.389 – Title I, Part A Cluster and ARRA Title I, Part A Cluster – Reporting

Grant Number & Year: All open including #S010A110027, FFY 2011

Federal Grantor Agency: U.S. Department of Education

Criteria: Per 34 CFR § 200.19(b) (July 1, 2011), each State must calculate a four-year adjusted graduation rate for all public high schools in the State. OMB Circular A-133 § 300 states

> *"The auditee shall…maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."*

A good internal control plan requires procedures to ensure reported data is correct.

Condition: During testing of the Annual Report Card, High School Graduation Rate report, it was noted that the Agency does not have adequate procedures in place to ensure that the data in the report is accurate.

Questioned Costs: None

Context: Schools report graduation rate data to the Agency for use in the Annual Report Card, High School Graduation Rate report. The Agency provides reporting guidance to schools and districts. However, the data submitted by the schools is not verified to ensure its accuracy.

Cause: The Agency runs ad hoc reports to find errors in the data, such as duplicate reporting of students, and then recommends corrections to the schools and districts. However, the underlying source data is not verified.

Effect: Without procedures to ensure that the graduation rate data that goes into the report is correct, there is the risk that schools will report incorrect graduation rate information.

Recommendation: We recommend that the Agency implement procedures to verify the data submitted by schools and districts for the Annual Report Card, High School Graduation Rate reports are accurate.

Management Response: We do not believe that this should be a finding.

Districts do not report graduation rates as a data element. Graduation rates are calculated by the Agency using a U.S. Department of Education approved process, based on the non-regulatory guidance, to implement the provisions in 34 C.F.R. § 200.19(b). A graduation rate is calculated from enrollment data that is submitted every year. Annual enrollment data submissions are checked with validations and verifications reports during the submission. The Agency has built an extensive system for districts to conduct ongoing analysis of graduation rates calculated from their enrollment data called the Graduation Cohort Analysis Tool (G-CAT). This tool provides districts with tools to ensure the accuracy of their data including: a current graduation cohort student list, a compilation of unresolved issues and validation errors and enrollment information. In addition, the Agency provides tools such as the Enrollment Lookup by ID, Expected Graduation Year Lookup, and Student Lookup by ID, to help districts have accurate enrollment data.

Corrective Action Plan: See Management Response

Contact: Diane Stuehmer, Federal Programs Administrator & Title I Director

Anticipated Completion Date: Not applicable

APA Response: The Agency is responsible for ensuring the accuracy of the report. This includes ensuring underlying source data is accurate. Although the Agency provides reporting guidance to districts, the Agency does not verify the data submitted.

DEPARTMENT OF LABOR

Finding #12-23-01

Program: Various including CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) Cluster; due to the cross cutting nature of this finding all Agency CFDAs are also impacted – Allowability

Federal Grantor Agency: U.S. Department of Labor

Summary: Audit finding #12-23-01, also included in Part II of this report, regarding audit requests for information, relates to both the financial statements and Federal awards. The finding concerns the control environment of the Agency and, therefore, affects all Federal programs. We further noted that, after the issuance of the State financial statements, the Agency continued to refuse requests regarding the OnBase System.

Management Response: The Nebraska Department of Labor (NDOL) is not aware of any documents that the agency has failed to provide to the Auditor of Public Accounts (APA). NDOL did not have any document storage of a financial nature in the OnBase System for the CAFR audit period ending June 30, 2012. The only operative OnBase System at NDOL for the CAFR audit period ending June 30, 2012 was Access Request Processing (ARP), which became operative on June 25, 2012. NDOL received a request for a meeting on ARP with the APA on January 11, 2013. NDOL performed a walkthrough of ARP with APA on January 16, 2013.

The level of access to OnBase that was requested by the APA is not allowed under the NDOL federal grants. NDOL received instructions from US Department of Labor (USDOL) regarding record access to unemployment documents on December 14, 2012. Said instructions were provided to the APA on December 17, 2012.

Corrective Action Plan: In order to comply with USDOL's letter dated December 17, 2012, an agreement was drafted and given to the APA office on February 27, 2013. This will allow Nebraska Department of Labor to comply with the APA's request.

Contact: John H. Albin

Anticipated Completion Date: March 31, 2013

Finding #12-23-03

Program: CFDA 17.258, 17.259, 17.260 and 17.278 – Workforce Investment Act (WIA) Cluster; due to the cross cutting nature of this finding, all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: All open grants including: #AA-18655-09-55-A-31, FFY 2010; #AA-20207-10-55-A-31, FFY 2011; #AA-21409-11-55-A-31, FFY 2012

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 personnel activity reports or equivalent documentation to "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) states: "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 E, § D(1)(d) states, "Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal Agency."

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 adequate support for all fixed indexed indirect cost allocation percentages.

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 to record and make payments. 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, 2012, the Agency used 20 business units to collect indirect costs. Sixteen of these business units allocated costs using a variable monthly rate, while four of these business units allocated costs using a fixed indexed percentage. For the fiscal year ended June 30, 2012, the Auditor of Public Accounts (APA) selected one month and eleven allocating business units to recalculate allocations based on the Agency's allocation methodologies. We noted the Agency had not submitted all required data for the CAP. Exempt overtime hours were not included in the allocations, and participant data used to determine allocation percentages was not maintained.

Questioned Costs: Unknown

Context: Testing of the April 2012 indirect cost allocations noted the following:

- The Agency's CAP plan was provisionally accepted for the period July 1, 2007, through June 30, 2010, provided the Agency submit the financial data needed to the U.S. Department of Labor (USDOL) to evaluate and approve its CAP plan. We noted during our fieldwork that the Agency had still not provided such data. Additionally, the Agency submitted its CAP plan for the fiscal year ended June 30, 2011, and again did not submit to the USDOL the financial data needed to evaluate and approve its CAP plan. A similar finding was noted in the prior audit.

- Allocations involving general overhead, benefit costs, personal computer costs, rent, utilities, and communication costs were based on hours charged to various programs during the month; however, this hourly basis excluded overtime-exempt hours, which were coded to the Agency's programs for salaried workers. April 2012 overtime-exempt hours totaled approximately 64 hours. Overtime-exempt hours during fiscal year 2012 totaled approximately 969 hours. A similar finding was noted in the prior audit.

The APA calculated the following over/(under) allocations of indirect costs for April 2012 by CFDA:

CFDA	APA Allocated Amount	EnterpriseOne Allocated Amount (JAs)	Variance Over/Under Allocated To
17.002	$ 15,181	$ 15,194	$ 13
17.207	112,924	112,415	(509)
17.225	225,243	225,453	210
17.245	10,849	10,898	49
17.258	5,058	5,062	4
17.259	8,948	8,957	9
17.260	2,019	2,021	2
17.267	1,852	1,854	2
17.271	2,595	2,597	2
17.273	1,323	1,324	1
17.275	6,502	6,538	36
17.278	7,953	7,963	10
17.504	10,432	10,440	8
17.801	14,631	14,710	79
17.804	3,000	3,035	35
None - (Note 1)	30,062	30,081	19
Allocating - (Note 2)	28,007	28,037	30
Total	$ 486,579	$ 486,579	$ -

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 used participant/client enrollment data as the basis for its allocation of indirect personal computer costs (PC) and rent, utility, and communication costs (RUC). The Agency did not maintain the queries used to pull the data from the participant system or actual reports listing each enrollee. Additionally, some of the enrollee figures used to determine the allocation percentage did not agree to the support provided. Enrollee counts by career center location for each program, used in the allocation calculation, varied from one participant to 19,524 participants for the items tested. We found variances ranging from two less participants than the support provided to eleven more participants than the support. For April 2012, the total amount allocated using the enrollee counts was $23,836 distributed to the following:

Allocations for April 2012			
CFDA	**Program**	**PC Amount**	**RUC Amount**
17.207	Employment Services/Wagner Peyser	$ 11,490	$ 4,487
17.225	Unemployment Insurance	5,676	1,917
17.278	WIA Dislocated Worker	93	43
17.259	WIA Youth	43	9
17.258	WIA Adult	36	14
17.245	Trade Adjustment Assistance	22	6
Total Amount Allocated		$ 17,360	$ 6,476

Cause: The allocation programming in EnterpriseOne does not include overtime-exempt hours.

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 the financial data needed for USDOL to approve the CAP plans. We also recommend the Agency implement procedures to ensure costs are allocated in accordance with the CAP and Circular A-87. Furthermore, we recommend the Agency maintain adequate supporting documentation for allocation bases used to determine allocation percentage rates.

> **Management Response:** Management has responded to the huge undertaking of going back and collecting the data for the years the USDOL has recommended. Two years have been submitted to USDOL Division of Cost Determination. As Management has stated in the last several years, EnterpriseOne, the State's accounting system, does not have a way to feed hours automatically; those hours which have no dollars tied to them do not load into the general ledger system, from which the basis is derived for the allocations. After extensive work on a customized solution, to capture hours to which there are no associated costs, the solution was deemed not feasible due to the excessive amount of code and the poor results achieved. In subsequent review work by Management, NDOL performed the following calculation based upon the participant number changes recommended by APA. The results for the same period was a maximum of nineteen cents increase for Wagner Peyser, a decrease in UI of five cents, and WIA youth a decrease of thirteen cents netting to a one cent increase.
>
> **Corrective Action Plan:** Effective for July 1, 2012, all recorded overtime-exempt hours will be used in the calculations based on hours. NDOL will continue to work with the cost allocation representative to obtain sign off for the years presented. NDOL will also work diligently to become caught up on all years going forward. The fiscal year ending 2014 will be submitted on time.

Contact: Debbie Kay Ward

Anticipated Completion Date: December 2013

Finding #12-23-04

Program: CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) Cluster; due to the cross cutting nature of this finding, all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: All open WIA grants including: #AA-18655-09-55-A-31, FFY 2010; #AA-20207-10-55-A-31, FFY 2011; #AA-21409-11-55-A-31, FFY 2012

Federal Grantor Agency: U.S. Department of Labor

Criteria: A good internal control plan should include procedures to ensure expenditures are properly charged and adequately supported.

OMB Circular A-87, Attachment A, § C(1)(g) and § C(1)(j), respectively, require costs to be, "determined in accordance with generally accepted accounting principles" and "adequately documented." OMB Circular A-87, Attachment A, § C(3)(a) states further, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

Condition: The Agency expenses postage for career centers based on postage used during the month when postage is purchased, not actual usage for the entire expense. Postage is charged to programs based on the usage as of the date the bill is prepared. Once all postage has been used, a comparison is not performed or an entry is not made for actual amounts spent by program. Usage is determined from a postage meter report. These reports are not retained after usage is reported to the Agency.

Questioned Costs: $13 known

Context: The Agency operates one-stop career centers throughout State that provide an array of employment and training-related services. The Agency career centers purchase postage on a periodic basis (monthly or quarterly). The postage meters track the postage used during each month by postage code. For September 2011, the Fremont career center purchased $227 of postage. According to the Agency's documentation, $26 of postage was used during September, consisting of 94.14% for Employment Services purposes and 5.86% for WIA purposes. Using those percentages, $13 was charged to WIA (the line of coding the APA selected for testing), and $214 was charged to Employment Services. The postage meter report supporting the percentages was not maintained. Additionally, once all of the $227 was spent, a comparison was not performed or an entry was not made to record actual amounts spent by program.

Federal payment errors were noted as $13. The total sample tested was $311. The total population was $2,604,506. Based on this sample, the case error rate was 20% (1/5). The dollar error rate for the sample is 4.18% ($13/$311), which estimates the potential dollars at risk for fiscal year 2012 to be $108,868.

Cause: Unknown.

Effect: Postage expenditures for the career centers were not accurately recorded or documented, increasing the risk for misuse of Federal funds.

Recommendation: We recommend the Agency require career centers to include the postage meter reports when they submit their usage to the Agency. Additionally, we recommend the Agency make adjusting entries to charge postage expenses at actual amounts instead of estimated amounts.

Management Response: Management was unable to reach the same conclusions speaking to the persons involved in Fremont Postage issue. This is an isolated incident and was only a factor in the way postage was distributed. Agency cost centers do not have this type of issue with any of the other expenses. At best it should only be equated at the expense line level, since purchase orders are not impacted, which is the bulk of these expenses. The total amount of postage spent in all cost centers was $43,412. The cost centers in question were $9,613 for postage. This is the amount that was charged to the allocation accounts for the cost centers. However the testing was for the underlying expenses in the allocation accounts. This particular cost center can only charge to one of those allocating business units in the sample. The total for the Fremont Career Center was $9,126.88. The total in the allocation business unit that costs centers can charge to is $28,557.79. No others allocation business units would carry the risk of this type of error. The total of the population set is $2.604 million but career centers cannot directly charge to Agency Wide allocation which is $2.556 million of the population set which is approximately 98.14% of the total allocation population. We disagree that the $13 in questioned costs is unsupported. Our methodology was based on usage in the month.

Corrective Action Plan: When local offices submit their monthly postage report to NDOL they pull the #s off of the printout that they get from their postage meter; but have not sent the printout as additional backup. I will ask the offices to start sending the printout with their postage report beginning with the Feb 2013 report. For the amount in question which is only $9,613 to track through actual usage in each cost center when it can take up to 8 months to use, would not be cost efficient and would require a full time FTE.

Contact: Debbie Kay Ward

Anticipated Completion Date: July 30, 2013

APA Response: For the expense tested in September 2011, the career center purchased $200 of postage and was charged a $27 surcharge by the Department of Administrative Services for a total of $227. Per the Agency's documentation, the total cost was split between WIA and Employment Services based upon usage for the month of September 2011, even though the full amount of postage purchased was not used. It is difficult to determine if each program was allocated the correct amount since no comparison was done between the entry made based upon partial usage and actual usage. If charging costs based on actual usage is not efficient, the Agency may want to consider including the entire postage in the cost allocation plan as an indirect cost.

Finding #12-23-05

Program: CFDA 17.258, 17.259, 17.260, and 17.278 – Workforce Investment Act (WIA) Cluster – Allowability and Subrecipient Monitoring

Grant Number & Year: All open including #AA-21409-11-55-A-31, FFY 2012

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-87, Attachment A, § C(1)(j) provides, "To be allowable under Federal awards, costs must…[b]e adequately documented."

OMB Circular A-133 § 400(d)(3) states:

> *"A pass-through entity shall…[m]onitor 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 includes policies and procedures to monitor subrecipients. This includes reviewing and reconciling the subrecipient claims submitted to subrecipient accounting records and supporting documentation – thereby, ensuring funds are used for allowable purposes.

Condition: Subrecipient monitoring of financial activity for one subrecipient was inadequate to ensure funds were used for allowable purposes. Additionally, two of five payments tested to the subrecipient lacked adequate documentation to support all amounts claimed.

Questioned Costs: $4,464 known

Context: The Agency subawards Federal funds to three local areas: Greater Lincoln, Greater Omaha, and Greater Nebraska. All three local areas are subject to monitoring procedures by the Agency, including fiscal reviews. However, during testing, we noted that procedures to monitor the financial activities of the Greater Lincoln area were inadequate.

Greater Lincoln submitted monthly requests for WIA funds to the Agency. These requests for payment were supported by fiscal reports and a disbursement journal. The disbursement journal was used by Greater Lincoln to track spending but was not derived directly from the accounting system. As part of its fiscal system review for Greater Lincoln, the Agency tested a sample of the WIA expenditures for allowability. This sample was selected from a listing of expenditures from Greater Lincoln's accounting system. The Agency then traced selected expenditures to the disbursement journals. However, the disbursement journals did not directly agree to the reports the Agency used to select its sample of expenditures for testing. Additionally, the Agency did not trace expenditures from the disbursement journals to the accounting system reports or reconcile the disbursement journals to the accounting system reports to ensure all amounts claimed were subject to review.

We tested thirty aid payments, of which five were payments to Greater Lincoln. Two of the five payments did not have all copies of the disbursement journals on file to support the amounts claimed. We noted the following:

WIA Program	CFDA Number	Period Claimed	Total Claim Amount	Amount Not Supported
WIA Dislocated Workers (Recovery)	17.260	December 2010 to May 2011	$ 101,423	$ 4,068
WIA Youth Activities	17.259	June 2011	15,978	396
		Total	**$ 117,401**	**$ 4,464**

The total amount paid to the City of Lincoln and the potential dollars at risk during the fiscal year ended June 30, 2012, was $2,052,672.

Cause: There was a lack of coordination between staff paying claims and staff monitoring the subrecipient.

Effect: There is a risk of claims being included on the disbursement journal that are not on the accounting system, and these claims would not be subject to review. Without adequate monitoring procedures, there is an increased risk Federal awards could be used for unallowable costs.

Recommendation: We recommend the Agency improve monitoring procedures. Monitoring should ensure monthly reports are accurate, supported by adequate documentation, and that subrecipient expenditures are in accordance with Federal regulations. The Agency should ensure all amounts claimed are subject to review.

Management Response: The APA summarized the Agency's full response, as provided under Government Auditing Standards.

The Department of Labor is a pass-through agency as to the City of Lincoln as stated in the finding, then the finding of a questioned cost for any expenditure made by the Nebraska Department of Labor (NDOL) is not supported by the provisions of OMB Circular A-133. Please see OMB Circular A-133 § 400(d)(1-7) for pass through entity responsibilities. Due to a new employee not being aware that we had the ledgers for Lincoln sent to us, prior to the bills being paid, NDOL did have in its possession the ledgers for the following bullet points. NDOL did not have supporting documentation for $396; however, all but one bullet point of the invoices were supported by ledgers provided by the City of Lincoln.

After extensive review of A-133 and the obligations of a pass-through agency, the NDOL does not find an obligation as a pass-through agency to request or require "adequate supporting documentation for the amounts requested." The existence of "adequate supporting documentation for the amounts requested" is an auditing function, and OMB Circular A-133 does not require a pass-through agency to audit the records of a subrecipient. In fact, Circular A-133 § 400(d)(4) only requires that a pass-through agency ensure that the subrecipient has met the auditing requirements of A-133. The City of Lincoln did have an A-133 compliant audit in the fiscal year 2011-2012.

If there was any misuse or unsupported expenditures of Federal WIA funds by Greater Lincoln, those questioned costs are clearly the obligations of the City of Lincoln not the NDOL. Under 29 USC § 2832(d)(3)(B)(i)(I): "The chief elected official in a local area shall serve as the local grant recipient for, and shall be liable for any misuse of, the grant funds allocated to the local area." As the Chief Elected Official for Greater Lincoln, the Mayor of Lincoln would be responsible for any misuse of grant funds allocated to the City of Lincoln.

While the NDOL recognizes and appreciates that improvement is needed in its performance as a pass-through agency, the NDOL believes that the standard of requiring supporting documentation for expenditures of a subrecipient, as cited in the finding, exceed the requirements of A-133. Because the entire amount of the questioned cost arises out of NDOL not meeting requirements above and beyond those required in A-133, the NDOL would respectfully request that the finding of questioned costs be withdrawn and restated as "none" or "unknown."

Corrective Action Plan: Management fully intends to move the Fiscal monitoring responsibilities to the Compliance and Monitoring Section of the Financial Services Division. Management has a plan to increase the amount of staff in the Compliance Section to take on these and other compliance duties. Training for the fiscal monitoring will occur once the additional staff has developed a full understanding of NDOL operations. NDOL will meet with Lincoln WIA Program official to go over the requirements of the documentation.

Contact: Debbie Kay Ward

Anticipated Completion Date: December 2013

APA Response: Per OMB Circular A-133 § 400(d)(3), a pass-through entity shall:

"Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

OMB Circular A-87, Attachment A, § C(1)(j) also requires costs to be adequately documented. The Agency may advance funds to a subrecipient; however, to ensure expenditures were for authorized purposes, adequate supporting documentation is required.

Finding #12-23-06

Program: CFDA 17.258, 17.259, 17.260 and 17.278 – Workforce Investment Act and ARRA WIA Cluster – Allowability and Eligibility

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

Federal Grantor Agency: U.S. Department of Labor

Criteria: 20 CFR § 663.310 (April 1, 2011) states:

"Training services may be made available to employed and unemployed adults and dislocated workers who…(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)).”

20 CFR § 663.320(a) (April 1, 2011) provides also:

“WIA funding for training is limited to participants who: (1) Are unable to obtain grant assistance from other sources to pay the costs of their training; or (2) Require assistance beyond that available under grant assistance from other sources to pay the costs of such training. Program operators and training providers must coordinate funds available to pay for training as described in paragraphs (b) and (c) of this section.”

20 CFR § 663.320(b) (April 1, 2011) says:

“Program operators must coordinate training funds available and make funding arrangements with One-Stop partners and other entities to apply the provisions of paragraph (a) of this section. Training providers must consider the availability of other sources of grants to pay for training costs such as Welfare-to-Work, State-funded training funds, and Federal Pell Grants, so that WIA funds supplement other sources of training grants.”

OMB Circular A-87, Attachment A, § C(1) requires costs to be reasonable, necessary, and adequately supported. Good internal control requires procedures to ensure items such as alcohol, cigarettes, and entertainment expenses are not included in determining a participant’s financial need for services. Good internal control also requires verification of participant’s budgeted expenses.

Condition: For 14 of 23 adult and dislocated worker participants tested, eligibility could not be fully determined, as there was not adequate documentation on file to support if the individual received or did not receive a Pell Grant, whether other funding sources were considered, and whether WIA funds were needed in addition to other funding sources. A similar finding was also noted in the prior audit.

We also noted expenses for alcohol, cigarettes, and entertainment were used to determine participants’ financial need.

Questioned Costs: Unknown

Context: During testing, we noted the following:

- Seven participants lacked documentation of a Pell grant award or denial. For one of these cases, the participant’s application stated she did not receive a Pell grant; however, a student account summary showed the participant received a Pell grant of $5,550, which demonstrates the need to obtain documentation of Pell grant awards or denial.

- For five participants, a Pell grant award or denial was documented, but the case file lacked documentation showing whether WIA funds were needed in addition to the Pell grant and any other financial assistance received.

- Two participants lacked documentation of a Pell grant award or denial and a coordination of funds.

- For one participant, their Projected Budget Summary of monthly expenses included $1,108 in entertainment and incidental expenses. These expenses included:

Description	Amount
Cable Television	$ 160
Newspapers and Magazines	18
Spending Money	500
Cigarettes	400
Alcohol	30
Total Entertainment	$ 1,108
Other Living Expenses (Rent, Food, etc)	3,360
Total Monthly Expenses	$ 4,468
Total Monthly Income (spouse)	$ 4,550

Monthly living expenses are used to determine the amount of WIA funds a participant will receive. The form used by Greater Omaha and Greater Nebraska allowed participants to include these entertainment items, including cigarettes and alcohol, in their monthly budgets. It is not reasonable to include the cost of alcohol and cigarettes in determining the financial need of the participant for Federal aid. We noted that Greater Nebraska implemented a new budget worksheet effective March 1, 2012, which no longer included those items. We further noted the monthly expenses declared by participants were not verified to supporting documentation.

Total aid payments made to Adult participants (CFDA 17.258) were $2,038,000 for fiscal year 2012. Total aid payments made to Dislocated Worker participants (CFDA 17.260) were $2,349,790.

Cause: Unknown

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

Recommendation: We recommend the Agency ensure documentation is on file to support that a Pell grant was awarded or denied. In addition, 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. For those ineligible for Pell grants, we recommend that the Agency document that other funding sources were considered. We further recommend alcohol, cigarettes, and entertainment not be included in determining the financial needs of participants. Finally, we recommend participant budget amounts be verified to supporting documentation.

Management Response: NDOL is in agreement that PELL grant awards need to be documented in the participant file, and the cost of training for a participant must be coordinated with other grant awarding entities. NDOL has investigated the 14 tested participants to determine the cause/reason why eligibility could not be fully determined. In most cases, we found that the PELL Grant information was documented, and in no case were WIA and PELL grant funds used in duplicate to fund training costs. It should be noted, Greater Nebraska implemented a Corrective Action Plan (CAP) from the previous year audit on PELL grant documentation. The CAP went into effect March 2012. None of the participants tested fell under the new procedures of the CAP.

Corrective Action Plan: NDOL will review and revise its State Policy on "PELL Grants and Other Financial Aid Issues" to emphasize the documenting of: PELL grant awards, grant assistance from other fund sources to pay for training, and participant need. The revised Policy will also address the inappropriateness of using alcohol, cigarettes, and entertainment cost in determining the financial need of the participant.

Contact: Joan Modrell

Anticipated Completion Date: June 30, 2013

<u>Finding #12-23-07</u>

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

Grant Number and Year: All open including #AA-21409-11-55-A-31, FFY 2012; #AA-22949-12-55-A-31, FFY 2013

Federal Grantor Agency: U.S. Department of Labor

Criteria: 2 CFR § 170.320 (January 1, 2012) 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) (January 1, 2012) 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) (January 1, 2012) states:

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

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 policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: The Agency did not complete any reports, as required by the Federal Funding Accountability and Transparency Act (Transparency Act), for the WIA Cluster of programs during the fiscal year ended June 30, 2012.

Questioned Costs: None

Context: Subaward agreements for the WIA Cluster of programs were entered into with three local areas. These areas are Greater Omaha, Greater Lincoln, and Greater Nebraska. Subawards are made through Notices of Obligational Authority (NOAs) for each Federal Program year grant.

The following table shows the local areas, the amounts received through the initial subawards and amendments, and the dates the various awards should have been reported:

Local Area	Program Year 2011 Initial Subgrant Reporting Due 10/31/2011	Program Year 2011 Subgrant Amendment Reporting Due 3/31/2012	Program Year 2012 Initial Subgrant Reporting Due 5/31/2012
Greater Omaha	$ 1,442,950	$ 1,376,044	$ 1,272,009
Greater Lincoln	485,193	472,005	447,957
Greater Nebraska	720,094	1,207,915	737,129
Total	**$ 2,648,237**	**$ 3,055,964**	**$ 2,457,095**

Cause: Employee turnover.

Effect: Non-compliance with Federal regulations, which could result in sanctions by the Federal government.

Recommendation: We recommend the Agency complete the required Transparency Act reporting for subawards made during the fiscal year. We further recommend the Agency implement procedures to ensure that all required reporting is properly completed in accordance with Federal regulations.

Management Response: Management agrees. Due to staff turnover, we were unable to complete FFATA requirements.

Corrective Action Plan: Management will begin to research and determine the information which is currently not being reported, via other acceptable modes.

Contact: Debbie Kay Ward

Anticipated Completion Date: July 2013

<u>Finding #12-23-08</u>

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

Grant Number and Year: All open including #AA-21409-11-55-A-31, FFY 2012

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 CFR § 205.11(b) (July 1, 2011), "A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs."

Per 29 CFR § 97.20(a) (July 1, 2011), a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Such fiscal control must be "adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Per the State of Nebraska Accounting Manual, receivable accounts, such as Due from Fund, are used to reflect amounts owed by one fund to another fund. Object Account 132100, Due from other Funds, should be used to indicate amounts owed to a particular fund by another fund in the same government. This account includes only short-term obligations (usually less than one year). Object account 215100, Due to Fund, should be used to reflect amounts owed by a particular fund to another fund in the same government, including only short-term debts.

A good internal control plan requires procedures to ensure money borrowed by one fund or grant from another be repaid in a timely manner, and accounting records be reconciled to ensure all grant activity is properly balanced and recorded.

Condition: The Agency did not maintain adequate supporting documentation for all amounts of a journal entry transaction and did not adequately reconcile all grant activity.

Questioned Costs: Unknown

Context: Our prior reports noted concerns related to the Agency's accounting of grant receipts and expenditures. In July 2010, the Agency began the process of setting up new business units in the State's accounting system to account for transactions by specific grant. The Agency then began an extensive reconciliation process to properly record grant activity in the accounting system and the Federal drawdown system. The reconciliation was for grants beginning with Program Year (PY) 2009/Fiscal Year (FY) 2010 through current grants.

The process of moving expenditures from the older business units to the new business units was completed by December 31, 2011. In March 2012, the Agency began reconciling the Federal funds received for these grants and recorded in the accounting system, to the expenditures recorded in the system. After the receipt journal entries were complete, the Agency adjusted the cash draws on the Federal draw system to either pay back monies or draw additional money for each grant, so that the Federal receipts per the accounting system agreed to the Federal cash drawn per the Federal draw system.

The Agency completed four journal entries related to the reconciliation of Federal receipts recorded in the accounting system. We selected one receipt journal entry affecting 16 separate grants (adult, dislocated worker, and youth). We selected nine of thirteen PY 2009 and newer grants and compared the Agency's spreadsheets to the general ledger.

During our review, we noted that not all accounts were included in the Agency's reconciliation, as operating transfers in and out were not included for five of nine grants reviewed. These operating transfers included items such as estimated allocations, borrowing of funds from the Agency's cash funds, and transfers of cash between WIA funds. Per our review, these transfers were not subsequently reversed; therefore, as of January 2013, these grants are not reconciled, as it appears these grants have a balance on hand. These balances could be amounts due back to the Agency's cash funds, due to other WIA funds, or due back to the Federal Government.

These operating transfers included amounts borrowed back to July 2010 and allocations from November and December 2010 that had not yet been paid back or cleared. In addition, short-term borrowing between funds should be recorded as a due to/from fund rather than an operating transfer.

The following table shows the results of our review for the grants selected for testing:

Grant Number Program & Year	CFDA #	Net Operating Transfers In (Out) Not Cleared
AA-18655-09-55-A-31 PY 2009 Youth	17.259	$ 215,313
AA-18655-09-55-A-31 PY 2009 Adult	17.258	20,016
AA-18655-09-55-A-31 PY 2009 Dislocated Worker	17.260	247,461
AA-18655-09-55-A-31 FY 2010 Dislocated Worker	17.260	27,055
AA-18655-09-55-A-31 Total		**$ 509,845**
AA-20207-10-55-A-31 PY 2010 Youth	17.259	42,140
AA-20207-10-55-A-31 Total		**$ 42,140**

In addition to the grants being out of balance for the operating transfers, we also noted five grants with unexplained variances ranging from $464 to $1,987.

For the journal entry tested, we also reviewed amounts for the grants older than PY 2009. Per our review, we noted two line items, which did not have adequate documentation on file to support how the amounts were determined. Receipts for the PY 2003/FY 2004 grant were reduced by $680,934 and increased by $52,302 for the PY 2007/FY 2008 grant.

Cause: The Agency was unsure of the cause.

Effect: Without adequate documentation to support all items of a transaction, including consideration of all account classes and transaction types when reconciling grants, there is an increased risk that Federal funds could be drawn in excess of cash needs.

Recommendation: We recommend the Agency implement procedures to ensure all amounts of a transaction are adequately documented and proper. We also recommend the Agency implement procedures to ensure grants are in balance. This should include a reconciliation of all grant activity to ensure no excess monies remain with the grant that should be repaid to other funds or the Federal government. We also recommend the Agency consider recording short-term borrowing as a due to/from fund.

> **Management Response:** These grants are part of the Agency settlement going back to 2003. Management is in the process of settling all grant balances with USDOL as part of its ongoing CAP [Corrective Action Plan]. NDOL will continue to work with USDOL to resolve all past issues. After visiting with EnterpriseOne experts, it is not possible to manage or maintain this information on a grant-by-grant basis from a balance sheet perspective. It would increase the likelihood of error if the grants were intermingled.

Corrective Action Plan: Dependent on guidance from USDOL, NDOL will reconcile grants based upon settlement.

Contact: Debbie Kay Ward

Anticipated Completion Date: Dependent on final resolution with USDOL.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #12-25-02

Program: Various including CFDA 93.658 – Foster Care Title IV-E; CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund; CFDA 93.778 – Medical Assistance Program – Allowable Costs/ Cost Principles

Grant Number & Year: Various including #1101NE1401, FFY 2011; #G1101NECCDF, FFY 2011; #051105NE5MAP, 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 procedures be in place to ensure documentation for allocations is maintained.

Condition: The Agency did not maintain adequate supporting documentation for its NFOCUS Statistical Spreadsheet Recipient case counts, which is used to allocate costs to Federal and State programs. NFOCUS is a subsystem of the State's accounting system used to record detailed information regarding clients and services.

Questioned Costs: Unknown

Context: We tested the IST NFOCUS Applications cost center allocation for the quarter ended September 30, 2011, which was allocated to various programs based on recipient case counts. We requested the supporting documentation for the recipient case counts, but the Agency stated they could not provide it to us because the case-level detail was not maintained. A total of $3,787,464 was allocated from the cost center for the quarter. Multiple Federal and State programs are affected including Foster Care, Child Care, and Medicaid.

Cause: The Agency did not maintain a detail list of NFOCUS cases used to allocate costs and does not have the ability to replicate the detail after the fact.

Effect: Without adequate supporting documentation, we could not verify whether costs were properly allocated.

Recommendation: We recommend the Agency implement procedures to ensure supporting documentation for allocations is maintained.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Financial Services will request that the NFOCUS team generate a case list that supports the data reported out on the quarterly report of recipients with benefits.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: December 31, 2012

<u>Finding #12-25-03</u>

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

Grant Number & Year: #0G0901NECCDF, FFY 2009; #0G1001NECCDF, FFY 2010

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

Criteria: Grant award terms and conditions for grant year 2009 state, "Discretionary funds must be obligated by September 30, 2010 and liquidated by September 30, 2011." Grant award terms and conditions for grant year 2010 state, "Discretionary funds must be obligated by September 30, 2011 and liquidated by September 30, 2012." 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 agency."*

A good internal control plan would include procedures which ensure the expenditures are made within the grant period of availability.

Condition: Expenditures for the 2009 and 2010 Child Care grants were made outside the period of availability.

Questioned Costs: $199,930

Context: We reviewed business units for the 2009 and 2010 grants 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 Department of Health and Human Services (Agency). We limited this 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. During State fiscal year 2012, NDE made $23,569 in Child Care grant expenditures for payroll after the 2009 grant period of availability, and $176,361 for the 2010 grant for a total of $199,930.

A similar finding was noted in the prior audit. In the prior year, when informed that the Auditor of Public Accounts (APA) does not consider NDE as 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 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, 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 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 ACF with an analysis citing both relevant case law and Federal regulatory guidance, supporting the initial determination that 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. <u>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.</u> 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. <u>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."</u>* (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).

In the prior year, ACF declined to offer any written guidance in response to the APA's request for a revised opinion. Instead, ACF felt it was more appropriate to include this finding in the Statewide Single Audit, and have the matter addressed through the resolution process. The prior audit finding has not yet been resolved.

Cause: The Agency believed its MOU with NDE obligated the funds.

Effect: Expenditures were unallowable as they were not obligated by September 30, 2010, for the 2009 grant, and by September 30, 2011, for the 2010 grant.

Recommendation: We recommend procedures be implemented to ensure expenditures are obligated by the date required under grant awards.

Management Response: The Agency does not agree with the condition reported. The Agency contacted the Federal awarding agency (ACF) on October 11, 2012, and was informed the Federal awarding agency has not issued a formal decision related to the prior year finding. On October 16, 2012, the Agency received a request from ACF to provide additional documentation related to this finding. The Agency provided that information to ACF on November 13, 2012, and awaits a response from ACF.

Corrective Action Plan: The Agency will continue to work with the Federal awarding agency to resolve this finding.

Contact: Kevin R. Nelson, CPA, Internal Auditor

Anticipated Completion Date: March 31, 2013

<u>Finding #12-25-04</u>

Program: Various including CFDA 93.778 – Medical Assistnace Program; CFDA 93.558 – Temporary Assistance for Needy Families; CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Allowable Costs/Cost Principles

Grant Number & Year: Various including #051205NE5MAP, FFY 2012; #G1202NETANF, FFY 2012; #0G1201NECCDF, FFY 2012

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

Criteria: OMB Circular A-87 requires costs to be adequately documented and to be accorded consistent treatment. A good internal control plan requires procedures be in place to ensure employee charges are based on a documented review.

Per the Cost Allocation Plan, the cost center "25C21910 Administration" is "allocated to the other Service Area Cost Centers based on the labor hours, LH, in each center." Per the Cost Allocation Plan, the cost center "25C21960 Income Eligibility and Social Services Casework" is "allocated to the benefitting programs based on the Random Moment Time Study Methodology."

Condition: During our testing of 25 employees, we noted that two employees with the same job title were charged to different cost centers, and the Agency did not have documentation to support the employees' charges were properly allocated.

Questioned Costs: Unknown

Context: The employees in question both had the job title "Children and Family Services Service Delivery Administrator I." One employee's payroll costs were charged to cost center 25C21910 and the other employee's payroll costs were charged to cost center 25C21960. These cost centers are allocated differently in the Cost Allocation Plan. The Agency does not document their decision to charge employees to certain cost centers, nor do they have a process to periodically redetermine where employee costs should be charged, should circumstances change.

The total allocated in State fiscal year 2012 from cost center 25C21910 was $18,374,647 and the total from cost center 25C21960 was $49,323,368.

Cause: The Agency stated the determination of where to charge payroll costs for each employee is made once and is not revisited systematically. The Agency stated they make hundreds of these decisions every month and it would require a sophisticated tracking system to account for all the different decision making situations. Per the Agency, the Agency's documentation for new hires, reclassifications, and transfers is the Personnel Action Workflow System (PAWS) form. The PAWS form is reviewed by three individuals and the decision is a consensus of those three reviews. However, the particular individuals we tested were assigned before the Agency started the PAWS documentation process.

Effect: Without a documented review of employee charges, there is an increased risk charges will be inappropriate and Federal programs could be under or overcharged.

Recommendation: We recommend the Agency implement procedures to ensure documentation is maintained to support employee payroll charges to cost centers. We also recommend the employee charges be reevaluated on a periodic basis, and this evaluation be documented to support why employee costs are charged to a particular cost center. Documentation should be sufficient for a prudent person to come to the same conclusion.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Personnel Action Workflow System (PAWS) is used to document the determination of where to charge payroll costs for new hires and position changes. The Agency will investigate changes that could be made to PAWS to enhance internal controls.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: June 30, 2013

Finding #12-25-05

Program: Various including CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare; CFDA 93.791 – Money Follows the Person Rebalancing Demonstration – Allowable Costs/Cost Principles

Grant Number & Year: Various including #051105NE5000, FFY 2011; #1LI300147A, FFY 2011

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

Criteria: OMB Circular A-87 Attachment A § C(1) states that to be allowable under Federal awards costs must be allocable to Federal awards under the provisions of the circular and be adequately documented.

OMB Circular A-87 Attachment A § C(3)(a) states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

OMB Circular A-87 Attachment B § 8(h)(3) states, in part,

> *"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 firsthand knowledge of the work performed by the employee."*

OMB Circular A-87 Attachment B § 8(h)(4) states, in part, "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…"

A good internal control plan requires procedures be in place to ensure documentation is maintained to support temporary employee charges.

Condition: The Agency did not maintain adequate documentation to support charges for temporary employees.

Questioned Costs: $2,692 known

Context: Four of 25 operating expenditures tested were payments made by the Agency to the State's Department of Administrative Services (DAS) for temporary employees, totaling $2,692. The Agency was not able to provide adequate documentation to support charging temporary employee time to a particular program. Two of the payments we tested involved temporary employee wages being coded to multiple programs, while the other two involved wages charged solely to one program. In cases where temporary employee wages were charged solely to one program, the Agency did not require periodic certifications from the employees or supervisors to ensure the employees worked solely on that program. In cases where the temporary employee wages were split among multiple business units, the Agency did not maintain personnel activity reports to ensure coding corresponds to actual time worked on projects. Total temporary employee payroll expenditures paid by the Agency to DAS for State fiscal year 2012 were $2,602,808.

Cause: The Agency did not require temporary employees to code their time or certify they worked on Federal programs. Instead, at the beginning of employment, the temporary employee's immediate supervisor notified the Agency's accounting department to which programs the employees' costs should be charged. It was then the supervisor's responsibility to inform the accounting department of any changes.

Effect: Without adequate documentation to support charges to various programs, costs may not be properly allocated. Both Federal and State funds may be mischarged if the costs to the programs are not based on actual hours spent working on those programs.

Recommendation: We recommend the Agency implement procedures to ensure temporary employee costs are adequately documented in accordance with A-87.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will work with DAS to revise procedures related to charging temporary employees time to particular programs.

Contact: Kevin R. Nelson, CPA, Internal Auditor

Anticipated Completion Date: December 31, 2012

Finding #12-25-06

Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Cash Management

Grant Number & Year: #G1202NETANF, FFY 2012; #G1102NETANF, FFY 2011

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

Criteria: Per 31 CFR 205.33(a) (July 1, 2011), "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes." A good internal control plan requires procedures be in place to ensure expenditures charged to Federal grants are allowable costs per the CAP; actual general ledger and allowable CAP expenditures do not vary by significant amounts; and timing variances are resolved in a timely manner.

Condition: We noted actual TANF administrative expenditures exceeded TANF Cost Allocation Plan (CAP) expenditures by $1,576,489 for the 2012 grant and by $987,592 for the 2011 grant at June 30, 2012.

Questioned Costs: Unknown

Context: Administrative costs when paid are charged to various Federal and State programs based on predetermined percentages. When costs are recorded in the general ledger to a particular grant, the Agency draws the funds from the Federal agency. At the end of each quarter the CAP is run. The CAP redistributes costs and reflects allowable expenditures for each program. Since general ledger expenditures exceeded CAP expenditures for TANF by a significant amount, cash management issues occurred because funds were drawn from those grants before costs were actually incurred for those grants.

Grant	Quarter Ended	General ledger cumulative expenditures/ Amount drawn	CAP allowable cumulative expenditures/ Amount earned	Amount of expenditures drawn less than (exceeded) earned
G1202NETANF	12/31/2011	$ 1,107,984	$ 1,807,977	$ 699,993
	3/31/2012	$ 3,374,784	$ 3,277,910	$ (96,874)
	6/30/2012	$ 6,583,103	$ 5,006,614	$ (1,576,489)
G1102NETANF	9/30/2011	$ 7,983,200	$ 7,405,586	$ (577,614)
	12/31/2011	$ 8,277,370	$ 7,405,586	$ (871,784)
	3/31/2012	$ 8,280,872	$ 7,294,452	$ (986,420)
	6/30/2012	$ 8,282,044	$ 7,294,452	$ (987,592)

Total TANF administrative costs earned per the Cost Allocation Plan for State fiscal year 2012 were $6,664,412. Total TANF administrative costs charged per the general ledger for State fiscal year 2012 were $9,395,706.

Cause: The Agency monitors administrative costs charged to grants to ensure actual general ledger administrative expenditures do not exceed CAP administrative expenditures by a significant amount. However, adjustments were not made to true up the TANF expenditures.

Effect: If general ledger expenditures exceed CAP expenditures by a significant amount, there is an increased risk funds are drawn for a grant before allowable expenditures for the grant occur. TANF grants were overcharged and State and/or other Federal programs were undercharged. This results in noncompliance with Federal cash management regulations.

Recommendation: We recommend the Agency implement procedures to ensure expenditures charged to Federal grants are allowable costs per the CAP; actual general ledger expenditures and allowable CAP expenditures do not vary by significant amounts; and timing variances are resolved in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will revise its procedures for the quarterly TANF report to include adjusting the TANF draw amounts as the quarterly reports are completed.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: December 31, 2012

Finding #12-25-07

Program: CFDA 10.555 – National School Lunch Program – Special Tests and Provisions

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Title 7 CFR § 250.16 (January 1, 2011) states,

"accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods…failure by a distributing agency, subdistributing agency, recipient agency, processor, food service management company, warehouse or other entity to maintain records required by this Section shall be considered prima facie evidence of improper distribution or loss of donated foods…"

Per 7 CFR § 250.14(e) (January 1, 2011), distributing and sub-distributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency.

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: Numerous issues were noted in the Agency's operation of the commodities portion of the National School Lunch Program, which hindered the Agency's ability to exercise adequate accountability over USDA-donated foods.

Questioned Costs: Unknown

Context: The Agency distributed a total of $10,942,130 in food commodities under CFDA 10.555 during the fiscal year. We noted the following:

- The transactions that were entered into the Food Distribution Program (FDP) system did not have a documented 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 Programs Administrator or a second individual.

- Several large schools began receiving direct shipments from the USDA during fiscal year 2010. FDP has not been programmed to generate adequate detailed reports to support these direct shipments to schools. Only a summary level report could be generated indicating that the dollar value of commodities received by the schools was $2,607,098.

- We observed the physical inventory count conducted on July 25, 2012, at the contracted warehouse. The following was noted:

    - For 8 of 110 total commodities, the ending inventory amount reported by the Agency did not agree to the ending inventory per the actual physical inventory count, resulting in ending inventory understated by $206,655. This appeared to be due to data entry errors and because a second individual did not review the ending inventory spreadsheet to ensure it was accumulated correctly.

Product #	Product Description	Cases per Physical Inventory Count	Cases per Agency Spreadsheet	Variance	Ending Inventory Variance
100352	Sliced Carrots	1,087	287	800	$ 17,112
100253	Strawberries	1,395	75	1,320	$ 37,844
100021	Shredded Mozzarella	3,292	1,948	1,344	$ 85,640
100400	Flour	1,376	1,108	268	$ 3,120
100134	Beef Crumbles	1,414	1,918	(504)	$ (50,788)
100256	Strawberry Cup	1,175	125	1,050	$ 35,700
100410	Whole Wheat Flour	536	0	536	$ 5,580
100126	Turkey Ham Smoked	999	0	999	$ 72,447
				Total	**$ 206,655**

- For 1 of 17 commodities tested, there were cases received on July 16, 2012. The physical inventory was taken on July 25, 2012. In computing the ending inventory as of June 30, 2012, the Agency neglected to back out the cases received on July 16, 2012.

Product #	Product Description	Cases per Physical Inventory Count	Cases received in July 2012	Amount that should have been recorded as Ending Inventory	Ending Inventory Variance
100258	Apple Slices	1,324	1,320	4	$ (17,622)

- For 6 of 17 commodities tested, the count from the physical inventory did not agree to the count in FDP. The variances ranged from (331) to 983 cases. The Agency was unable to provide support for the variances. However, it appears that for the cases with negative balances in FDP, the Agency neglected to enter the beginning inventory value for the fiscal year.

Product #	Product Description	Cases per Physical Inventory Count	Cases per FDP	Variance
100348	Corn	473	804	(331)
100018	Processed Cheese	1,044	1,375	(331)
3736_328	Chicken Nuggets	2	(981)	983
40700	Egg Patty	180	(170)	350
40827	Scrambled Eggs	26	(95)	121
95339	Turkey Deli Breast	347	1,005	(658)

- For 4 of 17 commodities tested, variances were discovered between the contracted warehouse's records and the actual physical count. However, no adjustment was made in FDP to account for variances between FDP and the July 2012 physical inventory count.

Product #	Product Description	Cases per Physical Inventory Count	Cases per Contracted Warehouse Records	Variance
100348	Corn	473	474	(1)
100018	Processed Cheese	1,044	1,045	(1)
100334	Tomato Sauce	272	273	(1)
95339	Turkey Deli Breast	347	341	6

- The Agency considered FDP to be unreliable due to hedges in the system and problems generating reports, so they did not even bring FDP records to the physical inventory count. Hedges are essentially a backorder. Once the product is received, FDP is supposed to clear these backorders out, but it does not.

A similar finding was noted in our previous audit report.

Cause: Inadequate review. Per the Agency, shortages due to carrier loss and hedges in FDP played a factor in the variances noted in inventory numbers.

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. Failure to maintain accurate and complete records could result in the Agency paying USDA the value of the food or replacing it in kind.

Recommendation: We recommend the Agency implement adequate controls and procedures over commodities. This would include recording all receipts, issuances, and adjustments into FDP in a timely manner, documenting a second individual's review of entries in FDP, obtaining an information system that is adequate to fully account for commodities, and ensuring the ending inventory reported is correct.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has been working with the IS&T [Information Systems & Technology] staff to identify systems used by other states that would meet the requirements of the FDP. Conversations with our Federal partner have occurred to obtain their input and guidance, as well as identifying possible funding sources. Until a new system can be implemented, reviews in the current FDP system will be completed by the Food Distribution Coordinator after the entry by staff and the Agency will ensure the review is documented.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: July 1, 2013

Finding #12-25-08

Program: CFDA 10.555 – National School Lunch Program – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 250.16(a) (January 1, 2011) 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 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 was not able to provide documentation from the Food Distribution Program (FDP) system to support several figures they reported for CFDA 10.555, the National School Lunch Program:

- The beginning inventory did not agree to the prior year ending inventory. The beginning inventory was reported as $3,403,839, which was actually the beginning inventory from the previous year. The correct amount was $1,936,029.

- The inventory received did not trace to FDP. The inventory received was reported as $11,477,285, but the correct amount per FDP was $11,457,881.

- The ending inventory amount reported by the Agency did not agree to the ending inventory per the actual physical inventory count. Additionally, the Agency did not back out transactions occurring before the physical inventory was taken but after the end of the fiscal year. The ending inventory was reported as $1,979,166, but the correct amount was $2,168,199.

- The issued amount, the amount reported on the SEFA, was plugged based on the values for beginning inventory, inventory received, gain/loss/transfer, and ending inventory. Per the Agency, because FDP is unreliable, they inevitably have to back into one figure to make the inventory calculation work. After correcting for the errors in the previous three bullet points, the calculated issued amount was $10,942,130. However, FDP supported an issued amount of $11,099,042.

- The beginning and ending inventory figures could not be traced to FDP. They were based entirely on the annual physical inventories.

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

Program	Originally Reported	Revised	Change
CFDA 10.555	$ 12,618,376	$ 10,942,130	$ (1,676,246)

A similar finding was noted in our previous report.

Cause: Inadequate review.

Effect: Noncompliance with Federal requirements, which could result in sanctions.

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 will ensure that two staff members are involved in the preparation and review of the SEFA report. The amounts related to the Child Nutrition Program will be reviewed by the SNAP/Food Distribution Administrator to ensure the accuracy of the numbers. In addition, the inventory numbers will also be reviewed by the Administrator.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: August 1, 2013

Finding #12-25-09

Program: CFDA 10.555 – National School Lunch Program – Special Tests and Provisions

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per the USDA Food and Nutrition Service (FNS) Handbook, section 501,

> *"the desirable temperature to maintain in dry storage areas is 50° to 70° Fahrenheit (F). In hot humid climates where temperatures of 50° to 70° F cannot be maintained, it may be necessary to install air-conditioning to keep the temperature from going above 70° F. Temperatures above 70° F in dry storage areas may result in increased insect activity in grain products and bulging and swelling of canned goods."*

Per the Agency's contract with its warehousing provider, dry groceries are to be maintained at 50° to 70° F. A good internal control plan requires procedures be in place to ensure dry goods are stored in accordance with FNS guidelines.

Condition: During the observation of the Agency's annual physical inventory of food commodities on July 25, 2012, we noted the dry storage area was 90° F, which is 20° higher than the Federal maximum temperature guideline to ensure food quality and safety.

Questioned Costs: Unknown

Context: The outside temperature at the time of the physical inventory was 90° F with high humidity. The temperature inside the dry storage area was also 90° F. The Agency noted this has been an ongoing issue with the warehouse provider. We noted a small office area in the front of the warehouse is adequately cooled, but the actual warehouse has no air conditioning; it has several fans only. We also noted several lots of food were stored next to a window in direct sunlight. The Agency has not adequately safeguarded dry goods from damage due to high temperatures.

Cause: Inadequate contract enforcement by the Agency.

Effect: Foods stored for children's consumption could be subjected to increased insect activity in grain products and bulging and swelling of canned goods.

Recommendation: We recommend the Agency implement procedures to ensure dry goods are stored between 50° and 70° F at all times during their storage.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency will put the contract up for competitive bid. The Request for Proposal and resulting contract will include specific provisions of the requirement to maintain the physical environment of the warehouse at the Federal guideline for food quality and safety. The Agency will also conduct periodic visits of the warehouse to ensure the requirement is being met.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: July 1, 2013

Finding #12-25-10

Program: CFDA 10.568 and 10.569 – Emergency Food Assistance Cluster – Subrecipient Monitoring/Eligibility

Grant Number & Year: #3NE810826, FFY 2011; #3NE400516, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 251.10(e)(2) (January 1, 2012) requires the State agency monitoring system to include site reviews of eligible recipient agencies which receive TEFAP [Temporary Emergency Food Assistance Program] commodities and/or administrative funds pursuant to an agreement with the State or another eligible recipient agency. Additionally, "State agencies must develop a system for selecting eligible recipient agencies for review that ensures deficiencies in program administration are detected and resolved in an effective and efficient manner."

7 CFR § 251.4(d)(2) (January 1, 2012) 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 250.16(a)(2) (January 1, 2012) states, "Distributing agencies shall require all subdistributing agencies to maintain accurate and complete records with respect to the receipt, distribution/disposal, and inventory of donated foods…"

7 CFR § 251.5(a)(3) (January 1, 2012) states a recipient agency must have a tax-exempt status.

7 CFR § 251.5(a)(1) (January 1, 2012) states "Organizations distributing commodities to households for home consumption must limit the distribution of commodities provided under this part to those households which meet the eligibility criteria established by the State agency…" The State plan for the Cluster states,

> *"Recipient eligibility will be based on 180% of the federal poverty guidelines during each fiscal year or current participation in one of the following programs: Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), State Supplemental (AABD), Energy, Medical only, State Disability, or Refugee Program."*

A good internal control plan requires eligibility documentation be kept on file to ensure Federal requirements are met.

2 CFR § 180.300 (January 1, 2012) states, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person.

OMB Circular A-133 § 400(d) states,

> *"A pass-through entity shall perform the following for the Federal awards it makes…(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending $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."*

A good internal control plan requires procedures to monitor subrecipients and ensure compliance with Federal requirements.

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

Questioned Costs: Unknown

Context: The Program is operated at the local level by Eligible Recipient Agencies (ERAs). ERAs such as food banks and soup kitchens provide nutrition assistance to needy individuals. ERAs may receive a subgrant directly from the State or from another ERA. During the fiscal year, the Agency had 3 direct subrecipient ERAs and approximately 150 lower tier ERAs. We noted the following:

- The Agency created a spreadsheet to track when site reviews were due and completed; however, the spreadsheet was not complete or up to date. The spreadsheet provided listed 71 ERAs, but the request for a waiver indicated there were 150 ERAs. The Agency conducted eight site reviews and received a waiver for the remainder due. Key components of these site reviews include determinations if the ERA is receiving excessive commodities; reviews of eligibility determinations for ERAs and individual households; and reviews of documentation of receipt, disposal, and inventory of commodities.

- The Agency did not have procedures to ensure direct subrecipients monitored lower tier ERAs for suspension and debarment. We noted a handbook was developed effective July 2012; however, the handbook did not address ERAs monitoring the suspension and debarment of lower tier ERAs.

- The Agency performed a site review for one direct subrecipient during the year. The Agency's site review included findings for excess commodities, and missing provisions in the agreement between ERA's; however, no follow up was noted to document that the deficiencies were resolved.

- The Agency did not maintain adequate documentation to support household eligibility determined by the ERAs. The site review checklist indicated eligibility was reviewed, but did not indicate how many applications were reviewed or what the names, income, and household size were of applications reviewed. One site review tested noted that no application was on site and the distribution was used for a school backpack program; additional correspondence noted the distribution site should not have been providing TEFAP foods for the backpack program, but no additional follow up was documented.

- Two of three direct subrecipient ERAs of the Agency did not have adequate documentation of their tax-exempt status.

- Two of three direct subrecipient ERAs had an audit finding in their A-133 audit reports. The Agency did not issue a management decision on audit findings within six months after receipt of the subrecipient's audit report; and did not ensure that the subrecipient took appropriate and timely corrective action.

A similar finding was noted in the prior audit.

Cause: Unknown

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

Recommendation: We recommend the Agency implement procedures and maintain documentation to ensure compliance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will update the current TEFAP Handbook to include information on ERA's monitoring of the lower tier ERAs compliance for suspension and debarment as well as ERA's documentation of household eligibility for TEFAP foods. The Agency will also update the current ERA site review checklist to include documentation of follow up on cited deficiencies. The Agency will also implement procedures for the review of A-133 audit reports received from subrecepients as well as the appropriate and timely follow up with any findings related to Agency sub-grants noted in the subrecepient's audit report.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: July 1, 2013

Finding #12-25-11

Program: CFDA 10.568 – Emergency Food Assistance Program (Administrative Costs) – Allowability/Subrecipient Monitoring

Grant Number & Year: #3NE810826, FFY 2011; #3NE400516, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-87, Attachment A, section C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria… Be necessary and reasonable for proper and efficient performance and administration of Federal awards… 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." Subaward agreements stated, "payment will be based upon actual expenditures made by the Sub-recipient and reported monthly on Record of Expenditures Under TEFAP [Temporary Emergency Food Assistance Program] Financial Assistance."

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 agree to source documentation.

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… 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 all three expenditures tested did not have adequate documentation on file to support payments to subrecipients.

Questioned Costs: $29,237 known

Context: During the fiscal year, the Agency paid a total of $312,728 to three subrecipients. We tested one payment to each subrecipient. None of the payments tested had adequate documentation to support the payments were for actual, allowable costs. The expenditures did not have signed Records of Expenditures Under TEFAP

Financial Assistance reports on file and did not have source documentation such as invoices. Due to the lack of documentation, we were unable to determine whether reimbursement was for actual costs or costs were necessary and reasonable. Based on a 100% error rate for transactions tested, the dollars at risk for fiscal year 2012 are $312,728.

Subrecipient	**Payment Tested**	**Total for Fiscal Year**
Food Bank for the Heartland	$ 17,904	$ 214,845
Food Bank of Lincoln	6,567	78,807
Together Inc. of Metropolitan Omaha	4,766	19,076
Total	$ 29,237	$ 312,728

The Agency does obtain subrecipient A-133 audits, which would provide reliance if the TEFAP were audited as a major program. However, one subrecipient was not required to have an A-133 audit and one did not have TEFAP administrative costs audited as a major program. The Food Bank of Lincoln had an A-133 for the year ended December 31, 2011, with TEFAP as a major program, which provides some assurance; however, the Agency did not follow up on audit findings.

A similar finding was noted in the prior audit. The corrective action plan stated, in part, "FDP staff will create a TEFAP Handbook that will outline the necessary documentation requirements for both the ERAs and the Agency." We noted a handbook was developed effective July 2012; however, the handbook does not address documentation requirements and monitoring subrecipient financial records.

Cause: Unknown

Effect: There is an increased risk for unallowable expenditures to be paid if adequate supporting documentation is not obtained.

Recommendation: We recommend the Agency implement procedures to ensure payments to subrecipients are for actual, allowable costs. We further recommend adequate supporting documentation be maintained for expenditures of Federal funds.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The TEFAP Handbook was created in July 2012 for FY 2013. The Handbook notes on page 9 that,

> *"Sites that receive administrative funds must maintain records documenting that they have paid allowable program costs at least equal to the amount of TEFAP funds received. These costs should be recorded on the TEFAP Record of Expenditures document and submitted to the Food Distribution Program in order for costs to be reimbursable."*

The Agency will update the current TEFAP Handbook to included supporting documentation required to be submitted with the TEFAP Record of Expenditures and procedures the Agency will perform to monitor and review the submitted documentation to ensure the expenditures are allowable.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: Completed

Finding #12-25-12

Program: CFDA 10.568 – Emergency Food Assistance Program (Administrative Costs) – Period of Availability

Grant Number & Year: #3NE810826, FFY 2011; #3NE400516, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 2 CFR § 215.71(b) (January 1, 2012) states, "…a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award…"

A good internal control plan requires procedures to ensure payments are made and liquidated in accordance with Federal requirements.

Condition: We noted one expenditure was not liquidated within 90 calendar days after the funding period ended.

Questioned Costs: $89,517 known

Context: Food Bank for the Heartland requested reimbursement of $89,517 for September 2011 administrative expenses. The funding period for the grant ended September 30, 2011, and all obligations were required to be liquidated by December 29, 2011. Payment was made January 18, 2012, twenty days after the liquidation period.

Cause: Unknown

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 procedures to ensure compliance with Federal regulations. We further recommend the Agency inform subrecipients of period of availability requirements and not reimburse payment requests after the liquidation deadline.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will update the TEFAP Handbook to provide specific direction to the subrecipients on the timeframes for requesting reimbursement. The Agency will implement supervisory review procedures to ensure that reimbursments to subrecipients are not made outside of the liquidation period.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: July 1, 2013

Finding #12-25-13

Program: CFDA 10.568 – Emergency Food Assistance Program (Administrative Costs) – Reporting

Grant Number & Year: #3NE810826, FFY 2011; #3NE400516, FFY 2011

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 2 CFR § 170.320 (January 1, 2012) 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. (January 1, 2012) 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. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

Per Appendix C of the Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting (August 27, 2010), the subaward date to be reported "represents the time period (by Month and Year) for subawards made against that Federal Award Identifier Number (FAIN)" while the obligation/action date is the "date the award agreement was signed."

Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements using sound internal controls. A good internal control requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: We noted subawards that obligated $25,000 or more were not reported timely, key data elements were incorrectly reported, and not all subawards were reported. We also noted the Agency did not have adequate controls to ensure FFATA reports were submitted as required.

Questioned Costs: Unknown

Context: Only one FFATA report was filed during the fiscal year (Food Bank of Lincoln). The subaward amount was reported as $80,000; however, the amount should have been $125,000. The subaward date was reported as August 2011 and should have been October 2010. The report was submitted three months late.

The following FFATA reports were not filed:

Subrecipient	Subaward Signed	Effective Date	Amount
Food Bank for the Heartland	April 2011	October 1, 2010*	$ 150,000
Together Inc. of Metropolitan Omaha	April 2011	October 1, 2010	$ 50,000
Food Bank of Lincoln	April 2012	October 1, 2011	$ 150,000
Food Bank for the Heartland	May 2012	October 1, 2011	$ 250,000

*Additionally, an amendment increasing Food Bank for the Heartland by $75,000 was not reported.

Cause: Program staff is inexperienced with Federal compliance requirements for FFATA reporting.

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

Recommendation: We recommend the Agency implement controls and procedures to ensure FFATA reporting is submitted accurately and timely, and all obligating actions of $25,000 or more are reported.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will complete all reporting for the Federal Transparency Act and will follow a procedure to ensure reporting is completed according to the Federal requirements.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: March 31, 2013

Finding #12-25-14

Program: CFDA 14.257 – Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) – Allowability/Subrecipient Monitoring

Grant Number & Year: #S09-DY-31-0001, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Department of Housing and Urban Development

Criteria: OMB Circular A-87, Attachment A – *General Principles for Determining Allowable Costs*, § A.2.a states, "(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award." § C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria… j. Be adequately documented."

OMB Circular A-133 § .400(d) states,

> *"A pass-through entity shall perform the following for the Federal awards it makes:...(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."*

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

Condition: The Agency did not have sufficient procedures to monitor the allowability of subrecipient expenditures. The Agency did not require the submission of detailed supporting documentation with the subrecipients' monthly reimbursement requests or perform on-site monitoring during the fiscal year.

Questioned Costs: Unknown

Context: The Agency disbursed $1,532,465 in aid to eight subrecipients during fiscal year 2012. The Agency receives monthly expense reports from the subrecipients in order to reimburse them for expenses incurred; however, the Agency did not perform procedures to ensure the monthly reports were proper by tracing expenses to supporting documentation.

We selected 9 of 86 subrecipient aid payments for testing. Documentation received by the Agency included a detailed listing of the subrecipients' expenses including the date of the expense, payee, amount, and purpose of the expense. However, for 8 of 9 payments tested the Agency did not request or receive copies of invoices, receipts, cancelled checks, or payroll records to support the amounts reported were allowable and were actual expenses. Additionally, no on-site monitoring visits were performed by the Agency during the fiscal year ended June 30, 2012, for any of the eight subrecipients. The last documented on-site monitoring visits for the subrecipients occurred during the fiscal year ended June 30, 2010.

The Federal expenditures for the eight payments were $163,483. The total Federal sample tested was $173,215 and total aid payments for the fiscal year were $1,532,465. The dollar error rate for the sample was 94.38% ($163,483/$173,215) which estimates the potential dollars at risk for fiscal year 2012 to be $1,446,340 (dollar error rate multiplied by population).

Cause: The Agency believed the review of monthly expenditure reports and subrecipient audit reports was adequate monitoring. However, not all subrecipients have an A-133 audit completed and for those subrecipients that did have an A-133 audit, the Homelessness Prevention and Rapid Re-Housing Program was not tested as a major program and; therefore, would not have received audit coverage.

Effect: When there is a lack of adequate subrecipient monitoring procedures, there is an increased risk for unallowable activities or costs.

Recommendation: We recommend the Agency establish adequate subrecipient monitoring procedures. Monitoring should include on-site fiscal reviews or sampling procedures tracing expenditures reported to supporting documentation such as invoices and payroll records.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In addition to improvements in subrecipient oversight already developed and implemented by new Nebraska Homeless Assistance Program staff, a plan to further increase and improve this oversight and monitoring of subrecipient expenditures will be developed to ensure payment by the Agency is for allowable expenditures, in compliance with Federal and State requirements. This plan will be submitted to the U.S. Department of Housing and Urban Development for their review.

Contact: Jodie Gibson, Economic Assistance Administrator

Anticipated Completion Date: January 11, 2013

<u>Finding #12-25-15</u>

Program: CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Reporting

Grant Number and Year: #AANENSIP, FFY 2012; #AANET3SP, FFY 2012

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

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

OMB Circular A-133 § 315 (a) 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." § 315 (b) states, "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."

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 requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: The Agency did not complete any reports, as required by the Federal Funding Accountability and Transparency Act (Transparency Act), for the Aging Cluster of programs during the fiscal year ended June 30, 2012. We also noted the summary schedule of prior audit findings did not properly represent the status of prior year Finding #11-25-18.

Questioned Costs: None

Context: Sixteen separate subaward agreements were entered into with eight subrecipients. The subrecipients, all Area Agencies on Aging (AAAs) each received one subaward of funds under 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. These subawards were entered into in October 2011 and should have been reported by November 30, 2011. The Agency also entered into a separate subaward agreement with each of the eight AAAs for CFDA 93.053 Nutrition Services Incentive Program in February 2012, and the subawards should have been reported by March 31, 2012.

The following table shows the subrecipients and the amounts subawarded:

Subrecipient	CFDA 93.044 & 93.045	CFDA 93.053
Aging Office of Western Nebraska	$ 254,636	$ 87,299
Blue Rivers AAA	257,360	95,991
Eastern Nebraska Office on Aging	1,065,237	147,955
Aging Partners AAA	504,059	104,117
Midland AAA	294,550	76,434
Northeast Nebraska AAA	406,789	199,257
South Central Nebraska AAA	254,097	97,314
West Central Nebraska AAA	286,439	136,429
Total	**$ 3,323,167**	**$ 944,796**

The summary schedule of prior audit findings for Finding #11-25-18 states the corrective action plan was complete as of June 30, 2012; however, the Agency's corrective action for the prior year finding included documented procedures with a process that assures timely reporting. For the fiscal year ended June 30, 2012, reporting was not completed.

Cause: Agency personnel previously responsible for Transparency Act reporting experienced a change in job responsibilities and reporting responsibilities were not re-assigned.

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

Recommendation: We recommend the Agency complete the required reporting under the Federal Transparency Act for the subawards made during the fiscal year ended June 30, 2012. We further recommend the Agency implement procedures to ensure that all required reporting is properly completed in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will complete all reporting for the Federal Transparency Act and will follow a procedure to ensure reporting is completed according to the Federal requirements.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: March 31, 2013

Finding #12-25-16

Program: CFDA 93.044 – Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers; CFDA 93.045 – Special Programs for the Aging Title III, Part C, Nutrition Services – Allowability/Matching/Earmarking/ Subrecipient Monitoring

Grant Number and Year: All open including #AANET3SP, FFY 2012

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

Criteria: OMB Circular A-87, Attachment A – General Principles for Determining Allowable Costs, Section 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."

OMB Circular A-87, Section C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria… j. Be adequately documented."

OMB Circular A-133 § .400(d) states,

"A pass-through entity shall perform the following for the Federal awards it makes:…(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

45 CFR § 92.20(a) (October 1, 2011) states, in part, "Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to…(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." This also applies to transactions used for matching and earmarking requirements.

45 CFR § 92.24(a) (October 1, 2011) states, in part,

> *"With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following: (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants…(2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies."*

OMB Circular A-133 § .315 (a) states, "The auditee is responsible for follow-up and corrective action on all audit findings."

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 the pass-through entity to establish controls to ensure subrecipients use Federal awards in accordance with Federal compliance requirements including procedures for monitoring of subrecipients' fiscal activities related to Federal and non-Federal (matching) expenditures for the program. Good internal control also requires a written monitoring plan and that monitoring be performed on a timely basis.

Condition: The Agency did not have adequate procedures to ensure timely monitoring of the allowability of expenditures by subrecipients.

Questioned Costs: Unknown

Context: The Agency receives monthly expense reports from the eight subrecipient AAAs. The reports list expenditures to date, estimated expenditures needed, funds received to date, and the Title III funds requested. These reports include attachments with a breakdown of the current month's expenses by cost categories and indicate the amount of local matching funds used for each of the activities. The monthly expense reports are reviewed by Agency staff; however, no invoices or detailed supporting documentation are attached.

The Agency did perform on-site fiscal monitoring reviews of the AAAs during the fiscal year for the Title III funds; however, the expenditures reviewed were for the fiscal year ended June 30, 2011, and not for the fiscal year ended June 30, 2012. The Agency reviewed the February 2011 expenditures for each of the subrecipients, for three of these subrecipients those expenditures were incurred over one year prior to Agency review.

Subrecipient	Expenditure Months Reviewed	Date of On-Site Monitoring
Aging Office of Western Nebraska	February 2011	August 2011
West Central Nebraska AAA	February 2011	September 2011
Northeast Nebraska AAA	February 2011	October 2011
Blue Rivers AAA	February 2011	November 2011
Midland AAA	February 2011	February 2012
South Central Nebraska AAA	February 2011	March 2012
Aging Partners AAA	February 2011	April 2012
Eastern Nebraska Office on Aging	February 2011	April 2012

The Agency disbursed $7,118,366 in aid to the AAAs during fiscal year 2012. Of this amount, $5,848,849 was Title III funds. We tested 19 expenditures of Title III funds, totaling $436,918, during the audit. All 19 expenditures tested lacked adequate supporting documentation, a 100% error rate. This estimates the potential dollars at risk for the fiscal year 2012 to be $5,848,849 (error rate multiplied by population).

Additionally, the Agency had not performed any on-site fiscal monitoring procedures to ensure local matching expenditures were allowable for the Federal grant awards that were closed during the fiscal year ended June 30, 2012. The following table shows the Federal grant awards that closed and the dollar amounts of local matching contributions reported by the AAAs.

Federal Grant Award Number	**Local Match Reported by AAAs**
09AANET3SP	$ 7,447,313
10AANET3SP	6,899,158
Total	**$ 14,346,471**

A similar finding regarding inadequate subrecipient monitoring was noted in the prior year.

Cause: The on-site monitoring activities performed during the fiscal year did not include a review of fiscal year 2012 expenses.

Effect: Noncompliance with Federal regulations could result in sanctions. Without adequate and timely 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 adequately and timely monitoring subrecipients. Monitoring should include a written plan with procedures to ensure monthly reports are accurate, agree to supporting documentation, and expenditures are in accordance with A-87. The monitoring plan should include time frames for on-site monitoring to be performed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The State Unit on Aging will create a written procedure to ensure that adequate subrecipient monitoring is completed timely. This written plan will include procedures that will be performed for all eight Area Agencies on Aging. The procedures will include reviewing the monthly reports for accuracy by tracing amounts to supporting documentation and allowability of expenditures in accordance with the Older Americans Act. The procedures will also include time frames that the on-site visits will occur.

Contact: Penny Clark, Unit Manager

Anticipated Completion Date: June 30, 2013

Finding #12-25-17

Program: CFDA 93.044, 93.045, and 93.053 – Aging Cluster – Reporting

Grant Number & Year: All open grants including #AANET3SP, FFY 2012; #AANENSIP, FFY 2012

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

Criteria: 45 CFR § 92.20(a) (October 1, 2011) 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."

A good internal control plan requires the entity to have controls in place to ensure expenditures reported are proper and agree to accounting records. This includes maintaining adequate supporting documentation for amounts reported.

Condition: Several errors were noted during testing of the Federal Financial Reports (FFRs) submitted by the Agency during the fiscal year ended June 30, 2012. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: The Agency is required to submit semi-annual SF-425 FFRs for the Title III grants, which includes CFDA 93.044 Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers, and CFDA 93.045 Special Programs for the Aging Title III, Part C Nutrition Services. The Agency also completes separate semi-annual SF-425 reports for CFDA 93.053 Nutrition Services Incentive Program (NSIP).

The Agency can obtain data relating to the State's administrative expenditures directly for the State's accounting system when preparing the financial reports; however, due to cash advances and Area Agencies on Aging (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. The AAA report spreadsheet is then used to prepare significant portions of the SF-425 (and Supplemental Form to the SF-425). Local cash and local in-kind expenditures per the AAA report spreadsheets, along with the State's administrative expenditures from the State's accounting system, are used to report the total recipient share of expenditures on the SF-425 report. Contributions Non-Match per the AAA report spreadsheets are used to calculate the program income amounts to report. However, when verifying the amounts reported to the supporting documentation, we noted significant variances in the amounts reported for the recipient share of expenditures and program income. We tested the semi-annual report for Federal fiscal year 2011 Title III grants for the period ended March 31, 2012, and noted the following:

- The recipient share of expenditures was under-reported by $3,826,290. This amount includes both the State share of expenditures and the AAA local match and local in-kind expenditures accumulated from the AAA monthly reports. The amount was under-reported due to formula errors in the monthly spreadsheets used to accumulate the quarterly totals for the AAA local share of expenditures. We also noted data entry errors were made in calculating the AAA expenditures as Agency personnel would sometimes exclude local cash or local in-kind expenditure amounts or incorrectly include program income amounts as expenditures, and the State share of expenditures was not properly updated to agree to the amounts recorded in the State's accounting system. Additionally, the AAA reporting spreadsheets are updated as reports from the AAA are received; however, a copy of the spreadsheet as of the reporting date was not maintained.

- Program income earned and expended was under-reported by $1,764,913. This amount is obtained from the AAA report spreadsheets. The Agency had data entry errors in the calculation of program income. Additionally, the AAA reporting spreadsheets are updated as reports from the AAA are received; however, a copy of the spreadsheet as of the reporting date was not maintained.

We also tested the final SF-425 FFRs submitted by the Agency for the Federal fiscal year 2011 NSIP grant. We noted the Federal Cash transaction section of the report was not completed as required. Cash receipts were under-reported by $1,266,994 and cash disbursements were under-reported by $1,266,994.

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. Additionally, there was a change in Agency personnel responsible for completing the Federal reporting.

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

Recommendation: We recommend the Agency implement procedures to ensure Federal reporting is complete and accurate. This includes completing all lines of the Federal reports as required in accordance with program instructions and maintaining adequate supporting documentation for the amounts reported.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will work with staff preparing the report and intensify the review process to ensure that the Federal Financial Report and the required supplemental reporting are complete and accurate.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: April 30, 2013

<u>Finding #12-25-18</u>

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

Grant Number and Year: All open including #AANET3SP, FFY 2012; #AANENSIP, FFY 2012

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

Criteria: 31 CFR § 205.33(a) (July 1, 2011) 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, 2011) 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."*

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."

OMB Circular A-133 § 315 states,

> *"The auditee is responsible for follow-up and corrective action on all audit findings. As part of the 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 controls to ensure subrecipients minimize the time advanced funds are on hand.

Condition: The Agency did not have adequate procedures to ensure advances to the 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. We also noted the summary schedule of prior audit findings did not properly represent the status of Finding #11-25-16.

Questioned Costs: Unknown

Context: We noted 4 of 25 expenditures tested included requests for estimated funds that were not used within one month. In these four cases, estimated funds were used two months after the original request was made. The Agency disbursed $7,118,366 in aid to the AAAs during fiscal year 2012.

The summary schedule of prior audit findings for Finding #11-25-16 states the corrective action plan was complete as of July 31, 2011; however, the Agency's corrective action states that as of July 2011, AAAs are only approved for one month of financial advances. For the fiscal year ended June 30, 2012, forms submitted by the AAAs to request funding still allowed for two months advances and the Agency did not adequately monitor to ensure advanced funds were used within one month as required.

Cause: The Agency's policy is to allow AAAs the ability to request one month expenditures in advance; however, the forms used by the AAAs to request funds indicate they can estimate up to two months expenditures in advance. The Agency does not adjust cash advance requests that are excessive. Additionally, no consequences are imposed for AAAs over-estimating cash needs.

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

Recommendation: We recommend the Agency ensure compliance with Federal regulations. Funds advanced to subrecipients should be used in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The State Unit on Aging will create a new form for monthly reporting by the Area Agencies on Aging that will allow for a request of only one month of expenditures. Procedures will be reviewed and implemented to ensure that funds advanced to the subrecipients are used in a timely manner and adjustments will be made to future cash advances for requests that are excessive.

Contact: Penny Clark, Unit Manager

Anticipated Completion Date: June 30, 2013

Finding # 12-25-19

Program: CFDA 93.268 – Immunization Cooperative Agreements – Allowability

Grant Number & Year: #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.

Condition: The Agency did not verify reimbursements to local health departments were for actual costs incurred for the Immunization Grant.

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. The local health departments submit work plan reports to the Agency to document progress made on their agreements and expenditure reports that track their costs. We noted the Agency did not obtain adequate documentation to verify the costs included on the expenditure reports from two local health departments tested were actually incurred for the Immunization Grant. These two local health departments were reimbursed $301,060 in fiscal year 2012. Total reimbursed to all 27 local health departments under agreement in fiscal year 2012 was $776,210. A similar finding was noted in the prior audit.

Cause: Written procedures for desk reviews were developed in March 2012, but no testing of source documents had begun during fiscal year 2012.

Effect: Without reviews to ensure reimbursements to local health departments are for actual costs, there is an increased risk Federal funds could be misused.

Recommendation: We recommend the Agency follow their procedures to obtain and review detailed support for local health department expenditures.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Written procedures for desk reviews will be implemented for a sample of reimbursements submitted on and after January 2, 2013.

Contact: Paula Eurek, Administrator

Anticipated Completion Date: January 2, 2013

<u>Finding #12-25-20</u>

Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Allowable Costs/Eligibility/Special Tests and Provisions

Grant Number & Year: #G0902NETANF, FFY 2009; #G1002NETANF, FFY 2010

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

Criteria: The Nebraska State Plan for TANF effective October 1, 2010 (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."

Per Title 468 NAC 1-009.03C,

> *"in the following situations, the worker may dispense with timely notice but must send adequate notice no later than the effective date of action… 7. An ADC/MA child is removed from the home as a result of a judicial determination or is voluntarily placed in foster care."*

Per the State Plan, "Nebraska will continue to serve families who are Nebraska residents and…up to age 19 if still in secondary school or equivalent level of vocational or technical school, or participating in Employment First." A good internal control plan requires procedures to ensure that 18-year-olds in the unit are in school or working.

The State Plan further states, the

> *"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 a 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 cases with individuals exempt from Employment First due to incapacitation or impairment are not paid with Federal funds.

Per 42 USC § 608(a)(7) (2011):

> *"(A) A State … shall not use any part of the grant to provide assistance to a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government, for 60 months (whether or not consecutive) after the date the State program funded under this part commences…(C) Hardship exception…The State may exempt a family from the application of subparagraph (A) by reason of hardship or if the family includes an individual who has been battered or subjected to extreme cruelty."*

Per 64 FR 17825 (April 12, 1999), a family may not receive assistance under the State's TANF program unless the family is needy, the term needy for TANF purposes means financial deprivation, i.e., lacking adequate income and resources. A good internal control plan requires procedures be in place to ensure income is adequately verified and documentation maintained.

A good internal control plan requires procedures be in place to ensure the Income Eligibility and Verification System (IEVS) is used to determine eligibility in accordance with the State Plan.

A good internal control plan requires procedures be in place to ensure eligibility for cash assistance is re-evaluated at least on an annual basis.

Title 468 NAC 3-007.04A, Initial and Continuing Eligibility states,

> *"Any child, spousal, and cash medical support, including arrears, (see definitions in 468 NAC 1-004) paid to the Nebraska Child Support Payment Center or paid directly to the client by the noncustodial parent before the approval date is considered in determining eligibility."*

A good internal control plan requires child support amounts used in determining income eligibility to agree to supporting documentation.

OMB Circular A-87 requires costs charged to Federal programs be necessary and reasonable for proper and efficient performance and administration of Federal awards, and be adequately documented.

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

Questioned Costs: $689 known

Context: We noted the following:

- For one payment tested, one of the children was living in a group home and was no longer the responsibility of their parent. The State was paying the group home $137 per day ($78 Federal share) for the child's care, under the Foster Care program. Therefore, the child was ineligible for TANF. The Agency had the opportunity to give adequate notice to the parent to shut off the TANF payment for the period, but they failed to do so. It is unreasonable and unnecessary for the Agency to use Federal funds to pay both the group home and the parent for the child's care during the same time period.

- For one payment tested, an 18-year-old child was still in the unit even though he was not going to high school or college and was not participating in Employment First. Therefore, he was ineligible for TANF.

- For one payment tested, the father was in the same household as the mother and child, but he was not included in the unit. If he had been included, he would likely have been exempted from Employment First due to incapacity, and the case would not have been paid with Federal dollars. The case would have been in the Solely State-Funded Program for Specified Exemptions and the payment would not have qualified toward Nebraska's maintenance-of-effort (MOE) requirement.

- For one payment tested, the family was not needy because the parent was receiving $1,075 a month in unemployment benefits. This information appeared on IEVS early in the month before the month tested, but this information was not included in the budget.

- For one payment tested, the family had received more than 60 TANF payments but was not brought up for a hardship review in a timely manner. Additionally, the budget was not updated when IEVS stated the parent had a new job. This new income caused the family to be ineligible for TANF. Additionally, the annual review was six months overdue.

- For one payment tested, the child's $4 social security payment was not included in the budget.

- For one payment tested, too much child support was deducted on the budget. This resulted in an underpayment to the family.

Federal payment errors noted were $689 in overpayments and $38 in underpayments. The total Federal sample tested was $9,210 and total Federal TANF cash assistance payments for the fiscal year were $18,348,788. Based on the sample tested, the case error rate was 17.5% (7/40). The dollar error rate for the sample was 7.48% for overpayments ($689/$9,210) and 0.41% for underpayments ($38/$9,210) which estimates the potential dollars at risk for fiscal year 2012 to be $1,372,489 in overpayments and $75,230 in underpayments for a net effect of $1,297,259 in overpayments (dollar error rate multiplied by population). Each of the payments tested was funded with 80% Federal and 20% State MOE funds. The errors noted above represent the Federal portion only. There were $172 in overpayments and $9 in underpayments made from State MOE funds related to these errors.

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.

Corrective Action Plan: The Agency will be utilizing reports of interface alerts to TANF cases based on the areas of concern found during the audit process. Specifically we will monitor alerts received from the Department of Labor for Unemployment Compensation, and Social Security for RSDI (Retirement and Survivors Disability Insurance) and SSI (Social Security Income) payments. These reports will be monitored by the Program Accuracy Specialists who will conduct targeted case reviews in the NEARS case review system for cases listed on the reports. Problems identified during the case reviews will be addressed with social service workers and their supervisors.

To address the issue of an 18-year-old child included in the unit while not in school or engaged in Employment First, an alert will be added to the NFOCUS eligibility system. These alerts will identify all 16, 17, and 18-year-old children for whom we must verify school attendance and refer to Employment First if not in school.

For the case cited as being over the 60 month time limit, we will monitor the list of monthly reviews due to assure they are completed timely. If the review had been completed, our system of monitoring for time limit months would have ensured the case was referred to the hardship review committee on a timely basis. NFOCUS does not allow TANF budgeting for cases having received more than 56 months of time limited benefits, unless there is an indicator that shows the hardship review has occurred.

Contact: Betty Toelle, Interim TANF Administrator

Anticipated Completion Date: June 30, 2013

Finding #12-25-21

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

Grant Number & Year: #G1102NETANF, FFY 2011; #G1202NETANF, FFY 2012

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. Drug Screening and Testing Services are allowable when they are conducted on youth.

Per 45 CFR § 263.2(b)(2) (October 1, 2011), an eligible family for TANF must include a child living with a custodial parent or other adult caretaker relative. Per the State Plan, 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).

OMB Circular A-87 requires costs be 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 four quarterly journal entries that charged TANF for State child welfare costs and tested fifteen claims within those entries. We noted six claims tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Questioned Costs: $10,007 known

Context: The State Plan 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 drug screening and testing services), for children who were in the home and whose families were in an active TANF, Medicaid, SNAP, or SSI case. After performing the query, the Agency transferred the total payments from State general funds to Federal TANF funds. The Agency performed four such entries during State fiscal year 2012, totaling $4,261,151. We tested fifteen claims from these entries and we noted the following:

- For one claim tested, the service was intensive family preservation; however, the majority of the claim was not allowable for TANF because the child was not in the home. The service date per NFOCUS was April 1, 2011, however, per review of supporting documentation, there were multiple service dates ranging from February 19, 2011, through April 1, 2011. The child was returned to the home on April 1, 2011. Because incomplete service dates were entered on NFOCUS, the NFOCUS query picked up this payment for TANF. Additionally, the contractor billed the Agency for the maximum amount allowable for intensive family preservation services, which is based on providing 60 family sessions, but they could only provide support that 24 sessions occurred.

- Effective November 1, 2009, the Agency contracted with six private entities to serve as the Reform Contractors in providing service delivery and coordination services for IV-E and non-IV-E children and families. Reform Contractors were paid a flat fee regardless of the amount or value of services they provide. Previously services had been provided by a large number of contractors based on a fee-for-service model. This shift in the way the Agency purchased services for foster children was referred to as Child Welfare and Juvenile Services Reform (Reform). During fiscal year 2012, two of the Reform Contractors remained.

  Non-reform claims are processed and paid through NFOCUS and identified as "paid" claims. However, the Agency paid Reform Contractors for services each month through EnterpriseOne. Nevertheless, the Reform Contractors are still required to submit their claims for processing through NFOCUS; however, all claims for the Reform Contractors are identified as "rejected" and not paid through NFOCUS. The Agency prepared journal entries during the fiscal year to charge rejected child welfare claims to TANF by transferring the costs from State child welfare funds to Federal TANF funds. We tested three rejected claims, with rejected dates of June 23, 2011, January 5, 2012, and April 26, 2012, totaling $2,595. Rejected claims do not represent actual payments. Also, the Agency did not reconcile the claims processed through NFOCUS to what they paid the Reform Contractors through EnterpriseOne. The Agency charged TANF for rejected claims but did not consider non-rejected claims or the total amount paid to Reform 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 TANF only for the proportionate share of claims.

Additionally, the Agency allowed Reform Contractors to set their own rates for direct services. Per the contracts, they were to submit a schedule of rates to the Agency. The auditor observed an approval of these rates by the Agency for the two Reform Contractors. However, the rate for family support services for one Reform Contractor was $79 per hour, while the other Reform Contractor and all the non-reform contractors were charging only $47 per hour. The Agency could not provide documentation to support that the $79 rate or the $47 rate was reasonable.

- For two claims tested, the service provided was drug screening and testing. The State Plan only allows for payment for this type of service when provided for a child. For these two cases, the service was provided for a parent. For one of these cases, there were not any children living in the home. After the end of State fiscal year 2012, the Agency revised their NFOCUS query to account for query problems noted in the prior audit. The claims were adjusted on the September 30, 2012, financial status reports. The new query did not include these two claims. One of these claims was also rejected.

- For one claim tested, the family had three children living in the home and one child removed from the home. The family support services charged appeared to be on behalf of the child removed from the home. Therefore, the payment was not allowable for TANF. The new query ran after State fiscal year 2012 did not include this claim.

The total Federal questioned costs noted during testing were $10,007, of which $7,412 was for paid claims, and $2,595 was for rejected claims. The total Federal sample tested was $31,555, of which $2,595 was for rejected claims. Total transfers to TANF from child welfare for the fiscal year were $4,261,151, of which $872,683 was for rejected claims, and the total number of claims was 8,419. Based on the sample tested, the case error rate was 40% (6/15). The dollar error rate for the sample tested was 25.59% for paid claims ($7,412/$28,960) and 100% for rejected claims ($2,595/$2,595), which estimates the potential dollars at risk for fiscal year 2012 to be $1,739,792 (dollar error rate multiplied by aid amount; $867,109 for paid claims and $872,683 for rejected claims).

Cause: The Agency did not ensure its NFOCUS query was working properly by identifying only claims allowable for TANF. The Agency corrected its query for State fiscal years 2011 and 2012, but not until after the end of State fiscal year 2012. Reform Contractors were paid a flat fee and claims entered into NFOCUS were 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 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.

Corrective Action Plan: The Agency now requires actual invoices for services from a lead contractor be put into NFOCUS, the claims are then rejected, and those costs are charged to appropriate Federal funding sources in accordance to the plan with ACF. The Agency now has a process to review service rates on a yearly basis with providers and the Agency. This is an ongoing process.

Contact: Sara Goscha, Administrator

Anticipated Completion Date: February 28, 2013

Finding #12-25-22

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Maintenance of Effort/Reporting

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

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

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

Title 45 CFR § 92.20 (October 1, 2011) 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. A good internal control plan requires the entity to have controls in place to ensure expenditures reported are proper and agree to accounting records.

Per the Nebraska State Plan for TANF, effective October 1, 2010, the "transitional cash payments will be funded with state dollars only. The state general funds used for transitional cash payments will apply towards Nebraska's Maintenance-of-Effort requirement." Because transitional grants are funded with State dollars only, they should be included in the Separate State Program and not the regular program.

Condition: We noted errors during testing of ACF-196 reports. We also noted the Agency did not accurately report Federal expenditures on the SEFA. We informed the Department of Administrative Services (DAS) and the Agency of the error, and the SEFA was subsequently adjusted.

Questioned Costs: $1,137,013

Context: During testing of ACF-196 reports, we noted the following:

- The Agency did not accurately report Federal expenditures on the SEFA. The information for the SEFA is based on the ACF-196 reports. The ACF-196 reports for the 2011 grant were overstated by $1,137,013 because the Agency inadvertently double-reported one quarter's worth of child welfare expenditures. The Agency caught the ACF-196 error and revised the ACF-196 report for the 2011 grant for the September 2012 quarter. The effect to the SEFA was as follows:

	Originally Reported	Revised	Change
CFDA 93.558	$ 37,291,867	$ 36,154,854	$ 1,137,013

- Maintenance of effort was overstated on the 2010 grant ACF-196 report for the quarter ended March 31, 2012, by $8,642,807. The Agency was attempting to modify its supporting spreadsheet used to accumulate data to report on the ACF-196 reports. During the modification, the Agency inadvertently changed some calculations which caused the over-reporting to occur. The Agency still met its maintenance of effort for 2010.

- Transitional cash payments were reported on the ACF-196 as "State MOE Expenditures in TANF" when they were supposed to be reported as "MOE Expenditures in Separate State Programs." The total transitional cash payments for the 2011 grant were $964,524. The ACF-204 report is based on the ACF-196 report. Because the amount was incorrectly reported on the ACF-196 report, it was also reported in the wrong section on the ACF-204 report.

Cause: Inadequate review.

Effect: Inaccurate information was reported to the Federal government. Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure amounts are reported correctly on the ACF-196 reports, and on the SEFA in accordance with OMB Circular A-133.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: As reported by the auditor, the Agency discovered and corrected this item on our report and drew it to the auditor's attention in time to correct the SEFA report for the State's Single Audit.

Contact: Willard Bouwens, Financial Services Administrator
Steve Shively, Financial Services Deputy Administrator

Anticipated Completion Date: Completed in November 2012

APA Response: The Corrective Action Plan does not address that maintenance of effort was overstated on the 2010 grant. The SEFA was corrected after the auditor noted the error.

Finding #12-25-23

Program: CFDA 93.558 – Temporary Assistance for Needy Families – Reporting

Grant Number & Year: All open including #G1202NETANF, FFY 2012

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

Criteria: Per 45 CFR § 265.7 (October 1, 2011), the ACF-199 and ACF-209 reports must be complete and accurate. A complete and accurate report requires that the State report data for all required elements (i.e., no data are missing).

Administration for Children and Families (ACF) instructions require an ACF-209 report be submitted for any case for which the Agency claims maintenance of effort expenditures. ACF instructions also require the ACF-199 report to include a section on person-level data.

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 requested the ACF-199 and ACF-209 reports for 13 cases, which comprised 95 key line items. For one of these cases, there was no corresponding ACF-199 or ACF-209 report. For two of these cases, there was no person-level data section. These omissions resulted in 19 key line items not being reported.

Questioned Costs: None

Context: The Agency developed a new procedure to review 36 cases from the ACF-199 and ACF-209 reports to ensure the data is being reported accurately on the reports. However, for State fiscal year 2012 the Agency had not documented this review. A similar finding was noted in the prior audit.

During testing of the ACF-199 and ACF-209 reports, we noted the following:

- We requested the report corresponding to a case that received assistance under the Agency's Separate State Program whose expenditures count towards maintenance of effort. The Agency was unable to provide an ACF-199 or ACF-209 report for this case, resulting in 7 key line items unreported.

- Two ACF-199 reports tested were missing the person-level data section, resulting in 12 key line items unreported (6 key line items each).

Cause: The Agency set up a review procedure during the fiscal year but failed to document their review. The Agency was unable to explain why one case was not reported at all or why the two cases did not have a person-level data section. The Agency's review procedure is set up to trace reported data to case information, so the Agency would not have procedures to identify any case that should have been reported, but was not.

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 the ACF-199 and ACF-209 reports submitted are complete.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will assign staff to review the ACF-199 and ACF-209 data each month. These reviews will be monitored by a TANF Policy staff member to ensure their completion and accuracy. This Policy staff member will also review the ACF-199 transmittal reports from ACF to ensure data submitted is accurate.

Contact: Betty Toelle, Interim TANF Administrator

Anticipated Completion Date: February 28, 2013

Finding #12-25-24

Program: CFDA 93.558 and 93.714 – TANF and ARRA TANF Cluster – Special Tests and Provisions

Grant Number & Year: All open including #G1202NETANF, FFY 2012; #G0901NETAN2, FFY 2009

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

Criteria: Per 45 CFR § 261.62(a) (October 1, 2011),

> *"to ensure accuracy in the reporting of work activities by work-eligible individuals on the TANF Data Report and, if applicable, the SSP-MOE [Separate State Plan – Maintenance of Effort] Data Report, each State must…(4) Establish and employ internal controls to ensure compliance with the procedures…"*

Per the Nebraska Work Verification Plan, unsubsidized employment "hours will be determined based on verified employment hours from pay stubs, information from the Work Number, or a written employer statement." The Plan does not allow for client self-declaration of hours.

Per the Nebraska Work Verification Plan, vocational training "verification of hours will begin with a class schedule. Hours will be verified by an attendance record signed by a representative of the educational entity and the participant on a biweekly basis."

Condition: The Employment First (EF) hours reported in the Agency's case file system did not agree to supporting documentation for five of forty cases tested. Additionally, two of eleven case review listings tested did not agree to the Agency's Work Participation Rate (WPR) Validations spreadsheet. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: Work participation is documented by two EF contractors. Each month the Agency reviews 10% of the cases that the EF contractor reported as meeting the required work participation. We tested 40 of these reviews and noted the following:

- Three cases were noted as correct by the Agency, but included hours for unsubsidized employment that were self-declared by the recipient. If these unallowable hours are excluded, two of these recipients did not meet work participation for the month.

- One case was noted as incorrect by the Agency because there was no school schedule to support education hours. Without these hours, the recipient did not meet work participation for the month. The hours were not updated on the case file system. If the hours are not updated on the system, they will not be reported correctly on the TANF Data Report (ACF-199 report).

- One case was noted as correct by the Agency, but was missing attendance records for 21 vocational training hours. If these unallowable hours are excluded, the recipient would have still met work participation for the month.

The Agency maintains a Work Participation Rate (WPR) Validation spreadsheet, which tracks each contractor's work participation by service area to ensure the contractors are meeting the required work participation rate. If the Agency notes cases as incorrect, the spreadsheet is modified to reflect lower participation rates. We tested eleven line items on the spreadsheet and noted two of these had an incorrect total amount of reviews recorded. Since neither of these line items had any incorrect reviews recorded, the errors did not affect the contractors' work participation rates.

Cause: The Agency allowed recipients to self-declare employment hours the first month of their new employment, even though this is not an allowable method of verification per Nebraska's Work Verification Plan. The Agency implemented a new procedure in the middle of the fiscal year to ensure hours are updated on the case file system when the hours are found to be incorrect. The incorrect case tested, whose hours were not updated on the case file system, occurred before this change in procedure.

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.

Corrective Action Plan: The Agency will no longer enter hours of participation from employment based on recipient report. We will continue the procedures established in the middle of SFY 2012 to ensure hours of participation are based on adequate verification with documentation in support of the activity. We will also continue to monitor that hours of participation are updated in the case file system when found to be incorrect. Because of data entry problems with the WPR Validation spreadsheet, we will implement a secondary review of the data prior to release.

Contact: Betty Toelle, Interim TANF Administrator

Anticipated Completion Date: June 30, 2013

Finding #12-25-25

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

Grant Number & Year: All open including #G1002NETANF, FFY 2010

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

Criteria: Per 45 CFR § 264.30 (October 1, 2011), if the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of that individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance.

A good internal control plan requires procedures be in place to ensure individuals are appropriately sanctioned when they are not cooperating with Child Support Enforcement (CSE), and that they are *not* sanctioned when they *are* cooperating with Child Support Enforcement.

Condition: We tested forty cases where an individual was determined not to be cooperating with Child Support Enforcement, and for four of these cases, the assistance was not properly reduced by 25%. For one of these cases, the assistance was improperly reduced by 25%.

Questioned Costs: $618 known

Context: For two cases, the sanction was imposed one month late. For one case, the sanction was imposed for two months, but should have only been imposed for one. For these cases, the worker did not impose sanctions timely.

For one case, the sanction was imposed four months late and for another case, the sanction was not imposed at all. For these cases, Child Support Enforcement did not communicate the non-cooperation to TANF personnel timely. Therefore, the worker was not aware that a sanction should be imposed.

The Agency did not set up overpayments in NFOCUS for any of the cases that should have been sanctioned but were not. If an overpayment was set up, the amount paid in error could have been recouped over time from future assistance payments.

Of the forty cases tested, ten required a sanction. Five cases were appropriately sanctioned a total of $515 Federal share. Four cases were not sanctioned resulting in overpayments of $618 Federal share. One case was appropriately sanctioned one month and inappropriately sanctioned the next.

Cause: The Agency's Child Support Enforcement division did not timely report the non-cooperation to TANF personnel.

Effect: Increased risk for overpayments.

Recommendation: We recommend the Agency implement procedures to ensure individuals are appropriately sanctioned when they are not cooperating with Child Support Enforcement, and that they are *not* sanctioned when they *are* cooperating with Child Support Enforcement. This should include a more timely review by workers of non-cooperation reported by Child Support Enforcement. This should also include a review of procedures to ensure all relevant information regarding non-cooperation is timely communicated between Child Support Enforcement and TANF personnel.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is changing the NFOCUS case eligibility system so that Child Support Sanction alerts and work tasks received from the CSE system are set as a high priority. The TANF Policy Unit will continue to monitor the monthly list of CSE Sanctions not imposed and will follow up with staff as required.

Contact: Betty Toelle, Interim TANF Administrator

Anticipated Completion Date: March 31, 2013

<u>Finding #12-25-26</u>

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability

Grant Number & Year: #G11B1NELIEA, FFY 2011; #G12B1NELIEA, FFY 2012

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

Criteria: Title 45 CFR § 96.30(a) (October 1, 2011) 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." The Agency incorporates its NAC regulations into a State Plan, which is reviewed and approved by the Federal government. Per 42 USC § 8624 (2011), "The State shall expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such plan." 42 USC § 8624 also states, "no funds shall be allotted to such State for any fiscal year under this subchapter unless such State conducts public hearings with respect to the proposed use and distribution of funds to be provided under this subchapter for such fiscal year."

Per Title 476 NAC 5-002, "payment must go to the provider if crisis assistance was previously received by a household." Per Title 476 NAC 5-002.03, "payments are made to the provider when…crisis assistance payment was received the previous year." Per Title 476 NAC 5-006.02, "the [Agency] must make crisis assistance payments directly to the provider…crisis payments should never be authorized in an amount greater than what is necessary to alleviate the crisis."

Per Title 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.

Per Title 476 NAC 6-003 regarding conditions of eligibility for cooling assistance,

> *"Elderly persons (age 70 and older) and persons for whom the Department has purchased an air conditioner in the last four years are eligible for cooling assistance without a medical statement. All other clients must have a medical statement verifying that they have a severe illness or condition which is aggravated by extreme heat."*

On August 25, 2011, "contingency" payments were made to all clients in the amount of $250 or $500, depending on home type. The Agency's Policy Log on August 23, 2011, stated, "households that receive a contingency payment will not be eligible for any additional crisis payments for the next six months unless they can verify that they used their contingency payment for an [*sic*] utility expense (heating, cooling or water)." Also per the Policy Log, "if a household is determined eligible for a crisis energy payment or basic cooling payment between August 23, 2011 and September 30, 2011 a contingency payment must be provided. If the client is eligible for crisis and the amount to avoid the crisis is less than the contingency amount, the household can be provided the full contingency amount they would have been eligible for."

Per Title 476 NAC 5-004, "payment amounts according to the charts may be adjusted uniformly to allow for increased or decreased payments if projected funding or number of participants changes significantly."

Title 476 NAC 5-001.01 states, "a multi-family living arrangement is eligible for a half benefit. This includes individuals residing in apartments, duplexes, triplexes, etc."

A good internal control plan requires procedures to ensure payments are adequately documented, the correct provider is paid, and assistance is coded correctly.

Condition: The Agency did not follow State regulations when it issued $17,663,000 in "contingency" payments on August 25, 2011, or when it issued $9,522,250 in "supplemental" payments on June 13, 2012.

We further noted 23 of the 45 assistance payments tested did not comply with Federal and State requirements, because there was inadequate documentation, the payment was not made directly to the utility provider, or the amount paid was incorrect. Some payments had more than one type of error.

Questioned Costs: $17,665,219 known

Context: The Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program in which States design their own programs, within very broad Federal guidelines. The objectives of LIHEAP are to help low-income people meet the costs of home energy (defined as heating and cooling of residences), increase their energy self-sufficiency, and reduce their vulnerability resulting from energy needs.

Total energy assistance provided during the fiscal year was $42,463,290, of which $27,185,250 was "contingency" or "supplemental" payments. We noted the following:

On August 25, 2011, the Agency made $17,663,000 in energy assistance payments from the 2011 grant directly to 43,059 LIHEAP recipients. The Agency termed these payments "contingency" payments. Payments made were either $250 or $500, depending on whether the recipient resided in a multi-family or single-family dwelling. The Agency made these payments in addition to their regular heating, cooling, and crisis payments, in order to spend down the 2011 grant before the end of the Federal fiscal year, September 30, 2011. Only 10% of the total grant award may be carried forward to the subsequent year.

- The payment to recipients included the following explanation, "This is a one-time payment for the Energy Program. It is provided due to the recent inclement weather and should be used for paying your heating/cooling bills." For Federal fiscal year 2011, only 6,052 of 45,129 assisted households were eligible for and received cooling assistance. Also, it is unlikely that households would have current heating bills in August. Therefore, it appears that to be eligible for a payment under State NAC regulations, the recipients would have needed to be in crisis. The payments were coded as crisis assistance on the State's accounting system and were reported as crisis on the Annual Report on Households Assisted by LIHEAP. However, the Agency did not obtain documentation of an actual crisis for any of the contingency payments.

- All of the August 2011 contingency payments, totaling $17,663,000, were made directly to recipients rather than to providers, and without obtaining evidence of any crisis. We further noted $7,753,750 of these payments were made to 18,784 recipients who had received crisis assistance in the past year. Per regulations, all crisis assistance must be paid directly to the provider. Payments must also go to a provider if the recipient had received crisis assistance in the past year.

  We reviewed the utility account histories for 135 of the 43,059 recipients who received an August 2011 "contingency payment" to verify whether the recipients used these funds to pay off their utility bills. For the 135 recipient accounts reviewed, there were only six instances where the recipient paid the full warrant amount to the utility company in the next billing cycle. The following table illustrates the situations of some recipients of the August 2011 contingency payments. As noted in the following, as well as in many other instances, the recipient was in arrears on their utility bills both before and after receiving the contingency payments, but they did not spend their full contingency payment on their utility bills. There were instances where the recipient's account was not in arrears and it actually had a credit balance, without the entire payment being applied at the time of payment, a couple examples are shown below. The following are seven examples:

#	Contingency Payment Made Directly to Recipient by Agency	Date of August 2011 Utility Balance	Utility Balance	Date of Next Payment Made by Recipient to Utility Company	Amount of Next Payment Made by Recipient to Utility Company	New Utility Balance
1	$ 500.00	8/26/2011	$ 241.74	9/28/2011	$ 50.00	$ 191.74
2	$ 500.00	8/26/2011	$ 323.27	8/29/2011	$ 80.95	$ 242.32
3	$ 500.00	Various	$ 450.74	N/A	$ -	$ 450.74
4	$ 500.00	Various	$ 406.88	9/15/2011	$ 30.22	$ 376.66
5	$ 500.00	Various	$ 598.71	N/A	$ -	$ 598.71
6	$ 500.00	Various	$ (397.77)	8/31/2011	$ 122.00	$ (519.77)
7	$ 500.00	Various	$ (399.33)	9/2/2011	$ 200.00	$ (599.33)

Notes: We reviewed account histories from Hastings Utilities, Omaha Public Power District and Metropolitan Utilities District.
Dates shown as "Various" represent combined balances or payments from more than one utility company; an example is combining Omaha Public Power District and Metropolitan Utilities District.
For #3 above, it appears the recipient moved and never paid off their outstanding bills.
For #5 above, the Date of Next Payment Made by Recipient to Utility Company is "N/A" because the next payment was not until November 2011, for one utility company, and December 2011, for another utility company.
For #6 and #7 above, the recipient had a credit balance both before and after receipt of the August 2011 payment.

We also reviewed the warrants for those 135 recipients and noted 1 was cashed at Ralston Keno, 2 were cashed at Sanchez Plaza, 19 were cashed at Wal-Mart, and 22 were cashed at other establishments such as grocery stores and paycheck advance.

- We noted 261 recipients of the contingency payments were deceased prior to August 25, 2011. The dates of death ranged from February 27, 2010 to August 22, 2011. The original warrants written to deceased recipients totaled $111,750. As of March 11, 2013,
    - 78 warrants were cashed and totaled $35,250,
    - 73 had been voided, and
    - 110 had expired, meaning to receive payment for the warrant, the recipient would have to go through Administrative Services Risk Management Division to obtain payment.

  Per NFOCUS case activity, the Agency was aware of the recipient's death prior to the issuance of the contingency payments in 73 of 78 cashed warrant instances. For the other 5, the Agency was no longer following the cases because the recipients were no longer receiving assistance and the cases had been closed prior to the death. Closure dates for those 5 cases ranged from July 26, 2010, to August 1, 2011. Below is a chart for the ten oldest dates of death for cashed warrants and the date the Agency noted they were aware of the death:

#	Date of Death	Date Agency Knew About Recipient's Death
1	5/29/2010	6/11/2010
2	8/28/2010	9/1/2010
3	11/30/2010	12/29/2010
4	12/6/2010	12/9/2010
5	12/21/2010	12/21/2010
6	12/29/2010	1/3/2011
7	12/31/2010	1/7/2011
8	1/6/2011	1/18/2011
9	1/13/2011	1/28/2011
10	1/15/2011	1/26/2011

  We noted an instance on NFOCUS case narrative, where the executor of the estate called indicating the warrant was issued August 25 and the client passed away on August 19. The Agency informed the attorney "…the money could be spent to pay the remaining expenses for utilities, rent and whatever they deemed necessary…"

- The endorsements of the 78 cashed warrants were examined and we noted the following:

- Warrants were cashed at 20th Street Liquor & Grocery & Fan Tan Club (recipient died May 1, 2011), J-N-J Grocery Store (died March 9, 2011), Wal-Mart (died March 2, 2011), paycheck advance (died January 17, 2011), and funeral homes (died March 11, 2011 and May 19, 2011), which indicate they were not used to meet home energy needs. We further noted for the warrant cashed at J-N-J Grocery Store, that there was a fraud referral in the case narrative on July 13, 2011, noting that the recipient's food stamp card had been used after the recipient's death. This note occurred before the contingency payment was issued.

- There were 35 warrants endorsed, in writing, with the name of the deceased recipient, indicating a possible forgery.

- We reviewed the case activity for 10 of the deceased payees where the contingency payment was cashed. The Agency was aware of each of these recipients' deaths within 1 to 13 days after their death and the warrants were issued between 4 and 15 months after the recipients' dates of death. We noted the following:

  - For each of three warrants, the households consisted of a mother and her children, and the mother was the payee but had recently passed away. Each of the three warrants was endorsed with the name of the deceased recipient, indicating a possible forgery.
    - One, it appears a neighbor cashed the deceased person's warrant and also cashed a contingency warrant payable to themselves.
    - One, a relative cashed the warrant, although the level of income indicates they would not have been eligible for energy assistance.
    - One, we could not determine who cashed the contingency warrant, but the children went to live with a relative who also received a separate contingency warrant.

  - One warrant appeared to be cashed by a relative. However, this relative was not in the energy household, and the warrant was endorsed with the name of the deceased recipient, indicating a possible forgery.

  - Two warrants were endorsed as paid to the order of utility companies. For one of these, the recipient did not pay their own utility bills, so the warrant could not have been applied to their account. Both warrants were endorsed with the name of the deceased recipient, indicating a possible forgery.

  - One warrant, the spouse was currently living in a nursing home, and there were no other individuals in the household. The warrant was endorsed by the Power of Attorney for the deceased.

- Two warrants, another member of the household cashed the payment. However, both warrants were endorsed with the name of the deceased recipient, indicating a possible forgery.

- One warrant included the spouse in the household. The warrant was endorsed by the bank to credit to the account of the named payee.

- The Agency's policy was to disallow any additional crisis assistance for the next six months, unless the recipient could prove that they spent the "contingency" payment on utility costs. A total of $1,510,944 of additional crisis assistance was paid to recipients of August 2011 contingency funds within the next six months, and an additional $953,736 was paid through the end of the State fiscal year. During our detail testing, we noted instances where additional crisis assistance was given without requiring the recipient to prove they spent the contingency payments on utility costs.

  - One recipient tested received a $500 contingency payment and a $200 additional crisis assistance payment on December 5, 2011. There was no documentation on file to verify the contingency payment was used for utilities.

  - One recipient tested received a $500 contingency payment and a $165 additional crisis assistance payment on January 19, 2012. Documentation was provided to support that only $434 of the contingency payment was spent on utilities between August 25, 2011, and January 19, 2012, resulting in questioned costs of $66.

- Of the 43,059 contingency payments, 1,294 warrants totaling $502,000 expired in August 2012 and those funds were deposited to the State General Fund in September 2012. We reviewed 5 of these warrants and noted:

  - One individual was living in a treatment center at the time of the payment and would not have been eligible;

  - Two individuals had moved to other states per NFOCUS notes in February and May 2011;

  - One individual was no longer on assistance and had moved with no forwarding address in January 2011; and

  - One individual moved to another city in Nebraska in August 2011.

  Therefore it appears 4 of the 5 warrants reviewed should not have been issued.

- Our detail testing noted one recipient incorrectly received a $500 contingency payment on August 25, 2011. This was the rate for a single-family living arrangement. Per review of the applications on file, this individual was living in an apartment, or multi-family living arrangement, and was eligible for only a half benefit, or $250.

- Additional contingency payments were made between August 23, 2011, and September 30, 2011. If a new client came in requesting cooling assistance or crisis assistance, and was determined eligible for crisis assistance, the Agency's policy was to pay the full contingency amount to the recipient, even if documented crisis assistance was less. Each of the three recipients tested received a $500 contingency payment after August 25, 2011. We noted:

    - Two recipients each received a $500 contingency payment but did not have documentation of an actual crisis. Additionally, the payment was made to the individual and not the utility provider. This resulted in questioned costs of $1,000.

    - One recipient received crisis assistance of $190 documented and paid to the utility provider. However, they also received an additional $310 directly that was also considered crisis assistance to equal the $500 contingency payment, resulting in questioned costs of $310.

On June 13, 2012, the Agency made $9,522,250 in energy assistance payments from the 2012 grant either to the provider on behalf of, or directly to 38,089 LIHEAP recipients, depending on whether they had received crisis assistance previously. The Agency termed these payments "supplemental" payments. These payments were made to recipients who had received regular heating assistance in the previous heating season. The payment amount was $250 for all recipients, regardless of living situation. Five individuals tested were living in a multi-family dwelling and should have received only a half benefit of $125, resulting in questioned costs of $625. Since regulations require recipients living in a multi-family dwelling to receive only a half benefit, this payment structure was out of compliance with regulations.

- We noted 74 of the 38,089 recipients of the supplemental payments were deceased prior to June 13, 2012 payments. The dates of death ranged from October 14, 2011, to June 10, 2012. As of March 11, 2013, seven warrants were still outstanding, sixteen had been voided, and the remaining were cashed. For the cashed payments, we noted the Agency knew about the recipient's death prior to the issuance of the warrants in 48 of 51 instances. For the other 3, the Agency was no longer following up on the case because the recipient was no longer receiving assistance.

Warrants Issued to or on Behalf of a Deceased Recipient	Amount of Warrant	Amount Cashed
To Utility Provider	$10,000	$10,000
Directly to Recipient	$8,500	$2,750
Total	$18,500	$12,750

There were 11 warrants paid directly to deceased recipients that were cashed. The endorsements of the 11 cashed warrants were examined and we noted the following:

- A warrant was cashed at the United States Postal Service, which indicates it was not used to meet home energy needs.

- There were 4 warrants endorsed, in writing, with the name of the deceased recipient, indicating a possible forgery.

For the 2011 and 2012 grants, the Agency was conservative in its structuring of regular heating assistance, and as a result, millions of dollars needed to be spent by the end of the Federal fiscal year, or returned to the Federal government. The Agency had received 98% of its 2011 grant by the end of January 2011, and 100% of its 2012 grant by the end of January 2012, but it took them until August 2011 and June 2012, respectively, to provide the contingency and supplemental funding to recipients. As the June 2012 payments were linked to the previous heating season, the funding would have been much more helpful to recipients if it had been distributed before the end of winter. The Agency stated that in both instances, it took a long time to determine the structure of the contingency and supplemental payments and how they would be handled, and that the payments had to go through multiple approvals before they were ready to be sent out. However, when we requested these approvals, the Agency stated they could not provide support because the approvals were informal. Additionally, despite the ample time the Agency had to structure the payments and determine how they would be handled, numerous incongruities with State regulations existed.

Our detail testing also noted one individual received $218 for crisis assistance, but this was actually for regular heating assistance. It was also noted the payment was sent to the wrong utility provider. This resulted in questioned costs of $218.

Known questioned costs consist of all August 25, 2011, contingency payments of $17,663,000 because payments were not in accordance with State and Federal regulations; additional known questioned costs of $2,219 were related to the detail sample testing. The total sample tested was $6,496 and total energy assistance payments, less the August 25, 2011, contingency payments of $17,663,000, were $24,800,290. The dollar error rate for the sample was 34.16% ($2,219/$6,496), which estimates the additional potential dollars at risk for fiscal year 2012 to be $8,471,779 (dollar error rate multiplied by population).

Cause: "Contingency" payments are not defined in State regulations. The Agency did not follow their own regulations regarding crisis assistance or regular heating assistance. Caseworker error or ineffective review also caused some of the errors noted.

Effect: Noncompliance with Federal regulations, including $17,663,000 distributed directly to recipients without obtaining evidence of any crisis. Even if the August 2011 payments had been classified as supplemental heating assistance, at least $7,753,750 would still be in error as payments were made directly to recipients who had received crisis assistance in the past year. When heating assistance is received in the summer, it is less likely it will be used for heating assistance as intended. Additionally, when assistance is paid directly to providers many months after the season, there is an increased risk that providers will not be able to apply the funds to current accounts.

Recommendation: We recommend the Agency implement procedures to ensure compliance with State and Federal regulations. The Agency should get formal approval from the Federal government for contingency or other special payments. Heating assistance should be distributed to recipients in a timely manner.

Management Response: The Agency disagrees with the APA's conclusion that the August 2011 payments required documentation of a crisis. The payments were allowable contingency payments, not crisis payments. The APA's assumptions that none of the contingency payments were made to households previously determined eligible for cooling assistance and that all households determined eligible for heating assistance were current on their heating bills at the time of the payment is not accurate. The APA's statement that the payments were coded as crisis payments is misleading because it fails to note the payments were originally coded by the LIHEAP Program as contingency payments. The APA's statement that the payments were reported as crisis payments on the Annual Report is also misleading. The Agency previously informed the APA that the payments were initially reported separately on the Annual Report as contingency payments. At the request of the Administration for Children and Families (ACF), the Agency later submitted an amended Annual Report in which the contingency payments were included in the crisis payment field. At no time did the Agency or ACF determine that the contingency payments were actually crisis payments.

The APA's conclusion that all of the August 2011 contingency payments were required to be paid to a provider rather than to the household is also incorrect. Many of the households that received a contingency payment were eligible for cooling assistance. In addition, many of the households that received a contingency payment due to heating assistance eligibility did not previously receive a crisis payment. Finally, many of the households have utilities included in their rent payment. The Agency is not prohibited from making direct payments to any of the above households.

At the time the contingency payments were made, the Agency did not possess current provider information for all households. As the APA notes in the report, this presented a risk that providers would be unable to apply the funds to current accounts. The decision to direct all payments to households was designed to provide the maximum assistance possible to eligible households and to minimize the amount of assistance that the Agency would be required to return to the Federal government.

Corrective Action Plan: An initial draft of revised LIHEAP state regulations will be completed and brought though the hearing process. The LIHEAP state plan will be revised to remove any identified barriers to maximizing federal energy assistance to Nebraska households.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: September 1, 2013

APA Response: The State is required to expend funds in accordance with its State Plan. The Agency did not define contingency payments anywhere in its State Plan, nor did they have provisions for contingency payments in the State Plan or State regulations.

We did not assume that no contingency payments were made to households eligible for cooling assistance or that all households eligible for heating assistance were current on their heating bills at the time of the August 2011 contingency payments. The APA was simply attempting to convey that payments made in the summer would more likely be spent on cooling bills than on heating bills; however, most of the August 2011 contingency recipients were not eligible for cooling assistance. In addition, our review of recipients' utility bills indicated that many of these payments did not appear to be used for energy assistance.

Regardless whether the payments made in August 2011 were contingency or crisis payments, per Title 476 NAC 5-002, "payment must go to the provider if crisis assistance was previously received by a household." As noted previously, $7,753,750 of the $17,663,000 in contingency payments were made directly to recipients who had received crisis assistance in the past year rather than to the utility provider.

Finding #12-25-27

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Period of Availability

Grant Number & Year: #11B1NELIEA, FFY 2011

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

Criteria: 45 CFR § 96.14(a)(2) (October 1, 2011) states, "Beginning with allotments for fiscal year 1994, a maximum of 10 percent of the amount payable to a grantee may be held available for the next fiscal year."

Per Neb. Rev. Stat. § 81-138.01 (Reissue 2008), encumbrances represent financial obligations which are chargeable to the current biennium's appropriation and for which a part of that appropriation is reserved. Neb. Rev. Stat. § 81-138.02 (Reissue 2008) states, "Contracts, other than a purchase order, for goods or services to be provided in a subsequent biennium do not represent valid encumbrances of current biennium appropriations and will require specific reappropriation by the Legislature."

Condition: The Agency exceeded the allowable carryover by $967,932 for the FFY 2011 grant.

Questioned Costs: $967,932 known

Context: The Agency prepared the required Carryover Report for the FFY 2011 grant, and reported a carryover amount of $4,144,657, which is 10% of the grant authorization $41,446,570. However, unexpended and unobligated funds at September 30, 2011, exceeded the allowable carryover by $967,932.

Unexpended balance at 9/30/11 per accounting system	$ 6,269,272
Allowable carryover of 10%	(4,144,657)
Remainder	2,124,615
Less obligations at 9/30/11 paid after 9/30/11	(1,156,683)
Excess grant funds	$ 967,932

The Agency shared a portion of the FFY 2011 Federal funds with the Nebraska Energy Office (NEO) by awarding a contract to NEO. The Agency considers the contract with NEO to be an obligation. The NEO then subawards this money to subrecipients to assist low-income households with energy weatherization related improvements. However, the Agency and the NEO are both State agencies, at the same level of government. Furthermore, even if all of the unexpended funds allocated to NEO were considered obligated, the Agency would still have exceeded the allowable carryover by $828,515.

Cause: The Agency considers its contract with NEO to be an obligation for reporting grant carryover.

Effect: Noncompliance with Federal regulations could result in the loss of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure the amount of grant funds carried forward is accurately reported and within the Federal 10% requirement.

Management Response: The Agency partially agrees with the condition reported. As stated by the APA, the Agency considers the contract with NEO to be an obligation.

Corrective Action Plan: The Agency will review the procedures to calculate the allowable carryover to ensure compliance with Federal regulations.

Contact: Willard Bouwens, Financial Services Administrator

Anticipated Completion Date: June 30, 2013

Finding #12-25-28

Program: CFDA 93.569 – Community Services Block Grant – Cash Management/ Subrecipient Monitoring

Grant Number & Year: #G11B1NECOSR, FFY 2011

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

Criteria: Per 31 CFR § 205.33(a) (July 1, 2011), States should exercise sound cash management in funds transfers to subgrantees. Per the June 2012 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.

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 also requires procedures to ensure all advanced funds are spent on program purposes or are returned.

Condition: The Agency's policy for the 2011 grant was to advance eligible entity subrecipients funds irrespective of their cash needs. For one discretionary grant tested, the subrecipient was advanced $129,688, but only reported $45,290 in expenditures, resulting in questioned costs to the subrecipient of $84,398.

Questioned Costs: $84,398 known

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. 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 two eligible entity subrecipients and one discretionary grant subrecipient for cash management compliance.

One eligible entity subrecipient tested was advanced $125,532 from the 2011 grant on July 8, 2011, and this amount was not reported as fully expended until March 31, 2012.

For the 2011 grant, the Agency also distributed funds to the discretionary grant subrecipient tested irrespective of its immediate cash needs. Funds advanced at the beginning of the year were not spent for over five months; and advances remaining at March 2012 were not reported as spent or returned as of January 2013.

Date	Transaction	Amount	Balance
July 1, 2011	Balance at beginning of year		$ 49,382
July 31, 2011	Expenditures reported by subrecipient	$ (12,540)	$ 36,482
September 22, 2011	Advance to subrecipient	$ 36,562	$ 73,404
October 4, 2011	Advance to subrecipient	$ 3,509	$ 76,913
December 31, 2011	Expenditures reported by subrecipient	$ (16,428)	$ 60,485
March 17, 2012	Disbursement of remainder of grant award	$ 23,913	$ 84,398

For the 2011 grant, the Agency advanced the subrecipient a total of $129,688. However, the subrecipient only reported expenditures of $45,290 for this grant, for a variance of $84,398. As of our testing in January 2013, the subrecipient had not reported any further expenditures for the 2011 grant. The Agency was not aware of this reporting discrepancy and had considered this grant to be closed. The Agency did not verify any of the subrecipient's reports to actual expenditures.

A similar finding was noted in our prior audit.

Cause: The Agency implemented procedures for 2012 grants, but not 2011 grants. The Agency allowed the discretionary subrecipient to report expenditures on its own forms and the Agency did not understand these reports.

Effect: Without procedures to ensure subrecipients are only advanced enough funds to meet their immediate cash needs, there is an increased risk of noncompliance with cash management regulations. When the Agency advances funds to subrecipients and does not ensure they were actually spent on program purposes, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure subrecipients are advanced funds to meet their immediate cash needs only. The Agency should ensure that all funds advanced are spent on program purposes or returned.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In response to the prior year audit finding, the Agency modified the Agency's cash advance procedures and subrecipient reporting for all CSBG sub-grants effective October 1, 2011. The current year finding is based on a sub-grant preceding the time period when the new procedures where implemented. CSBG subrecipients are no longer advanced an amount equal to the estimated quarterly expenditures but rather they are advanced an amount not to exceed one month of expenditures. Advances are not made until the prior month's expenditure report is submitted to show compliance with cash management and to reduce the risk of providing funds in excess of the subrecipient's immediate cash needs.

Contact: Jodie Gibson, Economic Assistance Administrator

Anticipated Completion Date: October 1, 2011

Finding #12-25-29

Program: CFDA 93.569 – Community Services Block Grant – Allowability/ Subrecipient Monitoring

Grant Number & Year: All open including #G12B1NECOSR, FFY 2012

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) (2011), 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) (2011), 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) (2011), 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) (2011), CSBG funds may not be provided directly to a religious organization for inherently religious activities, such as worship, religious instruction, or proselytization. A good internal control plan requires procedures be in place to ensure subrecipients' expenditures are made for allowable activities.

Per 42 USC § 9914(a) (2011), 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 two of nine eligible entity subrecipients and one of twelve discretionary grant subrecipients and noted the Agency did not have adequate documentation on file 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: $378 known

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. Starting with State fiscal year 2012, the Agency's procedure was to review detailed supporting documentation for several categories on each quarterly report. However, for one subrecipient, the Agency inadvertently neglected to verify the last quarter of the year. For the other subrecipient, the Agency only reviewed documentation for the first quarter of the year. Additionally for this subrecipient, one expenditure selected lacked documentation for $378 of the total, but the Agency did not follow up further or require a refund from the subrecipient.

The Agency does obtain subrecipient A-133 audits, which would provide reliance if the CSBG was audited as a major program. Both eligible entity subrecipients tested had an A-133 audit for the fiscal years ended September 30, 2011, and September 30, 2012. However, only one audit report for one eligible entity subrecipient for the fiscal year ended September 30, 2012, listed CSBG as a major program. This provides some level of assurance that for the last three quarters of State fiscal year 2012 expenditures were for allowable activities, allowable costs, and met procurement guidelines for one eligible entity subrecipient tested.

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 two audits, 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 noted this was still the case.

The discretionary grant subrecipient tested reported expenditures sporadically throughout the year. The Agency stated they verified a portion of these expenditures when they performed an onsite review of the subrecipient; however, they did not maintain documentation of this review, and they stated they did not tie any of the support reviewed to the financial reports submitted.

Total payments made to the two eligible entity subrecipients tested during State fiscal year 2012 were $873,812 and total aid payments to all eligible entity subrecipients were $3,741,568. Total payments made to the one discretionary grant subrecipient tested during State fiscal year 2012 was $70,107 and total aid payments to all discretionary grant subrecipients was $313,817.

Cause: The Agency developed procedures to verify eligible entity subrecipients' expenditures on quarterly reports; however, these procedures were not adequately implemented during the fiscal year. The Agency has continued to struggle to complete its onsite reviews. 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. We further recommend the Agency fully perform and document their onsite reviews to ensure compliance with CSBG program requirements.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Effective October 1, 2011, quarterly verifications were added to the FFY2012 subgrants. The Agency will continue to review and make revisions to the current procedures. The questioned costs were discussed with the subrecipient's Fiscal Director but this discussion was not documented. The Agency will work towards improving documentation of follow up and resolution of identified issues as well as review detailed supporting documentation for several categories on each quarterly report.

The CSBG State Office implemented changes to the on-site review document and will continue to improve upon fully completing the tools and documentation for each on-site visit.

Contact: Jodie Gibson, Economic Assistance Administrator

Anticipated Completion Date: September 30, 2013

<u>Finding #12-25-30</u>

Program: CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund; CFDA 10.558 – Child and Adult Care Food Program – Allowability/ Eligibility/Special Tests and Provisions

Grant Number & Year: Various including #G1101NECCDF, FFY 2011; #G1201NECCDF, FFY 2012; #2011IN109943, FFY 2011; #2012IN109943, FFY 2012

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

Criteria: Title 45 CFR § 98.67(a) (October 1, 2011) states: "Lead Agencies shall expend and account for [Child Care and Development Fund] CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds."

Title 392 NAC 4-003.01(A) states: "The Department pays by attendance, not enrollment. Payment is not made for time when the child is not receiving care; this includes when the provider is on vacation, is ill, or is not providing care for some other reason." Child Care Provider Agreements also explain in Section IV (Other): "PROVIDER MUST BILL FOR ATTENDANCE ONLY AND ONLY RELATED TO THE PARENTS WORK OR SCHOOL SCHEDULES." From each source noted above, it is clear that providers are to be paid only when a child is in attendance. Both the Kids Ark and Wise Kids Child Care Provider Agreements indicate, in Section III (24)(c), that in order to be paid the provider must: "Submit an accurate child care calendar (signed by the parent unless the provider is operating a child care center) and billing document completed in accordance with the Department's policy."

Title 391 NAC 3-002.02 provides that the maximum license capacity of a child care center is determined by the center's available space, equipment, furnishings, the center's staff and the number authorized by the State Fire Marshal or delegated authority. The operating licenses issued by DHHS indicate the maximum capacity, days, and hours of operation. Title 391 NAC 8-009.01 states, "The licensee shall ensure that the center's license capacity is never exceeded." Section III (17) of the standard provider agreement also states:

> *"The provider agrees to keep current and comply with any state or local license required for service provision[.] Failure to comply with licensing requirements will result in the Department refusing payment or establishing an overpayment for the time the provider was out of compliance[.] This includes billing for more children than allowed or providing care at a location other than the one designated on the license and/or Provider Agreement."*

Good internal control requires procedures to ensure amounts paid to providers are based on accurate records. Good internal controls also require procedures to ensure correct rates are billed by child care providers, service authorization limits are not exceeded, adjustments are properly calculated, and billings are supported by accurate records.

Condition: Testing of two child care centers noted numerous discrepancies in accounting records and noncompliance with State and Federal requirements.

Questioned Costs: $11,557 known

Context: The Federal Bureau of Investigation (FBI) contacted the Auditor of Public Accounts (APA) to refer issues regarding possible inaccurate billing practices by two large child care centers, Wise Kids, Inc.(Wise Kids) and Kid's Ark Learning Center (Kids Ark). Both centers have provider agreements with the Department of Health and Human Services (DHHS) to provide child care services and receive money under the Federal Child Care and Development Fund Cluster. Both also participate in the Child and Adult Care Food Program (CACFP) administered by the Nebraska Department of Education (NDE).

The APA requested support for the payments made to these providers by DHHS and support for the meals reimbursed through NDE for the period July 2011 through January 2012. This documentation included both the attendance calendars and billing documents from DHHS and the daily time in/out attendance calendars and the Record of Meals and Supplements Served (meal count worksheets) from the NDE for the period tested.

The child care providers are required to maintain child care calendars for both DHHS and NDE, documenting the times and dates each child was in attendance at the center. Both sets of records should contain the same attendance information for each child, as the records are required to represent the actual daily attendance of each child. However, the APA found that the DHHS and NDE attendance calendars did not agree for 70 of 75 children for Kids Ark and 71 of 126 children at Wise Kids for the month of December 2011.

The table below summarizes the APA's comparison of the DHHS and NDE records.

December 2011 Comparison	Wise Kids			Kids Ark		
	Total	DHHS Greater than NDE	NDE Greater than DHHS	Total	DHHS Greater than NDE	NDE Greater than DHHS
Children with Discrepancies	71	60	11	70	60	10
Total Children	126	126	126	75	75	75
Total Net Error (1)	$(10,531)	$ (10,884)	$ 353	$ (5,731)	$ (6,465)	$ 734
Federal Share	**$ (6,318)**	**$ (6,530)**	**$ 212**	**$ (3,439)**	**$ (3,879)**	**$ 440**

(1): For each center, the total net error represents potential overpayments to DHHS based on our comparison of the DHHS and NDE attendance calendars. As noted above, in some cases, the hours reported to DHHS exceeded the hours reported to NDE. In other cases, the hours reported to NDE exceeded the hours reported to DHHS. However, the majority of the errors involve the centers reporting more hours to DHHS than to NDE.

DHHS payments to Wise Kids for the fiscal year totaled $820,824 ($372,676 Federal share) and payments to Kids Ark totaled $467,594 ($216,538 Federal share). If the same error rate occurred each month of the fiscal year, DHHS would have overpaid Wise Kids in excess of $130,000 for fiscal year 2012. Likewise, DHHS would have overpaid Kids Ark more than $77,000 for the same fiscal year.

We also noted several instances in which the amounts billed to DHHS did not agree to the amounts recorded on the DHHS attendance calendars, resulting in overpayments to the child care centers.

December 2011	**Wise Kids**	**Kids Ark**	**Totals**
Number of Children for whom DHHS Billing Document Exceeded Attendance Calendar	38	4	42
Total Number of Children	126	75	201
Total Overpayment	$ 2,485	$ 217	$ 2,702
Months in Fiscal Year	12	12	12
Calculated Potential Overpayments for One Year	$ 29,820	$ 2,604	$ 32,424
Federal Share of Overpayments for Month Tested	**$ 1,491**	**$ 130**	**$ 1,621**

Note: This table summarizes the instances in which the centers billed more time than what was supported by the attendance calendars. These amounts were then paid by DHHS and are considered overpayments.

We also noted the following:

- Incorrect rates paid based on the age of the child payment errors for eight children;

- Service authorizations exceeded for three children;
- Inaccurate billing adjustments;
- Two providers billing for the same child and time period;
- Billings for days the child care center was closed;
- Wise Kids was over its licensed capacity of 90 children every day during the month tested.

Additional information and the APA's detailed comparison of DHHS and NDE records can be found on our website in our early communication dated July 20, 2012, at www.auditors.nebraska.gov.

In a separate test, we compared DHHS and NDE attendance records for 17 children at 16 different child care centers for various months. Similar to our testing of Wise Kids and Kids Ark, there were numerous discrepancies between DHHS and NDE attendance records. There were also two cases where NDE did not provide the APA with requested attendance records. The records for those two cases were from centers that were in operation during fiscal year 2012 but were closed by the time the records were requested.

The table below summarizes the APA's comparison of the DHHS and NDE records for our separate test.

Comparison	**Total**	**DHHS Greater than NDE**	**NDE Greater than DHHS**
Children with Discrepancies	7	4	3
Total Children	17	17	17
Total Net Error (2)	$ (442)	$ (480)	$ 38
Federal Share for Month Tested	**$ (179)**	**$ (197)**	**$ 18**

(2): For each center, the total net error represents potential overpayments to DHHS based on our comparison of the DHHS and NDE attendance calendars. As noted above, in some cases, the hours reported to DHHS exceeded the hours reported to NDE. In other cases, the hours reported to NDE exceeded the hours reported to DHHS. However, the majority of the errors involved the centers reporting more hours to DHHS than to NDE.

Cause: With the large error rate found at Wise Kids, as well as other errors noted with Kids Ark, it is clear that DHHS is not adequately ensuring the billing documents agree to the attendance calendars.

Effect: Absent adequate procedures to ensure the billing documents agree to the attendance calendars, there is an increased risk for child care centers to overbill DHHS without being detected, resulting in overpayments to the centers. Without proper controls over provider child care service billings, there is a significant risk incorrect amounts will be paid. Without adequate procedures to ensure license capacity limitations are met, there is an increased safety risk to children. Additionally, the child care centers are not in compliance with DHHS rules and regulations when attendance exceeds the licensed capacity amounts.

Recommendation: We recommend DHHS and NDE thoroughly investigate these findings and discrepancies in billings from Wise Kids and Kids Ark and seek to recover any overpayments found.

In addition, we recommend DHHS and NDE improve the monitoring of all child care providers. Attendance calendars and meal count worksheets should be required to be remitted to the agencies in order for them to be properly reviewed with each billing document. The agencies should consider sharing information obtained from the child care centers or providers in order to properly compare whether hours and services billed to one agency agree to hours and services billed to the other agency.

We also recommend DHHS implement procedures to ensure correct rates are billed by all providers; service authorization limits are not exceeded; adjustments to billings are correctly calculated, and providers do not bill for days in which no services were provided. DHHS should consider possible changes to the NFOCUS system to allow for certain edits of information to reduce the number of overpayments.

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

DHHS Corrective Action Plan: The Agency is in the process of investigating Wise Kids and Kids Ark in order to recover any potential overpayments. The Agency is unable to obtain records from NDE without their cooperation in order to compare billed services. The Agency has implemented an additional process for attendance calendars which includes a review of a sample of billing documents, calendars, and authorizations. In late 2011, select child care providers began submitting their billings electronically via OnBase. This system includes some edits to prevent billing without a proper authorization. Effective February 1, 2013, child care providers will be required to submit their billings electronically unless they are granted an exemption. The Agency will investigate additional changes to NFOCUS child care authorizations in order to improve system edits.

DHHS Contact: Teri Chasten, Economic Assistance Policy Chief

DHHS Anticipated Completion Date: August 1, 2013

NDE Management Response: Nutrition Services conducted unannounced visits and found no discrepancies in the record of children receiving a meal and the number of children present on the day of the visit. Both centers are no longer participating in the Child and Adult Care Food Program.

The July 2012 claim for reimbursement was the last claim paid to Wise Kids, Inc. Wise Kids, Inc., discontinued participation in the CACFP program as of December 27, 2012.

The July 2012 claim for reimbursement was the last claim paid to Kids Ark Learning Center. Kids Ark Learning Center discontinued participation in the CACFP program as of December 27, 2012.

Nutrition Services agrees that the recommendation (see paragraph two in Recommendations) is a best practice; however, we do not have a federal regulation requiring these actions.

NDE Corrective Action Plan: The CACFP consultants will work with DHHS licensing consultants to inform them of potential issues in Centers as DHHS does for Nutrition Services.

NDE Contact: Bev Benes, Director Nutrition Services

NDE Anticipated Completion Date: March 15, 2013

<u>Finding #12-25-31</u>

Program: CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Allowability/Eligibility

Grant Number & Year: #G1101NECCDF, FFY 2011; #G1201NECCDF, FFY 2012

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

Criteria: Per 45 CFR § 98.67(a) (October 1, 2011), the Agency must expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds.

Per 45 CFR § 98.20 (October 1, 2011), 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 job training or educational programs.

Per Title 392 NAC 3-005.02, "when determining eligibility, the worker considers the following sources of income: …23. Unemployment compensation."

Per Title 392 NAC 2-003.04B, case workers must make a redetermination of each client's eligibility every 12 months.

Per Title 392 NAC 5-004.04, the Agency establishes rates and terms of service with the provider via the provider agreement.

A good internal control plan requires procedures be in place to ensure child care payments are not duplicated, are only paid for times authorized by the caseworker, amounts are properly billed, and that eligibility redeterminations are made every 12 months.

Condition: 10 of 40 Child Care payments tested were not in compliance with Federal and State requirements.

Questioned Costs: $1,037 known

Context: Some payments had more than one type of error. We noted the following during our testing:

- For two payments tested, the payment was duplicated. In one case, 20 hours of child care was paid for as 20 hours at the hourly rate *and* 2 days at the daily rate. In the other case, child care was paid for at the regular rate *and* the special needs rate.

- For one payment tested, the family was classified as a one-parent household when it was actually a two-parent household. The second 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 one payment tested, unemployment compensation was not included in the household's monthly income. If it had been correctly included, the family would not have been eligible for child care.

- For three payments tested, the amount of hours or days billed by the provider exceeded the service authorization.

- For one payment tested, the annual eligibility redetermination was seven months late.

- For two payments tested, the rate billed by the provider was in excess of the established rate per the provider agreement.

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

- For one payment tested, the co-pay charged by the Agency was incorrect.

Federal payment errors noted were $1,037. The total Federal sample tested was $4,069 and total Child Care Federal assistance claims for the fiscal year were $43,027,033. Based on the sample tested, the case error rate was 25% (10/40). The dollar error rate for the sample was 25.49% ($1,037/$4,069) which estimates the potential dollars at risk for fiscal year 2012 to be $10,967,591 (dollar error rate multiplied by the population).

A similar finding has been noted in our previous audit reports since 2007.

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 payment is not made twice for the same service. We further recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations. We further recommend the Agency review billing documents to ensure they agree with provider agreements and attendance sheets.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has implemented an additional process for monitoring attendance calendars. This audit process includes a review of a sample of billing documents, calendars, and authorizations for comparison of information. The Agency is also reviewing a sample of child care cases each month as an internal control measure to determine/ensure the program's accuracy with authorizations for payment. The review will analyze whether or not the child was correctly determined eligible. As a result of these reviews, the Agency will provide training to staff on common error prone issues through presentations by our Program Accuracy Specialists.

A process will be developed for Resource Development Supervisors to conduct Child Care Provider Reviews to correct and identify errors tied to providers.

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: August 1, 2013

Finding #12-25-32

Program: CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Special Tests and Provisions

Grant Number & Year: Various including #G1201NECCDF, FFY 2012

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

Criteria: Per 45 CFR § 98.41 (October 1, 2011), 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. 391 NAC 3-002.05 (March 30, 1998) requires "semi-annual visits… will be unannounced and to child care centers/preschools with a license capacity of thirty or more children. These visits will assess compliance with applicable regulations." A good internal control plan requires adequate documentation be maintained to support compliance with health and safety requirements.

Condition: The Agency did not have adequate procedures in place to ensure health and safety requirements were met for child care providers.

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 tested 30 child care providers subject to the health and safety requirements. 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. Therefore, the Agency did not comply with regulations for the prevention and control of infectious diseases for all 27 child care centers tested.

- The Agency does not verify health and safety requirement regulations for family child care homes 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; electrical outlets within the reach of children are safe; there is a first aid kit available but out of children's reach; and all rooms, furniture, toys, utilities are clean and dry, in good repair, and safe. Of the 30 child care providers tested, three were family child care homes. Two of these had a full review completed recently as they were a new licensee. The other one only had a short review completed, with the last full review completed in 1999.

- During a visit, the Agency staff completes a checklist to document what they reviewed. A compliance review form summarizes any instances of noncompliance. We tested 30 child care providers and noted the following:

    - For eight providers tested, the checklist was incomplete because questions were unanswered on the checklist. The unanswered situation ranged from a single question on three checklists up to six questions on one checklist. The questions left unanswered related to a first aid kit, locked cleaning supplies and poisons, 12 hours of staff training, CPR training, immunization records, firearms locked up, and building and physical premises were safe and in good repair. No deficiencies were noted for these questions on the compliance review form.

    - For one provider, no details were available to support the compliance review form because the information was lost during a data transfer.

    - For one provider, the checklist was not complete. Also, the compliance review form was misleading because two sections appeared in compliance when the questions were unanswered on the checklist details provided.

    - For one provider tested, the checklist was not signed by the provider to document the provider was informed of issues noted.

- 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 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. Three child care centers tested did not have a fire inspection performed within the last two years. The most recent inspection for one provider occurred March 10, 2010, and a referral made on February 3, 2012, for a new inspection. For the second provider, the most recent inspection occurred October 11, 2007, and a referral made on February 3, 2012, for a new inspection. For the third provider, there was no inspection on file.

- 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 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. Three child care centers tested did not have an approved building and physical premise safety inspection performed within the last two years. The most recent inspections for these providers occurred February 25, 2008, February 4, 2010, and January 13, 2010. There were referrals done on February 3, 2012, for all three providers to request a more recent inspection.

A similar finding was noted in the prior audit.

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 have met with the Omaha Bureau of Fire Prevention and the Douglas County Health Department to resolve these issues. 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 spend time in unsafe facilities.

Recommendation: We recommend the Agency implement procedures to ensure all health and safety requirements are met for child care providers.

Management Response: The Agency does not agree with the condition reported as the Agency believes it is in compliance with CCDF regulations. 45 CFR 98.41(a) states that "it does not require the establishment of any new or additional requirements if existing requirements comply with the requirements of the statute." The purpose of this regulation is to allow for State flexibility in the CCDF program. The findings note that additional regulations need to be implemented to ensure health and safety requirements are met. DHHS believes it is fulfilling the Federal requirements in 45 CFR 98.41 with the current regulations that are in place.

Corrective Action Plan: N/A

Contact: Teri Chasten, Economic Assistance Policy Chief

Anticipated Completion Date: N/A

APA Response: One of the providers tested had not had a full review of health and safety regulations since 1999. One provider had not had a fire inspection since 2007, and one provider had not had a building and physical premise safety inspection since 2008. We disagree that the Agency is fulfilling Federal requirements for the health and safety of children.

<u>Finding #12-25-33</u>

Program: CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Special Tests and Provisions/Allowable Costs/Eligibility

Grant Number & Year: Various including #G1201NECCDF, FFY 2012

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

Criteria: Per 45 CFR § 98.60(i) (October 1, 2011), "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. A good internal control plan also requires procedures be in place to ensure high risk cases are appropriately reviewed for potential fraud.

Condition: We tested 17 cases referred to the Special Investigations Unit (SIU) and noted three reviews were not completed on a timely basis. We also noted the Agency does not have procedures in place to reduce the potential risk for fraud in cases where the child care provider and the parent are family members.

Questioned Costs: Unknown

Context: The SIU had 148 open cases during the fiscal year. We noted the following during our testing of 17 cases:

- One case was referred to the SIU in March 2011. No documentation was provided showing any work had been performed on this case since March 2011.
- One case was referred to the SIU in December 2010. No documentation was provided showing any work had been performed on this case since December 2010.

- One case had two referrals to the SIU, one in May 2011 and the second in December 2011 for different allegations. No documentation was provided showing any work performed on this case since December 2011. It appears this individual was not getting payments after May 2011. This individual was authorized and receiving child care from a relative. It was noted the individual had two overpayments for child care prior to the current investigation.

A similar finding was noted in the prior audit.

Cause: Per the Agency, they do 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 fraud or misuse of Federal funds. Without procedures to ensure high risk cases are appropriately reviewed for potential fraud, there is an increased risk fraud will occur and go undetected, resulting in inappropriate charges to both State and 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. We also recommend the Agency implement procedures to ensure high risk cases are appropriately reviewed for potential fraud.

Management Response: The Agency does not agree with the condition reported since "timeliness" is not defined in the Federal regulation noted above. The Agency is unaware of any State or Federal regulation that defines "timeliness" other than by meeting the statute of limitation standards for prosecution.

Corrective Action Plan: Not applicable for the first part of the recommendation. Referrals identified as high risk will be processed and assessed within fourteen days for potential fraud based on evidence received with the referral. Current active cases will be assessed and if deemed to be high risk will be monitored for case progression by January 31, 2013.

Contact: Jana McDonough, Fraud Investigator Supervisor

Anticipated Completion Date: January 31, 2013

APA Response: The cases noted did not have any documentation of work performed in over a year. Although timeliness is not specifically defined, a prudent person would not consider over one year to be timely. If potential fraud is not investigated timely, there is a greater risk for loss to occur, and less likelihood for the recovery of funds.

Finding #12-25-34

Program: CFDA 93.658 – Foster Care Title IV-E and ARRA – Foster Care Title IV-E – Allowability/Eligibility/Period of Availability/Reporting

Grant Number & Year: #1101NE1401, FFY 2011; #1201NE1401, FFY 2012

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

Criteria: Per 45 CFR § 1356.22(b) (October 1, 2011),

> *"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.

A good internal control plan requires procedures to discontinue benefits when eligibility expires, including when a judicial determination is not made within 180 days for a voluntary placement and for when a child is placed in a non-IV-E eligible home.

OMB Circular A-87 states that to be 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. 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. Per 45 CFR § 92.22(a) (October 1, 2011),

> *"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 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."*

According to the Reform 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."

Per 45 CFR § 92.30(d) (October 1, 2011) "Grantees or subgrantees must obtain the prior approval of the awarding agency whenever…obtaining the services of a third party to perform activities which are central to the purposes of the award."

Per 45 CFR § 95.13(a) (October 1, 2011), "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 be in place to ensure claims are reported in the correct period and for actual amounts.

Condition: We tested 40 Foster Care payments and noted 31 payments did not comply with Federal and State requirements. More than one type of error was noted for some of these 31 payments.

Additionally, the Agency reported rejected claims on their 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 Reform Contractors.

A similar finding was noted in our prior audit.

Questioned Costs: $5,175,329

Context: Effective November 1, 2009, the Agency contracted with six private entities to serve as the Reform Contractors in providing service delivery and coordination services for IV-E and non-IV-E children and families. Reform Contractors were paid a flat fee regardless of the amount or value of services they provided. Previously services had been provided by a large number of contractors based on a fee-for-service model. This shift in the way the Agency purchased services for foster children was referred to as Child Welfare and Juvenile Services Reform (Reform). During fiscal year 2012, two of the Reform Contractors remained. We noted the following during our testing:

Placements

- One case, which was a voluntary placement, did not have a court order within 180 days stating that such placement was in the best interest of the child.

- For one Tribal custody case, a criminal records check, including a fingerprint-based check, was not done on the foster family. ($4 questioned costs)

Rates for Paid Claims

For service areas not covered by Reform Contractors, the Agency entered into agreements with other contractors to provide out-of-home care and emergency foster care. The rates were $32, $43, and $69 per day for out-of-home care, based upon the child's needs, and $69 per day for emergency foster care. These rates were effective July 1, 2011 through June 30, 2012. There was no documentation to support these rates were reasonable. The initial rate for out-of-home care and emergency foster care provided by contractors was determined in 1995 after an analysis of cost components was completed. The rates since then have changed, most notably by the out-of-home care rates going from one standard rate to three rates corresponding with various levels of care. Even though these rates have evolved since 1995, both out-of-home care and emergency foster care rates continue to use the 1995 rate as a benchmark for future rate changes. However, that initial rate included cost components that were not allowed to be included as foster care maintenance payments, namely the administrative and specialist components. Furthermore, there has been no additional analysis since 1995 to determine what a reasonable rate would be and if the current rate is appropriate. Furthermore, the Agency did not monitor the amounts paid by the contractors to the foster parents to ensure only a reasonable profit was earned by the contractor per 45 CFR § 92.22. During testing we noted:

- For one claim the contract rate was $65 per day and the claim was paid at $69 per day, for seven days, resulting in an overbilling of $28.

- Seven cases were payments for either emergency foster care or Agency supported foster care made to contractors where the amount charged for maintenance was greater than the amount paid to the foster parents.

Claim	Total Paid by Agency to Contractor	Total Payment by Contractor to Foster Parent	Total Unallowable Maintenance	Federal Share Unallowable Maintenance
1	$ 483	$ 189	$ 294	$ 166
2	483	120	363	206
3	992	620	372	211
4	960	600	360	204
5	1,333	682	651	369
6	1,290	660	630	357
7	960	600	360	204
Total	$ 6,501	$ 3,471	$ 3,030	$ 1,717

The Agency paid $2,719,535 to contractors for Agency supported foster care during the fiscal year ($1,552,206 Federal share).

Reform Contractor Rates

The Agency allowed Reform Contractors to set their own rates for direct services. Per the contracts, they were to submit a schedule of rates to the Agency. The auditor observed an approval of these rates by the Agency for the two Reform Contractors. However, the rates varied significantly among the Reform Contractors – with no documentation to support the reason for those variances. Additionally, rates set by Reform Contractors in excess of the rates Reform Contractors paid to subcontractors and foster families should not be claimed as maintenance. Rates for out-of-home care ranged from $31 to $92, and the Agency could not provide documentation to support that these rates were reasonable. A similar finding was noted in the State fiscal year 2011 Single audit. As noted by the APA in the 2011 audit, the Agency's corrective action plan did not adequately address the finding. We also noted the following during testing:

- Twelve rejected claims did not agree to the rate schedule the Reform Contractor provided the Agency. All twelve involved the same contractor. The claims were submitted at $40 per day, even though that rate did not appear on the rate schedule.

- Five cases were for amounts paid by a Reform Contractor to subcontractors or foster families that were incorrect. In two of the cases, no payment was made from the Reform Contractor to the subcontractor, or to the foster family/group home for services provided. In one case, payment was made to a foster parent for a foster child who no longer resided in the foster parent's home. In the two remaining cases, the payment made from the subcontractor to the foster family was for a different amount of days than what the Agency had authorized for payment, one claim being for two days too many, and one claim being for one day too few.

- Rates submitted by the Reform Contractor to the Agency for cases tested ranged from $40 to $96 per day; however, rates paid by the Reform Contractor to the subcontractor or foster parent ranged from $10 to $33 per day.

Questioned costs are included in rejected claims noted below.

Rejected Claims

Direct services to children were recorded through NFOCUS, with some being charged IV-E and others charged non-IV-E, based on the child's eligibility. Non-reform claims are processed and paid through NFOCUS and identified as "paid" claims. However, the Agency paid Reform Contractors for services each month in two installments through EnterpriseOne. Nevertheless, the Reform Contractors are still required to submit their claims for processing through NFOCUS; however, all claims for the Reform 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 Reform Contractors through EnterpriseOne. The Agency charged IV-E for IV-E rejected claims but did not consider non-IV-E rejected claims or the total amount paid to Reform 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.

The Agency reported the rejected claims on their quarterly financial reports based on 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. 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 Reform Contractors.

Furthermore, reconciliations were not performed between billings sent/billed to the Agency by the Reform 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 Reform Contractors and their subcontractors were recorded in NFOCUS. As a result, it is difficult, if not impossible, to determine when Reform Contractor claims data in NFOCUS is complete and accurate.

During testing we noted:

- Twenty-three cases tested 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. Additionally, these claims are not allowable because there was no reconciliation done between billings sent to the Agency by the Reform Contractors and claims recorded in NFOCUS. These claims were also not applied uniformly to Federal and non-Federal activities.

- One rejected claim was to a foster parent who did not actually provide foster care services because the foster child was no longer residing in this foster parent's home.

The total Federal share of rejected claims charged to IV-E for the fiscal year was $5,173,608. These rejected claims were for status change dates of July 2011 through June 2012, and service dates of March 2010 through April 2012.

A letter issued by the Federal Department of Health and Human Services Administration for Children and Families (ACF) Children's Bureau, dated August 27, 2012, concurred with APA findings stating that Nebraska's foster care direct service claims and foster care administrative claims are not in compliance with Federal Title IV-E financial reporting requirements. This letter's compliance decision pertained to the findings of the Nebraska Single Audit Report for the year ended June 30, 2010. However, the compliance decision is still applicable for the current Single Audit because no changes have been made by the Agency in regards to these issues raised during State fiscal year 2012. Specific issues noted by ACF related to direct service costs that have not been resolved by the Agency include,

> *"The ACF Federal Title IV-E Financial Reporting Requirements define 'expenditures' claimed for Federal reimbursement as 'actual payments made' for goods or services and may not be either 'estimates' or 'advances.' However, Nebraska's Federal direct service claims related to its Reform contractors do not reflect 'actual payments made' to Reform contractors."*

Additionally, "the ACF Federal Title IV-E Financial Reporting Requirements require amounts reported to be actual, verifiable transactions supported by readily available source documentation." These same issues were noted for claims for administrative costs.

The total Federal questioned costs noted during testing were $5,175,329, of which $1,721 was for paid claims and $5,173,608 was for rejected claims. The total Federal sample tested was $19,953, of which $11,118 was rejected claims. Total Federal aid expenditures for the fiscal year were $8,908,678 of which $5,173,608 was for rejected claims, and the total number of claims was 21,513. Based on the sample tested, the case error rate was 77.5% (31/40). The dollar error rate for the sample tested was 19.48% for paid claims ($1,721/$8,835) and 100% for rejected claims ($11,118/$11,118) which estimates the potential dollars at risk for fiscal year 2012 to be $5,901,200 (dollar error rate multiplied by aid amount; $727,592 for paid claims and $5,173,608 for rejected claims).

Cause: There was inadequate caseworker review and inadequate controls over processing claims. The Agency was waiting on a decision from the Federal government regarding compliance with Federal Title IV-E financial reporting requirements for the foster care direct service claims and foster care administrative claims. This letter was not received until August 27, 2012.

Effect: Without adequate controls to ensure claims are paid per Federal requirements, there is an increased risk of Federal noncompliance and the 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 also recommend the Agency implement procedures to ensure: 1) all voluntary placement agreements are accompanied by court orders within 180 days of placement stating such placement was in the best interest of the child; 2) all foster families have a criminal records check, including a fingerprint-based check; and 3) all IV-E benefits are terminated when eligibility expires. 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 agrees with the condition reported.

Corrective Action Plan: The Agency will ask supervisors to review the policies regarding fingerprint checks and voluntary placement agreement with staff in an effort to resolve these issues. The Agency is now entering actual invoices from NFC for claiming maintenance payments through Federal Title IV-E. Currently, DHHS is not claiming any administrative dollars for the Eastern Service Area until ACF approves a cost allocation plan.

Contact: Sara Goscha, Special Projects Coordinator

Anticipated Completion Date: January 15, 2013

<u>Finding #12-25-35</u>

Program: CFDA 93.658 – Foster Care Title IV-E – Subrecipient Monitoring/Reporting

Grant Number & Year: #1201NE1401, FFY 2012; #1101NE1401, FFY 2011

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

Criteria: OMB Circular A-133 § 210 details characteristics which should be used to determine whether a subrecipient or vendor relationship exists. 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."*

OMB Circular A-133 § 400(d) states,

> *"A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency…(2) 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…(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved…(4) ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year."*

2 CFR § 170 Appendix A § I.a.1 (January 1, 2011) 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 (January 1, 2011) 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.)"*

Per Appendix A to 2 CFR § 25 (January 1, 2011), if you are authorized to make subawards under this award, you must notify potential subrecipients that no entity may receive a subaward from you unless the entity has provided its DUNS number to you, and you may not make a subaward to an entity unless the entity has provided its DUNS number to you.

A good internal control plan requires procedures be in place to ensure the Agency accurately identifies its subrecipients so that it can perform required subrecipient monitoring.

Condition: With regard to the Reform Contracts, we noted the following – all of which, per OMB Circular A-133 § 210(b), 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.

During State fiscal year 2012, the Agency considered the Reform Contractors to be vendors and not subrecipients. Therefore, it did not perform adequate subrecipient monitoring and did not report subawards as required. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: The Agency had two Reform Contractors during State fiscal year 2012. Total funds claimed as IV-E on behalf of these Reform Contractors during the fiscal year was $5,173,608. Since the Agency did not consider the Reform Contractors to be subrecipients, the Agency did not perform subrecipient monitoring in compliance with Federal regulations.

Specifically, they did not notify their subrecipients of CFDA title and number, award name and number, if the award is Research and Development, and name of Federal agency. They also did not 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. They also did not 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. Since the Agency did not conduct formal monitoring procedures of the subrecipients' submitted invoices, they could not provide assurance that they verified the invoices were allowable, reasonable or supportable by source documentation. They also did not require the subrecipients to have A-133 audits. They also did not perform any Transparency Act reporting or require their subrecipients to have DUNS numbers.

Per a letter received by the Agency on August 27, 2012, from the Administration for Children and Families (ACF), a division of the U.S. Department of Health and Human Services,

> *"Nebraska inappropriately treats its Reform contractors as 'service providers', i.e., as vendors, when they should be treated as sub-recipients per OMB Circular A-133 Section 210. As the criteria indicate, the substance of the relationship is more important than the form of the agreement in the determination of whether a subrecipient or vendor relationship exists. Nebraska's admitted purpose and intention from the outset with its Reform initiatives was to 'privatize' its entire Child Welfare program. And, as Nebraska stated in a proposed cost allocation plan amendment, the Reform contracts were for the provisions of 'all services necessary for the foster care ward.' Moreover, the Nebraska State legislature, in its 450+ page review and assessment of the reform initiatives, considered the Reform contracts to be 'global transfer contracts which are the most at-risk contracts.' Furthermore, the contracts were fixed-price contracts for which contractors were paid their*

full contracted fixed amounts regardless of the number of children served or services performed and little if any guidance was provided on how to accomplish the goals of the contract. This certainly meets the criteria for a subrecipient relationship as intended by A-133 Section 210."

Cause: The Agency believed the Reform Contractors more closely resembled vendors than subrecipients. In the prior audit, we brought to the Agency's attention that we believed the Reform Contractors to be subrecipients. The Agency met with the ACF in November 2011 to discuss the Agency's determination that the agreements with the Reform Contractors constituted a vendor relationship. The ACF did not make their determination until August 2012, so during State fiscal year 2012, the Agency continued to treat its Reform Contractors as vendors.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure it is adequately monitoring its subrecipients in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: As of July 1, 2012, DHHS has considered NFC a subrecipient. A letter was mailed to NFC on November 20, 2012, containing the information required to be given to a subrecipient. The letter also requires NFC to provide an A-133 audit on an annual basis.

Contact: Sara Goscha, Special Projects Coordinator

Anticipated Completion Date: November 20, 2012

Finding #12-25-36

Program: CFDA 93.659 – Adoption Assistance – Allowable Costs/Eligibility

Grant Number & Year: #1201NE1407, FFY 2012

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

Criteria: 42 USC § 675(3) (2011) requires the subsidized adoption agreement be signed. A good internal control plan requires an adequate segregation of duties. Agency policies require two individuals review and approve adoption agreements.

Per 42 USC § 671(a)(20)(B) (2011), the prospective adoptive parent(s) must have satisfactorily met a child abuse and neglect registry check.

Per 42 USC § 671(a)(20)(C) (2011), the prospective adoptive parent(s) must have satisfactorily met a criminal records check, including a fingerprint-based check.

Condition: Three of forty adoption payments tested did not comply with Federal requirements, and two adoption agreements were only signed by one employee. More than one type of error was noted for one of these forty payments.

Questioned Costs: $244 known

Context: We noted the following:

- For two payments tested, only one Agency employee signed the subsidized adoption agreement. When there is not a second employee reviewing the agreement, and noting that review by their signature, there is an increased risk of incorrect subsidy payments.

- For three payments 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 subsequently performed a registry check at the time of the audit and the adoptive parent for each payment was not on the child abuse and neglect registry.

- For one payment tested, the Agency did not have supporting documentation to show the prospective adoptive parent satisfactorily met a criminal background check, including a fingerprint based check.

Federal payment errors noted were $244. The total Federal sample tested was $6,250 and Federal Adoption Assistance payments for fiscal year 2012 were $10,006,538. The dollar error rate for the sample was 3.9% ($244/$6,250) which estimates the potential dollars at risk for fiscal year 2012 to be $390,255 (dollar error rate multiplied by population). There was a similar finding in the prior audit.

Cause: Ineffective review of case files.

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 all subsidized adoption agreements are reviewed and approved by both the worker and the supervisor. We further recommend the Agency maintain adequate documentation to support that fingerprint-based background and child abuse and neglect registry checks were performed for adoptive parents.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has internal controls to ensure adoption subsidy agreements have two signatures and background checks are completed by staff. The Agency will inform administrative and supervisory staff to review the internal control policies with case managers so these are followed. The Agency will continue to monitor.

Contact: Sara Goscha, Administrator I

Anticipated Completion Date: February 28, 2013

Findings #12-25-37

Program: CFDA 93.667 – Social Services Block Grant – Allowability

Grant Number & Year: #G1201NESOSR, FFY 2012; #G1101NESOSR, FFY 2011

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

Criteria: Title 45 CFR § 96.30(a) (October 1, 2011) 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 2-005.04B, 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 5-001.06, Maximum Rates and Allowable Units, states that chores should be charged at the Federal minimum wage. 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.

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 and providers 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.

Condition: We tested ten claims and noted seven of these did not comply with State and Federal regulations.

Questioned Costs: $232 known

Context: For seven claims tested, there was not adequate supporting documentation for the services provided and/or the rates paid were not in accordance with NAC regulations. A similar finding was noted in the prior audit.

- Five claims tested were not signed by the client as evidence of services received. Specifically, both adult day care claims tested, both meals delivered claims tested, and one transportation claim tested did not have this necessary approval. One of the meals delivered claims was additionally not signed by the provider.

- One claim tested was for a relative provider with no documentation that they would not perform the services at no cost. Additionally for this claim, the service needs assessment allowed for four hours and 25 minutes of chores per week, but the provider claimed and was paid for six hours of chores per week.

- One claim tested was authorized for five hours of chores per week, but was paid for ten hours of chores. The week of June 27 to July 1, 2011, claimed and was paid for five hours of chores on June 29, 2011, and five hours of chores on July 1, 2011. Additionally for this claim, the service needs assessment only allowed for laundry, but the client was receiving laundry, housekeeping, and shopping services.

- Five claims tested 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 2007, 2008, 2009, 2010, and 2011 audits. On December 30, 2011, the Agency submitted the revised NAC manual to the Secretary of State to begin the revision process. The Attorney General's office returned the revisions to the Agency on August 30, 2012, for a minor wording change, and as of January 25, 2013, the Agency had not yet made that minor wording change.

We noted the following rate discrepancies during our testing:

Claim Type Tested	**Maximum Allowable Rate**	**Rate Paid by Agency**	**Overpayment per Unit**
Chores (1 of 4 claims tested)	$7.25 per hour	$10.61 per hour	$3.36 per hour
Adult Day Care (Both tested)	$7.50 per day	$17.34 per day	$9.84 per day
Meals Delivered (Both tested)	$1.75 per meal	$5.36 per meal	$3.61 per meal

The total Federal sample tested was $366 and Federal errors for payments tested were $232. Social Services Block Grant Federal assistance payments for fiscal year 2012 totaled $2,059,005.

Cause: Inadequate oversight and regulations not updated.

Effect: Noncompliance with Federal and State regulations and inadequate approvals 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 properly approved. We further recommend the Agency implement procedures to update NAC regulations as needed.

Management Response: The Agency partially agrees with the condition reported. For the claim mentioned in the third bullet point, the provider was authorized for "chore" which includes cleaning, food preparation, housekeeping, laundry service, and personal care per 473 NAC Regulations.

Corrective Action Plan: In December 2011, the Agency implemented a quality assurance (QA) process to support random selection testing of SSBG cases. The QA reviews include claims testing for service validation and accuracy of the claims. The Agency will expand the current process to include verification of meal services provided. The Agency will provide guidance to local Resource Development staff and supervisors regarding the process to ensure the accuracy of service claims. The 473 NAC Regulations were approved by the Governor on February 21, 2013 with an effective date of February 26, 2013.

Contact: Heather Krieger, Administrator I

Anticipated Completion Date: June 30, 2013

Finding #12-25-38

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

Grant Number & Year: #051205NE5021, FFY 2012

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

Criteria: Title 45 CFR § 92.20 (October 1, 2011) 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. 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: We tested one quarterly CMS-64 report and noted the amount reported for CHIP aid did not agree to the State's accounting system, EnterpriseOne, due to issues with drug rebates, reductions, and regular aid. Reconciliation procedures were performed in total for the entire CMS-64 and not considered by program (Medicaid versus CHIP). Reconciliation procedures were performed in total and not considered by Federal and State funding sources.

Questioned Costs: Unknown

Context: There are three reasons why CHIP aid does not reconcile between the CMS-64 and EnterpriseOne:

- When the Agency records drug rebates on EnterpriseOne, the Agency performs an average historical split 94% of the rebates to Medicaid and 6% of the rebates to CHIP. They perform an average historical split because their Medicaid Drug Rebate (MDR) system does not identify whether drug rebates belong to Medicaid or CHIP. When the Agency compiles the CMS-64, they try to use a more accurate number by charging drug rebates to CHIP based on the proportion of total drugs paid from Medicaid and CHIP. The Agency is currently in the process of developing a new MDR system that will have the functionality to identify CHIP drug rebates. Then, the approximation will no longer be necessary. A journal entry was not performed to true up EnterpriseOne to what was reported on the CMS-64 for drug rebates during State fiscal year 2012.

- CHIP reductions are not reported for CHIP on the CMS-64. Total reductions are reported based on various categories (health insurance, casualty insurance, etc.). The Medicaid Management Information System (MMIS) automatically interfaces with EnterpriseOne to record reductions for both Medicaid and CHIP; however, since EnterpriseOne does not distinguish among the various categories (health insurance, casualty insurance, etc.), the Agency does not report separately for CHIP.

- All Medicaid MMIS expenditures are reported on the CMS-64 report. An MMIS sub-report is run to identify what portion of total expenditures is for CHIP. Per the Agency, the logic to create this report is flawed because aid per this report should match aid per EnterpriseOne, but it does not.

The variances for the quarter tested are as follows:

	EnterpriseOne	CMS-64	Variance
Drug Rebates	$ (901,281)	$ (1,006,639)	$ 105,358
Reductions	(119,794)	0	(119,794)
CHIP Aid	13,904,161	13,753,027	151,134
Totals	$ 12,883,086	$ 12,746,388	$ 136,698
Federal Share (multiply by 69.65%)			$ 95,210

If the Agency had performed a separate reconciliation for CHIP rather than reconciling for Medicaid and CHIP as a whole, they should have recognized the issues for reductions and CHIP aid. Additionally, reconciliation procedures were performed in total and not considered by Federal and State funding sources. Therefore, the reconciliation does not support if the Federal share reported agrees to Federal funds actually spent, or if State match requirements were met. The Agency's policy is to match each document paid to ensure requirements are met.

The Federal reporting error noted was $(95,210). The total Federal sample tested was $9,331,127 and total reported CHIP expenditures for fiscal year 2012 were $38,900,859. The dollar error rate for the sample was -1.02% ($(95,210)/$9,331,127) which estimates the potential dollars at risk for fiscal year 2012 to be $(396,789) (dollar error rate multiplied by population).

Cause: The Agency has not devoted resources to performing a separate reconciliation for CHIP or for separately reconciling State and Federal expenditures reported.

Effect: Without adequate reconciliation procedures there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency improve procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to EnterpriseOne. This reconciliation should be separate for each Federal program. This reconciliation should include a separate determination for Federal funds and State match.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will assemble a team to conduct a review of the current CMS-64 reconciliation process and procedures, which includes CHIP. The team will be led by the Agency's Internal Auditor. The team will review this finding and the auditor recommendations, the adequacy of the current reconciliation process, the feasibility of reconciling Federal and State funds separately, the adjustment process, as well as the CMS-64 report and reconciliation review process. The team will issue a written report to the Agency's Chief Operating Officer and Finance Administrator by March 31, 2013, detailing their conclusions and any recommendations.

Contact: Kim Collins, Program Analyst and Research Administrator

Anticipated Completion Date: March 31, 2013

Finding #12-25-39

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

Grant Number & Year: #051205NE5021, FFY 2012

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

Criteria: Title 42 CFR § 433.10 (October 1, 2011) provides for payments to states based on a Federal Medical Assistance Percentage (FMAP). Per 42 USC § 1397ee(a) (2011), the Federal match rate for child health assistance for targeted low-income children is the enhanced FMAP. The enhanced FMAP for Nebraska for Federal fiscal year (FFY) 2011 was 70.91% and the enhanced FMAP decreased to 69.65% for FFY 2012. A good internal control plan requires procedures be in place to ensure claims are paid at the proper enhanced FMAP rate.

Condition: The Agency paid $3,117,780 of FFY 2012 expenditures at the FFY 2011 enhanced FMAP rate resulting in questioned costs of $39,284.

Questioned Costs: $39,284

Context: The enhanced FMAP changed from 70.91% to 69.65% on October 1, 2011. However, MMIS did not start paying the correct enhanced FMAP until October 14, 2011.

Cause: The Agency changes the enhanced FMAP on MMIS at the same time it changes the funding source from the old grant to the new grant. The Agency did not change the funding source right at the beginning of the Federal fiscal year; they waited a couple weeks until the new grant award was received and entered into EnterpriseOne, the State's accounting system. The Agency neglected to go back and adjust the claims that were paid at the incorrect enhanced FMAP.

Effect: The incorrect enhanced FMAP was used to match Federal funds resulting in questioned costs of $39,284.

Recommendation: We recommend the Agency make an adjustment of $39,284 to its accounting records to correct claims not paid at the proper enhanced FMAP. We further recommend the Agency implement procedures to ensure all claims are paid at the proper enhanced FMAP and adjustments are made as appropriate.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The corrective action plan was to make an adjustment in the accounting system. The correcting journal entry posted October 18, 2012. On October 1, 2012, MMIS payment subsystem was modified to use the new FMAP in effect on that day.

Contact: Kim Collins, Program Analyst and Research Administration

Anticipated Completion Date: October 18, 2012

<u>Finding #12-25-40</u>

Program: CFDA 93.778 – Medical Assistance Program – Matching/Reporting

Grant Number & Year: #051205NE5MAP, FFY 2012; #051105NE5MAP, FFY 2011

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

Criteria: Title 45 CFR § 92.20 (October 1, 2011) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. Title 42 CFR § 433.10 (October 1, 2011) provides for payments to states, based on 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. Good internal control also requires adjustments and reconciling items be resolved in a timely manner.

Condition: Both of the CMS-64 reports tested did not agree to supporting documentation or had errors noted. Agency reconciliation procedures were performed in total and not considered by Federal and State funding sources. Reconciliation procedures need improvement as there were numerous errors noted. A similar finding has been noted in our prior Single Audit reports.

Questioned Costs: $98,560 Known

Context: Reconciliation procedures need improvement. We noted:

- The reconciliation was prepared for total Medicaid expenditures only, not separated by Federal funding and State match. Therefore, the reconciliation does not support that the Federal share reported agrees to Federal funds actually spent, or that State match requirements were met. The Agency's policy is to match each document paid to ensure requirements were met.

- The amounts for various developmental disability waivers are not reconciled each quarter. Per the Agency, these had not been reconciled since March 2011. Variances for the two quarters tested ranged from $(918,570) to $8,331. See additional information below.

- The reconciliation for the September 2011 quarter was not accurate and not adequately reviewed. On May 7, 2012, the Agency provided the September reconciliation to the auditor. On May 10, 2012, the auditor asked various questions regarding the September report and reconciliation including:

    - Why Personal Care Aid expenses did not agree to the general ledger. It appeared that one side of a journal entry was removed $(168,652).

    - The review of Medical Refunds and Cancellations was not correctly reported, as there were some cells where the formula was not correct. The Agency caught the error and corrected in the following quarter, however, per review of the reconciliation, the reporting error was $(1,613,475) but the auditor noted $(1,317,227). Why was there a difference?

    - The reconciliation showed line 7 adjustments of $(14,940,924) and $(1,562,162,800) which totals $(1,577,103,724) but the total line 7 adjustments per the report were $(1,579,903,014), a difference of $2,799,290, explain the difference and why it is not included on the reconciliation.

    - Please provide support for the $918,570 timing difference for the developmental disability waiver.

On June 13, 2012, the Agency provided the auditor with a revised reconciliation. The following items were changed:

Original Reconciliation	Agency Description	Revised Reconciliation	Dollar Change
$ 117,868	Reported in last qtr	$ (117,868)	$ 235,736
41,254	Reported in last qtr	(41,254)	82,508
3,562	State Share only. No need to report	(3,562)	7,124
1,685	SURS - No need to report	(1,685)	3,370
1,889	SURS - No need to report	(1,889)	3,778
(1,613,475)	Reporting error amount for refunds and cancellations - Will be corrected next qtr	(1,317,228)	(296,247)
-	Cancellation	45	(45)
-	Reductions for State Only Programs	36,224	(36,224)
$ (1,447,217)	Sum of items changed	$ (1,447,217)	$ -

An adequate review of the reconciliation should have noted the $(1,613,475) amount was not correct and that several items were listed as debits rather than credits. It also calls into question whether the amount for the reporting error was "plugged" to make the amounts balance.

On August 27, 2012, the Agency informed us they had completed the research for the $918,570 developmental disability waiver variance. The primary reason for the large variance between NFOCUS and EnterpriseOne was due to duplicate warrants issued on July 26 – 27, 2011. After we questioned the variance, the Agency made an adjustment of $525,124 (Federal share) on the September 30, 2012, quarterly report.

- The reconciliation for the March 2012 quarter was not accurate and not adequately reviewed. On June 21, 2012, the auditor asked various questions regarding the March report and reconciliation including:

"Your reconciliation starts with CMS-64 of $385,220,824 but per CMS-64 Summary Sheet the total aid reported was $385,220,711. Can you explain the difference and provide support." On August 29, 2012, the Agency provided the auditors with a revised reconciliation. The CMS-64 total was corrected and an additional reconciling item was included.

The following reporting errors were noted:

- Drug Rebates were reported as Medicaid or CHIP (Children's Health Insurance Program) based on estimated percentages rather than actual rebates received. A timing variance of $119,936 for the September 2011 quarter and $237,151 for the March 2012 quarter was noted.

- Personal care aid expenses were overstated by $168,652 (Federal Share $98,560 questioned costs) on the September 2011 report due to including the debit side of a journal entry but not the credit side. The reconciliation performed by the Agency did not detect this error. The reconciliation showed the $168,652 as a reconciling item, but it should not have been.

- Developmental disability waivers were understated on the September 2011 report as noted above.

Cause: The Agency has not devoted resources to separately reconciling State and Federal expenditures reported. Reconciliation errors noted were due to clerical errors and inadequate review.

Effect: Without adequate reconciliation procedures, there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency improve procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the State 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: The Agency will assemble a team to conduct a review of the current CMS-64 reconciliation process and procedures. The team will be led by the Agency's Internal Auditor. The team will review this finding and the auditor's recommendations, the adequacy of the current reconciliation process, the feasibility of reconciling Federal and State funds separately, the adjustment process, as well as the CMS-64 report and reconciliation review process. The team will issue a written report to the Agency's Chief Operating Officer and Finance Administrator by March 31, 2013, detailing their conclusions and any recommendations.

Contact: Kim Collins, Program Analyst and Research Administrator

Anticipated Completion Date: March 31, 2013

Finding #12-25-41

Program: CFDA 93.778 – Medical Assistance Program – Matching

Grant Number & Year: #051205NE5MAP, FFY 2012

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

Criteria: Title 42 CFR § 433.10 (October 1, 2011) provides for payments to states based on a Federal Medical Assistance Percentage (FMAP). The FMAP for Nebraska for Federal fiscal year (FFY) 2011 was 58.44% and the FMAP decreased to 56.64% for FFY 2012. A good internal control plan requires procedures be in place to ensure claims are paid at the proper FMAP rate.

Condition: The Agency paid $67,255,396 of FFY 2012 expenditures at the FFY 2011 FMAP rate resulting in questioned costs of $1,209,492.

Questioned Costs: $1,209,492

Context: The FMAP changed from 58.44% to 56.64% on October 1, 2011. However, the Agency did not start using the correct FMAP until October 14, 2011.

Cause: The Agency changes the FMAP on MMIS (Medicaid Management Information System) at the same time it changes the funding source from the old grant to the new grant. The Agency does not change the funding source right at the beginning of the Federal fiscal year; they wait a couple weeks until the new grant award is received and properly entered into EnterpriseOne, the State's accounting system. The Agency neglected to go back and adjust the claims that were paid at the incorrect FMAP.

Effect: The incorrect FMAP was used to match Federal funds resulting in questioned costs of $1,209,492.

Recommendation: We recommend the Agency make an adjustment of $1,209,492 to its accounting records to correct claims not paid at the proper FMAP. We further recommend the Agency implement procedures to ensure all claims are paid at the proper FMAP and adjustments are made as appropriate.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The corrective action plan was to make an adjustment in the accounting system. The correcting journal entry posted October 18, 2012. On October 1, 2012, MMIS and NFOCUS payment subsystems were modified to use the new FMAP in effect on that day.

Contact: Kim Collins, Program Analyst and Research Administrator

Anticipated Completion Date: October 18, 2012

Finding #12-25-42

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

Grant Number & Year: All open including #051205NE5MAP, FFY 2012

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

Criteria: 42 CFR § 455.1 (October 1, 2011) sets forth requirements for a State fraud detection and investigation program, including a method to verify whether services reimbursed by Medicaid were actually furnished to recipients. A good internal control plan requires procedures to ensure cases are reviewed and appropriate dispositions are made in a timely manner. The State Program Integrity Unit's own case review form requires cases to be worked in a timely manner.

Per Neb. Rev. Stat. § 84-710 (Reissue 2008),

> *"It shall be unlawful for any executive department… to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."*

Condition: A review of 1 of the 23 Medicaid cases referred to the Program Integrity Unit tested was not completed on a timely basis. For one case, a check for the full refund was received but was not deposited.

Questioned Costs: Unknown

Context: One case involving suspected provider fraud was opened in October 2011. The worker performed some procedures on the case in October 2011 and January 2012 and determined more reports needed to be run to determine the scope of the potential fraud. However, as of June 30, 2012, no further action had been taken on the case. Total fiscal year payments to the provider after the case was referred to the Program Integrity Unit were $28,183. A similar finding was noted in our 2010 audit.

For one case, the Agency identified $5,623 in overpayments from numerous claims and received a check from the provider on May 3, 2012. On June 26, 2012, they decided to auto-recoup the money in MMIS instead and that the Agency would mail the check back when all funds were paid back. They made this decision because applying the check to the numerous claims was going to be time consuming. We observed the check was still in the case file on August 3, 2012. We observed in MMIS that the provider still owed $17 as of that date. The Agency did not deposit this check timely to comply with State statute.

Cause: Per the Agency, they did not devote adequate resources to ensuring cases were worked in a timely manner. For the check not deposited, the Agency indicated they do not deposit until they are ready to apply to all claims.

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. When deposits are not made in a timely manner, there is an increased risk of noncompliance with State statute and loss of Federal funds.

Recommendation: We recommend the Agency review procedures to ensure cases referred to the Program Integrity Unit are reviewed and appropriate dispositions are made on a timely basis. We further recommend the Agency implement procedures to ensure compliance with State statute.

Management Response: The Agency partially agrees with the condition reported. In most situations, compliance with the statute requiring deposit of checks within seven days is possible; however, by the nature of Program Integrity investigations and interventions, there are multiple circumstances that preclude compliance with the statute.

Corrective Action Plan: The Program Integrity Methods & Procedures manual will be revised to include guidelines for the timely completion of a Program Integrity investigation. The new guidelines will be implemented for new cases opened as of January 1, 2013, and will be applied as possible for cases opened prior to that date. Program Integrity staff will also consult with other units within the Agency regarding a process to deposit checks in a holding account until the refunds can be posted to the claims.

Contact: Anne Harvey, Medical Services Unit Manager

Anticipated Completion Date: March 31, 2013

<u>Finding #12-25-43</u>

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051205NE5MAP, FFY 2012

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

Criteria: Per OMB Circular A-87, for costs to be allowable they must be necessary, reasonable, and adequately documented. Per Title 480 NAC 5-003(B)(5), "the services coordinator shall prior authorize waiver services for up to a 12-month period, based on the plan of services and supports and the results of ongoing monitoring activities." A good internal control plan requires procedures to ensure services do not exceed authorized limits. A good internal control plan also requires procedures be in place to ensure providers are not paid prior to service.

Condition: We tested five home-based claims for the aged and disabled waiver and noted one payment did not comply with Federal and State requirements.

Questioned Costs: $283 known

Context: For one payment tested, we noted the provider billed for 6 hours per day of childcare when the maximum authorized was 5.5 hours per day. The provider billed 6 hours per day the entire month tested. When a childcare claim reaches 6 hours per day, it goes from an hourly rate to a daily rate. The effect of an extra half hour claimed increased the reimbursement to the provider by $34 each day ($19 Federal share).

For the same claim, the service dates were January 4, 2012, through January 31, 2012. However, the billing document and attendance sheets were signed by the service coordinator, the provider, and the client on January 27, 2012, and paid on January 30, 2012. The provider billed for six hours of childcare on January 30 and on January 31.

Federal payment errors noted were $283. The total Federal sample tested was $3,414 and total home-based aged and disabled waiver payments for fiscal year 2012 were $22,000,777. Based on the sample tested, the case error rate was 20% (1/5). The dollar error rate for the sample was 8.29% ($283/$3,414) which estimates the potential dollars at risk for fiscal year 2012 to be $1,823,864 (dollar error rate multiplied by population). A similar finding was noted in our prior Single Audit reports.

Cause: Ineffective review by service coordinator.

Effect: When payment is made for unauthorized services, there is an increased risk for loss or misuse of funds. When payment is made before the service takes place, there is an increased risk of error or payment for services that did not actually occur.

Recommendation: We recommend the Agency implement procedures to ensure all aged and disabled waiver payments are adequately reviewed. This should include comparing billings to authorizations, and ensuring payment is not made prior to the service occurring.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency has completed training with all Aged and Disabled Waiver Services Coordination agencies regarding proper procedures for creating service authorizations and reviewing billings submitted by providers. This training was conducted in October 2012. Training materials were developed and distributed to all supervisors to use with current staff and future hired staff. The Agency stressed the training was developed to address audit findings, the consequences of service authorization and payments not matching, and the critical importance of billing review.
>
> In addition, on an on-going basis, the Agency directs a random sample supervisory review on a quarterly basis to measure all aspects of the quality improvement system, based on CMS required assurances for Home and Community Based Services (HCBS) waivers. The quality management electronic system includes two data elements to measure compliance in this area of concern: file indicated that claims corresponded with NFOCUS provider authorization and file indicated that claims corresponded with provider timesheets. 100% remediation of errors occurs.

Contact: Kay Wenzl, Administrator

Anticipated Completion Date: November 30, 2012

Finding #12-25-44

Program: CFDA 93.778 – Medical Assistance Program; ARRA – Medical Assistance Program – Allowability/Eligibility

Grant Number & Year: #051105NE5MAP, FFY 2011; #051205NE5MAP, FFY 2012

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

Criteria: OMB Circular A-87 states that to be allowable, costs must be adequately documented.

42 CFR § 435.916 (October 1, 2011) states, "The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months." A good internal control plan requires policies to ensure eligibility determinations are completed every 12 months.

Per Title 404 NAC 3-003.01B, "an individual is eligible for one of the adult home and community based services waivers if s/he…has documentation of a physical exam within the past 12 months or, if the exam is waived, has written documentation from his/her physician."

A good internal control plan requires procedures be in place to ensure services are authorized prior to the service date. A good internal control plan also requires procedures be in place to ensure service authorizations accurately reflect the intention of the worker, i.e. if the worker intends to authorize days in a year, they should not authorize as hours in a month.

Condition: We tested 25 claims for the developmental disabilities adult waiver and noted four payments did not comply with Federal and State requirements.

Questioned Costs: None

Context: During our testing, we noted the following (one payment had more than one type of error):

- For two payments tested, the service authorization was approved after the service date.

- For one payment tested, 20 hours of respite were authorized for the month but 24 hours were provided.
- For one payment tested, the annual redetermination was three months overdue.
- For one payment tested, the annual redetermination was nineteen months overdue and the annual physical exam was nine months overdue.

The total Federal sample tested was $28,357 and total Federal adult developmentally disabled waiver payments for fiscal year 2012 were $111,354,323.

Cause: Inadequate review and maintenance of records.

Effect: Without procedures to ensure payments are adequately supported and records maintained, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency review their policies to ensure compliance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In September 2011, an operational guideline for Completing and Routing a DD Service Authorization form DD-5 was developed and implemented. This policy, also referred to as an operational guideline, aligns the annual Individual Program Plan (IPP), annual waiver redetermination and prior authorization of services into the same time period and directs Service Coordination staff and Disability Services Specialists (DD waiver staff) and provides timelines for completing a service authorization.

Per 404 regulations, respite funding is limited to 30 days or 240 hours per the individual's waiver year, and the individual's unpaid family caregivers determine the amount of respite provided for each occurrence. However, due to constraints of NFOCUS, the maximum amount of respite is authorized on an annual basis but the total number of units is evenly distributed across twelve months. DD waiver files have been equally redistributed on a statewide basis between the Disability Services Specialists and the annual waiver redetermination is aligned with the annual IPP. The DD Service Coordinator initiates the annual waiver redetermination process, following the operational guideline for Completing and Routing a DD Service Authorization form DD-5.

An operational guideline for determining waiver eligibility was implemented in August 2011 and revised in October 2012. This policy identifies timelines for documentation, required information needed for annual waiver redetermination, responsibilities of staff, and action taken for overdue annual physical exams and waiver redeterminations.

Contact: Pam Hovis, Administrator I

Anticipated Completion Date: October 31, 2012

Finding #12-25-45

Program: CFDA 93.778 – Medical Assistance Program – Eligibility

Grant Number and Year: #051205NE5MAP, FFY 2012

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.

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…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 tested a journal entry, which transferred $135,024 ($77,891 Federal share) of managed care claims from the State-only medical program to Medicaid. We selected five individuals included in this journal entry and noted three recipients were not eligible for Medicaid. We also noted the summary schedule of prior audit findings did not properly represent the status of Finding #11-25-56. The summary schedule noted the corrective action was complete and ongoing.

Questioned Costs: $3,961 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 five-year bar. Nebraska 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 caseworkers, NFOCUS has logic built into the system, which determines whether recipients of Medical assistance are coded to Medicaid or State-only. The Agency uses the logic built into NFOCUS to determine which individuals are eligible for Medicaid.

We noted three of five recipients tested were not eligible for Medicaid. These recipients had been legal permanent residents for less than five years, were not pregnant women, and were not qualified alien children. A similar issue was noted in the prior year audit.

The total Federal sample tested was $7,891 and the Federal payment error noted was $3,961. This calculates to a dollar error rate of 50.2%. The total Federal share for the journal entry was $77,891, which estimates the potential dollars at risk to be $39,101 (total Federal share x dollar error rate).

Cause: The Agency could not determine the cause of the error.

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: Since February 2012, CFS Program Accuracy Specialists have utilized the Nebraska Economic Assistance Review System (NEARS) to conduct case reviews specific to Medicaid on a daily basis. The NEARS is used to monitor eligibility staff to ensure that Medicaid eligibility is determined correctly per Federal and State regulations. The NEARS data analysis identifies error trends to be addressed on a statewide level. Using this data, statewide weekly trainings for all eligibility staff have been developed. These trainings provide staff with review of Federal and State regulations. In response to the findings noted, immigration refresher training will be incorporated into these weekly trainings. This will be followed by targeted NEARS case reads to ensure effectiveness of the weekly training as well as focus on individual staff performance.

The journal entry tested during the audit was reversed on October 26, 2012. All recipients were reviewed again and a correcting journal entry was posted on November 8, 2012.

Contact: Kim Collins, Program Analyst and Research Administrator; Teri Chasten, Economic Assistance Policy Chief; and Catherine Gekas Steeby, MLTC Eligibility Administrator I

Anticipated Completion Date: April 1, 2013

<u>Finding #12-25-46</u>

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

Grant Number & Year: All open including #051205NE5MAP, FFY 2012

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

Criteria: Per 42 CFR § 447.253 (October 1, 2011),

> *"The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers." Per the Nebraska Medicaid State Plan, Appendix 4-19A § 10-010.03B8a, "Facilities will be subject to a preliminary and a final reconciliation of Medicaid payments to allowable Medicaid costs. A preliminary reconciliation will be made within six months following receipt by the Department of the facility's cost report. A final reconciliation will be made within 6 months following receipt by the Department of the facility's final settled cost report."*

Per the Nebraska Medicaid State Plan, Appendix 4-19A § 10-010.03A, Definitions, the following definition applies to payment for hospital inpatient services: "Base Year: the period covered by the most recent final-settled Medicare cost report, which will be used for purposes of calculating prospective rates."

Per Title 471 NAC 10-010.06, the effective date of the cost-to-charges ratio is the first day of the month following the Agency's receipt of the cost report.

A good internal control plan requires procedures to ensure a second individual be involved in the hospital cost reports process and that this involvement be adequately documented. Good internal control also requires audit results be reviewed to determine whether costs have been accurately reported and whether any payment adjustments are appropriate.

Condition: During our testing of hospital 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.

- For 6 of the 11 hospital cost reports tested, the cost reports were not reviewed timely and the new outpatient cost rate was not entered into MMIS timely.

- There was a lack of documented 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: Unknown

Context: The Agency uses several methods to determine rates for hospital inpatient and outpatient services. Inpatient rates are determined based on whether the hospital is designated a critical access or a non-critical access hospital. Being a critical access hospital is a special designation for approved rural hospitals. For these hospitals, inpatient rates are based on actual costs. For non-critical access hospitals, rates are determined based on which peer group the hospital is in (acute, rehabilitation, or psychiatric) and which service is provided. The base rates were determined based on a study performed by an independent contractor during State fiscal year 2009 and effective October 1, 2009, and the rates 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 1 of the 35 hospitals.

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 the 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 previous 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 twelve hospitals and noted the last audit received for the four critical access hospitals tested was 2005, 2006, or 2009, 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 amounts used in calculating hospital rates to determine if any adjustments are needed.

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, and making the adjustments in MMIS. Beginning in March 2012, a second individual became involved with calculating the rates; however, the preparation of the rates and approval of the rates was not adequately documented to ensure a segregation of duties over the process.

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 seven months late.

The Federal share of inpatient hospital payments for the fiscal year totaled $87,802,190; outpatient hospital payments totaled $37,059,980. A similar finding was noted in the three prior audits.

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. 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, or when segregation of duties 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. The Agency 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 and documents this review, 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 the condition reported.

Corrective Action Plan: The Agency will reallocate necessary resources to the hospital cost report process. In addition, the Agency will establish and monitor the submission of Medicare audited cost reports by hospitals. All adjustments and reconciliations will be done in a timely manner.

Contact: Kim Collins, Program Analyst and Research Administrator

Anticipated Completion Date: June 30, 2013

Finding #12-25-47

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

Grant Number & Year: All open including #051205NE5MAP, FFY 2012

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. The 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 a risk assessment is performed on long-term care facilities and those considered to be high risk are field audited in order to maintain the integrity of Medicaid.

Condition: We noted the Agency performed only one field audit on long-term care facilities during the last three years.

Questioned Costs: Unknown

Context: One field audit was completed in September 2011 for the fiscal year ended 2010. The last field audit previous to this was completed in July 2008 for the fiscal years ended 2005 and 2006. That means only one field audit was performed in the last three fiscal years. We tested 25 desk audits and noted none of the desk audits indicated a field audit needed to be performed. It does not appear an overall risk assessment was performed. A similar finding was noted in the prior audit.

Cause: The Agency did not devote adequate resources to perform field audits. More field audits were performed in years when there were four audit staff members; now there are only two audit staff members.

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 completed, would determine there was only one cost report requiring a field audit in the past three years. When facilities do not have periodic field audits, there is an increased risk for submitted cost reports to contain errors or fraud.

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 does not agree with the condition reported. 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.
>
> **Corrective Action Plan:** 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 determination will be made whether to devote resources to perform the field audits.
>
> **Contact:** Kay Wenzl, Administrator
>
> **Anticipated Completion Date:** N/A

APA Response: The Agency paid over $315 million to nursing facilities for Medicaid in fiscal year 2012 ($179,908,033 Federal funds and $135,428,418 State funds). Such significant expenditure of resources requires strong procedures to

ensure rates paid are proper and to reduce the risk for fraud or errors to occur. On-site audits allow auditors to examine original documents and to verify controls are in place. Per AICPA Professional Standards AU Section 326.08,

> ***"Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control)…Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles."***

We continue to recommend the Agency complete its risk assessments of long-term care facility cost reports, and ensure periodic field audits are performed.

<u>Finding #12-25-48</u>

Program: CFDA 93.778 – Medical Assistance Program – Allowable Costs/ Eligibility

Grant Number & Year: All open including #051105NE5MAP, FFY 2011; #051205NE5MAP, FFY 2012

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

Criteria: States are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by the Centers for Medicare and Medicaid Services (CMS). The MEQC system redetermines eligibility for individual sampled cases. However, most states including Nebraska are operating MEQC pilot programs 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, 2011) "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-87, Appendix A, Part C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria…a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards…[and] j. Be adequately documented." OMB Circular A-133 § 300(b) states the auditee shall "maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

A letter dated March 1, 2011, from the Federal Department of Health and Human Services – Division of Medicaid and Children's Health Operations approved the MEQC pilot program. The letter stated Nebraska must have a system to assess:

> *"whether Transitional Medical Assistance (TMA) cases are being closed no later than the end of the 12th month of eligibility, as the medical assistance must either be closed or the eligibility be re-determined under another Medicaid program to avoid the State paying for medical services to which the client was not entitled."*

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 QC Unit case reviews were reviewed by a QC Supervisor in a timely manner and to ensure findings were followed up on by caseworkers to make sure they were corrected. A similar finding was noted in the prior audit.

Questioned Costs: $6,312 Known

Context: As part of the State's Medicaid pilot program, the QC Unit reviewed a sample of 504 cases for the year. The Agency determined 291 cases reviewed were acceptable and 213 cases were determined to be incorrect, and the TMA case was not closed at the end of the 12th month of TMA eligibility. The results of these reviews, both acceptable and incorrect, were entered into a database for a QC supervisory review and forwarded to the Agency's Central Office. The Central Office managers worked with the responsible caseworker for appropriate corrective action, if necessary.

During our testing of 25 QC cases, we noted the following:

- For nine cases tested, the QC supervisory review was not timely. The delays ranged from 79 to 175 days. We also noted one of these cases was not forwarded to the Central Office in a timely manner; it was nearly seven weeks before it was forwarded.

- For two cases tested, the corrective action by the Central Office and caseworkers was not timely. The delays ranged from 101 up to 129 days.

For the eleven cases noted above, we identified eight individuals had medical claims paid to providers on their behalf after the TMA benefits should have ended. Agency policy does not require the recoupment of costs when due to Agency error; however, using Federal funds to pay ineligible claims is not an allowable use of funds. The following table summarizes the claims paid:

Date Eligibility Should Have Ended	Claims Paid After TMA Eligibility Period	# of Claims	Federal Share of Claims Paid
08-31-2011	9-1-2011 to 9-28-2011	22	$ 2,975
10-31-2011	11-1-2011 to 1-16-2012	6	461
10-31-2011	11-1-2011 to 1-31-2012	14	304
10-31-2011	11-1-2011 to 11-29-2011	4	125
11-30-2011	12-1-2011 to 1-1-2012	4	5
11-30-2011	11-1-2011 to 3-1-2012	12	567
01-31-2012	2-1-2012 to 4-1-2012	3	444
09-30-2011	10-1-2011 to 3-1-2012	17	1,431
			$ 6,312

Cause: The Agency was in the process of developing the procedures for notifying and correcting the QC findings during the fiscal year and did not complete them until January 31, 2012. When the procedures were developed, they did not appear to include specific timeframes for QC supervisory reviews or follow up by the Central Office.

Effect: When corrective action is not taken timely, 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 timely and appropriate corrective action is taken on all findings noted by the QC Unit. We further recommend the Agency implement procedures to ensure TMA are closed no later than the end of the 12th month of eligibility.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Quality Control has implemented a policy to ensure that MEQC findings will be provided to MLTC and CFS within forty-five days. In addition, Quality Control has implemented a policy of supervisory reviews to ensure Quality Control findings are accurate before reporting the findings to MLTC and CFS.

The CFS Program Accuracy Specialist Unit has strengthened their relationship with Quality Control and has assumed the responsibility of Quality Control error corrections. This includes correcting the case identified by the Quality Control Unit and providing individual follow up with the Social Service Worker who was responsible for the error. In response to the findings noted related to TMA, at this time NFOCUS creates a Work Task to alert staff to act on cases needing closure after 12 months. A new report will be created to identify TMA cases that have reached 12 months. Eligibility staff will review this report to ensure the timely closure of TMA cases.

MLTC has implemented a process in partnership with the CFS Program Accuracy Specialist Unit to ensure that MEQC error findings are reviewed and corrected in a timely manner and that CFS reports to MLTC on any cases found in error.

Contact: Robert Semerena, Public Health Administrator; Teri Chasten, Economic Assistance Policy Chief; Catherine Gekas Steeby, MLTC Eligibility Administrator I

Anticipated Completion Date: March 1, 2013

Finding #12-25-49

Program: CFDA 93.778 – Medical Assistance Program – Allowable Costs/ Subrecipient Monitoring

Grant Number & Year: All open including #051205NE5MAP, FFY 2012

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…(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records…(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, 2011) 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, administration payments received from subrecipients were not properly accounted for.

Questioned Costs: $272,583 Known

Context: The Medicaid School-Based Administrative Claiming Guide provided by the Centers for Medicare and Medicaid Services states,

> *"The school setting provides a unique opportunity to enroll eligible children in the Medicaid program, and to assist children who are already enrolled in Medicaid to access the benefits available to them. Medicaid, a joint state-federal program, offers reimbursement for both the provision of covered medical services and for the costs of administrative activities, such as outreach, which support the Medicaid program."*

The Agency has contracts with two consortiums, which distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by each school to enroll and assist children in Medicaid. The Agency reviews the claims to ensure the correct indirect cost rates and Medicaid Eligibility Rates are used; however, the Agency does not perform procedures to ensure total expenditure amounts claimed are correct.

The Agency paid a total of $17,108,591 in Federal funds to the Nebraska Medicaid School Consortium and the Nebraska Association of School Boards (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 [the Agency] 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 2012, the Agency received $510,688. 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 $255,344; however, it was not credited to the Medicaid grant.

In addition, each year the Agency gets a letter from the Nebraska Department of Education (NDE). The NDE reviews all school district and Educational Service Unit audit reports and informs the Agency of any findings related to programs administered by the Agency. The NDE identified three school districts with problems related to Medicaid. All three findings appeared to be related to the overpayment of Federal funds due to the duplication of costs. The letter was sent from NDE to the Agency on March 12, 2012. On March 26, 2012, the Agency sent a follow up letter to the NASB Medicaid Consortium (since the three school districts belonged to that consortium) and requested the Consortium to follow up and work with the Agency if adjustments to payments were needed. As of August 15, 2012, the Agency had not heard back from the Consortium and had not performed any further action to resolve the issue. This is not timely follow up of this issue. Total questioned costs identified for the school districts were $17,239.

A similar finding has been noted in each Single Audit since State fiscal year 2008.

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. The Agency should perform timely follow up on any audit findings.

Management Response: The Agency partially agrees with the condition reported. The 3% Administrative Fee received by Nebraska Medicaid and Long-Term Care is not program income. First, the Fee is collected as a matter of statutory duty. Secondly, pursuant to 45 CFR Subtitle A § 92.25(d), governmental revenues such as "special assessments…and other such revenues raised by a grantee or subgrantee are not program income unless the revenues are specifically identified in the grant agreement" between Nebraska and CMS, which they are not in this instance.

Corrective Action Plan: In regards to the issue of resolution of findings, the Agency initially acted in a timely manner to NDE's notification on March 12, 2012, by following up with the NASB Medicaid Consortium on March 26, 2012. However, the Agency did not sufficiently pursue recoupment of the overpayment. The Agency will implement procedures to ensure that findings and incorrect payments are resolved in a timely manner.

Contact: Tim Curtis, Office Manager

Anticipated Completion Date: March 31, 2013

APA Response: The 3% payment is not a special assessment. Typical special assessments are levies for capital improvements such as streets, sidewalks, and sewers. Title 45 CFR § 92.25(d) states, "Taxes, special assessments, levies, fines, and other such revenues raised by a grantee or subgrantee are not program income unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income." ***Governmental Accounting, Auditing, and Financial Reporting*** **(GAAFR) defines special assessment as a**

"compulsory levy made against certain properties to defray all or part of the cost of a specific capital improvement or services deemed to benefit primarily those properties." The 3% payment is a contractual condition and not a tax, special assessment or levy. As the services provided by the Agency would have also been charged as administrative costs, 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 #12-25-50

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: All open including #051205NE5MAP, FFY 2012

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

Criteria: Per a letter from CMS to the Agency on May 2, 2011,

> *"the Nebraska Medicaid program was covering durable medical equipment (DME) services under the home health benefit for residents of nursing facilities (NF) and intermediate care facilities for persons with mental retardation (ICF/MR) and was paying DME providers directly for these services on a fee-for-service basis…DME is only covered under the Medicaid program as a component of the home health service…Per 42 CFR 440.70(c) (October 1, 2011), the definition of home is 'a recipient's place of residence, for home health services, does not include a hospital, nursing facility, or intermediate care facility for the mentally retarded.'…Therefore, DME cannot be provided to nursing facility residents…Nursing facilities are responsible to provide for all of a resident's needs and the need for many types of medical equipment are clear in the plan of care. Whether or not the State reimburses the nursing facilities specifically for these necessary costs is up to the State. But if the State wishes to continue to reimburse for medical equipment for NF residents, and receive FFP [Federal Financial Participation], the medical equipment must be provided as part of the NF service benefit and reimbursed through the NF reimbursement rate methodology."*

Condition: We noted the Agency was paying claims for durable medical equipment (DME) directly to DME providers when the recipients lived in a nursing facility or ICF/MR, which is not allowable per Federal regulations.

Questioned Costs: $1,074 known

Context: On May 2, 2011, CMS notified the Agency that they were in noncompliance with Federal regulations regarding DME. DME (such as oxygen systems, crutches, etc.) can be paid on behalf of the nursing facility and ICF/MR residents; however, the payment for these services must be made to the nursing facility provider. In the past, and throughout State fiscal year 2012, the Agency had been paying DME directly to the providers of the DME. Payment for DME is allowable under Medicaid; the noncompliance related to the fact that the Agency was not paying the correct provider.

We selected 25 claims for testing and for the individuals selected we reviewed all claims to determine whether any claims were paid for DME when the client was residing in a nursing facility. We noted one individual with DME claims. A total of $1,074 Federal share was paid inappropriately to the DME provider.

The total Federal share of DME paid for service dates during State fiscal year 2011 (the most current and complete data available) was $4,781,301.

Cause: The Agency was not in compliance during SFY 2012; however, they were working on getting into compliance. The Agency is in the process of implementing a system change request (SCR) to MMIS. The additional cost incurred by the nursing facilities will be included in their cost reports and included in their calculated per diem rates. Several DME types, specific high-end wheelchairs and specific high-end hospital beds, are being excluded from the per diem and will be handled on a per-client basis. However, payment for these will still be made to the nursing facility provider to comply with Federal regulations.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure no DME costs are paid directly to DME providers on behalf of individuals residing in nursing facilities or ICF/MR's.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has approved the SCR needed to correct this issue. Staff with MLTC and MMIS business and technical staff are working to effectuate changes in the MMIS to accommodate this requirement. The Agency will include negative pressure wound vacuums as excluded from the per diem payment and will handle reimbursement on a per-client basis.

Contact: Kay Wenzl, Administrator

Anticipated Completion Date: July 1, 2013

Finding #12-25-51

Program: CFDA 93.994 - Maternal and Child Health (MCH) Services Block Grant to the States – Allowability

Grant Number & Year: #1311B1NEMCHS, FFY 2011

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

Criteria: 42 USC § 704(a) states:

> *"Except as otherwise provided under this section, a State may use amounts paid to it under section 703 of this title for the provision of health services and related activities (including planning, administration, education, and evaluation and including payment of salaries and other related expenses of National Health Service Corps personnel) consistent with its application transmitted under section 705(a) of this title."*

OMB Circular A-133 Compliance Supplement Part 4, CFDA 93.994 (June 2012) states:

> *"Specifically, MCH Block Grants are intended to: (1) provide and assure mothers and children (especially those with low income or limited availability of services) access to quality maternal and child health services; (2) reduce infant mortality and the incidence of preventable diseases and disabling conditions among children; (3) reduce the need for inpatient and long-term care services; (4) increase the number of children appropriately immunized against disease and the number of low-income children receiving health assessments and follow-up diagnostic and treatment services; (5) promote the health of mothers and infants by providing prenatal, delivery, and postpartum care for low-income, at-risk pregnant women; (6) promote the health of children by providing preventive and primary care services for low-income children; (7) provide rehabilitation services for blind and disabled individuals under sixteen years of age receiving benefits under Title XVI of the Social Security Act (Supplemental Security Income) to the extent medical assistance for such services is not provided under Title XIX (Medicaid); and (8) provide and promote family-centered, community-based, coordinated care for children with special health care needs and to facilitate the development of community-based systems of services for those children and their families."*

OMB Circular A-87 Attachment A, Section C(1)(a), requires costs under Federal awards to be, among other things, "necessary and reasonable for proper and efficient performance and administration of Federal awards." A good internal control plan includes procedures to ensure expenditures are allowable for the Federal program.

Condition: The Agency approved a subgrant for $85,400 that was not in accordance with the purposes of the Maternal and Child Health Services (MCH) Block Grant to the States.

Questioned Costs: $32,500

Context: The Agency approved a subgrant to another agency of the State of Nebraska for $85,400. The subgrant was titled "Sovereign Nation Youth Leadership Project." The focus of the project was to train the next generation of youth tribal leaders. All of the expenditures tested were for leadership activities, per the subgrant; however, because they were not for objectives of the MCH Block Grant, those expenditures were not allowable, per Federal regulations. Expenditures tested included:

- Twenty camcorders for tribal youth to record personal experiences assessing community needs and what being a leader in a tribal community means;
- Purchase of two laptop computers;
- Payment for website development;
- Expenses of a field trip to the Platte River Whooping Crane Trust and Pawnee Art Gallery for the youth leadership group, including speaker expenses;
- Expenses of a Kick-Off Camp in Lincoln for youth leadership, including hotel expenses and costs of services to conduct the Camp.

Total Federal grant expenditures paid by the Agency to the subgrantee for the fiscal year were $32,500.

The Agency stated the project was allowable per the MCH State Plan under priority #2 "improve the reproductive health of youth and women by decreasing the rates of STD's and unintended pregnancies" and priority #7 "reduce alcohol use and binge drinking among youth." After the APA questioned the expenses noted, the Agency contacted their Federal program consultant who emailed, "While Title V provides funding for MCH activities, the State has primary responsibility for interpreting the governing statutory provisions. While States may reach different interpretations of the same statutory language, this approach is consistent with the intent of the statutory authority for the block grant programs. In resolving any issues that might be raised as a result of an audit or complaint, the Department [Agency] would defer to a State's interpretation of its assurances and of the provisions of the block grant statutes, as long as their intent was to serve MCH populations."

The MCH State Plan did not specifically address the use of funds for leadership training as current or planned activities. Also, the field trips noted above did not have any discussion of STDs, unplanned pregnancies or alcohol use in the agendas. As no health care services or health care education was provided, the Agency was not in compliance with 42 USC § 704(a).

Cause: Agency staff indicated they considered this project to be preventive health care.

Effect: When grant expenditures and the objectives of the subgrant do not meet the objectives of the program, the grant is not in compliance with Federal requirements.

Recommendation: We recommend the Agency implement procedures to ensure MCH expenditures are in accordance with 42 USC § 704(a).

Management Response: The Agency does not agree with the condition reported. Based on communications the Agency has had with the Federal Awarding Agency and the broad objectives allowable under the Title V MCH Block Grant, the Agency believes this subgrant is in accordance with the purposes of the Federal grant. The Agency was informed that the Auditor had contacted HHS OIG regarding this finding and the Auditor was informed that this finding was a valid finding. Since a representative from the Agency or the Federal Awarding Agency was not present, the Agency is unclear what level of detail was provided to the OIG. It appears this finding is a result of a difference of interpretation between the Federal Awarding Agency and OIG regarding the purpose of this Federal grant. A corrective action plan to mitigate this type of finding is unwarranted and impractical for the Agency.

Corrective Action Plan: N/A

Contact: Rayma Delaney, Federal Aid Administrator

Anticipated Completion Date: N/A

Finding #12-25-52

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

Grant Number & Year: #5U58DP001421, period ending 6/29/2012; #5U58DP001978, period ending 3/28/2012; #5U58DP000811, period ending 6/29/2012

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

Criteria: OMB Circular A-87 requires that costs charged to Federal programs be adequately documented and conform to the limitations set forth in A-87. OMB Circular A-87 further 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 adequate procedures to ensure payments are only made for services rendered.

Condition: Three of the five contract payments tested were not adequately supported.

Questioned Costs: $36,704 known

Context: We tested 26 operating and aid expenditures. Five of the 26 were for contractual services payments and three of the five did not have adequate supporting documentation.

- One contract for case management services stated, "payments to be made based on monthly cost center deliverables. Monthly invoice must breakdown costs for personnel, communication and miscellaneous costs including monthly status report per region." The amount billed each month was the project's budgeted costs for the year divided by 12. The invoice did not include a breakdown of costs and there was no monthly status report on file. The payment tested was for $3,287 and the total paid to the contractor during the fiscal year was $62,243.

- A second contract tested for case management services also did not have monthly status reports as required. The amount billed each month was the project's budgeted costs for the year divided by 12. The amount tested was for $222, the total payment was $3,417, and the total paid to the contractor during the fiscal year was $37,582. We further noted these payments were allocated 75% to the Breast and Cervical Cancer grant and 25% to the Wisewoman grant; but the Agency did not have documentation to support this allocation.

- A third contract tested was for Adult Tobacco Social Climate surveys at $16.60 per survey. For the payment tested, the invoice was for six months and the amount billed was the contract cost divided by 2. There was no documentation that any surveys had been received. The payment tested was for $33,195 and the total contract was $66,390.

In all three cases, there was inadequate documentation to support contract deliverables were received.

Federal payment errors noted were $36,704. The total Federal sample tested was $134,844 and total Federal CDC program expenditures, excluding payroll, subrecipient payments, and Essential Services, for fiscal year 2012 were $5,184,380. Based on the sample tested, the case error rate was 12% (3/26). The dollar error rate for the sample was 27.22% ($36,704/$134,844) which estimates the potential dollars at risk for fiscal year 2012 to be $1,411,188 (dollar error rate multiplied by population). The total Federal sample tested related to contractual services was $48,416 and total Federal CDC program expenditures for contractual services for fiscal year 2012 were $2,966,138.

Cause: Ineffective review.

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

Recommendation: We recommend the Agency implement procedures to ensure contract payments are in accordance with contract provisions, deliverables are received before payment, and adequate supporting documentation is maintained.

Management Response: The Agency partially agrees with the condition reported. The Agency believes that the approved grant application documents the allocation of expenditures between the Breast and Cervical Cancer grant and the Wisewoman grant.

Corrective Action Plan: The Agency will review current procedures to ensure contract payments are in accordance with contract provisions, deliverables are received prior to payment, and that supporting documentation is maintained to support expenditures.

Contact: Melissa Leypoldt, Program Manager

Anticipated Completion Date: June 30, 2013

Finding #12-25-53

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

Grant Number & Year: All open grants including #5U58DP001978, period ending 3/28/2012

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 the Federal awards it makes…(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."*

A good internal control plan requires procedures to ensure subrecipients' reimbursements are for actual, allowable costs, in accordance with applicable cost principles.

Condition: Subrecipient monitoring was not adequate to ensure payments were allowable.

Questioned Costs: $149,934 known

Context: We tested seven payments to subrecipients. We noted the Agency did not obtain documentation to ensure expenditures were for actual, allowable costs. The Agency receives reimbursement requests from the subrecipients; however, no invoices or detailed supporting documentation is attached. Site visits were performed for two of the subrecipients during the fiscal year; however, these visits did not include financial monitoring such as verification of the costs claimed for reimbursement. The subawards tested were for the Nebraska Chronic Disease Prevention and Health Promotion Program, Nebraska Cancer Prevention and Control Program, Epidemiology and Laboratory Capacity, and Nebraska Physical Activity and Nutrition: Promoting Healthy Weight and Preventing Chronic Disease.

Total payments tested were $149,934. The program had 29 subrecipients, with payments totaling $897,581 during the fiscal year.

Cause: The staff was unaware that costs should be verified.

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

Recommendation: We recommend the Agency implement procedures to ensure subrecipient payments are for actual, allowable costs.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will establish procedures to ensure subrecipient payments are for actual and allowable costs.

Contact: Judy Martin, Program Administrator

Anticipated Completion Date: May 30, 2013

<u>Finding #12-25-54</u>

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

Grant Number & Year: #5U58DP000811, period ending 6/29/2010

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

Criteria: Per OMB Circular A-87, costs must be reasonable, necessary, accorded consistent treatment, and adequately documented.

Condition: Adequate documentation was not available to support payments made to providers for Essential Services.

Questioned Costs: $250,000

Context: Essential Services payments are one-time payments each fiscal year to providers of clients enrolled in the Every Woman Matters program. The payment is considered an administrative fee for the provider's work to complete the required paperwork for their patients and to carry out case management activities.

The amount of the payment was determined by the volume of clients served during the year by each clinic. The payment tested was for funding year 2009-2010, with Essential Services payments totaling $250,000. Clinics serving less than 15 clients each received $0; those serving 15-50 clients each received $638; those serving 51-100 clients each received $4,375; and those serving greater than 100 clients each received $8,333.

The Agency did not have documentation to support the providers had actually incurred costs for Essential Services payments.

Cause: Documentation was not adequate to support payments were for actual costs incurred by the providers.

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

Recommendation: We recommend the Agency maintain adequate supporting documentation for all expenditures to ensure that payments made to providers are for actual costs incurred.

> **Management Response** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The 2009-2010 essential services payout was the final year in which the program intends to reimburse clinical providers for uncompensated essential services as defined by the CDC. Since these payments will not be provided in the future, a corrective action plan is not needed.
>
> **Contact:** Melissa Leypoldt, Program Manager
>
> **Anticipated Completion Date:** N/A

Finding #12-25-55

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

Grant Number & Year: #5U58DP001421, period ending 6/29/2012

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." Per Neb. Rev. Stat. § 4-108 (Reissue 2012), "notwithstanding any other provisions of law, unless exempted from verification under section 4-110 or pursuant to federal law, no state agency or political subdivision of the State of Nebraska shall provide public benefits to a person not lawfully present in the United States." The statute further requires, "every agency or political subdivision of the State of Nebraska shall verify the lawful presence in the United States of any person who has applied for public benefits administered by an agency or a political subdivision of the State of Nebraska." A good internal control plan requires procedures to ensure recipient citizenship is adequately documented.

Condition: Citizenship status was not adequately documented or verified.

Questioned Costs: $92 known

Context: We tested 25 recipients for eligibility and noted the Agency did not adequately verify the lawful presence of two applicants tested. We noted one recipient tested answered "no" to the citizenship question on the application. Another recipient tested stated she was a qualified alien, but the Agency did not verify that status. Federal payments for these two recipients totaled $92. Total aid payments for Wisewoman and National Breast and Cervical Cancer Early Detection Programs for fiscal year 2012 were $1,919,033.

Cause: The Agency requires the applicant to report whether she is a U.S. citizen or a qualified alien. If an applicant claims qualified alien status, she is to provide documentation to support that status. The Agency did not obtain the necessary documentation to verify qualified alien status.

Effect: Ineligible recipients could receive program benefits.

Recommendation: We recommend the Agency implement procedures to ensure eligibility determinations are adequately documented and verified.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Effective July 1, 2009, all new enrollees must sign an attestation statement and provide appropriate documentation to confirm qualified alien status in accordance with the guidance of DAS and their interpretation of NRS Section 4-108. Effective July 1, 2012, all clients who apply for additional clinical services must sign the attestation statement and provide appropriate documentation to confirm qualified alien status.

Contact: Melissa Leypoldt, Program Manager

Anticipated Completion Date: July 1, 2012

Finding #12-25-56

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

Grant Number & Year: Various, including #1U50CK000273, period ending 12/31/2012

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

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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 sub-award to an entity (see definitions in paragraph e. of this award term)."*

2 CFR § 170 Appendix A § I.a.2. states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. For sub-award 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.)"*

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 requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: The Agency did not complete any reports, as required by the Federal Funding Accountability and Transparency Act (Transparency Act), for the program during the fiscal year ended June 30, 2012.

Questioned Costs: None

Context: During the fiscal year, there were eight subrecipients that received $25,000 or more in Federal funds, totaling $512,428.

Cause: Agency personnel previously responsible for Transparency Act reporting experienced a change in job responsibilities and the reporting responsibilities were not reassigned.

Effect: Noncompliance with Federal regulations, which could result in sanctions by the Federal government

Recommendation: We recommend the Agency complete the required Transparency Act reporting. We further recommend the Agency implement procedures to ensure that all required reporting is properly completed in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will complete all reporting for the Federal Transparency Act and will follow a procedure to ensure reporting is completed according to the Federal requirements.

Contact: Willard Bouwens, Financial Services Administrator

Anticipated Completion Date: March 31, 2013

<u>Finding #12-25-57</u>

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

Grant Number & Year: #5U58DP001978, period ending 3/28/2012; #5U58DP000811, period ending 6/29/2011

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

Criteria: Per 45 CFR § 92.24(b)(6) (October 1, 2011),

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

Per 45 CFR § 92.20(a) (October 1, 2011), fiscal control and accounting procedures of the State must be sufficient to permit the preparation of required reports. A good internal control plan requires procedures to ensure match amounts are adequately supported.

Condition: The in-kind match for the Healthy Community and the Diabetes portion on the Nebraska Chronic Disease Prevention and Health Promotion was not adequately supported. Additionally, no supporting documentation was available for the Cancer Prevention and Control Program 2011 grants.

Questioned Costs: Unknown.

Context: The Agency partners with various contractors and volunteer organizations to provide education and training. The Agency obtains emails from those partners listing their costs, which are used as third party in-kind match.

Required match for the Healthy Community portion of the Nebraska Chronic Disease Prevention and Health Promotion was $89,196. The Agency reported $75,863 in match, but did not have any documentation to support the reported or required match.

In-kind match and total match of $233,597 was reported for the Diabetes portion of the Nebraska Chronic Disease Prevention and Health Promotion grant. The required match was $217,825. We tested $80,148 of the total and noted $71,148 of this did not trace to adequate supporting documentation. The Agency's documentation consisted of emails from its partners listing the donated costs. The Agency did not verify the costs were allowable.

The Agency was also unable to provide any supporting documentation for the Cancer Prevention and Control Program annual report for the period ending June 29, 2011, which had expenditures in State fiscal year 2012, and was filed January 2012. Because no supporting documentation was available, we were unable to tie amounts on this report to the State's accounting system. A variance of $120,156 was noted between the Federal report and the State's accounting system. Total Federal expenditures reported were $3,418,892 and per the State accounting system total Federal expenditures were $3,298,738.

Cause: Unknown

Effect: Increased risk match requirements will not be met, which could lead to Federal sanctions.

Recommendation: We recommend the Agency document the support for the rates used to calculate in-kind match and maintain adequate support for all values included in the calculation of in-kind match. Additionally, supporting documentation should be kept on file for all completed reports.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will maintain documentation detailing the calculation of in-kind matching dollar values and validation of the amount of match provided by in-kind contributors.

Contact: Judy Martin, Program Administrator

Anticipated Completion Date: June 30, 2013

MILITARY DEPARTMENT

Finding #12-31-01

Program: CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) – Reporting

Grant Number and Year: #FEMA-1945-DR-NE, FFY 2011; #FEMA-4013-DR-NE, FFY 2011; #FEMA-4014-DR-NE, FFY 2011

Federal Grantor Agency: U.S. Department of Homeland Security

Criteria: 2 CFR § 170.320 (January 1, 2012) 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 (January 1, 2012) 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. (January 1, 2012) states,

> *"i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. 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.)"*

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 policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: The Agency did not complete any reports, as required by the Federal Funding Accountability and Transparency Act (Transparency Act), for disasters declared on or after October 1, 2010, for the Public Assistance Disaster Grant program.

Questioned Costs: None

Context: The State was awarded funds for three Presidentially Declared Disasters which were declared on or after October 1, 2010. These disasters included:

Disaster	Declared	Description
#1945	October 2010	Severe storms, flooding, tornado, and straight-line winds September 13 – 14, 2010
#4013	August 2011	Flooding during the period of May 24, 2011, through August 1, 2011
#4014	August 2011	Severe storms, tornadoes, straight-line winds, and flooding on June 19 – 21, 2011

Applicants submit a Request for Public Assistance from the Nebraska Emergency Management Agency (NEMA), which is the grantee of the Federal funds. Once approved by the Federal Emergency Management Agency (FEMA) and NEMA, applicants are awarded subawards to complete eligible projects.

We noted no Transparency Act reporting for the following:

- Disaster #1945 had four subrecipients with a total amount of $2,093,440 subawarded as of June 30, 2012. Subaward amounts ranged from $28,340 to $1,686,851. Of these four subawards, none of the obligations had been reported under the Transparency Act requirements as of February 2013. Initial due dates for reporting ranged from January 31, 2011, to April 30, 2012.

- Disaster #4013 had 52 subrecipients with a total of $34,743,509 subawarded as of June 30, 2012. Subaward amounts ranged from $26,641 to $11,990,186. Of these 52 subawards, none of the obligations had been reported under the Transparency Act requirements as of February 2013. Initial due dates for reporting ranged from December 31, 2011, to July 31, 2012.

- Disaster #4014 had twelve subrecipients with a total of $3,385,957 subawarded as of June 30, 2012. Subaward amounts ranged from $31,999 to $2,069,539. Of these twelve subawards, none of the obligations had been reported under the Transparency Act requirements as of February 2013. Initial due dates for reporting ranged from November 30, 2011, to March 31, 2012.

Cause: The Agency was unsure of the cause, but stated it was, in part, due to FEMA not setting up the primary awards in the Federal reporting system; however, the Agency did not have documentation to show they made a good faith effort to complete the reporting.

Effect: Noncompliance with Federal regulations, which could result in sanctions by the Federal government.

Recommendation: We recommend the Agency complete the required Transparency Act reporting for subawards made during the fiscal year. We further recommend the Agency implement procedures to ensure that all required reporting is properly completed in accordance with Federal regulations.

Management Response: The Agency recognizes the omission with completing the reporting requirements for the Public Assistance and Hazard Mitigation grants. The Agency had completed the reporting requirements for the Homeland Security grants during the same timeframe. The Agency has undertaken corrective actions to complete the requirement and institute program controls for Public Assistance and Hazard Mitigation grants.

Corrective Action Plan: The Agency will clarify reporting requirements for awards, obligations, and monitoring within the Agency policies and procedures for program monitoring and grant management. The Agency will be in contact with all sub-grantees of Federal funds for disasters occurring from October 2010 to present to gather required information and data for entry into the proper Federal database.

The Agency will contact all sub-grantees – requesting the required information prior to March 31, 2013, and requiring a response with correct information by April 30, 2013. The Agency will set a target date of May 31, 2013, to have information updated and submitted to the Federal reporting system. Agency policies and procedures will be updated and finalized by March 31, 2013, reflecting the above changes.

Contact: Earl Imler, Response and Recovery Supervisor; Shawn D. Fitzgerald, Agency Controller

Anticipated Completion Date: May 31, 2013

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #12-65-02

Program: Various including CFDA 93.778 – Medical Assistance Program – Allowable Costs

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, Section B.2. states, allocated central service costs should be on a reasonable basis. OMB A-87, Section 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 [DAS]. 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 to agencies were not in accordance with Federal requirements.

Questioned Costs: Unknown

Context: During our attestation testing of the fees and assessments charged by DAS Materiel Division (Materiel) to State agencies 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 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, DAS, the State Treasurer, and the Department of Education. However, there were 33 additional State agencies that also had aid payments that were not excluded from the calculation, totaling $2.7 billion. If all aid payments had been excluded, the assessments would have changed for all State agencies, with the largest under-assessment totaling $40,214, for the Department of Roads and the largest over-assessment totaling $84,235, for the Department of Health and Human Services. Materiel could not explain why all aid payments had not been excluded.

- We noted numerous clerical errors as follows:

Agency	Description
Supreme Court	Understated contractual services by $2,208,597
Education	Understated contractual services by $28,187
Roads	Overstated goods and supplies by $289,656
Barber Examiners	Overstated goods and supplies by $2,801
Dairy Board	Understated contractual services by $1,139,192
DAS	Overstated contractual services by $966,000
Arts Council	Understated goods and supplies expenses by $4,250
Environmental Quality	Understated goods and supplies expenses by $4,456

As each agency is charged a percentage of the total assessment, each of the errors noted above would also affect all other agencies. A similar finding was noted in the prior audit.

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.

Management Response: As part of DAS' rate preparation for the FY2014 and FY2015 biennium, the State Purchasing assessment methodology previously used was revised. It was communicated that this would occur in our response to the Statewide Single Audit for the year ending June 30, 2011.

Corrective Action Plan: The revised formulas were utilized and the resulting assessment amounts were published in the Budget Rate Book for the FY2014 and FY2015 biennium Materiel assessment.

Contact: Roger Wilson

Anticipated Completion Date: Completed

ENERGY OFFICE

Finding #12-71-01

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons (ARRA) – Cash Management

Grant Number and Year: #DE-EE0000137, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Department of Energy

Criteria: 10 CFR § 600.122 (January 1, 2012) states,

> *"Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."*

A good internal control plan requires the pass-through entity to establish procedures 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 subrecipients' actual cash outlay. Payments to subgrantees exceeded the immediate cash needs for six of eleven subrecipient payments tested.

Questioned Costs: $695,488 known

Context: For the fiscal year ended June 30, 2012, the Agency disbursed a total of $13,426,259 in aid payments to nine subrecipients. We tested eleven payments totaling $1,505,843. We compared the advanced funds on hand per the Expenditure Summary Reports to the actual expenditures claimed for the subsequent months to determine if funds were used in a timely manner. We noted that for six of eleven payments tested, the advanced funds on hand were not used until two months to six months later, which is in excess of immediate cash needs.

Additionally, we noted one subrecipient had advanced funds outstanding at February 28, 2012, that were not repaid as of our fieldwork in January 2013. The Agency terminated its relationship with Weatherization Trust, Inc. on June 30, 2012. The Agency gave Weatherization Trust, Inc. 90 days (October 1, 2012) to complete the required subaward closeout terms and conditions. On November 9, 2012, the

Agency requested repayment of $695,488 in funds advanced to the subrecipient, but no payment was received. Weatherization Trust, Inc. is currently under investigation by the Nebraska State Patrol.

Cause: The Agency's subaward agreements allow subrecipients the ability to request up to ten percent of the award amount. In addition, the Agency indicated subrecipients could have used advances for expenditures incurred for incomplete projects; but the Agency did not have any documentation to support expenditures for incomplete projects.

Effect: There is an increased risk for loss or misuse of funds when excessive cash advances are allowed.

Recommendation: We recommend the Agency establish procedures to ensure subrecipient cash advances are limited to immediate cash needs.

> **Management Response:** The Agency's Weatherization Assistance Program sub-grantees are compensated for program expenditures on a reimbursement basis in arrears of completed weatherized unit production. Sub-grantees often carry unliquidated obligations for up to 12 months from the time that an application is reviewed, approved, an energy audit is conducted, bid specifications are drafted, bids are let for contracts, weatherization materials are ordered, delivered, installed, a final quality control inspection is completed, sub-grantee fiscal staff prepare and submit a request for reimbursement, and the request is received and processed by the Agency.
>
> The Agency continues to work with the Nebraska State Patrol in an ongoing investigation and continues to seek restitution of outstanding funds.
>
> **Corrective Action Plan:** The Agency has revised the reimbursement request documents so that sub-grantees report unliquidated obligations on a monthly basis to provide documentation that the payments are being used to provide cash flow to implement weatherization program activities and to pay bills for which they are not reimbursed until the completed project is submitted to the Agency for payment.
>
> **Contact:** Julie Hendricks, WAP/SEP Division Chief
>
> **Anticipated Completion Date:** February 12, 2012. The corrective action plan has been completed. The reimbursement request documents submitted by sub-grantees have been revised to track unliquidated obligations and current outstanding advance payments.

Finding #12-71-02

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons and Weatherization Assistance for Low-Income Persons ARRA – Eligibility/Subrecipient Monitoring

Grant Number and Year: All open grants including #DE-EE0000137, FFY 2009 (ARRA); #DE-EE0000196, FFY 2009

Federal Grantor Agency: U.S. Department of Energy (U.S. DOE)

Criteria: 10 CFR § 440.22 (January 1, 2012) outlines the eligibility requirements for the Weatherization Assistance to Low-Income Persons program (WAP).

OMB Circular A-133 § 400(d) states,

> *"A pass-through entity shall perform the following for the Federal awards it makes…(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."*

A good internal control plan requires adequate documentation be maintained to support eligibility determinations. Good internal control also requires eligibility determinations by subrecipients be monitored in a timely manner.

Condition: For clients receiving assistance through one subrecipient, Weatherization Trust, Inc., eligibility could not be fully determined, as the Agency does not maintain the supporting documentation. Documentation is maintained at the subrecipient level, and the Agency was not able to obtain the information.

Questioned Costs: $23,369

Context: Client eligibility is determined by the subrecipients. Documentation of the eligibility is maintained at the subrecipient level and not by the Agency. The Agency performs annual on-site monitoring, which includes a review of client files for eligibility. The Agency performed an on-site review of Weatherization Trust, Inc. (WTI) in January 2012; however, we noted all 20 applications reviewed by the Agency were for weatherization completed from August 2010 through April 2011. No client eligibility was reviewed for weatherization completed during fiscal year 2012.

We selected 25 clients from the lists of completed units to test. Of the total sample, five clients selected were for WTI and received a total of $23,369 weatherization assistance.

For all five Weatherization Trust, Inc. clients selected, the files to support the eligibility determinations were not provided by the subrecipient. As a result we could not verify compliance with eligibility requirements. The Agency did not have any documentation on file to support eligibility determinations.

The Agency disbursed $13,426,259 in aid payments to nine subrecipients during the fiscal year; WTI received $1,081,589.

Cause: WTI did not respond to the Agency's request for support for the eligibility of clients we tested. It was noted that the subrecipient's files had been seized by the Nebraska State Patrol, which was identified as the reason the information could not be provided.

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

Recommendation: We recommend the Agency develop procedures to ensure adequate documentation is on file to support the eligibility of clients receiving weatherization assistance.

Management Response: The Agency has the required procedures in place to ensure that sub-grantees of U.S. DOE federal funds maintain required adequate documentation on file to support the eligibility of clients receiving weatherization assistance. The aide agreements executed between the Agency and sub-grantees clearly states the requirements for record retention as well as the requirements to fully disclose and make available for review on-demand by the Agency and/or U.S. DOE Program Monitors all programmatic and financial information related to a specific award. In this case, the sub-grantee, Weatherization Trust, Inc., failed to respond to repeated requests by the Agency for this information via email and certified registered mail. In 2012, the Nebraska State Patrol began an investigation of Weatherization Trust, Inc. and this investigation remains ongoing. All documents on site of Weatherization Trust, Inc. have been seized per a sealed search warrant and remain in the custody of the Nebraska State Patrol. The Nebraska State Patrol will determine when and what file documents will be released to the Agency. At that time the Agency and the Auditor will have the opportunity to review the 5 client files in question to determine client eligibility.

Corrective Action Plan: Client eligibility documents will be provided to the Auditor at such time that the Agency is granted access to information seized by the Nebraska State Patrol.

Contact: Julie Hendricks, SEP/WAP Division Chief

Anticipated Completion Date: TBD by the Nebraska State Patrol

<u>Finding #12-71-03</u>

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons (WAP) and Weatherization Assistance for Low-Income Persons ARRA; CFDA 93.568 – Low-Income Home Energy Assistance Program (LIHEAP) – Subrecipient Monitoring

Grant Number and Year: All open grants including #DE-EE0000137, FFY 2009 (ARRA); #DE-EE0000196, FFY 2009; #11BINELIEA, FFY 2011

Federal Grantor Agency: U.S. Department of Energy and 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…(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."*

10 CFR § 600.220(a) (January 1, 2012) states, in part,

> *"Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to…(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."*

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 subrecipients use Federal awards in accordance with Federal requirements. Procedures should include monitoring subrecipients' fiscal activities related to the program on a timely basis.

Condition: The Agency's procedures for monitoring subrecipients were not adequate to ensure subrecipient compliance with Federal regulations for one subrecipient tested.

Questioned Costs: Unknown

Context: The Agency disbursed a total of $13,426,259 in WAP aid payments to nine subrecipients during the fiscal year. A total of $1,829,282 in LIHEAP aid payments was paid to eight subrecipients during the fiscal year. The Agency receives monthly expense reports from subrecipients that include a breakdown of the current month's expenses claimed by cost categories. The monthly expense reports are reviewed by

Agency staff; however, no invoices or detailed supporting documentation are attached. The Agency performs annual on-site monitoring reviews of all subrecipients, which includes selecting a sample of expenditures claimed and tracing to the supporting documentation. Additionally, the Agency receives and reviews the subrecipients' A-133 audit reports.

For one of two subrecipients tested, monitoring procedures were not adequate. We noted the following:

- The Agency performed the annual on-site review of Weatherization Trust, Inc. (WTI) in January 2012, which covered the 17 month period of June 1, 2010, through October 31, 2011. This monitoring visit included a review of WAP funds and LIHEAP program funds. The Agency reviewed a sample of WTI's WAP expenditures for the month of March 2011, which were incurred almost one year prior to the onsite review. Additionally, the Agency sampled WTI's LIHEAP expenditures for July 2010, which was over one year prior to the onsite review. No fiscal year 2012 expenditures were reviewed.
- The most recent A-133 audit the subrecipient obtained covered the year ended December 31, 2010. No A-133 audit report for WTI for the year ended December 31, 2011 has been received by the Agency as of January 8, 2013. Thus, no review of expenditures incurred during State fiscal year 2012 was performed.
- WTI is being investigated by the Nebraska State Patrol for allegations reported by the Agency and is no longer a subrecipient as of June 30, 2012. Despite their concerns, the Agency failed to perform monitoring of WTI to ensure fiscal year 2012 expenditures were proper.

The Agency disbursed $1,081,589 in WAP program funds and $698,053 in LIHEAP funds to WTI during the fiscal year ended June 30, 2012. The potential dollars at risk for WAP and LIHEAP combined is $1,779,642.

Cause: Monitoring activities performed during the fiscal year did not include a review of fiscal year 2012 expenses.

Effect: Without adequate monitoring procedures, there is an increased risk Federal awards could be used improperly.

Recommendation: We recommend the Agency improve procedures to ensure timely monitoring of subrecipients.

> **Management Response:** The Agency conducts annual program compliance reviews of all its weatherization program sub-grantees. The period reviewed is the most recent completed fiscal year spanning a 12-month period. In this particular case, primarily because of the increased activity due to the receipt of federal stimulus funds, the Agency review included FY2011 that ended June 30, 2011 and a portion of the FY2012 through October 31, 2011. The Agency agrees

that no samples for the portion of the review that overlapped into the next fiscal year were conducted for the one sub-grantee in question. In following the standard WAP review procedures, the next scheduled annual review would be in January 2013 and the time period reviewed would be FY2012 - July 1, 2011 through June 30, 2012, which includes the four months that were not sampled in the review cited in the Audit report above. However, as noted in the report Context bullets, WTI is currently under investigation by the Nebraska State Patrol. The Agency has several written communications via certified letter to WTI to comply with the audit standards. WTI has not communicated with the Agency and failed to respond to all Agency demands to remit program compliance and financial information in accordance with federal and state regulations. The Agency has written letters to the CPA firm WTI contracted with, WTI Board of Directors and the WTI Executive Director to provide a copy of the A-133 audit. The Agency has made every attempt possible to meet the auditing standards. Despite these circumstances, the Agency is not currently able to complete the annual program compliance review for the FY2012 as would normally be conducted at this time.

Contrary to the Auditor's statement that "no review of expenditures incurred during State fiscal year 2012 was performed," the Agency conducts monthly desktop auditing and review of expenditures as part of the Reimbursement Process which includes review of energy audits to ensure weatherization measures are cost-effective, review of work orders, a comparison of work orders with energy audits, as well as onsite visits to a minimum of 20 percent of homes completed and submitted for reimbursement in that month. These reviews were conducted with WTI until the Nebraska State Patrol seized WTI documents and the Agency terminated the aid agreement with WTI. In fact, because of questioned costs identified in those Agency reviews, reimbursement payments were withheld beginning in January 2012. There are no current aid agreements with WTI and they are no longer a weatherization service provider for the State of Nebraska.

Corrective Action Plan: The Agency will continue the annual review of sub-grantees to a single fiscal year and will conduct an analysis prior to annual program compliance reviews to ensure that samples adequately reflect program and financial activity.

Contact: Julie Hendricks WAP/SEP Division Chief

Anticipated Completion Date: March 1, 2013

APA Response: No fiscal year 2012 expenditures were reviewed during the on-site review and there was no A-133 audit received for 2012 expenditures. The Agency does not obtain source documentation such as invoices to support expenditures during desktop auditing and review of reimbursements.

Finding #12-71-04

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons and Weatherization Assistance for Low-Income Persons ARRA; CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number and Year: All open grants including #DE-EE0000137, FFY 2009 (ARRA); #11BINELIEA, FFY 2011

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

Criteria: OMB Circular A-133 § 200(b) states, "Non-Federal entities that expend $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with § .500." OMB Circular A-133 § 500 requires audits be performed in accordance with Generally Accepted Government Auditing Standards.

Per Section 801.23 of the Auditing Standards promulgated by the American Institute of CPAs,

> *"The auditor should request from management written representations that are tailored to the entity and the governmental audit requirement:…*
>
> *d. stating that management has made available to the auditor all contracts and grant agreements, including amendments, if any, and any other correspondence relevant to the programs and related activities subject to the governmental audit requirement;*
>
> *e. stating that management has disclosed to the auditor all known noncompliance with the applicable compliance requirements or stating that there was no such noncompliance…;*
>
> *g. stating that management has made available to the auditor all documentation related to compliance with the applicable compliance requirements…;*
>
> *k. stating that management has disclosed to the auditor all known noncompliance with the applicable compliance requirements subsequent to the period covered by the auditor's report or stating that there were no such known instances;…"*

As provided in Section 316 of the Auditing Standards promulgated by the American Institute of CPAs, "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." Section 316 further states, "Fraudulent financial reporting may be accomplished by the following…Misrepresentation in or intentional omission from the financial statements of events, transactions, or other significant information." Furthermore, the Appendix Examples of Fraud Risk Factors (A.2) to AU Section 316 warns auditors against the following: "Formal or informal restrictions on the auditor that inappropriately limit access to people or information…"

Condition: The Agency omitted significant information related to a weatherization subrecipient during the State fiscal year ended June 30, 2011, Statewide Single Audit.

Questioned Costs: Unknown

Context: The Agency Director signed a management representation letter dated March 19, 2012, for the fiscal year ended June 30, 2011 Statewide Single Audit of the State of Nebraska. This letter included the following statements:

> *"We have no knowledge of any allegations of fraud or suspected fraud affecting the Agency received in communications from employees, former employees, analysts, regulators, or others…*
>
> *We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.*
>
> *There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.*
>
> *To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs."*

In January 2012, prior to signing the updated representation letter, the Agency had contacted the Nebraska State Patrol to investigate concerns with one subrecipient, Weatherization Trust, Inc. As this was done prior to the representation letter, this should have been disclosed to the auditors.

Cause: Unknown

Effect: Misrepresentation or intentional omission of significant information could result in fraudulent financial reporting.

Recommendation: We recommend the Agency report all suspected fraud, all noncompliance, and all investigations related to the Agency, including those related to Agency subrecipients, to the auditor in accordance with Federal regulations.

Management Response: The Agency did not omit significant information related to a weatherization subrecipient. All information available to the agency, that would not damage the ongoing investigation or potential prosecution of this case, was shared with the Auditor at the time of the Entrance Conference and throughout the audit process. Any information requested that the Agency did not have available was noted to the Auditor. Information that was not available is in the custody of the Nebraska State Patrol as a part of the continuing investigation. Once the information is released to the Agency all documents will be available for review by the Auditor.

At the time of the management representation letter, there was no knowledge of any allegations of fraud or suspected fraud affecting the agency received in communications from employees, former employees, analysts or regulators. The communication to the Nebraska State Patrol in January was information affecting a sub-grantee and required further investigation. The Nebraska State Patrol is the investigating arm of state agencies and the proper place for allegations to be reported. The Agency believes that if such allegations merited notification of the State Auditor's office, such communications should have been initiated by the Nebraska State Patrol or guidance provided to the Agency to notify the Auditor of said allegations. The Nebraska State Patrol has not provided such guidance to the Agency. Furthermore, the Agency encouraged the Auditor to contact the Nebraska State Patrol to obtain any information the Agency could not reveal.

The Nebraska State Patrol currently maintains an active investigation of the sub-grantee. Information related to this case is in a sealed search warrant. The Agency does not have knowledge of the information contained in the sealed search warrant or details that allow the investigation to continue.

It is important to note that the Agency properly and timely reported allegations to the Nebraska State Patrol. These allegations are solely related to one sub-grantee. The Agency, nor any of the Agency's employees or other sub-grantees, are mismanaging or misusing funds. With sufficient information gathered by the Nebraska State Patrol this sub-grantee contract was terminated by the Agency and has not received further funding from the Agency. The Agency is cooperating with the Nebraska State Patrol to bring this case to resolution and seeking for restitution of funding allocated to the sub-grantee. The Auditor will be helpful, when the time comes, to verify funding dispersants.

Corrective Action Plan: The Agency will continue to report allegations to the Nebraska State Patrol for investigation. Should allegations not merit law enforcement investigation, notification will be made to the State Auditor. If allegations merit investigations be performed by the Nebraska State Patrol, communication between the Agency and the Patrol will determine appropriate communication to the Auditor. The Agency will continue to provide significant information and report suspected fraud to the Auditor.

Contact: Ginger Willson, Director

Anticipated Completion Date: Has been completed and will continue.

COMMISSION ON LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding #12-78-01

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant (JAG) Program; CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant – Program Grants to States and Territories – Allowability/Subrecipient Monitoring

Grant Number & Year: 2011-DJ-BX-0025, FFY 2011; 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."*

OMB Circular A-87, Section 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 procedures be in place to ensure subrecipients' costs are allowable in accordance with applicable cost principles, allowable activities, and follow appropriate procurement procedures.

Condition: For 11 of 12 expenditures to subrecipients tested, there was not adequate supporting documentation to determine the expenditures were allowable. Payments to subrecipients were based on quarterly cash reports submitted. No vendor invoices, purchase orders, etc. were submitted to substantiate the expenditures reported. This was also a comment in the prior Single Audit.

Questioned Costs: Unknown

Context: Total paid to subrecipients during the fiscal year ended June 30, 2012, was $3,144,887. 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 and were reviewed by Agency staff; however, no invoices or detailed supporting documentation were obtained. 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 that would provide reliance if the Program was audited as a major program. All four 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 also had 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. This provides some level of assurance that the State's current fiscal year expenditures were for allowable costs and met procurement guidelines. However, we 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.

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 subrecipients' expenditures are not allowable.

Recommendation: We recommend monitoring be improved to provide assurance expenditures are allowable. This monitoring should include documented reviews of supporting documentation for the expenditures reported on the quarterly cash reports. For on-site 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 on-site reviews and final reviews before the grant is closed out should be considered.

Management Response: The Financial Monitor position is no longer a contract employee. We established the Financial Monitor as a member of our staff and filled the vacancy in May 2012. This position is required to review invoices, timesheets, receipts and all other relevant documents when she does an on-site monitor. The Crime Commission is currently creating a template for financial monitors which will be used on low risk subgrantees and during the grant close-out process. We are also considering a process that requires subgrantees to submit invoices based on a predetermined sampling procedure.

Corrective Action Plan: A tracking system will be developed to ensure on-site 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 needed to ensure the grant is operating in compliance with any special conditions.

Contact: Lisa Stamm

Anticipated Completion Date: We plan to finish the desk review and financial monitor procedure by February 1, 2013.

Finding #12-78-02

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 – Subrecipient Monitoring

Grant Number & Year: 2011-DX-BX-0025, FFY 2011; 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 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 includes procedures to ensure all required information is communicated to subrecipients.

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 communicate all required information to subrecipients. The summary schedule of prior audit findings states, "Subrecipients are now notified of all required information in the special conditions to their grant award." However, we noted the fiscal year 2012 subawards still did not include full CFDA Program name, the Federal award number, and the name of the Federal awarding agency.

Questioned Costs: None

Context: The notice of grant award for all four subrecipient grant awards tested, two of which were ARRA grants, did not include the CFDA title, Federal award name, the 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 and 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. This was also a comment in the prior Single Audit. Thirteen subrecipients received JAG monies during the fiscal year with payments totaling $3,144,887.

Cause: Unknown

Effect: Noncompliance with Federal requirements which could lead to sanctions.

Recommendation: We recommend the Agency implement procedures to ensure subrecipients are notified of all required information.

> **Management Response:** The grant award and special condition documents have been changed to include the CFDA title, Federal award name, Federal award number, and the name of the Federal awarding agency.

Corrective Action Plan: Completed.

Contact: Lisa Stamm

Anticipated Completion Date: Not applicable.

Finding #12-78-03

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant (JAG) 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; 2009-DJ-BX-0001, FFY 2009; 2010-DJ-BX-0461, FFY 2010; 2011-DJ-BX-0025, FFY 2011

Federal Grantor Agency: U.S. Department of Justice

Criteria: 28 CFR § 66.20 (July 1, 2011) states, "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." OMB Memorandum M-10-34, Recipient Reporting Data Model V4.0, 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 includes procedures to ensure amounts are correctly reported. Good internal control also requires each grant and grant year be separately identified in the accounting system. The accounting system of the State is EnterpriseOne. EnterpriseOne utilizes business units, which are unique cost centers.

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 amounts reported on the American Recovery and Reinvestment Act (ARRA) 1512 reports tested were incorrect. This was also a comment in the prior Single Audit. The summary schedule of prior audit findings states, "Reported expenditures now agree with the general ledger." However, we noted expenditures were incorrectly reported in the two 1512 reports we tested.

The 2011 Justice Assistance Grant (JAG) expenditures reported on the Financial Status Report (FSR) for the quarter ended March 31, 2012, were incorrect. The expenditures reported did not include all 2011 JAG expenditures.

We also noted individual business units were not set up in EnterpriseOne to separately account for the financial activity of the 2009 JAG grant, the 2010 JAG grant, and the 2011 JAG grant. The same business unit was used for all three grants.

Questioned Costs: None

Context: We tested two ARRA 1512 reports and noted the following:

ARRA 1512 Quarter Ended	Reported	Per EnterpriseOne	Variance
March 31, 2012 Expenditures	$5,250,000	$5,011,984	$233,016
December 31, 2011 Expenditures	$4,565,000	$4,433,145	$131,855
December 31, 2011 Receipts	$3,265,000	$4,565,000	($1,300,000)

We tested two quarterly FSRs and noted the expenditures reported on the quarter ended March 31, 2012, FSR for the 2011 JAG grant did not include $46,578, which was incorrectly reported as expenditures of the 2010 JAG grant.

The FSR for the quarter ended September 30, 2011, for the 2010 JAG grant reported the Federal Share of Expenditures as $357,767, of which $186,269 could not be traced to a specific grant in EnterpriseOne. Additionally, for both FSRs tested, completeness of the reports could not be determined as expenditure amounts unrelated to subrecipient payments or Federal aid were not tied to a specific grant in EnterpriseOne.

The summary schedule of prior audit findings indicates the finding has been resolved and all reported expenditures agree with the general ledger. As noted, this is not accurate.

Cause: The Agency did not adequately review reports and they did not use separate business units. The Agency uses manual spreadsheets to accumulate expenditure information by grant year; since separate business units were not used, the amounts reported could not be readily reconciled to the accounting system, increasing the risk for errors to occur.

Effect: The ability to track and report activity for individual grants is more difficult when separate business units for each grant are not used. Noncompliance with reporting requirements could lead to Federal sanctions.

Recommendation: We recommend the Agency develop procedures to ensure reports are accurate. We further recommend the Agency separately identify in the State accounting system each grant and grant year.

Management Response: Concerning the ARRA 1512 reports, the errors have now been corrected. Concerning separate business units for each Federal award, beginning with the 2012 Federal grant awards we will assign a unique business unit to each of those grants. With all of the uncertainties and problems in NIS when the transition was made from NAS we did not feel confident in creating dozens of new business units for the Federal grant awards we receive.

Corrective Action Plan: We will create unique business units beginning with our 2012 Federal grants.

Contact: Lisa Stamm and Bruce Ayers

Anticipated Completing Date: We will create unique business units for our 2012 Federal grants prior to December 31, 2012.

Finding #12-78-04

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program – Reporting

Grant Number & Year: 2011-DJ-BX-0025, FFY 2011

Federal Grantor Agency: U.S. Department of Justice

Criteria: 2 CFR § 170, Subpart C Appendix A 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.)" OMB Memorandum dated August 27, 2010, "*Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting*," Appendix C defines the Subaward Obligation/Action Date as the "date the Subaward agreement was signed."

A good internal control plan includes procedures to ensure information is accurately reported in the required timeframes.

Condition: The Agency did not accurately report subaward information in a timely manner.

Questioned Costs: None

Context: We tested 2 of 13 subawards to political subdivisions. The following issues were noted:

- The subaward action was not reported on the USASpending.gov website in a timely manner for both subawards tested. The subaward obligation/action date was September 29, 2011, and October 4, 2011, and the data was entered on March 6, 2012.

- The subaward obligation/action date was not accurately reported and did not agree to the supporting documentation. The Agency reported subaward obligation/action dates as September 30, 2012, for both subawards tested, but the subawards were signed on September 29, 2011, and October 4, 2011.

- The Agency had a policy in place that required a supervisory review of the Transparency Act information before it was submitted. This review was not documented.

Cause: This was a new requirement and the Agency indicated they attempted to report earlier but the website was not set up for the FFY 2011 grant; however, the Agency did not have documentation to support good faith efforts were made.

Effect: Noncompliance with requirements could lead to Federal sanctions.

Recommendation: We recommend the Agency develop procedures to ensure information is accurately reported in the required timeframes. The information reported should be reviewed by a supervisory level individual and this review should be documented.

> **Management Response:** The Grants Division Chief made several attempts to enter the data for Federal award #2011-DJ-BX-0025. However, the Federal award had not been entered into the Federal system by the Bureau of Justice Assistance. The information is entered by support staff and then checked by the Grants Division Chief prior to submission. The Grants Division Chief is the only person authorized to submit the information.
>
> **Corrective Action Plan:** Staff will email the Federal Program Manager for this grant program and inform him that the required information has not been entered by the Bureau of Justice Assistance.

Contact: Lisa Stamm

Anticipated Completion Date: Not applicable.

Finding #12-78-05

Program: CFDA 16.588 – Violence Against Women Formula Grants Recovery ARRA – Allowability/Subrecipient Monitoring

Grant Number & Year: 2009-EF-S6-0040, FFY 2009

Federal Grantor Agency: U.S. Department of Justice

Criteria: OMB Circular A-133 § 300 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." Per OMB Circular A-87, to be allowable, costs must be adequately supported. OMB Circular A-133 § 400(d) requires a pass-through entity to "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."

Condition: During our attestation examination of the Agency, we noted procedures were not adequate to ensure expenditures were allowable or subrecipient compliance requirements were met.

Questioned Costs: $95,451

Context: We tested one subrecipient payment for $95,451 related to CFDA 16.588 ARRA and noted:

- The expenditures tested did not contain adequate documentation. The subrecipient only submitted quarterly cash reports summarizing the expenditures for the period. There was no detail provided to ensure the funds were allowable in accordance with OMB Circular A-87.

- OMB Circular A-133 § 400(d) requires the Agency to identify to each subrecipient the Federal award name and number, CFDA title and number, and the name of the Federal agency. The subrecipient tested was only made aware of the CFDA number.

- 2 CFR § 176.210 (January 1, 2011) required the Agency to inform ARRA subrecipients of the Federal award number, CFDA number, and amount of Recovery Act funds at the time of the subaward and at the time of disbursement of funds, and to identify the ARRA expenditures on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form. The subrecipient tested was not informed of the Federal requirements with the exception of the CFDA number at the time of the subaward.

Cause: Subrecipient 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 supporting documentation there is an increased risk for unallowable transactions to occur and not be detected.

Recommendation: We recommend the Agency maintain adequate documentation to support all transactions. We further recommend the Agency establish procedures for the adequate monitoring of subrecipients.

Management Response: The Financial Monitor position is no longer a contract employee. We have established the Financial Monitor as a member of our staff. This position is required to review invoices, timesheets, receipts, and all other relevant documents when she does an on-site monitor. The Crime Commission is currently creating a template for financial monitors which will be used on low risk subgrantees and during the grant close-out process. We are also considering a process that requires subgrantees to submit invoices based on a predetermined sampling procedure.

Corrective Action Plan: A tracking system will be developed to ensure on-site monitors are conducted on a consistent and timely basis. The Financial Monitor employee will also perform periodic spot checks on subgrantees and review invoices or other documents as needed to ensure the grant is in compliance with special conditions.

Contact: Lisa Stamm

Anticipated Completion Date: We plan to finish the desk review and financial monitor procedure by February 1, 2013.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Finding #12-84-01

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and ARRA CWSRF – Activities Allowed or Unallowed/Subrecipient Monitoring

Grant Number & Year: All open grants including #CS-31000111-0, FFY 2011; #CS-31000110-0, FFY 2010; #2W-97705101-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Neb. Rev. Stat. § 81-15,155 (Reissue 2008) states, "All loans made under the Wastewater Treatment Facilities Construction Assistance Act shall be made only to municipalities or to counties that: (a) Meet the requirements of financial capability set by the department."

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 [Schedule of Expenditures of Federal Awards] 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: During State fiscal year 2012, the Agency paid $10,966,409 to 21 subrecipients, of which $2,969,087 was Federal funding. We selected five loans to subrecipients who received a total of $2,114,366, of which $1,398,933 was Federal funding, during the State fiscal year. During testing it was noted:

- The Agency had not established any formal financial capability requirements. As a result, for all five loans tested, the Agency could not provide documentation of how they determined the subrecipient met the financial capability standards set by statute.

- The Agency did not communicate CFDA title and number, award name and number, and the amount of ARRA funds with each disbursement made to the subrecipient.

Questioned Costs: Unknown

Context: During testing it was noted:

- Per discussion with the Financial Assistance Section Supervisor, the financial capability analysis, included as an attachment to the loan contract, was viewed as a summary document of the subrecipient's position. The Agency had not established the requirements needed to be met, but the State Revolving Fund manual did identify information that should be considered when completing the financial capability analysis document.

- The Agency sent an annual letter to each subrecipient that included the Federal dollars paid, CFDA information, and the SEFA identification requirements for ARRA funds.

- A similar comment was noted in the prior audit.

Cause:

- The Agency had no formal requirements established to evaluate the financial, technical, and managerial capability of the subrecipient. Therefore, there was no documentation of the Agency's analysis of the attributes being performed.

- The Agency provided the required information annually, but not with each disbursement.

Effect: There is an increased potential for noncompliance with State statutes and Federal compliance requirements.

Recommendation: We recommend the following:

- The Agency establish standards identifying the minimum requirements needed for a political subdivision to have the financial capability to repay a loan.

- The Agency compare their standards to each subrecipient's financial capability information and document how the standards were met.

- At the time of each disbursement, the Agency notify the subrecipient of the CFDA title and number, award name and number, and the amount of ARRA funds.

Management Response: As of 2/28/2013, the Agency has implemented the corrective actions below to address this Finding.

Corrective Action:

- NDEQ will follow Federal Environmental Protection Agency guidelines recommending sewer fees be no more than 2% of Median Household Income (MHI). Any municipality below this is eligible for SRF loans. Any municipality over the 2% of MHI rate will require re-assessment of scope of project and risk to the fund.

- In order to document this standard, the Financial Capabilities analysis will report the percent of MHI.

- Documentation mailed at the time of disbursement notifying the subrecipient of disbursement will include CFDA title and number, and award name and number. The ARRA Grant is completed and closed. Forms have been modified as of 2/28/13.

Contact: Donna Garden, Financial Assistance Section Supervisor

Anticipated Completion Date: Completed

Finding #12-84-02

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds and ARRA CWSRF – Program Income

Grant Number & Year: All open grants including #CS-31000111-0, FFY 2011; #CS-31000110-0, FFY 2010; #2W-97705101-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 40 CFR § 35.3120(a)(1)(ii) (July 1, 2011) states, "The annual repayment of principal and payment of interest begins not later than one year after project completion."

Neb. Rev. Stat. § 81-15,155 (Reissue 2008) states, "(1) All loans made under the Wastewater Treatment Facilities Construction Assistance Act shall be made only to municipalities or to counties that: …Provide a written notice of completion and start of operation of the facility."

Title 131 Nebraska Administrative Code (NAC) 8-004.03 states, "The annual principal and interest payment due from a loan recipient shall commence no later than one year after Initiation of Operation or no later than three years from the date of the loan contract, whichever occurs first."

Condition: During State fiscal year 2012, the Agency received $29,179,913 from 182 subrecipients. We selected 19 subrecipients' loan repayments totaling $639,221. During testing it was noted:

- For 1 of 19 repayments tested, the Agency did not have documentation of the project's substantial completion or initiation of operation.
- For 4 of 19 repayments tested, repayment did not commence within one year of the project's substantial completion and initiation of operation dates. These four repayments were up to 44 days late.
- Federal regulations required repayment commence within one year of substantial completion, which differed from NAC which required repayment commence within one year of initiation of operation or three years after the loan agreement date.

Questioned Costs: None

Context: During testing it was noted:

- Documentation of initiation of operation and/or substantial completion dates were difficult to determine because the Agency used several different documents establishing each date.
- Federal criteria and NAC disagree on whether substantial completion or initiation of operation should be used to determine commencement of repayment.

Cause:

- Subrecipient did not provide the Agency with documentation of substantial completion or initiation of operation in a timely matter.
- Due to conflicting Federal regulations and Agency rules and regulations, it was difficult to determine when repayment should have been commenced.

Effect:

- There is an increased potential for noncompliance with Agency rules and regulations, as well as Federal grant compliance requirements.

- Without documentation to commence loan repayment, the subrecipient could improperly postpone the commencement of repayment.

Recommendation: We recommend the following:

- The Agency establish procedures to ensure the repayment commences according to both substantial completion and initiation of operation. The required loan file documentation should clearly identify the dates of substantial completion and initiation of operation.

- The Agency review their rules and regulations related to commencement of loan repayment to ensure they agree with Federal regulations and State statutes.

  Management Response: As of March 7, 2013 the Agency has implemented the following corrective actions.

  Corrective Action: The Agency adopted and is using a revised loan contracts check list that includes the requirement for documented Initiation of Operation date. This documentation would be provided by the municipality's engineer or the municipality. This date will be used to determine the first payment date.

  The Agency will review and document the differences if any, between State rules/regulations and Federal Regulations. The more stringent of the two will be utilized until Title 131 can be changed (if necessary).

  Contact: Donna Garden, Supervisor Financial Assistance Section

  Anticipated Completion Date: Checklist modification complete. Review of regulations before June 30, 2013 end. Modification to rule/regulations if necessary, will occur when regulations are reviewed before the Environmental Quality Council.

<u>Finding #12-84-03</u>

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds and ARRA CWSRF – Cash Management

Grant Number & Year: All open grants including #CS-31000110-0, FFY 2010; #CS-31000111-0, FFY 2011; #2W-99705101-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per 40 CFR § 31.37(a)(4), States shall "Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

Per CWSRF loan documents Section 2.10, Other Conditions and Terms, *(i)* ***Contractor's Payments.*** The Borrower agrees to make prompt payment to its contractor(s) of sums due for construction and to retain only such amounts as may be justified by specific circumstances and provisions of the construction contract.

Condition: We selected ten total loan payments to five subrecipients who received a total of $2,114,366, of which $1,398,933 was Federal funding. For all ten payments tested, we could not determine whether the subrecipient paid their contractors in a timely manner, as the Agency did not have supporting documentation on file showing when the subrecipient paid their contractors.

Questioned Costs: None

Context: The total payments made to 21 subrecipients in State fiscal year 2012 were $10,966,409, of which $2,969,087 was Federal funding. Many of the subrecipients were small entities who probably did not have the cash flow to pay their contractors before receiving payments from the Agency.

Cause: The Agency had a requirement in the loan agreement that the recipient pay contractors timely, but did not monitor whether this requirement was met.

Effect: The Agency may not be in compliance with Federal regulations and Federal cash payments to subrecipients may have been improperly used.

Recommendation: We recommend the Agency institute procedures to ensure subrecipients are making payments to their contractors in a timely manner.

> **Management Response:** Ensuring payments in a timely manner is dependent on the timing of the municipality's governing body approval process. With small communities this depends on a monthly board meeting. Documentation actions below were implemented by the Agency.
>
> **Corrective Action:** As of March 4, 2013 each disbursement request from loan recipients will include information on the previous disbursement. This information includes date(s) and Check or Transaction number(s). Final Payment will be verified separately.
>
> **Contact:** Donna Garden, Supervisor Financial Assistance Section
>
> **Anticipated Completion Date:** Completed

Finding #12-84-04

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds and ARRA CWSRF – Reporting

Grant Number & Year: #CS-31000106-0, FFY 2006; #2W-97705101-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires policies and procedures to ensure all the information reported on Federal Financial Report (FFR) forms is complete and accurate. The FFR form requires Federal program income be reported.

Condition: During testing of all three FFRs submitted during the State fiscal year it was noted:

- Two of the three reports were not complete and accurate, as program income was not reported.
- For two of the three reports, there was no documentation the reports were prepared and reviewed by separate individuals.
- One of the three reports included the incorrect reporting period end date.

Questioned Costs: None

Context: During testing it was noted:

- Program income not reported was $48,751.
- The final FFR for the Clean Water ARRA grant submitted May 31, 2012, reported program income and included documentation of both the preparer and approver.
- For the annual ARRA FFR submitted October 3, 2011, the reporting period end date was listed as October 1, 2010, when the correct reporting period end date was September 30, 2011.

A similar finding was noted in the prior audit.

Cause: The Agency was working with the EPA to determine how program income should be reported. The Agency reached an agreement with the EPA in February 2012.

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

Recommendation: We recommend the Agency implement procedures to review FFRs before they are submitted to ensure all data included is accurate and complete, including the reporting of program income. In addition, the Agency should continue to document the preparer and approver of all reports.

Management Response: This issue was noted during the last fiscal year audit, and action was taken immediately after the previous audit exit conference.

Corrective Action Plan: Federal Financial Reports are compiled by the Accountant III position, and reviewed by the Budget Officer III position prior to submittal. Compilation and review are both documented through signatures, and indications made that supporting documentation has been compared to the final report.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

Finding #12-84-05

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Activities Allowed or Unallowed/ Subrecipient Monitoring

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Neb. Rev. Stat. § 71-5324 (Reissue 2009) states, "All loans made under the Drinking Water State Revolving Fund Act shall be made only to owners of public water systems that: Meet the requirements of financial, technical, and managerial capability set by the department."

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."

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."*

A good internal control plan requires procedures that ensure expenditures are reviewed and approved prior to payment by a second individual to ensure the payments are made in accordance with loan agreements and adequate documentation is on file documenting all compliance requirements have been met.

Condition: During State fiscal year 2012, the Agency paid $11,378,984 to 41 subrecipients, of which $8,741,674 was Federal funding. We selected seven subrecipients and 21 loan/grant payments totaling $1,358,028, of which $687,600 was Federal funding, for testing. During testing it was noted:

- The Agency had not established any formal financial capability requirements. As a result, for five loans tested, we could not determine the political subdivision met the financial, technical, and managerial capability standards set by statue.

- For one grant payment, the grantee received excess funding because the Agency did not retain the required minimum retention amount.

- For one grant payment, there was no documentation of the program administrator's review and approval.

- Five projects did not have documentation an on-site review had been performed.

- The Agency did not communicate the CFDA title and number, the award name and number, and the amount of ARRA funds with each disbursement made to the subrecipient.

Questioned Costs: Unknown

Context: During testing it was noted:

- Per discussion with the Financial Assistance Section Supervisor, the financial capability analysis included as an attachment to the loan contract was viewed as a summary document of the subrecipient's position. The Agency had not established the requirements needed to be met, but the State Revolving Fund manual identified information that should have been considered when the financial capability analysis document was completed.

- The grant agreement required 10%, but not less than $2,000, be retained pending final approval of the project. After the grant payment, the Agency retained $562 less than $2,000.

- There was no documentation of the program administrator's approval on a $9,321 grantee payment.

- The Agency sent an annual letter to each subrecipient that included the Federal dollars paid, CFDA information, and the SEFA identification requirements for ARRA funds.

A similar finding was noted in the prior audit.

Cause:

- The Agency had no formal requirements established to evaluate the financial, technical, and managerial capability of the subrecipient. Therefore, there was no documentation of the Agency's analysis of the attributes being performed.

- The minimum retention requirement in a grant agreement was overlooked.

- Source Water Protection grants were still in the early stages of procedure development, so no review by the program administrator had been implemented.

- The reason that no documentation of an onsite review could be found is unknown.

- The Agency provided the required information annually but not with each disbursement.

Effect: There is an increased potential for noncompliance with State statutes and Federal requirements.

Recommendation: We recommend the following:

- The Agency establish standards identifying the minimum requirements needed for a political subdivision to have the financial capability to repay a loan.

- The Agency compare their standards to each subrecipient's financial capability information and document how the standards were met.

- The Agency review their procedures and controls to ensure that all Source Water Protection payments are properly reviewed and approved and made in accordance with the grant agreement.

- The Agency ensure on-site reviews are performed and documented.

- At the time of each disbursement, the Agency notify the subrecipient of the CFDA title and number, the award name and number, and the amount of ARRA funds.

Management Response: As of 2/28/2013, the Agency has implemented the corrective actions below to address this Finding.

Corrective Action:

- NDEQ will follow Federal Environmental Protection Agency guidelines recommending Water System fees be no more than 2.5% of Median Household Income. Any municipality below this is eligible for SRF loans. Any municipality over the 2.5% of MHI rate will require re-assessment of scope of project and risk to the fund.

- In order to document this standard, the Financial Capabilities analysis will report the percent of MHI.

- Source Water Protection Payments will be signed by the reviewer and will also be approved by the appropriate Section Supervisor or Division Director.

- Source Water Protection Payments will be 90% of each invoice, eliminating overpayment and one additional site visit or other means of verification will be done and documented.

- Documentation mailed at the time of disbursement notifying the subrecipient of disbursement will include CFDA title and number, and award name and number. ARRA Grant is completed and closed. Forms have been modified as of 2/28/13.

Contact: Donna Garden, Supervisor Financial Assistance Section

Anticipated Completion Date: Completed

Finding #12-84-06

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Allowable Costs/Cost Principles

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: OMB Circular A-87 requires that costs charged to Federal programs be adequately documented and conform to the limitations set forth in A-87.

Sound business practices and internal controls over Federal expenditures require all payments be made for actual costs of services performed. Sound internal controls also require expenditures be reviewed and approved to ensure supporting documentation is on file and all applicable Federal regulations have been met.

Condition:

- For one of three Federal contractual expenditures tested, the expenditure was for budgeted costs and not for actual services provided.

- For one Federal contractual expenditure tested, the Agency reimbursed the Nebraska Department of Health and Human Services (DHHS) for their DWSRF administration costs, but had limited support documentation on file and the reimbursement form was not signed by DHHS' administration.

Questioned Costs: $18,000 known

Context:

- A contractor was paid $18,000 based on a budget payment schedule. No support for the amount of work actually completed on the project was on file.

- The Agency reimbursed DHHS $1,843,502 based on DHHS' invoices and DHHS' general ledger detail reports from the State's accounting system. The general ledger reports included only the name and amount of vendors paid and the total amount of payroll costs charged to the program. The general ledger reports did not include the names of the DHHS employees charged to the program. The Agency did not perform any procedures to ensure items in the reimbursement adhered to OMB Circular A-87.

- The Agency had established procedures requiring DHHS' administration sign and approve the invoice.

Cause: The Agency believed their documentation was adequate since DHHS should have had controls in place to review all their expenditures to ensure the expenses were in compliance with OMB Circular A-87.

Effect: When expenditures are made based on budgeted rather than actual costs or without adequate supporting documentation, there is an increased risk Federal funds may be used for unallowable activities.

Recommendation: We recommend the Agency review their procedures to ensure all contractual expenditures are based on actual work completed and adequate supporting documentation is on file.

Management Response: As DHHS follows NE Department of Administrative Services accounting policies in regards to expenditures, and documents a pre-audit function on those presented to NDEQ for payment, the Agency has placed a strong reliance on those internal controls.

Corrective Action Plan: The Agency will coordinate with DHHS management staff in regards to completing a review of grant expenditure reimbursements. A random sample of DHHS billings to the DWSRF grant will be selected throughout the fiscal year. Items to be verified may include allowable activities, eligible staff performing those activities, and pass through grant payments.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: June 30, 2013

Finding #12-84-07

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Cash Management

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 40 CFR § 31.37(a)(4) says, States shall "Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

Per the DWSRF loan document Section 2.10, Other Conditions and Terms, *(i)* ***Contractor's Payments.*** The Borrower agrees to make prompt payment to its contractor(s) of sums due for construction and to retain only such amounts as may be justified by specific circumstances and provisions of the construction contract.

Condition: During testing we selected 21 loan payments to seven subrecipients who received a total of $1,358,028, of which $687,600 was Federal funding. For all 21 payments tested, we could not determine whether the subrecipient paid their contractors in a timely manner, as the Agency did not have supporting documentation on file showing when the subrecipient paid their contractors.

Questioned Costs: None

Context: The total payments made to subrecipients in State fiscal year 2012 were $11,378,984 to 41 subrecipients, of which $8,741,674 was Federal funding. Many of the subrecipients were small entities who probably did not have the cash flow to pay their contractors before receiving payments from the Agency.

Cause: The Agency had a requirement in the loan agreement that the recipient would pay contractors timely, but did not monitor whether this requirement was met.

Effect: The Agency may not be in compliance with Federal regulations and Federal cash payments to subrecipients may have been improperly used.

Recommendation: We recommend the Agency institute procedures to ensure subrecipients are making payments to their contractors in a timely manner.

> **Management Response:** Ensuring payments in a timely manner is dependent on the timing of the municipality's governing body approval process. With small communities this depends on a monthly board meeting. Documentation actions below were implemented by the Agency.
>
> **Corrective Action:** As of March 4, 2013 each disbursement request from loan recipients will include information on the previous disbursement. This information includes date(s) and Check or Transaction number(s). Final Payment will be verified separately.
>
> **Contact:** Donna Garden, Supervisor Financial Assistance Section
>
> **Anticipated Completion Date:** Completed

Finding #12-84-08

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Reporting

Grant Number & Year: #FS-99780506-0, FFY 2006; #2F-97705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control requires policies and procedures to ensure all the information reported on Federal Financial Report (FFR) forms is complete and accurate. The FFR form requires Federal program income be reported.

Condition: During testing of the two FFRs submitted during the State fiscal year it was noted:

- Both reports were not complete and accurate, as program income was not reported.

- There was no documentation the reports were prepared and reviewed by separate individuals.

Questioned Costs: None

Context: During testing it was noted:

- Program income not reported was $56,532.

- For both reports submitted during the fiscal year, there was no documentation of separate preparer and approver.

The final FFR for the Drinking Water ARRA grant that was submitted after June 30, 2012, appeared to have reported program income and included documentation that the preparer and approver of the document were different.

A similar finding was noted in the prior audit.

Cause: The Agency was working with the EPA to determine how program income should be reported. The Agency reached an agreement with the EPA in February 2012.

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

Recommendation: We recommend the Agency implement procedures to review FFRs before they are submitted to ensure all data included is accurate and complete, including the reporting of program income. In addition, the Agency should continue to document the preparer and approver of all reports.

Management Response: This issue was noted during the last fiscal year audit, and action was taken immediately after the previous audit exit conference.

Corrective Action Plan: Federal Financial Reports are compiled by the Accountant III position, and reviewed by the Budget Officer III position prior to submittal. Compilation and review are both documented through signatures, and indications made that supporting documentation has been compared to the final report.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-13-01	10.558	Child and Adult Care Food Program Suspension & Debarment	A work request has been submitted to the online database management company, Colyar Consulting Group, Inc., to include an attestation statement regarding Suspension and Debarment. However, due to a delay in the migration of the CNP system to the .net format, the online attestation required of all renewing programs will not be available until July 1, 2013.	Repeated with changes Finding 12-13-03
11-13-02	84.126 84.390	Vocational Rehabilitation Cluster Allowable Costs/Cost Principles	The corrective action plan has been completed.	No current finding
11-13-03	84.394	State Fiscal Stabilization Fund Allowability and Period of Availability	The corrective action plan has been completed.	No current finding
11-13-04 10-13-02	84.181 84.393	Early Intervention Services (IDEA) Cluster Allowability	As was stated in the audit "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 (NDE) consider that we have implemented procedures that address this finding.	No current finding
11-13-05	96.001 96.006	Disability Insurance/SSI Cluster Suspension & Debarment	Rather than using the ELPS, the agency, as prescribed by SSA regulations (See 20 CFR 404.1503a, 404.1519, and 404.1519g (b)) and instructions uses a different system to accomplish the same purpose.	Pending Federal management decision
11-13-06	96.001 96.006	Disability Insurance/SSI Cluster Allowability	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. A corrective action plan is not needed as the existing agency procedures described above are adequate.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-23-01 10-23-01 09-23-01 09-23-03 08-23-04	17.225 17.258 17.259 17.260 17.278	Unemployment Insurance WIA Cluster Allowable Costs/Cost Principles	Developing an automated process for Career Center Cost to allocate cost based on hours removing the MOU from the equation. Anticipated completion date is December 2012.	Repeated with changes Finding 12-23-03
11-23-02 10-23-02 09-23-02	17.258 17.259 17.260 17.278	WIA Cluster Allowable Costs/Cost Principles	The corrective action plan has been completed.	No current finding
11-23-03 10-23-04	17.258 17.259 17.260 17.278	WIA Cluster Allowability and Eligibility	Implemented a new process March 1, 2012 for Pell grant documentation and the agency is verifying Pell grant on any new enrollments after March 1, 2012.	Repeated with changes Finding 12-23-06
11-23-04	17.258 17.259 17.260 17.278	WIA Cluster Reporting	Labor management is working on processes to ensure that USDOL agreements are routed to Finance and that SEFA amounts for sub recipients are based on a cash basis. Anticipated completion date is December 2012.	No current finding
11-23-05 10-23-07 09-23-05 08-23-06	17.258 17.259 17.260 17.278	WIA Cluster Reporting	Labor management is developing a process to break down administrative expenses by original funding stream and to record expenditures to the correct business unit. Anticipated completion date is August 2012.	No current finding
11-23-06 10-23-06 09-23-08 08-23-02 08-23-03	17.258 17.259 17.260 17.278	WIA Cluster Cash Management	All draws effective March 1st include appropriate dates and accounts. A procedure was established to delete rather than void transactions. Excess cash will be returned once all accounts have been reconciled. Reports will be developed to assist with the reconciliation process. Once the analysis has been completed necessary adjustments will be performed. Anticipated completion date is October 2012.	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/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-02 10-25-02	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action completed by 8/10/2012.	No current finding
11-25-03 10-25-03	93.558	TANF Allowable Costs/Cost Principles	Corrective action completed 5/15/12.	No current finding
11-25-04	93.658	Foster Care Allowable Costs/Cost Principles	Difference of opinion on audit finding – No action taken.	No current finding
11-25-05	93.575	Child Care and Development Block Grant Period of Availability	Difference of opinion on audit finding – No action taken.	Repeated with changes Finding 12-25-03
11-25-06 10-25-04 09-25-31	10.555 10.559	School Lunch Program Summer Food Service Program for Children Special Tests & Provisions	Corrective action completed 5/31/12.	Repeated with changes Finding 12-25-07
11-25-07 10-25-05	10.555 10.559	School Lunch Program Summer Food Service Program for Children Reporting	Item still open – Corrective action still being taken to resolve issue. Working with IST staff to obtain valid data.	Repeated with changes Finding 12-25-08
11-25-08 10-25-07	10.557	WIC Period of Availability	Corrective action completed 12/29/11.	No current finding

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-09 10-25-08 09-25-27	10.568 10.569	Emergency Food Assistance Cluster Subrecipient Monitoring, Eligibility, Suspension & Debarment	Creating a TEFAP handbook – to be completed 9/30/12.	Repeated with changes Finding 12-25-10
11-25-10 10-25-09 09-25-28 09-25-30	10.568	Emergency Food Assistance Program Allowability, Special Tests & Provisions	Creating a TEFAP handbook – to be completed 9/30/12.	Repeated with changes Finding 12-25-11
11-25-11 10-25-10	10.569	Emergency Food Assistance Program Reporting	Creating a TEFAP handbook – to be completed 9/30/12.	No current finding
11-25-12	10.569	Emergency Food Assistance Program Special Tests & Provisions	Creating a TEFAP handbook – to be completed 9/30/12.	No current finding
11-25-13	64.014 64.015	Veterans State Domiciliary Care, Veterans State Nursing Home Care Reporting	Supporting documentation will be reviewed – An ongoing activity.	No current finding
11-25-14	93.044 93.045 93.053	Aging Cluster Subrecipient Monitoring	Corrective action completed 10/1/11.	No current finding
11-25-15 10-25-11	93.044 93.045 93.053	Aging Cluster Allowability and Subrecipient Monitoring	New monitoring tools implemented – completed 3/31/12.	Repeated with changes Finding 12-25-16

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-16 10-25-13	93.044 93.045 93.053	Aging Cluster Cash Management	Corrective action completed 7/31/11.	Repeated with changes Finding 12-25-18
11-25-17 10-25-12	93.044 93.045 93.053	Aging Cluster Matching/Level of Effort and Reporting	Grant management preparing FSR – completed 3/31/12.	Repeated with changes Finding 12-25-17
11-25-18	93.044 93.045 93.053	Aging Cluster Reporting	Corrective action completed 6/30/12.	Repeated with changes Finding 12-25-15
11-25-19 10-25-15	93.268	Immunization Grants Allowable Costs/Cost Principles	Corrective action completed by 6/30/12.	Repeated with changes Finding 12-25-19
11-25-20 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 and Eligibility	The NEARS has been updated to allow for more accurate and complete review of TANF cases. Program Accuracy Specialists (PAS) will review at least ten (10) TANF program cases per month for accuracy. To be completed by 9/1/12.	Repeated with changes Finding 12-25-20

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-21	93.558 93.714	TANF Cluster Allowable Costs/Cost Principles and Eligibility	Procedures to create accounts receivables have been strengthened. Procedures will be developed to include Employment First Supportive payments as a receivable when the Agency is collecting on a fraud related overpayment. Social Service Workers and Program Accuracy Specialists have received additional training on overpayment processing. To be completed by 9/1/12.	No current finding
11-25-22	93.558	TANF Reporting	The agency will create a plan to ensure the accuracy of ACF-199 and 209 reports by using a valid sample. To be completed by 9/1/12.	Repeated with changes Finding 12-25-23
11-25-23 10-25-21	93.558	TANF Special Tests & Provisions	Procedures to enhance monitoring efforts of the ACF-199 report have been completed. Procedures are in place for the Employment First PAS to monitor cases that need NFOCUS participation hours updated as a result of cases reviewed each month. Procedures have been established to require contractors to update participation hours within NFOCUS within five working days. Employment hours for Employment First participants will be re-verified every six months. To be completed by 9/1/12.	Repeated with changes Finding 12-25-24
11-25-24	93.558	TANF Allowable Costs/Cost Principles and Eligibility	Will consult with the ACF Division of Cost Allocation to determine what changes are needed to process contractor claims. The NFOCUS query used to claim TANF funds will be reviewed to help assure the accuracy for amounts claimed. Periodic monitoring procedures will be established. To be completed by 9/1/12	Repeated with changes Finding 12-25-21
11-25-25	93.563	Child Support Enforcement Special Tests & Provisions	Corrective action completed by 2/1/12.	No current finding
11-25-26	93.568	Low-Income Home Energy Assistance Allowability and Eligibility	Corrective action completed by 4/1/12.	No current finding

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-27 10-25-24	93.569 93.710	CSBG Cluster Cash Management	Corrective action completed by 12/31/11.	Repeated with changes Finding 12-25-28
11-25-28 10-25-25	93.569 93.710	CSBG Cluster Allowability and Subrecipient Monitoring	Corrective action completed by 3/1/12.	Repeated with changes Finding 12-25-29
11-25-29 10-25-26	93.569 93.710	CSBG Cluster Eligibility	Corrective action completed by 1/31/12.	No current finding
11-25-30 10-25-27	93.710	Community Services Block Grant Special Tests & Provisions	Corrective action is completed.	No current finding
11-25-31 10-25-28 09-25-35 08-25-12 07-26-12	93.575 93.596 93.713	Child Care Cluster Allowable Costs/Cost Principles and Eligibility	Corrective action completed by 3/1/12.	Repeated with changes Finding 12-25-31
11-25-32	93.575 93.596 93.713	Child Care Cluster Special Tests & Provisions	Corrective action completed.	Repeated with changes Finding 12-25-32

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-33	93.575 93.596 93.713	Child Care Cluster Special Tests & Provisions	Corrective action completed by 1/31/12.	Repeated with changes Finding 12-25-33
11-25-34 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, and Period of Availability	Partially agree with finding. Corrective action is to be completed by 9/30/12.	Repeated with changes Finding 12-25-34
11-25-35 10-25-30 10-25-31	93.658	Foster Care Allowability	The review of the rates is complete and ongoing.	Repeated with changes Finding 12-25-34
11-25-36	93.658	Foster Care Period of Availability and Reporting	Partial agreement with finding. Will finish reconciliation by 9/30/12.	Repeated with changes Finding 12-25-34
11-25-37	93.658	Foster Care Allowable Costs/Cost Principles	Partial agreement with finding – Financial statements being reviewed on an ongoing basis.	No current finding

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-38	93.658	Foster Care Subrecipient Monitoring	Corrective action completed by 11/9/11.	Repeated with changes Finding 12-25-35
11-25-39	93.659	Adoption Assistance Allowable Costs/Cost Principles and Eligibility	Training to be completed by 9/30/12.	Repeated with changes Finding 12-25-36
11-25-40 10-25-32 09-25-15 08-25-18 07-26-16	93.667	Social Services Block Grant Allowability	Corrective action completed by 3/30/12.	Repeated with changes Finding 12-25-37
11-25-41	93.667	Social Services Block Grant Allowability	Corrective action completed by 11/17/11.	No current finding
11-25-42 10-25-33	93.667	Social Services Block Grant Suspension & Debarment	Corrective action completed by 1/31/12.	No current finding
11-25-43 10-25-38 09-25-06 08-25-21 07-26-22 06-26-07	93.778	Medicaid Matching and Reporting	Procedures have been documented. The process to reconcile Federal funds and State match will be completed by 12/31/12.	Repeated with changes Finding 12-25-40

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-44	93.778	Medicaid Allowable Costs/Cost Principles and Eligibility	The interface between NFOCUS and SSA was enhanced.	No current finding
11-25-45 10-25-37 09-25-11	93.778	Medicaid Allowability and Eligibility	Corrective action completed by 4/1/12.	Repeated with changes Finding 12-25-43
11-25-46 10-25-40	93.778	Medicaid Suspension & Debarment	Corrective action completed by 7/31/12.	No current finding
11-25-47 10-25-34 09-25-07 08-25-22	93.778	Medicaid Allowable Costs/Cost Principles and Subrecipient Monitoring	The agency disagrees with the finding - No action taken.	Repeated with changes Finding 12-25-49
11-25-48 10-25-39 09-25-10	93.778	Medicaid Special Tests & Provisions	Corrective action completed by 6/30/12.	Repeated with changes Finding 12-25-46
11-25-49	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action completed by 12/31/11.	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/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-50	93.778	Medicaid Allowable Costs/Cost Principles and Matching	Corrective action complete by 12/31/11.	No current finding
11-25-51	93.778	Medicaid Special Tests & Provisions	Corrective action complete by 7/1/11.	Repeated with changes Finding 12-25-47
11-25-52 10-25-41	93.778	Medicaid Eligibility	Corrective action complete by 4/1/2011.	No current finding
11-25-53	93.778	Medicaid Allowable Costs/Cost Principles	Interface from CHARTS to MMIS to be completed by 12/31/12.	No current finding
11-25-54	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action complete by 4/30/12.	No current finding
11-25-55	93.778	Medicaid Eligibility	Training to be completed by 8/1/12.	No current finding

Nebraska Department of Health and Human Services (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-25-56	93.778	Medicaid Eligibility	Corrective action complete and ongoing.	Repeated with changes Finding 12-25-45
11-25-57 10-25-42 09-25-12	93.778	Medicaid Allowable Costs/Cost Principles and Eligibility	Procedures revised by 1/31/12.	Repeated with changes Finding 12-25-48
11-25-58	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action complete by 1/31/2012.	No current finding

Nebraska Department of Roads

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-27-01	20.205	Highway Planning and Construction Davis-Bacon Act	At the annual project manager’s conference March 13th thru the 15th, all project managers were reminded of the importance of accurately recording payroll data. Additionally, NDOR internal audit staff will periodically sample projects for this information in the normal course of their closeout audits.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Game and Parks Commission

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-33-01 10-33-01 09-33-01 08-33-01 07-33-01	15.605 15.611	Fish and Wildlife Cluster Reporting	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 current methodology. The Agency's procedures do capture costs and are reconcilable back to the State's accounting system. While the Agency continues to refine compensating controls, no further action is intended. Specific written concurrence from the USFWS has not been obtained despite numerous attempts to get comment. At this point, their position appears to remain that it is a matter of State Accounting procedures and policies, which support the current methodology.	Pending Federal Management Decision

Department of Administrative Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-65-03	16.738 16.803	JAG Program Cluster Reporting	The corrective action plan has been completed.	No current finding
11-65-04	93.778	Medicaid Allowable Costs/Cost Principles	The purchasing assessment is allocated to all agencies. The method of determining the purchasing assessment included the use of actual dollar amounts previously expended by agencies from the most recent completed fiscal year. Goods and services are not double counted they are simply weighted more heavily due to the direct relationship that exists between good and service dollars spent and contracts/purchase orders written. An indirect relationship exists between total dollars spent and the services performed by purchasing.	Repeated with changes Finding 12-65-02
11-65-05	93.719	State Grants to Promote Health Information Technology Suspension & Debarment	The procedure has been documented and the agency is prepared to implement the procedure if a new federal grant is received.	No current finding
11-65-06	93.719	State Grants to Promote Health Information Technology Subrecipient Monitoring, Special Tests & Provisions	The corrective action plan has been completed.	No current finding

Energy Office

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-71-01	93.568	Low-Income Home Energy Assistance Reporting	Corrective action in progress. The agency had technical difficulties when trying to report on the transparency website. The agency is going to get assistance with the transparency website.	No current finding
11-71-02	93.568	Low-Income Home Energy Assistance Suspension & Debarment	Procedures have been implemented and will be ongoing for suspension and debarment.	No current finding
11-71-03	81.128	Energy Efficiency Conservation Block Grant Allowable Costs/Cost Principles	The corrective action plan has been completed.	No current finding

Commission on Law Enforcement and Criminal Justice

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-78-01	16.738 16.803	JAG Program Cluster Allowable Costs/Cost Principles and Subrecipient Monitoring	The agency filled a part-time financial monitor position. She has been trained and has conducted several subgrantee financial monitors.	Repeated with changes Finding 12-78-01
11-78-02	16.738 16.803	JAG Program Cluster Cash Management	We have revised our cash report form to allow for drawdowns that only meet the immediate cash needs of the subgrantee. JAG regulations allow us to draw down the entire amount of the JAG federal grant award and we intend to do that beginning with the 2012 grant award.	No current finding
11-78-03	16.738 16.803	JAG Program Cluster Subrecipient Monitoring	Subrecipients are now notified of all required information in the special conditions to their grant award. The subrecipients are required to sign the special conditions verifying they have read the terms of the grant.	Repeated with changes Finding 12-78-02

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Commission on Law Enforcement and Criminal Justice (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-78-04	16.803	JAG Program ARRA Reporting	This finding has been resolved. All reported expenditures now agree with the general ledger.	Repeated with changes Finding 12-78-03
11-78-05	16.738	JAG Program Allowability	The agency has notified the Attorney General's Office of this finding.	No current finding

Commission for the Blind and Visually Impaired

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-81-01	84.126 84.390	Vocational Rehabilitation Cluster Allowable Costs/Cost Principles	Corrective action was implemented as noted in Audit Corrective Action Plan by 10/1/2011.	No current finding

Department of Environmental Quality

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-84-01	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds Capitalization Grants for Drinking Water SRF Cash Management	Corrective action plan was complete on 8/19/11.	No current finding
11-84-02 10-84-03	66.458	Capitalization Grants for Clean Water State Revolving Funds Cash Management, Subrecipient Monitoring	Annual Letter – To be Completed Oct 2012 Loan Contract Templates Completed 2/1/12 Loan Award Checklist Completed 6/30/11	Repeated with changes Finding 12-84-01

Department of Environmental Quality (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
11-84-03 10-84-06	66.468	Capitalization Grants for Drinking Water State Revolving Funds Cash Management, Subrecipient Monitoring	Annual Letter – To be Completed Oct 2012 Loan Contract Templates Completed 2/1/12 Loan Award Checklist Completed 6/30/11	No current finding
11-84-04 10-84-07	66.468	Capitalization Grants for Drinking Water State Revolving Funds Reporting	1512 Report Approval Completed 3/31/12 FFR Report Program Income Methodology Negotiation Completed 2/20/12 Computation Commenced 6/11/12	Repeated with changes Finding 12-84-08
11-84-05 10-84-04	66.458	Capitalization Grants for Clean Water State Revolving Funds Reporting	1512 Report Approval Completed 3/31/12 FFR Report Program Income Methodology Negotiation Completed 2/20/12 Computation Commenced 6/11/12	Repeated with changes Finding 12-84-04
11-84-06 10-84-01	66.040	State Clean Diesel Grant Allowable Costs/Cost Principles	New Contract Terms First Agreement Signed 3/1/11	No current finding