STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2013

Issued on March 25, 2014

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2013

TABLE OF CONTENTS

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2013

TABLE OF CONTENTS
(Continued)

FINANCIAL SECTION

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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%, 39%, and 31%, respectively, of the assets, net position or fund balances, 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%, 19%, and 17% of the assets, net position or fund balances, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information for the College Savings Plan is based solely 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. 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.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State of Nebraska's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the beginning Governmental Activities Net Position has been restated to correct a misstatement in construction in progress. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 16, the Budgetary Comparison Schedules on pages 53 through 58; and the Information About Infrastructure Assets Reported Using the Modified Approach on page 59, 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 any assurance.

Other Information

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 schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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* in considering the State of Nebraska’s internal control over financial reporting and compliance.

Pat Reding

Lincoln, Nebraska
December 30, 2013

Pat Reding, CPA, CFE
Assistant Deputy Auditor

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

The State of Nebraska (State) implemented four new standards in 2013 required by the Governmental Accounting Standards Board (GASB). Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements,* Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34,* and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* had little effect since the State was already in compliance with the new requirements. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* changed the presentation of the Statements of Net Position.

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, 2013 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, 2013 by $12.4 billion (presented as "net position" in the CAFR). The majority of the net position is 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 position, unrestricted net position was reported as $1.3 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 2013 resulting in an increase in net position of $569 million. This increase in net position was comparable to the increase in 2012 of $379 million.

Fund Level:

General Fund receipts for 2013 were $285 million above the original budgeted amount and above the final budget by $52 million. Expenditures were $312 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $370 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 $219 million, and thereby increasing the fund balance on June 30, 2013 to $1,033 million. Other governmental funds revenues exceeded expenditures by $101 million, chiefly due to unrealized market gains. Adding to these operating gains, such other funds received $83 million in net other financing sources. This $184 million net increase resulted in raising such fund balances at June 30, 2013 to $2,392 million.

The $439 million of net position of the Unemployment Insurance Fund represents 83% of the enterprise funds. Such fund had a $36 million increase in net position for 2013 compared to a $59 million increase in 2012, a $23 million difference. This was due to business assessment fees collected from employers exceeding the unemployment insurance claims by $28 million, $9 million in investment income, and other small changes.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $473 million at June 30, 2013, which is a $72 million decrease from the prior year. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due to employees when they retire. After a retired employee reaches the age of 65, the State has no further obligation for other post employment benefits, except for a very small number of employees.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This CAFR also contains other supplementary information (e.g., budgetary schedules and combining financial statements) in addition to the basic financial statements. These components are described below:

Government-wide Financial Statements

These statements provide a broad view of the State's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the State's financial position. The statements are prepared using the accrual basis of accounting. This means all revenues and expenses related to the fiscal year are recorded in the statements, even if cash has not been received or paid. If taxes are owed to the State but not yet received, such transaction is recorded as an asset (a receivable) and revenue to the State. Likewise, if the State owes for vacation time, but has not yet paid the worker for such vacation earned, then the liability and payroll expense is recorded. The government-wide financial statements include two statements, the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* (page 17) presents all the State's assets and liabilities with the difference between the two reported as "net position." Changes in net position 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 18 and 19) presents information showing how the State's net position changed during the reported year. All changes in net position 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 94% 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-fifth 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 20) 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 21 and 23).

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 position reported in these statements as Enterprise Funds will be identical to the net position reported in the net position 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 contributions from State participants received by the College Savings Plan. 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 position 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 32.

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 Position

The State's assets totaled $14,096 million at June 30, 2013 as compared to $13,543 million at June 30, 2012. As total liabilities only totaled $1,690 million, net position amounted to $12,406 million as of June 30, 2013. As of June 30, 2012, these amounts were $1,706 million and $11,837 million, respectively. By far the largest portion of the State of Nebraska's net position (68 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 position is subject to external restrictions, constitutional provisions, or enabling legislation on how it can be used. It is also not available for future general government spending.

For Governmental Activities other than capital assets, the majority of the restricted net position consists 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 position for business-type activities chiefly represents cash set aside for future unemployment insurance benefits.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Current and Other Non-current Assets	$ 5,003	$ 4,593	$ 595	$ 570	$ 5,598	$ 5,163
Capital Assets	8,491	8,374	7	6	8,498	8,380
Total Assets	13,494	12,967	602	576	14,096	13,543
Non-current Liabilities	433	492	40	53	473	545
Other Liabilities	1,183	1,127	34	34	1,217	1,161
Total Liabilities	1,616	1,619	74	87	1,690	1,706
Net position:						
Net Investment in Capital Assets	8,469	8,348	7	6	8,476	8,354
Restricted	2,215	2,093	441	406	2,656	2,499
Unrestricted	1,194	907	80	77	1,274	984
Total Net Position	$ 11,878	$ 11,348	$ 528	$ 489	$ 12,406	$ 11,837

Over 78% of the State's non-capital assets consist of cash and investments. It should be noted that $221 million in 2013 and $190 million in 2012 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 position 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 17% of the non-capital assets.

Liabilities largely reflect three groupings which represent 95% of total State liabilities, not including the obligations under securities lending explained in the above paragraph. These are operational payables, which consist of accounts payables and accrued liabilities of $540 million ($530 million in 2012); tax refunds payable of $384 million ($370 million in 2012); and long-term payables explained next.

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Position presents few long-term liabilities (shown as noncurrent liabilities), which total only $473 million ($545 million in 2012). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling $111 million for 2013 ($118 million for 2012), Medicaid claims for $202 million ($252 million in 2012), and the calculated amount for vested sick leave due employees when they retire and accrued vacation of $130 million in 2013 ($139 million for 2012). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), which totaled $23 million at June 30, 2013 and $6 million of obligations under other financing arrangements (See Note 9 to the Financial Statements). There was also a net pension obligation of $1.1 million (See Note 12 to the Financial Statements).

The $530 million increase in net position of Governmental Activities, was due to the $121 million increase in the net investment in capital assets, the $122 million increase in restricted net position, and the $287 million increase in unrestricted net position. The major cause of the increase was a $318 million increase in taxes collected.

At the end of June 30, 2013, the State is able to report positive balances in all of the three categories of net position.

Changes in Net Position

The condensed financial information on the following page was derived from the government-wide Statement of Activities and reflects how the State's net position changed during the year. Following that table is management's analysis of the changes in net position for 2013, analyzing both the governmental activities and the business-type activities.

STATE OF NEBRASKA
CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
REVENUES						
Program Revenues						
Charges for Services	$ 598	$ 587	$ 371	$ 479	$ 969	$ 1,066
Operating Grants and Contributions	2,704	2,647	-	-	2,704	2,647
Capital Grants and Contributions	20	16	-	-	20	16
General Revenues						
Taxes	4,564	4,246	-	-	4,564	4,246
Unrestricted Investment Earnings	97	92	10	16	107	108
Miscellaneous	2	-	-	-	2	-
Total Revenues	7,985	7,588	381	495	8,366	8,083
EXPENSES						
General Government	459	462	-	-	459	462
Conservation of Natural Resources	143	146	-	-	143	146
Culture - Recreation	31	25	-	-	31	25
Economic Development and Assistance	96	103	-	-	96	103
Education	1,645	1,570	-	-	1,645	1,570
Higher Education - Colleges and Universities	572	557	-	-	572	557
Health and Social Services	3,197	3,140	-	-	3,197	3,140
Public Safety	384	371	-	-	384	371
Regulation of Business and Professions	134	122	-	-	134	122
Transportation	859	837	-	-	859	837
Interest on Long-term Debt	1	1	-	-	1	1
Unemployment Insurance	-	-	168	262	168	262
Lottery	-	-	121	114	121	114
Excess Liability	-	-	4	1	4	1
Cornhusker State Industries	-	-	9	11	9	11
Total Expenses	7,521	7,334	302	388	7,823	7,722
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	464	254	79	107	543	361
Transfers	40	36	(40)	(36)	-	-
Contributions to Permanent Fund Principal	26	18	-	-	26	18
Increase (Decrease) in Net Position	530	308	39	71	569	379
Net Position - Beginning (as restated)	11,348	11,040	489	418	11,837	11,458
Net Position - Ending	$ 11,878	$ 11,348	$ 528	$ 489	$ 12,406	$ 11,837

Governmental Activities

Governmental activities increased the State's net position by $530 million in 2013 ($308 million increase in 2012). Governmental activities represent 95% of all the primary government's revenues. Program revenues of governmental activities were $3,322 million and were used to partially offset program expenses of $7,521 million, leaving net expenses of $4,199 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 $4,729 million, were $530 million more than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were up $318 million compared to an increase of $279 million in 2012. Program revenues increased 2% from 2012, chiefly due to income from operating grants being up $57 million. Increases in education, health and social services and transportation expenses contributed to the $187 million increase in program expenses. The increase in tax revenue was the chief reason the net position increased $222 million from 2012 to 2013 compared to the $63 million decrease from 2011 to 2012. While the General Fund has more investments than other programs, it maintains safer investments and actually showed a decrease in investment income in 2013 over 2012 of $41 million, due to declining interest rates.

Program expenses, net of revenue, increased by $115 million in 2013, as shown below:

GOVERNMENTAL ACTIVITIES

(in millions of dollars)

	2013	2012
Program Expenses, Net of Revenue		
General Government	$ (371)	$ (354)
Conservation of Natural Resources	(40)	(36)
Culture - Recreation	(8)	2
Economic Development and Assistance	(30)	(29)
Education	(1,233)	(1,183)
Higher Education - Colleges and University	(572)	(557)
Health and Social Services	(1,337)	(1,326)
Public Safety	(235)	(234)
Regulation of Business and Professions	11	14
Transportation	(383)	(380)
Interest on Long-Term Debt	(1)	(1)
Subtotal	(4,199)	(4,084)
General Revenues		
Taxes	4,564	4,246
Unrestricted Investment Earnings	97	92
Miscellaneous	2	-
Transfers	40	36
Contributions to Permanent Fund Principal	26	18
Increase (Decrease) in Net Position	$ 530	$ 308

Four functional areas of the State comprise 83% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Education expenses were up $75 million. Health and Social Services was up $57 million and Transportation expenses were up $22 million. All the other functional areas had small variances in net expenses.

Business-type Activities

The business-type activities increased the State's net position by $39 million for 2013, which was net of a $40 million transfer to the governmental activities. Most of the $371 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 $27 million in 2013. This gain, when combined with the $9 million in investment income, produced a $36 million increase in net position for the Unemployment Insurance Fund. Lottery revenues of $161 million generated net revenue of $40 million, which was offset by the $40 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, 2013, the State's Governmental Funds reported combined ending fund balances of $3,425 million. Of this amount, $516 million is nonspendable, either due to its form or legal constraints, and $1,695 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 $520 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 $46 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining $648 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 $375 million. However, such refunds payable are $17 million more than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by $1,051 million.

On June 30, 2012, the General Fund had a positive fund balance of $815 million. Expenditures increased $80 million and revenues increased by $259 million in 2013. This $179 million increase was more than the $123 million increase that occurred in 2012, resulting in an operating increase of the fund balance of $260 million in 2013. This operating increase in 2013 caused the General Fund balance to increase by $219 million, ending with a fund balance of $1,033 million.

Revenues in 2013, significantly more than anticipated, were up $259 million over 2012 chiefly due to an increase in income tax revenue of $297 million (a 14% increase) over 2012, an increase in sales and use tax revenue of $19 million (a 1% increase) over 2012, and a decrease in investment income of $41 million (a 111% a decrease) over 2012. 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. Education expenditures increased $37 million, Higher Education – Colleges and University expenditures increased $13 million and Health and Social Services expenditures increased $28 million. These increases were all less than three and a quarter percent.

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 2013.

The Cash Reserve Fund was at $313 million at the beginning of 2012. 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 Cash Reserve Fund balance at June 30, 2012 of $429 million. In 2013, there was a statutory transfer from the Fund to the General Fund of $78 million and other net transfers in of $33 million leaving a Fund balance of $384 million at June 30, 2013. 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 $2,392 million at June 30, 2013. Of this amount, $515 million is nonspendable, either due to its form or legal constraints, and $1,695 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $136 million of total fund balance has been committed to specific purposes. The remaining $46 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 $752 million. The non-major special revenue fund balances totaled $816 million.

Governmental funds other than the General Fund saw an increase in fund balances of $184 million. The fund balances of the following funds increased: the Health and Social Service Fund ($38 million), the Permanent School Fund ($71 million), and the other Nonmajor Funds ($83 million.) The Highway Fund decreased by $7 million and the Federal Fund had a slight decrease.

The Highway Fund had a $5 million increase in sales and use taxes, a $32 million increase in federal grants revenue and a $51 million increase in operating expenses. These increases are why the Highway Fund had a $7 million decrease in its fund balance in 2013 as opposed to a $49 million increase in 2012.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2013, there was an increase in federal grants and contracts of $43 million and investment income decreased $4 million. Expenditures in 2013 increased by $14 million for Education, decreased $20 million for Conservation of Natural Resources, decreased $5 million for Economic Development and Assistance, increased $19 million for Health and Social Services, and increased $11 million for Public Safety. Revenues exceeded expenditures by $10 million before transfers. Transfers out increased $6 million in 2013 compared to a decrease of $7 million in 2012. At the end of 2013, there was a net decrease in the fund of less than $2 million, compared to a less than $1 million increase in 2012.

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 $40 million increase in investment income in 2013 (chiefly unrealized gains in the market value of investments) compared to a $75 million decrease in 2012, which was the main reason there was a $38 million increase in fund balance in 2013, as opposed to a $20 million decrease in 2012.

The Permanent School Fund had a $61 million increase in revenue, chiefly due to a $42 million increase in investment income caused by unrealized gains in the market value of investments in 2013, compared to a $66 million investment income decrease in 2012 (when compared to 2011). Expenditures increased $8 million in 2013. There was a $71 million increase in fund balance in 2013, as opposed to a $17 million increase in 2012, a change of $54 million.

The Nonmajor Funds revenues remained about the same between 2012 and 2013. Expenditures increased $12 million in Conservation of Natural Resources and increased $12 million in Regulation of Business and Professions. There were $103 million in net transfers in for the Nonmajor Funds in 2013 versus $25 million in net transfers in for 2012. As a result, the fund balances increased $83 million in 2013 as opposed to a $41 million increase in 2012.

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 position of $439 million at the end of 2013. This fund's net position increased $36 million in 2013, because business assessment fees exceeded unemployment claims paid out by $28 million, investment earnings of $9 million and other small changes. 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 $43 million prior to a $40 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 $1 million and earned $1 million in investment earnings for a net position increase of $2 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net position increased $1,126 million to $10,736 million in 2013 due to a strong performance by the stock market in 2013. Interest and dividend income in 2013 was $137 million versus $129 million in 2012. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $88 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $319 million. The total net position in the College Savings Plan now totals almost three billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2013 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 2013 by $69 million over 2012 net tax revenue of $3,606 million. Because revenues continued to show an increasing trend during 2013, the State's Forecasting Board made two new forecasts throughout the year. At the end, the forecasted net tax revenues were $233 million above the original forecast. However, that increased forecast was still less than actual tax revenues of $3,960 million by $52 million, leaving the State with actual tax revenues, net of refunds, of $285 million above the original budget on a budgetary basis. Agencies continued to watch their General Fund expenditures and spent $295 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, caused the State to finish 2013 with General Fund revenues of $422 million more than expenditures on a budgetary basis, prior to net transfers out. There was a net $151 million transferred out for specific purposes. The fund balance on a budgetary basis increased from $924 million to $1,195 million in 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the State had invested $8.5 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Position and summarized in the table below. Depreciation expense for 2013 totaled $50 million, compared to $62 million for 2012.

CAPITAL ASSETS AS OF JUNE 30

(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Land	$ 562	$ 558	$ -	$ -	$ 562	$ 558
Buildings and Equipment	456	415	7	6	463	421
Infrastructure	7,078	7,012	-	-	7,078	7,012
Subtotal	8,096	7,985	7	6	8,103	7,991
Construction in Progress	395	389	-	-	395	389
Total	$ 8,491	$ 8,374	$ 7	$ 6	$ 8,498	$ 8,380

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 2012, indicated an overall system rating of 81, a rating that has been very consistent over the past six years.

For 2013, it was estimated that the State needed to spend $313 million to preserve and maintain the roads at the abovementioned level. The State actually spent $335 million on roads in 2013, compared to $278 million in 2012. For 2014, it is estimated that the State needs to spend $302 million, a decrease from actual 2013 and an increase from the average of the previous five years.

The State also spent $70 million on capitalized infrastructure and land purchases relating to roads in 2013 ($30 million in 2012), most notably reconstructing (a) Interstate 80 between Omaha and Lincoln, (b) I-80 eastbound bridge over the Missouri River, (c) I-80 13th Street Bridge to Missouri River in Omaha, and (d) US-75 South of Bellevue. Major land purchases included land purchased near five State highways. At June 30, 2013, the State had contractual commitments of $666 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 $69 million less than at June 30, 2012 as a result of new highway construction and repair work being financed by the federal government.

During 2013, the State added $95 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 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	
	2013	**2012**
Capitalized Leases:	$ 23	$ 25

There were no new bonds issued or outstanding in 2013 or 2012. Two new capitalized leases were added in 2013 (two leases were added in 2012). 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 state and national economies are 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 2014 are currently projected to exceed actual 2013 revenues by $15 million on a nominal basis. This relatively small nominal increase is due to the enactment of LB84, which redirected the revenue generated from one-quarter of one percent of the State's 5.5% sales tax rate beginning July 1, 2013 toward state, county and municipal road construction. The State has a low unemployment rate and has borrowed no money from the federal government for the State's Unemployment Insurance Fund. The Legislature has responded to the market effect on defined benefit retirement plans by enacting legislation that improves both the short-term and long-term funding outlook for these plans.

The State does face a number of challenges in the coming years. National healthcare policy, including increased participation in the Medicaid program and the ongoing increase in healthcare costs present challenges to the State. There is also a need for continuous monitoring of the school finance formula to ensure sustainable growth in aid to education for K-12 schools, easily the largest General Fund financial commitment annually.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2013, this Fund had a $384 million balance. A transfer of $285 million was made from the General Fund in July 2013 as statutorily required. This and other transfers resulted in a balance of $670 million at November 30, 2013. Future significant statutory disbursements from this fund in the future include $43 million to be transferred to the Capital Projects Fund. With the improved revenue forecast, the State currently projects an additional $46 million transfer into the Cash Reserve Fund in July 2014.

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 POSITION

June 30, 2013

(Dollars in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 355,824	$ 411,361	$ 767,185	$ 627,001
Receivables, net of allowance				
Taxes	406,631	-	406,631	-
Due from Federal Government	311,034	-	311,034	-
Other	167,025	51,982	219,007	427,598
Internal Balances	(625)	625	-	-
Investments	3,252,798	119,083	3,371,881	1,957,446
Loans Receivable	268,884	-	268,884	35,786
Investment in Joint Venture	-	-	-	296,747
Other Assets	15,326	3,199	18,525	43,617
Restricted Assets:				
Cash and Cash Equivalents	11,326	-	11,326	416,111
Other	-	2,339	2,339	28,829
Securities Lending Collateral	214,919	5,815	220,734	-
Capital assets:				
Land	561,967	315	562,282	87,717
Infrastructure	7,077,548	-	7,077,548	-
Construction in Progress	395,089	-	395,089	238,885
Land Improvements	-	-	-	210,244
Buildings and Equipment	1,083,729	14,036	1,097,765	2,599,445
Less Accumulated Depreciation	(626,999)	(6,989)	(633,988)	(977,846)
Total Capital Assets	8,491,334	7,362	8,498,696	2,158,445
Total Assets	$ 13,494,476	$ 601,766	$ 14,096,242	$ 5,991,580
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 513,958	$ 25,808	$ 539,766	$ 214,267
Tax Refunds Payable	384,086	-	384,086	-
Deposits	8,487	-	8,487	18,971
Unearned Revenue	62,059	2,367	64,426	131,444
Obligations under Securities Lending	214,919	5,815	220,734	-
Noncurrent Liabilities:				
Due within one year	255,852	20,757	276,609	126,766
Due in more than one year	177,229	19,180	196,409	696,265
Total Liabilities	$ 1,616,590	$ 73,927	$ 1,690,517	$ 1,187,713
DEFERRED INFLOWS OF RESOURCES				
Deferred service concession arrangement receipts	$ -	$ -	$ -	$ 16,216
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ 16,216
NET POSITION				
Net Investment in Capital Assets	$ 8,468,618	$ 7,362	$ 8,475,980	$ 1,535,632
Restricted for:				
Education	19,621	-	19,621	1,787,644
Health and Social Services	510,186	-	510,186	-
Conservation of Natural Resources	515,295	-	515,295	-
Transportation	256,833	-	256,833	-
Licensing and Regulation	82,286	-	82,286	-
Other Purposes	133,562	2,339	135,901	296,533
Unemployment Insurance Benefits	-	438,510	438,510	-
Debt Service and Construction	9,966	-	9,966	372,581
Permanent Trusts:				
Nonexpendable	505,302	-	505,302	-
Expendable	182,646	-	182,646	-
Unrestricted	1,193,571	79,628	1,273,199	795,261
Total Net Position	$ 11,877,886	$ 527,839	$ 12,405,725	$ 4,787,651

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

(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	$ 458,483	$ 82,247	$ 5,547	$ -
Conservation of Natural Resources	143,437	37,019	65,433	1,039
Culture – Recreation	31,114	20,513	2,657	56
Economic Development and Assistance	96,433	1,245	65,578	-
Education	1,645,097	47,751	363,766	-
Higher Education - Colleges and University	572,341	-	-	-
Health and Social Services	3,195,733	128,012	1,731,202	-
Public Safety	384,081	33,012	97,075	18,945
Regulation of Business and Professions	134,172	140,910	4,536	-
Transportation	859,289	107,008	368,670	-
Interest on Long-term Debt	784	-	-	-
Total governmental activities	7,520,964	597,717	2,704,464	20,040
Business-type activities:				
Unemployment Insurance	167,957	194,996	-	-
Lottery	121,036	160,753	-	-
Excess Liability	3,850	4,946	-	-
Cornhusker State Industries	9,271	10,299	-	-
Total business-type activities	302,114	370,994	-	-
Total Primary Government	$ 7,823,078	$ 968,711	$ 2,704,464	$ 20,040
COMPONENT UNITS:				
University of Nebraska	$ 1,892,609	$ 941,833	$ 326,949	$ 21,601
State Colleges	110,192	43,126	16,342	1,994
Total Component Units	$ 2,002,801	$ 984,959	$ 343,291	$ 23,595

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 Position

Net Position - Beginning (as restated)

Net Position - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
$ (370,689)	$ -	$ (370,689)	$ -
(39,946)	-	(39,946)	-
(7,888)	-	(7,888)	-
(29,610)	-	(29,610)	-
(1,233,580)	-	(1,233,580)	-
(572,341)	-	(572,341)	-
(1,336,519)	-	(1,336,519)	-
(235,049)	-	(235,049)	-
11,274	-	11,274	-
(383,611)	-	(383,611)	-
(784)	-	(784)	-
(4,198,743)	-	(4,198,743)	-
-	27,039	27,039	-
-	39,717	39,717	-
-	1,096	1,096	-
-	1,028	1,028	-
-	68,880	68,880	-
(4,198,743)	68,880	(4,129,863)	-
-	-	-	(602,226)
-	-	-	(48,730)
-	-	-	(650,956)
2,362,511	-	2,362,511	-
1,661,208	-	1,661,208	-
323,519	-	323,519	-
130,725	-	130,725	-
78,204	-	78,204	-
7,849	-	7,849	-
96,522	10,197	106,719	72,284
1,518	-	1,518	442,685
-	-	-	572,341
26,453	-	26,453	-
40,014	(40,014)	-	-
4,728,523	(29,817)	4,698,706	1,087,310
529,780	39,063	568,843	436,354
11,348,106	488,776	11,836,882	4,351,297
$ 11,877,886	$ 527,839	$ 12,405,725	$ 4,787,651

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

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS							
Cash and Cash Equivalents	$ 105,909	$ 19,560	$ 6,690	$ 6,976	$ 10,979	$ 67,351	$ 217,465
Cash on Deposit with Fiscal Agents	-	-	-	-	-	11,326	11,326
Investments	1,131,026	214,875	77,077	479,848	650,406	699,566	3,252,798
Securities Lending Collateral	89,450	16,994	6,302	30,270	19,582	52,321	214,919
Receivables, net of allowance							
Taxes	357,151	48,544	-	-	-	936	406,631
Due from Federal Government	5	41,332	268,461	-	-	1,236	311,034
Loans	-	-	13,660	146	-	255,078	268,884
Other	31,891	7,697	32,099	31,036	46,011	16,365	165,099
Due from Other Funds	58,005	271	362	2,021	-	3,620	64,279
Inventories	1,108	7,822	1,192	242	-	328	10,692
Prepaid Items	6	-	9	-	-	90	105
Other	538	-	-	-	1,000	1,285	2,823
Total Assets	$ 1,775,089	$ 357,095	$ 405,852	$ 550,539	$ 727,978	$ 1,109,502	$ 4,926,055
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts Payable and Accrued Liabilities	$ 108,134	$ 72,255	$ 174,147	9,080	67,175	42,278	473,069
Tax Refunds Payable	374,557	9,529	-	-	-	-	384,086
Deposits	539	1,522	4,278	280	260	1,608	8,487
Due to Other Funds	29,844	1,310	66,605	366	3	7,211	105,339
Obligations under Securities Lending	89,450	16,994	6,302	30,270	19,582	52,321	214,919
Claims Payable	103,123	-	96,596	-	-	-	199,719
Unearned Revenue	36,115	-	50,384	21,274	7,562	-	115,335
Total Liabilities	741,762	101,610	398,312	61,270	94,582	103,418	1,500,954
Fund Balances:							
Nonspendable:							
Inventories and Prepaid Items	1,114	7,822	1,201	242	-	418	10,797
Endowment Principal	-	-	-	-	485,787	19,515	505,302
Restricted for:							
Education	-	-	-	-	147,609	22,490	170,099
Health and Social Services	-	-	-	488,386	-	32,264	520,650
Conservation of Natural Resources	-	-	-	-	-	515,295	515,295
Transportation	-	247,663	-	-	-	9,621	257,284
Licensing and Regulation	-	-	-	-	-	82,286	82,286
Economic Development	-	-	-	-	-	38,605	38,605
Public Safety	-	-	-	-	-	36,235	36,235
Culture – Recreation	-	-	-	-	-	19,395	19,395
Other Purposes	-	-	6,339	-	-	39,322	45,661
Debt Service	-	-	-	-	-	9,966	9,966
Committed to:							
Economic Stabilization	384,121	-	-	-	-	-	384,121
Other Purposes	-	-	-	-	-	135,605	135,605
Assigned to:							
Education	-	-	-	-	-	129	129
Health and Social Services	-	-	-	641	-	1,257	1,898
Licensing and Regulation	-	-	-	-	-	40,489	40,489
Economic Development	-	-	-	-	-	61	61
Public Safety	-	-	-	-	-	348	348
Culture – Recreation	-	-	-	-	-	72	72
Other Purposes	-	-	-	-	-	2,711	2,711
Unassigned	648,092	-	-	-	-	-	648,092
Total Fund Balances	1,033,327	255,485	7,540	489,269	633,396	1,006,084	3,425,101
Total Liabilities and Fund Balances	$ 1,775,089	$ 357,095	$ 405,852	$ 550,539	$ 727,978	$ 1,109,502	$ 4,926,055

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 POSITION

June 30, 2013

(Dollars in Thousands)

Total fund balances for governmental funds		$ 3,425,101
Amounts reported for governmental activities in the Statement of Net Position 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	561,967	
Infrastructure	7,077,548	
Construction in progress	395,089	
Other capital assets	999,046	
Accumulated depreciation	(570,010)	8,463,640
Certain tax revenues and charges are earned but not available and, therefore, are unearned in the funds.		54,026
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 Position.		70,274
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	(1,007)	
Obligations under other financing arrangements	(6,315)	
Compensated absences	(124,464)	
Net pension obligation	(1,060)	
Claims and judgments	(2,309)	(135,155)
Net position of governmental activities		$ 11,877,886

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, 2013

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES							
Income Taxes	$ 2,359,093	$ -	$ -	$ 3,299	$ -	$ -	$ 2,362,392
Sales and Use Taxes	1,465,595	189,024	-	-	-	4,410	1,659,029
Petroleum Taxes	-	310,283	-	-	4,734	13,236	328,253
Excise Taxes	70,343	-	-	8,250	-	52,132	130,725
Business and Franchise Taxes	54,958	-	-	-	-	23,246	78,204
Other Taxes	51	2,492	-	-	-	5,306	7,849
Federal Grants and Contracts	45	355,603	2,339,270	142	-	29,394	2,724,454
Licenses, Fees and Permits	20,364	83,507	648	82,490	1,386	145,036	333,431
Charges for Services	2,587	21,266	4,388	18,860	-	38,416	85,517
Investment Income	(4,211)	(3,224)	(822)	38,946	59,659	2,738	93,086
Rents and Royalties	12	431	12	367	45,397	21,268	67,487
Surcharge	-	-	-	-	-	51,482	51,482
Other	3,539	1,562	1,508	15,253	20,668	28,776	71,306
Total Revenues	3,972,376	960,944	2,345,004	167,607	131,844	415,440	7,993,215
EXPENDITURES							
Current:							
General Government	345,098	-	4,432	-	-	73,159	422,689
Conservation of Natural Resources	32,888	-	40,839	-	-	70,557	144,284
Culture – Recreation	5,135	-	2,551	-	-	22,864	30,550
Economic Development and Assistance	10,209	-	66,111	-	-	20,439	96,759
Education	1,196,188	-	364,399	-	60,959	19,612	1,641,158
Higher Education - Colleges and University	557,381	-	-	-	-	14,960	572,341
Health and Social Services	1,325,510	-	1,738,077	128,433	-	2,545	3,194,565
Public Safety	236,888	-	114,564	-	-	43,643	395,095
Regulation of Business and Professions	3,466	-	4,225	-	-	126,532	134,223
Transportation	-	958,300	-	-	-	16,024	974,324
Capital Projects	-	-	-	-	-	21,070	21,070
Debt Service:							
Principal	-	-	-	-	-	4,755	4,755
Interest	-	-	-	-	-	344	344
Total Expenditures	3,712,763	958,300	2,335,198	128,433	60,959	436,504	7,632,157
Excess (Deficiency) of Revenues Over (Under) Expenditures	259,613	2,644	9,806	39,174	70,885	(21,064)	361,058
OTHER FINANCING SOURCES (USES)							
Transfers In	50,451	-	-	1,025	-	152,937	204,413
Transfers Out	(91,535)	(9,331)	(11,468)	(2,200)	-	(49,865)	(164,399)
Proceeds from Other Financing Arrangements	-	-	-	-	-	1,440	1,440
Total Other Financing Sources (Uses)	(41,084)	(9,331)	(11,468)	(1,175)	-	104,512	41,454
Net Change in Fund Balances	218,529	(6,687)	(1,662)	37,999	70,885	83,448	402,512
FUND BALANCES, JULY 1 (AS RESTATED)	814,798	262,172	9,202	451,270	562,511	922,636	3,022,589
FUND BALANCES, JUNE 30	$ 1,033,327	$ 255,485	$ 7,540	$ 489,269	$ 633,396	$ 1,006,084	$ 3,425,101

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, 2013

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ 402,512
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	157,895	
Capital assets sold	(1,205)	
Depreciation expense	(39,643)	117,047
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 Position. In the current period, proceeds were received from:		
Other financing arrangements	(1,440)	(1,440)
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 Position. In the current year these amounts consisted of:		
Other financing arrangement payments	4,755	
Capital lease payments	2,430	7,185
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.		(11,009)
Because some revenues will not be collected in the next year, they are not considered available revenues and are unearned in the governmental funds. Unearned revenues decreased by this amount this year.		5,005
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	8,663	
Decrease in net pension obligation	110	
Decrease in claims and judgments	1,707	10,480
Change in net position of governmental activities		$ 529,780

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

State of Nebraska

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013

(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	$ 370,386	$ 40,975	$ 411,361	$ 139,028
Receivables, net of allowance	34,729	17,253	51,982	1,794
Due from Other Funds	-	726	726	17,257
Inventories	-	2,692	2,692	425
Prepaid Items	-	-	-	1,281
Other	-	507	507	-
Total Current Assets	405,115	62,153	467,268	159,785
Noncurrent Assets:				
Restricted Long-Term Deposits	-	2,339	2,339	-
Long-Term Investments	49,701	69,382	119,083	-
Securities Lending Collateral	3,931	1,884	5,815	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	355	13,681	14,036	84,683
Less Accumulated Depreciation	(342)	(6,647)	(6,989)	(56,989)
Total Capital Assets	13	7,349	7,362	27,694
Total Noncurrent Assets	53,645	80,954	134,599	27,694
Total Assets	$ 458,760	$ 143,107	$ 601,867	$ 187,479
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 1,077	$ 24,731	$ 25,808	$ 17,264
Due to Other Funds	-	101	101	984
Capital Lease Obligations	-	-	-	6,298
Claims, Judgments and Compensated Absences	15,217	5,540	20,757	39,366
Unearned Revenue	-	2,367	2,367	750
Total Current Liabilities	16,294	32,739	49,033	64,662
Noncurrent Liabilities:				
Capital Lease Obligations	-	-	-	15,411
Claims, Judgments and Compensated Absences	12	19,168	19,180	37,132
Obligations under Securities Lending	3,931	1,884	5,815	-
Total Noncurrent Liabilities	3,943	21,052	24,995	52,543
Total Liabilities	$ 20,237	$ 53,791	$ 74,028	$ 117,205
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ -
NET POSITION				
Net Investment in Capital Assets	13	7,349	7,362	5,985
Restricted for:				
Lottery Prizes, Noncurrent	-	2,339	2,339	-
Unemployment Insurance Benefits	438,510	-	438,510	-
Unrestricted	-	79,628	79,628	64,289
Total Net Position	$ 438,523	$ 89,316	$ 527,839	$ 70,274

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

State of Nebraska

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES				
Charges for Services	$ 193,630	$ 175,998	$ 369,628	$ 314,020
Other	1,366	-	1,366	1,158
Total Operating Revenues	194,996	175,998	370,994	315,178
OPERATING EXPENSES				
Personal Services	1,537	5,780	7,317	35,326
Services and Supplies	810	31,273	32,083	114,540
Lottery Prizes	-	93,092	93,092	-
Unemployment Claims	165,536	-	165,536	-
Insurance Claims	-	3,518	3,518	169,958
Depreciation	74	489	563	9,770
Total Operating Expenses	167,957	134,152	302,109	329,594
Operating Income (Loss)	27,039	41,846	68,885	(14,416)
NONOPERATING REVENUES (EXPENSES)				
Investment Income	8,643	1,554	10,197	3,436
Gain (Loss) on Sale of Capital Assets	-	(5)	(5)	355
Other	-	-	-	(384)
Total Nonoperating Revenues (Expenses)	8,643	1,549	10,192	3,407
Income (Loss) Before Transfers	35,682	43,395	79,077	(11,009)
Transfers Out	-	(40,014)	(40,014)	-
Change in Net Position	35,682	3,381	39,063	(11,009)
NET POSITION, JULY 1	402,841	85,935	488,776	81,283
NET POSITION, JUNE 30	$ 438,523	$ 89,316	$ 527,839	$ 70,274

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, 2013

(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	$ 205,342	$ 167,157	$ 372,499	$ 17,715
Cash Received from Interfund Charges	-	8,128	8,128	298,652
Cash Paid to Employees	(1,529)	(5,671)	(7,200)	(35,318)
Cash Paid to Suppliers	(721)	(29,032)	(29,753)	(104,687)
Cash Paid for Lottery Prizes	-	(91,505)	(91,505)	-
Cash Paid for Insurance Claims	(177,124)	(5,548)	(182,672)	(175,417)
Cash Paid for Interfund Services	(15)	(1,058)	(1,073)	(10,017)
Net Cash Flows from Operating Activities	25,953	42,471	68,424	(9,072)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(40,014)	(40,014)	-
Net Cash Flows from Noncapital Financing Activities	-	(40,014)	(40,014)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(1,554)	(1,554)	(5,900)
Proceeds from Sale of Capital Assets	-	3	3	1,749
Principal Paid on Capital Leases	-	-	-	(6,052)
Interest Paid on Capital Leases	-	-	-	(384)
Net Cash Flows from Capital and Related Financing Activities	-	(1,551)	(1,551)	(10,587)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(150,638)	(150,638)	-
Proceeds from Sale of Investment Securities	4,050	151,120	155,170	-
Interest and Dividend Income	8,713	2,750	11,463	3,768
Net Cash Flows from Investing Activities	12,763	3,232	15,995	3,768
Net Increase (Decrease) in Cash and Cash Equivalents	38,716	4,138	42,854	(15,891)
CASH AND CASH EQUIVALENTS, JULY 1	331,670	36,837	368,507	154,919
CASH AND CASH EQUIVALENTS, JUNE 30	$ 370,386	$ 40,975	$ 411,361	$ 139,028

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, 2013

(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)	$ 27,039	$ 41,846	$ 68,885	$ (14,416)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	74	489	563	9,770
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	10,358	(412)	9,946	2,105
(Increase) Decrease in Due from Other Funds	-	(89)	(89)	(824)
(Increase) Decrease in Inventories	-	411	411	8
(Increase) Decrease in Prepaid Items	-	100	100	(69)
(Increase) Decrease in Long-Term Deposits	-	28	28	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	60	2,343	2,403	(271)
Increase (Decrease) in Due to Other Funds	-	(3)	(3)	176
Increase (Decrease) in Claims Payable	(11,578)	(2,030)	(13,608)	(5,459)
Increase (Decrease) in Unearned Revenue	-	(212)	(212)	(92)
Total Adjustments	(1,086)	625	(461)	5,344
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 25,953	$ 42,471	$ 68,424	$ (9,072)

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	$ -	$ -	$ -	$ 5,840
Change in Fair Value of Investments	-	(1,159)	(1,159)	-
Total Noncash Transactions	$ -	$ (1,159)	$ (1,159)	$ 5,840

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

State of Nebraska

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2013

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 7,391	$ 6,924	$ 98,674
Investments:			
U.S. Treasury Notes and Bonds	460,722	-	-
U.S. Treasury Bills	3,136	-	-
Government Agency Securities	46,753	-	-
Corporate Bonds	647,398	-	-
International Bonds	240,087	-	-
Equity Securities	1,499,437	-	-
Private Equity	414,023	-	-
Options	(1,039)	-	-
Mortgages	486,027	-	-
Private Real Estate	274,252	-	-
Asset Backed Securities	69,644	-	-
Municipal Bonds	48,880	-	-
Commingled Funds	6,323,389	2,854,326	-
Guaranteed Investment Contracts	112,703	-	-
Short Term Investments	231,710	9,490	-
Total Investments	10,857,122	2,863,816	-
Securities Lending Collateral	338,808	-	-
Receivables:			
Contributions	26,669	-	-
Interest and Dividends	17,448	758	450
Other	627,520	-	340
Total Receivables	671,637	758	790
Due from Other Funds	296,025	-	-
Capital Assets:			
Buildings and Equipment	23,075	-	-
Less Accumulated Depreciation	(23,068)	-	-
Total Capital Assets	7	-	-
Other Assets	-	20,901	-
Total Assets	$ 12,170,990	$ 2,892,399	$ 99,464
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	$ -	$ -	$ -
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 820,833	$ 6,862	$ 15,344
Due to Other Governments	3,486	-	60,300
Deposits	-	800	-
Due to Other Funds	271,860	3	-
Obligations under Securities Lending	338,808	-	-
Accrued Compensated Absences	325	-	-
Other Liabilities	-	-	23,820
Total Liabilities	$ 1,435,312	$ 7,665	$ 99,464
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	$ -	$ -	$ -
NET POSITION			
Held in Trust for:			
Pension Benefits	$ 10,735,678	$ -	$ -
College Savings Plan	-	2,857,729	-
Other Purposes	-	27,005	-
Total Net Position	$ 10,735,678	$ 2,884,734	$ -

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

State of Nebraska

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS		
Contributions:		
Participant Contributions	$ 226,449	$ 318,821
State Contributions	96,632	-
Political Subdivision Contributions	161,923	-
Court Fees	3,181	-
Total Contributions	488,185	318,821
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,103,044	277,802
Interest and Dividend Income	137,440	4,274
Securities Lending Income	3,292	-
Total Investment Income	1,243,776	282,076
Investment Expenses	23,394	12,979
Securities Lending Expenses	804	-
Total Investment Expense	24,198	12,979
Net Investment Income	1,219,578	269,097
Escheat Revenue	-	6,749
Other Additions	271,860	681
Total Additions	1,979,623	595,348
DEDUCTIONS		
Benefits	556,705	203,934
Refunds	12,860	-
Amounts Distributed to Outside Parties	-	7,722
Administrative Expenses	6,218	1,220
Other Deductions	278,319	-
Total Deductions	854,102	212,876
Change in Net Position Held in Trust for:		
Pension Benefits	1,125,521	-
College Savings Plan	-	383,731
Other Purposes	-	(1,259)
NET POSITION-BEGINNING OF YEAR (as restated)	9,610,157	2,502,262
NET POSITION-END OF YEAR	$ 10,735,678	$ 2,884,734

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

State of Nebraska

STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2013

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 596,721	$ 30,280	$ 627,001
Receivables, net of allowance			
Loans	33,498	2,288	35,786
Other	424,055	3,543	427,598
Investments	1,912,132	45,314	1,957,446
Investment in Joint Venture	296,747	-	296,747
Other Assets	41,296	2,321	43,617
Restricted Assets:			
Cash and Cash Equivalents	376,512	39,599	416,111
Investments Held by Trustee	28,829	-	28,829
Capital assets:			
Land	86,317	1,400	87,717
Land Improvements	183,577	26,667	210,244
Construction in Progress	227,881	11,004	238,885
Buildings and Equipment	2,388,979	210,466	2,599,445
Less Accumulated Depreciation	(895,965)	(81,881)	(977,846)
Total Capital Assets	1,990,789	167,656	2,158,445
Total Assets	$ 5,700,579	$ 291,001	$ 5,991,580
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	$ -	$ -	$ -
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 203,393	$ 10,874	$ 214,267
Deposits	18,845	126	18,971
Unearned Revenue	131,033	411	131,444
Noncurrent Liabilities:			
Due within one year	123,188	3,578	126,766
Due in more than one year	649,934	46,331	696,265
Total Liabilities	$ 1,126,393	$ 61,320	$ 1,187,713
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement receipts	$ 16,216	$ -	$ 16,216
Total Deferred Inflows of Resources	$ 16,216	$ -	$ 16,216
NET POSITION			
Net Investment in Capital Assets	$ 1,414,153	$ 121,479	$ 1,535,632
Restricted for:			
Education	1,787,644	-	1,787,644
Other Purposes	249,398	47,135	296,533
Construction and Debt Service	343,097	29,484	372,581
Permanent Trusts:			
Unrestricted	763,678	31,583	795,261
Total Net Position	$ 4,557,970	$ 229,681	$ 4,787,651

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, 2013

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Expenses:			
Compensation and benefits	$ 1,188,806	$ 61,790	$ 1,250,596
Supplies and materials	272,666	11,787	284,453
Contractual services	134,263	4,053	138,316
Repairs and maintenance	56,831	3,086	59,917
Utilities	35,390	3,899	39,289
Communications	14,918	545	15,463
Depreciation	107,696	6,966	114,662
Scholarships and fellowships	70,155	5,703	75,858
Other	11,884	12,363	24,247
Total Operating Expenses	1,892,609	110,192	2,002,801
Program Revenues:			
Charges for Services	941,833	43,126	984,959
Operating Grants and Contributions	326,949	16,342	343,291
Capital Grants and Contributions	21,601	1,994	23,595
Total Program Revenues	1,290,383	61,462	1,351,845
Net (Expense) Revenue	(602,226)	(48,730)	(650,956)
General Revenues:			
Interest and investment earnings	70,113	2,171	72,284
Miscellaneous	431,522	11,163	442,685
Payments from the State of Nebraska	519,528	52,813	572,341
Total General Revenues	1,021,163	66,147	1,087,310
Change in Net Position	418,937	17,417	436,354
Net Position - Beginning	4,139,033	212,264	4,351,297
Net Position - Ending	$ 4,557,970	$ 229,681	$ 4,787,651

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 Position 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 Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net Investment in Capital Assets. This category reflects the portion of net position 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 Position. This category results when constraints are externally imposed on net position 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 position only when unrestricted net position is insufficient or unavailable.

The Statement of Net Position reports $2,656,546 of restricted net position, of which $1,514,590 is restricted by enabling legislation.

Unrestricted Net Position. This category represents net position that does not meet the definition of the preceding two categories. Unrestricted net position often has 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 position. 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 unearned 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 Unclaimed Property and Nebraska College Savings Plan activity held for private individuals.

Agency Funds. These funds account for assets held by the State pending distribution to other governments and individuals.

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, 2013, 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 unearned 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 position on the Statement of Net Position 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 Position. 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, 2013 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, 2013, the carrying amounts of the State's deposits were $66,973 and the bank balances were $87,531. 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 $21,975 at June 30, 2013.

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, 2012. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2013.

State of Nebraska (dollars expressed in thousands)

The primary government's investments at June 30, 2013 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, 2013

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	$ 906,923	4.27	$ 460,722	5.21
U.S. Treasury Bills	17,998	-	3,136	-
Government Agency Securities	1,027,606	3.48	46,753	2.94
Corporate Bonds	1,255,860	4.05	647,398	5.23
International Bonds	7,784	4.25	240,087	7.62
Mortgages	57,333	4.13	486,027	4.83
Asset Backed Securities	1,904	1.47	69,644	4.94
Commingled Funds	176,105	5.11	973,364	4.94
Municipal Bonds	6,714	11.67	48,880	10.62
Guaranteed Investment Contracts	7,563	2.72	112,703	2.72
Short Term Investments	230,195	0.40	241,200	0.47
	3,695,985		3,329,914	
Other Investments				
Equity Securities	73,864		1,499,437	
Private Equity	46,123		414,023	
Commingled Funds	752,724		8,204,351	
Options	(204)		(1,039)	
Private Real Estate	17,524		274,252	
U.S. Treasury Investment Pool	360,847		-	
Less: Component Unit Investment in State Investment Pool	(750,455)		-	
Total Investments	4,196,408		13,720,938	
Securities Lending Short-term Collateral Investment Pool	220,734		338,808	
Total	$ 4,417,142		$ 14,059,746	

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 core-plus high yield fixed income accounts. The maximum exposure to any single investment grade issuer excluding the U.S. government, its agencies or instrumentalities or government sponsored entities is 5 percent and the maximum exposure to a single issuer below investment grade is 3 percent. The minimum credit rating of a derivatives counterparty is A. The primary government's rated debt investments as of June 30, 2013 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, 2013

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 1,027,606	$ -	$ 952,527	$ -	$ -	$ -	$ -	$ 75,079
Corporate Bonds	1,255,860	76,735	365,524	748,885	39,353	12,088	4,553	8,722
International Bonds	7,784	1,805	514	1,219	3,052	471	-	723
Mortgages	57,333	5,838	45,276	1,834	2,323	529	1,363	170
Asset Backed Securities	1,904	359	993	19	-	-	405	128
Commingled Funds	176,105	-	-	-	-	-	-	176,105
Short Term Investments	230,195	-	-	13,177	-	356	-	216,662
Municipal Bonds	6,714	1,522	2,409	1,903	719	-	161	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2013

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 45,748	$ 304	$ 15,404	$ -	$ 1,820	$ -	$ -	$ 28,220
Corporate Bonds	666,563	41,966	40,835	234,973	166,481	99,741	59,816	22,751
International Bonds	247,035	70,160	35,393	28,041	31,254	6,291	2,980	72,916
Mortgages	497,267	46,037	366,919	13,970	9,554	4,557	3,400	52,830
Asset Backed Securities	72,817	41,994	14,009	8,398	3,925	201	2,462	1,828
Commingled Funds	934,273	-	-	-	-	-	-	934,273
Short Term Investments	207,144	688	-	7,109	-	211	-	199,136
Municipal Bonds	49,448	14,226	14,309	11,040	3,490	1,778	-	4,605

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, 2013, 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, 2013, 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 29 to 44 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, 2013

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ -	$ 460	$ 388
Brazilian Real	(388)	3	1,023
Canadian Dollar	2	487	1,806
Chilean Peso	-	-	292
Columbian Peso	-	-	205
Czech Koruna	-	55	-
Danish Krone	-	159	-
Euro Currency	44	8,512	2,528
Hong Kong Dollar	3	1,053	-
Indonesian Rupiah	8	188	-
Japanese Yen	39	3,537	-
Malaysian Ringgit	-	-	389
Mexican Peso	186	277	1,296
New Zeland Dollar	-	-	358
Norwegian Krone	-	205	-
Philippine Peso	2	98	670
Pound Sterling	43	3,654	-
Singapore Dollar	7	716	-
South African Rand	-	2	-
South Korean Won	1	785	-
Swedish Krona	-	353	-
Swiss Franc	3	2,699	-
Thailand Baht	2	235	-
Uruguayan Peso	-	-	50
Total	$ (48)	$ 23,478	$ 9,005

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2013

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 587	$ 8,709	$ 4,325
Brazilian Real	(2,718)	5,158	3,564
Canadian Dollar	486	11,540	29,061
Chilean Peso	-	-	1,168
Columbian Peso	-	-	704
Czech Koruna	-	1,174	5,414
Danish Krone	2	2,745	-
Euro Currency	13,674	339,827	108,866
Hong Kong Dollar	7	30,187	-
Indonesian Rupiah	116	5,404	-
Japanese Yen	1,203	138,307	18,518
Malaysian Ringgit	122	-	7,368
Mexican Peso	1,132	2,763	20,537
New Zealand Dollar	1	72	5,843
Norwegian Krone	163	3,991	18,259
Philippine Peso	-	422	2,760
Polish Zloty	39	-	-
Pound Sterling	1,972	92,764	50,445
Singapore Dollar	131	12,597	-
South African Rand	58	3,548	-
South Korean Won	175	18,826	-
Swedish Krona	190	22,191	21,143
Swiss Franc	31	77,672	-
Thailand Baht	-	1,211	-
Uruguayan Peso	-	-	406
Total	$ 17,371	$ 779,108	$ 298,381

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, 2013 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2013, 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, 2013
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 130	$ (83)	$ 7,600
Fixed Income Futures	-	(754)	17,200
Fixed Income Options	(204)	(15)	(25,639)
Foreign Currency Options	(1)	52	(1,300)
Futures Options	-	4	-
FX Forwards	(210)	(242)	11,405
Interest Rate Swap	356	518	21,821
Rights	-	6	48

DERIVATIVE INVESTMENTS AT JUNE 30, 2013
FIDUCIARY FUND

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 965	$ (401)	$ 19,500
Fixed Income Futures	-	(1,707)	54,706
Fixed Income Options	(1,154)	(249)	(144,573)
Foreign Currency Options	(8)	310	(7,300)
Futures Options	-	17	-
FX Forwards	2,045	(5,956)	336,142
Interest Rate Swap	1,384	67	139,650
Rights	-	192	-
Warrants	-	-	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, 2013, 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, 2013, was $831 for Governmental and Business-Type Activities and $8,474 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 $9,305. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 90 percent for the Governmental and Business-Type Activities and 67 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, 2013 are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2013
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ 26	$ -
Brazilian Real	$ (388)	$ (64)	$ -
Canadian Dollar	-	(2)	-
Euro Currency	-	(9)	(16)
Japanese Yen	-	(63)	-
Mexican Peso	59	(16)	-
Norwegian Krone	-	(62)	-
Polish Zloty	-	(20)	-
Total	$ (329)	$ (210)	$ (16)

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2013
FIDUCIARY FUND

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ 533	$ -
Brazilian Real	(2,759)	(241)	-
Canadian Dollar	-	140	-
Swiss Franc	-	(54)	-
Yuan Ranminbi	-	39	-
Czech Koruna	-	(14)	-
Euro Currency	509	1,418	(90)
Pound Sterling	-	260	-
Japanese Yen	-	(546)	-
South Korean Won	-	(34)	-
Mexican Peso	303	(134)	-
Malaysian Ringgit	-	(24)	-
Norwegian Krone	-	103	-
New Zealand Dollar	-	15	-
Philippine Peso	-	(1)	-
Polish Zloty	-	(118)	-
New Russian Ruble	-	155	-
Swedish Krona	-	563	-
Singapore Dollar	-	(7)	-
Thailand Baht	-	(8)	-
Total	$ (1,947)	$ 2,045	$ (90)

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 3.03 percent during fiscal year 2013. The fair value of these contracts is $76,086, and the contract value is $74,140. 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, 2013					
			AAA	AA	A	BBB	BB	UNRATED
Asset Backed Securities	1.41	$ 8,189	$ 8,079	$ 5	$ 105	$ -	$ -	$ -
Corporate Bonds	2.95	32,901	1,191	6,439	17,384	7,179	262	446
Government Agency Securities	3.61	9,611	-	8,708	268	-	-	635
International Bonds	3.24	1,424	520	779	125	-	-	-
Mortgages	2.49	13,381	3,449	9,370	164	-	-	398
Short Term Investments	0.16	3,367	-	-	254	-	-	3,113
US Treasury Notes	5.54	7,213	-	-	-	-	-	7,213
		$ 76,086						

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2013 is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 18,476,888
Carrying amount of Deposits	66,973
Total	$ 18,543,861
Statement of Net Position:	
Cash and Cash Equivalents	$ 767,185
Investments	3,371,881
Restricted Cash and Cash Equivalents	11,326
Securities Lending Collateral	220,734
Statement of Fiduciary Net Position:	
Cash and Cash Equivalents	112,989
Investments	13,720,938
Securities Lending Collateral	338,808
Total	$ 18,543,861

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2013:

Governmental Activities:	
General Fund	$ 101,520
Federal Fund	8,221
Health and Social Services Fund	5,258
Total Governmental Activities	$ 114,999
Business-type Activities:	
Unemployment Insurance	$ 8,371
Total Business-type Activities	$ 8,371

Of the taxes and other receivables, $32,792 and $21,234, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by unearned 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, 2013 was as follows:

	BEGINNING BALANCE (AS RESTATED)	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 557,614	$ 4,353	$ -	$ 561,967
Infrastructure	7,011,809	65,739	-	7,077,548
Construction in progress	389,277	131,085	125,273	395,089
Total capital assets, not being depreciated	7,958,700	201,177	125,273	8,034,604
Capital assets, being depreciated:				
Buildings and improvements	563,413	56,947	2,625	617,735
Equipment	457,135	36,784	27,925	465,994
Total capital assets, being depreciated	1,020,548	93,731	30,550	1,083,729
Less accumulated depreciation for:				
Buildings and improvements	257,001	14,985	2,407	269,579
Equipment	348,536	34,428	25,544	357,420
Total accumulated depreciation	605,537	49,413	27,951	626,999
Total capital assets, being depreciated, net	415,011	44,318	2,599	456,730
Governmental activities capital assets, net	$ 8,373,711	$ 245,495	$ 127,872	$ 8,491,334
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 761	$ -	$ 406	$ 355
Less accumulated depreciation	674	74	406	342
Total Unemployment Insurance, net	87	(74)	-	13
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	1,497	-	8,442
Equipment	5,285	57	103	5,239
Total capital assets, being depreciated	12,230	1,554	103	13,681
Less accumulated depreciation for:				
Buildings and improvements	2,022	245	-	2,267
Equipment	4,231	244	95	4,380
Total accumulated depreciation	6,253	489	95	6,647
Total capital assets, being depreciated, net	5,977	1,065	8	7,034
Total Nonmajor Enterprise, net	6,292	1,065	8	7,349
Business-type activities capital assets, net	$ 6,379	$ 991	$ 8	$ 7,362

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

Governmental activities:	
General Government	$ 17,962
Conservation of Natural Resources	1,256
Culture – Recreation	1,681
Economic Development and Assistance	275
Education	1,849
Health and Social Services	1,527
Public Safety	10,148
Regulation of Business and Professions	857
Transportation	13,858
Total depreciation expense - Governmental activities	$ 49,413

State of Nebraska (dollars expressed in thousands)

Construction Commitments. At June 30, 2013 the State had contractual commitments of approximately $665,590 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$ 328,472
State funds	327,176
Local funds	9,942
	$ 665,590

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, 2013 consists of the following:

	DUE TO								
DUE FROM	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Pension Trust	TOTALS
General Fund	$ -	$ 125	$ 193	$ 398	$ 124	$ 171	$ 4,539	$ 24,294	$ 29,844
Highway Fund	-	-	134	3	208	387	578	-	1,310
Federal Fund	57,295	8	-	1,608	3,171	79	4,444	-	66,605
Health and Social Services	-	-	-	-	2	31	333	-	366
Permanent School Fund	-	-	-	-	-	-	3	-	3
Nonmajor Governmental Funds	710	84	35	12	59	36	6,275	-	7,211
Nonmajor Enterprise Funds	-	12	-	-	1	-	88	-	101
Internal Service Funds	-	42	-	-	55	22	865	-	984
Pension Trust	-	-	-	-	-	-	129	271,731	271,860
Private Purpose Trust	-	-	-	-	-	-	3	-	3
TOTALS	$ 58,005	$ 271	$ 362	$ 2,021	$ 3,620	$ 726	$ 17,257	$ 296,025	$ 378,287

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, 2013 consist of the following:

	TRANSFERRED TO:			
TRANSFERRED FROM:	General Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ -	$ 91,535	$ 91,535
Highway Fund	-	-	9,331	9,331
Federal Fund	-	-	11,468	11,468
Health & Social Services Fund	2,200	-	-	2,200
Nonmajor Governmental Funds	48,251	130	1,484	49,865
Nonmajor Enterprise Funds	-	895	39,119	40,014
TOTALS	$ 50,451	$ 1,025	$ 152,937	$ 204,413

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

State of Nebraska (dollars expressed in thousands)

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2013 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	$ 12,560	$ 4,390	$ 4,876	$ 530	$ -	$ 2,856	$ 1,231	$ 2	$ 191	$ 26,636
Payables to Vendors	65,397	53,112	49,812	8,227	62,411	29,999	14,852	1,031	16,796	301,637
Payables to Governments	30,177	14,753	119,459	323	4,764	9,407	512	1	40	179,436
Due to Fiduciary Funds *	-	-	-	-	-	-	24,294	-	-	24,294
Miscellaneous	-	-	-	-	-	16	-	43	7,704	7,763
TOTALS	$ 108,134	$ 72,255	$ 174,147	$ 9,080	$ 67,175	$ 42,278	$ 40,889	$ 1,077	$ 24,731	$ 539,766

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

Some of the amounts reflected as payables to governments were reflected as Due to Other Governments on the Statement of Net Position in the prior year.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2013 are summarized as follows:

	BEGINNING BALANCE (AS RESTATED)	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 318,064	$ 1,780,274	$ 1,824,636	$ 273,702	$ 238,747
Capital Lease Obligations	25,358	5,840	8,482	22,716	7,305
Obligations Under Other Financing Arrangements	9,630	1,440	4,755	6,315	750
Compensated Absences	137,920	5,959	14,591	129,288	9,050
Net Pension Obligation	1,170	-	110	1,060	-
Totals	$ 492,142	$ 1,793,513	$ 1,852,574	$ 433,081	$ 255,852
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 26,794	$ 165,546	$ 177,124	$ 15,216	$ 15,216
Compensated Absences	6	7	-	13	1
Totals for Unemployment Insurance	26,800	165,553	177,124	15,229	15,217
Nonmajor Enterprise Funds:					
Claims Payable	25,920	3,518	5,548	23,890	5,483
Compensated Absences	717	152	51	818	57
Totals for Nonmajor Enterprise Funds	26,637	3,670	5,599	24,708	5,540
Totals for Business-type Activities	$ 53,437	$ 169,223	$ 182,723	$ 39,937	$ 20,757

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, 2013 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2014	$ 7,626
2015	6,000
2016	4,936
2017	3,359
2018	1,422
2019-2023	137
Total Minimum Payments	23,480
Less: Interest and executory costs	764
Present value of net minimum payments	$ 22,716

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, 2013:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 37,221
Less: accumulated depreciation	(19,557)
Carrying value	$ 17,664

The minimum annual lease payments for operating leases as of June 30, 2013 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2014	$ 7,932
2015	2,144
2016	1,929
2017	1,270
2018	1,076
2019-2023	4,013
2024-2028	1,129
2029-2033	291
Total	$ 19,784

Primary Government operating lease payments for the year ended June 30, 2013 totaled $14,503.

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, 2013, 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 $50,305 were received under these and other lease agreements for the year ended June 30, 2013.

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 1.15 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2014	$ 750	$ 252	$ 1,002
2015	780	220	1,000
2016	1,350	170	1,520
2017	340	132	472
2018	355	121	476
2019-2023	1,965	392	2,357
2024-2028	775	47	822
Total	$ 6,315	$ 1,334	$ 7,649

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 final report on November 13, 2013 that recommended judgment be entered against Nebraska and in favor of Kansas in the amount of $5,500.

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 $300) and employee dishonesty is insured with a $11,000 limit with a $25 deductible per loss. The State maintains money and securities, inside outside premises crime coverage of $31,000 with a $25 deductible. 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 $45,755 at a discounted rate of 2.0 percent ($6,009).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2013, and 2012, were as follows:

	Fiscal Year 2013	Fiscal Year 2012
Beginning Balance	$ 65,633	$ 64,947
Current Year Claims and Changes in Estimates	(169,376)	(197,788)
Claim Payments	175,417	198,474
Ending Balance	$ 71,674	$ 65,633

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, 2012.

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, 2012, there were 15,349 active members, 6,081 inactive members, and 910 retirees or beneficiaries receiving benefits. Members contributed $31,567 and the State contributed $49,199 during the year ended December 31, 2012, 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, 2012.

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, 2012, there were 7,483 active members, 2,444 inactive members, and 350 retirees or beneficiaries receiving benefits. Members contributed $12,162 and counties contributed $18,033 during the year ended December 31, 2012, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 270 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 8.88% 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						
12/31/2012	$ 1,009,415	$ 1,077,958	$ 68,543	93.6%	$ 500,493	13.7%
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
County Cash Balance						
12/31/2012	$ 281,262	$ 297,573	$ 16,311	94.5%	$ 202,786	8.0%
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
School						
6/30/2013	$ 7,703,085	$ 9,984,899	$ 2,281,814	77.1%	$ 1,735,176	131.5%
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
Judges'						
6/30/2013	$ 130,309	$ 148,582	$ 18,273	87.7%	$ 20,100	90.9%
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
State Patrol						
6/30/2013	$ 294,468	$ 386,875	$ 92,407	76.1%	$ 27,418	337.0%
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

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2012	12/31/2012	6/30/2013	6/30/2013	6/30/2013
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	22 years	23 years	26 years	28 years	27 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 **	4.0% to 5.4%	4.3% to 8.5%	4.0% to 9.0%	4.0%	4.0%

** Includes assumed inflation of 3.25% per year

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					
12/31/2012	$ -	$ 32,511	$ 32,511 -	100%	$ -
12/31/2011	-	31,188	31,188	100%	-
12/31/2010	-	30,837	30,837	100%	-
County Cash Balance					
12/31/2012	$ 12,800	$ -	$ 12,800	100%	$ -
12/31/2011	11,908	-	11,908	100%	-
12/31/2010	11,379	-	11,379	100%	-
School					
6/30/2013	$ 161,923	$ 66,073	$ 227,996	79%	$ -
6/30/2012	145,582	46,896	192,478	88%	-
6/30/2011	135,328	41,747	177,075	89%	-
Judges'					
6/30/2013	$ -	$ 3,180	$ 3,180	100%	$ -
6/30/2012	-	3,484	3,484	100%	-
6/30/2011	-	3,580	3,580	100%	-
State Patrol					
6/30/2013	$ -	$ 7,404	$ 7,404	78%	$ 1,060
6/30/2012	-	7,730	7,730	100%	1,170
6/30/2011	-	7,173	7,173	83%	1,217

The Net Pension Obligation for the State Patrol Retirement plan decreased by $110 in 2013. The Annual Pension Cost for the State Patrol Retirement plan was calculated by taking the Annual Required Contribution of $7,516, adding $94 interest calculated on the Net Pension Obligation, and subtracting the $206 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, 2012, there was a balance of $496 in the State ERBF and a balance of $315 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, 2013, 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, 2013
COMPONENT UNITS		
University of Nebraska	1.00%-6.00%	$ 684,265
Nebraska State Colleges	0.30%-5.25%	45,658
Component Units Total		$ 729,923

State of Nebraska (dollars expressed in thousands)

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2014	$ 55,541	$ 31,003	$ 86,544
2015	44,782	29,717	74,499
2016	47,328	27,958	75,286
2017	50,583	25,951	76,534
2018	76,359	23,849	100,208
2019 - 2023	168,870	86,485	255,355
2024 - 2028	106,250	56,462	162,712
2029 - 2033	84,385	33,723	118,108
2034 - 2038	65,700	16,508	82,208
2039 - 2043	30,125	3,035	33,160
Total	$ 729,923	$ 334,691	$ 1,064,614

14. Restatements

The Vocational Rehabilitation and Canteen and Welfare Funds were reclassified from Private Purpose Trust Funds to the Other Special Revenue Fund to better reflect their function. This decreased Net Position – Beginning of Year on the Statement of Changes in Fiduciary Net Position and increased Governmental Funds Fund Balances, July 1 on the Statement of Revenues, Expenditures, and Changes in Fund Balances and Governmental Activities Net Position – Beginning on the Statement of Activities by $6,873.

Governmental Activities Net Position – Beginning on the Statement of Activities increased by $312,433 to reflect Construction in Progress of $307,203 that had not been reflected in the prior year and $5,230 of Noncurrent Liabilities that had been retired in the prior year.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2013

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 3,675,130	$ 3,908,060	$ 3,960,419	$ 52,359
Federal Grants and Contracts	66	66	66	-
Sales and Charges	22,889	22,889	22,889	-
Other	27,515	27,515	27,515	-
Total Revenues	3,725,600	3,958,530	4,010,889	52,359
EXPENDITURES				
Current:				
General Government	271,224	261,096	242,523	18,573
Conservation of Natural Resources	49,256	48,153	31,768	16,385
Culture – Recreation	6,192	6,158	5,319	839
Economic Development and Assistance	20,294	20,227	10,665	9,562
Education	1,771,680	1,770,918	1,730,879	40,039
Health and Social Services	1,511,863	1,499,318	1,330,658	168,660
Public Safety	261,368	268,928	234,033	34,895
Regulation of Business and Professions	4,561	4,486	3,515	971
Transportation	-	-	-	-
Capital Projects	5,007	5,008	-	5,008
Total Expenditures	3,901,445	3,884,292	3,589,360	294,932
Excess (Deficiency) of Revenues Over (Under) Expenditures	(175,845)	74,238	421,529	347,291
OTHER FINANCING SOURCES (USES)				
Transfers In	233,547	233,547	233,547	-
Transfers Out	(384,331)	(384,331)	(384,331)	-
Other	166	166	166	-
Total Other Financing Sources (Uses)	(150,618)	(150,618)	(150,618)	-
Net Change in Fund Balance	(326,463)	(76,380)	270,911	347,291
FUND BALANCES, JULY 1	924,440	924,440	924,440	-
FUND BALANCES, JUNE 30	$ 597,977	$ 848,060	$ 1,195,351	$ 347,291

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2013, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2013	
General	$ 811,230
Cash Reserve	384,121
Budgetary fund balances	1,195,351
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	357,151
Record tax refund liability	(374,557)
Record State contributions due pension funds	(24,291)
Record claims payable	(103,123)
Record other net accrued receivables and liabilities	(17,204)
GAAP fund balance, June 30, 2013	$ 1,033,327

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)	CASH FUNDS ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 106,542	$ 106,542	$ 106,542	$ -
Federal Grants and Contracts	443,984	443,984	443,984	-
Sales and Charges	568,805	568,805	568,805	-
Other	209,362	209,362	209,362	-
Total Revenues	1,328,693	1,328,693	1,328,693	-
EXPENDITURES				
Current:				
General Government	199,229	202,475	182,798	19,677
Conservation of Natural Resources	144,046	144,984	67,445	77,539
Culture – Recreation	33,406	33,705	22,729	10,976
Economic Development and Assistance	61,150	62,493	18,872	43,621
Education	754,874	763,435	464,482	298,953
Health and Social Services	195,993	194,456	126,961	67,495
Public Safety	55,685	55,457	35,689	19,768
Regulation of Business and Professions	176,452	175,948	126,618	49,330
Transportation	786,572	841,605	774,266	67,339
Capital Projects	72,410	72,403	26,598	45,805
Total Expenditures	2,479,817	2,546,961	1,846,458	700,503
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,151,124)	(1,218,268)	(517,765)	700,503
OTHER FINANCING SOURCES (USES)				
Transfers In	1,110,971	1,110,971	1,110,971	-
Transfers Out	(538,138)	(538,138)	(538,138)	-
Other	3,487	3,487	3,487	-
Total Other Financing Sources (Uses)	576,320	576,320	576,320	-
Net Change in Fund Balance	(574,804)	(641,948)	58,555	700,503
FUND BALANCES, JULY 1	972,421	972,421	972,421	-
FUND BALANCES, JUNE 30	$ 397,617	$ 330,473	$ 1,030,976	$ 700,503

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2013, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2013	
Cash	$ 1,030,976
Construction	105,000
Federal	83,475
Revolving	379,043
Budgetary fund balances	1,598,494
Unbudgeted fund balances	1,757,830
Non-major fund balances	(1,180,250)
Differences due to basis of accounting	(790,384)
GAAP fund balance, June 30, 2013	$ 1,385,690
Actual Fund Balances of Major Funds, June 30, 2013	
Highway	$ 255,485
Federal	7,540
Health and Social Services	489,269
Permanent School	633,396
GAAP fund balance, June 30, 2013	$ 1,385,690

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	2,191	2,191	2,191	-
Total Revenues	2,191	2,191	2,191	-
EXPENDITURES				
Current:				
General Government	800	800	-	800
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	104,833	104,833	5,105	99,728
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	7,335	7,335	5,113	2,222
Total Expenditures	112,968	112,968	10,218	102,750
Excess (Deficiency) of Revenues Over (Under) Expenditures	(110,777)	(110,777)	(8,027)	102,750
OTHER FINANCING SOURCES (USES)				
Transfers In	80,000	80,000	80,000	-
Transfers Out	-	-	-	-
Other	-	-	-	-
Total Other Financing Sources (Uses)	80,000	80,000	80,000	-
Net Change in Fund Balance	(30,777)	(30,777)	71,973	102,750
FUND BALANCES, JULY 1	33,027	33,027	33,027	-
FUND BALANCES, JUNE 30	$ 2,250	$ 2,250	$ 105,000	$ 102,750

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	**FINAL BUDGET**	**ACTUAL**	**VARIANCE WITH FINAL BUDGET**
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,614,720	2,614,720	2,614,720	-
Sales and Charges	20,734	20,734	20,734	-
Other	6,512	6,512	6,512	-
Total Revenues	2,641,966	2,641,966	2,641,966	-
EXPENDITURES				
Current:				
General Government	7,835	8,235	5,517	2,718
Conservation of Natural Resources	84,070	87,388	56,946	30,442
Culture – Recreation	5,134	5,130	2,370	2,760
Economic Development and Assistance	111,661	112,854	69,353	43,501
Education	1,168,489	1,166,173	902,853	263,320
Health and Social Services	1,827,048	1,834,884	1,508,022	326,862
Public Safety	175,342	195,371	101,541	93,830
Regulation of Business and Professions	10,363	10,355	4,121	6,234
Transportation	-	-	-	-
Capital Projects	144	144	-	144
Total Expenditures	3,390,086	3,420,534	2,650,723	769,811
Excess (Deficiency) of Revenues Over (Under) Expenditures	(748,120)	(778,568)	(8,757)	769,811
OTHER FINANCING SOURCES (USES)				
Transfers In	31,999	31,999	31,999	-
Transfers Out	(32,716)	(32,716)	(32,716)	-
Other	1,372	1,372	1,372	-
Total Other Financing Sources (Uses)	655	655	655	-
Net Change in Fund Balance	(747,465)	(777,913)	(8,102)	769,811
FUND BALANCES, JULY 1	91,577	91,577	91,577	-
FUND BALANCES, JUNE 30	$ (655,888)	$ (686,336)	$ 83,475	$ 769,811

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2013

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	1,670	1,670	1,670	-
Sales and Charges	542,697	542,697	542,697	-
Other	185,155	185,155	185,155	-
Total Revenues	729,522	729,522	729,522	-
EXPENDITURES				
Current:				
General Government	237,226	236,807	178,855	57,952
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	591	586	498	88
Education	958,610	958,610	491,512	467,098
Health and Social Services	-	-	-	-
Public Safety	23,551	23,417	12,196	11,221
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
Total Expenditures	1,219,978	1,219,420	683,061	536,359
Excess (Deficiency) of Revenues Over (Under) Expenditures	(490,456)	(489,898)	46,461	536,359
OTHER FINANCING SOURCES (USES)				
Transfers In	70,261	70,261	70,261	-
Transfers Out	(72,943)	(72,943)	(72,943)	-
Other	2,316	2,316	2,316	-
Total Other Financing Sources (Uses)	(366)	(366)	(366)	-
Net Change in Fund Balance	(490,822)	(490,264)	46,095	536,359
FUND BALANCES, JULY 1	332,948	332,948	332,948	-
FUND BALANCES, JUNE 30	$ (157,874)	$ (157,316)	$ 379,043	$ 536,359

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Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, all State agencies, including the university and colleges, must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Governor reviews the agency requests, establishes priorities, and presents the Legislature with one or more pieces of legislation covering the biennium. The Legislature holds hearings on the Governor's proposed budget, adopts changes and presents final legislation to the Governor. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The approved appropriations set spending limits by fund type for programs within each agency. These limits may include up to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the State Accounting Division of Administrative Services.

Appropriations are made for each fiscal year of the biennium; balances at the end of the first fiscal year are carried over into the second fiscal year, unless directed otherwise by the Legislature. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the State differ from those presented in the basic financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources. Of these seven fund types, only the first five are subject to the spending limits set by the appropriations bills. The General Fund is the only major fund that corresponds to a budgetary fund type, so the General Fund is the only major fund that has a budget.

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

Cash Reserve Fund. This is part of the General Fund, and is used to account for financial resources to be used as a reserve for the General Fund if the General Fund balance should become inadequate to meet current obligations. The Cash Reserve Fund is part of the budgetary basis fund balance.

Cash Funds. To account for the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis, and to account for the revenues and expenditures related to highway construction.

Construction Funds. To account for financial resources to be used for the acquisition or construction of major capital facilities.

Federal Funds. To account for the financial resources related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts, except for federal highway monies accounted for in the Cash Funds.

Revolving Funds. To account for the financing of goods or services provided by one State agency to another State agency on a cost-reimbursement basis.

Trust Funds. To account for assets held in a trustee capacity.

Distributive Funds. To account for assets held as an agent for individuals, private organizations, and other governments and/or other funds.

The accompanying basic financial statements were prepared by converting budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2013, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2013, 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, 2013

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	2012	2011	2010	2009	2008	2007
Very Good	36%	33%	31%	32%	32%	33%
Good	38%	41%	44%	47%	47%	49%
Fair	23%	23%	22%	19%	19%	17%
Poor	3%	3%	3%	2%	2%	1%
Overall System Rating	81	80	80	81	82	82

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 81 actual).

Fiscal Year	2014	2013	2012	2011	2010	2009
Estimated	$ 302	$ 313	$ 288	$ 267	$ 211	$ 206
Actual		335	278	218	270	239
Difference		22	(10)	(49)	59	33

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

SINGLE AUDIT SECTION

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2013

Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
Agriculture, U.S. Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	$	824,499
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025		45,761
Total Plant and Animal Disease, Pest Control, and Animal Care				870,260
Avian Influenza Indemnity Program	Game and Parks Commission	10.029		54
Wetlands Reserve Program	Game and Parks Commission	10.072		60,876
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093		771,756
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170		271,975
Organic Certification Cost Share Programs	Agriculture, Department of	10.171		74,433
State Mediation Grants	Agriculture, Department of	10.435		138,361
Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477		15,600
Food Safety Cooperative Agreements	Agriculture, Department of	10.479		129,224
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.551		263,350,432
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	^	13,341,671
Total SNAP Cluster				276,692,103
Child Nutrition Cluster:				
School Breakfast Program	Education, Department of	10.553		13,731,938
National School Lunch Program	Education, Department of	10.555		60,807,328
National School Lunch Program	Health and Human Services, Department of	10.555		8,446,528
Total National School Lunch Program				69,253,856
Special Milk Program for Children	Education, Department of	10.556		56,387
Summer Food Service Program for Children	Education, Department of	10.559		2,638,360
Summer Food Service Program for Children	Health and Human Services, Department of	10.559		50,627
Total Summer Food Service Program for Children				2,688,987
Total Child Nutrition Cluster				85,731,168
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557		30,427,067
Child and Adult Care Food Program	Education, Department of	10.558		33,731,853
Child and Adult Care Food Program	Health and Human Services, Department of	10.558		279,721
Total Child and Adult Care Food Program				34,011,574
State Administrative Expenses for Child Nutrition	Education, Department of	10.560		1,380,591
State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560		151,083
Total State Administrative Expenses for Child Nutrition				1,531,674

^ 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, 2013

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
Agriculture, U.S. Department of (Continued)					
	Food Distribution Cluster:				
	Commodity Supplemental Food Program	Health and Human Services, Department of	10.565		3,288,123
	Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568		196,484
	Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569		2,571,169
	Total Food Distribution Cluster				6,055,776
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, Department of	10.572		42,453
	Team Nutrition Grants	Education, Department of	10.574		115,955
	Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		226,788
	WIC Grants To States (WGS)	Health and Human Services, Department of	10.578		24,072
	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Health and Human Services, Department of	10.580	^	563
	Fresh Fruit and Vegetable Program	Education, Department of	10.582		1,751,839
	Cooperative Forestry Assistance	Game and Parks Commission	10.664		77,373
	Forest Service Schools and Roads Cluster:				
	Schools and Roads - Grants to Counties	Education, Department of	10.666		252,259
	Rural Development, Forestry, and Communities	Game and Parks Commission	10.672		2,296
	Soil and Water Conservation	Natural Resources, Department of	10.902		2,966
	Soil and Water Conservation	Game and Parks Commission	10.902		11,139
	Total Soil and Water Conservation				14,105
	Environmental Quality Incentives Program	Game and Parks Commission	10.912		1,200
	National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03		17,604
	Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		189,184
Total U.S. Department of Agriculture				$	439,497,592
Commerce, U.S. Department of					
	Public Safety Interoperable Communications Grant Program	Military Department	11.555	$	1,545,509
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Library Commission	11.557		650,956
ARRA	State Broadband Data and Development Grant Program Recovery	Public Service Commission	11.558		805,028
	Manufacturing Extension Partnership	Economic Development, Department of	11.611		410,708
Total U.S. Department of Commerce				$	3,412,201
Corporation for National and Community Service					
	State Commissions	Health and Human Services, Department of	94.003	$	257,596
	Learn and Serve America_School and Community Based Programs	Education, Department of	94.004		68,942

^ 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 #	2013 Expenditures
Corporation for National and Community Service (Continued)			
AmeriCorps	Health and Human Services, Department of	94.006	1,650,734
Program Development and Innovation Grants	Health and Human Services, Department of	94.007	41,593
Training and Technical Assistance	Health and Human Services, Department of	94.009	15,608
Total Corporation for National and Community Service			$ 2,034,473
Defense, U.S. Department of			
Payments to States in Lieu of Real Estate Taxes	Education, Department of	12.112	$ 237,011
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	111,924
Military Construction, National Guard	Military Department	12.400	19,921,068
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	16,640,497
National Guard ChalleNGe Program	Military Department	12.404	285,234
Total U.S. Department of Defense			$ 37,195,734
Education, U.S. Department of			
Adult Education - Basic Grants to States	Education, Department of	84.002	$ 1,937,140
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	Education, Department of	84.010	69,408,507
Migrant Education_State Grant Program	Education, Department of	84.011	6,594,172
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, Department of	84.013	483,638
Special Education Cluster (IDEA):			
Special Education_Grants to States	Education, Department of	84.027	85,316,392
Special Education_Preschool Grants	Education, Department of	84.173	2,041,264
Total Special Education Cluster (IDEA)			87,357,656
Career and Technical Education -- Basic Grants to States	Education, Department of	84.048	6,703,095
Rehabilitation Services_Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Commission for the	84.126	2,576,183
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126	16,146,889
Total Rehabilitation Services_Vocational Rehabilitation Grants to States			18,723,072
Migrant Education_Coordination Program	Education, Department of	84.144	47,038
Rehabilitation Services_Client Assistance Program	Education, Department of	84.161	99,003
Independent Living_State Grants	Blind and Visually Impaired, Commission for the	84.169	27,077
Independent Living_State Grants	Education, Department of	84.169	280,603
Total Independent Living_State Grants			307,680

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #	2013 Expenditures
	Education, U.S. Department of (Continued)			
	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired, Commission for the	84.177	130,727
	Special Education-Grants for Infants and Families	Education, Department of	84.181	2,797,323
	Safe and Drug-Free Schools and Communities_National Programs	Education, Department of	84.184	49,773
	Safe and Drug-Free Schools and Communities_State Grants	Education, Department of	84.186	13,038
	Supported Employment Services for Individuals with the Most Significant Disabilities	Blind and Visually Impaired, Commission for the	84.187	31,344
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, Department of	84.187	140,731
	Total Supported Employment Services for Individuals with the Most Significant Disabilities			172,075
	Education for Homeless Children and Youth	Education, Department of	84.196	284,904
	Star Schools	Education, Department of	84.203	13,238
	Even Start_State Educational Agencies	Education, Department of	84.213	61,280
	Assistive Technology	Education, Department of	84.224	437,723
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Commission for the	84.265	16,426
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	36,445
	Total Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training			52,871
	Twenty-First Century Community Learning Centers	Education, Department of	84.287	5,452,162
	Foreign Language Assistance	Education, Department of	84.293	130,010
	Educational Technology State Grants Cluster:			
	Educational Technology State Grants	Education, Department of	84.318	184,233
ARRA	Education Technology State Grants, Recovery Act	Education, Department of	84.386	38,383
	Total Educational Technology State Grants Cluster			222,616
	Special Education - State Personnel Development	Education, Department of	84.323	501,662
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	70,714
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330	20,927
	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Correctional Services, Department of	84.331	14,466
	Rural Education	Education, Department of	84.358	91,450
	English Language Acquisition State Grants	Education, Department of	84.365	2,398,450
	Mathematics and Science Partnerships	Education, Department of	84.366	829,935
	Improving Teacher Quality State Grants	Education, Department of	84.367	13,050,002
	Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367	359,693
	Total Improving Teacher Quality State Grants			13,409,695

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #	2013 Expenditures
	Education, U.S. Department of (Continued)			
	Grants for State Assessments and Related Activities	Education, Department of	84.369	3,995,630
	Striving Readers	Education, Department of	84.371	51,041
	Statewide Data Systems Cluster:			
	Statewide Data Systems	Education, Department of	84.372	213,518
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, Department of	84.377	615,469
ARRA	School Improvement Grants, Recovery Act	Education, Department of	84.388	5,535,172
	Total School Improvement Grants Cluster			6,150,641
	College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378	1,637,901
	Education Jobs Fund	Education, Department of	84.410	303
	Total U.S. Department of Education			$ 230,865,074
	U.S. Election Assistance Commission			
	Help America Vote Act Requirements Payments	Secretary of State	90.401	$ 518,678
	Total U.S. Election Assistance Commission			$ 518,678
	Energy, U.S. Department of			
	National Energy Information Center	Energy Office	81.039	$ 6,000
	State Energy Program	Energy Office	81.041	315,224
ARRA	State Energy Program Recovery	Energy Office	81.041	2,168,800
	Total State Energy Program			2,484,024
	Weatherization Assistance for Low-Income Persons	Energy Office	81.042	1,403,428
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy Office	81.042	5,244,989
	Total Weatherization Assistance for Low-Income Persons			6,648,417
	State Energy Program Special Projects	Energy Office	81.119	57,968
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy Office	81.122	35,552
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Game and Parks Commission	81.122	18,195
	Total Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery			53,747

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #	2013 Expenditures
Energy, U.S. Department of (Continued)				
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy Office	81.128	2,751,420
Total U.S. Department of Energy				$ 12,001,576
Environmental Protection Agency, U.S.				
	State Indoor Radon Grants	Health and Human Services, Department of	66.032	$ 97,541
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	261,577
	State Clean Diesel Grant Program	Environmental Quality, Department of	66.040	434,403
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	120,719
	Water Pollution Control State, Interstate, and Tribal Program Support	Game and Parks Commission	66.419	46,703
	Total Water Pollution Control State, Interstate, and Tribal Program Support			167,422
	State Public Water System Supervision	Health and Human Services, Department of	66.432	1,128,694
	State Underground Water Source Protection	Oil and Gas Commission	66.433	80,560
	Water Quality Management Planning	Environmental Quality, Department of	66.454	81,915
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	6,397,587
	Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	3,513,255
	Regional Wetland Program Development Grants	Game and Parks Commission	66.461	125,547
ARRA	Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Quality, Department of	66.468	442,461
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	9,455,968
	Total Capitalization Grants for Drinking Water State Revolving Funds			9,898,429
	Performance Partnership Grants	Agriculture, Department of	66.605	576,639
	Performance Partnership Grants	Environmental Quality, Department of	66.605	4,057,170
	Total Performance Partnership Grants			4,633,809
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services, Department of	66.707	174,344
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802	375,837
	Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804	405,583
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Quality, Department of	66.805	503,796
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	143,997
	State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	515,237
Total U.S. Environmental Protection Agency				$ 28,939,533

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ARRA - American Recovery and Reinvestment Act
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Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
Equal Employment Opportunity Commission, U.S.				
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002		$ 409,016
Total U.S. Equal Employment Opportunity Commission				$ 409,016
General Services Administration				
Donation of Federal Surplus Personal Property	Correctional Services, Department of	39.003		$ 1,157,207
Total General Services Administration				$ 1,157,207
Health and Human Services, U.S. Department of				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, Department of	93.006		$ 63,311
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Health and Human Services, Department of	93.041		11,270
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	Health and Human Services, Department of	93.042		150,629
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043		169,886
Aging Cluster:				
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Health and Human Services, Department of	93.044		2,259,087
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, Department of	93.045		4,111,718
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053		1,216,154
Total Aging Cluster				7,586,959
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, Department of	93.048		346,875
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052		776,003
Public Health Emergency Preparedness	Health and Human Services, Department of	93.069		4,942,414
Lifespan Respite Care Program	Health and Human Services, Department of	93.072		63,530
Guardianship Assistance Recovery	Health and Human Services, Department of	93.090	^	71,736
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, Department of	93.092		282,665
Food and Drug Administration_Research	Agriculture, Department of	93.103		153,273
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110		181,353
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116		217,950
Emergency Medical Services for Children	Health and Human Services, Department of	93.127		158,462
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130		165,030
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136		563,575

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #	2013 Expenditures
	Health and Human Services, U.S. Department of (Continued)			
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150	262,035
	Family Planning_Services	Health and Human Services, Department of	93.217	2,208,139
	Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	198,908
	Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, Department of	93.235	159,480
	Grants to States to Support Oral Health Workforce Activities	Health and Human Services, Department of	93.236	132,564
	State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241	722,011
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, Department of	93.243	1,625,460
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Supreme Court, Nebraska	93.243	444,665
	Total Substance Abuse and Mental Health Services_Projects of Regional and National Significance			2,070,125
	Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251	289,615
	Occupational Safety and Health Program	Health and Human Services, Department of	93.262	94,240
	Immunization Cooperative Agreements	Health and Human Services, Department of	93.268	17,773,980
	Adult Viral Hepatitis Prevention and Control	Health and Human Services, Department of	93.270	127,963
	Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279	71,510
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, Department of	93.283	8,658,077
	State Partnership Grant Program to Improve Minority Health	Health and Human Services, Department of	93.296	64,393
	Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301	605,022
ARRA	ARRA - State Primary Care Offices	Health and Human Services, Department of	93.414	123,467
	Food Safety and Security Monitoring Project	Agriculture, Department of	93.448	474,498
	Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	249,130
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, Department of	93.505	801,616
	PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, Department of	93.507	744,920
	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511	107,358
	Affordable Care Act - Medicare Improvements for Patients and Providers	Health and Human Services, Department of	93.518	12,134
	Centers for Disease Control and Prevention –Affordable Care Act (ACA) – Communities Putting Prevention to Work	Health and Human Services, Department of	93.520	19,000
	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, Department of	93.521	523,272
	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Insurance, Department of	93.525	913,477

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	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, Department of	93.539		17,891
	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, Department of	93.544		100,030
	PPHF2013: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 2013 PPHF	Health and Human Services, Department of	93.548		665,025
	Transitional Living for Homeless Youth	Health and Human Services, Department of	93.550		125,572
	Promoting Safe and Stable Families	Health and Human Services, Department of	93.556		1,492,694
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, Department of	93.558	^	35,374,180
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Health and Human Services, Department of	93.714		3,843
	Total TANF Cluster				35,378,023
	Child Support Enforcement	Health and Human Services, Department of	93.563	^	22,818,283
	Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, Department of	93.566		2,679,028
	Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568		17,822,656
	Low-Income Home Energy Assistance	Energy Office	93.568		2,579,351
	Total Low-Income Home Energy Assistance				20,402,007
	Community Services Block Grant	Health and Human Services, Department of	93.569		4,519,570
	CCDF Cluster:				
	Child Care and Development Block Grant	Health and Human Services, Department of	93.575	^	27,132,409
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596	^	24,268,946
	Total CCDF Cluster				51,401,355
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, Department of	93.576		559,753
	Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, Department of	93.584		193,624
	State Court Improvement Program	Supreme Court, Nebraska	93.586		583,916
	Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597		105,235
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599		568,003
	Head Start Cluster:				
	Head Start	Education, Department of	93.600		122,056
ARRA	ARRA - Head Start	Education, Department of	93.708		215,572
	Total Head Start Cluster				337,628

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ARRA - American Recovery and Reinvestment Act
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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2013

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Adoption Incentive Payments	Health and Human Services, Department of	93.603		667,758
	Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617		49,194
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630		462,444
	Children's Justice Grants to States	Health and Human Services, Department of	93.643		160,193
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, Department of	93.645		3,100,824
	Foster Care_Title IV-E	Health and Human Services, Department of	93.658	^	10,634,074
ARRA	Foster Care_Title IV-E Recovery	Health and Human Services, Department of	93.658	^	(171,132)
	Total Foster Care_Title IV-E				10,462,942
	Adoption Assistance	Health and Human Services, Department of	93.659	^	11,273,708
ARRA	Adoption Assistance Recovery	Health and Human Services, Department of	93.659	^	(737)
	Total Adoption Assistance				11,272,971
	Social Services Block Grant	Health and Human Services, Department of	93.667		9,884,049
	Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669		129,345
	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	Health and Human Services, Department of	93.671		937,996
	Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674		1,309,947
ARRA	ARRA - State Grants to Promote Health Information Technology	Administrative Services	93.719		443,118
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, Department of	93.723		(2,634)
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Health and Human Services, Department of	93.724		97,824
	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012)	Health and Human Services, Department of	93.733		24,420
	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	Health and Human Services, Department of	93.744		58,461
	Children's Health Insurance Program	Health and Human Services, Department of	93.767	^	47,497,439
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, Department of	93.768		157,046
	Medicaid Cluster:				
	State Medicaid Fraud Control Units	Attorney General	93.775		633,591
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, Department of	93.777	^	4,668,811

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ARRA - American Recovery and Reinvestment Act
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	Federal Agency/Program Title	State Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Medical Assistance Program	Health and Human Services, Department of	93.778	^	1,050,681,272
ARRA	Medical Assistance Program Recovery	Health and Human Services, Department of	93.778	^	30,550,349
	Total Medical Assistance Program				1,081,231,621
	Total Medicaid Cluster				1,086,534,023
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779		452,095
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780		1,220,281
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, Department of	93.791		2,091,718
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889		2,837,595
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, Department of	93.913		117,830
	HIV Care Formula Grants	Health and Human Services, Department of	93.917		3,244,992
	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938		257,640
	HIV Prevention Activities_Health Department Based	Health and Human Services, Department of	93.940		1,141,523
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944		225,621
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946		146,296
	Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958		1,829,832
	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959		7,617,424
	Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977		398,930
	Mental Health Disaster Assistance and Emergency Mental Health	Health and Human Services, Department of	93.982		110,973
	Preventive Health and Health Services Block Grant	Health and Human Services, Department of	93.991		1,080,476
	Maternal and Child Health Services Block Grant to the States	Health and Human Services, Department of	93.994		3,597,802
	Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C		73,307
	Food Inspection	Agriculture, Department of	HHSF223200940012C		65,086
	Total U.S. Department of Health and Human Services			$	1,395,016,273
	Homeland Security, U.S. Department of				
	Boating Safety Financial Assistance	Game and Parks Commission	97.012	$	536,322
	Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023		80,423
	Flood Mitigation Assistance	Natural Resources, Department of	97.029		70,592
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036		24,390,940
	Hazard Mitigation Grant	Military Department	97.039		5,902,578
	National Dam Safety Program	Natural Resources, Department of	97.041		176,239
	Emergency Management Performance Grants	Military Department	97.042		3,278,737

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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 #	2013 Expenditures
	Homeland Security, U.S. Department of (Continued)			
	State Fire Training Systems Grants	Fire Marshal	97.043	18,392
	Cooperating Technical Partners	Natural Resources, Department of	97.045	251,108
	Emergency Operations Centers	Military Department	97.052	22,895
	Interoperable Emergency Communications	Military Department	97.055	168,852
	Homeland Security Grant Program	Military Department	97.067	8,358,860
	Homeland Security Grant Program	Motor Vehicles, Department of	97.067	901,058
	Total Homeland Security Grant Program			9,259,918
	Buffer Zone Protection Program (BZPP)	Military Department	97.078	941,497
	Total U.S. Department of Homeland Security			$ 45,098,493
	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	$ 17,497,401
ARRA	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Economic Development, Department of	14.255	24,736
	Total CDBG - State-Administered CDBG Cluster			17,522,137
	Emergency Solutions Grant Program	Health and Human Services, Department of	14.231	943,508
	Home Investment Partnerships Program	Economic Development, Department of	14.239	5,106,542
	Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241	301,424
ARRA	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Health and Human Services, Department of	14.257	191,709
	Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401	181,537
	Total U.S. Department of Housing & Urban Development			$ 24,246,857
	Institute of Museum and Library Services			
	Grants to States	Library Commission	45.310	$ 1,332,273
	Laura Bush 21st Century Librarian Program	Library Commission	45.313	249,673
	Total Institute of Museum and Library Services			$ 1,581,946
	Interior, U.S. Department of			
	Cultural Resource Management	Education, Department of	15.224	$ 847
ARRA	Title XVI Water Reclamation and Reuse Program	Game and Parks Commission	15.504	105,445
	Recreation Resources Management	Game and Parks Commission	15.524	151,286

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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 #	2013 Expenditures
Interior, U.S. Department of (Continued)			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Game and Parks Commission	15.605	4,651,073
Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611	5,608,381
Total Fish and Wildlife Cluster			10,259,454
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	7,543
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	177,654
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	1,176
Sportfishing and Boating Safety Act	Game and Parks Commission	15.622	100,000
Enhanced Hunter Education and Safety Program	Game and Parks Commission	15.626	98,933
Landowner Incentive Program	Game and Parks Commission	15.633	619,274
State Wildlife Grants	Game and Parks Commission	15.634	735,452
Migratory Bird Joint Ventures	Game and Parks Commission	15.637	36,749
Research Grants (Generic)	Game and Parks Commission	15.650	18,715
U.S. Geological Survey_ Research and Data Collection	Natural Resources, Department of	15.808	20,930
National Spatial Data Infrastructure Cooperative Agreements Program	Administrative Services	15.809	19,415
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	854,657
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916	387,666
Total U.S. Department of Interior			$ 13,595,196
Justice, U.S. Department of			
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission on	16.017	$ 181,216
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	Correctional Services, Department of	16.203	76,242
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission on	16.523	404,672
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Attorney General	16.528	81,250
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission on	16.540	535,607
Missing Children's Assistance	State Patrol	16.543	280,529
Title V_Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission on	16.548	73,661
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission on	16.550	50,655
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	234,954
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	204,513
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission on	16.575	2,334,500
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission on	16.576	7,600
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.579	56,173

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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 #	2013 Expenditures
	Justice, U.S. Department of (Continued)			
	Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission on	16.588	1,134,259
ARRA	Violence Against Women Formula Grants Recovery	Law Enforcement and Criminal Justice, Commission on	16.588	102,124
	Total Violence Against Women Formula Grants			1,236,383
	Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission on	16.593	62,538
	State Criminal Alien Assistance Program	Correctional Services, Department of	16.606	407,185
	Bulletproof Vest Partnership Program	State Patrol	16.607	1,109
	Public Safety Partnership and Community Policing Grants	State Patrol	16.710	141,978
	Enforcing Underage Drinking Laws Program	Roads, Department of	16.727	113,288
	JAG Program Cluster:			
	Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission on	16.738	1,410,885
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	2,204,245
	Total JAG Program Cluster			3,615,130
	Paul Coverdell Forensic Sciences Improvement Grant Program	State Patrol	16.742	38,204
	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	State Patrol	16.748	288,013
	Edward Byrne Memorial Competitive Grant Program	Law Enforcement and Criminal Justice, Commission on	16.751	48,239
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Law Enforcement and Criminal Justice, Commission on	16.801	(9,721)
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Attorney General	16.810	(13,985)
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	State Patrol	16.810	92,037
	Total Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program			78,052
	NICS Act Record Improvement Program	State Patrol	16.813	32,743
	John R. Justice Prosecutors and Defenders Incentive Act	Law Enforcement and Criminal Justice, Commission on	16.816	112,010
	Total U.S. Department of Justice			$ 10,686,723
	Labor, U.S. Department of			
	Labor Force Statistics	Labor, Department of	17.002	$ 811,437
	Compensation and Working Conditions	Worker's Compensation Court	17.005	49,350
	Employment Service Cluster:			
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	5,995,226
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	689,619

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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 #	2013 Expenditures
	Labor, U.S. Department of (Continued)			
	Local Veterans' Employment Representative Program	Labor, Department of	17.804	159,076
	Total Employment Service Cluster			6,843,921
	Unemployment Insurance - Federal	Labor, Department of	17.225	49,297,871
	Unemployment Insurance - State	Labor, Department of	17.225	120,548,558
	Unemployment Insurance - Admin	Labor, Department of	17.225	22,949,841
ARRA	Unemployment Insurance - Admin Recovery	Labor, Department of	17.225	(900,723)
	Total Unemployment Insurance			191,895,547
	Senior Community Service Employment Program	Health and Human Services, Department of	17.235	848,270
	Trade Adjustment Assistance	Labor, Department of	17.245	912,062
	WIA Cluster:			
	WIA Adult Program	Labor, Department of	17.258	2,571,403
	WIA Youth Activities	Labor, Department of	17.259	2,593,822
	WIA Dislocated Workers	Labor, Department of	17.260	1,262
ARRA	WIA Dislocated Workers Recovery	Labor, Department of	17.260	109,901
	Total WIA Dislocated Workers			111,163
	WIA Dislocated Worker Formula Grants	Labor, Department of	17.278	1,640,762
	Total WIA Cluster			6,917,150
	WIA Pilots, Demonstrations, and Research Projects	Labor, Department of	17.261	33,953
	Incentive Grants - WIA Section 503	Labor, Department of	17.267	321,478
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271	162,117
	Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273	39,106
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, Department of	17.275	2,114,543
	Consultation Agreements	Labor, Department of	17.504	539,240
	Total U.S. Department of Labor			$ 211,488,174
	National Aeronautics and Space Administration			
	Education	Education, Department of	43.008	$ 163,266
	Total National Aeronautics and Space Administration			$ 163,266
	National Archives and Records Administration			
	National Historical Publications and Records Grants	Historical Society	89.003	$ 1,656
	Total National Archives and Records Administration			$ 1,656

^ 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, 2013

	Federal Agency/Program Title	State Agency	CFDA or Grant #	2013 Expenditures
	National Endowment for the Arts			
	Promotion of the Arts_Partnership Agreements	Arts Council	45.025	$ 766,558
	Total National Endowment for the Arts			$ 766,558
	President, Executive Office of the			
	High Intensity Drug Trafficking Areas Program	State Patrol	95.001	$ 1,162,193
	Total Executive Office of the President			$ 1,162,193
	Small Business Administration			
	State Trade and Export Promotion Pilot Grant Program	Economic Development, Department of	59.061	$ 20,150
	Total Small Business Administration			$ 20,150
	Social Security Administration			
	Disability Insurance/SSI Cluster:			
	Social Security_Disability Insurance	Education, Department of	96.001	$ 9,587,529
	Supplemental Security Income	Education, Department of	96.006	164,871
	Supplemental Security Income	Blind and Visually Impaired, Commission for the	96.006	884,554
	Total Supplemental Security Income			1,049,425
	Total Social Security Administration			$ 10,636,954
	State, U.S.Department of			
	Criminal Justice Systems	Correctional Services, Department of	19.703	$ 43,934
	Total U.S. Department of State			$ 43,934
	Transportation, U.S. Department of			
	Airport Improvement Program	Aeronautics, Department of	20.106	$ 13,106,676
	Highway Planning and Construction Cluster:			
	Highway Planning and Construction	Roads, Department of	20.205	339,356,502
ARRA	Highway Planning and Construction Recovery	Roads, Department of	20.205	407,733
	Total Highway Planning and Construction			339,764,235
	Recreational Trails Program	Game and Parks Commission	20.219	767,381
	Total Highway Planning and Construction Cluster			340,531,616
	Highway Training and Education	Education, Department of	20.215	99,701
	National Motor Carrier Safety	State Patrol	20.218	2,899,576

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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 #		2013 Expenditures
Transportation, U.S. Department of (Continued)					
	Commercial Vehicle Information Systems and Networks	State Patrol	20.237		61,600
	Federal Transit Cluster:				
	Federal Transit_Capital Investment Grants	Roads, Department of	20.500		186,403
	Metropolitan Transportation Planning	Roads, Department of	20.505		1,474,006
	Formula Grants for Rural Areas	Roads, Department of	20.509		4,799,017
ARRA	Formula Grants for Rural Areas	Roads, Department of	20.509		5,455,589
	Total Formula Grants for Rural Areas				10,254,606
	Transit Services Programs Cluster:				
	Enhanced Mobility for Seniors and Individuals with Disabilities	Roads, Department of	20.513		1,710,482
	State Planning and Research	Roads, Department of	20.515		4,785,685
	Highway Safety Cluster:				
	State and Community Highway Safety	Roads, Department of	20.600		2,383,337
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Roads, Department of	20.601		1,390,335
	Occupant Protection Incentive Grants	Roads, Department of	20.602		161,373
	State Traffic Safety Information System Improvement Grants	Roads, Department of	20.610		442,089
	Incentive Grant Program to Prohibit Racial Profiling	Roads, Department of	20.611		139,852
	Incentive Grant Program to Increase Motorcyclist Safety	Roads, Department of	20.612		112,858
	Total Highway Safety Cluster				4,629,844
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614		61,484
	E-911 Grant Program	Public Service Commission	20.615		32,346
	Pipeline Safety Program State Base Grant	Fire Marshal	20.700		171,138
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703		297,360
Total U.S. Department of Transportation					$ 380,302,523
Veterans Affairs, U.S. Department of					
	Veterans State Domiciliary Care	Health and Human Services, Department of	64.014	^	$ 1,384,511
	Veterans State Nursing Home Care	Health and Human Services, Department of	64.015	^	15,177,422
	State Cemetery Grants	Veterans' Affairs, Department of	64.203		65,951
Total U.S. Department of Veterans Affairs					$ 16,627,884
TOTAL EXPENDITURES OF FEDERAL AWARDS					$ 2,867,469,864

^ 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, 2013

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
	Administrative Services				
	National Spatial Data Infrastructure Cooperative Agreements Program	Interior, U.S. Department of	15.809	$	19,415
ARRA	ARRA - State Grants to Promote Health Information Technology	Health and Human Services, U.S. Department of	93.719		443,118
	Total Administrative Services			$	462,533
	Aeronautics, Department of				
	Airport Improvement Program	Transportation, U.S. Department of	20.106	$	13,106,676
	Total Department of Aeronautics			$	13,106,676
	Agriculture, Department of				
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$	824,499
	Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170		271,975
	Organic Certification Cost Share Programs	Agriculture, U.S. Department of	10.171		74,433
	State Mediation Grants	Agriculture, U.S. Department of	10.435		138,361
	Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477		15,600
	Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479		129,224
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, U.S. Department of	10.572		42,453
	Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576		226,788
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		576,639
	Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103		153,273
	Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448		474,498
	Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449		249,130
	Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C		73,307
	Food Inspection	Health and Human Services, U.S. Department of	HHSF223200940012C		65,086
	Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A		189,184
	Total Department of Agriculture			$	3,504,450
	Arts Council				
	Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025	$	766,558
	Total Arts Council			$	766,558
	Attorney General				
	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Justice, U.S. Department of	16.528	$	81,250
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810		(13,985)

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ARRA - American Recovery and Reinvestment Act
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State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
Attorney General (Continued)			
Medicaid Cluster:			
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775	633,591
Total Attorney General			$ 700,856
Blind and Visually Impaired, Commission for the			
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	$ 2,576,183
Independent Living_State Grants	Education, U.S. Department of	84.169	27,077
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	130,727
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	31,344
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	16,426
Disability Insurance/SSI Cluster:			
Supplemental Security Income	Social Security Administration	96.006	884,554
Total Commission for the Blind and Visually Impaired			$ 3,666,311
Correctional Services, Department of			
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	Justice, U.S. Department of	16.203	$ 76,242
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	407,185
Criminal Justice Systems	State, U.S. Department of	19.703	43,934
Donation of Federal Surplus Personal Property	General Services Administration	39.003	1,157,207
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	Education, U.S. Department of	84.331	14,466
Total Department of Correctional Services			$ 1,699,034
Economic Development, Department of			
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	$ 17,604
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	410,708
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	17,497,401
ARRA Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recovery	Housing & Urban Development, U.S. Department of	14.255	24,736
Total CDBG - State-Administered CDBG Cluster			17,522,137

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ARRA - American Recovery and Reinvestment Act
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State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
Economic Development, Department of (Continued)			
Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	5,106,542
State Trade and Export Promotion Pilot Grant Program	Small Business Administration	59.061	20,150
Total Department of Economic Development			$ 23,077,141
Education, Department of			
Child Nutrition Cluster:			
School Breakfast Program	Agriculture, U.S. Department of	10.553	$ 13,731,938
National School Lunch Program	Agriculture, U.S. Department of	10.555	60,807,328
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	56,387
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	2,638,360
Total Child Nutrition Cluster			77,234,013
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	33,731,853
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,380,591
Team Nutrition Grants	Agriculture, U.S. Department of	10.574	115,955
Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582	1,751,839
Forest Service Schools and Roads Cluster:			
Schools and Roads - Grants to Counties	Agriculture, U.S. Department of	10.666	252,259
Payments to States in Lieu of Real Estate Taxes	Defense, U.S. Department of	12.112	237,011
Cultural Resource Management	Interior, U.S. Department of	15.224	847
Highway Training and Education	Transportation, U.S. Department of	20.215	99,701
Education	National Aeronautics and Space Administration	43.008	163,266
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002	1,937,140
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	69,408,507
Migrant Education_State Grant Program	Education, U.S. Department of	84.011	6,594,172
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, U.S. Department of	84.013	483,638
Special Education Cluster (IDEA):			
Special Education_Grants to States	Education, U.S. Department of	84.027	85,316,392
Special Education_Preschool Grants	Education, U.S. Department of	84.173	2,041,264
Total Special Education Cluster (IDEA)			87,357,656
Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048	6,703,095
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	16,146,889
Migrant Education_Coordination Program	Education, U.S. Department of	84.144	47,038
Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161	99,003

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ARRA - American Recovery and Reinvestment Act
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	State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
	Education, Department of (Continued)			
	Independent Living_State Grants	Education, U.S. Department of	84.169	280,603
	Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	2,797,323
	Safe and Drug-Free Schools and Communities_National Programs	Education, U.S. Department of	84.184	49,773
	Safe and Drug-Free Schools and Communities_State Grants	Education, U.S. Department of	84.186	13,038
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	140,731
	Education for Homeless Children and Youth	Education, U.S. Department of	84.196	284,904
	Star Schools	Education, U.S. Department of	84.203	13,238
	Even Start_State Educational Agencies	Education, U.S. Department of	84.213	61,280
	Assistive Technology	Education, U.S. Department of	84.224	437,723
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	36,445
	Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	5,452,162
	Foreign Language Assistance	Education, U.S. Department of	84.293	130,010
	Educational Technology State Grants Cluster:			
	Educational Technology State Grants	Education, U.S. Department of	84.318	184,233
ARRA	Education Technology State Grants, Recovery Act	Education, U.S. Department of	84.386	38,383
	Total Educational Technology State Grants Cluster			222,616
	Special Education - State Personnel Development	Education, U.S. Department of	84.323	501,662
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	70,714
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	20,927
	Rural Education	Education, U.S. Department of	84.358	91,450
	English Language Acquisition State Grants	Education, U.S. Department of	84.365	2,398,450
	Mathematics and Science Partnerships	Education, U.S. Department of	84.366	829,935
	Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	13,050,002
	Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	3,995,630
	Striving Readers	Education, U.S. Department of	84.371	51,041
	Statewide Data Systems Cluster:			
	Statewide Data Systems	Education, U.S. Department of	84.372	213,518
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, U.S. Department of	84.377	615,469
ARRA	School Improvement Grants, Recovery Act	Education, U.S. Department of	84.388	5,535,172
	Total School Improvement Grants Cluster			6,150,641
	Education Jobs Fund	Education, U.S. Department of	84.410	303
	Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	198,908

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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 #	2013 Expenditures
	Education, Department of (Continued)			
	Head Start Cluster:			
	Head Start	Health and Human Services, U.S. Department of	93.600	122,056
ARRA	ARRA - Head Start	Health and Human Services, U.S. Department of	93.708	215,572
	Total Head Start Cluster			337,628
	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	257,640
	Learn and Serve America_School and Community Based Programs	Corporation For National and Community Service	94.004	68,942
	Disability Insurance/SSI Cluster:			
	Social Security_Disability Insurance	Social Security Administration	96.001	9,587,529
	Supplemental Security Income	Social Security Administration	96.006	164,871
	Total Disability Insurance/SSI Cluster			9,752,400
	Total Department of Education			$ 351,654,110
	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	315,224
ARRA	State Energy Program Recovery	Energy, U.S. Department of	81.041	2,168,800
	Total State Energy Program			2,484,024
	Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	1,403,428
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy, U.S. Department of	81.042	5,244,989
	Total Weatherization Assistance for Low-Income Persons			6,648,417
	State Energy Program Special Projects	Energy, U.S. Department of	81.119	57,968
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122	35,552
ARRA	Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	Energy, U.S. Department of	81.128	2,751,420
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	2,579,351
	Total Energy Office			$ 14,562,732
	Environmental Quality, Department of			
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	$ 111,924
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	261,577
	State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040	434,403

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ARRA - American Recovery and Reinvestment Act
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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
Environmental Quality, Department of (Continued)					
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		120,719
	Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		81,915
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458		6,397,587
	Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		3,513,255
ARRA	Capitalization Grants for Drinking Water State Revolving Funds Recovery	Environmental Protection Agency, U.S.	66.468		442,461
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468		9,455,968
	Total Capitalization Grants for Drinking Water State Revolving Funds				9,898,429
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		4,057,170
	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		375,837
	Leaking Underground Storage Tank Trust Fund Corrective Action Program	Environmental Protection Agency, U.S.	66.805		503,796
	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		143,997
	State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		515,237
Total Department of Environmental Quality				$	26,415,846
Equal Opportunity Commission					
	Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401	$	181,537
	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		409,016
Total Equal Opportunity Commission				$	590,553
Fire Marshal					
	Pipeline Safety Program State Base Grant	Transportation, U.S. Department of	20.700	$	171,138
	Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804		405,583
	State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043		18,392
Total Fire Marshal				$	595,113
Game and Parks Commission					
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$	45,761
	Avian Influenza Indemnity Program	Agriculture, U.S. Department of	10.029		54
	Wetlands Reserve Program	Agriculture, U.S. Department of	10.072		60,876
	Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093		771,756
	Soil and Water Conservation	Agriculture, U.S. Department of	10.902		11,139
	Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664		77,373
	Rural Development, Forestry, and Communities	Agriculture, U.S. Department of	10.672		2,296

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2013

	State Agency/Program Title	**Federal Agency**	**CFDA or Grant #**		**2013 Expenditures**
Game and Parks Commission (Continued)					
	Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912		1,200
ARRA	Title XVI Water Reclamation and Reuse Program	Interior, U.S. Department of	15.504		105,445
	Recreation Resources Management	Interior, U.S. Department of	15.524		151,286
	Fish and Wildlife Cluster:				
	Sport Fish Restoration Program	Interior, U.S. Department of	15.605		4,651,073
	Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611		5,608,381
	Total Fish and Wildlife Cluster				10,259,454
	Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608		7,543
	Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615		177,654
	Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617		1,176
	Sportfishing and Boating Safety Act	Interior, U.S. Department of	15.622		100,000
	Enhanced Hunter Education and Safety Program	Interior, U.S. Department of	15.626		98,933
	Landowner Incentive Program	Interior, U.S. Department of	15.633		619,274
	State Wildlife Grants	Interior, U.S. Department of	15.634		735,452
	Migratory Bird Joint Ventures	Interior, U.S. Department of	15.637		36,749
	Research Grants (Generic)	Interior, U.S. Department of	15.650		18,715
	Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916		387,666
	Highway Planning and Construction Cluster:				
	Recreational Trails Program	Transportation, U.S. Department of	20.219		767,381
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		46,703
	Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461		125,547
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122		18,195
	Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012		536,322
Total Game and Parks Commission					$ 15,163,950
Health and Human Services, Department of					
	Child Nutrition Cluster:				
	National School Lunch Program	Agriculture, U.S. Department of	10.555		$ 8,446,528
	Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559		50,627
	Total Child Nutrition Cluster				8,497,155
	SNAP Cluster:				
	Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551		263,350,432
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	^	13,341,671
	Total SNAP Cluster				276,692,103

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2013

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, Department of (Continued)				
	Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557		30,427,067
	Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		279,721
	State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		151,083
	Food Distribution Cluster:				
	Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565		3,288,123
	Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568		196,484
	Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569		2,571,169
	Total Food Distribution Cluster				6,055,776
	WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578		24,072
	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Agriculture, U.S. Department of	10.580	^	563
	Emergency Solutions Grant Program	Housing & Urban Development, U.S. Department of	14.231		943,508
	Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241		301,424
ARRA	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Housing & Urban Development, U.S. Department of	14.257		191,709
	Senior Community Service Employment Program	Labor, U.S. Department of	17.235		848,270
	Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	^	1,384,511
	Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	^	15,177,422
	State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032		97,541
	State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432		1,128,694
	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707		174,344
	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006		63,311
	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		11,270
	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		150,629
	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		169,886
	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		2,259,087
	Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045		4,111,718
	Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053		1,216,154
	Total Aging Cluster				7,586,959
	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048		346,875

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ARRA - American Recovery and Reinvestment Act
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State Agency/Program Title		Federal Agency	CFDA or Grant #		2013 Expenditures
Health and Human Services, Department of (Continued)					
	National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052		776,003
	Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069		4,942,414
	Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072		63,530
	Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090	^	71,736
	Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092		282,665
	Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110		181,353
	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116		217,950
	Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127		158,462
	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130		165,030
	Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136		563,575
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150		262,035
	Family Planning_Services	Health and Human Services, U.S. Department of	93.217		2,208,139
	Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235		159,480
	Grants to States to Support Oral Health Workforce Activities	Health and Human Services, U.S. Department of	93.236		132,564
	State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241		722,011
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243		1,625,460
	Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251		289,615
	Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262		94,240
	Immunization Cooperative Agreements	Health and Human Services, U.S. Department of	93.268		17,773,980
	Adult Viral Hepatitis Prevention and Control	Health and Human Services, U.S. Department of	93.270		127,963
	Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279		71,510
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283		8,658,077
	State Partnership Grant Program to Improve Minority Health	Health and Human Services, U.S. Department of	93.296		64,393
	Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301		605,022
ARRA	ARRA - State Primary Care Offices	Health and Human Services, U.S. Department of	93.414		123,467
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505		801,616
	PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, U.S. Department of	93.507		744,920
	Affordable Care Act - Medicare Improvements for Patients and Providers	Health and Human Services, U.S. Department of	93.518		12,134
	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		19,000
	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		523,272

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ARRA - American Recovery and Reinvestment Act
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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, Department of (Continued)				
	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		17,891
	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		100,030
	PPHF2013: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 2013 PPHF	Health and Human Services, U.S. Department of	93.548		665,025
	Transitional Living for Homeless Youth	Health and Human Services, U.S. Department of	93.550		125,572
	Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556		1,492,694
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	^	35,374,180
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Health and Human Services, U.S. Department of	93.714		3,843
	Total TANF Cluster				35,378,023
	Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	^	22,818,283
	Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, U.S. Department of	93.566		2,679,028
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		17,822,656
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569		4,519,570
	CCDF Cluster:				
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	^	27,132,409
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	^	24,268,946
	Total CCDF Cluster				51,401,355
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576		559,753
	Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, U.S. Department of	93.584		193,624
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597		105,235
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599		568,003
	Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603		667,758
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630		462,444
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643		160,193
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645		3,100,824
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	^	10,634,074
ARRA	Foster Care_Title IV-E Recovery	Health and Human Services, U.S. Department of	93.658	^	(171,132)
	Total Foster Care_Title IV-E				10,462,942

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

STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2013

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
	Health and Human Services, Department of (Continued)				
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	^	11,273,708
ARRA	Adoption Assistance Recovery	Health and Human Services, U.S. Department of	93.659	^	(737)
	Total Adoption Assistance				11,272,971
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667		9,884,049
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669		129,345
	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		937,996
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674		1,309,947
ARRA	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	Health and Human Services, U.S. Department of	93.723		(2,634)
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Health and Human Services, U.S. Department of	93.724		97,824
	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012)	Health and Human Services, U.S. Department of	93.733		24,420
	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	Health and Human Services, U.S. Department of	93.744		58,461
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	^	47,497,439
	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768		157,046
	Medicaid Cluster:				
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, U.S. Department of	93.777	^	4,668,811
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	^	1,050,681,272
ARRA	Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778	^	30,550,349
	Total Medical Assistance Program				1,081,231,621
	Total Medicaid Cluster				1,085,900,432
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		2,091,718
	National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889		2,837,595
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		117,830
	HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		3,244,992
	HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		1,141,523
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		225,621
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		146,296

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ARRA - American Recovery and Reinvestment Act
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State Agency/Program Title	Federal Agency	CFDA or Grant #		2013 Expenditures
Health and Human Services, Department of (Continued)				
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		1,829,832
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		7,617,424
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		398,930
Mental Health Disaster Assistance and Emergency Mental Health	Health and Human Services, U.S. Department of	93.982		110,973
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991		1,080,476
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994		3,597,802
State Commissions	Corporation For National and Community Service	94.003		257,596
AmeriCorps	Corporation For National and Community Service	94.006		1,650,734
Program Development and Innovation Grants	Corporation For National and Community Service	94.007		41,593
Training and Technical Assistance	Corporation For National and Community Service	94.009		15,608
Total Department of Health and Human Services			$	1,730,120,251
Historical Society				
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	$	854,657
National Historical Publications and Records Grants	National Archives and Records Administration	89.003		1,656
Total Historical Society			$	856,313
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	$	107,358
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Health and Human Services, U.S. Department of	93.525		913,477
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779		452,095
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780		1,220,281
Total Department of Insurance			$	2,693,211
Labor, Department of				
Labor Force Statistics	Labor, U.S. Department of	17.002	$	811,437
Employment Service Cluster:				
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207		5,995,226
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801		689,619
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804		159,076
Total Employment Service Cluster				6,843,921
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225		49,297,871
Unemployment Insurance - State	Labor, U.S. Department of	17.225		120,548,558

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ARRA - American Recovery and Reinvestment Act
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	State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
Labor, Department of (Continued)				
	Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	22,949,841
ARRA	Unemployment Insurance - Admin Recovery	Labor, U.S. Department of	17.225	(900,723)
	Total Unemployment Insurance			191,895,547
	Trade Adjustment Assistance	Labor, U.S. Department of	17.245	912,062
	WIA Cluster:			
	WIA Adult Program	Labor, U.S. Department of	17.258	2,571,403
	WIA Youth Activities	Labor, U.S. Department of	17.259	2,593,822
	WIA Dislocated Workers	Labor, U.S. Department of	17.260	1,262
ARRA	WIA Dislocated Workers Recovery	Labor, U.S. Department of	17.260	109,901
	Total WIA Dislocated Workers			111,163
	WIA Dislocated Worker Formula Grants	Labor, U.S. Department of	17.278	1,640,762
	Total WIA Cluster			6,917,150
	WIA Pilots, Demonstrations, and Research Projects	Labor, U.S. Department of	17.261	33,953
	Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267	321,478
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271	162,117
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	39,106
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, U.S. Department of	17.275	2,114,543
	Consultation Agreements	Labor, U.S. Department of	17.504	539,240
Total Department of Labor				$ 210,590,554
Law Enforcement and Criminal Justice, Commission on				
	Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$ 181,216
	Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	404,672
	Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540	535,607
	Title V_Delinquency Prevention Program	Justice, U.S. Department of	16.548	73,661
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	50,655
	Crime Victim Assistance	Justice, U.S. Department of	16.575	2,334,500
	Crime Victim Compensation	Justice, U.S. Department of	16.576	7,600
	Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	56,173
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,134,259
ARRA	Violence Against Women Formula Grants Recovery	Justice, U.S. Department of	16.588	102,124
	Total Violence Against Women Formula Grants			1,236,383
	Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	62,538

^ 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 #	2013 Expenditures
	Law Enforcement and Criminal Justice, Commission on (Continued)			
	JAG Program Cluster:			
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738	1,410,885
ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	Justice, U.S. Department of	16.803	2,204,245
	Total JAG Program Cluster			3,615,130
	Edward Byrne Memorial Competitive Grant Program	Justice, U.S. Department of	16.751	48,239
ARRA	Recovery Act - State Victim Assistance Formula Grant Program	Justice, U.S. Department of	16.801	(9,721)
	John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816	112,010
	Total Commission on Law Enforcement and Criminal Justice			$ 8,708,663
	Library Commission			
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Commerce, U.S. Department of	11.557	$ 650,956
	Grants to States	Institute of Museum and Library Services	45.310	1,332,273
	Laura Bush 21st Century Librarian Program	Institute of Museum and Library Services	45.313	249,673
	Total Library Commission			$ 2,232,902
	Military Department			
	Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555	$ 1,545,509
	Military Construction, National Guard	Defense, U.S. Department of	12.400	19,921,068
	National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	16,640,497
	National Guard ChalleNGe Program	Defense, U.S. Department of	12.404	285,234
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	297,360
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	24,390,940
	Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039	5,902,578
	Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042	3,278,737
	Emergency Operations Centers	Homeland Security, U.S. Department of	97.052	22,895
	Interoperable Emergency Communications	Homeland Security, U.S. Department of	97.055	168,852
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	8,358,860
	Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078	941,497
	Total Military Department			$ 81,754,027
	Motor Vehicles, Department of			
	Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	$ 901,058
	Total Department of Motor Vehicles			$ 901,058

^ 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, 2013

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
Natural Resources, Department of				
	Soil and Water Conservation	Agriculture, U.S. Department of	10.902	$ 2,966
	U.S. Geological Survey_ Research and Data Collection	Interior, U.S. Department of	15.808	20,930
	Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	80,423
	Flood Mitigation Assistance	Homeland Security, U.S. Department of	97.029	70,592
	National Dam Safety Program	Homeland Security, U.S. Department of	97.041	176,239
	Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045	251,108
Total Department of Natural Resources				$ 602,258
Oil and Gas Commission				
	State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	$ 80,560
Total Oil and Gas Commission				$ 80,560
Postsecondary Education, Coordinating Commission for				
	Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	$ 359,693
	College Access Challenge Grant Program	Education, U.S. Department of	84.378	1,637,901
Total Coordinating Commission for Postsecondary Education				$ 1,997,594
Public Service Commission				
ARRA	State Broadband Data and Development Grant Program Recovery	Commerce, U.S. Department of	11.558	$ 805,028
	E-911 Grant Program	Transportation, U.S. Department of	20.615	32,346
Total Public Service Commission				$ 837,374
Roads, Department of				
	Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	$ 113,288
	Highway Planning and Construction Cluster:			
	Highway Planning and Construction	Transportation, U.S. Department of	20.205	339,356,502
ARRA	Highway Planning and Construction Recovery	Transportation, U.S. Department of	20.205	407,733
	Total Highway Planning and Construction Cluster			339,764,235
	Federal Transit Cluster:			
	Federal Transit_Capital Investment Grants	Transportation, U.S. Department of	20.500	186,403
	Metropolitan Transportation Planning	Transportation, U.S. Department of	20.505	1,474,006
	Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509	4,799,017
ARRA	Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509	5,455,589
	Total Formula Grants for Rural Areas			10,254,606

^ 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 #	2013 Expenditures
	Roads, Department of (Continued)			
	Transit Services Programs Cluster:			
	Enhanced Mobility of Seniors and Individuals with Disabilities	Transportation, U.S. Department of	20.513	1,710,482
	State Planning and Research	Transportation, U.S. Department of	20.515	4,785,685
	Highway Safety Cluster:			
	State and Community Highway Safety	Transportation, U.S. Department of	20.600	2,383,337
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601	1,390,335
	Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602	161,373
	State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	442,089
	Incentive Grant Program to Prohibit Racial Profiling	Transportation, U.S. Department of	20.611	139,852
	Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	112,858
	Total Highway Safety Cluster			4,629,844
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614	61,484
	Total Department of Roads			$ 362,980,033
	Secretary of State			
	Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	$ 518,678
	Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617	49,194
	Total Secretary of State			$ 567,872
	State Patrol			
	Missing Children's Assistance	Justice, U.S. Department of	16.543	$ 280,529
	National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	234,954
	National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	204,513
	Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607	1,109
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	141,978
	Paul Coverdell Forensic Sciences Improvement Grant Program	Justice, U.S. Department of	16.742	38,204
	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	Justice, U.S. Department of	16.748	288,013
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810	92,037
	NICS Act Record Improvement Program	Justice, U.S. Department of	16.813	32,743
	National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,899,576
	Commercial Vehicle Information Systems and Networks	Transportation, U.S. Department of	20.237	61,600
	High Intensity Drug Trafficking Areas Program	Executive Office of the President	95.001	1,162,193
	Total State Patrol			$ 5,437,449

^ 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, 2013

State Agency/Program Title	Federal Agency	CFDA or Grant #	2013 Expenditures
Supreme Court, Nebraska			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	$ 444,665
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	583,916
Total Nebraska Supreme Court			$ 1,028,581
Veterans' Affairs, Department of			
State Cemetery Grants	Veterans Affairs, U.S. Department of	64.203	$ 65,951
Total Department of Veterans' Affairs			$ 65,951
Worker's Compensation Court			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	$ 49,350
Total Worker's Compensation Court			$ 49,350
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,867,469,864

^ 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, 2013.

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 position 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 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, 2013, the inventory balance of nonmonetary assistance for food commodities at the State level was $1,064,665.

(4) Commodity and Vaccine Programs

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

CFDA #	Program	Commodities
10.555	National School Lunch Program	$8,446,528
10.558	Child and Adult Care Food Program	279,721
10.559	Summer Food Service Program for Children	50,627
10.565	Commodity Supplemental Food Program	2,379,355
10.569	Emergency Food Assistance Program	2,571,169

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 $6,934,652 was delivered directly to subrecipients.

The Immunization Cooperative Agreements (CFDA No. 93.268) included expenditures of $15,519,944 of nonmonetary Federal assistance in the form of vaccines.

(5) Surplus Property Program

The State agency responsible for surplus property distributes Federal surplus property to eligible donees under the Donation of Federal Surplus Personal Property (CFDA No. 39.003) program. Donated Federal surplus personal property in 2013 was valued at the historical cost of $7,714,712 as assigned by the Federal government, which is substantially in excess of the property's fair market value. The amount of expenditures presented on the Schedule is 15% of the historical cost, which approximates the fair market value of the property.

(6) Federal Loans Outstanding

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

CFDA #	Program	Outstanding Balance at June 30, 2013
66.458	Capitalization Grants for Clean Water State Revolving Funds	$141,069,381
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$93,861,704

New loans provided from these programs totaling $11,477,580 are included as current year expenditures on the Schedule.

(7) Airport Improvement Program

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated December 30, 2013. Our report includes a reference to other auditors who 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 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, as described in our report on the State of Nebraska's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters. The financial statements of these entities were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the State of Nebraska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the schedule of findings and questioned costs that we consider to be significant deficiencies: findings 2013-001, 2013-002, 2013-003, 2013-004, and 2013-005.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the State of Nebraska's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to the management of the various agencies of the State of Nebraska in separate letters.

State of Nebraska's Response to Findings
The State of Nebraska's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Nebraska's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State of Nebraska's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the State of Nebraska's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pat Reding

Lincoln, Nebraska
December 30, 2013

Pat Reding, CPA, CFE
Assistant Deputy Auditor

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Nebraska's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the State of Nebraska's compliance.

Basis for Qualified Opinion on Temporary Assistance for Needy Families (TANF) Cluster, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care Title IV-E, Adoption Assistance, Formula Grants for Rural Areas

As described in Findings 2013-041, 2013-042, 2013-043, 2013-049, 2013-050, 2013-051, 2013-052, 2013-056, 2013-057, 2013-062, 2013-063, 2013-091, 2013-092, 2013-093 and 2013-094 in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with requirements regarding the following:

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-041	93.558, 93.714	TANF Cluster	Reporting
2013-042	93.558	Temporary Assistance for Needy Families	Eligibility
2013-043	93.558	Temporary Assistance for Needy Families	Allowability
2013-049	93.568	Low-Income Home Energy Assistance	Earmarking & Reporting & Period of Availability
2013-050	93.568	Low-Income Home Energy Assistance	Allowability
2013-051	93.568	Low-Income Home Energy Assistance	Reporting
2013-052	93.568	Low-Income Home Energy Assistance	Reporting
2013-056	93.575, 93.596	CCDF Cluster	Allowability & Eligibility
2013-057	93.575, 93.596	CCDF Cluster	Reporting
2013-062	93.658	Foster Care Title IV-E	Reporting
2013-063	93.659	Adoption Assistance	Allowability & Eligibility
2013-091	20.509	Formula Grants for Rural Areas	Reporting
2013-092	20.509	Formula Grants for Rural Areas	Reporting
2013-093	20.509	Formula Grants for Rural Areas	Earmarking

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-094	20.509	Formula Grants for Rural Areas	Allowability & Suspension and Debarment & Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with the requirements applicable to those programs.

Qualified Opinion on TANF Cluster, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care Title IV-E, Adoption Assistance, Formula Grants for Rural Areas

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph and the Basis for Adverse Opinion paragraph, the State of Nebraska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on TANF Cluster, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care-Title IV-E, Adoption Assistance, and Formula Grants for Rural Areas for the year ended June 30, 2013.

Basis for Adverse Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Foster Care Title IV-E

As described in Findings 2013-030 and 2013-061 in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with requirements regarding the following:

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-030	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Allowability & Subrecipient Monitoring
2013-061	93.658	Foster Care Title IV-E	Allowability & Eligibility

Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major programs.

Adverse Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Foster Care-Title IV-E

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, the State of Nebraska did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Special Supplemental Nutrition Program for Women, Infants, and Children and Foster Care Title IV-E for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Nebraska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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. Our opinion on each major Federal program is not modified with respect to these matters.

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-006	14.228	Community Development Block Grants	Reporting
2013-007	14.228	Community Development Block Grants	Suspension and Debarment
2013-008	10.558; 10.553,10.555, 10.556, 10.559	Child and Adult Care Food Program; Child Nutrition Cluster	Reporting
2013-009	10.558	Child and Adult Food Care Program	Suspension and Debarment
2013-010	10.558	Child and Adult Food Care Program	Eligibility
2013-011	10.558	Child and Adult Food Care Program	Activities Allowed
2013-012	84.027, 84.173	Special Education Cluster (IDEA)	Reporting
2013-013	84.367	Improving Teacher Quality State Grants	Special Tests
2013-014	84.367	Improving Teacher Quality State Grants	Reporting
2013-015	84.010	Title I Grants to Local Educational Agencies	Reporting
2013-016	81.042	Weatherization Assistance for Low Income Persons (ARRA)	Cash Management
2013-017	81.042	Weatherization Assistance for Low Income Persons (ARRA)	Davis-Bacon Act
2013-018	93.568	Low-Income Home Energy Assistance	Subrecipient Monitoring
2013-020	Various; 93.658	Various; Foster Care Title IV-E	Allowable Costs
2013-021	Various; 93.658	Various; Foster Care Title IV-E	Cash Management

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-022	Various; 93.568; 93.778; 93.558	Various; Low-Income Home Energy Assistance; Medical Assistance Program; Temporary Assistance for Needy Families	Allowable Costs
2013-023	Various; 93.658; 93.568; 93.558	Various; Foster Care Title IV-E; Low-Income Home Energy Assistance; Temporary Assistance for Needy Families	Allowable Costs
2013-024	Various; 93.658; 93.568; 93.667	Various; Foster Care Title IV-E; Low-Income Home Energy Assistance; Social Services Block Grant	Allowable Costs
2013-025	Various; 93.778	Various; Medical Assistance Program	Allowable Costs
2013-026	Various; 93.778	Various; Medical Assistance Program	Allowable Costs
2013-027	10.555; 10.569	National School Lunch Program; Emergency Food Assistance Program (Food Commodities)	Reporting
2013-028	10.555	National School Lunch Program	Special Tests
2013-029	10.555	National School Lunch Program	Special Tests
2013-031	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Eligibility
2013-032	14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Allowability & Subrecipient Monitoring
2013-033	93.044, 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
2013-034	93.044, 93.045, 93.053	Aging Cluster	Reporting
2013-035	93.044, 93.045, 93.053	Aging Cluster	Cash Management

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-036	93.283; 93.520; 93.270	Centers for Disease Control and Prevention – Investigations and Technical Assistance; Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work; Adult Viral Hepatitis Prevention and Control	Reporting
2013-037	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Reporting
2013-038	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability & Subrecipient Monitoring
2013-039	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability
2013-040	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability & Period of Availability
2013-044	93.558	Temporary Assistance for Needy Families	Reporting
2013-045	93.558	Temporary Assistance for Needy Families	Reporting & Special Tests
2013-046	93.558, 93.714	TANF Cluster	Allowability
2013-047	93.558	Temporary Assistance for Needy Families	Allowability
2013-048	93.558	Temporary Assistance for Needy Families	Special Tests
2013-053	93.568	Low-Income Home Energy Assistance	Period of Availability & Reporting
2013-054	93.568	Low-Income Home Energy Assistance	Allowability & Period of Availability
2013-055	10.558; 93.575, 93.596	Child and Adult Care Food Program; CCDF Cluster	Allowability
2013-058	93.575	Child Care and Development Block Grant	Earmarking

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-059	93.575, 93.596	CCDF Cluster	Special Tests
2013-060	93.575, 93.596	CCDF Cluster	Special Tests
2013-064	93.659	Adoption Assistance	Level of Effort
2013-065	93.667	Social Services Block Grant	Allowability
2013-066	93.767	Children's Health Insurance Program	Matching & Reporting
2013-067	93.767	Children's Health Insurance Program	Matching
2013-068	93.778	Medical Assistance Program	Matching & Reporting
2013-069	93.778	Medical Assistance Program	Allowability & Eligibility
2013-070	93.778	Medical Assistance Program	Period of Availability & Special Tests
2013-071	93.778	Medical Assistance Program	Matching
2013-072	93.778	Medical Assistance Program	Allowable Costs & Subrecipient Monitoring
2013-073	93.778	Medical Assistance Program	Allowability
2013-074	93.778	Medical Assistance Program	Allowability & Eligibility
2013-075	93.778	Medical Assistance Program	Special Tests
2013-076	93.778	Medical Assistance Program	Allowable Costs
2013-077	93.778	Medical Assistance Program	Allowable Costs
2013-078	93.778	Medical Assistance Program	Special Tests
2013-079	93.778; 93.767	Medical Assistance Program; Children's Health Insurance Program	Eligibility
2013-080	93.778	Medical Assistance Program	Allowability
2013-081	15.904	Historic Preservation Fund Grants-In-Aid	Allowable Costs

Finding #	CFDA #	Federal Program	Compliance Requirement
2013-082	17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors ARRA	Reporting
2013-083	17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors ARRA	Allowability & Eligibility
2013-084	17.258, 17.259, 17.278	Workforce Investment Act (WIA) Cluster	Allowability & Eligibility
2013-085	17.225	Unemployment Insurance - Federal	Eligibility
2013-086	17.225	Unemployment Insurance - Admin	Allowable Costs
2013-087	16.738, 16.803	JAG Program Cluster	Allowability & Subrecipient Monitoring
2013-088	16.738	Edward Byrne Memorial Justice Assistance Grant Program	Reporting
2013-089	16.803	Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program	Reporting
2013-090	16.588	Violence Against Women Formula Grants	Allowability & Subrecipient Monitoring
2013-095	90.401	Help America Vote Act Requirements Payments	Allowable Costs
2013-096	Various; 93.563; 20.610; 16.588	Various; Child Support Enforcement; State Traffic Safety Information System Improvement Grants; Violence Against Women Formula Grants	Allowable Costs

The State of Nebraska's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Nebraska's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Nebraska's internal control over compliance with the types of requirements that could have a direct and material effect on each major

Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 2013-030, 2013-041, 2013-042, 2013-043, 2013-049, 2013-050, 2013-051, 2013-052, 2013-056, 2013-057, 2013-061, 2013-062, 2013-063, 2013-091, 2013-092, 2013-093 and 2013-094 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 2013-006, 2013-008, 2013-009, 2013-013, 2013-019, 2013-020, 2013-021, 2013-022, 2013-028, 2013-033, 2013-034, 2013-035, 2013-037, 2013-038, 2013-040, 2013-044, 2013-045, 2013-055, 2013-058, 2013-059, 2013-068, 2013-069, 2013-070, 2013-080, 2013-083 and 2013-087 to be significant deficiencies.

The State of Nebraska's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Nebraska's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pat Reding

Lincoln, Nebraska
March 25, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor

I. Summary of Auditors' Results

a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unmodified

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 2013-001, 2013-002, 2013-003, 2013-004 and 2013-005. 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 2013-006, 2013-008, 2013-009, 2013-013, 2013-019, 2013-020, 2013-021, 2013-022, 2013-028, 2013-033, 2013-034, 2013-035, 2013-037, 2013-038, 2013-040, 2013-044, 2013-045, 2013-055, 2013-058, 2013-059, 2013-068, 2013-069, 2013-070, 2013-080, 2013-083 and 2013-087.

   We consider items 2013-030, 2013-041, 2013-042, 2013-043, 2013-049, 2013-050, 2013-051, 2013-052, 2013-056, 2013-057, 2013-061, 2013-062, 2013-063, 2013-091, 2013-092, 2013-093 and 2013-094 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Unqualified for all major programs except for TANF Cluster, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care Title IV-E, Adoption Assistance, Formula Grants for Rural Areas, which were qualified and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Foster Care Title IV-E, which were adverse.

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

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

CFDA	10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster
CFDA	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA	10.558	Child and Adult Care Food Program
CFDA	12.400	Military Construction, National Guard
CFDA	12.401	National Guard Military Operations and Maintenance (O&M) Projects

CFDA	14.228 and 14.255	CDBG - State-Administered CDBG Cluster
CFDA	16.738 and 16.803	JAG Program Cluster
CFDA	17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
CFDA	20.106	Airport Improvement Program
CFDA	20.509	Formula Grants for Rural Areas
CFDA	81.042	Weatherization Assistance for Low-Income Persons
CFDA	84.010	Title I, Part A Cluster
CFDA	84.367	Improving Teacher Quality State Grants
CFDA	93.044, 93.045 and 93.053	Aging Cluster
CFDA	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
CFDA	93.558 and 93.714	TANF Cluster
CFDA	93.568	Low-Income Home Energy Assistance
CFDA	93.575 and 93.596	CCDF Cluster
CFDA	93.658	Foster Care – Title IV-E
CFDA	93.659	Adoption Assistance
CFDA	93.775, 93.777 and 93.778	Medicaid Cluster
CFDA	97.067	Homeland Security Grant Program

h) Dollar threshold used to distinguish between Type A and Type B programs: $8,602,409

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

II. Findings Related to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2013-001

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.

The Department of Administrative Services State Accounting Division (State Accounting) prepares the CAFR annually. In order for the State to receive the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting, the CAFR needed to be completed by December 31, 2013. Therefore, the Auditor of Public Accounts (APA) provided a list of items to be prepared by State Accounting, with dates for submission to the APA for testing, to ensure the CAFR would be completed timely. Throughout the audit, several items were not submitted timely.

For instance, State Accounting requested financial information from all State agencies to be provided by August 6, 2013. The APA requested this information be submitted for testing, with supporting documentation, by September 27, 2013. However, the last of the information was not provided until October 29, 2013, over one month late, and supporting documentation was not included. Instead, the APA had to request the needed information directly from the agencies. This led to delays and inaccurate information.

Several other items that require substantial testing, such as the investment disclosures, infrastructure supplementary information, and outside trust fund statements, were provided up to 30 days late. When information that should be received in October or November is not received until December, there is an increased risk State Accounting will not be able to review the information thoroughly, which could lead to errors. In addition, audit procedures cannot be completed timely, which could result in the CAFR being issued late.

Furthermore, the draft report submitted by State Accounting was incomplete and inaccurate and was not provided timely. This was partly due to errors noted in the late information submitted to the APA, which required adjustments in the financial statements or note disclosures. State Accounting provided the first draft on December 12, 2013, and three drafts thereafter, that required revisions for formatting and incorrect information, such as hidden rows on the financial statements, combining statements not agreeing to other statements, etc. The final draft was not provided until December 30, 2013.

During testing of the CAFR, we noted the following:

- State Accounting did not have adequate procedures to ensure the amounts submitted by State agencies were correct. The errors ranged from an overstatement of $13,643,401 by the Department of Health and Human Services for incorrect payables to an understatement of $351,213,506 by the Department of Roads for infrastructure work in progress that was not reported.

- Errors were also noted in information prepared by State Accounting to support entries made to the financial statements and information to generate footnotes. Errors consisted of misclassifications of investment disclosures for $4,282,100, an understatement of allowance for doubtful accounts disclosure totaling $2,308,014, a misclassification of cash payments in the Lottery Statement of Cash Flows for $507,000, and the omission of $544,819 in capital assets for land purchased during the fiscal year.

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

Without adequate procedures in place to ensure the accuracy of the financial reports and information used to prepare the CAFR, there is a greater risk material misstatements may occur and remain undetected. Furthermore, when information is not submitted to the APA on a timely basis, there is an increased risk the CAFR will not be completed by December 31, in accordance with the GFOA requirements.

> We recommend State Accounting implement procedures to ensure information is complete, accurate, and submitted timely to the auditors. Furthermore, we recommend State Accounting continue to work with State agency personnel to ensure accrual information is supported and has a sound accounting base. State Accounting should also have procedures in place to review and verify that information is supported, reasonable, and accurate.

Agency 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. In this regard, State Accounting will meet with and assist many larger agencies to design, develop, implement, and monitor proper procedures, as needed, so that accurate and timely reporting can be done after the year end. For the upcoming year, members from State Accounting will also attend exit conferences at various agencies to understand and enhance accounting procedures.

State Accounting will develop and communicate with agencies and APA, a newly structured schedule for 2014 for the completion of reports for timely submission to APA.

State Accounting has procedures in place to review work papers before they are given to the APA. We will review those procedures for adequacy and effectiveness and will make necessary changes, if needed. Please note that significant progress has been made in accrual reporting over the years.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2013-002

Accrual Information

The Department of Administrative Services State Accounting Division (State Accounting) generates the Comprehensive Annual Financial Report (CAFR) annually. In order for the State to receive the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting, the CAFR needed to be completed by December 31, 2013. State Accounting required all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form due by August 6, 2013. A good internal control plan requires procedures to accurately report financial information to State Accounting in a timely manner.

Throughout the audit, several items were not accurately reported or submitted timely to State Accounting. Consequently, substantial audit adjustments were needed to ensure the financial statements were materially correct. First and foremost, the Agency did not submit its accrual response form to State Accounting until October 10, 2013, more than two months late. The Agency has had significant issues with its accrual calculations in the past and, as noted below, those issues were not resolved.

We noted the following concerning payables and receivables reported by the Agency to State Accounting:

Description	Accrual Type	Error	Amount
Intergovernmental	Payable	Understated	$ 13,643,401
Intergovernmental	Receivable	Understated	$ 7,386,588
Patient and County Billings	Receivable	Overstated	$ 4,364,168
NFOCUS	Receivable	Overstated	$ 1,282,253
Medicaid Drug Rebate	Receivable	Understated	$ 950,275
Women, Infants, & Children	Payable	Overstated	$ 761,364
Third Party Liability	Receivable	Overstated	$ 134,875
Medicaid Estate Recovery	Receivable	Overstated	$ 25,084
SCHIP-State/Federal Share	Payable	Over/Understated	$ 11,227

Additional information is as follows:

- The Agency determines amounts due to and from the Federal government and reports the payable and receivable to State Accounting for the CAFR. The payable and receivable were understated by $13,643,401 and $7,386,588, respectively. The understatements were caused by calculation errors in the spreadsheet, a misunderstanding of how to calculate the amounts, and information not properly updated from the prior year. The Agency provided three different versions of the calculation and took over one month to determine the proper figures after the Auditor of Public Accounts (APA) first questioned the support provided.

- The patient and county billings receivable was overstated by $4,364,168. The receivable was calculated for the Lincoln, Norfolk, and Hastings Regional Centers, the Beatrice State Developmental Center (BSDC), and the Developmental Disabilities program. The overstatement was caused by the following:
  - The Agency erroneously included State funding at BSDC totaling $3,116,465. The same error was reported during the prior audit.
  - Allowances for doubtful accounts were not considered, were not complete, or were not reasonably documented, and the Agency was unable to provide support for collection agency balances in a timely manner. The Agency did not provide support until December 16, 2013. A similar finding was noted during the prior audit.
  - Fourteen of 25 patient balances tested were not pursued by the Agency for collection or write off in a timely manner. For 13 of those 14 balances, either the entire balance or a portion thereof was not properly reported as a receivable, causing an overstatement of $221,943. A similar finding was noted during the prior audit.
- The NFOCUS receivable was overstated by $1,282,253. The receivable consisted 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 did not expect to collect on the balances. Lastly, the Agency did not have support for the Child Care allocation percentages between State and Federal funds. A similar finding was noted during the prior audit.
- The Medicaid drug rebate receivable was understated by $950,275. Medicaid drug rebates were established by law to require drug manufacturers to provide rebates for their drug products paid for by Medicaid. The following errors were noted:
  - The Agency did not properly update the spreadsheet used to calculate the receivable from the prior year, causing an overstatement of $1,781,910.
  - The physician-administered rebates for the 4th quarter in 2012 were not properly reported, overstating the receivable by $2,888,607.
  - The Agency did not include estimates for physician-administered rebates for the 1st and 2nd quarters in 2013 not yet billed, causing the receivable to be understated by $2,313,365. The same error was reported during the prior audit.

  - The Agency began billing for managed care organization physician-administered rebates in August 2013; however, the Agency did not include this in the calculation, understating the receivable by $3,307,427.

- The Women, Infants, and Children (WIC) payable to individuals and the corresponding receivable from the Federal government were overstated by $761,364. The Agency reported a payable of $1,032,830; however, $761,364 was already on hand to pay claims and, therefore, would not be necessary from the Federal government. Therefore, the payable should have been reported at $271,466.

- The third party liability receivable was overstated by $134,875. 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:

  - 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, the Agency acknowledged continuing to attempt to collect them. The APA was unable to determine the total amount of these accounts, as a comprehensive listing was not available. For 1 of 10 account balances tested, the amount reported did not agree to the Medicaid system due to the balance over two years old being excluded, causing an understatement of $196,848. A similar finding was noted during the prior audit.

  - For 2 of 10 balances tested, the accounts receivable balance was incorrect, resulting in an overstated receivable amount of $331,723.

  - The Agency lacked adequate policies and procedures to pursue collections for payments made directly to a client instead of to Medicaid. The Agency did not create a submittal for the client, similar to procedures for insurance companies and attorneys, to ensure all possible avenues are pursued for collection of outstanding balances.

- The Medicaid estate recovery receivable was overstated by $25,084. The receivable is based upon claims filed against the estates of deceased persons who received Medicaid assistance. For 1 of 10 account balances tested, the claim was not properly recorded. The estate had sent a letter establishing the balance to be paid to the Agency; however, the Agency did not adjust the balance timely, causing an overstatement. A similar finding was noted during the prior audit.

- The State Children's Health Insurance Program (SCHIP) payable was incorrectly calculated, causing the State share to be overstated and the Federal share to be understated by $11,227.

In addition to accruals being incorrectly reported to State Accounting, the following information provided by the Agency for the CAFR was also improper:

- The Agency has trust fund activity that is reported as Agency funds for the State. For one of three trust funds tested, the additions and reductions were overstated by $3,721,499.

- The Agency did not provide accurate support to the APA for the State Ward Education payable. The payable reported by the Agency totaled $5,179,718, which agreed to the spreadsheet provided. However, when testing was performed, it was determined $4,060,489 was not accurately included in the accrual support. After the APA questioned the information, the Agency and State Accounting provided revised support. The inaccurate information provided caused delays of over 50 days to resolve the differences and review the revised support.

State Accounting did make correcting entries for all material amounts, as recommended by the APA.

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. Furthermore, when information is not submitted to the APA on a timely basis, there is an increased risk the CAFR will not be completed by December 31, in accordance with the GFOA requirements.

> We recommend the Agency implement procedures to ensure information is complete, accurate, and submitted timely to the auditors. The Agency should also have procedures in place for a secondary review to verify the information is supported, reasonable, and accurate. We also recommend the Agency establish policies and procedures to ensure third-party liability collections are pursued against clients.

Agency Response: The Department will request its Internal Audit Section to review the current processes and procedures related to preparing the accrual information. The review will include the recommendations for enhanced procedures including secondary review procedures to reduce the likelihood of these errors occurring in the future. The Department will also work with the Department of Administrative Services Accounting Division to develop more compatible deadlines for completion of the accrual information.

Finding 2013-003

Agency Interference with Audit

Neb. Rev. Stat. §§ 84-304(3) & (9) (Supp. 2013) direct the APA to conduct audits and examinations in accordance with the government auditing standards promulgated by the Comptroller General of the United States. The 2011 revision of those standards contain numerous directives regarding the necessity of maintaining and preserving auditor independence. For instance, Chapter 3.02 of the standards mandates:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

Additionally, the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards, which the Comptroller General's auditing standards incorporate by reference, emphasize the importance of making independent inquiries of individuals within an audited entity. Specifically, AICPA AU-C 240, paragraph .18, provides:

The auditor should make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity.

Paragraph .A17 of that same section explains:

Inquiries of management and others within the entity are generally most effective when they involve an in-person discussion.

Paragraph .A18 addresses in detail the importance of interviewing individuals other than management – both pointing out the danger of relying solely upon management responses to audit inquiries and stressing the need to have alternative sources for audit information:

The auditor's inquiries of management may provide useful information concerning the risks of material misstatements in the financial statements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement in the financial statements resulting from management fraud. Making inquiries of others within the entity, in addition to management, may provide individuals with an opportunity to convey information to the auditor that may not otherwise be communicated. It may be useful in providing the auditor with a perspective that is different from that of individuals in the financial reporting process. The responses to these other inquiries might serve to corroborate responses received from management or, alternatively, might provide information regarding the possibility of management override of controls. The auditor may also obtain information about how effectively management has communicated standards of ethical behavior throughout the organization.

Paragraph .A19 offers specific examples of the types of individuals who should be subject to personal audit interviews:

Examples of others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud include the following:

Operating personnel not directly involved in the financial reporting process

Employees with different levels of authority

Employees involved in initiating, processing, or recording complex or unusual transactions and those who supervise or monitor such employees

In-house legal counsel

Chief ethics officer or equivalent person

The person or persons charged with dealing with allegations of fraud

Finally, paragraph .A20 warns that auditors may need to seek independent verification of any responses provided by management:

> *Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with professional skepticism, the auditor may judge it necessary to corroborate responses to inquiries with other information.*

Despite the obvious significance given in the government auditing standards to both auditor independence and the utility of direct auditor access to employees outside of management, the Agency took deliberate steps to impede both during the course of the present audit.

While carrying out their audit fieldwork, the auditors became aware of a June 28, 2013, memo that Matthew G. Clough, the Chief Operating Officer for the Agency, had issued to the agency's employees. (See Exhibit A) That communiqué set out a series of guidelines that, if followed, would effectively prevent the APA from receiving confidential, or even unfiltered, information from Agency employees – including from potential whistleblowers.

Among the memo's requirements were the following:

> *When an auditor makes contact with any DHHS employee regarding an audit, the DHHS Internal Auditor must be notified as soon as possible.*
>
> *Inquiries from auditors should be directed towards and responded to by DHHS employees at the Manager or Administrator level or above. Managers may delegate certain responses at the Manager's discretion to staff but the Manager must be consulted prior to the response being provided AND the Manager must be copied on the response.*
>
> *If you [a DHHS employee] receive an inquiry from an auditor and did not have prior contact from the DHHS Internal Auditor regarding the purpose of the inquiry (or if the dhhs.singleaudit@nebraska.gov was not copied on the inquiry), you should contact the DHHS Internal Auditor PRIOR to responding to the auditor.*

Upon learning of the memo's existence, the APA contacted Mr. Clough, objecting to the obvious attempt to restrict direct auditor communications with Agency employees. In doing so, the APA emphasized the resulting harmful impact of the new agency guidelines upon the ability of the auditors both to maintain their independence and to obtain potentially crucial audit evidence – unaltered or uncensored by management – directly from those workers with the most relevant information.

The APA's concerns are clearly supported by the government auditing standards referenced under § 84-304. Nevertheless, the APA attempted to cooperate with the Agency by offering suggestions for revising the guidelines so as to retain management's control of employee activity without infringing upon auditor independence and the ability to carry out confidential or unsupervised interviews. Despite professing a willingness to work with the APA in modifying the guidelines the Agency made no changes.

By denying the APA direct and unrestricted access to, as well as confidential correspondence with, various personnel, Agency management interfered with the audit.

As long as the Agency insists upon monitoring, and possibly even revising, employee responses to audit inquires, the APA will be prevented from exercising full audit authority pursuant to relevant government auditing standards.

> We recommend that Agency management withdraw immediately the memo at issue, revoking any impediments to unrestricted and unmonitored auditor access to Agency employees.

Agency Response: The Department does not agree with the APA's conclusion and recommendation. In an attestation report issued on September 7, 2011, the APA cited a "lack of cooperation by DHHS" due to "numerous examples of DHHS's failure to respond either timely or completely, or both, to requests for information." The APA recommended that "DHHS implement procedures to ensure all information requested by the APA is provided in a timely manner." In response to the APA recommendation, the Department issued policies and procedures in June 2012 to improve the Department's responses to audit requests. The Department also hired an Internal Auditor to serve as the point of contact for all federal or state audits. These same procedures are being used for all audits and no federal auditors have stated that these procedures impede their audit; rather several have stated that the procedures enhance the audit process and make it more efficient. Unilaterally the APA has chosen to conduct its audit process outside these procedures. The Department would also point out that these same procedures were in place for the previous year's CAFR audit, and the APA did not cite any concerns.

Throughout the APA's summary, the APA makes strong implications that Department management has interfered with the APA receiving confidential, or even unfiltered, information from Department employees. The APA's implications stop just short of allegations of fraud. The Department strongly objects to the APA's implications.

APA Response: The effort to prevent the APA from obtaining unofficial communications from Agency staff constitutes an interference with the audit process – one which has required the APA to conduct the audit process "unilaterally," as the Agency alleges, outside of the unacceptable procedures. The APA has provided certain relevant auditing standards with which the Agency's memo, requiring all APA communications to go through the Internal Auditor, is impossible to reconcile. Thus, while not reporting findings of alleged fraud, the Agency's actions remain clearly improper nonetheless. It is critically important that the APA be able to communicate directly with the persons handling transactions to verify the processes are in place.

The APA first became aware of the Department's memo in August 2013. While a similar memo was cited as existing in prior years, Agency management never brought the procedures to the APA's attention, which would explain why that document was not an issue in the previous year's CAFR audit.

As for the supposed failure of federal auditors to object to the Agency's interference, the APA considers wholly irrelevant any such occurrence. The APA is subject to periodic Quality Control Reviews to ensure both adherence to applicable auditing standards and the proper performance of official duties. The same federal auditors whom the Agency claims to be indifferent to audit interference have participated in the Quality Control Reviews of this office, examining closely our audit reports and working papers in the process. The most recent such review was completed on August 16, 2013, and, like all of its predecessors, commended our work. The review reports can be found on the APA's website.

In addition, the notion that the memo in question was created as a corrective response to a prior audit finding is implausible. In the 2011 attestation report comment referenced by the Agency, the APA objected to numerous unreasonable delays in responding to auditor requests for documentation. That repeated lack of responsiveness did not result from a mere lack of coordination on the part of the Agency. Rather, the APA believes the frequency of the delays to have been indicative of an overall pattern of intentional noncooperation with the audit work. Instead of providing any sort of relief, the current memo and the unacceptable procedures that it implements have further exacerbated the APA's difficulty in obtaining needed audit documentation.

Exhibit A

Department of Health & Human Services
DHHS
NEBRASKA

Matthew G. Clough
Chief Operating Officer

State of Nebraska
Dave Heineman, Governor

June 28, 2013

To: All DHHS Staff

From: Matthew G. Clough, Chief Operating Officer

Subject: Federal and State Audit Policies

With the end of the State Fiscal Year upon us (June 30, 2013), the State Auditor's Office will be conducting the Annual State-wide Single Audit. For several areas of DHHS, the Auditor's Office has begun preliminary audit procedures. The State-wide Single Audit is required to be issued by March 31, 2014 and auditors will be working with us up until that date. In addition, we have several different Federal Agencies conducting audits, reviews, and site visits related to Federal grants and programs. With all of this going on, it is important to remind each of you of the Department's policies and procedures regarding **ALL** Federal and State audit activity. Timely and acurate communication and responses to all audit inquiries and questions is imperitive. The Department's Internal Auditor (Kevin Nelson, CPA) is responsible for coordinating all Federal and State audits and can assist you with any audit related questions. Please keep in mind that while I am using the generic term of "audit", for purposes of this policy an "audit" can encompass any audit, review, attestation, site visit, etc. in which a Federal or State official is reviewing one or more of our programs with the purpose of issuing a report that may contain findings requiring a corrective action plan. Also, bear in mind that "auditor" would relate to either a Federal or State official.

1. When an auditor makes contact with any DHHS employee regarding an audit, the DHHS Internal Auditor must be notified as soon as possible.
2. An engagement letter stating the purpose and estimated beginning of the audit is required to be provided to the Department PRIOR to the beginning of fieldwork. A copy of the engagement letter must be provided to the DHHS Internal Auditor.
3. The DHHS Internal Auditor must be invited to the entrance and exit conferences at the beginning and end of fieldwork.
4. Inquiries from auditors should be directed towards and responded to by DHHS employees at the Manager or Administrator level or above. Managers may delegate certain responses at the Managers discretion to staff but the Manager must be consulted prior to the response being provided AND the Manager must be copied on the response.
5. If you receive an inquiry from an auditor and did not have prior contact from the DHHS Internal Auditor regarding the purpose of the inquiry (or if the dhhs.singleaudit@nebraska.gov was not copied on the inquiry), you should contact the DHHS Internal Auditor PRIOR to responding to the auditor.
6. In order for us to work with greater unison as a team, written communication with auditors is preferred.

7. If you have any questions regarding what the auditor is asking or if you have concerns with how to respond to the request, the DHHS Internal Auditor should be contacted prior to communicating with the auditor.
8. All e-mails to auditors must be copied to dhhs.singleaudit@nebraska.gov. The DHHS Internal Auditor monitors the e-mails coming into this account.
9. Supporting documentation should be provided electronically to auditors whenever possible. If electronic documentation is not possible or reasonable, you may provide the auditors copies of original documentation or the auditors may review original documentation at one of our offices. Maintaining control of the original documents insures that our files stay orderly and complete. Under no circumstances, should original documentation leave the premises of DHHS. Premises of DHHS does NOT include the Auditor's Office on the 5th floor of the Nebraska State Office Building.
10. Before providing access to DHHS software or applications (i.e. EnterpriseOne, OnBase, Workday, NFOCUS) prior approval of the DHHS Internal Auditor is required.
11. If there is an audit finding you should consult with the DHHS Internal Auditor regarding the finding and any corrective action plan.
12. A copy of auditors final report should be provided to the DHHS Internal Auditor as well as any response to the report or any corrective action plans.

If you have any questions regarding audit activity within the Department, please contact:
Kevin Nelson, CPA, DHHS Internal Auditor
DHHS – Operations, 301 Centennial Mall South, 5th Floor
Lincoln, NE 68509
Office: (402) 471-9213; Cell: (402) 309-6783;
kevin.r.nelson@nebraska.gov

DEPARTMENT OF LABOR

Finding 2013-004

Lack of Adequate Collateral for Deposits

Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) states, in relevant part:

> *[T]he custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*

A good internal control plan requires policies and procedures for the review of depository fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limit to ensure they are properly collateralized.

During the audit, we requested documentation that the Agency's depository accounts were adequately collateralized for balances in excess of the FDIC limit ($250,000). We first requested documentation on October 16, 2013. Finally, on December 2, 2013, the Agency obtained monthly collateral reports from the depository bank and provided the reports to the auditors on December 4, 2013. The Agency never provided documentation to support that it monitored the balances during the year to ensure the ongoing sufficiency of the collateralization.

Our review of the monthly reports revealed inadequate collateral coverage for the months of January and April 2013 in the amounts of $4,915,710 and $41,918,711, respectively.

Month	Month End Bank Balance	FDIC Coverage	Balance In Excess of FDIC Coverage	Market Value of Pledged Collateral	Percent Collateralized (102% Required)
January	$ 14,844,247	$ 250,000	$ 14,594,247	$ 9,678,537	66.32%
April	$ 56,750,778	$ 250,000	$ 56,500,778	$ 14,582,067	25.81%

When bank balances are not adequately collateralized, the Agency increases the risk of loss of funds and is not in compliance with State statute.

> We recommend the Agency establish policies and procedures for the regular monitoring of bank balances to ensure adequate pledged collateral is established to protect the Agency's funds in accordance with State statute.

Agency Response: Management agrees with the finding. The issue which causes this situation is the bank files are not processed in time for the bank to be notified there is an additional need for pledged collateral. The files are often not processed until 2-4 *pm, all pledged collateral requests must be to the bank prior to that. These funds are not available till after the close of business, and therefore the funds cannot be moved nor can additional pledged collateral be obtained until the next business day. In all cases, the pledged is sufficient on the following business day.*

NDOL will work with internal parties, to develop the best method to get the information processed in a timely manner. NDOL will also work with the State Treasurer's office to obtain guidance on the best way to calculate the pledged collateral on a daily basis in order to notify the bank.

DEPARTMENT OF ROADS

Finding 2013-005

Infrastructure Work In Progress

Governmental Accounting Standards Board (GASB) Statement 34, paragraph 25, states:

> *If eligible infrastructure assets meet the requirements of paragraphs 23 and 24 and are not depreciated, all expenditures made for those assets (except for additions and improvements) should be expensed in the period incurred. Additions and improvements to eligible infrastructure assets should be capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.*

The Department of Administrative Services State Accounting Division (State Accounting) prepares the State Comprehensive Annual Financial Report (CAFR) and requires the Agency to report its infrastructure assets. A good internal control plan requires agencies to have procedures for accurately reporting financial information to State Accounting.

The Agency did not report infrastructure work in progress to State Accounting; therefore, the work in progress was not properly capitalized in the State's financial statements. The Agency reported only infrastructure projects that were complete, causing capital assets to be understated. The total amount of work in progress at year ended June 30, 2013, was $351,213,506.

Due to the omission of this information in the prior year, State Accounting was required to restate the beginning balance on the financial statements. When infrastructure work in progress is not properly capitalized in accordance with GASB, financial statements can be materially misstated.

> We recommend the Agency implement policies and procedures to ensure appropriate accounting standards are adhered to, and necessary information is reported to State Accounting for inclusion in the CAFR.

Agency Response: NDOR concurs with this finding. This is a result of a miscommunication between the Department of Roads and DAS Accounting staff. NDOR will be more diligent in the future to ensure this information is recorded as part of the CAFR report.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF ECONOMIC DEVELOPMENT

Finding 2013-006

Program: CFDA 14.228 – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii - Reporting

Grant Number & Year: B12DC310001, FFY 2012; B11DC310001, FFY 2011

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

Criteria: 2 CFR § 170.320 (January 1, 2013) 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, 2013), 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, 2013), 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 accurately in the required time frames.

Condition: The Agency did not complete any reporting, as required by the Federal Funding Accountability and Transparency Act (Transparency Act), for subawards made as part of the Community Development Block Grant program.

Questioned Costs: None

Context: The Agency was awarded $9,937,502 in the Federal fiscal year (FFY) 2012 grants and $11,183,238 in the FFY 2011 grants. The Agency made subawards with the 2012 grant and the 2011 grant. There were 88 subawards that had not been reported.

Cause: This was a new requirement starting with the FFY 2011 grant award. The Agency was not aware of the requirement and had made no attempt to report the subaward information.

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 accurately and in the required time frames for subawards made. We further recommend the Agency implement procedures to ensure all required reporting is properly completed in accordance with Federal regulations.

Management Response: The Department does not dispute the issue identified.

Corrective Action Plan: The Department has implemented a strategy for compliance with the reporting requirements of the Federal Funding Accountability and Transparency Act ("FFATA"). The Department has developed a reporting form for the Community Development Block Grant Program ("CDBG") that will be used to gather the necessary FFATA information from applicants for CDBG program funding. The form and FFATA reporting is required for every CDBG application received after February 1, 2014. The form is included in CDBG Program Application Guidelines so that the information is submitted to the Department at the time a local government applies for a grant. If the Department awards a grant to the local government, the Department will have the information needed to report the award in the FFATA Subaward Reporting System within the required timeframe (no later than the end of the month following the month in which the obligation was made). A Department employee has been designated to be responsible for entering the information into FFATA Subaward Reporting System. The Department employee is implementing similar procedures for covered awards made prior to February 1, 2014.

Contact: Jennifer Long, Federal Aid Administrator or Neoma Parks, Budget Officer

Anticipated Completion Date: May 30, 2014 (implementation for new awards completed January 31, 2014).

Finding 2013-007

Program: CFDA 14.228 – Community Development Block Grants/State's program and Non-Entitlement grants in Hawaii – Suspension and Debarment

Grant Number & Year: All open including B11DC310001, FFY 2011

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

Criteria: Per 2 CFR § 180.300 (January 1, 2013), upon entering into a covered transaction with another person at the next lower tier, one must verify that the person with whom he or she intends to do business is not excluded or disqualified. One does 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 requires the auditee to:

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

A good internal control plan requires procedures to ensure subrecipients are not suspended or debarred.

Condition: For 2 of 24 subrecipients tested, the Agency did not complete procedures to ensure the subrecipient was not suspended or debarred. The Agency did not perform a check of the EPLS, or collect a certification, or add a clause to the transaction. There were no written policies and procedures in place to ensure subrecipients were not suspended or debarred.

Questioned Costs: None

Context: Both subrecipients had Neighborhood Stabilization Program grants, and there was no procedure in place to check the EPLS for these grants. During testing, we verified that the subrecipients were not suspended or debarred. The EPLS has been changed to the System for Awards Management (SAM). There were 126 subrecipients for the fiscal year.

Cause: The Agency began checking subrecipients on the EPLS after the fiscal year 2010 Single Audit. At that time, the procedure was added to most grant checklists. Staff are working to ensure it is included for all grants. The EPLS check was not included on every checklist, and it was overlooked when awarding some grants.

Effect: Subrecipient expenditures may not be allowable.

Recommendation: We recommend the Agency develop and implement written policies and procedures to ensure subrecipients are not suspended or debarred.

> **Management Response:** The Department does not dispute the issue identified.
>
> **Corrective Action Plan:** The Department is adding to written policies and procedures to ensure subrecipients are not suspended and debarred, including improving procedures to document the completion of this process. A policy memorandum to Department staff from Steve Charleston, CDBG Program Manager was formalized January 30, 2014. Specifically, this excerpt from the policy memorandum addresses the finding: “The CDBG applicants and other entities that are

included in the application are verified for contractor eligibility in SAM. The verification date is entered in MITAS [the Department grants management database] document 1012 System Award Management CK under the Award stage. The data is migrated to the Filemaker database that documents…The SAM determination for the applicant and other entities is printed…placed in the applicant's project file as a SAM record for checking contractor eligibility".

Contact: Steve Charleston, CDBG Program Manager/Community and Rural Development Division Deputy Director

Anticipated Completion Date: January 30, 2014

DEPARTMENT OF EDUCATION

Finding 2013-008

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

Grant Number and Year: #2012IN109943, FFY 2012; #2013IN109943, FFY 2013

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 2 CFR § 170.320 (January 1, 2013) 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, 2013) 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:

> *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, § __.300, 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 comply with Federal regulations regarding the Federal Funding Accountability and Transparency Act (Transparency Act).

Questioned Costs: None

Context: The Agency enters into agreements with subrecipients to provide meals under the Child Nutrition Cluster of programs and the Child and Adult Care Food Program. Once the reimbursement payments reach a level of $25,000 or greater, the Agency is required to complete and submit the necessary information for the Transparency Act. Until January 2013, the Agency's procedures were to accumulate the expenditures data at the end of the Federal fiscal year and report subrecipient totals exceeding $25,000. Beginning in January 2013, the Agency began reviewing and revising its process for completing the required reporting; however, this process was not implemented prior to June 30, 2013. Therefore, required reporting was not completed.

Per our review of the general ledger, 362 subrecipients received payments under grant award 2013IN109943 that should have been reported. Subrecipient payments ranging from $25,005 to $14,569,560, for a total of $76,977,744, were made during the fiscal year.

A similar finding was noted in the prior audit.

Cause: The Agency experienced turnover in personnel responsible for Transparency Act reporting. Current responsible personnel began reviewing and revising the procedures for reporting.

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 completed in accordance with Federal regulations.

Management Response: Nutrition Services dedicated time and effort by Nutrition Services' new Data/Database Analyst from February 1, 2013 to January 31, 2014 to create a system for uploading the required reports to the FFATA reporting website. The process is detailed in the Nutrition Services FFATA Procedures Manual.

Corrective Action Plan: Once the Procedures plan was implemented the process was tested by the Data/Database Analyst and Financial Services. As of February 2014 Nutrition Services has uploaded all reports from 2011 to current time. The new system is programmed for uploads on a monthly basis.

Contact: Bev Benes, Nutrition Services Director

Anticipated Completion Date: Completed February 2014

Finding 2013-009

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

Grant Number & Year: All open grants, including #2013IN109943, FFY 2013; #2012IN109943, FFY 2012

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 2 CFR § 180.300 (January 1, 2013):

> *When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*
>
> *(a) Checking the EPLS [Excluded Parties List System]; or*
> *(b) Collecting a certification from that person; or*
> *(c) Adding a clause or condition to the covered transaction with that person.*

OMB Circular A-133 § __.300 states as is relevant:

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

Condition: The Agency did not have adequate procedures to ensure subrecipients were not suspended or debarred by the Federal government. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: We tested 27 of 360 subrecipients. None of the 27 had a documented review of the EPLS.

Cause: According to its corrective action plan, the Agency would update its Application Review Checklist to include a line for the reviewer to sign indicating that the EPLS website had been checked. The Agency added a line for EPLS to the Checklist, but no review was documented.

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

Recommendation: We recommend the Agency require reviewers to document their check of the EPLS website to ensure compliance with suspension and debarment requirements.

> **Management Response:** Management agrees that the procedure to check the EPLS was not performed nor recorded on the CACFP Application Review Checklist.
>
> **Corrective Action Plan:** The procedure to check the EPLS has been reviewed with the administrative assistant responsible for this step in the process of adding a new CACFP program. The CACFP staff will be trained during the March 2014 staff

meeting. A new procedure for new and renewing CACFP programs is currently being written and will be presented at the March 2014 staff meeting in time for the annual renewal of current CACFP programs. Nutrition Services has two Administrative Assistants, the other person will check to make sure all new and renewing programs have been checked for EPLS status.

Contact: Bev Benes, Nutrition Services Director

Anticipated Completion Date: April 2014

<u>Finding 2013-010</u>

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

Grant Number & Year: #2013IN109943 and #2013IN202043, FFY 2013; 2012IN109943 and 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." Such institutions must demonstrate 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 procedures to ensure that the approval of program applications is uniform and does not vary based upon which consultant is responsible for its approval.

Condition: The Agency did not have adequate procedures to document that subrecipients were financially viable. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: We tested 27 renewing subrecipients and 3 new subrecipients. Four subrecipients' financial statements showed a net loss ranging from $555 to $28,625 with no explanation to substantiate financial viability. Four other subrecipients tested did not provide sufficient documentation to determine their financial viability. In addition, one of three new subrecipients tested did not provide enough information to determine if the subrecipient was financially viable. There were 360 subrecipients and 22 new subrecipients during the fiscal year. Subrecipients were paid $33,600,611 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. Procedures should include sufficient documentation to demonstrate subrecipients are financially viable.

Management Response: Management agrees with the finding.

Corrective Action Plan: Nutrition Services will prepare a written procedure for determining financial viability. The approval of one CACFP consultant will be reviewed by a second CACFP consultant. This procedure will be included in the CACFP Internal Procedures Manual.

Contact: Bev Benes, Nutrition Services Director

Anticipated Completion Date: June 2014

Finding 2013-011

Program: CFDA 10.558 – Child and Adult Care Food Program - Activities Allowed

Grant Number & Year: #2013IN109943 and #2013IN202043, FFY 2013; 2012IN109943 and 2012IN202043, FFY 2012

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 7 § CFR 226.10(c) (January 1, 2012), "In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim." Also, per 7 § CFR 226.11(c)(1) (January 1, 2012):

> *Each State agency must base reimbursement to each approved child care center and adult day care center on actual time of service meal counts of meals, by type, served to children or adult participants multiplied by the assigned rates of reimbursement . . . .*

A good internal control plan requires procedures to ensure that the meals claimed by the centers are correct.

Condition: For 1 of 19 centers tested, the attendance records were not provided to support the meals claimed.

Questioned Costs: $4,645 known

Context: One center did not provide attendance records to support 3,863 total meals claimed for August 2012, resulting in questioned costs of $4,645. The center received a total of $44,819 in meal reimbursements during fiscal year 2013.

Federal payment errors were noted as $4,645. The total sample tested was $108,227. The CACFP aid expenditures during fiscal year 2013 totaled $33,592,425 paid to 360 subrecipients. Based on this sample, the case error rate was 5.26% (1/19). The dollar error rate for the sample was 4.29% ($4,645/$108,227), which estimates the potential dollars at risk for fiscal year 2013 to be $1,441,115.

Cause: Daycare centers are not required to submit any documentation with their monthly claims. The Agency has Agreed Upon Procedures Audits performed on for-profit centers by outside accounting firms. The Agency also requires non-profit centers that receive greater than $500,000 in Federal funds to submit an A-133 audit.

Effect: Without adequate documentation that meals claimed by the centers are correct, there is an increased risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure daycare centers maintain attendance records to support meals claimed.

Management Response: Nutrition Services believes the required A-133 Audits for programs receiving more than $500,000 annually and the CACFP Agreed Upon Procedures Audits provide adequate controls for the monitoring required by federal regulations.

Corrective Action Plan: Nutrition Services will continue to review the A-133 Audits for programs receiving more than $500,000 annually and the CACFP Agreed Upon Procedures Audits for instances of subrecipient noncompliance.

Contact: Bev Benes, Nutrition Services Director

Anticipated Completion Date: February 2014

Finding 2013-012

Program: CFDA 84.027 and 84.173 – Special Education Cluster (IDEA) – Reporting

Grant Number & Year: H027A120079, FFY 2012; H173A120077, FFY 2012

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, 2012) requires the State to "[o]btain certification from each agency and institution that an unduplicated and accurate count has been made[.]" Title 34 CFR § 300.645(e) requires the State to "[e]nsure 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 for Special Education Part C for the school year 2012-2013. 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 Part C special education child count of 1,605, as of October 1, 2012, for the 2012-2013 school year. The Agency provided support from the Nebraska Student and Staff Record System (NSSRS) that showed the Part C special education child count of 1,516, as of October 12, 2012. There was a variance of 89 between the report and the support.

The approval of the child counts for Part B and Part C 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.

A similar finding was noted in the prior audit.

Cause: The Agency corrected the Part B counts by extracting the data file from the live database after the October 1 submission and saving it for reporting. For the Part C reporting, the special education data manager accessed a database file other than the file that was extracted and saved by the data center programmer. The system does not include language regarding certification that 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 for that documentation 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:** Each individual Nebraska student is assigned an NDE uniq ID. The individual student data submitted through the NSSRS requires the uniq ID as part of the data collection key. There are validation errors that occur before the data is submitted to NDE that would stop any duplicate ID’s from being submitted to NDE. The NSSRS system does not allow duplicates to be submitted and ensures unduplicated individual student counts. The issue discovered is related to timing of the collections, timing of the reports, and efforts to make modifications during a data review and audit window. The business process of saving the extracted file used for reporting with a time stamp was applied to Part B, but not done so for Part C, this past year.

Corrective Action Plan: The business rule will be applied to both reports in coming years to ensure auditability, documentation and support is maintained. In addition, we have added the following language to the certification process for the coming year of all data submissions, including the unduplicated individual level data submitted through NSSRS, "By approving this collection I, as the district administrator or their designee, certify that to the best of my knowledge and belief the information herein submitted in this collection is true and accurate."

Contact: Gary Sherman, Special Education Administrator, and Dean Folkers, Data, Research and Evaluation Administrator

Anticipated Completion Date: November 2014

Finding 2013-013

Program: CFDA 84.367 – Improving Teacher Quality State Grants – Special Tests and Provisions

Grant Number & Year: All open, including #S367A1100260, FFY 2013; #S367A1200260, FFY 2013

Federal Grantor Agency: U.S. Department of Education

Criteria: Title 34 CFR § 299.6(b) (July 1, 2012) states, in relevant part, "This subpart is applicable to the following programs . . . (2) Title II (Professional Development) (other than section 2103 and part C of this title)."

Furthermore, 34 CFR § 299.7(a)(1) states, as is relevant:

> *[F]or services for eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the amount of funds expended for participating public school children and their teachers and other educational personnel . . . .*

A good internal control plan requires that procedures be in place to ensure the Agency complies with applicable Federal program requirements.

Condition: During testing, it was determined the Agency did not have procedures in place to ensure that non-public schools received a per-pupil amount equal to public schools within the district for Improving Teacher Quality State Grants (Title IIA) funds.

Questioned Costs: Unknown

Context: We tested 25 school districts, of which 10 districts included non-public schools. The Agency did not have documentation to support that non-public schools in the district received a per-pupil amount equal to that received by public schools. The information required to be submitted to the Agency by Title IIA-funded schools was not sufficient either to determine or to calculate, on a per pupil basis, that non-public schools were receiving an equal amount of Title IIA funding as public schools. There were 252 school districts allocated Title II funds, of which 59 districts included non-public schools.

Cause: The Agency did not understand documentation on a per-pupil basis was needed for Title IIA.

Effect: Noncompliance with Federal regulations could result in sanctions. There is an increased risk that public and private schools are receiving inequitable Title IIA funding.

Recommendation: We recommend that the Agency ensure compliance with Federal regulations by implementing a procedure to ensure that public and non-public schools are receiving an equal amount of Title IIA funding on a per-pupil basis.

Management Response: Non-Regulatory Guidance (NRG) issued for the ESEA Title II, Part A program on October 5, 2006 stresses private school teachers, principals and other educational personnel are eligible to participate in the program to the extent that the public local educational agency uses its project funds for professional development purposes. For a number of years the Nebraska Department of Education (NDE) used several administrative practices to make sure that occurred:

- It required consultation forms, which outlined grant services that would be provided to private schools and were signed by public and private personnel, to be filed with the agency as a precursor to the final project application approval process;
- Staff provided public and private school personnel with training and consultative services which explained regulations about how private schools were to be involved in the program;
- Private school participation plans were reviewed as part of the GMS application approval process.

The A-133 audit finding noted in a sample of applications that NDE did not document that private schools received a per-pupil amount of funding that was equal to that of public schools. The NRG notes in item G-2 that “It is also permissible for LEAs to use other factors relating to need and not base equal expenditures only on relative enrollments.” But the situation at the school in the noted audit sample is problematic in that it presents a case in which all of the existing procedures designed to ensure the equitable participation of private schools were not completed.

Corrective Action Plan: To address the finding we have taken or will take the following actions in preparing for the 2014-15 grant cycle:

- The Title IIA project director for the school noted has been contacted and told that the school’s grant application for the 2013-14 period will be amended. As revised, it is to include a specific budget component, based on a per-pupil calculation, which will finance professional development activities for private school teachers in the community.

- The Non-Public School Participation Form that will be used for the 2014-15 grant period has been revised to capture student enrollment data for both the public and private schools in a community. This information will then be used during the GMS project application review process next year.
- Title IIA project applications will be revised for the 2014-15 grant cycle to include sections which identify public and private enrollment figures. The grant review and approval process will also be modified to involve an analysis of private school activity and budget plans in each public LEA community using a per-pupil expenditure calculation.

Contact: Mike Kissler, Education Specialist III

Anticipated Completion Date: November 2014

Finding 2013-014

Program: CFDA 84.367 – Improving Teacher Quality State Grants – Reporting

Grant Number and Year: #S367A1200260, FFY 2013

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR § 170.320 (January 1, 2013) states, as is relevant, "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, 2013) 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:

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, § __.300, 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: Subawards were not reported timely and key data elements were incorrectly reported.

Questioned Costs: None

Context: We obtained from the Agency a list of 78 subawards reported for the Transparency Act. The subawards tested were reported on two separate submission dates. We then selected 10 subawards to test. We noted the following:

- Three of 10 subawards tested were reported one to two months late.

- The subaward dates entered into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) for the two submissions were not reported correctly. The dates should have been July 2012, but they were reported as January 2013 and April 2013.

- For three subawards tested, the Agency reported the subaward obligation/action date incorrectly. The obligation/action dates were reported as November 25, 2012; however, the agreements were signed in October and December 2012.

Cause: Data entry errors by Agency personnel responsible for reporting.

Effect: Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure Transparency Act reporting is timely and agrees to supporting documentation.

> **Management Response:** Federal Funding Accountability and Transparency Act (FFATA) reporting continues to be a challenge for this and other agencies; locally, state-wide, and nationally.
>
> **Corrective Action Plan:** Education will continue to review our processes and seek guidance from Federal authorities, and implement changes as possible to better comply with this Federal requirement.
>
> **Contact:** Shane Rhian, Financial Services Director
>
> **Anticipated Completion Date:** Ongoing

Finding 2013-015

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

Grant Number and Year: #S010A120027, FFY 2012

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR § 170.320 (January 1, 2013) states, as is relevant, "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, 2013) 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:

> *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: Subawards were not reported timely, and key data elements were incorrectly reported.

Questioned Costs: None

Context: We obtained from the Agency a list of 223 subawards reported for the Transparency Act. The subawards tested were reported on four separate submission dates. We then selected 27 subawards to test. We noted the following:

Eighteen subawards tested were not reported by the last day of the month following the date the subawards were approved.

Month Subaward was Made	Number of Subawards	Month Report Was Due	Month Reported	Months Late
October 2012	4	November 2012	February 2013	3
November 2012	7	December 2012	February 2013	2
December 2012	7	January 2013	February 2013	1

The subaward dates entered into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) for the four submissions were not reported correctly. The dates should have been July 2012, but they were entered for periods ranging from four to eight months later.

For 11 subawards tested, the Agency reported the subaward obligation/action date incorrectly. The obligation/action dates were reported as December 28, 2012; however, the agreements were signed in October and November 2012.

For one of 27 subawards tested, the Agency entered an incorrect DUNS number for the subrecipient.

A similar finding was noted in the prior year audit.

Cause: Data entry errors by Agency personnel responsible for reporting.

Effect: Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure Transparency Act reporting is timely and agrees to supporting documentation.

Management Response: Federal Funding Accountability and Transparency Act (FFATA) reporting continues to be a challenge for this and other agencies; locally, state-wide, and nationally.

Corrective Action Plan: Education will continue to review our processes and seek guidance from Federal authorities, and implement changes as possible to better comply with this Federal requirement.

Contact: Shane Rhian, Financial Services Director

Anticipated Completion Date: Ongoing

ENERGY OFFICE

Finding 2013-016

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons (ARRA) – Cash Management

Grant Number & Year: DE-EE0000137, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Department of Energy

Criteria: Per 10 CFR § 600.122(b)(2) (January 1, 2013):

> *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 advances funds are held on hand.

Condition: The Agency lacked adequate procedures to ensure advances to the subgrantees were as close as administratively feasible to the subrecipients' actual cash outlay. Payments to subgrantees exceeded the immediate cash needs of the subrecipient for 4 of 10 payments tested.

Questioned Costs: Unknown

Context: For the fiscal year ended June 30, 2013, the Agency disbursed a total of $5,161,346 in aid payments to 10 subrecipients. We tested 10 payments totaling $283,925. We compared the advanced funds on hand, per the Expenditure Summary Reports, to the actual expenditures claimed for the month to verify funds were used in a timely manner. We noted that, for 4 of 10 payments tested, the advanced funds on hand exceeded the amount of the expenses claimed for reimbursement. The Agency did not have documentation for additional expenditures incurred for incomplete projects, which may have supported the timely use of advances.

A similar finding was noted in the prior audit. After the fiscal 2012 audit was completed, the Agency began using new reimbursement request forms that included the total advances on hand and the amount of costs incurred but not yet requested. However, one of the four exceptions noted above used the new form, and advances exceeded costs. The subrecipient had advances of $9,558, current month expenses of $1,183, and costs incurred but not requested of $2,000. Consequently, there was an excess advance of $6,375.

Cause: The Agency's subaward agreements allowed subrecipients to request up to 10 percent of the award amount; however, the Agency did not have procedures to ensure subrecipients used the advances in a timely manner.

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

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

Management Response: In February 2013, a corrective action was implemented that 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 unit is submitted to the Agency for payment. The corrective action has been further revised to contain a new policy change that requires the sub-grantees to submit a repayment schedule when requesting an advance.

Corrective Action Plan: A policy on advancements to sub-grantees has been established by the NEO. The repayment plan from the sub-grantees has to be approved by the NEO Weatherization Assistance Program Division Chief prior to any advancement of funds. The Fiscal Compliance Analyst will monitor sub-grantee repayment schedules during monthly reimbursements and communicate with sub-grantees on minimizing cash outlays.

Contact: Thomas Tabor, Weatherization Assistance Program Division Chief

Anticipated Completion Date: Immediately

Finding 2013-017

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons (ARRA) – Davis-Bacon Act

Grant Number & Year: DE-EE0000137, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Department of Energy

Criteria: Per 29 CFR § 3.3(b) (July 1, 2012):

> *Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this title during the preceding weekly pay period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages…..*

A good internal control plan requires procedures to ensure compliance with Federal requirements. Documentation should be maintained to verify that contractors or subcontractors submitted the required weekly certified payrolls.

Condition: The Agency did not have documentation that the contractors or subcontractors submitted the required weekly payrolls.

Questioned Costs: Unknown

Context: We tested two of six subrecipients paid ARRA funds during the fiscal year. The Agency could not locate the file containing the certified payrolls. The total amount of ARRA Weatherization funds paid to the subrecipients in fiscal year 2013 was $3,805,553.

Cause: Per the Agency, due to several personnel changes, the file containing the certified payrolls was misplaced.

Effect: Noncompliance with Federal regulations could result in sanctions. Without adequate monitoring procedures, there is an increased risk that Federal awards could be used for improper/unallowable costs.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal regulations by keeping certified payrolls on file.

Management Response: The Nebraska Energy Office (NEO) has undergone a transition of personnel in 2013. The Davis Bacon file in question was located on the SOS Fiscal Compliance Analyst desk where that person monitored the Davis Bacon reporting. This staff person found new employment and left the NEO just prior to the State Audit. When that staff person left the NEO, the desk was cleared of all personal items and a different NEO staff member moved into that desk location. In the transition the Davis Bacon file was moved or discarded by accident and after a thorough search of every office, file cabinet and all bookshelves in the NEO, the file could not be located. The file was either accidently thrown away, recycled or taken by someone not knowing what it was.

Corrective Action Plan: Weatherization Assistance Program files associated with Aide Agreements, compliance, and financials will be stored in the Weatherization Assistance Program Chief's office or the Fiscal Compliance Analyst office. If any files are to be removed from either of these offices, the person removing them will communicate to the WAP Division Chief or Fiscal Compliance Analyst they are using them. The files will be returned to their designated file location in a timely manner after use. During any transition or loss of personnel, The WAP Chief and/or the Fiscal Compliance Analyst will inspect that staff person's desk for files or items that are essential to the Weatherization Assistance Program or the NEO regarding Aide Agreements, compliance and financials.

Contact: Thomas Tabor, Weatherization Assistance Program Division Chief

Anticipated Completion Date: Immediate

Finding 2013-018

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Subrecipient Monitoring

Grant Number & Year: G12B1NELIEA, FFY 2012

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

Criteria: OMB Circular A-133 § __.400(d)(3) 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.*

A good internal control plan includes reviewing and reconciling subrecipient claims submitted to subrecipient accounting records and supporting documentation to ensure funds are used for allowable purposes.

Condition: The Agency's monitoring procedures were not adequate for one subrecipient tested.

Questioned Costs: Unknown

Context: The Agency monitors subrecipients through various methods, including review of A-133 audits, agreed-upon procedures by independent contractors, and Agency program monitoring. We tested two of eight subrecipients. We noted the Agency monitoring of one subrecipient's program expenses (weatherization labor and materials) did not include a reconciliation to the monthly reimbursement request from the subrecipient to the Agency. The expenses on the Monthly Cost Summary (a report from the subrecipient's accounting system) were verified by the Agency's reviewer to supporting source documents, but not to the corresponding reimbursement request. The Agency did not trace program expenses from the reimbursement request to the subrecipient accounting records to ensure all claims reimbursed were subject to review. Per the Agency, some subrecipients track expenses as incurred, but they do not request reimbursement until the home is completed. For these subrecipients, the Agency verified that expenses incurred during the month under review were tied to an individual home; however, no action was taken to ensure all homes claimed for reimbursement agreed to the accounting system.

The Agency disbursed $2,529,247 in LIHEAP aid payments to eight subrecipients during the fiscal year. The subrecipient noted above received $658,360, including $444,340 for program expense.

Cause: The subrecipient tracks expenses as they are incurred; however, it does not request reimbursement from the Agency until the project is completed. As the program expenses in the subrecipient's accounting records do not correspond with its reimbursement requests, it is difficult to reconcile a specific reimbursement month to the subrecipient's accounting records. The Agency did not select a sample of homes from reimbursement claims to trace to subrecipient accounting records.

Effect: Increased risk of misuse of Federal funds. There is a risk of claims being reimbursed that are not on the accounting system, and these claims would not be subject to review.

Recommendation: We recommend the Agency improve monitoring procedures. Monitoring should ensure monthly reimbursement requests are accurate and supported by sufficient 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 Nebraska Energy Office (NEO) was undergoing staffing loss and change during this reporting period. A new Fiscal Compliance Analyst was hired on July 15, 2013 and has adopted improved monitoring procedures to address monitoring of sub-grantees.

Corrective Action Plan: A new NEO Fiscal Compliance Analyst was hired on July 15, 2013 and has adopted an improved Formal Monitoring procedures instrument/checklist that addresses compliance to OMB Circular A-133 § 400(d). The new Fiscal Compliance Analyst has provided the Weatherization Assistance Program Division Chief a copy of these procedures. The Fiscal Compliance Analyst along with the NEO technical staff review and monitor reimbursement documents from sub-grantees on a monthly basis to insure accurate documentation are being submitted for expenditures in accordance with Federal regulations.

Contact: Thomas Tabor, Weatherization Assistance Program Division Chief

Anticipated Completion Date: Presently adopted new procedures for accurate monitoring instrument/checklist to comply with OMB Circular A-133 § 400(d).

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2013-019

Program: Various, including CFDA 10.557 (Special Supplemental Nutrition Program for Women, Infants, and Children) and CFDA 93.778 (Medical Assistance Program); due to the cross-cutting nature of this finding, all Agency CFDAs are also impacted – Allowability

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

Summary: Audit finding #2013-003, included in Part II of this report, Agency Interference with Audit, relates to both the financial statements and Federal awards. By denying the APA direct and unrestricted access to, as well as confidential correspondence with, various personnel, Agency management interfered with the audit. The finding concerns the control environment of the Agency and, therefore, affects all Federal programs.

Management Response: The Agency strongly disagrees with the comments made in this finding by the Auditor. If the Auditor truly believes that the Agency denied the Auditor direct and unrestricted access to various personnel, the Auditor would have been unable to complete this audit. In addition, if the Auditor believed that the Agency interfered with the Statewide Single Audit, the Auditor would have included this finding in other programs in addition to the WIC program. Finally, Government Auditing Standards addresses situations described by the Auditor and provides remedy to the Auditor for the issue.

Corrective Action Plan: N/A

Contact: Kerry Winterer, Chief Executive Officer

Anticipated Completion Date: N/A

APA Response: As noted above, due to the cross-cutting nature of this finding, all Agency programs are affected. However, we did have specific instances during the audit of the WIC program where Agency staff would not communicate or provide audit documentation unless the Program Manager was present. The APA followed standards to complete the audit, taking into consideration the fraud risk factors present. The completion of fieldwork took additional time and resources due to the constraints and interference.

Auditors are required by auditing standards to evaluate the control environment of the Agency. Control environment means the overall attitude, awareness and actions of directors and management. Control environment factors include the integrity,

ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the directors. An Agency's control environment establishes and promotes a collective attitude toward achieving effective internal control and generating reliable financial statements.

AICPA AU-C 240, paragraph .A28, provides: ***The fact that fraud is usually concealed can make it very difficult to detect. Nevertheless, the auditor may identify events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud (fraud risk factors), such as the following: A control environment that is not effective may create an opportunity to commit fraud.***

While not reporting findings of alleged fraud, the Agency's actions remain clearly improper nonetheless. It is critically important that the APA be able to communicate directly with the persons handling transactions to verify the processes are in place.

Finding 2013-020

Program: Various, including CFDA 93.658 – Foster Care Title IV-E; due to the cross-cutting nature of this finding, all Agency CFDAs are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various, including #1301NE1401, FFY 2013

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

Criteria: Per 45 CFR § 95.507(a) (October 1, 2012):

> *The [cost allocation] plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State Agency . . . (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation [DCA], after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency.*

Per 45 CFR § 95.509(a) (October 1, 2012):

> *The State Shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA if any of the following events occur: (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.*

A good internal control plan requires procedures be in place to ensure the Cost Allocation Plan (CAP) is accurate and complete and amended whenever necessary. A good internal control plan also requires the Agency to work actively to resolve issues and to respond timely to questions from the DCA.

Condition: During testing, we noted the CAP was not accurate or complete. We also noted the Agency did not actively work to resolve CAP issues, nor did they respond timely to questions from DCA.

Questioned Costs: Unknown

Context: The CAP effective July 1, 2010, has not been approved by DCA. We noted the following:

- The Agency did not actively work to resolve issues or respond timely to questions from the DCA. The DCA emailed two extensive lists of questions regarding the CAP on November 13, 2012, and November 16, 2012. In these emails, DCA requested responses to all comments by December 17, 2012. The deadline came and went, and the Agency did not request extensions. Then, Agency personnel in charge of the CAP left the Agency in the middle of March 2013. Later that month, the Agency contacted DCA and explained the situation. Per the Agency, DCA and the Agency informally agreed to table responses until a new CAP manager was hired. The replacement was hired in June 2013. In July 2013, Agency staff addressed a portion of the questions. In October 2013, the Agency addressed the rest of the questions that were asked in November 2012, almost a year earlier.

- The Agency did not amend the CAP when necessary. Any organizational change occurring July 1, 2011, or later, has not been incorporated. Changes include, but are not limited to:

    - The shift from caseworkers with individual caseloads to call centers, where any caseworker can work on any case termed Access Nebraska.

    - The reorganization of the Child Welfare administration.

    - The CAP still contains references to Federal charges for child welfare reform although the Administration for Children and Families (ACF) has directed it not to, and the Agency is no longer claiming Federal funds for those charges.

    - The Agency is not using the end-of-the-quarter count of recipients to adjust for the Temporary Assistance for Needy Families Solely State Funded Program, and it did not amend the CAP to reflect this.

    - During our testing of payroll expenses, we noted one employee was working full time on the Ryan White Grant; however, the CAP noted no FTE's belong to the grant.

- The CAP was not complete or accurate. The DCA and the ACF had numerous concerns regarding the CAP that were not resolved during the fiscal year, including the Random Moment Time Study not being up to DCA standards, outdated cost centers, administration charged to Foster Care at the enhanced 75% participation rate instead of at the correct 50% rate, and numerous other clarifications and information needed to make the CAP complete.

Cause: Staff changes at the State level account for some of the delay in responding to Federal requests.

Effect: The CAP, which is the document that directs the allocation of all indirect costs for the Agency, is not accurate or complete. This increases the risk for costs to be charged incorrectly, ultimately resulting in Federal funds not being charged properly.

Recommendation: We recommend the Agency implement procedures to ensure the CAP is accurate and complete and amended whenever necessary and work actively to resolve issues and respond timely to questions from the DCA.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has hired a contractor who has submitted a revised cost allocation plan to the Division of Cost Allocation. Quarterly updates will be submitted to the Division of Cost Allocation and written procedures will be drafted.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-021

Program: Various, including CFDA 93.658 – Foster Care Title IV-E – Cash Management

Grant Number & Year: Various, including #1201NE1401, FFY 2012

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

Criteria: Per 31 CFR 205.33(a) (July 1, 2012), "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for federal program purposes."

OMB Circular A-133 § ___.300(b) requires the auditee to:

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

A good internal control plan requires procedures be in place to ensure: 1) expenditures charged to Federal grants are allowable costs per the CAP; 2) actual general ledger and allowable CAP expenditures do not vary by significant amounts; and 3) timing variances are resolved in a timely manner.

Condition: We noted actual Foster Care administrative expenditures exceeded Foster Care Cost Allocation Plan (CAP) expenditures by $1,419,973 for the 2012 grant. Additionally, the Agency did not adequately monitor cash management compliance for grants during the last half of the fiscal year.

Questioned Costs: $1,419,973 known

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. Due to a large decreasing adjustment for Foster Care on the 2012 grant, cash management issues occurred because amounts drawn exceeded amounts earned.

Additionally, the Agency's monitoring tool was prepared, as usual, for the September 2012 and December 2012 quarters. When the Agency terminated the employee in charge of completing the monitoring tool, the process was discontinued. The Agency was in the process of implementing a new system during the last half of the fiscal year, but it was not completed for all grants.

A similar finding was noted in the prior audit.

Cause: The Agency neglected to consider a large prior-period decreasing adjustment of $1,426,952 when monitoring for cash management compliance for the 2012 Foster Care grant. The adjustment was recorded on the September 30, 2012, quarterly report. However, the Agency did not reduce other Foster Care administrative expenditures to make up for this large decreasing adjustment. Perhaps, this error would have been caught if the Agency had monitored its grants during the last half of the fiscal year. The employee in charge of monitoring cash management compliance was terminated in March 2013.

Effect: If cash management compliance is not adequately monitored, this increases the risk for noncompliance with Federal 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 create written procedures and an earnings report to monitor the major block grants on a quarterly basis. This report can be expanded to all federal grants as management considers necessary.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-022

Program: Various, including CFDA 93.568 – Low-Income Home Energy Assistance; CFDA 93.778 – Medical Assistance Program; CFDA 93.558 Temporary Assistance for Needy Families – Allowable Costs/Cost Principles

Grant Number & Year: Various, including #G13B1NELIEA, FFY 2013; #051305NE5ADM, FFY 2013; #1302NETANF, FFY 2013

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

Criteria: OMB Circular A-87, Attachment A, § C(1)(j), states that costs must be adequately documented to be allowable under Federal awards. A good internal control plan requires procedures be in place to ensure documentation is maintained for allocations.

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

Per the Cost Allocation Plan, the cost center 25C20990 IST NFOCUS Applications states:

> *This office is responsible for the operation and maintenance of NFOCUS . . . . The cost center will be allocated to the benefiting programs based on the end-of-the-quarter count of recipients receiving benefits associated with each program that benefits from the system.*

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. We further noted the Agency did not include in its allocation one program that was receiving benefits.

Questioned Costs: $34,668 known

Context: We tested the IST NFOCUS Applications cost center allocation for the quarter ended June 30, 2013, which was allocated to various programs based on recipient case counts. We requested the supporting documentation for the recipient case counts; however, according to the Agency, it could not provide to us because the case-level detail was not maintained. A total of $5,321,433 was allocated based on these recipient case counts for the quarter. Multiple Federal and State programs are affected, including the Medical Assistance Program and Temporary Assistance for Needy Families.

A similar finding was noted in the prior audit.

We further noted that costs for the Federal Low-Income Home Energy Assistance Program (LIHEAP) were not included in the allocation for the IST NFOCUS Applications cost center. LIHEAP started using the NFOCUS application on October 1, 2012. Therefore, LIHEAP should have been allocated a portion of the costs. Being excluded from the allocation, LIHEAP was undercharged, and all other Federal programs were overcharged. However, we observed that the Agency has already overspent its 10% allotment for LIHEAP administrative costs, so this entire amount should be charged to State funds. Dollar error was determined using the case count numbers provided. Case-level detail was not maintained, but summary-level reports were on hand. Errors noted:

CFDA	Program	(Questioned Costs) or Undercharge
93.778	Medical Assistance Program	$ (13,920)
10.555	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(11,943)
93.558	Temporary Assistance for Needy Families	(3,048)
93.767	Children's Health Insurance Program	(2,909)
93.569 & 93.575	CCDF Cluster	(2,115)
Various	Other miscellaneous Federal programs	(733)
	State funds	34,668

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. The allocation error for LIHEAP was due to inadequate review.

Effect: Without adequate supporting documentation, we could not verify whether costs were properly allocated. When all benefiting programs are not included in an allocation, programs will not be charged costs in accordance with relative benefits received.

Recommendation: We recommend the Agency implement procedures to ensure supporting documentation is maintained for allocations. We further recommend the Agency implement procedures to ensure programs are charged costs in accordance with relative benefits received.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop procedures to review all statistical information used to allocate costs to Federal and State Programs to ensure the information is complete and accurate.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

<u>Finding 2013-023</u>

Program: Various, including CFDA 93.658 – Foster Care Title IV-E; CFDA 93.568 – Low-Income Home Energy Assistance; CFDA 93.558 Temporary Assistance for Needy Families – Allowable Costs/Cost Principles

Grant Number & Year: Various including #1301NE1401, FFY 2013; #G13B1NELIEA, FFY 2013; #1302NETANF, FFY 2013

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

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

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 plan requires procedures be in place to ensure the results of the Random Moment Time Study were correctly accumulated and applied.

Per the Cost Allocation Plan, the cost center 25C21950 Children and Family Services Specialist Training states:

> *The direct and indirect costs of the cost center will be allocated to the benefiting programs using a two tiered allocation process. First an allocation will be made based on the number of training hours during the quarter specifically related to Juvenile Services and Intake as a percent of the total training hours. The amount allocated to Juvenile Services and Intake will be directly charged to the State/Child Welfare Services Program…Second the portion of the first allocation not related to Juvenile Services and Intake will be allocated to the benefiting programs based on Children and Family Services elements . . . of the Protective Services RMTS.*

Per the Cost Allocation Plan, workers are to select all codes that apply to the program-related activity completed at the time of the observation. A good internal control plan requires procedures be in place to ensure random-moment observations are adequately reviewed for accuracy.

Condition: During testing of the Random Moment Time Study (RMTS), we noted numerous issues, as detailed below.

Questioned Costs: $34,808 known

Context: The Agency utilizes a RMTS to allocate costs to various Federal and State programs. The objective is to identify employee efforts directly related to the programs administered by the Agency. The Agency utilizes two separate time studies that are applied to related cost centers for Eligibility and Social Services, as well as for Child Welfare, Foster Care, Adoptions and Protective Services. We noted the following:

- The Agency did not correctly accumulate and apply the RMTS statistics for the June 30, 2013, quarter. We tested three cost centers that were allocated based on the RMTS: Protection and Safety Case Work; Social Services Case Work; and Foster Care Training. The total amount allocated to programs from these centers during the quarter was $24,115,447. When the Agency entered the allocation statistics into a spreadsheet to upload to the State's accounting system for allocation, it accidentally double-counted all the activity codes except for Case Work, which is by far the largest code. This caused the allocation to be incorrect for multiple State and Federal programs. Errors below:

CFDA	Program	(Questioned Costs) or Undercharge
93.568	Low-Income Home Energy Assistance	$ (13,457)
93.658	Foster Care-Title IV-E	(5,623)
93.558	Temporary Assistance for Needy Families	(6,048)
93.767	Children's Health Insurance Program	(3,163)
93.667	Social Services Block Grant	(505)
93.659	Adoption Assistance	1,511
93.569 & 93.575	CCDF Cluster	4,615
93.778	Medical Assistance Program	6,280
10.555	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	17,944
Various	Other miscellaneous Federal programs	288
	State funds	1,842

- The Agency did not include all juvenile services and intake training hours in its allocation of the Children and Family Services Specialist Training cost center for the June 30, 2013, quarter. Total juvenile services and intake training hours for the quarter were 1,258 and total training hours were 10,859. However, the Agency included only 1,137 hours in its allocation to juvenile services and intake. This caused the total amount allocated to Juvenile Services (a State program) to be undercharged $25,400. The effect on Federal programs was an overcharge of $5,986 to Foster Care-Title IV-E and $26 to Guardianship Assistance Recovery, as shown in the following table:

CFDA	Program	(Questioned Costs) or Undercharge
93.658	Foster Care-Title IV-E	$ (5,986)
93.090	Guardianship Assistance Recovery	(26)
	State funds	6,012

- We reviewed 25 observations for the RMTS and noted two of the observations did not have the correct programs selected. The errors we noted were related to the Eligibility and Social Services time study.

For one observation tested, the employee selected seven different programs. We reviewed the case on NFOCUS and noted two of those programs (the Children's Health Insurance Program and LIHEAP) should not have been selected because the recipients did not apply for, nor were they receiving, assistance in these programs.

For one observation tested, the employee selected only one program, SNAP (Supplemental Nutrition Assistance Program), although remarks on the form indicated that the employee was "doing approval narrative for SNAP and LIHEAP." We reviewed the case on NFOCUS and noted the worker should have also selected both LIHEAP and the Medical Assistance Program.

Total costs allocated based on the Eligibility and Social Services RMTS during the fiscal year were $49,025,553.

Cause: Inadequate review.

Effect: Costs were not charged to State and Federal programs in accordance with relative benefits received. If RMTS observations are not adequately reviewed to ensure they are correct, there is an increased risk costs will be misallocated amongst programs.

Recommendation: We recommend the Agency implement procedures to ensure RMTS costs are correctly allocated.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will include the Juvenile Service hours in the quarterly allocation. The Agency will develop procedures to review all statistical information used to allocate costs to Federal and State Programs to ensure the information is complete and accurate.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

<u>Finding 2013-024</u>

Program: Various, including CFDA 93.658 – Foster Care Title IV-E; CFDA 93.568 – Low-Income Home Energy Assistance; CFDA 93.667 Social Services Block Grant – Allowable Costs/ Cost Principles

Grant Number & Year: Various, including #1301NE1401, FFY 2013; #G13B1NELIEA, FFY 2013; #G1301NESOSR, FFY 2013

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1)(c) and § C(1)(j), respectively, costs must be "authorized or not prohibited under State or local laws or regulations" and be "adequately documented."

Per the Cost Allocation Plan, cost center SA – Resource Development (300/013):

> *There are approximately seventy-five FTE's in the cost center. The cost center will be allocated to the benefiting programs based on the time and effort reporting of the DHHS Resource Developers.*

Per the Cost Allocation Plan, cost center SA – Income Eligibility and Social Services Casework (300/020):

> *There are approximately six hundred seventy-five FTE's in the cost center. The multiple program cost center will be allocated to the benefiting programs based on the Random Moment Time Study Methodology.*

Per the Cost Allocation Plan, cost center SA – SNAP Services (300/026):

> *There are approximately five FTE's in the cost center. The direct and indirect costs of the cost center will be directly charged to SNAP.*

A good internal control plan requires procedures be in place to ensure employee charges are correct and based on a documented review.

Condition: We noted four employees whose costs were incorrectly included for allocation in the Resource Development cost center. We further noted one employee whose costs were incorrectly included for allocation in the Income Eligibility and Social Services Casework cost center.

Questioned Costs: $18,306 known

Context: During the quarter ended December 31, 2012, the resource development cost center included costs for 88 resource developers. It also included costs for five resource developer supervisors and three case aides who directly support the resource developers. We noted the cost center also included costs for four employees who should not have been included:

- One employee changed jobs from a resource developer to a social services worker in July 2012; however, because coding in the payroll system was not correctly updated, the employee's costs continued to be coded to the resource development cost center.

- One employee changed jobs from a resource developer to a child and family services specialist in September 2011, and coding in the payroll system was not correctly updated.

- One employee was hired as a child and family services specialist in July 2012, but the business unit set up for that individual's pay was mistyped as a resource development business unit.

- One employee was promoted to a child and family services supervisor in April 2012, but the business unit set up for that individual's pay was mistyped as a resource development business unit.

Total costs allocated from the Resource Development cost center for the quarter tested was $1,576,886, and total hours allocated were 23,625.

We further noted during testing of payroll charges that one employee changed jobs at some point after January 2009 from a SNAP worker to a social services worker; however, the employee's costs continued to be coded to the SNAP only cost center. The employee's costs were charged incorrectly for the entire fiscal year, and the employee's annual salary was $39,441.

Errors due to the incorrect allocations for the quarter tested:

CFDA	Program	(Questioned Costs) or Undercharge
93.658	Foster Care-Title IV-E	(7,965)
93.569 & 93.575	CCDF Cluster	(7,207)
93.667	Social Services Block Grant	(2,155)
10.555	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(979)
93.767	Children's Health Insurance Program	892
93.558	Temporary Assistance for Needy Families	2,048
93.778	Medical Assistance Program	2,524
93.568	Low-Income Home Energy Assistance	2,817
	Other miscellaneous Federal programs	283
	State funds	9,742

A similar finding was noted in the prior audit.

Cause: Inadequate review.

Effect: If employee pay codes and business units are not adequately reviewed, there is an increased risk costs will be allocated to incorrect programs.

Recommendation: We recommend the Agency implement procedures to ensure employee pay codes and business units are set up correctly. We further recommend the Agency adequately review its quarterly allocations to ensure employees are included in the correct cost centers.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will draft procedures to ensure that employee time is charged to the appropriate business unit. For the quarter ended June 30, 2013, the Agency conducted an internal audit of a sample of cost centers to test that personnel costs charged to those cost centers were appropriate. The Agency will conduct a similar internal audit on a quarterly basis.

Contact: Don Swartz, Accounting Unit Manager;
Emily Walter, Human Resources Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-025

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

Grant Number & Year: Various, including #051305NE5ADM, FFY 2013

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

Criteria: Per 45 CFR § 95.507(a)(1) (October 1, 2012), the cost allocation plan shall "describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency." Additionally, subsection (a)(4) requires the plan to:

> *[C]ontain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency.*

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

Condition: The Agency was allocating costs to programs outside of the CAP.

Questioned Costs: Unknown

Context: Most operating expenses for field offices across the State were charged to program 266, Economic and Family Support, regardless of which program should have been charged. Each month, the Agency performed a journal entry to move a portion of the costs to other programs based on the number of employees in each program. The other programs affected were program 265, Protection and Safety, and program 267, Developmental Disabilities Services Coordination (DDSC). The transfers to the DDSC program had an effect on the cost allocation because charges to this program were allocated differently than costs charged to programs 265 and 266. Charges to programs 265 and 266 were allocated to the other Service Area cost centers based on the labor hours in each cost center. Charges to program 267 were used to calculate the rate for payment of Developmental Disability provider services. These journal entries were, in effect, an allocation of costs outside of the CAP submitted to the Federal government.

We tested two expenditures picked up in these monthly entries and found it was inappropriate to charge a portion of these costs to the DDSC program. One expenditure was for a postage expense for the field office in Blair, Nebraska, which did not house any DDSC program employees. Another expenditure was for a retirement party for an Economic and Family Support employee. The party was held at the retiring employee's field office in Omaha, Nebraska, which also did not house any DDSC program employees.

We noted a total of $5,209,493 was charged to program 266 for the field offices during the fiscal year. Of that total, $599,801 was transferred to the DDSC program.

Cause: Per the Agency, these journal entries were performed for budgeting purposes. The costs were all recorded in one program in the first place, according to the Agency, because it was more efficient to do so.

Effect: Amounts charged to Federal programs could be incorrect. Specific to Medicaid, the rate charged for DDSC is directly based on costs charged to program 267. If those costs are incorrect, the amount charged to Medicaid will be incorrect.

Recommendation: We recommend the Agency obtain Federal approval for all allocations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: While the Agency agrees with the importance of being accurate in any cost distributions performed, these journal entries largely only affected General Funds between program allotments within the same cost center and are used to distribute costs for local offices throughout the State. The Agency will review these entries to ensure the entries do not distribute costs from one cost center to another.

Contact: Don Swartz, Accounting Unit Manager

Anticipated Completion Date: March 31, 2014

<u>Finding 2013-026</u>

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

Grant Number & Year: Various, including #051205NE5ADM, FFY 2012

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

Criteria: OMB Circular A-87, Attachment A, § C(1)(b) and § C(1)(j), state, respectively, 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, "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:

> *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 for the first half of the year.

Questioned Costs: $1,383 known

Context: Two of 25 operating expenditures tested were payments made by the Agency to the Department of Administrative Services (DAS) for temporary employees, totaling $1,383. The Agency was unable to provide adequate documentation to support charging temporary employee time to a particular program. Both payments tested involved wages 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. A similar finding was noted in the prior audit, and the Agency began collecting the required information on January 1, 2013. However, for the first half of the fiscal year, the Agency was not in compliance. Total temporary employee payroll expenditures paid by the Agency to DAS for the first half of State fiscal year 2013 were $1,520,955.

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 employees' immediate supervisor notified the Agency's accounting department as 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 the relevant provisions of OMB Circular A-87.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Effective January 1, 2013, the Agency implemented a timesheet system that temporary employees are required to record their hours worked and indicate the program(s) they work on each day. This timesheet is required to be signed by the temporary employee and the supervisor.

Contact: Don Swartz, Accounting Unit Manager

Anticipated Completion Date: January 1, 2013

Finding 2013-027

Program: CFDA 10.555 – National School Lunch Program; CFDA 10.569 Emergency Food Assistance Program (Food Commodities) – Reporting

Grant Number and Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 250.16(a) (January 1, 2013) states, "Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods . . . ."

OMB Circular A-133, § __.300(a), requires the State to "[i]dentify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." Additionally, § __.300(d), directs the state to 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 procedures to ensure the SEFA is accurate.

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

Questioned Costs: None

Context: The Agency reports food commodity expenditures to be included in the SEFA to DAS. DAS then compiles the information for all agencies and reports to the Auditor of Public Accounts. The Agency was not able to provide documentation from the Food Distribution Program (FDP) system to support amounts for CFDA 10.555, the National School Lunch Program (NSLP), as follows:

- The beginning inventory did not agree to the prior year ending inventory. The beginning inventory agreed to reports from the FDP system; however, the Agency did not consider adjustments noted in the prior audit.
- The amount reported for NSLP included commodities for other programs.
- The value of commodities issued did not appropriately account for transfers to other programs.
- The ending inventory reported agreed to the FDP system; however, it did not reconcile to the physical inventory count.

The effects to the SEFA were:

CFDA	Commodity Program	Originally Reported	Revised	Change
10.555	National School Lunch Program	$9,332,265	$8,446,528	$885,737
10.569	Emergency Food Assistance Program	$2,648,003	$2,571,169	$76,834

Cause: Inadequate review.

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

Recommendation: We recommend the Agency implement procedures to ensure commodities are properly reported on the SEFA. We further recommend the Agency improve procedures to ensure commodity records are accurate.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will utilize a report that will correctly determine expenditure values for each commodity program reported on the SEFA. In addition, the Agency will reconcile the physical inventory counts to the warehouse book inventory and Agency records.

Contact: Chad Mohr, DHHS Food Distribution Coordinator

Anticipated Completion Date: June 30, 2014

Finding 2013-028

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

Grant Number and Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Title 7 CFR § 250.16(a) (January 1, 2013) states:

> *(1) Accurate and complete records shall be maintained with respect to the receipt, distribution/use inventory of donated foods . . . . (6) Failure by a distributing agency, subdistributing agency, recipient agency, processor, food services 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 . . . .*

OMB Circular A-133, § __.300(b), directs the auditee to:

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

OMB Circular A-133, § __.315, states, in relevant part:

> *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.*

OMB Circular A-87, Attachment A, § C(1), requires costs to be reasonable, necessary, and adequately supported.

A good internal control plan requires procedures to ensure commodities are accurately recorded. This includes a second individual reviewing transactions entered into the record keeping system to ensure they are reasonable, proper, and adequately supported.

Condition: Numerous issues were noted in the Agency's operation of the commodities portion of the NSLP, which hindered the Agency's ability to exercise adequate accountability over USDA-donated foods. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: The Agency distributed a total of $8,446,528 in food commodities under CFDA 10.555 during the fiscal year. We noted the following:

- The transactions entered into the FDP system, the record-keeping and inventory system used by the Agency for USDA-donated food commodities, did not have a documented review by a second individual to ensure they were entered correctly. The receipts, issuances, and adjustments were entered into the FDP system by an accountant. These transactions were not reviewed by the FDP system coordinator or a second individual.

- Transactions entered into the FDP system were not always entered timely. During testing, we noted instances where receipts were not entered into the FDP system until several months after the shipments from the USDA were received. These transactions, to record receipts of direct shipments from the USDA to subrecipients, were entered into the FDP system ranging from 4 months to 10 months late.

- Several schools began receiving direct shipments from the USDA during fiscal year 2010. The FDP system has not been programmed to generate adequately 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 $2,129,944.

- We observed the physical inventory count on June 12, 2013, at the contracted warehouse. The following was noted:

  - Total inventory per the physical count did not reconcile to the ending inventory per the FDP system. The physical inventory, performed prior to fiscal year end and reconciled to include activity through the fiscal year end, should have been $1,064,665, while the ending inventory value per FDP was $1,069,775, for an unexplained variance of $5,110.

  - There were 111 commodities counted during the physical inventory performed on June 12, 2013. We selected 17 of the commodities to ensure amounts counted agreed to the ending inventory in the FDP system or that the FDP system was properly adjusted to the physical count. For 2 of 17 commodities tested, the physical inventory count could not be reconciled to the June 30, 2013, ending inventory per the FDP system. The Agency was unable to provide support for or explain the variances.

Product #	Product Description	Reconciled Physical Inventory	Cases per FDP	Variance
3736-328	Chicken Nuggets	2	0	2
5814-328	Chicken Buffalo Tenders	175	149	26

- We selected 20 commodities to test the activity in the FDP system. For each of the commodities selected, we selected one receipt, one disbursement, and one adjustment entry. One transaction tested was a receipt of 4,178 cases of pancakes. The Agency could not provide support for the number of cases recorded. We compared total receipts per the FDP system for this commodity for the fiscal year to the total receipts per the Federal WBSCM system for the fiscal year. The following table summarizes the results:

Receipt Date	Cases per WBSCM	Cases per FDP	Variance
8/9/2012	1,050	977	73
8/9/2012*	525	-	525
8/10/2012*	525	-	525
12/21/2012	2,100	2,025	75
1/25/2013	2,100	1,297	803
3/7/2013	2,100	525	1,575
6/27/2013	-	4,178	(4,178)
Total	**8,400**	**9,002**	**(602)**

* These were direct shipments from the USDA to subrecipients.

The inventory balance was subsequently corrected by recording a decrease to an adjustment account, rather than correcting the amount received.

The summary schedule of prior audit findings for finding number 12-25-07 states the corrective action plan was complete. The corrective action plan for the prior year finding stated in part, "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." However, during the fiscal year ended June 30, 2013, a documented second review of entries was not performed.

Cause: Change in personnel responsible for maintaining the records of the program.

Effect: When there is a lack of review of 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. These procedures should include recording all receipts, issuances, and adjustments into the FDP system in a timely manner and documenting a second individual's review of those entries.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has implemented an inventory tracking procedure that implements a dual party review. The Agency will develop and implement procedures to ensure that transactions are entered in the FDP database in a timely manner.

Contact: Chad Mohr, DHHS Food Distribution Coordinator

Anticipated Completion Date: April 30, 2014

Finding 2013-029

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

Grant Number and Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 2 CFR § 250.14(b) (January 1, 2013) states, in part:

> *Distributing agencies, subdistributing agencies and recipient agencies shall provide facilities for the handling, storage and distribution of donated foods which . . . (3) Maintain foods at proper storage temperatures[.]*

Proper storage temperatures are detailed on USDA Food and Nutrition Service (FNS) material fact sheets and are generally between 50° to 70° F. For example, the fact sheets for three of the commodities noted during the physical inventory were as follows:

Category	Storage
Flour, Whole Wheat, 5 LB	Store whole wheat flour off the floor in a cool, dry, well-ventilated place (ideal temperature of 50 °F and relative humidity between 50 and 70%). If ideal storage conditions are not available, store whole wheat flour under refrigeration.
Spaghetti, Enriched, Regular, Dry, 20 LB	Store pasta off the floor in a cool, dry, well-ventilated place (ideal temperature of 50 °F and relative humidity between 50 and 70%). If ideal storage conditions are not available, store pasta under refrigeration.
Macaroni, Elbow, Enriched, Regular, Dry, 20 LB	Store pasta off the floor in a cool, dry, well-ventilated place (ideal temperature of 50 °F and relative humidity between 50 and 70%). If ideal storage conditions are not available, store pasta under refrigeration.

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

OMB Circular A-133, § __.300(b), directs the auditee to:

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

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." Section __.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."

Condition: During the observation of the Agency's annual physical inventory of food commodities on June 12, 2013, we noted the dry storage area ranged from 72° to 77° F, which is over the Federal temperature guideline to ensure food quality and safety.

Questioned Costs: Unknown

Context: Temperature readings were reviewed throughout the period of the physical inventory count. The outside temperature during the physical inventory ranged from 82° F at the beginning of the physical inventory count to 87° F at the end of the physical inventory count. The temperature inside the dry storage area during this time ranged from 72° to 77° F. The following table summarizes the temperatures noted inside the warehouse dry goods storage facility for the past four annual physical inventories:

State Fiscal Year	Warehouse Temperature (°F)
2010	80°
2011	74°
2012	90°
2013	72° to 77°

We noted that 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. No fans were on in the warehouse during the morning time frame of the inventory count, but they were operating during the afternoon. The Agency has not adequately safeguarded dry goods from damage due to high temperatures.

The summary schedule of prior audit findings for Finding #12-25-09 states the corrective action plan is complete; however, per the Agency's corrective action for the prior year:

> *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.*

As of the fiscal year ended June 30, 2013, the contract had not been put up for competitive bid.

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° to 70° F at all times during their storage.

Management Response: The Agency agrees with the condition reported but the Agency would point out that this finding is based on ideal temperatures listed on the USDA food fact sheets. The referenced fact sheets are only applicable to certain grain products. The ideal temperature range for certain grain products is not the same as the proper temperature range for other dry goods. To the best of the Agency's knowledge, the Agency has not experienced any temperature related loss of USDA food while in storage.

Corrective Action Plan: The Agency's warehouse contract specifies that foods be maintained at proper temperatures.

Contact: Chad Mohr, DHHS Food Distribution Coordinator

Anticipated Completion Date: March 31, 2014

APA Response: The Agency should monitor and enforce contract provisions.

__**Finding 2013-030**__

Program: CFDA 10.557 **–** Special Supplemental Nutrition Program for Women, Infants, and Children - Allowability & Subrecipient Monitoring

Grant Number & Year: All open, including #3NE700706, FFY 2013

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-87, Attachment A, § A(2)(a), states, in relevant part:

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.

Section C(1) of the same circular states, as is relevant, "To be allowable under Federal awards, costs must meet the following general criteria . . . j. Be adequately documented."

7 CFR § 246.19(b)(3) (January 1, 2013) provides, in relevant part:

The State agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater.

OMB Circular A-133 § __.400(d) states, as is relevant:

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.

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 expenditures.

Condition: The Agency did not have adequate procedures to ensure timely monitoring of the allowability of expenditures by subrecipients. The Agency failed to review the required number of clinics for each subrecipient and failed to use its standard checklist to ensure subrecipient expenditures reported were supported and allowable. Additionally, the Agency did not issue a management decision on audit findings within six months after receipt of a subrecipient's A-133 audit report and did not ensure that the subrecipient took appropriate and timely corrective action.

Questioned Costs: Unknown

Context: The Agency receives monthly Women, Infants, and Children (WIC) Financial Status Reports (FSRs) from 13 local agencies. These reimbursement requests list the current month's expenses by cost categories. The FSRs are reviewed by Agency staff; however, no invoices or detailed supporting documentation is attached. We tested 31 payments to subrecipients, and none of the payments tested had adequate documentation to support that amounts reimbursed were allowable in accordance with Federal regulations.

During on-site fiscal reviews of the local agencies, an Agency contractor performs a review of expenditures included on the FSRs. However, the Agency did not have a contract in place from February 2011 through March 2013 to have reviews conducted. Thus, the Agency failed to perform the monitoring visits within the required timeframe and also failed to review the required number of clinics at each subrecipient. It also failed to use its standard checklist to ensure expenditures reported by the subrecipients were supported and allowable.

Once the March 2013 contract was in place, the Agency conducted on-site reviews for 2 of the 13 WIC local agencies during the period ended June 30, 2013. We tested the Agency's review of one of these two subrecipients and noted the review was not done adequately, as the Agency reviewed only one of nine clinics, or 11.1%.

Furthermore, for one of three subrecipients tested, the Agency failed to issue a management decision related to all findings from the subrecipient's A-133 audit within six months. The A-133 audit included six findings related to WIC. The Agency addressed one of the issues identified in the audit but did not issue a management decision related to the other five findings:

Finding	Description	Management Decision
2012-1	Lacks internal control system designed to provide for preparation of financial statements	None provided
2012-2	Does not have appropriate segregation of duties	None provided
2012-3	Material audit adjustments were proposed that were not identified by internal control system	None provided
2012-4	Has not filed its data collection forms for prior years	None provided
2012-5	Requested reimbursement for certain expenditures twice	Future reimbursement reduced by amount of overpayment
2012-6	Three cash disbursement were not approved	None provided

The Agency disbursed $8,320,121 in aid to the local agencies during fiscal year 2013.

Cause: The Agency did not have adequate subrecipient monitoring procedures. It indicated it contracts out the fiscal monitoring but did not have a contract in place from February 2011 through March 2013.

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 unallowable costs.

Recommendation: We recommend the Agency ensure compliance with Federal regulations by adequately and timely monitoring subrecipients. We further recommend the Agency implement procedures to ensure subrecipients take appropriate and timely corrective action for Federal findings.

Management Response: The Agency partially agrees with the condition reported. The federal requirement that a review be conducted of 20% of all WIC clinics does not apply to the financial component of the review because financial operations and reporting are conducted at the WIC local agency rather than at each clinic. Also, the Agency addressed the five audit findings noted during the financial monitoring site visit conducted on April 23, 2013. The Agency believes this adequately addressed the audit findings noted in the sub-recipient’s A-133 audit.

Corrective Action Plan: The Agency has hired a contractor to complete sub-recipient financial monitoring for sub-grants paid with WIC funds. A sub-recipient financial monitoring site review checklist has been developed and is being utilized by the contractor. In addition, the Department has developed an internal control policy regarding sub-recipient monitoring.

Contact: Peggy Trouba, WIC Program Manager

Anticipated Completion Date: March 31, 2014

APA Response: The site visit documentation states the reviewer discussed the findings with the subrecipient; however, it does not provide support of the corrective action plan the subrecipient performed or that all issues were corrected. For example, the reviewer recommended subrecipient staff obtain training but there was no follow-up of whether any training was obtained.

Finding 2013-031

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

Grant Number & Year: All open, including #3NE700706, FFY 2013

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR § 246.7(c)(1) (January 1, 2013) states, in relevant part, "To qualify for the Program, infants, children, and pregnant, postpartum, and breastfeeding women must: (i) Reside within the jurisdiction of the State . . . (ii) Meet the income criteria specified in paragraph (d) of this section."

7 CFR § 246.7(d) (January 1, 2013) states, "The State agency shall establish, and provide local agencies with, income guidelines, definitions, and procedures to be used in determining an applicant's income eligibility for the Program."

Per OMB Circular A-133, § __.300, 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 Agency to establish controls to ensure WIC participant eligibility can be verified for the fiscal year under audit. Records should be retained until the audit of the State's Comprehensive Annual Financial Report is complete, the required A-133 Federal audit is complete, and all related audit comments have been resolved.

Condition: The Agency could not provide support that seven WIC participants tested met residency and income eligibility requirements on certification dates tested.

Questioned Costs: Unknown

Context: We tested 25 WIC participants and were unable to determine if 7 of them met residency and income requirements to be eligible for the WIC program on the dates tested.

The seven individuals were recertified as eligible WIC participants at dates subsequent to the certification dates we tested. During the recertification process, income and residency information, as of the certification dates we tested, was overridden with new data reflecting the participants' residency and income status at the time of recertification. Thus, we were unable to determine if the WIC participants were eligible on the certification dates tested.

Cause: The WIC computer system overrides prior residency and income data each time a WIC participant is recertified.

Effect: Without adequate support for WIC participants' eligibility, there is increased risk Federal money could be improperly paid to individuals ineligible for the program.

Recommendation: We recommend the Agency implement procedures to ensure documentation is maintained to support WIC participants' eligibility on all certification dates subject to State or Federal audit.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency will require that sub-recipients retain a copy of the WIC Certification Data Form for each certification visit. This form will include information regarding household income and residency.
>
> **Contact:** Peggy Trouba, WIC Program Manager
>
> **Anticipated Completion Date:** March 31, 2014

Finding 2013-032

Program: CFDA 14.257 – Homelessness Prevention and Rapid Re-Housing Program – Allowability and 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)(2), states, "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." Section C(1) of that same attachment states, in relevant part, "To be allowable under Federal awards, costs must meet the following general criteria . . . j. Be adequately documented."

OMB Circular A-133 § __.400(d) states, in relevant part:

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

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 $191,708 in aid to seven subrecipients during fiscal year 2013. 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 2 of 19 subrecipient aid payments for testing. Documentation received by the Agency contained a detailed listing of the subrecipients' expenses, including the date of the expense, payee, amount, and brief description. However, for both 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, 2013, for any of the seven subrecipients. The last documented on-site monitoring visits for the subrecipients occurred during the fiscal year ended June 30, 2010. However, two of the subrecipients, with expenditures totaling $44,979, did have A-133 audits with the Homelessness Prevention and Rapid Re-Housing Program (HPRP) as a major program. The remaining subrecipients either were not required to have an A-133 audit on file or had an A-133 audit, but HPRP was not a major program and would not have received audit coverage. A similar finding was noted in the prior audit.

Cause: All of the payments for the grant occurred prior to September 30, 2012, which was after the finding was brought to the Agency's attention in the prior audit. This was an ARRA grant, which has subsequently closed.

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: The Agency developed procedures to ensure payments to sub-recipients are for for allowable expenditures, in compliance with federal and state requirements. These procedures were submitted to the U.S. Department of Housing and Urban Development on January 11, 2013 and May 9, 2013.

Contact: Jodie Gibson, Economic Assistance Administrator

Anticipated Completion Date: Completed

Finding 2013-033

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 and Earmarking & Subrecipient Monitoring.

Grant Number & Year: All open, including #AANET3SP, FFY 2013

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

Criteria: OMB Circular A-87, Attachment A, § A(2)(a), states, as is relevant:

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, Attachment A, § C(1), states, in relevant part, “To be allowable under Federal awards, costs must meet the following general criteria . . . j. Be adequately documented.”

OMB Circular A-133 § __.400(d) states as is relevant:

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, 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.

This also applies to transactions used for matching and earmarking requirements.

45 CFR § 92.24(a) (October 1, 2012) 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.*

Per OMB Circular A-133, § __.300, 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 monitoring to 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, and monitoring procedures were not adequately documented. A similar finding was noted in the prior audit.

Questioned Costs: $319,372 known

Context: The Agency receives monthly expense reports from the eight subrecipient Area Agencies on Aging (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 not perform on-site fiscal monitoring reviews of one AAA during the fiscal year for Title III funds; the last on-site review had not been done since April 2012 for February 2011 expenditures. The subrecipient received $1,009,872 in Federal and State funds during the fiscal year. Furthermore, the on-site reviews performed for the other seven AAAs indicated the monthly expense reports for July 2012 were compared to supporting documentation, such as invoices. However, there was no documentation to support what was reviewed or that the expenditures were in accordance with State and Federal requirements.

The Agency disbursed $6,573,841 in aid to the AAAs during fiscal year 2013. Of this amount, $5,357,687 was Title III funds. We tested 19 expenditures of Title III funds, totaling $319,372, 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 2013 to be $5,357,687 (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, 2013. The 2011 Federal grant award closed during the fiscal year, and the dollar amounts of local matching contributions reported by the AAAs totaled $6,667,385.

The Agency does review A-133 audit reports submitted by the AAAs, which would provide some assurance if the Aging Cluster were audited as a major program.

Cause: The on-site monitoring activities performed during the fiscal year did not include a review of fiscal year 2013 expenses, or the procedures performed were not adequately documented.

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 and agree to supporting documentation, and expenditures are in accordance with Federal requirements.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has developed and implemented procedures to ensure that adequate and timely subrecipient monitoring is completed.

Contact: Penny Clark, Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-034

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

Grant Number & Year: All open grants, including #AANET3SP, FFY 2013; #AANENSIP, FFY 2012

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

Criteria: 45 CFR § 92.20(a) (October 1, 2012) 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: The Agency lacked supporting documentation for several amounts included in the Federal Financial Reports (FFRs) submitted by the Agency during the fiscal year ended June 30, 2013. Furthermore, the Nutrition Services Incentive FFR was not submitted timely. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: The Agency is required to submit 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 SF-425 reports for CFDA 93.053 Nutrition Services Incentive Program (NSIP). The following was noted during testing:

- The Agency can obtain data relating to the State's administrative expenditures directly from the State's accounting system when preparing the financial reports; however, due to cash advances and AAA contributions, data relating to AAA expenditures cannot be obtained directly from the State's accounting system. In order to track these AAA expenditures, the Agency prepares an Excel spreadsheet from the monthly AAA reports that 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.

  We tested the FFR for the Federal fiscal year 2013 Title III grant for the period ended March 31, 2013, and the FFR for the Federal fiscal year 2012 Title III grant for the period ended September 30, 2012. The Agency did not retain the AAA spreadsheets used to prepare the reports. Therefore, we were unable to verify the accuracy of the amounts reported for the Non-Match recipient share of expenditures and program income. Furthermore, one amount reported in the 2013 calculation of the State's administrative expenditures did not agree to the State's accounting system, causing an over-reporting of $15,799. The following reporting items were unverified:

Reporting Item	Amount Reported	Amount Unverified
Federal Fiscal Year 2013 grant:		
Total Recipient Share of Expenditures	$ 440,059	$ 163,385
Total Federal Program Income Earned	$ 1,401,237	$ 1,401,237
Federal Fiscal Year 2012 grant:		
Total Recipient Share of Expenditures	$ 1,678,234	$ 1,032,593
Total Federal Program Income Earned	$ 2,343,945	$ 2,343,945

During testing of matching and earmarking requirements, we reviewed the State fiscal year 2012 AAA spreadsheet and noted several errors in formulas used to generate totals that are used for reporting purposes. We selected two AAAs and tested the monthly spreadsheets, the compiling quarterly spreadsheets, the compiling yearly spreadsheets, and the AAA grand totals spreadsheet. There were two errors in one AAA yearly spreadsheet and 30 totals with errors in the grand totals spreadsheet. The errors did not affect matching and earmarking compliance; however, because the spreadsheets are used for reporting purposes in the FFRs tested above, it is likely that errors in the formulas produced inaccurate reporting.

- We also tested the SF-425 FFR submitted by the Agency for the Federal fiscal year 2012 NSIP grant. We noted the report was not submitted timely, as required. The report should have been submitted by December 31, 2012, but was not submitted until April 16, 2013.

Cause: The Agency did not have procedures to retain the electronic AAA spreadsheets used for reporting purposes. Errors noted in the AAA spreadsheets were due to improper formulas or data entry errors. The process is manual and cumbersome, which increases the risk for errors to occur and not be detected. Spreadsheets are compiled from the AAAs' monthly billings, which are summed quarterly and then used to report 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 maintaining adequate supporting documentation for the amounts reported and ensuring reports are submitted timely.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop and implement processes and procedures regarding the review and proper documentation of amounts reported on the FFR.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-035

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

Grant Number and Year: All open, including #AANET3SP, FFY 2013; #AANENSIP, FFY 2013

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

Criteria: 31 CFR § 205.33(a) (July 1, 2012) 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, 2012) states, in relevant part:

> *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-37, states, as is relevant:

> *If the cash request is for an advance payment, the recipient may request funds monthly on the basis of expected disbursements during the succeeding month and the amount of Federal funds already on hand.*

A good internal control plan requires 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. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: We noted 8 of 25 expenditures tested included requests for estimated funds that were not used within one month. In these eight cases, estimated funds were used up to three months after the original request was made. The Agency disbursed $7,420,655 in aid to the AAAs during fiscal year 2013.

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 worth of 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 Agency will develop and implement procedures to ensure that funds advanced to subrecipients are only to meet immediate cash needs, that the funds are expended by the subrecipient timely, and adjustments are made for any excessive requests.

Contact: Penny Clark, Unit Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-036

Program: CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance; CFDA 93.520 – Centers For Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work; CFDA 93.270 – Adult Viral Hepatitis Prevention and Control – Reporting

Grant Number & Year: #3U58DP001978, ending 9/29/2012; #5U51PS000859, ending 10/31/2012; #1U51PS004067, ending 10/31/2013

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

Criteria: OMB Circular A-133, § .__300(a), requires the State to "[i]dentify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." Additionally, § __.300(d) directs the state to prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with § 310, including total Federal awards expended for each individual Federal program and the CFDA number. A good internal control plan requires adequate procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA number 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 utilizes EnterpriseOne, the State's accounting system, to record expenditures for Federal programs. We noted the following:

- The Disease Prevention and Health Promotion Tobacco Supplement grant #3U58DP001978 was originally awarded under CFDA 93.283. On December 20, 2010, the award agreement was revised, and the funding source was changed from CFDA 93.283 to CFDA 93.520. However, in EnterpriseOne, the business unit for this grant number is still under CFDA 93.283, resulting in grant expenditures being incorrectly reported. Expenditures of $19,000 were recorded to the wrong CFDA number during fiscal year ended June 30, 2013.

- The Adult Viral Hepatitis Prevention Program grant #5U51PS000859 agreement dated October 29, 2011, provided funding under CFDA 93.270. However, in EnterpriseOne, the business unit for this grant was set up under CFDA 93.283. Expenditures of $67,099 were recorded to the wrong CFDA number during fiscal year ended June 30, 2013.

- The Nebraska Viral Hepatitis Prevention and Surveillance Program grant #1U51PS004067 agreement dated October 31, 2012, provided funding under CFDA 93.270. However, in EnterpriseOne, the business unit for this grant was under CFDA 93.283. Expenditures of $60,864 were recorded to the wrong CFDA number during fiscal year ended June 30, 2013.

The following table illustrates the adjustments made to the SEFA:

Program	Originally Reported	Revised SEFA Amount	Change
CFDA #93.283	$ 8,805,040	$ 8,658,077	$ (146,963)
CFDA #93.520	$ -	$ 19,000	$ 19,000
CFDA #93.270	$ -	$ 127,963	$ 127,963
Total	**$ 8,805,040**	**$ 8,805,040**	**$ -**

Cause: The Agency personnel assigned to set up these grants in EnterpriseOne did not properly enter the necessary information for correct SEFA presentation.

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

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop and implement procedures to review the SEFA schedule to ensure the schedule is complete and accurate.

Contact: Larry Crowley, Cost Accounting & Grants Management Unit Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-037

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

Grant Number & Year: #1U58DP003814, ending 9/29/2012; #5U58DP000811, ending 6/29/2012; #5U58DP001978, ending 3/28/2013; #1U58DP003928, ending 6/29/2013; #5U58DP001421, ending 6/29/2012

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

Criteria: 45 CFR § 92.20(a) (October 1, 2012), requires that fiscal control and accounting procedures of the State must be sufficient to permit the preparation of required reports.

2 CFR § 170.320 (January 1, 2013) states, in relevant part:

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, 2013) 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, 2013) 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 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."

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.*

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 required reports are submitted in a timely manner. A good internal control plan also requires adequate procedures to ensure reports are reviewed and approved by responsible individuals.

Condition: The Agency did not have adequate procedures to ensure all required reports were submitted timely and accurately.

Questioned Costs: None

Context: The Agency was required to complete and submit 15 Financial Status Reports (FSRs) for the various grants under CFDA 93.283 during the fiscal year ended June 30, 2013. We selected four reports to test and noted the following:

- Two of four FSRs tested did not have evidence of a supervisory review and approval.

- The report for the Nebraska Chronic Disease & Health Promotion Program, for the report period ending March 28, 2013, was due on June 28, 2013. However, it had not been submitted to the Federal government as of the date of our request for the report, February 6, 2014.

During the fiscal year, nine subrecipients received $25,000 or more in CDC funds. We tested subawards made to four of the subrecipients for Transparency Act reporting. We noted the following:

- For all four subawards tested, the Agency did not report subaward information or did not report it in a timely manner.

Subrecipient	Subaward Amount	Date Subaward Signed	Month Reported	Months Late
Health Education Inc.	$37,200	January 2013	Not Reported	
East Central District Health Dept.	$55,000	December 2011	February 2014*	25
Nebraska Cancer Coalition	$75,616	October 2012	February 2014*	15
Panhandle Public Health District	$55,000	April 2012	December 2012	7

*Subawards were reported by Agency after inquiry by auditor.

- For three subawards tested, the Agency did not report the subaward date correctly. The Agency reported the submission date instead of the date the subawards were available to make expenditures.

The summary schedule of prior audit findings for Finding #12-25-56 states the corrective action plan was complete as of June 30, 2013; however, the Agency's corrective action for the prior year finding included completing all reporting for the Transparency Act and following a procedure to ensure reporting is completed according to the Federal requirements.

Cause: Turnover in Agency personnel responsible for financial reporting and inadequate control procedures.

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

Recommendation: We recommend the Agency implement procedures to ensure accurate financial reports are submitted timely to the Federal government. Procedures should include a documented supervisory review of reports. We further recommend the Agency implement procedures to ensure that all required reporting is completed in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop and implement procedures to address timeliness and review of all FSRs. In addition, the Agency will develop and implement procedures to ensure that sub-grant agreements are reported in compliance with the Transparency Act.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-038

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

Grant Number & Year: All open grants, including #5U58DP001421, ending 6/29/2012

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

Criteria: 2 CFR § 25, Appendix A, § I(B), (January 1, 2013) states:

> *If you are authorized to make subawards under this award, you: 1. Must notify potential subreipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you. 2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.*

OMB Circular A-87 states that 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 (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 . . . . (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: The Agency's subrecipient monitoring was not adequate. A similar finding was noted in the prior audit.

Questioned Costs: $74,073 known

Context: We tested 5 of 32 subrecipients. During testing, we noted the following:

- For three subrecipients, the Agency did not identify the CFDA title on the subaward documents.

- For one subrecipient, the Agency did not identify the CFDA title and number, award name and number, award year, if the award was research and development, or the name of the Federal agency. We also noted the Agency did not obtain the subrecipient's DUNS number prior to the issuance of the subaward.

- For four of five subrecipients tested, the Agency did not obtain adequate documentation to ensure expenditures were for allowable costs. The Agency received reimbursement requests from the subrecipients; however, no invoices or detailed documentation was obtained to support payments were for actual, allowable costs of the grant. For one of the subrecipients, we noted that the Agency did perform on-site monitoring; however, the Agency did not maintain supporting documentation of the subrecipient's expenditures reviewed and, per the on-site monitoring schedule, monitoring was only performed every 3 years. For three of the four subrecipients, the Agency did not perform a desk review or on-site monitoring.

Subrecipient payments for fiscal year ended June 30, 2013, totaled $738,018. Federal payment errors noted were $74,073. The total sample tested was $76,398. The error rate for the sample was 96.96% ($74,073/$76,398). This estimates the potential dollars at risk for the fiscal year to be $715,582 (dollar error rate multiplied by the population).

Cause: Unknown.

Effect: Noncompliance with Federal regulations, which increases the risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure subrecipient payments are for actual and allowable costs. We also recommend the Agency implement procedures to ensure all required information is provided to subrecipients, and DUNS numbers are obtained per Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop and implement procedures to ensure the required information is included on all subgrant agreements. The procedures will also include a step to obtain the subrecipient's DUNS number prior to the issuance of the subgrant. In addition, the Agency will establish procedures to review a sample of subrecipient payments to ensure payments are for actual and allowable costs.

Contact: Kay Wenzl, Unit Administrator

Anticipated Completion Date: June 30, 2014

<u>Finding 2013-039</u>

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

Grant Number & Year: #5U58DP000811, ending 6/29/2012

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

Criteria: OMB Circular A-87 states that allowable costs must be necessary, reasonable, accorded consistent treatment, and adequately documented. A good internal control plan requires procedures to ensure expenditures are adequately documented.

Condition: Adequate documentation was not available to support payments made to providers for Essential Services.

Questioned Costs: $184,800 known

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. Payments during the fiscal year totaled $184,800. Clinics serving fewer than 15 clients each received $0; those serving 15-50 clients each received $379; those serving 51-100 clients each received $1,176; and those serving more than 100 clients each received $2,310.

The Agency did not have documentation to support the providers had actually incurred costs for Essential Services payments.

A similar finding was noted in the prior audit.

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 documentation to support all payments to providers are for actual costs incurred.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The payments made during the state fiscal year ended June 30, 2013, was the final year in which the Agency will reimburse clinical providers for uncompensated essential services.

Contact: Melissa Leypoldt, Program Manager

Anticipated Completion Date: N/A

Finding 2013-040

Program: CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance – Allowability & Period of Availability

Grant Number & Year: #1U50CK000273, ending 12/31/2012; #5U58DP000811, ending 6/29/2012; #5U58DP001421, ending 6/29/2013

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

Criteria: 2 CFR § 215.71(b) (January 1, 2013) states:

> *Unless the Federal awarding agency authorizes an extension, 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 or in agency implementing instructions.*

45 CFR § 92.23 (October 1, 2012) states:

> *Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted . . . . A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period . . . .*

Grant award terms and conditions specify budget periods for which funds can be charged and require that obligations incurred for those budget periods be liquidated within 90 calendar days after the end of the budget period.

OMB Circular A-87 requires that costs charged to Federal programs be reasonable, necessary and adequately documented.

OMB Circular A-133, § __.300(b), requires the auditee to:

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

A good internal control plan requires procedures to ensure expenditures are made only for services rendered and within the grant's period of availability.

Condition: The Agency did not have adequate procedures to ensure expenditures were allowable and within the period of availability.

Questioned Costs: $38,429 known

Context: We tested 23 payments totaling $28,309. Five of 23 payments tested did not comply with Federal requirements. We noted the following:

- A contract for case management and recall 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 was the project's budgeted costs for the year divided by 12 months. The Agency did not provide documentation that one of two monthly reports required by the contract was submitted. The amount tested was $562; the total paid to the contractor during the fiscal year was $33,960.

- Another payment tested for case management and recall services did not have one of the two required monthly reports. No documentation was provided to support the amount claimed for personnel and benefits, communications, and miscellaneous expenditures for the month. The amount tested was $43; the total paid to the contractor during the fiscal year was $78,784.

- A third payment tested was to a private doctor for completing presumptive eligibility forms; however, there was no documentation of which forms were completed for which clients and when they were completed. The payment, totaling $70, was for seven completed forms at a rate of $10 per form for the period of July 1, 2010, through June 30, 2012. The payment was charged to the grant for a budget period of June 30, 2011, to June 29, 2012. However, without adequate documentation to support when the forms were completed, we could not verify the expenditure was within the period of availability for the grant charged.

- We noted two additional payments tested were outside of the period of availability.

  - One payment for $15,765 was associated with a grant period that ended December 31, 2012; however, per review of the supporting documentation, the payment was for services provided between January 1, 2013, and March 31, 2013, after the period of availability for the funding source used.

  - One payment for $38 was paid to a medical clinic for services performed on June 21, 2012. The payment was associated with a grant period that did not begin until June 30, 2012. Therefore, the funds were expended prior to funding source's period of availability.

Federal payment errors noted for the sample were $16,478. The total Federal sample tested was $28,309, and total Federal CDC program expenditures, excluding payroll, subrecipient payments, and Essential Services payments, for fiscal year 2013 were $4,587,927. Based on the sample tested, the case error rate was 21.74% (5/23). The dollar error rate for the sample was 58.21% ($16,478/$28,309), which estimates the potential dollars at risk for the fiscal year 2013 to be $2,670,632 (dollar error rate multiplied by population).

We also tested expenditures recorded after the end of the grant period. The Breast and Cervical Cancer grant had a project period that ended June 29, 2012. The grant award instructs the Agency to pay all obligations of the grant within 90 days following the end of the project period. We noted two payments to local health departments made on October 1, 2012, which is more than 90 days after the end of the grant period. The two payments totaled $20,950. We also noted one of three journal entries tested was for payroll charges and indirect costs incurred during July and August 2012; however, $1,001 was charged to the grant that ended on June 29, 2012.

A similar finding was noted in the prior audit.

Cause: Ineffective review.

Effect: Increased risk for errors or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure adequate documentation is maintained to support all expenditures, including procedures to ensure expenditures are within the required periods of availability. We also recommend the Agency implement procedures to ensure payments are in accordance with contract provisions, and deliverables identified in the contract are received prior to payment.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will review current procedures to ensure contract payments are in accordance with contract terms and conditions, that deliverables are received and meet expected standards, and that supporting documentation is maintained to support expenditures. The Agency will review procedures to ensure payments made are not outside of the period of availability.

Contact: Kay Wenzl, Health Promotion Administrator; Paula Eurek, Lifespan Health Services Administrator

Anticipated Completion Date: June 30, 2014

Finding 2013-041

Program: CFDA 93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) and American Recovery and Reinvestment Act (ARRA) TANF Cluster – Reporting

Grant Number & Year: Various, including #G1001NETAN2, FFY 2010 (ARRA); #G1102NETANF, FFY 2011; #G1302NETANF, FFY 2013

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

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

Title 45 CFR § 92.20(a) (October 1, 2012) requires that 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 it. A good internal control plan requires procedures to reconcile submitted reports to the accounting system.

Condition: We noted errors in three of four ACF-196 reports tested. 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. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: During testing of ACF-196 reports, we noted the following:

- The Agency did not accurately report Federal expenditures on the SEFA. The TANF information for the SEFA is based on the ACF-196 reports. For the ARRA expenditures, the Agency inadvertently used the amount on the State accounting system instead of the amount per the ACF-196.

  We noted in the prior audit that ACF-196 reports for the 2011 non-ARRA grant were overstated by $1,137,013. The Agency caught the error and revised the September 2012 ACF-196 report for the 2011 grant, and the SEFA was revised. However, the Agency did not properly consider the correction for fiscal year 2013, which caused the SEFA to be understated by $1,137,013 for fiscal year 2013. The effects to the SEFA were as follows:

CFDA	Originally Reported	Revised	Change
93.558 TANF	$34,237,167	$35,374,180	$1,137,013
93.714 ARRA – TANF	$307,445	$3,843	$(303,602)
TOTAL	$34,544,612	$35,378,023	$833,411

- The 2013 grant ACF-196 report for the quarter ended June 30, 2013, had the following errors:

- Line 6m, Other, Federal TANF Expenditures, which is where the Agency reports child welfare expenditures, was understated by $1,468,000 because the Agency ran incorrect parameters in the accounting system to search for available expenditures. Similar errors occurred for the 2012 grant in the amount of $38,822 and for the 2011 grant in the amount of $141.

- Line 6j, Administration, Federal TANF Expenditures, was understated by $30,000 due to a clerical error.

- Line 6i, Prevention of Out-of-Wedlock Pregnancies, Federal TANF Expenditures, was understated by $23,635 because the Agency forgot to include this category of expenditures.

- The report was not on the cash basis of accounting. The Agency reported $2,999,892 in child care transfers that were not recorded to EnterpriseOne, the State's accounting system, until July 2, 2013.

- Maintenance of effort was overstated on the 2012 grant ACF-196 report for the quarter ended September 30, 2012, by $68,648. The Agency could not explain the reason for this variance.

- We noted in the prior audit that 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 still met its maintenance of effort for 2010. Testing of the 2010 grant report for the quarter ended December 31, 2012, showed that the Agency still had not corrected this line item, so maintenance of effort was still overstated by $8,642,807.

- The 2012 grant ACF-196 report for the quarter ended September 30, 2012, was not reported on the cash basis of accounting. The Agency reported several transactions that were not recorded to EnterpriseOne, the State's accounting system, until after September 30, 2012. The Agency reported $1,549,478 in child care transfers that were not recorded to EnterpriseOne until November 8, 2012. The Agency reported a $738,764 reduction in child welfare expenditures that was not recorded until December 12, 2012.

Cause: For the cash basis issues, the Agency has taken the position that it is important to report amounts as soon as they are known, and transactions are input into EnterpriseOne as time allows. Other errors were due to staff turnover and 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 both the ACF-196 reports and the SEFA, in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop procedures for preparation and review of the ACF-196 and the SEFA.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-042

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

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

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

Criteria: Per the Nebraska State Plan for TANF (State Plan), effective July 1, 2011:

> *Failure of a dependent child age 16, 17, or 18 to attend school without participating in any other* Employment First *approved work activity results in removal of the individual's needs from the ADC unit.*

Per the State Plan effective July 1, 2011:

> *Nebraska has implemented a separate state program for single-parent families receiving ADC cash assistance where the adult or minor parent qualifies for one of the specified exemptions. ADC cash assistance provided to these families will be funded with state dollars only. . . . The following individuals are exempt from participating in Employment First and are exempt from the state and federal time limit for the length of time they qualify for an exemption: 1. A pregnant woman beginning the first of the month before the month of the mother's due date.*

Also per the State Plan: "If a client does not cooperate in developing and completing an Employment First self sufficiency contract, the family is ineligible for ADC cash assistance."

Per 64 FR 17825 (April 12, 1999), a family may not receive assistance under the State's TANF program unless the family is needy. For TANF purposes, the term needy means financial deprivation (i.e., lacking adequate income and resources).

Per Title 468 NAC 1-010, "The worker must redetermine eligibility for grant and medical assistance every 12 months."

OMB Circular A-133 § __.315(a) states, in relevant part:

> *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.*

OMB Circular A-133 § __.315(b) states, as is relevant:

> *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.*

Condition: Eight of 40 TANF cash assistance payments tested were not in compliance with State and Federal requirements. A similar finding was noted in previous audit reports.

Questioned Costs: $866 known

Context: We noted the following:

- For two payments tested, a child or children were improperly included in the unit, as they were 16, 17, or 18 years old and were neither in school nor in Employment First, resulting in questioned costs of $95.

- For two payments tested, the mother was exempt from Employment First due to pregnancy, so the cash assistance should have been paid from the separate State Plan. Instead, the payments were paid with Federal/State mix funds, resulting in questioned costs of $468. The Agency has a procedure to move such cases to State-only funds via a journal entry, but this was not done for either of these cases.

- For one relative payee case, the child's father temporarily returned to the home. He was not working or participating in Employment First, resulting in questioned costs of $234.

- For one payment tested, the Agency did not include the family's self-employment income, resulting in questioned costs of $69.

- For two payments tested, the annual eligibility redetermination was three to four months overdue.

We also noted the summary schedule of prior audit findings did not properly represent the status of prior year finding #12-25-20. The summary schedule noted all corrective action was complete as of June 30, 2013. However, there was no evidence that the report regarding 16, 17, and 18-year-olds was being monitored until December 2013.

Federal payment errors noted were $866. The total Federal sample tested was $9,446, and the total Federal TANF cash assistance payments for the fiscal year were $17,136,109. Based on the sample tested, the case error rate was 20% (8/40). The dollar error rate for the sample was 9.17% ($866/$9,446), which estimates the potential dollars at risk for fiscal year 2013 to be $1,571,381 (dollar error rate multiplied by population). Each of the payments tested was funded with 80% Federal and 20% State Maintenance of Effort (MOE) funds. The errors noted above represent the Federal portion only. There were $99 in overpayments made from State MOE funds related to these errors.

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 has developed increased monitoring procedures. These procedures began during the fiscal year ended June 30, 2013. Several of these findings are related to cases that were reviewed by the Auditor prior to the implementation of the new procedures. These procedures continue to be enhanced.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-043

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

Grant Number & Year: Various, including #G1302NETANF, FFY 2013

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

Criteria: Per the Nebraska State Plan for TANF, effective July 1, 2011, 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 (SSI), or Medicaid. Drug screening and testing services are allowable when they are conducted on youth.

Per 45 CFR § 263.2(b)(2) (October 1, 2012), an eligible family for TANF must "[i]nclude 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."

OMB Circular A-87, Attachment A, § C(1), requires that costs be necessary, reasonable, and adequately documented. OMB Circular A-87, Attachment A, § C(1)(e), 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, §__.300, 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 journal entries that charged TANF for State child welfare costs and tested 15 claims within those entries. We noted five claims tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Questioned Costs: $11,777 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. NFOCUS is a subsystem of the State's accounting system used to record detailed information regarding clients and services. After performing the query, the Agency transferred the total payments from State general funds to Federal TANF funds. In prior audits, we noted problems with the query and, during this fiscal year, the Agency changed the query parameters, backed out all the previous child welfare transactions and charged the new query amounts, totaling $9,508,968, to TANF. We tested 15 claims from these entries and noted the following:

- For one claim tested, the service was intensive family preservation. The contractor charged $430 per week for four weeks, totaling $1,720. However, per review of timesheets, the contractor only provided 12.25 hours of service, an average of 3.06 hours per week. This is not "intensive," and to charge a weekly rate for such scant service is not reasonable. This calculates out to $140 per hour. We tested another claim for intensive family preservation where the contractor was paid $55 per hour. If we use this hourly rate instead of the weekly rate, this results in questioned costs of $1,046. We further noted an additional $3,870 was charged to TANF for this claim for intensive family preservation for nine weeks. For these weeks, an average of 3.12 hours was provided, resulting in further questioned costs of $2,316.
    - We further noted the rates the Agency paid for intensive family preservation services were not adequately documented. A study was performed in 1994, 20 years ago, that determined the charge should be $4,924 for 8 weeks of service with an average of 24 hours a week of service. This calculates out to $616 per

week or $26 per hour. The rate charged by one contractor tested was $430 per week, with only about three hours provided each week, and another contractor charged $55 an hour. The Agency did not have adequate documentation to support the rates paid.

- o We further noted during testing of this case that one claim charged to TANF actually had two versions in NFOCUS. Only the first version was picked up in the journal entry. The first version charged $2,150, and the second version, which was the actual amount paid, only charged $1,720. We then noted that no line items in the journal entries charged to TANF are negative amounts, so it appears only the first versions of claims are paid. If claims are subsequently reduced, TANF is still charged the full amount.

- For one claim tested, the service provided was drug screening and testing. The State Plan only allows payment for this type of service when provided for a child. For this case, the service was provided for a parent, resulting in questioned costs of $180. Additionally, for this case, the child was not in the home for one day billed, and the provider double-billed for another day.

- For two claims tested, tracker services were provided. Both contracts state the rate is "$25.00 per day for Level 1 Tracker service" and "$34.00 per day for Level 2 Tracker service for direct, (face-to-face) contact time with the youth and family." Both claims tested charged the Level 2 rate for every day in the service period. For one claim, the contractor billed for every day between July 1st and July 15th, even though the tracker service did not actually begin until July 15th, and the service provided on July 15th was phone contact only, which is only allowable for the Level 1 rate, resulting in questioned costs of $485. For this case, we noted $172 in further questioned costs for claims charged to TANF that were not adequately supported. For the other claim, the contractor billed for all 16 days of the reporting period, although the contractor did not document any contact with the family 5 of the days and only phone contact on 2 of the days, resulting in questioned costs of $188.

- 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 children and families. During fiscal year 2013, one of the Reform Contractors remained. The Agency allowed the 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 auditors observed an approval of these rates by the Agency for the remaining Reform Contractor. However, the rate for family support services for the Reform Contractor was $79 per hour, while 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. We tested one claim billed by the Reform Contractor that charged $79 per hour, and we questioned the difference between the $79 and the $47 rate, resulting in questioned costs of $504.

In the prior two audits, we took exception to 11 different claims. During State fiscal year 2013, all the child welfare claims from the prior years were removed from TANF, and the new query results were charged. Two of the claims we took exception to previously were still in the new query, resulting in questioned costs of $6,886.

The total Federal questioned costs noted during testing were $11,777, of which $2,403 was for the specific sample tested, and $9,374 was for other errors noted. The total Federal sample tested was $11,239, and total transfers to TANF from child welfare were $9,508,968. Based on the sample tested, the case error rate was 33% (5/15). The dollar error rate for the sample tested was 21.38% ($2,403/$11,239), which estimates the potential dollars at risk for fiscal year 2013 to be $2,033,017 (dollar error rate multiplied by population).

Cause: The Agency amended its query during the fiscal year, but not all problems were corrected. The Agency did not ensure adequate supporting documentation existed for claims paid.

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

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal and State regulations. The Agency should review its NFOCUS query to ensure only claims eligible for TANF are being selected. 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.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will implement a review process of potential TANF claims by the Division of Children and Family Services prior to the Financial Services Section posting any journal entries to ensure TANF funds are only spent on TANF eligible services. The Agency will consider a review of the rate structure for various child welfare services, although, the Agency will need to ensure any new rates are implemented within existing appropriated budgets.

Contact: Mindi Alley, Financial Officer; Tony Green, Deputy Director

Anticipated Completion Date: June 30, 2014 for the journal entry review process. June 30, 2015 for the review of the rate structure.

Finding 2013-044

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

Grant Number & Year: All open, including #G1302NETANF, FFY 2013

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

Criteria: Per 45 CFR § 265.3(a) (October 1, 2012), States must collect on a monthly basis, and file on a quarterly basis, a TANF Data Report (ACF-199) and a Separate State Plan-Maintenance Of Effort (SSP-MOE) Data Report (ACF-209). These reports include disaggregated information on families receiving TANF and SSP-MOE assistance. Information reported includes demographic data, the amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. 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.

Per ACF-199 report instructions, Key Line Item #44, Number of Months Countable toward Federal Time Limit:

> *A countable month is a month for which the head-of-household or the spouse of the head-of-household receives assistance and is not exempt from the Federal five-year time limit . . . . Enter the number of months countable toward the adult's (or minor child head-of-household's) Federal five-year time limit based on the cumulative amount of time the individual has been either the head-of-household or the spouse of the head-of-household and has received Federal TANF assistance from both the State (Tribe) and other States or Tribes.*

Condition: The Agency did not perform an adequate review of individual case information to ensure the accuracy of the ACF-199 and ACF-209 reports. A similar finding was noted in the prior audit. Additionally, we requested the ACF-199 and ACF-209 reports for 14 cases, which comprised 93 key line items. For one of these cases, a key line item was not reported correctly.

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, the Agency did not begin documenting this procedure until February 2013, and we noted the review was not implemented adequately to ensure the ACF-199 and ACF-209 reports are correct. The Agency employee performing the review receives a report listing the 36 cases with 4 columns: reporting month, case type, master case number, and fund code. Then the employee goes into NFOCUS and verifies these four data elements are correct in NFOCUS. It appears the report is supposed to be a starting point to look into more detail for cases and key line items, but instead the spreadsheet is simply verified against itself.

During testing of the ACF-199 and ACF-209 reports, we noted one key line item was reported incorrectly for one case. For Key Line Item #44, Number of Months Countable toward Federal Time Limit, the Agency reported 27 months, but the number should have been only 15. Three separate issues caused the number reported to be incorrect:

1. Six payments were made from the transitional grant but were counted in the total. These payments are not paid out of Federal TANF funds but do count toward MOE. Because they are not paid with Federal funds, the payments should not count toward the time limit.

2. Months prior to July 2003 do not count toward the Federal time limit unless there is evidence of a signed self-sufficiency contract. We could not find evidence of such a contract, so countable months should begin at July 2003. However, the NFOCUS query did not take this into account, which caused 10 months to be over reported.

3. Four payments were made to the spouse of the head of household and were not counted in the total. The head of household moved out for a period of time but then returned. The NFOCUS query did not count these payments but, per the ACF-199 report instructions, these payments should be included.

Cause: The Agency set up a review procedure in the prior fiscal year but failed to document its review until February 2013. It appears a miscommunication occurred regarding how the control was supposed to be performed. For the key line item error, the Agency indicated there were errors in the complex NFOCUS query.

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 implement procedures to ensure data is being reported accurately, and errors are corrected in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will review the effectiveness and methodology of the proactive monthly review and consider changes that could improve the effectiveness of this review process. The Agency will also perform an analysis of the query to improve our reporting of the number of months countable towards the Federal time limit.

Contact: Doug Beran, Research, Planning, and Evaluation Administrator

Anticipated Completion Date: April 30, 2014

Finding 2013-045

Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF) – Reporting & Special Tests and Provisions

Grant Number & Year: All open, including #G1302NETANF, FFY 2013

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

Criteria: Per 45 CFR § 261.62(a) (October 1, 2012):

> *To ensure accuracy in the reporting of work activities by work-eligible individuals on the TANF Data Report and, if applicable, the SSP-MOE Data Report, each State must . . . (4) Establish and employ internal controls to ensure compliance with the procedures. . . .*

Per 45 CFR § 261.61(a) (October 1, 2012):

> *A State must support each individual's hours of participation through documentation in the case file. In accordance with § 261.62, a State must describe in its Work Verification Plan the documentation it uses to verify hours of participation in each activity.*

Per the Nebraska Work Verification Plan (Plan) (February 1, 2012), 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 or use of unsupported eligibility summaries. Also per the Plan, community service "timesheets must be signed by the site supervisor and participant."

Condition: The Employment First (EF) hours reported in the Agency's case file system did not agree to supporting documentation for 6 of 40 cases tested.

Questioned Costs: None

Context: Work participation is documented by two EF contractors. Each month, the Agency reviews at least 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:

- Though noted as correct by the Agency, three cases included hours for unsubsidized employment that were not appropriately verified in accordance with the Plan. For two of the cases, the hours were self-declared by the recipient. For one of these cases, the support was a timesheet that did not identify the employer or include an employer signature. If these unallowable hours are excluded, none of the recipients met work participation for the month.

- One case was noted as correct by the Agency, but the community service timesheet was not signed by the participant. If the unallowable hours are excluded, the recipient did not meet work participation for the month.

- Two cases were noted as incorrect by the Agency, but 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). For one of these cases, the reviewer also did not calculate the hours correctly.

A similar finding was noted in the prior audit.

Cause: The Agency allows EF workers to verify hours of participation using the Agency eligibility summary, without verifying that these summaries have accurate supporting documentation. The Agency allowed recipients to self-declare employment, even though this is not an allowable method of verification per Nebraska's Work Verification Plan.

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 adequately documented and correctly reported.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has already issued guidance to EF contractors clarifying that hours from employment can no longer be based on client declaration and the EF contractors are required to view all scanned verifications of employment each month to determine if that information is more current than what is budgeted for ADC cash assistance. The Agency will resume the second party reviews of the Employment First reviews.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-046

Program: CFDA 93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) and ARRA TANF Cluster – Allowability

Grant Number & Year: #G1202NETANF, FFY 2012; #G1302NETANF, FFY 2013; #G1001NETAN2, FFY 2010 (ARRA)

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

Criteria: OMB Circular A-133 § __.210 details characteristics that 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 § __.300 states, in relevant part:

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

Per the EF contracts between the Agency and its contractors:

> *For the end of each month of operation, the Contractor shall submit an itemized invoice of actual and allowable costs incurred in the delivery of the services under this Contract. . . .* (Emphasis added.)

Condition: The Agency did not adequately monitor expenditures of the EF contractors to ensure expenditures were allowable.

Questioned Costs: Unknown

Context: The Agency paid $9,483,102 (Federal share) during the fiscal year to two contractors to provide EF case management and program services on behalf of TANF recipients. The Agency pays the contractors monthly based on invoices submitted showing actual costs. The Agency reviews the invoices for reasonableness but does not do a more thorough review, which could include tying expenditures to A-133 audits or line-by-line invoice reviews.

The Agency does receive A-133 audits for its contractors; however, it does not tie the expenditures reported to the State's accounting system. If this procedure were performed, and if the program were audited as a major program by the independent auditors, this could provide more assurance that expenditures were allowable. We attempted to reconcile the expenditures in the State accounting system to the A-133 audits and, for one of the contractors, we calculated $6,637,021 in Federal expenditures for their fiscal year ended December 31, 2012, but the A-133 audit showed $8,092,455 for a variance of $1,455,434. The Agency was unable to provide an explanation for this variance.

With regard to the contractors, we noted the following – all of which, per OMB Circular A-133 § __.210(b), indicate a subrecipient relationship: (1) the contractors provide services that are key to the operation of the Federal program; (2) performance of the contractors is measured against whether the objectives of the Federal program are met; and (3) the contractors are subject to compliance requirements of the Federal program. The Agency also receives A-133 audits for the contractors. The Agency should review this relationship to determine whether it needs to perform subrecipient monitoring procedures on these contractors, which would include increased communication of Federal requirements.

Cause: Inadequate review.

Effect: Increased risk of unallowable Federal costs and noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are allowable and in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will begin requesting supporting documentation for a sample of invoices to determine if amounts being requested comply with the contract requirements. The Agency will also review these agreements to determine if the agreements should remain as contracts or be reclassified as sub-grants.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-047

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

Grant Number & Year: #G1302NETANF, FFY 2013

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1)(a), to be allowable, costs must be "necessary and reasonable for proper and efficient performance and administration of Federal awards." Per Title 468 NAC 2-008.02B(4), one motor vehicle can be excluded from the resource limit to be eligible for TANF if it is used for employment or medical transportation. Per Title 468 NAC 2-020.08C, the case manager "may authorize payment for transportation to enable a participant to participate in any EF component." Car repairs are an example of transportation services that can be provided. A good internal control plan requires that procedures be in place to ensure supportive services are provided for the vehicle used for EF activities.

Condition: We tested five supportive service payments and noted one was not necessary or reasonable because it was for the participant's second vehicle.

Questioned Costs: $73 known

Context: The Agency provides supportive services to TANF recipients who participate in EF to assist the individual with job-related costs, such as vehicle repairs or uniforms. One of five participants tested was for a vehicle inspection to obtain an estimate for repairs. We further noted two inspections were authorized for the vehicle. However, the participant owned two vehicles. The worker knew about this and approved the inspections based on a Nebraska Sales/Use Tax and Tire Fee Statement provided by the participant indicating one of his vehicles had been sold. However, this statement was signed 10 months before, and the owner, per the Department of Motor Vehicles, was still the participant. A week later, when the estimates came in, a different worker denied fixing the vehicle because the participant still owned two vehicles, per the Department of Motor Vehicles. That worker noted both vehicles were still insured by the participant. Because the participant owned two vehicles, the Agency should not have paid for estimates to have one of them fixed. The approvals of the estimates and repairs were done independently. Although the repair work was denied, the estimates should also have been denied.

The Federal payment error noted was $31 for the sample and an additional $42 for the second inspection performed. The related MOE (State share) that was also affected was $49. The total Federal sample tested was $940, and the total Federal TANF supportive service payments for fiscal year 2013 were $3,054,379. The dollar error rate for the sample was 3.30% ($31/$940), which estimates the potential dollars at risk for fiscal year 2013 to be $100,795 (dollar error rate multiplied by population).

Cause: When authorizing the vehicle inspections, the worker accepted a Nebraska Sales/Use Tax and Tire Fee Statement from the participant indicating one of his vehicles had been sold. However, this statement was signed 10 months before, and the owner, per the Department of Motor Vehicles, was still the participant. The Agency indicated that it does not seek overpayments for supportive services unless there is an indication of fraud.

Effect: Noncompliance with Federal requirements and increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure compliance with State and Federal regulations. We also recommend that all overpayments be recovered when it is determined a TANF recipient provided inaccurate information and was overpaid.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will institute a requirement that the case manager assigned to work with the participant should be the staff person who authorizes all services. The Agency does not believe it has authority to recover a supportive services payment from a vendor when the payment is made in good faith, based on the documentation available at the time.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-048

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

Grant Number & Year: #G1002NETANF, FFY 2010

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

Criteria: Per 45 CFR § 264.30 (October 1, 2012), 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 the administrating agency 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 or (2) deny the family any TANF assistance.

A good internal control plan requires that procedures be in place to ensure individuals are appropriately sanctioned when they are not cooperating with Child Support Enforcement (CSE).

Condition: We tested 40 cases in which individuals were determined not to be cooperating with CSE and, for 4 of these cases, the assistance was not properly reduced.

Questioned Costs: $121 known

Context: For four cases, the sanction was imposed one month late. The Agency did not set up overpayments in NFOCUS for any of the cases that should have been sanctioned but were not. Had an overpayment been set up, the amount paid in error could have been recouped over time from future assistance payments.

Of the 40 cases tested, 7 required a sanction. Four of these cases were not sanctioned timely. Overpayments for the two Federal/State mix cases were $121 Federal share and $30 State MOE. Overpayments for the two separate State Plan cases were $182 State MOE.

A similar finding was noted in the prior audit. As part of its corrective action plan, the Agency changed the Child Support Sanction alerts and work tasks to a high priority, which means they should be worked faster. This change was done in March 2013. All four exceptions noted occurred prior to this time.

Cause: Workers were not sanctioning cases timely.

Effect: Increased risk for overpayments.

Recommendation: We recommend the Agency improve procedures to ensure individuals are appropriately sanctioned when they are not cooperating with CSE. This should include a more timely review by workers of non-cooperation reported by CSE.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has noted a reduction in the number of cases appearing on the CSE Sanctions Not Imposed report since work tasks were set to a high priority in March, 2013.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-049

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Earmarking & Period of Availability & Reporting

Grant Number & Year: #12B1NELIEA, FFY 2012

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

Criteria: 45 CFR § 96.14(a)(2) (October 1, 2011) states, in relevant part: "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 45 CFR § 96.81(b) (October 1, 2011), "Each grantee must submit a report to the Department by August 1 of each year, containing… (4) the amount of funds, if any, to be subject to reallotment." This is a key line item per the June 2013 OMB Circular A-133 Compliance Supplement.

Per 42 USC § 8624(b)(9)(A) (2011), "The State may use for planning and administering the use of funds under this subchapter an amount not to exceed 10 percent of the funds payable to such State under this subchapter for a fiscal year[.]"

Per LIHEAP Information Memorandum 1999-11, to be obligated, funds must be "legally committed for weatherization purposes to an entity other than an entity of the State government."

A good internal control plan requires procedures be in place to ensure grants are adequately administered in accordance with Federal regulations. This should include ensuring reports are properly completed, and earmarking requirements are met.

Condition: The Agency reported no reallotment amount for the 2012 grant but should have reported $5,799,567. The Agency exceeded the administration limit by $656,590.

Questioned Costs: $656,590

Context: The Agency prepared the Carryover Report for the FFY 2012 grant, leaving blank the key line item Reallotment Amount. Per discussions with the Agency, it did not intend to report any amount to be realloted. However, unexpended and unobligated funds at September 30, 2012, exceeded the allowable carryover by $5,799,567:

Total grant authorization		$30,207,907
Expenditures 9/30/2012 per General Ledger	$24,436,064	
Less October transfer to 2011 Grant*	(2,624,215)	
Less Administrative costs over 10% limit**	(424,300)	
Allowable expenditures at 9/30/2012		21,387,549
Unobligated funds at 9/30/2012***		8,820,358
Allowable carryover (10% of grant)		3,020,791
Grant authorization that should have been returned to Federal government for reallotment		$5,799,567

*These expenditures were not obligated for the 2012 grant, as the Agency anticipated transferring them to the 2011 grant. This is evidenced by the Agency reporting the 2011 grant as fully expended at September 30, 2012.

**Additionally, as of September 30, 2012, the Agency exceeded its 10% administration limit by $424,300. Therefore, it could not consider these funds obligated. In the grant system, the Agency improperly set aside 12.64% of the award for administrative costs at both the State and subrecipient level, instead of the 10% limit. Administrative expenditures in excess of the 10% limit at June 30, 2013, total $656,590 and are questioned costs.

***The Agency contracted $3,624,949 of the FFY 2012 Federal funds with the Nebraska Energy Office (NEO). The Agency thought this amount was obligated because it shared the funds with NEO on September 28, 2012. The NEO then subawarded this money, *after* September 30, 2012, to subrecipients to assist low-income households with energy weatherization-related improvements. The Agency and NEO are both State agencies, at the same level of government. Per LIHEAP Information Memorandum 1999-11, to be obligated, funds must be "legally committed for weatherization purposes to an entity other than an entity of the State government." NEO did not award (obligate) the funds to subrecipients until dates ranging from November 2012 through January 2013. Therefore, these amounts were not obligated at September 30, 2012.

A similar finding was noted in the prior audit.

Cause: Ineffective grant management. The Agency considered its contract with NEO to be an obligation for reporting a grant carryover. Because the Agency shared the award with NEO only two days before the end of the Federal fiscal year, NEO did not have time to obligate the funds to subrecipients by the end of the Federal fiscal year.

Effect: Without adequate procedures to administer Federal grants, there is an increased risk for loss or misuse of funds. In addition, questioned costs for funds spent over the administrative limit will need to be repaid to the Federal government.

Recommendation: We recommend the Agency devote resources to ensuring LIHEAP grants are administered in accordance with Federal regulations. The Agency should implement procedures to ensure reports are properly completed, and earmarking requirements are met. Funds in excess of requirements should be returned to the Federal government.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has scheduled monthly meetings with the Nebraska Energy Office to ensure that communication is ongoing, issues are discussed, and that funds are expended properly and timely. The Agency will develop written procedures to ensure the LIHEAP grants administrative limits are set up correctly. In addition, periodic meetings involving Program staff and Finance staff will be held to monitor spending from this grant.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager
Karma Stockwell, Program Supervisor

Anticipated Completion Date: March 31, 2014

<u>Finding 2013-050</u>

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability

Grant Number & Year: #12B1NELIEA, FFY 2012; #13B1NELIEA, FFY 2013

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

Criteria: Title 45 CFR § 96.30(a) (October 1, 2012) states, in relevant part: "[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 approved by the Federal government. Per 42 USC § 8624(d) (2012), "The State shall expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such plan."

Title 476 NAC 5-006.02 states, in relevant part: "Crisis payments should never be authorized in an amount greater than what is necessary to alleviate the crisis." Good internal control requires verification from the provider to support that the payment is no greater than necessary to alleviate the crisis.

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[.]"

Title 476 NAC 5-001.01 states, in relevant part: "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 and are in accordance with Federal and State requirements.

Condition: We noted 9 of 40 assistance payments tested did not comply with Federal and State requirements.

Questioned Costs: $2,182 known

Context: We noted the following:

- Of the 11 crisis payments tested, 7 did not have adequate documentation to support the crisis, such as a shut-off notice or email from the provider, resulting in questioned costs of $1,750.

- One recipient received both basic assistance and crisis assistance on the same day. The basic assistance should have gone directly to the provider; however, it was paid instead to the recipient, resulting in questioned costs of $307.

- The Agency distributed $250 as a supplement to the previous heating season to all eligible recipients. The payment amount was $250 for all recipients, regardless of living situation. Most of these supplemental payments were paid during the prior fiscal year. During our current audit, we tested one recipient who received this payment during the current year. This recipient was living in a multi-family dwelling and should have received only a half benefit of $125, resulting in questioned costs of $125.

Federal payment errors noted were $2,182. The total Federal sample tested was $10,952, and the total energy assistance payments for the fiscal year were $17,103,064. Based on the sample tested, the case error rate was 22.5% (9/40). The dollar error rate for the sample was 19.92% ($2,182/$10,952) which estimates the potential dollars at risk for fiscal year 2013 to be $3,406,930 (dollar error rate multiplied by the population).

A similar finding was noted in the prior audit.

Cause: The Agency did not follow regulations due to caseworker error or ineffective review.

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

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A reminder memo will be distributed to applicable staff regarding what documentation for a shut off is required and that the documentation must be maintained in the case file. The Agency quality control procedures have been expanded since June 30, 2013 to include a larger sample of cases and will be further expanded to test case files for adequate documentation.

Contact: Karma Stockwell, Program Supervisor

Anticipated Completion Date: March 31, 2014

<u>Finding 2013-051</u>

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #12B1NELIEA, FFY 2012; #13B1NELIEA, FFY 2013

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

Criteria: 2 CFR § 170.320 (January 1, 2013) states, in relevant part: "*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, 2013), 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 OMB Circular A-133, an agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Per Low-Income Home Energy Assistance Program (LIHEAP) Information Memorandum 1999-11, to be obligated, funds must be "legally committed for weatherization purposes to an entity other than an entity of the State government." The June 2013 OMB Circular A-133 Compliance Supplement, Subrecipient Monitoring section, states, "Transfers of Federal awards to another component of the same auditee under OMB Circular A-133 do not constitute a subrecipient or vendor relationship."

Condition: The Nebraska Department of Health and Human Services (DHHS) and the Nebraska Energy Office (NEO) did not comply with Federal regulations regarding the Federal Funding Accountability and Transparency Act (Transparency Act).

Questioned Costs: None

Context: LIHEAP funds are awarded to DHHS, which then contracts with NEO for weatherization services. NEO subawards funds to community action agencies that in turn assist low-income individuals with energy needs. The agreement between DHHS and NEO does not constitute a subrecipient relationship for FFATA because both agencies are at the same level of government.

We noted DHHS reported its contract with NEO on the Transparency Act website, but no subawards with community action agencies were reported. Eight subawards totaling $4,453,083 were made from the 2012 grant, and five subawards totaling $1,638,845 were made from the 2013 grant during the fiscal years that were subject to Transparency Act reporting.

We noted further that DHHS reported three subawards totaling $93,944 under the LIHEAP CFDA. Those subawards should have been reported under CFDA 93.791, Money Follows the Person Rebalancing Demonstration.

Cause: Considering NEO to be its subrecipient, DHHS reported the subaward between them on the website. In the prior audit, we informed both agencies that they needed to work together to report the subawards with the community action agencies; however, the agencies did not do this.

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

Recommendation: We recommend the Agencies complete the required Transparency Act reporting.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency has scheduled monthly meetings with the Nebraska Energy Office to ensure that communication is ongoing, issues are discussed, and that funds are expended properly and timely. The Agency will develop written procedures for gathering sub-grant information from the Nebraska Energy Office and completing the required Transparency Act reporting.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager
Karma Stockwell, Program Supervisor

Anticipated Completion Date: March 31, 2014

Finding 2013-052

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #12B1NELIEA, FFY 2012

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

Criteria: Per 45 CFR § 96.82(a) (October 1, 2012), *Required report on households assisted***,** each State must submit a report for the preceding fiscal year of the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization) and the number of households served that contained young children, elderly, or persons with disabilities. A good internal control plan requires that procedures be in place to ensure the report is approved by a responsible individual, is complete and accurate, and agrees to supporting documentation.

Condition: We tested the Annual Report on Households Assisted by LIHEAP filed for the 2012 grant and noted the report was not approved by a responsible individual, was not complete or accurate, and reported items that did not agree to supporting documentation.

Questioned Costs: None

Context: We noted the following:

- The Agency could not provide documentation to support that the report was approved by a responsible individual. The agency indicated the approval email might have been deleted.

- The original report submitted did not include weatherization information. The information was not provided to the Federal government until its request after the end of the fiscal year. We reviewed the data submitted after the end of the fiscal year and noted the Weatherization Applicant Household data could not be traced to support. The data was compiled by an employee who had since left the Nebraska Energy Office, and the support could not be located. The Agency reported 963 applicant households for weatherization.

- The original report submitted did not include other crisis information. The information was not provided to the Federal government until its request after the end of the fiscal year. We reviewed the data submitted after the end of the fiscal year and noted the total number of 1,284 assisted households could not be traced to support. Unsupported items included assisted households by poverty guidelines, assisted households by type (elderly, disabled, young child), and applicant households by poverty guidelines.

Cause: Ineffective grant management.

Effect: Inaccurate and incomplete information was reported to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure household reports are approved by a responsible individual, complete and accurate, and agree to supporting documentation.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has already implemented several processes to improve the accuracy of reporting. These include receiving technical assistance from the federal awarding agency, moving the eligibility and payment processes to NFOCUS, and use of the federal online data system. In addition, the Agency will schedule periodic meetings with the Nebraska Energy Office to ensure that all necessary information is collected from the Nebraska Energy Office to prepare a complete and accurate household report.

Contact: Karma Stockwell, Program Supervisor

Anticipated Completion Date: March 31, 2014

Finding 2013-053

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Period of Availability & Reporting

Grant Number & Year: #11B1NELIEA, FFY 2011

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

Criteria: Per the LIHEAP grant Terms and Conditions Addendum: Additional Financial Requirements:

> *Liquidation Deadline. All obligated Federal funds awarded under this grant must be liquidated no later than 90 days after the end of the funding/obligation period (i.e., December 31 following the end of Federal Fiscal Year 2.) Any Federal funds from this award not liquidated by this date will be recouped by this Department.*

A good internal control plan requires procedures be in place to ensure period of availability requirements are met, and reports are accurate.

Condition: The Agency transferred $28,444 in costs to the 2011 grant after the liquidation deadline.

Questioned Costs: $28,444

Context: We noted the 2011 grant had a remaining award of $2,652,659 at September 30, 2012. In October 2012, the Agency moved $2,624,215 from the 2012 grant to the 2011 grant to close out the 2011 grant. The Agency moved the remaining $28,444 on January 30, 2013, which is after the 2011 grant's liquidation deadline of December 31, 2012. Therefore, $28,444 is considered questioned costs. Additionally, the Agency reported to the Federal government that the 2011 grant was fully liquidated as of December 31, 2012, although the $28,444 had not yet been liquidated.

Cause: Ineffective grant management. Staff turnover may have contributed to the error.

Effect: Questioned costs for funds spent after the liquidation period will need to be repaid to the Federal government.

Recommendation: We recommend the Agency devote resources to ensure LIHEAP grants are adequately administered in accordance with Federal regulations. The Agency should implement procedures to ensure period of availability requirements are met, and reports are accurate.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency developed a written internal control policy related to period of availability. This policy was effective October 31, 2013. In addition, the Cost Accounting and Grants Management Unit will develop written procedures to comply with the Agency's internal control policy.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-054

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability & Period of Availability

Grant Number & Year: #12B1NELIEA, FFY 2012

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

Criteria: Per LIHEAP Terms and Conditions Addendum: Additional Financial Requirements:

> Liquidation Deadline. *All obligated Federal funds awarded under this grant must be liquidated no later than 90 days after the end of the funding/obligation period (i.e., December 31 following the end of Federal Fiscal Year 2.) Any Federal funds from this award not liquidated by this date will be recouped by this Department.*

A good internal control plan requires procedures be in place to ensure warrants not cashed by recipients by the end of the funding period are returned to the Federal government.

Condition: The Agency does not have procedures to return Federal funds for expired warrants to the Federal government. We noted 119 LIHEAP warrants totaling $29,750 expired in June 2013. Those funds were deposited to the State General Fund and were not returned to the Federal government.

Questioned Costs: $29,750 known

Context: 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. The Agency termed these payments "supplemental" payments. These payments were made to recipients who had received regular heating assistance in the previous heating season. We noted 119 of these warrants totaling $29,750 expired in June 2013, and those funds were deposited to the State General Fund in July 2013. Because they were paid from the 2012 grant, the warrants should have been returned to the Federal government by no later than December 31, 2013; however, they were not.

We reviewed five of these warrants and noted that, in one case, the recipient claimed to have never received the supplemental payment but needed $100 for a utility deposit. The Agency issued the $100 on the recipient's behalf after verifying that the recipient's supplemental payment was not cashed; however, the supplemental payment was not cancelled.

Additional expired warrants may have occurred during the fiscal year; however, the Agency does not have procedures to ensure Federal funds are properly returned to the Federal government.

A similar finding was noted in the prior audit.

Cause: The State Treasurer's procedure is to deposit expired warrants into the general fund, unless the Agency cancels the warrants and remits the funds to the appropriate payee. The Agency did not cancel the warrants and return these funds to the Federal government.

Effect: Non-compliance with Federal regulations resulting in questioned costs.

Recommendation: We recommend the Agency implement procedures to ensure LIHEAP expired warrants are cancelled, and the funds are returned to the Federal government.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency began to issue LIHEAP payments to eligible recipients on ReliaCards and to providers via EFT payments in October 2012. Effective October 2013, the Agency primarily issued payments to providers. These new payment procedures have significantly reduced or eliminated the need to issue paper warrants.

Contact: Karma Stockwell, Program Supervisor
Steve Shively, Deputy Financial Services Administrator

Anticipated Completion Date: October 31, 2013

Finding 2013-055

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

Grant Number & Year: Various, including #2012IN109943, FFY 2012; #2013IN109943, FFY 2013; #G1201NECCDF, FFY 2012; #G1301NECCDF, FFY 2013

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

Criteria: 45 CFR § 98.67(a) (October 1, 2012) 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."

Good internal control requires procedures to ensure amounts paid to providers are based on accurate records.

Condition: Child care attendance records submitted to the Agency did not agree to the attendance records submitted to the Nebraska Department of Education (NDE).

Questioned Costs: $178 known

Context: We compared Agency attendance records for 20 children for one month. The child care centers had agreements with the Department of Health and Human Services (DHHS) to provide child care services and receive money under the Child Care and Development Fund Cluster. The centers also participate in the Child and Adult Care Food Program (CACFP) administered by the Nebraska Department of Education (NDE). We requested both the attendance calendars and billing documents from DHHS and the daily time in/out attendance calendars from the NDE for the month 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, we found that the DHHS and NDE attendance calendars did not agree for 5 of 20 children tested, with net Federal questioned costs of $178.

DHHS Records	NDE Records	Total $ Variance	Federal Share
12 days	0 days	$450	$207
1 day & 52 hours	44 hours	$171	$79
5 days & 7 hours	13 days & 9.75 hours	($260)	($119)
27.5 hours	24.25 hours	$15	$7
31 hours	29 hours	$9	$4
Net Federal Share of Questioned Costs			$178

One child was also tested for whom NDE did not provide the requested attendance records because the center deleted the attendance records for the time period in question.

A similar finding was noted in the prior audit.

Cause: DHHS and NDE do not compare child care attendance records to ensure that they agree. DHHS does not have adequate procedures to ensure attendance records are accurate.

Effect: There is an increased risk that child care centers and providers overbill the agencies for services provided. There is also an increased risk that incorrect amounts will be paid.

Recommendation: 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 compare whether hours and services billed to one agency agree to hours and services billed to the other agency.

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

DHHS Corrective Action Plan: The Agency will engage in discussion with the Nebraska Department of Education on how address the issue of inconsistent records.

DHHS Contact: Nicole Vint, CCDF/SSBG Program Manager

DHHS Anticipated Completion Date: April 30, 2014

NDE Management Response: Nutrition Services believes the required A-133 Audits for programs receiving more than $500,000 annually and the CACFP Agreed Upon Procedures Audits provide adequate controls for the monitoring required by federal regulations. Nutrition Services would be able to provide DHHS with claims information for their review upon their request.

NDE Corrective Action Plan: Nutrition Services will continue to review the A-133 Audits for programs receiving more than $500,000 annually and the CACFP Agreed Upon Procedures Audits for instances of subrecipient noncompliance.

NDE Contact: Bev Benes, Nutrition Services Director

NDE Anticipated Completion Date: February 2014

Finding 2013-056

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: #G1201NECCDF, FFY 2012; #G1301NECCDF, FFY 2013

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

Criteria: A good internal control plan requires procedures to ensure State and Federal regulations are followed.

Per section 2.3 of the State's Child Care and Development Fund (CCDF) Plan (State Plan):

> *In order to be eligible for services, children must (1) be under the age of 13, or under the age of 19 if the child is physically or mentally disabled or under court supervision; (2) reside with a family whose income is less than 85 percent of the State's median income for a family of the same size; and (3) reside with a parent or parents who is working or attending job training or an educational program; or (4) be receiving or needs to receive protective services. (658P(3), §98.20(a))*

Section 2.3.4(b) of the State Plan provides further:

> *Does the Lead Agency waive, on a case-by-case basis, the co-payment and income eligibility requirements for cases in which children receive, or need to receive, protective services? (658E(c)(3)(B), 658P(3)(C)(ii), §98.20(a)(3)(ii)(A))*
> *Yes*

Per Title 392 NAC 3-005.03C5, unearned income includes child support.

Title 392 NAC 4-001.01 states, "To authorize any service, whether staff-provided or purchased, the worker . . . (2) Determines the reason that the client needs child care . . .

[.]" Per Title 392 NAC 3-008.01, "The case manager authorizes child care services for eligible clients only if each parent or usual caretaker: (1) Is employed; (2) Is actively seeking employment . . . (3) Is participating in an EF activity . . . [.]" That same section concludes, "If more than one parent or usual caretaker is included in the family size, a reason listed must apply to each adult."

Title 392 NAC 2-003.04B states, "At least every 12 months the worker must . . . conduct a redetermination of each client's eligibility."

Title 392 NAC 5-001.01 states, "Before furnishing any service, each provider must sign Form CC-9B agreeing . . . (7) To retain authorizations, billing documents, and attendance records for four years to support and document all claims[.]"

Title 392 NAC 4-003.01A2 states:

> *For foster children or children receiving adoption or guardianship subsidy, payment may be made based on enrollment within the following guidelines: 1. The provider must be licensed; 2. The provider must have written policies specifying that they charge private-paying families by enrollment; 3. The child must attend the child care facility for a minimum of 30 hours a week; and 4. The provider may charge a maximum of one daily unit for a day when the child is not in care or is in care for less than six hours.*

Per Title 392 NAC 4-004.01:

> *Whenever possible, the child care provider must be in compliance with the license or registration requirements of the state where the provider is providing care. At a minimum, there must be a Central Registry and local law enforcement check on the provider before the foster parent uses the provider.*

Per Title 392 NAC 3-005.01C2, "A family that is eligible for transitional child care is required to pay a fee unless the family's income is below the minimum income for the fee schedule."

Per Title 392 NAC 4-001, "The worker notifies the provider and the client of the client's eligibility and the amount of the client's fee on an authorization notice."

OMB Circular A-87, Attachment A, § C(1), states, "To be allowable under Federal awards, costs must meet the following general criteria . . . j. Be adequately documented."

Condition: Child care payments were not in compliance with State and Federal requirements. A similar finding has been noted in our previous audit reports since 2007.

Questioned Costs: $11,412 known

Context: We tested 40 childcare claims and noted 19 claims with errors. Some payments had more than one type of error. We noted the following:

- The most current child support payments were not used to determine unearned income for one family tested. When considered, the total monthly income was over the income limit and, therefore, the family was not eligible for child care assistance.

- Five payments did not adequately document the need for childcare. Child care is authorized while the parent is at school, at work, or participating in Employment First activities. The auditor compared the documentation of the parent's school schedule, work schedule, and Employment First activities to the attendance record for the child. The child care provided did not agree to the documentation of the parent's activities, or the Agency did not have support for the parent's schedule.

- Two payments tested were adoption cases. As the children were adopted, they were not in need of protective services and, therefore, the income and resource eligibility requirements should not be waived. The Agency did not have documentation of income or resources in either case. One of the two payments was for an out-of-State adoption case. For this case, the Agency also did not have documentation to support the need for child care; did not have a provider agreement or documentation of central registry, local law enforcement check, or license; and did not have documentation of the rate or if the rate was in accordance with regulations.

- Attendance records to support the child care claim were not provided for three payments tested. Five payments did not agree to attendance records. Attendance records were not signed by the parent, or by the provider and parent, for three additional payments.

Per Claim	Per Attendance Record
16 days and 25.75 hours	9 days and 12.25 hours
20 days and 100 hours	24 days
16 days and 8 hours	15 days and 13.50 hours
155 hours	141 hours
21 days and 145 hours	3 days and 74 hours

- One payment did not have documentation to support 40 one-way trips charged. Another claim paid $19.17 for a one-way trip that was in excess of the $2.75 NAC rate, and there was no authorization for the higher rate.

- One payment was incorrect due to the co-pay required by the family. The correct co-pay was greater than the total child care provided, so the provider should not have been paid by the Agency for the family's child care. This error occurred because, when the budget was updated, the caseworker did not update the provider about the new co-pay required, and the error was not detected when the claim was paid.

- An eligibility review was not completed at least every 12 months for one case tested. Reviews were completed May 2011 and April 2013, 11 months late. For another claim, the last review/application date was May 2012. A letter was sent April 20, 2013, informing the parent of the need to reapply for child care, but no application was ever completed. Child care benefits continued, and the case did not close until October 2013.

- Two claims exceeded the hours authorized.

- For two cases tested, resources were not adequately verified. Pay stubs were on file to verify income, and the endorsements indicated the families had bank accounts. For one of the cases, a bank account with a $0 balance was disclosed on the application. For the second case, no bank accounts were reported on the application, and the worker did not follow up to determine possible additional resources.

Federal payment errors noted for the sample tested were $800. The total Federal sample tested was $3,739, and total childcare Federal assistance claims for the fiscal year were $39,577,520. Based on the sample tested, the case error rate was 47.5% (19/40). The dollar error rate for the sample was 21.4% ($800/$3,739), which estimates the potential dollars at risk for fiscal year 2013 to be $8,469,589 (dollar error rate multiplied by the population). In addition to the $800 questioned costs noted on the sample items tested, we also noted $438 questioned costs on other line items of the claims reviewed.

There was one additional individual tested who did not provide attendance records that were requested. Total payments to this individual during fiscal year 2013 were $23,930 (Federal share $10,174). The entire Federal share of payments is included as questioned costs since the attendance records were not provided.

Cause: Ineffective Review.

Effect: Inadequate review of claims increases the risk for misuse of State and Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations. We 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 already implemented monitoring procedures for a sample of childcare cases and claims. The child care training for Social Service Workers was revised in the fall of 2013.

Contact: Nicole Vint, CCDF/SSBG Program Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-057

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 – Reporting

Grant Number & Year: #G1001NECCDF, FFY 2010; #G1201NECCDF, FFY 2012; #G1301NECCDF, FFY2013

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

Criteria: Title 45 CFR § 92.20(a) (October 1, 2012) requires that fiscal control and accounting procedures of the State be sufficient to permit the preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that the use of these funds was not in violation of applicable regulations.

EnterpriseOne is the official accounting system for the State of Nebraska, and all expenditures are generated from it.

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: The Agency did not accurately report child care expenditures.

Questioned Costs: Unknown

Context: We tested three ACF-696 reports, and errors were noted on all three reports tested.

We noted the Agency could not provide adequate support for the 2010 grant administrative expenditures reported for the quarter ended September 30, 2012. The support provided was for the Cost Allocation Plan in total; however, it did not include a breakdown of the expenditures reported in the different reporting categories, and the total amount did not agree. Reported amounts included:

Report Item Description	Report Column	Amount Reported
Child Care Administration	Mandatory Funds	$1,680,149
Systems	Mandatory Funds	425,915
All Other Non-Direct Services	Mandatory Funds	1,388,573
Quality Activities	Discretionary Funds	2,611,067
Child Care Administration	Maintenance of Effort	888,732
Quality Activities	Maintenance of Effort	928,156
Systems	Maintenance of Effort	225,291
All Other Non-Direct Services	Maintenance of Effort	734,498
	Total Reported	$8,882,381
	Total per Cost Allocation Plan for 2010 grant	$8,500,760
	Variance in Total	$381,621

The following errors were also noted:

Quarter Ended	Grant Year	Report Item Description	Report Column	(Understated) /Overstated
Sept. 2012	2010	Quality Activities	Discretionary Funds	($34,559)
Sept. 2012	2010	Quality Expansion	Discretionary Funds	$34,559
June 2013	2013	Quality Activities	Discretionary Funds	$271,000
June 2013	2013	Direct Services	Discretionary Funds	($271,000)
June 2013	2013	Quality Activities	Maintenance of Effort	($100,000)
June 2013	2013	Transfer from TANF	Discretionary Funds	$2,999,892
June 2013	2012	Direct Services	Mandatory Funds	$663
June 2013	2012	Direct Services	Matching Funds	$20,287
June 2013	2012	Regular	Matching Funds	$8,797
June 2013	2012	State Share of Expenditures	Matching Funds	$8,797
June 2013	2012	Federal Share of Expenditures	Matching Funds	$11,491
June 2013	2012	Unliquidated Obligations	Matching Funds	($11,491)
June 2013	2012	Quality Activities	Discretionary Funds	$172,289
June 2013	2012	Quality Expansion	Discretionary Funds	($96,363)
June 2013	2012	Federal Share of Expenditures	Discretionary Funds	$75,926
June 2013	2012	Unliquidated Obligations	Discretionary Funds	($75,926)
June 2013	2012	Direct Services	Maintenance of Effort	($701,030)
June 2013	2012	State Share of Expenditures	Maintenance of Effort	($701,030)

Errors were due to the Agency reporting: 1) authorized amounts rather than expenditures to date; 2) transactions before they were recorded on the accounting system; 3) expenditures in incorrect categories; 4) and clerical errors.

Cause: Turnover of staff and inadequate review.

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

Recommendation: We recommend the Agency implement procedures to ensure amounts are correctly reported on the ACF-696 reports.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop procedures to review the reports prior to the report being submitted.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-058

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Grant Number & Year: #G1001NECCDF, FFY 2010

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

Criteria: According to 45 CFR § 98.16(h) (October 1, 2012), a CCDF Plan must contain a "description of the activities to provide comprehensive consumer education, to increase parental choice, and to improve the quality and availability of child care, pursuant to § 98.51[.]"

45 CFR § 98.51(a) (October 1, 2012) states, "No less than four percent of the aggregate funds expended by the Lead Agency for a fiscal year . . . shall be expended for quality activities." Quality activities include targeted funds, which are in addition to the four percent minimum.

A good internal control plan requires procedures to ensure funds targeted by Congress are expended as required.

Condition: The level of expenditures required for Federal fiscal year 2010 funds targeted by Congress was not met.

Questioned Costs: $398,852 known

Context: Congress targeted $1,036,490 to be spent on Quality Expansion activities for the 2010 grant. The Agency authorized $657,847 in Quality Expansion funds by setting up separate business units in EnterpriseOne, the State accounting system. Only $657,847 was expended, a difference of $378,643.

In addition, $20,209 of 2010 grant funds targeted by Congress to be spent on Infant and Toddler activities was not expended at the end of the grant.

Cause: Business units for targeted funds were not set up correctly in EnterpriseOne.

Effect: Noncompliance with Federal regulations and misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure funds targeted by Congress are correctly set up in EnterpriseOne and spent as required.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Staff from the CCDF Program and Financial Services are now meeting on a regular basis to monitor the spending of grants and targeted funds to ensure that communication is ongoing and issues are discussed.

Contact: Nicole Vint, CCDF/SSBG Program Manager; Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: April 30, 2014

<u>Finding 2013-059</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 Funds – Special Tests and Provisions

Grant Number & Year: Various, including #G1301NECCDF, FFY 2013

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

Criteria: Per 45 CFR § 98.41(a) (October 1, 2012), the State must have "requirements designed to protect the health and safety of children . . . . Such requirements shall include . . . [t]he prevention and control of infectious diseases (including immunizations) . . . [b]uilding and physical premises safety; and . . . [m]inimum health and safety training appropriate to the provider setting."

Per Title 391 NAC 3-002.05 (March 30, 1998), semi-annual visits "[W]ill 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 that adequate documentation be maintained to support compliance with health and safety requirements and Agency policies.

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. Agency policy is to conduct inspections of child care providers at least annually and to document the 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 34 child care providers. 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 the isolation of severely ill children. There are no such regulations for child care centers. The Agency's regulations were updated with an operative date of May 20, 2013. However, the Agency focused on training the child care providers on the new regulations in May and June 2013, and inspections using the new checklists did not begin until July 2013. Therefore, the Agency was not in compliance with regulations for the prevention and control of infectious diseases for all 25 child care centers tested.

- During an inspection, the Agency staff completes a checklist to document what they reviewed. A compliance review form summarizes any instances of noncompliance. We tested 34 child care providers and noted the following:

  - For five providers tested, the checklist was incomplete because questions were unanswered on the checklist. The questions left unanswered related to a first aid kit; CPR training; immunization records; electrical outlet safety; and the suitability of play materials, equipment, and furnishings. No deficiencies were noted for these questions on the compliance review form.

  - For one provider, the detailed checklist from the electronic tablet was not provided to support the compliance review form.

- Depending on the city or county, the Agency relies 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. Four childcare centers tested did not have a fire inspection performed within the last two years.

Last Inspection	Date of Agency Referral	Referred to
October 11, 2007	Feb. 2011 and Feb. 2012*	Omaha Bureau of Fire Prevention
October 7, 2010	February 25, 2013	State Fire Marshal
December 13, 2010	February 25, 2013	Omaha Bureau of Fire Prevention
December 28, 2010**	February 25, 2013	Omaha Bureau of Fire Prevention

*The provider closed December 31, 2012.
** A new inspection was completed on August 9, 2013, which is over two years and after the audit period.

A similar finding was noted in the prior audit.

Cause: The Agency stated that, due to a heavy workload, it does not have time to perform a full review at every inspection to address all health and safety requirements. The Agency cannot directly control the timing of the fire inspections that are performed by third parties.

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 agrees with the condition reported.

Corrective Action Plan: The Agency enacted regulations that include prevention and control of infectious disease requirements. These regulations are effective May 20, 2013. The Agency will provide training to staff and develop monitoring procedures to ensure that all items on the checklist are completed. The Agency will also meet with the State Fire Marshal and Omaha Bureau of Fire Prevention regarding the requirement for a fire safety inspection every two years.

Contact: Pat Urzedowski, Program Manager

Anticipated Completion Date: May 31, 2014

Finding 2013-060

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 #G1301NECCDF, FFY 2013

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

Criteria: Per 45 CFR § 98.60(i) (October 1, 2012), "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 that 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 that procedures be in place to ensure high risk cases are appropriately reviewed for potential fraud.

Condition: We tested 26 cases referred to the Special Investigations Unit (SIU) and noted four 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 213 open cases during the fiscal year. We noted the following during our testing of 26 cases:

- One case was referred to the SIU in April 2012. No documentation was provided showing any work had been performed on this case since May 2012. It appears this individual was receiving child care services prior to referral for investigation and has continued to receive services since the referral.

- We also noted three cases that were referred to the SIU in the prior fiscal year, and the latest documented work performed was May 2012. For two of the cases, payments for child care services ended by July 2012. For the third case, the individual had been receiving child care services since July 2010, and the earned income that was being questioned in the referral for investigation was added to the child care budgets beginning June 2012.

A similar finding was noted in the prior audit.

Cause: The Agency acknowledges that adequate resources are not devoted 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 agrees with the condition reported.

Corrective Action Plan: When relatives are childcare providers, the Agency currently identifies these cases as high risk cases. The Agency will implement an additional process for monitoring these cases by creating a report to track all high risk cases. Staff will review a sample of the identified high risk cases from the report and refer to the Department's fraud unit if appropriate. The Special Investigations Unit will track dates and summarize investigation activity on an on-going case spreadsheet.

Contact: Jana McDonough, Special Investigations Program Manager; Nicole Vint, CCDF/SSBG Program Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-061

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

Grant Number & Year: #0G1201NE1401, FFY 2012; #0G1301NE1401, FFY 2013

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

Per 42 USC § 672(a)(1)(B), A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program.

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.*

Per Child Welfare Policy Manual 8.3B, TITLE IV-E, Foster Care Maintenance Payments:

> *The second sentence applies only to institutional foster care. The reasonable costs of administration and operation necessary to provide the items only for children served under title IV-E foster care are allowable elements in payments to childcare institutions. Since these costs are limited types of activities and apply only to title IV-E children, the costs of foster care in institutions will have to be allocated along two lines: (1) the allocation of costs, for purposes of Federal financial participation (FFP), based on allowable cost items and activities; and (2) the allocation of costs based on the proportion of children in the institution receiving foster care under title IV-E for those allowable elements compared to children whose care is paid under other programs.*
>
> *The establishment of a cost allocation system for institutions, as well as for the title IV-E agency itself, is a title IV-E agency-responsibility and is a necessary precursor to the title IV-E agency's ability to claim FFP for allowable institutional foster care costs.*

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 agree to supporting documentation.

A good internal control plan requires procedures to discontinue benefits when eligibility expires. Foster care maintenance expenses are not allowable after a child is adopted. Per Child Welfare Policy Manual 8.2D.4, regarding adoption assistance payments:

> *The payment that is agreed upon should combine with the parents' resources to cover the ordinary and special needs of the child projected over an extended period of time and should cover anticipated needs, e.g., child care. Anticipation and discussion of these needs are part of the negotiation of the amount of the adoption assistance payment.*

Neb. Rev. Stat § 43-4213 (Supp. 2013) provides:

> *[B]eginning July 1, 2012, through June 30, 2014, all foster parents providing foster care in Nebraska, including traditional, agency-based, licensed, approved, relative placement, and child-specific foster care, shall receive an additional stipend of three dollars and ten cents per day per child. The additional stipend shall be paid monthly through the agency that is contracting with the foster parent or, in the case of a foster parent contracting with the department, directly from the department. The contracting agency shall receive an administrative fee of twenty-five cents per child per day for processing the payments for the benefit of the foster parents and the state, which administrative fee shall be paid monthly by the state. The administrative fee shall not reduce the stipend of three dollars and ten cents provided by this section.*

Per Child Welfare Policy Manual 8.3B.1(3), "Costs borne by child placing agencies are not eligible for [Federal Financial Participation] FFP."

Condition: We tested 40 Foster Care payments and noted 33 payments that did not comply with Federal and State requirements.

A similar finding was noted in our prior audit.

Questioned Costs: $3,686 known

Context: The Federal share of foster care maintenance paid during the fiscal year was $4,668,849. Approximately 48% was for childcare services and 52% for maintenance other than childcare. We randomly selected 20 childcare claims and 20 claims for maintenance other than child care.

We noted the following:

Childcare

- Fourteen of 20 child care claims tested were for adopted children who were no longer in foster care. The Federal share paid for the 14 claims was $1,122 and are questioned costs.
- One child care claim had mathematical errors resulting in $1 Federal questioned costs.

Eligibility

- In one case, the child did not meet the eligibility requirements of the AFDC program. The claim tested was paid in September 2012. Agency staff adjusted the funding to Child Welfare (non IV-E) on the NFOCUS system in July 2013; however, the Agency was unable to provide support that the funding was adjusted on the general ledger of the State accounting system, EnterpriseOne. All expenditures are generated from EnterpriseOne, and all adjustments must be recorded on EnterpriseOne for the funding to be corrected. The Federal share of the payment tested was $52.

Stipend

- Nine claims tested were for stipends, per § 43-4213, paid to the contractor. The rate included the $3.10 for the foster family and 25 cents for contractor administration. The 25-cent per-child per-day administrative fee is not allowable, resulting in $35 in Federal questioned costs.

Rates for Paid Claims

The Agency entered into agreements with contractors to provide out-of-home care and group home and emergency foster care. The rates were $32, $43, and $69 per day for out-of-home care, based upon the child's needs, $79 for group home care, and $69 per day for emergency foster care. There was no documentation to support these rates were reasonable. The initial rates for foster care provided by contractors were determined in 1995, after an analysis of cost components was completed. Even though these rates have evolved since 1995, the Agency continued to use the 1995 rate as a benchmark for future rate changes. However, that initial rate included cost components that are not allowed to be included as foster care maintenance payments, namely the administrative and specialist components. In addition, the cost of foster care in institutions was not an allocation of costs based on the proportion of IV-E children per Federal regulations. Furthermore, the Agency did not monitor the amounts paid by the contractors to the foster parents to ensure only a reasonable fee or profit was earned by the contractor per 45 CFR 92.22(a)(2). During testing, we noted:

- For one claim, the Agency paid an additional $18 per day to a contractor for a rate increase; however, the increase was not effective until August 2012, and the service paid was for June 2012. The Federal share of questioned costs was $306.

- Seven claims were payments for 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	$ 992	$ 350	$ 642	$ 358
2	992	600	392	219
3	928	580	348	197
4	992	434	558	311
5	256	160	96	53
6	2,139	856	1,283	716
7	1,290	723	567	316
Total	$7,589	$3,703	$3,886	$2,170

*Does not include stipend

The total Federal questioned costs noted during testing were $3,686. The total Federal sample tested was $7,214. The total Federal aid expenditures for the fiscal year were $4,668,849. Based on the sample tested, the case error rate was 82.5% (33/40). The dollar error rate for the sample tested was 51.10%, which estimates the potential dollars at risk for fiscal year 2013 to be $2,385,782 (dollar error rate multiplied by population).

Cause: There was inadequate caseworker review and inadequate controls over processing claims. A legislative report dated December 15, 2012, analyzed rates and recommended foster care reimbursement daily rates from $20 to $25. The Agency indicated the minimum rates would go into effect July 1, 2014.

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 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: A system change request will be done to resolve the issue of childcare claims for adopted children being charged to the foster care grant. Maintenance claims for foster care were deferred for all of federal year 2013 by the federal awarding agency thus the questioned costs were not awarded to the Agency. A corrective action plan has already been submitted to the federal awarding agency to resolve the issue.

Contact: Tony Green, Deputy Director, Division of Children and Family Services

Anticipated Completion Date: June 30, 2014

Finding 2013-062

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

Grant Number & Year: #0G1201NE1401, FFY 2012; #0G1301NE1401, FFY 2013

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

Criteria: Per 45 CFR § 92.20(a) (October 1, 2012):

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

EnterpriseOne is the official accounting system for the State of Nebraska, and all expenditures are generated from it. A good internal control plan requires procedures to reconcile submitted reports to the accounting system. Good internal control also requires adjustments and reconciling items to be resolved in a timely manner.

Condition: Amounts reported to the Federal grantor did not agree to EnterpriseOne.

Questioned Costs: Unknown

Context: During testing, we noted that the Federal share of maintenance assistance payments for the fiscal year, per the EnterpriseOne general ledger, did not agree to maintenance assistance payments reported.

Total per General Ledger	Total Maintenance Assistance Reported	Variance
$4,668,849	$3,591,211	$1,077,638

The difference appeared to be primarily due to decreasing adjustments reported, but not recorded on the general ledger.

We calculated the State expenditures needed for the fiscal year to be $6,198,906 (total current maintenance multiplied by the Federal matching percentage plus amounts needed to cover Federal decreasing adjustments). Per the general ledger, state expenditures were $4,462,560 – a difference of $1,736,346. This appears to be mostly due to September decreasing adjustments not transferred from Federal to State funding.

We also noted In-Placement Administrative Costs – Case Planning and Management was reported on the June 2013 quarterly report as $2,353,380 and should have been $2,410,390. As a result, administrative costs were under reported by $57,010 ($28,505 Federal share).

Cause: Staff turnover.

Effect: Noncompliance with Federal regulations and increased risk for errors or misuse of funds.

Recommendation: We recommend the Agency improve procedures to ensure Federal reports are accurate. We further recommend reconciliation procedures be improved and adjustments and reconciling items be resolved in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will reconcile the 2013 grant and develop and implement procedures to reconcile this grant on a quarterly basis.

Contact: Larry Crowley, Cost Accounting and Grants Management Unit Manager

Anticipated Completion Date: March 31, 2014

Finding 2013-063

Program: CFDA 93.659 – Adoption Assistance – Allowability & Eligibility

Grant Number & Year: #1201NE1407, FFY 2012; #1301NE1407, FFY 2013

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

Criteria: Good internal control requires procedures to ensure compliance with Federal regulations and documentation be kept to support compliance requirements were met.

Adoption subsidy payments may be paid on behalf of a child only if all eligibility requirements are met. A child may be categorized as applicable or non-applicable. An applicable child is a child for whom an adoption assistance agreement was entered into in fiscal year 2010 or later and who meets the applicable age requirement (differs over a nine fiscal year phase-in period beginning in fiscal year 2010), or a child who has been in foster care under the responsibility of the Title IV-E agency for at least 60 consecutive months, or a sibling to either such child if both are to have the same adoption placement (42 USC 673(e)(2011)). A non-applicable child is eligible only if the child was eligible, or would have been eligible, for the former AFDC program (42 USC 672(a)(2008)).

Per 45 CFR § 1356.40b (October 1, 2012) the adoption assistance agreement must:

> *(1) Be signed and in effect at the time of or prior to the final decree of adoption. A copy of the signed agreement must be given to each party; and*
> *(2) Specify its duration; and*
> *(3) Specify the nature and amount of any payment, services and assistance to be provided under such agreement. . .*

The prospective adoptive parent(s) must satisfactorily have met a criminal records check, including fingerprint-based checks of national crime information databases (42 USC 671(a)(20)(A)(2008)). This involves a determination that such individual(s) have not committed any prohibited felonies in accordance with 42 USC 671(a)(20)(A)(i) and (ii).

Condition: Adoption Assistance payments were not in accordance with Federal regulations for 13 of 40 payments tested.

Questioned Costs: $475 known

Context: We tested 40 Adoption Assistance payments and noted the following:

- One child tested was not IV-E eligible and the subsidy should have been paid with State funds only. (Federal share of payment tested $137)

- One case tested the Agency could not locate the subsidy agreement. (Federal share of payment tested $56)

- One subsidy agreement was not signed prior to the final decree of adoption. The agreement was signed February 16, 2010, which was after the adoption decree on January 15, 2010. This was an interstate adoption. The adoption was finalized in Texas in January and the Nebraska court order relieving the Agency of responsibility was February 17, 2010. (Federal share of payment tested $211)

- One subsidy agreement was not signed by the adoptive parents. (Federal share of payment tested $61)

- One payment was for $420 but the subsidy agreement was $402 per month. (Federal share of payment tested $10)

- Eight cases tested did not have adequate documentation that the criminal history check included a fingerprint-based check and a determination that no prohibited felonies were committed. The Agency received notification from the Nebraska State Patrol that effective September 1, 2013, their procedures for fingerprint-based checks would change. Due to misinterpretation of the communication and Federal requirements, paper copies of criminal history checks were destroyed. The Agency maintained a spreadsheet of the date the criminal history check was performed, but there was no documentation if the check included a fingerprint-based check and a felony check.

A similar finding was noted in the prior audit.

Total Federal share of errors noted was $475. The total Federal sample tested was $7,851 and Federal share of expenditures for adoption subsidies for fiscal year 2013 was $10,414,015. The dollar error rate for the sample was 6.05% ($475/$7,851) which estimates the potential dollars at risk for fiscal year 2013 to be $630,048 (dollar error rate multiplied by population).

Cause: Clerical errors and inadequate supervisory review. Background check documentation was destroyed due to miscommunication.

Effect: Increased risk for loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure Federal requirements are met and documentation is maintained to support compliance.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: During State fiscal year 2013, adoption subsidies and procedures related to these subsidies were transferred to a new section within the Division of Children and Family Services. A procedure manual and training is being developed and will be implemented by March 31, 2014.

The questioned costs will be returned to the Federal awarding agency and unclaimed on the Federal report by April 30, 2013.

Contact: Sara Goscha, Special Projects Coordinator

Anticipated Completion Date: April 30, 2014

<u>Finding 2013-064</u>

Program: CFDA 93.659 – Adoption Assistance – Level of Effort

Grant Number & Year: #1201NE1407, FFY 2012; #1301NE1407, FFY 2013

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

Criteria: Good internal control requires procedures to ensure Federal requirements are met.

Per 42 USC 673(a)(8)(2011):

> *A State shall spend an amount equal to the amount of savings (if any) in State expenditures under this part resulting from the application of paragraph (2)(A)(ii) to all applicable children for a fiscal year to provide to children or families any service (including post-adoption services) that may be provided under this part or part B, and shall document how such amounts are spent, including on post-adoption services.*

Per Program Instructions ACYF-CB-PI-10-11 (July 9, 2010) Section J: Adoption Assistance, Reinvestment, and Adoption Tax Credit:

> *A title IV-E agency must spend any savings generated from implementing the revised adoption assistance eligibility criteria on child welfare services provided under titles IV-B and IV-E (section 473(a)(8) of the Act). The agency must provide a certification that this requirement is being met in the title IV-E plan (see ACYF-CB-PI-09-08). A title IV-E agency has the flexibility to determine the methodology for calculating savings and is not required to provide a specific accounting of funds to ACF. At this time, we are not issuing further policy in relation to the provision.*

Condition: The Agency did not have adequate documentation to support savings were spent on adoption services.

Questioned Costs: $179,247

Context: In November 2011, the Agency implemented expanded eligibility provisions per Federal regulations. The children covered by the expanded eligibility provisions are categorized as "applicable children" and those adoption subsidies for "applicable children" would be eligible for Federal funding. The use of Federal funding results in savings of State dollars. The State is required to spend the savings on child welfare services. The Agency developed a report using the NFOCUS system to accumulate the dollars saved. We noted the following:

- The report was on the Federal fiscal year and should have been the State fiscal year.

- The report did not include all adoption assistance payments for applicable children as it did not include respite if a separate service code was used.

- The report did not include fiscal year 2013 payments for applicable children with subsidies starting in the prior year.

The Agency reran the report and determined the payments for applicable children to be $329,224. We calculated the Federal share to be $179,247. Additionally, we asked the Agency to provide detailed support including document numbers to demonstrate the savings were spent on allowable activities as required. The Agency replied that expenditures for Adoption Assistance exceeded the budget and "This confirms that we reinvested the savings into Adoption Assistance related services." The Agency indicated the expenditures would be recorded in the Adoption Assistance subprogram; however, those State funds were used to meet Federal matching requirements. Since the Agency did not provide the detail of expenditures, we were unable to determine if the savings were spent on allowable activities and therefore we question $179,247.

Cause: This is a newer requirement for the Agency as they did not implement expanded eligibility until November 2011. Per Agency interpretation of program instructions, they could determine a methodology to reinvest savings, and their methodology was that they had not lowered State General Fund expenditures for adoption.

Effect: Noncompliance with Federal requirements resulting in questioned costs.

Recommendation: We recommend the Agency improve procedures to determine level-of-effort requirements. We further recommend the Agency maintain specific documentation to support the savings was spent on allowable activities and costs.

> **Management Response:** The Agency does not agree with the condition reported. Agency staff met with ACF in person in April 2013. During that meeting, ACF provided the Agency with technical assistance on this issue. Based on the technical assistance provided by ACF, the Agency believes that by not decreasing State General Fund expenditures for adoptions, the Agency has complied with the Federal requirements.
>
> **Corrective Action Plan:** The Agency has revised its report to capture costs related to applicable children. The Agency will develop a process to track expenditures attributed to the savings to enhance compliance with level of effort requirements.
>
> Since the Agency believes it complied with the Federal requirements based on technical assistance the Agency received from ACF, the Agency does not intend to return the questioned costs pending review of this finding by ACF.

Contact: Sara Goscha, Special Projects Coordinator

Anticipated Completion Date: January 31, 2014

Finding 2013-065

Program: CFDA 93.667 – Social Services Block Grant – Allowability

Grant Number & Year: #G1301NESOSR, FFY 2013

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

Criteria: Per 45 CFR § 96.30(a) (October 1, 2012), "[A] State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds."

Per Title 473 NAC 5-001.06A, Rates, "The Central Office establishes a statewide rate for chore services matching the federal minimum wage." Title 473 NAC 5-001.6B, Frequency, adds, "The frequency of service is by the hour."

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 eight claims and noted six of these did not comply with State and Federal regulations.

Questioned Costs: $134 known

Context: For six claims tested, there was not adequate supporting documentation for the services provided, or claims were not in accordance with regulations. A similar finding was noted in the prior audit.

- Four claims tested were not signed by the client as evidence of services received. Specifically, both adult day care claims tested and both meals delivered claims tested did not have this necessary approval.

- One claim for chore services paid $6 per occurrence. Per the NAC manual, chore services are to be paid at the minimum wage by the hour.

- One claim tested was authorized for four hours of chore services per week plus two occurrences per month for laundry, but it was paid for four occurrences during the month. We also noted the provider was overpaid 12 hours for the month. The provider appeared to be submitting invoices to circumvent the authorization limit. For example, Invoice 227679 billed for four hours on April 18 and four hours on April 25 and was not signed by the client; additional hours were billed separately on Invoice 296432 for four hours on April 19 and four hours on April 26. If the provider had billed April 18 and 19 together and then April 25 with April 26, the Agency may have caught that services billed were in excess of authorization. Furthermore, all chore services are to be paid by the hour, not by occurrence.

The total Federal sample tested was $150, and Federal errors for payments tested were $134. Social Services Block Grant Federal assistance payments for fiscal year 2013 totaled $2,016,220.

Cause: Inadequate oversight.

Effect: Noncompliance with Federal and State regulations and inadequate approvals increase 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.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is in the process of adding SSBG to the NEARS case review system. This process will include the review of a random sample of claims for eligiblity, proper authorizations, and if the provider had proper documentation to support the claim. The Agency will also review requirements with providers on submitting proper claims for adult day care and meals delivered.

Contact: Nicole Vint, CCDF/SSBG Program Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-066

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

Grant Number & Year: #051305NE5021, FFY 2013

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

Criteria: 45 CFR § 92.20 (October 1, 2012) 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: CHIP aid does not reconcile between the CMS-64 and EnterpriseOne due to the following:

- When recording drug rebates on EnterpriseOne, the Agency performs an average historical split in coding 94% of the rebates to Medicaid and 6% of the rebates to CHIP. The Agency performs an average historical split because its Medicaid Drug Rebate (MDR) system does not identify whether drug rebates belong to Medicaid or CHIP. When the Agency compiles the CMS-64, it tries 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 2013.

- 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, because EnterpriseOne does not distinguish 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. According to the Agency, the logic to create this report is flawed because aid per this report should match aid per EnterpriseOne, but it does not.

- 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.

- It was also noted the Medicaid rebates reported for the quarter ended June 30, 2013, were mistakenly reported as 100% Federal; the Agency noted the error and corrected it on the September 2013 report.

Quarter ended June 30, 2013	Federal	State
Aid reported on CMS-64	$9,151,591	$4,889,639
Correction in September for rebates reported at 100% Federal	541,073	(541,073)
Variance due to rebates reported at historical percentage	403,517	179,590
Adjusted Report	$10,096,181	$4,528,156
Total EnterpriseOne General Ledger	10,249,235	4,598,272
Unexplained Variance	$153,054	$70,116

A similar finding was noted in the prior audit.

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: A reconciliation process was in place during the State fiscal year ended June 30, 2013. This reconciliation process will be enhanced to include reconciling to Federal and State funds.

The Agency has reassigned staff responsible for preparing the CMS 64 and added resources to assist with the reconciliation process. Amounts listed in the finding have been corrected or adjusted on the CMS 64.

Contact: Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: April 30, 2014

Finding 2013-067

Program: CFDA 93.767 – Children's Health Insurance Program – Matching

Grant Number & Year: #051305NE5021, FFY 2013

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

Criteria: 42 CFR § 433.10 (October 1, 2012) 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) 2012 was 69.65%, and the enhanced FMAP decreased to 69.03% for FFY 2013. 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 $3,189,461 of FFY 2013 expenditures at the FFY 2012 enhanced FMAP rate, resulting in questioned costs of $19,767.

Questioned Costs: $19,767 known

Context: The enhanced FMAP changed on October 1, 2012. However, MMIS did not start paying the correct enhanced FMAP until October 9, 2012. A similar finding was noted in the prior audit.

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. MMIS used the date MMIS was processing the claim, not the General Ledger posting date. 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 $19,767.

Recommendation: We recommend the Agency make an adjustment of $19,767 to its accounting records to correct claims that were 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 Federal match rates for Medicaid are updated annually in the Medicaid Management Information System (MMIS). The Agency learned this year that MMIS uses the process date, rather than the payment date when determining which match rate to use. A correcting journal entry was requested November 22, 2013 and was approved December 31, 2013. Written procedures for changing match rates in MMIS have incorporated this change.

Contact: Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: January 31, 2014

Finding 2013-068

Program: CFDA 93.778 – Medical Assistance Program – Matching & Reporting

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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

Criteria: 45 CFR § 92.20 (October 1, 2012) 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, 2012) 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 to be resolved in a timely manner.

Condition: Both CMS-64 reports tested had errors noted. 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. For the 2012 grant, the Agency's reported expenditures per the CMS-64 were $952,118,146, and the expenditures per EnterpriseOne were $953,412,712, a $1,294,566 difference. A similar finding has been noted in our prior Single Audit reports.

Questioned Costs: Unknown

Context: Reconciliation procedures could be improved. 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 if the Federal share reported agrees to Federal funds actually spent, or if State match requirements were met.

- School-Based Services of $930,360 reported on the December 2012 report were not supported; the amount should have been $1,105,217. The prior quarter numbers were inadvertently carried over and not updated. Because School-Based Services are subtracted from "Other Care Services," this would not change the total reported but would change the category of service.

- Disability waivers on the December 2012 report were understated by $8,513 (Federal share).

- Drug Rebates reported as Medicaid or the Children's Health Insurance Program were based on estimated percentage rather than actual amounts. There was a variance of $47,087 for the December 2012 quarter.

- The reconciliation for the June 2013 quarter was not completed timely. As of November 2013, there remained an unreconciled variance of $217,026.

- Several items were reported incorrectly on the June 2013 quarterly report. Individual variances ranged from $7,736,456 under-reported to $4,920,822 over-reported. Errors noted totaled $22,904,016 under-reported and $8,469,640 over-reported. The Agency corrected most of the errors noted on the September 2013 quarter. However, the Agency should review procedures to ensure items are properly reported before submission. The net Federal variance was $8,577,485 under-reported.

We also noted that in April 2013 the Agency performed a journal entry transferring $1,294,566 in expenditures from the Federal grant to be paid with State funds, as the 2012 grant had expenditures in excess of the grant award. Per the Agency, the variance would be due to transactions reported on the CMS-64 but not recorded on EnterpriseOne. Without a full reconciliation, the Agency cannot identify the reason why Federal expenditures were overdrawn.

The Agency reported a total of $1,081,231,621 Federal expenditures for the Medical Assistance Program in fiscal year 2013.

Cause: The Agency has not devoted resources to separately reconciling State and Federal expenditures reported. Reconciliation errors noted were due to staff turnover, 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 EnterpriseOne. This reconciliation should include a separate determination for Federal funds and State match. We further recommend all reconciling items and adjustments be resolved in a timely manner.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A reconciliation process was in place during the state fiscal year ended June 30, 2013. This reconciliation process will be enhanced to include reconciling to Federal and State funds. The Agency has reassigned staff responsible for preparing the CMS 64 and added resources to assist with the reconciliation process. Amounts listed in the finding have been corrected or adjusted on the CMS 64.

Contact: Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: April 30, 2014

<u>Finding 2013-069</u>

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1)(c), allowable costs must be "authorized or not prohibited under State or local laws or regulations."

Per Title 469 NAC 1-010:

> *When the statements of the client are incomplete, unclear, or inconsistent, or when other circumstances in the particular case indicate to a prudent person that further inquiry must be made, the worker must obtain additional verification before eligibility is determined. The client has primary responsibility for providing verification of information relating to eligibility.*

Per Title 469 NAC 2-009, "If the total equity value of available non-excluded resources exceeds the established maximum, the client is ineligible." Per 469 NAC 4-005.01, the resource limit for individuals eligible only for medical assistance is $4,000 for one and $6,000 for a two-person unit.

Per Title 469 NAC 2-009.02C4a:

> *A resource must appear on record in the name of the spouse to which the resource is designated on the Designation of Resources. The couple is allowed 90 days from the date of notice of approval to complete a required transfer of ownership to the appropriate spouse . . . . If the couple fails to complete the transfer within 90 days, the worker closes the case.*

Per Title 469 NAC 2-009.07B7:

> *The worker must disregard one motor vehicle regardless of its value as long as it is necessary for the client or a member of his/her household for employment, medical treatment, or use as the home. If the client has more than one motor vehicle, the worker excludes the vehicle with the greatest equity . . . . Any other motor vehicles are treated as nonliquid resources and the equity is counted in the resource limit . . . <u>Exception</u>: A client in a nursing home or receiving services through an Assisted Living Waiver is not allowed the disregard of any motor vehicles because medical transportation is included in the payment to the facility.*

Per Title 469 NAC 2-009.07B7a:

> *If the vehicle is not listed in the Kelly Blue Book or the NADA [National Auto Dealers Association] Used Car Guide, or if the client or the worker feels the value listed in the Guide is inappropriate or not a true valuation of the vehicle, the worker may:*
>
> *1. Contact the county assessor's office for the assessed value;*

2. Use the client's most recent vehicle tax statement; or
3. Have the client obtain the vehicle's value from used car dealers.

Per Title 469 NAC 2-009.10:

Any action taken by the individual, or any other person or entity, that reduces or eliminates the individual's or spouse's recorded ownership or control of the asset for less than fair market value (full value) is a deprivation of resources.

Per Title 469 NAC 2-009.10B3a:

To determine if a client or his/her spouse deprived himself/herself of a resource to qualify for medical assistance, the worker must look back 60 months before the month of application.

A good internal control plan requires procedures to ensure all resources are adequately documented and verified. A good internal control plan also requires procedures to verify whether recipients gave away their resources to be eligible for Medicaid.

Condition: The Agency did not adequately verify the resources of individuals to ensure resource limits were not exceeded and the individuals were eligible.

Questioned Costs: $332,707 known

Context: During initial testing of 10 nursing facility residents, we noted:

- Recipient 1 claimed both a mobile home and a camper. The worker verified the value of the mobile home only. If the worker had obtained a value for the camper and correctly included it along with the value of the mobile home when determining eligibility, the recipient may have been over the resources limit for Medicaid. In addition, per our review of the county assessor website and the Department of Motor Vehicles (DMV) website, the recipient sold three assets of significant value within five years of entering the nursing facility: a home sold for $165,200; a home sold for $139,000; and a vehicle sold for an unknown price.

- Recipient 2's spouse was still living at home, so a Designation of Resources was completed to allocate resources between the community spouse and the nursing facility spouse. A total of $2,705 in cash was allocated to the nursing facility spouse, but the Agency included $0. Additionally, six months before the recipient entered the nursing facility, the couple gave to their children several parcels of land with a combined value of $10,330. This was a deprivation of resources, but the Agency did not penalize the recipient for it. Additionally, the worker did not obtain adequate documentation to support the trade-in value for four vehicles claimed by the couple. The worker accepted an email from the couple's power of attorney that listed a value for each vehicle with a combined total of $3,453. Additionally, when the resources were designated, the value was reduced to $2,754 without an explanation or documentation to support why.

Additionally, the DMV website noted 17 other older vehicles owned by the couple that were not considered. Three of the vehicles were currently registered with a non-expiring registration. The detail for these three vehicles is below, including the lowest available value per the NADA Used Car Guide.

Year	Make	Model	Value
1931	Ford	A	$12,250
1951	Ford	Custom	$5,550
1974	Mercury	Montego MX	$3,275
Total			$21,075

The couple held the title to the following 14 vehicles; however, because the vehicles were not currently registered, per DMV records, we were unable to verify ownership with certainty.

Year	Make	Model
1963	Ford	F100
1948	Chevrolet	Club
1975	Chevrolet	K10 Suburban
1966	Chevrolet	C60 CE62/CE63
1970	Chevrolet	Caprice Kingswood
1955	Chevrolet	210
1964	Chevrolet	El Camino
1986	Oldsmobile	98 Regency Bro
1958	Texas Marine International	Boat
1973	K-Mart	Boat
1957	Duratech Mfg Co	Boat
1979	Chevrolet	Caprice Classic
1964	Cushman	879 706
1973	Winnebago	XXX

- Six months before Recipient 3 entered the nursing facility, the recipient cashed out a life insurance policy for $13,592. The Agency did not follow up to determine how the funds were used. If funds were given away, this would be a deprivation of resources.

- Recipient 4’s spouse was still living at home, so a Designation of Resources was completed to allocate resources between the community spouse and the nursing facility spouse. One requirement is that, within 90 days, all assets designated to the community spouse must be transferred to the community spouse’s name only, or else the case is closed. We did not see documentation that the Agency verified $10,740 in bank accounts in both spouses’ names was appropriately transferred to the community spouse. Per review of the DMV website, we verified that a vehicle allocated to the community spouse was not transferred to the community spouse; it was still in the name of the nursing facility spouse.

The Federal share of Medicaid payments during the fiscal year for these four recipients was as follows:

Recipient	Federal Medicaid Payments to Nursing Facility	Other Federal Medicaid Payments	Total Questioned Costs
1	$27,918	$62	$27,980
2	$22,148	$142	$22,290
3	$5,721	$64	$5,785
4	$26,944	$46	$26,990
TOTALS	**$82,731**	**$314**	**$83,045**

Due to both the significance and the quantity of errors noted during this initial testing of 10 nursing facility Medicaid recipients, the testing was subsequently expanded for an additional 35 recipients. The results of this additional testing disclosed numerous issues related to the verification of resources for individuals entering nursing facilities similar to those noted above. We specifically identified four recipients, of the 35 additional tested, who would have been ineligible to receive assistance for at least one month unless the resources were properly spent down. The table below summarizes the four recipients, and the details for each follow the table.

Recipient	Federal Medicaid Payments to Nursing Facility	Other Federal Medicaid Payments	Total Questioned Costs
A	$130,386	$1,068	$131,454
B	$37,162	$47,645	$84,807
C	$31,875	$0	$31,875
D	$1,526	$0	$1,526
TOTALS	**$200,949**	**$48,713**	**$249,662**

- Recipient A entered the nursing facility on September 10, 2012. The Agency was first notified of this change in living arrangement on September 26, 2012; however, no action was taken at that time. The Agency was again notified on December 6, 2012. At that time, the eligibility for September 2012 through February 2013 was re-determined; however, there were several errors: 1) No resources were considered; 2) no income was considered; and 3) shelter costs were included. The determination did not include resources until March 2013, and none of those resources were verified. It appeared that the amounts used might have been pulled from the self-reported amounts on a 2011 application.

In June 2013, the recipient sent in an application, along with supporting documentation, to verify the declared resource values. Still, it was not until October 2013 that any verified resources were considered. Despite the documentation available, the October 2013 eligibility determination did not include two bank accounts totaling $3,481. The determination also included $1,250 for irrevocable funeral trust funds, which should have been excluded. Lastly, the Agency included two resources totaling $437, for which there was no documentation to verify the amount.

- Recipient B failed to claim seven vehicles, which were titled and currently registered in his name. The lowest possible value for these seven vehicles per the NADA Used Car Guide was $8,643 (no value could be identified for two of the seven vehicles), resulting in resources well over the limit. We also noted that a personal account valued at $2,456 was not included by the Agency. The detail for these seven vehicles is below, including the lowest available value per the NADA Used Car Guide.

Year	Make	Model	Value	
1979	Pontiac	Firebird	$4,700	*
1984	Chevrolet	Camaro	$2,000	
1975	Harley Davidson	Motorcycle	$1,108	*
1975	Yamaha	Motorcycle	$510	*
1996	Chevrolet	Cavalier	$325	
2006	Homemade	Motorcycle	n/a	
n/a	n/a	Utility Trailer	n/a	
Total			**$8,643**	

** These vehicles were jointly owned and, therefore, only half of the vehicles' value is included.*

Recipient B also held the title to the following 10 vehicles; however, because the vehicles were not currently registered per DMV records, we were unable to verify ownership with certainty.

Year	Make	Model	
1996	Chevrolet	Cavalier	
1976	Chevrolet	Pickup (LUV)	
1994	Dodge	Intrepid	
1989	Chevrolet	Celebrity	
1973	Chevrolet	Nova	
1976	Ford	Truck (F281Y)	
1973	Chevrolet	Nova Custom	
1969	Chevrolet	Pickup (CS1)	
1986	Ford	Crown Victoria	
1979	Honda	Dirt Bike (XR500R)	**

*** This vehicle had an open lien, per DMV records.*

- Recipient C was married, but NFOCUS narratives noted that eligibility would not be determined using the Spousal Impoverishment program, as the spouse refused to provide income verification. It was also noted that the individual was denied SSI based on excessive income. The individual qualified under the medically needy program with a resource limit of $4,000. However, under this program, the individual would not be allowed the exclusion of jointly owned vehicles, which the Agency failed to include. We verified the recipient jointly owned one vehicle valued at $12,500. Half of this value, or $6,250, should have been included as a resource for the recipient, resulting in ineligibility. Additionally, on the November 2012 application, the recipient noted a life insurance policy with a declared cash value of $25,000; however, the Agency did not follow up to verify this resource.

- Recipient D was determined to be retroactively eligible to August 2012 under the medically needy program with a resource limit of $4,000. Resources included $3,172 for a life insurance policy. The cash surrender value of this policy was verified to a letter dated September 6, 2012, from the insurance company; however, that letter noted that the value was less a $1,000 loan taken out against the policy. A handwritten note on the letter indicated the loan was paid to the nursing facility, but no documentation was found to verify that statement. Without this verification, the individual would not have been retroactively eligible for August 2012, per Title 469 NAC 2-009.11. The recipient would still have been eligible beginning September 2012.

It is important to note that, of the 35 additional cases tested, more than these four recipients may have been ineligible at some point. However, due to the lack of documentation available and the Agency's failure to consider all resources for each recipient, we were unable to verify many resources identified during testing. Overall, we questioned whether resources were calculated completely and accurately in accordance with Title 469 NAC 2-009 for 27 of the 35 additional cases tested. A summary of the various issues noted related to those 27 cases is as follows.

- *Lack of Documentation:* For 14 of 35 recipients tested, a total of 26 resources were identified that lacked adequate supporting documentation to verify resources known or values claimed. As an example, for one recipient the Agency included a checking account balance of $30; however, there was no documentation on file to support that amount. A bank statement was not obtained until July 2013, which indicated the balance in the account, as of April 25, 2013, was $2,922. The eligibility re-determination in October 2013, after the bank statement was provided, still only included $30 in resources.

- *Improper Calculation:* For 11 of 35 recipients tested, a total of 16 resources were not properly calculated in accordance with Agency Rules and Regulations, based on the documentation provided. As an example, the Agency was provided a recipient's bank statement and included the beginning balance from that statement, which was $1,011. However, the bank statement showed two large subsequent deposits of nearly

$20,000, which the Agency failed to consider. Both deposits related to the liquidation of resources, a home sale, and life insurance policy redemption. The Agency should have used the ending $3,974 balance.

- *Known Resource Not Included:* For 12 of 35 recipients tested, a total of 17 resources were identified, which were known to the Agency but were not included as a resource. As an example, NFOCUS narratives indicate the Agency was informed by the Social Security Administration that a recipient exceeded resource limits due to a property valued at approximately $5,000. The Agency requested the nursing facility staff investigate the property, instead of looking into it themselves. Then, the Agency was provided unverified documentation in Spanish indicating a property in Mexico had been sold. However, per Dodge County Assessor records, the individual and his spouse own a property in Fremont, Nebraska, with a 2012 valuation of $3,195. This property was not considered or properly investigated by the Agency.

- *Transfer of Ownership Not Verified:* For 6 of 35 recipients tested, there was no verification that the ownership of 16 resources was properly transferred, as indicated on the Designation of Resources Form and in accordance with Title 469 NAC 2-009.02C4a. As an example, the Designation of Resources Form indicated that four jointly owned bank accounts would be placed in the community spouse's name, and the recipient's access to those funds would be removed within 90 days. These four bank accounts contained nearly $10,000; however, the Agency never verified that ownership was actually transferred within the required 90 days.

- *Deprivation of Resources Not Considered:* For 3 of 35 recipients tested, a total of 5 resources were identified, which were sold by the recipient (or community spouse) within five years of entering the nursing home and were not properly considered for deprivation of resources in accordance with Title 469 NAC 2-009.10 and Title 469 NAC 2-009.10B3. As an example, the Agency was informed that a recipient had sold three vehicles to her son for a total of $900. One of these vehicles was a 1966 Chevy Pickup, a classic vehicle, which was valued at $10,050 per the NADA Used Car Guide, yet it was not considered for deprivation of resources.

- *Vehicles Not Included:* We identified 16 vehicles (including boats, motorcycles, trailers, etc.) owned and currently registered to the individuals involved in five cases tested, per review of DMV. As an example, one recipient had four vehicles that were titled and currently registered to the community spouse but were not included on the Assessment of Resources Form or the Designation of Resources Form. The value of the four vehicles, per the NADA Used Car Guide, was $9,650.

- *Vehicles Not Considered:* We identified 20 vehicles (including boats, motorcycles, trailers, etc.) that, although not currently registered, were titled to 11 recipients (or their spouses) and had an open lien, per DMV. As an example, a recipient had five vehicles that were titled in the individual or spouse's name. Per DMV, none of these vehicles had current registrations, but all had open liens against them, which would be indicative of ownership. The Agency has access to DMV records and should have identified these vehicles and verified ownership.

- *Resources Should be Excluded:* Seven excludable resources were identified as being improperly included for six additional recipients tested. Title 469 NAC 2-009.02B lists excluded resources.

Additionally, for one quality control case, we noted the recipient disclosed ownership of three vehicles. All three vehicles were excluded on the recipient's eligibility determination, even though only one vehicle is allowed to be excluded per State regulations. Had the value of the two lower equity vehicles been included, the recipient would have exceeded the resource limit for Medicaid eligibility. Per review of the DMV website, we also noted the recipient had the title and current registration on a total of seven vehicles – not three, as the recipient had reported. The additional vehicles should also have been considered in determining the recipient's Medicaid eligibility.

Federal share of nursing facility payments during the fiscal year were $184,717,528.

Cause: Worker error and inadequate review. The Agency neither verifies the value of vehicles disclosed by the applicant nor has any procedures to search for resources not disclosed by the applicant.

Effect: If resources are not adequately verified, there is an increased risk recipients will be inappropriately determined eligible for Medicaid.

Recommendation: We recommend the Agency implement procedures to ensure all resources of an applicant are considered.

Management Response: The Agency does not agree with the condition reported. The Auditor indicated the conclusion of this portion of the audit by conducting an exit conference on December 19, 2013. At that time the audit report only contained findings for Recipients 1 through 4 to which the Agency agreed with the conditions reported at that time. The Agency provided its response and corrective action plan on January 6, 2014. Without the Agency's knowledge, the Auditor continued fieldwork and on February 19, 2014, provided the Agency a revised report containing additional findings and questioned costs. The Auditor also informed the Agency that another exit conference to present and discuss the additional findings would not be conducted. The Auditor did not work with the Agency as these issues were discovered, as is their normal practice. The Agency invested over two weeks to review the Auditor's additional findings. The Agency discovered several errors in the Auditor's report which lead the Auditor to change the report again. When the Auditor's report was provided for the third time to the Agency, the Auditor allowed the Agency only two business days to respond to the findings. This amount of time did not allow for the Agency to prepare, review, and approve a response and corrective action plan in accordance with proper procedures.

Corrective Action Plan: Prior to October 2013, eligibility for Medicaid was determined by the same employees who determined eligibility for all Economic Assistance cases. Now, employees are responsible for Medicaid cases only. In addition, the Agency assigned all nursing home cases to specialized staff to ensure these complex cases are handled accurately and timely. For the remaining findings, the Agency will work with the federal awarding agency to determine the validity of any of the findings noted above and will work with the federal awarding agency directly to develop any necessary corrective action plans.

Contact: Catherine Gekas-Steeby, Eligibility Policy Administrator

Anticipated Completion Date: No earlier than December 31, 2014 due to the fact that the report will not be provided to the federal awarding agency from the federal audit clearinghouse until late summer or early fall of 2014.

APA Response: Due to the significance of the errors noted, the APA performed additional testing. Detailed results of that testing were provided to the Agency on February 19 along with the names of APA staff to contact with any questions. Responses were requested by March 7. At no time between February 19 and March 7, did the Agency contact any APA staff to discuss any of the errors noted.

Finding 2013-070

Program: CFDA 93.778 – Medical Assistance Program – Period of Availability & Special Tests and Provisions

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: Per 42 CFR § 447.253(g) (October 1, 2012), "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-A, § 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, Attachment 4.19-A, § 10-010.03A, 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 42 CFR § 447.45 (October 1, 2012), the Agency must pay all claims within 12 months of the date of receipt. The time limit does not apply to inpatient rates.

A good internal control plan requires procedures to ensure a second individual is involved in the hospital cost reports process and that this involvement is adequately documented. Good internal control also requires that 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 and has not reviewed the rates since 2009, except for annual increases mandated by the Legislature.

- The final adjustment for inpatient rates for critical access hospitals was not done since 2005 or 2006, and the interim adjustment for inpatient and outpatient rates was not timely.

- There was a lack of documented segregation of duties over the hospital cost reports process.

Questioned Costs: $37,345 known

Context: The Agency uses several methods to determine rates for hospital services. Inpatient rates are determined based on whether the hospital is designated a critical access or a non-critical access hospital. A critical access hospital is a special designation for approved rural hospitals.

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.

Outpatient rates and critical access inpatient rates for hospitals are determined based on actual costs using the cost report each hospital files with the Agency each year. Two individuals were involved with calculating the rates; however, the preparation of the rates and approval of the rates were not adequately documented to ensure a segregation of duties over the process.

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 State fiscal year 2011, 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. Staff has not received many final cost reports dating several years back. We tested 12 hospitals and noted the last audit received for the 8 critical access hospitals tested was 2005 or 2006, and 1 critical access hospital did not have any audited cost reports on file. We also noted the Agency did 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. We also tested interim rate adjustment payments for three critical access hospitals and noted the interim rate adjustments were not within the period of availability, as the Agency did not settle the rates until 13 to 16 months after the hospitals submitted their unaudited cost reports. The payments included settlements for both inpatient and outpatient rates. In general, the Agency must pay claims within 12 months of the date of receipt. Federal regulations waive this requirement for inpatient rates but not for outpatient rates.

Retroactive payments tested totaled $52,097 (Federal share). With respect to outpatient rates, all three payments tested were made outside of the period of availability. Total Federal share of retroactive payments made during the fiscal year was $4,853,920. Based on this sample, the case error rate was 100% (3/3). The dollar error rate for the sample is 71.68% ($37,345/$52,097), which estimates the potential dollars at risk for fiscal year 2013 to be $3,479,290.

The Federal share of inpatient hospital payments for the fiscal year totaled $67,172,824; outpatient hospital payments totaled $23,866,069. A similar finding was noted in the four prior audits.

Cause: The Agency acknowledged not having devoted adequate resources to ensuring there were audits of hospital cost reports and updating of rates. The Agency recently implemented a system to ensure final audited cost reports are received. After the end of the fiscal year, the Agency elected to pay $831 to receive audited cost reports for 2010. The Agency intends to go back and fix 2005 through 2009, as time allows.

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 and when the rebasing is not performed timely, there is an increased risk calculated rates will be in excess 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 interim adjustments are not made until over a year after the Agency receives the unaudited cost report, there is an increased risk of noncompliance with period of availability requirements. When segregation of duties is not documented, there is an increased risk error or abuse will occur and be undetected.

Recommendation: We recommend the Agency implement procedures to ensure:

- Inpatient rates for non-critical access hospitals are calculated with the appropriate source data and reviewed for fairness timely.
- Any adjustments to rates comply with State regulations.
- All cost reports are received and reviewed timely.
- Hospital-submitted cost reports are compared to Medicare-audited cost reports, and appropriate rate adjustments are made.
- Claims based on unaudited cost reports are settled timely.
- A second individual reviews the hospital cost reports process and documents this review.

Management Response: The Agency agrees with the condition reported but disagrees with the questioned costs reported. The Auditor's questioned costs is based on 42 CFR § 447.45 (d)(4), which states that the Agency must pay all claims within twelve months of the date or receipt. Per 42 CFR § 447.45 (d)(4)(i), "this time limitation does not apply to retroactive adjustments paid to providers who are reimbursed under a retrospective payment system."

Corrective Action Plan: The Agency will initiate the procurement process to solicit the services of a consultant to rebase inpatient rates for non-critical access hospitals. The Agency will use audited cost reports.

A work process has been established which segregates and documents duties related to the cost report process and the calculation of retro settlements to Critical Access Hospitals. This process includes using audited cost reports, when available, to review the original cost settlement for any necessary adjustments.

Contact: Margaret Booth, Policy Administrator;
Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: June 30, 2014

Finding 2013-071

Program: CFDA 93.778 – Medical Assistance Program – Matching

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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

Criteria: 42 CFR § 433.10 (October 1, 2012) 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%. The FMAP decreased to 56.64% for FFY 2012 and decreased to 55.76% for FFY 2013. A good internal control plan requires procedures be in place to ensure claims are paid at the proper FMAP rate.

Condition: In the prior audit, we noted the Agency paid $67,255,396 of FFY 2012 expenditures at the FFY 2011 FMAP rate, resulting in questioned costs of $1,209,492. When performing a journal entry to correct the rate, the Agency erroneously included a class of transactions that was already paid at the correct rate, resulting in a Federal undercharge of $208,228.

Additionally, the Agency paid $46,288,603 of FFY 2013 expenditures at the FFY 2012 FMAP rate, resulting in questioned costs of $407,340.

Questioned Costs: $199,112 known

Context: The Agency's corrective action plan stated that MMIS was modified on October 1, 2012, to use the new FMAP in effect on that day. There is a time lag between when the transaction is "paid" on MMIS and when it is actually paid on EnterpriseOne. The Agency did not account for this fact when it modified MMIS; as a result, transactions paid out of EnterpriseOne through October 3, 2012, were paid at the wrong FMAP. The Agency did not ensure the modification was working as intended, and no adjusting journal entry was performed.

Cause: Lack of adequate review of MMIS modification.

Effect: Claims were paid at the incorrect FMAP.

Recommendation: We recommend the Agency make an adjustment 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. Modifications made to MMIS should be verified to ensure changes work appropriately.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The federal match rates for Medicaid are updated annually in the Medicaid Management Information System (MMIS). The Agency learned this year that MMIS uses the process date, rather than the payment date when determining which match rate to use. A correcting journal entry was requested November 22, 2013 and was approved December 31, 2013. Written procedures for changing match rates in MMIS have incorporated this change.

Contact: Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: January 31, 2014

Finding 2013-072

Program: CFDA 93.778 – Medical Assistance Program – Allowable Costs/Cost Principles & Subrecipient Monitoring

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: OMB Circular A-87, Attachment A, § C(1), states that allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-133 § __.400(d) states, in relevant part:

> *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 . . . . (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. (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.*

Per the contracts with the subrecipients:

> *As partial consideration for the services of DHHS in assisting Contractor in the filing of claims pursuant to the Administrative Claiming Process, Contractor agrees to pay to DHHS [the Agency] an amount equal to three percent (3%) of the aggregate amount actually received by Contractor in payment on each such claim . . . .*

A good internal control plan requires procedures be in place to ensure all administration payments are received from the subrecipients.

Condition: The Agency did not have adequate procedures to ensure amounts paid to subrecipients were correct. In addition, the Agency did not ensure all administrative payments were received.

Questioned Costs: $88,941 known

Context: The Agency has contracts with two consortiums that distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by each school to enroll and assist children in Medicaid. The Agency reviews the claims to ensure the correct indirect cost rates and Medicaid Eligibility Rates are utilized; however, the Agency does not perform procedures to ensure total expenditure amounts claimed are correct. The Agency paid a total of $15,195,736 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.

The Agency does not have procedures in place to ensure the 3% is collected. We noted a total of $164,196 was not collected from the NASB Medicaid Consortium, with a Federal share of $82,098.

The Agency received the A-133 audit for the NASB Medicaid Consortium for its year ended August 31, 2011. There was a finding related to over-reporting of costs totaling $439. The Agency did not submit a management decision regarding the finding to the subrecipient.

The Nebraska Department of Education (NDE) reviews school district audit reports and informs the Agency of any findings related to programs administered by the Agency. We verified that NDE sent a letter to the Agency on March 14, 2013. The NDE identified one school district with problems related to Medicaid with questioned costs totaling $6,404. The Agency did not follow-up or issue a management decision regarding the finding to the subrecipient.

A similar finding has been noted in each Single Audit since State fiscal year 2008.

Cause: The Agency stated the 3% collection on several payments to the NASB Medicaid Consortium was missed because of the disorder caused by the Agency transitioning to a new document storage system. The NDE letter was sent to an Agency employee who terminated that day.

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 all program income is collected, and the Federal share is appropriately credited to the Medicaid grant. The Agency should perform timely follow up on any audit findings.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will pursue contracting with a vendor to audit the accuracy of claims submitted by the Consortiums. The Agency will implement an internal control procedure to ensure the 3% is collected from the Consortiums. The Agency has implemented a Sub-recipient Monitoring Internal Control Policy.

Contact: Amy Bunnell, Early Development Network Program Coordinator

Anticipated Completion Date: April 30, 2014

Finding 2013-073

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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), 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, which is not allowable per Federal regulations. A similar finding was noted in the prior audit.

Questioned Costs: $1,383 known

Context: 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 through the reimbursement rate methodology.

We reviewed all claims for 28 nursing home residents. We noted one individual with DME claims. A total of $1,383 Federal share was paid inappropriately to the DME provider.

The total Federal share of DME paid for service dates during State fiscal year 2012 (the most current and complete data available) was $1,780,845.

Cause: The Agency stated that it implemented a system change request (SCR) to MMIS on August 1, 2013. The additional cost incurred by the nursing facilities will now be included in their cost reports and included in their calculated per diem rates. Several DME types, including specific high-end wheelchairs and specific high-end hospital beds, will be 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 intermediate care facilities.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has submitted a MMIS System Change Request to implement procedures that ensure no DME costs are paid directly to DME providers on behalf of individuals residing in nursing facilities or intermediate care facilities.

Contact: Margaret Booth, Administrator

Anticipated Completion Date: June 30, 2014

Finding 2013-074

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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

Criteria: Per OMB Circular A-87, allowable costs must be necessary, reasonable, and adequately documented.

According to 42 CFR § 435.916(a) (October 1, 2012), “The agency must redetermine the eligibility of Medicaid beneficiaries, with respect to circumstances that may change, at least every 12 months . . . .” A good internal control plan requires procedures be in place to ensure a yearly review of eligibility is conducted and documented in the case file.

Per Title 480 NAC 5-003(A)(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.” Per Title 480 NAC 5-006(1), HCBS waiver providers are to bill only for services that are authorized and actually provided. A good internal control plan requires review procedures to be in place to ensure services do not exceed authorized limits; supporting documentation for services provided is properly completed and signed by the client; and correct amounts are paid for services provided.

Condition: We tested 25 home-based claims for the aged and disabled waiver and noted five payments did not comply with Federal and State requirements.

Questioned Costs: $535 known

Context: We noted the following:

- One provider billed for 13 hours per day of chore services when the maximum authorized was 10 hours per day. When a chore claim reaches 13 hours per day, it goes from a partial day rate to a daily rate. The provider billed for 24 days during the month of June 2012. The effect of billing at a daily rate versus a partial day rate for the 24 days increased the reimbursement to the provider by $351 ($199 Federal share). Per review of this billing document and supporting Individual Provider Record of Services (IPROS), it was noted these documents were originally received and reviewed for payment on July 5, 2012. The reviewer noted there was a calculation error because for 24 days the provider claimed to have worked from 6 a.m. to 6 p.m. and billed this as a full day rather than a partial day. The IPROS and billing document were resubmitted for payment on July 9, 2012. On the resubmitted IPROS, the time worked for the 24 days was changed to be 6 a.m. to 7 p.m., which would then be 13 hours worked for payment at the daily rate. However, the resubmitted IPROS was not signed by the client to attest that services were provided for that additional hour each of the 24 days. The client signed the IPROS on July 2, 2012.

- One provider was paid the incorrect rate for five days of child care service provided in October 2012, resulting in an underpayment of $7 ($4 Federal share).

- One provider was paid for 26 hours of child care service when 25 hours should have been paid, resulting in an overpayment of $10 ($5 Federal share). On the IPROS, the provider claimed to have worked from 7:00 a.m. to 8:15 a.m. each day for 20 days during the month of October 2012. This would calculate to 1.25 hours per day, but the provider rounded each day to 1.3 hours. Therefore, the hours worked on the IPROS added up to 26 hours. We also noted the provider billed for 25 hours on the billing document, but was paid for 26 hours.

- One client had two providers, but it could not be determined whether chore services billed by both providers overlapped times, as one provider did not specify whether the hours worked were a.m. or p.m., and the second provider only noted a.m. or p.m. for one day. The billing period was for chore services provided May 1, 2013, to May 15, 2013, and the amount paid to the provider included in the sample tested was $594 ($331 Federal share).

- One client did not have an Adult and Disabled Medicaid Waiver Assessment form on file that was effective for the audit period tested. Therefore, there was no evidence an eligibility redetermination was performed at least every 12 months. The assessments of client's needs on file were conducted March 22, 2011, and July 9, 2013.

Federal payment errors noted were $535, of which $337 was included in the sample tested. The total Federal sample tested was $5,079, and total home-based aged and disabled waiver payments for fiscal year 2013 were $23,255,145. Based on the sample tested, the case error rate was 16% (4/25). The dollar error rate for the sample was 6.64% ($337/$5,079), which estimates the potential dollars at risk for fiscal year 2013 to be $1,544,142 (dollar error rate multiplied by population). A similar finding was noted in our prior Single Audit reports.

Cause: Inadequate review procedures.

Effect: Without procedures in place to ensure payments are adequately supported and reviewed, there is an increased risk of loss or misuse of Federal funds. Without proper documentation in the case file to support annual redetermination of eligibility, there is an increased risk of improper payments being made to ineligible recipients.

Recommendation: We recommend the Agency implement procedures to ensure all aged and disabled waiver payments are adequately supported and reviewed. This should include comparing billings to authorizations and support of time worked submitted by the providers. We also recommend the Agency implement procedures to ensure all essential forms to document determination of eligibility are kept in the case files.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will provide a summary of the issues identified in audit to all program supervisors and will revise and redistribute claim-related portions of training materials on service authorization processes to program supervisors. The Agency will also identify offices involved with the specifically-cited errors and require development of a Corrective Action Plan. The Agency will ensure additional Quality reviews are conducted of the cited areas.

Contact: Pattie Flury, HCBS Administrator

Anticipated Completion Date: June 30, 2014

Finding 2013-075

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

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: 42 CFR § 455.1 (October 1, 2012) 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. The Agency's Program Integrity Unit performs this function. A good internal control plan requires procedures to ensure cases are reviewed, and appropriate dispositions are made in a timely manner. If reviewers leave the unit, the Agency should timely reassign their cases.

A good internal control plan requires procedures be in place to ensure payments are appropriately stopped in NFOCUS as intended, and providers are not paid without first considering past overpayments.

Condition: We noted 4 of 25 Program Integrity cases tested did not comply with Federal and/or State requirements. A similar finding was noted in the prior audit.

Questioned Costs: $1,040 known

Context: For one case, suspected provider abuse was caught before a claim with a Federal share of $128 was paid. The Agency attempted to stop payment on the claim, but it paid anyway because someone at the local office level changed the status to allow the claim to be paid. The balance is still outstanding, and the Agency was unable to determine who allowed the claim to be paid due to limitations with NFOCUS, a subsystem of the State's accounting system used to record detail information regarding clients and services.

For one case, suspected provider abuse with a Federal share of $508 was identified in December 2012 but was never recouped because the provider agreement was terminated. In April 2013, the provider started receiving payments again on behalf of a different client, but nothing was recouped for the previous overpayment. Neither NFOCUS nor Agency personnel caught this error. Payments with a Federal share totaling $209 were paid to the provider during the fiscal year that should have gone to recoup the previous overpayment.

For one case, an overpayment with a Federal share of $703 was identified and requested by the Program Integrity reviewer in July 2012. The reviewer left the Program Integrity Unit in August 2012. The case was not reassigned, and the overpayment was never remitted. After we requested the file in August 2013, the unit manager followed up on the case in September 2013.

For one case, a lag in work occurred for three months because the Program Integrity Unit was waiting on records from another Agency employee. Later, a lag of four months occurred because the reviewer assigned to the case was too busy to work on the case. The Agency has not yet determined whether there were any overpayments.

Cause: Limitations of NFOCUS and worker error.

Effect: Loss or misuse of Federal funds.

Recommendation: We recommend the Agency ensure suspected improper payments are appropriately stopped. We also recommend the Agency implement procedures to ensure providers are not paid without first considering past overpayments. We further recommend the Agency implement procedures to ensure cases are timely reassigned when reviewers leave.

Management Response: The Agency partially agrees with the condition reported. The agency agrees with the findings for the first three cases however, disagrees with the finding for the fourth case listed. There are no state or federal mandates regarding timeliness for the investigation of provider fraud, waste, or abuse.

Corrective Action Plan: The Agency will develop procedures to ensure NFOCUS payments are suspended when a Medicaid payment is suspended due to provider fraud, waste, or abuse or erroneous payments. The Agency will develop procedures for NFOCUS staff to follow when enrolling a new provider to identify whether there is an outstanding Medicaid refund to pursue. The Agency will also develop a procedure to reassign investigations in a more expedited manner when a staffing change occurs.

Contact: Anne Harvey, Program Integrity Unit Manager

Anticipated Completion Date: April 30, 2014

APA Response: OMB Circular A-133 requires auditees to maintain internal control over Federal programs. Good internal control requires procedures to ensure cases are reviewed in a timely manner.

Finding 2013-076

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

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1), costs must be adequately documented.

Condition: The Agency had inadequate supporting documentation for the amounts paid for Early Development Network (EDN) services coordination.

Questioned Costs: Unknown

Context: During testing, we noted the Agency pays $200 (Federal and State share) per child per month to 22 providers of EDN services coordination, who, in general, are school districts, educational service units, or health centers. The rate is loosely based on reports the providers submitted of their expenses and the number of children they served in 2005 and 2006. The Agency has not maintained these reports to support the rate. Total Federal share of payments to providers for EDN services during the fiscal year was $1,749,382.

Cause: Unknown

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure rates and amounts paid are adequately documented.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will pursue contracting with a vendor to recalculate the case rate. The Agency has implemented internal control procedures to ensure the case rate justification records are on file with the Program Coordinator.

Contact: Amy Bunnell, Early Development Network Program Coordinator

Anticipated Completion Date: April 30, 2014

Finding 2013-077

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

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1), costs must be adequately documented.

Condition: The Agency had inadequate supporting documentation for the amounts paid for team behavioral consultations.

Questioned Costs: Unknown

Context: During testing, we noted the Agency pays one provider all of its costs for team behavioral consultations. The Federal share is calculated using the percentage of hours provided on behalf of Medicaid-eligible clients. No procedures are performed to ensure the total costs paid are correct. Total Federal share of payments to the provider during the fiscal year was $1,198,290.

Cause: Unknown

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure rates and amounts paid are adequately documented.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency will examine documentation currently on file with the Provider to ensure total costs paid are correct for the contract that ended June 30, 2013. The Agency will also require the Provider to submit supporting documentation for each line item on invoices received from the Provider retroactive to July 1, 2013 and continuing for the length of the contract.
>
> **Contact:** Tricia Mason, Deputy Director
>
> **Anticipated Completion Date:** June 30, 2014

Finding 2013-078

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

Grant Number & Year: All open, including #051305NE5MAP, FFY 2013

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

Criteria: Per 42 CFR § 447.253 (October 1, 2012):

> *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, the Agency will perform at least one initial 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.

Per AICPA Professional Standards AU-C Section 500.A32:

> *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, facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their presentation and maintenance.*

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 four years.

Questioned Costs: Unknown

Context: One field audit was completed in September 2011 for the fiscal year ended 2010. The last field audit before 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 four fiscal years. We tested 22 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.

The Agency paid $184,717,528 to nursing facilities for Medicaid in fiscal year 2013 (Federal funds).

Cause: The Agency did not devote adequate resources to performing field audits. More field audits were performed in years when there were four audit staff members; now there are only two audit staff members. The Agency stated its desk audits are detailed and are functionally similar to field audits.

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 four 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 implement a risk assessment tool of long-term facility cost reports. If field audits are determined to be necessary, as indicated with a "high" risk assessment, the Agency will devote adequate resources to ensure the field audits are performed.

Contact: Dale Shallenberger, Audit Manager

Anticipated Completion Date: June 30, 2014

APA Response: The Agency paid nearly $330 million to nursing facilities for Medicaid in fiscal year 2013 ($184,717,528 Federal funds and $145,240,762 State funds) and over $950 million in the last three fiscal years. No field audits were completed. Such significant expenditures require 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. We continue to recommend the Agency ensure periodic field audits are performed.

Finding 2013-079

Program: CFDA 93.778 – Medical Assistance Program; and CFDA 93.767 – Children's Health Insurance Program – Eligibility

Grant Number & Year: Various, including #051305NE5MAP, FFY 2013 & #051305NE5021, FFY 2013

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

Criteria: According to 42 CFR § 435.916(a) (October 1, 2012), "The Agency must redetermine the eligibility of Medicaid beneficiaries, with respect to circumstances that may change, at least every 12 months . . . ." Per 477 NAC 18-003.01, medical assistance is available to a child age 18 or younger. A good internal control plan requires the monitoring of cases and the redetermination of eligibility be performed to ensure benefits are discontinued when recipients are no longer eligible.

Condition: We tested 25 managed care claims and noted two recipients whose payments were not discontinued when the period of eligibility expired.

Questioned Costs: $1,276 known

Context: We noted the following:

- One recipient tested was receiving medical assistance under the School Age Medicaid Program. An eligibility review was due in February 2013, but it was not completed, as a new application was not submitted. A notice was mailed to the recipient on June 27, 2013, stating medical coverage was ending effective August 1, 2013. However, since the application was not submitted for the February 2013 review, the recipient should have been ineligible effective March 1, 2013. Managed care payments were improperly made on behalf of the recipient for March 2013 through June 2013, totaling $294 ($164 Federal share). We also noted a managed care payment was made on behalf of the recipient for July 2013, which is subsequent to the audit period, totaling $76 ($42 Federal share).

  There were two other children included in the same master case, whose eligibility should have ended March 1, 2013, instead of August 1, 2013. The total of the managed care payments made on behalf of these two children for March 2013 through June 2013 was $745 ($415 Federal share). There was also another child who was continuously eligible through June 2013 but would not have been eligible July 2013. Managed care payments made on behalf of these three children for July 2013, which is subsequent to the audit period, were $304 ($170 Federal share).

- One recipient was receiving medical assistance under the Children's Health Insurance Program. The recipient turned 19 years old in March 2013, so eligibility should have ended April 1, 2013; however, it did not end until August 1, 2013. The recipient had managed care and drug claims paid on his behalf totaling $1,250 ($697 Federal share) for April 2013 through June 2013. We also noted claims were paid on behalf of the recipient for July 2013, which is subsequent to the audit period, totaling $585 ($326 Federal share).

Cause: Unknown

Effect: When benefits are not discontinued when the period of eligibility expires, there is an increased risk of improper payments of Federal funds.

Recommendation: We recommend the Agency properly monitor cases and perform eligibility redeterminations when needed to ensure benefits are discontinued when the period of eligibility expires.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: On October 1, 2013, responsibility for Medicaid and CHIP eligibility transferred to the Division of Medicaid and Long-Term Care. Staff is now trained specifically in the regulations related to Medicaid and CHIP eligibility.

Effective January 1, 2014, CMS requires states to simplify the process for renewals for individuals whose eligibility is determined based on Modified Adjusted Gross Income (MAGI) methodology. Nebraska will also be using this same simplified process for individuals whose eligibility is based on Non-MAGI methodologies. In addition, State and Federal electronic data sources will be utilized to provide additional real-time verifications of information crucial for accurate eligibility determinations.

Contact: Catherine Gekas-Steeby, Eligibility Policy Administrator
Lori Harder, Eligibility Field Operations Administrator

Anticipated Completion Date: March 31, 2014

Finding 2013-080

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051205NE5MAP, FFY 2012; #051305NE5MAP, FFY 2013

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

Criteria: A good internal control plan requires policies and procedures to be in place to ensure no one individual has complete control over all phases of the HIPP Program. Good internal control also requires procedures to ensure compliance with State and Federal regulations.

45 CFR § 92.20(a) (October 1, 2012) requires a State to expend and account for grant funds in accordance with State laws and procedures.

Title 471 NAC 30-001 states, in relevant part:

> *The Nebraska Medical Assistance Program [NMAP] covers payment for health insurance premiums for individuals who are otherwise eligible for Medicaid when determined to be cost effective.*

Title 471 NAC 30-006 states, in relevant part:

> *NMAP will pay the health insurance premium directly to the insurance carrier. If payment cannot be made directly to the carrier and the method of premium payment is payroll deduction, NMAP will arrange to pay the employer directly in lieu of the payroll deduction. If payment cannot be made directly to the carrier or employer, NMAP will reimburse the policyholder for the payroll deduction made for health insurance.*

Additionally, the Notice of Finding sent to each participant states:

Please note that the premium amount that we are paying does not include dental, vision, etc., coverage, you will be responsible for paying that portion of your premium if you elect to include dental, vision, etc., coverage in your plan.

Title 471 NAC 30-002.03 states:

If the client is also eligible for Medicare Part B but is not enrolled in Medicare Part B, NMAP does not pay for the premiums or other cost sharing obligations to the health plan.

Title 471 NAC 30-004(1) states:

Obtain information on the health plan available to the client. This information must include the effective date of the policy, exclusions to enrollment, the covered services under the policy, riders and exclusions of covered services, and premiums paid by the policy owners. (Emphasis added.)

Condition: We noted controls over the Health Insurance Premium Payment Program (HIPP Program) were severely deficient. We also noted numerous HIPP Program payments that were potentially fraudulent, ineligible, or incorrect. The most significant among these issues is the lack of adequate documentation to support the cost effectiveness determination for each participant.

Questioned Costs: $246,231 known

Context: The HIPP Program was designed to reduce Medicaid costs by reimbursing participants for their cost of private health insurance coverage. The reimbursement of the private health insurance premiums by the Medicaid program is required to be more cost effective than the payment of the medical claims by the Medicaid program. Upon approval, the Medicaid-eligible client's private health insurance premiums are paid for with Medicaid funds. Then, prior to being submitted to Medicaid, claims for the medical services of the participant are submitted to the private insurance carrier – thereby, reducing the costs charged to the Medicaid program.

The APA examined HIPP Program payments from July 1, 2010, through February 5, 2013, and released an attestation report on May 29, 2013. The attestation report noted the Agency paid 661 payees a total of $6,520,440 in HIPP Program payments for the period. The APA tested 70 HIPP Program participants who received $1,812,792 in payments. We noted numerous issues, as noted below:

Lack of Segregation of Duties

The Agency lacked adequate controls to ensure no one individual had complete oversight and control of the HIPP Program. One person was responsible for determining eligibility of the applicants, authorizing payments, receiving any refunds, and monitoring the HIPP Program on an ongoing basis. There was no separate review and approval by management, or any other Agency staff, to ensure eligibility determinations were appropriate or to confirm the amounts paid to participants agreed to adequate supporting documentation. Furthermore, there was no process in place to ensure all refunds received were properly deposited, as no log, receipts, or adequate accounting of these refunds was prepared by the HIPP Payment Reviewer, who received the refunds.

Missing and Insufficient Documentation

The Agency failed to maintain adequate documentation to support the premium amounts paid to participants. We noted numerous instances in which payments were based on participant emails, notes from phone conversations, listings of renewal rates and options, or even no documentation at all. In addition to the lack of documentation to support the initial payment to participants, the Agency also relied on the participant for notification of any changes in the premium amounts. We found that in some instances the Agency had gone years without contacting the participant to verify the premium amount paid or to determine whether the participant was still employed. In addition, case files lacked sufficient health insurance policy information – such as the effective dates of coverage and which dependents were covered under the plan – to ensure the eligibility of the applicants. In general, the case files contained only a copy of the insurance card as evidence of the health plan. In many instances, the insurance cards failed to identify the dependents covered under the plan or the effective dates of coverage.

Cost Effectiveness Calculations

The purpose of the HIPP Program is to reduce Medicaid costs, by reimbursing the cost of private health insurance, only if it is cost-effective to do so. The Agency did not have adequate documentation to support the cost effectiveness calculation for any of the 70 participants tested during the period July 1, 2010, through February 5, 2013. The HIPP Payment Reviewer confirmed that the Agency had not been receiving the health plan information, including effective dates of the policy, exclusions to enrollment, covered services, and any riders to the plan, as required. Agency staff confirmed that the files lacked adequately documented cost effectiveness calculations.

We noted one case file included a copy of a letter dated March 4, 2010, from the HIPP Payment Reviewer, indicating that it was no longer cost effective to pay the participant's health insurance premium because of an increase in the premium amount. At the time of the letter, the insurance premium had increased to $5,138. During the fiscal year, the participant's insurance premium was reimbursed at over $9,600 per month. Payments continued to the participant after this letter was sent, and no further information was maintained to document the reason for the continuation or increase in the payments to over $9,600 per month in 2013.

Incorrect Payments

Our attestation found that 53 of the 70 participants tested received incorrect payments, including potential fraud, duplicate payments, Medicaid ineligible participants, payments for excluded items and other incorrect payments. Examples of errors related to fiscal year 2013 include:

- Since September 2006, the Agency has reimbursed a participant's health insurance premium even though the participant has not paid the health insurance premium. A fax on file supported that the governmental entity, rather than the employee, paid the health insurance. However, the HIPP Payment Reviewer continued to reimburse the participant for health insurance premiums. We independently verified the governmental entity paid the entire premium.

- Since March 2009, the Agency has reimbursed a participant's health insurance premium based on the employer's share of the premium, rather than the employee's share of the premium, resulting in overpayments for the period tested. This participant's employer pays the majority of the total monthly health insurance premium.

- Since October 2010, the Agency has reimbursed a participant's health insurance premium based on the total premium amount of $2,014. The HIPP Payment Reviewer should have reimbursed the participant for only the employee's share of the premium, $664 each month. Instead, providing reimbursements for both the employee and employer share has resulted in overpayments of $1,350 every month since October 2010.

- Two participants tested had their monthly premium reimbursements incorrectly doubled during the fiscal year.

- One participant was not Medicaid eligible during periods in which premium payments were made and, therefore, was ineligible for the HIPP Program.

- The Agency reimbursed six State employees for health insurance premiums for months in which the employees did not pay the health insurance premium. During November and December of 2012, the State of Nebraska gave all employees covered under the State's health insurance plan a "premium holiday." We verified that no health insurance deduction was withheld from the employees' pay for those months. As a State employee, the HIPP Payment Reviewer also received a premium holiday for November and December 2012 and did not have the insurance premium withheld from her pay. We also observed an email from the HIPP Payment Reviewer, in which she asks a participant about the premium holiday. Furthermore, the APA found that the HIPP Payment Reviewer had adjusted subsequent HIPP Program payments for individuals who had received payment for those months. From these instances, it is evident that the HIPP Payment Reviewer had knowledge of the premium holiday for State employees. However, the participants noted above incorrectly received payments during the premium holiday and had no subsequent payment adjustments.

- The Agency incorrectly paid four participants whose premiums included additional items not covered under the HIPP Program. The individuals received reimbursement for other payroll deductions that were not health insurance, including dental insurance, vision insurance, long-term disability insurance, dependent life insurance, and parking.

The APA attestation report noted that 618 of the 661 payees and payments were made by the HIPP Program directly to the participants, rather than to the insurance companies or employers. It is likely that many of the issues identified may have been prevented or minimized had the Agency complied with regulations and made the payments directly to the insurance providers or employers.

During fiscal year ended June 30, 2013, the Federal share of HIPP Program expenditures totaled $1,537,045. The total of the Federal dollars tested for 2013 was $246,231, with a 100% error rate, which estimates potential dollars at risk for fiscal year 2013 to be $1,537,045.

Cause: There was a significant lack of controls and oversight of the HIPP Program.

Effect: Without adequate control procedures, there is an increased risk for loss or misuse of State and Federal funds, as evidenced by the findings noted in this comment.

Recommendation: We recommend the Agency implement procedures to ensure compliance with the established regulations. We further recommend the Agency:

- Properly document the cost effectiveness calculations for all individuals.
- Re-evaluate the cost effectiveness calculations on a regular basis and ensure all calculations are reviewed and approved by someone other than the individual who performed them.
- Obtain adequate documentation to support the employee health insurance premium amounts paid by participants.
- Ensure participants receiving payments are actually eligible for participation in the HIPP Program.
- Implement controls to ensure monthly payments are accurate.
- Obtain documentation to ensure the participant has actually paid the health insurance premium.
- Implement controls to ensure only health insurance premiums are paid and not other insurance premiums.
- Implement procedures to make payments to the insurance provider or employer, when possible, rather than reimbursing the employee directly.
- Refer cases to the appropriate parties to determine whether fraud has occurred.
- Take appropriate action to recover overpayments.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency began the process of reviewing all processes and procedures related to the HIPP program during the audit. The Agency has already implemented significantly improved internal controls related to this program and will continue to monitor this program and implement additional internal controls as warranted.

The Agency has reviewed the cost effectiveness determination mandated by Title 471 NAC 30-004, and has developed additional processes and procedures to ensure that cost effectiveness is calculated and documented in accordance with these regulations prior to enrolling any participant in the HIPP program. The Agency completed a review of all participants as of June 30, 2013 to verify cost effectiveness and terminated those participants from the program where cost effectiveness was not established.

The Agency reviewed and strengthened the procedures and internal controls related to the HIPP program, which includes ensuring that all case files contain adequate documentation of eligibility for participation in the program, accurate payments, separation of duties, and quality assurance reviews. Where appropriate, the Agency will pursue collection of overpayments and refer specific cases to outside agencies for further investigation.

Contact: Tim Curtis, Program Integrity Administrator

Anticipated Completion Date: Ongoing

HISTORICAL SOCIETY

Finding 2013-081

Program: CFDA 15.904 – Historic Preservation Fund Grants-In-Aid, Allowable Costs/Cost Principles

Grant Number & Year: All open grants, including #31-12-41934, FFY 2012

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

Criteria: OMB Circular A-87, Attachment B § Section 8, subsection h, states, in relevant part:

> *(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
> *(a) More than one Federal award,*
>
> *(b) A Federal award and a non Federal award,*
>
> *(c) An indirect cost activity and a direct cost activity,*
>
> *(d) Two or more indirect activities which are allocated using different allocation bases, or*
>
> *(e) An unallowable activity and a direct or indirect cost activity.*
>
> *(5) Personnel activity reports or equivalent documentation must meet the following standards:*
>
> *(a) They must reflect an after the fact distribution of the actual activity of each employee,*
>
> *(b) They must account for the total activity for which each employee is compensated,*
>
> *(c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
>
> *(d) They must be signed by the employee.*
>
> *(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards. . .*

Condition: Two of the five employees' wages were not supported by timesheets in accordance with OMB Circular A-87.

Questioned Costs: $10,658 known

Context: Our review of payroll noted five employees who worked on multiple activities and had time charged to Federal funds. Two of these employees' wages were not in accordance with OMB Circular A-87, as their timesheets did not specify the actual hours worked on the Federal grant. Instead, hours charged were based on an allocation percentage method. The allocation method had not been approved by the Federal agency. Federal payroll charges for the two employees totaled $10,658 for the period July 1, 2012, through December 31, 2012.

Cause: Unknown

Effect: Without proper recording of time charged to Federal grants, there is an increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure documentation for all employees paid with Federal monies is in accordance with Federal regulations.

Management Response: The National Park Service, US Department of the Interior is the cognizant agency for the Nebraska State Historical Society, as it provides the majority of Federal financial assistance to our agency. We requested approval of our payroll allocation for the two employees working partially on HPF operations by letter dated May 23, 2013 at the time of our attestation conducted by the Auditor or Public Accounts. We continued to remind the National Park Service for the needed written response which was finally received on December 20, 2013.

Corrective Action Plan: Receive approval of time allocation for payroll distribution based on semi-annual statistical sampling method.

Contact: Bob Puschendorf, Deputy State Historic Preservation Officer

Anticipated Completion Date: December 20, 2013

DEPARTMENT OF LABOR

Finding 2013-082

Program: CFDA 17.275 – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors ARRA – Reporting

Grant Number & Year: GJ-19911-10-60-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: The American Recovery and Reinvestment Act of 2009, § 1512(c), states, in relevant part:

> *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[.]*

A good internal control plan requires procedures to ensure reports are submitted timely.

Condition: The § 1512 Federal report was not submitted timely and was not posted to the Federal reporting website, as required.

Questioned Costs: None

Context: The March 2013 report was due April 10, 2013, but was not filed. The Agency stated that it was unable to file the report on-line, so it e-mailed the document to a U.S. Department of Labor (USDOL) representative. The report was not on the website.

Cause: The Agency stated the website was not working at the time of submittal. The Agency emailed the report to USDOL, but there was no response from USDOL indicating whether it could be posted. The Agency did not follow up with USDOL to ensure the report was posted to the website.

Effect: Non-compliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure reports are filed timely, as required.

Management Response: Due to new personnel, and a lack of familiarity with the 1512 reporting process, as well as with the online filing process, the 1512 reports for the period ending March 31, 2013 were not able to be completed until the weekend of April 14, 2013. Assistance was then needed in submitting these online for the very first time. It was first believed that a new FRPIN would be needed by the new Budget Officer. Once this was proven false, the existing

FRPIN was used and the first attempt to submit the information was made at approximately 12:28 p.m. (CST) Monday, April 15, 2013. The due date was a Sunday and there was no available helpdesk personnel. On Thursday, April 18, 2013 we were notified that other states also had issues with filing the reports on time. We were then told to submit the reports via email to Chanel Castaneda and Thomas Dilisio. This was completed at 4:11 p.m. on April 18, 2013.

Corrective Action Plan: The Nebraska Department of Labor (NDOL) is aware of the weekend deadlines, in the past if it was due on a weekend, the assumption was you had until Monday to file. All 1512's since this one have been filed timely. The auditors also validated June 30, 2013 the next quarter and had no remarks on the timeliness.

Contact: Debbie Kay Ward

Anticipated Completion Date: June 30, 2013

Finding 2013-083

Program: CFDA 17.275 – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors ARRA – Allowability & Eligibility

Grant Number & Year: GJ-19911-10-60-A-31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: 29 CFR § 95.42 (July 1, 2012) states, in relevant part:

> *The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts.*

That same Federal regulation says also:

> *No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.*

Additionally, Title 273 NAC 17-001 of the State Classified System Personnel Rules and Regulations says:

> *An employee with a potential conflict of interest shall notify in writing his or her immediate supervisor and the Nebraska Accountability and Disclosure Commission. The written notification shall describe the potential conflict of interest.*

Title 273 NAC 17-001.01 adds:

> *An employee has a potential conflict of interest if he or she is faced with taking an official action or making an official decision which could result in a financial benefit or detriment to the employee, a member of his or her immediate family, or a business or other organization with which he or she is associated.*

Title 273 NAC 17-001.02 directs:

> *An employee who has an actual conflict of interest as determined by the Nebraska Accountability and Disclosure Commission shall take such steps as the Commission shall prescribe to remove himself or herself from the situation in which there is a conflict.*

Finally, Title 273 NAC 17-001.03 provides:

> *Employees failing to resolve a conflict of interest, as prescribed in the procedures outlined by the Accountability and Disclosure Commission, shall be subject to disciplinary action.*

Condition: The Agency employee responsible for administering the Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (Worker Training) grant funds also worked for a grant recipient.

Questioned Costs: Unknown

Context: An employee worked part-time for the Agency as a Workforce Services Administrator, as well as the administrator of the Worker Training Grants, from March 2012 through February 2013. During much of that same period, the Agency employee also worked full time as the office manager for a grant recipient.

The employee's duties included administering contracts – by both confirming grant participant eligibility and approving fund dispersals – supported by Worker Training Grant monies made available under the American Recovery and Reinvestment Act of 2009. During the period of dual employment, the employee approved Agency disbursements of those Federal grant funds to the recipient totaling $45,750 – of which $6,000 was paid in fiscal year 2013. The employee approved payments without any documented secondary review.

The Agency employee's competing activities resulted in an "apparent conflict of interest," as described in 29 CFR § 95.42; however, the Agency failed to take any corrective action. Likewise, despite the possibility of realizing a financial benefit through her official action, as specified by 273 NAC 17-001.01, neither the employee nor the Agency informed the Nebraska Accountability and Disclosure Commission (NADC) of that "potential conflict of interest," which 273 NAC 17-001 requires. Consequently, the NADC was unable to determine whether an "actual conflict of interest" existed and, if necessary, prescribe the appropriate remedial procedures to be followed, as provided under 273 NAC 17-001.02 and 273 NAC 17-001.03.

It is important to note also that 29 CFR § 95.42 directs the Agency to utilize "written standards of conduct governing the performance of its employees engaged in the award and administration of contracts." When asked, the Agency was unable to provide the Auditor of Public Accounts (APA) with a copy of those standards.

Cause: An Agency employee was allowed to work for a recipient of Federal grant monies that the Agency employee administered.

Effect: In addition to giving rise to the underlying concerns regarding lack of compliance with both Federal and State regulations, the conflict of interest noted herein increases the risk of misuse or theft of Federal grant monies.

Recommendation: We recommend the Agency ensure its employees are free of any conflicts of interest, especially when they participate in the selection, award, or administration of contracts supported by Federal funds. Should an employee conflict of interest be found to exist, we recommend further that the Agency take immediate corrective action, which includes complying with 273 NAC 17-001. Finally, we recommend that the Agency comply with 29 CFR § 95.42 by maintaining, as well as adhering strictly to, the required written standards of conduct for employees engaged in the award and administration of contracts involving Federal funds.

> **Management Response:** NDOL does not agree with the finding. The decision by the SESP charter group to designate the IBEW as an approved Training Provider took place prior to Ms. Hernandez going to work at the IBEW. Designation as an Approved Training provider was in no way a contract or guarantee of funds. It simply meant that eligible individuals looking for training could consider the IBEW as a potential training site. Payment to the IBEW could not be made without the enrollment of a qualified training participant. The enrollment of qualified training participants was a responsibility of either the local Workforce Coordinator or the Administrative Workforce Coordinator. Ms. Hernandez was not directly responsible for the enrollment of qualified training participants. For incumbent worker trainings, the recruitment and referral of individuals seeking training was the responsibility of the employers and trade unions conducting the trainings. This process was in place prior to Ms. Hernandez's employment with IBEW. While it is true Ms. Hernandez did approve fund dispersals, it is also true the NDOL Finance Department conducted a secondary review on all payment requests before processing. Ms. Hernandez did not approve the processing of a payment. The written standards of conduct governing employees engaged in the award and administration of contracts are clearly outlined in State Law 49-1499.02 and 49-14126 and Chapter 17 of the State Personnel Regulations. Both rules apply and are adhered to by the NDOL. NDOL management will continue to make sure employees are free of any conflicts of interest especially as they relate to grant selection, awards or administration of contracts. When an employee conflict of interest is found NDOL will comply immediately with State Law and State Personnel Rules.

Corrective Action Plan: In addition to complying immediately with State Law and State Personnel Rules when a conflict of interest is discovered with an employee, the Agency will revise the K5-Outside Employment form to include a section addressing conflict of interest.

Contact: Terri Slone

Anticipated Completion Date: April 1, 2014

APA Response: By her own admission, Ms. Hernandez created the file and approved participant eligibility whenever a reverse referral was received – meaning that the trainer (IBEW) referred a trainee to the Agency. Additionally, the documentation in the training participant files contained only Ms. Hernandez's approval. This is important because the Agency was responsible for the determination of participant eligibility, not the employers. Furthermore, as the Agency is well aware, the "secondary review" referenced above is performed by the Finance Department for coding purposes in the accounting system. Having nothing whatsoever to do with eligibility requirements, that review is wholly irrelevant to addressing, much less attempting to alleviate, the issues noted. Moreover, despite the state statutes cited by the Agency, the fact remains that, by allowing Ms. Hernandez to retain her position, the Agency violated an important governing Federal regulation, 29 CFR § 95.42, which expressly prohibits an agency employee from participating in the administration of "a contract supported by Federal funds" when that employee "has a financial or other interest in the firm selected for an award." Such an interest certainly includes being employed by the recipient firm, as was the case with Ms. Hernandez.

Finding 2013-084

Program: CFDA 17.258, 17.259 and 17.278 – Workforce Investment Act (WIA) Cluster – Allowability & Eligibility

Grant Number & Year: All open grants, including #AA-22949-12-55-A-31, FFY 2013

Federal Grantor Agency: U.S. Department of Labor

Criteria: A good internal control plan requires procedures to review and verify that participants' budgeted expenditures are proper and reasonable. Additionally, a good internal control plan requires that documentation be on file to support participant eligibility and reimbursements are reasonable. OMB Circular A-87 requires costs to be reasonable, necessary, and adequately supported.

20 CFR § 663.310 (April 1, 2012) states:

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

20 CFR § 663.320 (April 1, 2012) states, in relevant part:

(a) 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. (b) 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.

29 USC § 2801(9) (2012) states, as is relevant:

The term "dislocated worker" means an individual who – (A)(i) has been terminated or laid off, or who has received a notice of termination or layoff, from employment; (ii)(I) is eligible for or has exhausted entitlement to unemployment compensation; or (II) has been employed for a duration sufficient to demonstrate, to the appropriate entity at a one-stop center referred to in section 2864(c) of this title, attachment to the workforce, but is not eligible for unemployment compensation due to insufficient earnings or having performed services for an employer that were not covered under a State unemployment compensation law; and (iii) is unlikely to return to a previous industry or occupation[.]

Condition: There was a lack of supporting documentation for participant payments, and participant budgets included unreasonable expenses.

Questioned Costs: Unknown

Context: The Agency subawarded Federal funds to three local areas: Greater Omaha, Greater Lincoln, and Greater Nebraska. Those three local areas administered the Workforce Investment Act (WIA) for the Agency. When someone applied for WIA assistance, a caseworker accumulated the information needed to determine the applicant's eligibility and amount of required assistance. A monthly budget was completed for the individual, including living expenses and total resources. The monthly budget was then compiled into the training budget, which determined the applicant's need for assistance.

During testing of WIA participants, we noted that the subrecipients did not obtain documentation to support the participants' self-attested budgets. Additionally, Greater Lincoln lacked procedures for a supervisory review of the training budgets to ensure the budgets were completed accurately. Our testing revealed that one participant from Greater Lincoln did not have a properly completed training budget. Several errors were noted in the original training budget and, when the APA brought those errors to the attention of the caseworker, the revised budgets still contained errors. The training budgets affect the assistance given to an individual; therefore, procedures should be in place to ensure the budgets are correct.

There were also questionable expenses (i.e., dining out, cigarettes, entertainment, and other incidentals) contained within eight of nine participants' monthly budgets tested, totaling $1,464, as follows:

	Greater Nebraska		**Greater Omaha**				**Greater Lincoln**		
Participant	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Total**
TV/cable/Dish (Satellite)	$35	$ -	$77	$80	$60	$90	130	$ 60	$532
Cigarettes	36	80	-	-	-	-	-	50	266
Gifts	-	-	-	-	-	-	133	50	183
Clothing	-	-	-	-	-	-	-	150	150
Spending Money	-	100	-	-	-	-	-	-	100
Dining out	-	-	-	-	-	-	-	40	40
Entertainment/Misc. Costs	-	-	-	-	-	-	50	50	100
Videos/DVDs/CDs	-	-	-	-	-	-	15	60	75
Newspapers/Magazines	18	-	-	-	-	-	-	-	18
Questionable Expenses	**$89**	**$180**	**$77**	**$80**	**$60**	**$90**	**$328**	**$560**	**$1,464**

We also noted that 5 of 11 Adult and Dislocated Workers tested did not have adequate documentation on file to support the eligibility criteria set out in Federal regulations, as follows:

- One individual did not have documentation that she was unlikely to return to a previous industry or occupation, in accordance with 29 USC § 2801(9)(A)(iii).
- Two individuals did not have documentation that the training program selected was linked to employment opportunities either in the local area or in another area to which they would be willing to relocate, in accordance with 20 CFR § 663.310(c), or that grants received could or could not be used towards the cost of their training, in accordance with 20 CFR § 663.320.
- One individual did not have documentation that she was unable to obtain or retain employment through intensive services, in accordance with 20 CFR § 663.310(a).

- Two individuals did not have documentation that they were unable to obtain grant assistance from other sources, in accordance with 20 CFR § 663.320(a).

A similar finding was noted in the prior audit.

The On-The-Job Training (OJT) program, which is part of the WIA grant, is set up to provide assistance to WIA participants or employers who provide training for WIA participants. An employer may be reimbursed between 50% to 90% of the participant's wage rate – depending upon the employer's size – to compensate for training costs. During testing, we noted:

- One of four OJT employer reimbursements tested did not contain adequate documentation to ensure the participant wages reimbursed were actually paid. The employer submitted an excel spreadsheet for wages paid for three pay periods. Actual paystubs were obtained for the other pay periods reimbursed. Therefore, it is unknown if the $1,145 in reimbursements paid for the undocumented pay periods was reasonable.

- One of four OJT employer reimbursements tested was over-calculated by $528. Because the maximum allowance – which was less than the variance noted – was paid, the miscalculation did not cause an overpayment. However, it is unknown if the Agency would have caught the error, as there was no documentation for the review of the calculation.

The OJT National Emergency Grant (NEG) was set up to provide temporary funding for significant dislocation events, such as FEMA-declared disasters, plant closures, and mass layoffs. For all three employers tested, who received OJT NEG reimbursements, we noted that the Agency did not perform procedures to verify the accuracy of the employee counts reported by the employers. As pointed out above, the percentage of reimbursement to employers is based partly upon the number of individuals employed. The Agency did not verify the employee count information with the Agency's own Labor Market Information (LMI) division, which accumulated employee counts through employers' remittance of UI reports. The APA obtained the LMI data during testing and verified the accuracy of the three employers' reported counts.

Cause: Unknown

Effect: Without adequate policies and procedures to ensure participant budgets are reviewed and verified, there is an increased risk for ineligible participation or improper calculation of need, which could lead to abuse and misuse of Federal funds. There is also an increased risk of misuse or loss of Federal funds when eligibility is not properly documented or when the determination of financial need and assistance is not prepared accurately. Without adequate procedures to ensure reimbursements are proper and agree to supporting documentation, there is an increased risk of improper use of Federal funds due to abuse or error.

Recommendation: We recommend the Agency implement policies and procedures for the review and verification of participant budgets to ensure only reasonable and allowable expenses are included. We also recommend that the Agency ensure adequate supporting documentation is maintained for all eligibility requirements. We also recommend the Agency implement procedures to ensure payments are proper and adequately documented. Finally, we recommend the Agency verify the accuracy of employee counts with its own LMI division.

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. It should be noted, Greater Nebraska implemented a Corrective Action Plan (CAP) from the previous year's audit on PELL grant documentation. The CAP was started in March of 2013, with a completion date of June 30, 2013. In most cases, after the date the CAP was submitted, 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.

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 costs in determining the financial need of the participant. NDOL has updated the On-the-Job Training state policy to include specific language identifying where LMI information can be found to verify employer counts when determining the reimbursement rate. The updated OJT policy was implemented in February 2014.

Contact: Joan Modrell

Anticipated Completion Date: February 28, 2014

Finding 2013-085

Program: CFDA 17.225 – Unemployment Insurance - Federal – Eligibility

Grant Number & Year: #UI-22326-12-55-A-31, FFY 2012

Federal Grantor Agency: U.S. Department of Labor

Criteria: A good internal control plan requires procedures to ensure adequate documentation is reviewed and on file to support that all requirements were met for eligibility prior to paying benefits.

The Training and Employment Guidance Letter (TEGL) 22-08 describes very specific guidelines for individuals to be eligible for Reemployment Trade Adjustment Assistance

(RTAA) at the time of reemployment, including wage limits and how to document the expected earnings from reemployment. TEGL 22-08 also defines the eligibility period and describes how other benefits, such as Trade Readjustment Allowance (TRA) or Unemployment Insurance (UI), affect the calculation of the RTAA benefit amounts.

Condition: There was a lack of documentation to support participants' eligibility.

Questioned Costs: Unknown

Context: During testing of RTAA benefits to recipients, we noted two of two participants tested did not have adequate documentation to support whether they received other assistance, such as TRA or UI, or had exhausted these benefits. If other benefits were received, the amount of RTAA benefits and the period of eligibility for receiving them would be reduced. The participants received RTAA benefits for $9,185 and $7,803, respectively.

Cause: Inadequate documentation.

Effect: Without verification of whether other benefits have been received, as required by TEGL 22-08, there is an increased risk of fraud or misuse of Federal funds due to an improper determination of eligibility or calculation of benefits.

Recommendation: We recommend that the Agency implement procedures to ensure compliance with TEGL 22-08 by verifying whether other benefits have been received. We recommend further that the Agency maintain documentation of such verification.

> **Management Response:** NDOL agrees with this finding. NDOL has sought guidance from USDOL Regional Office for RTAA participants who are self-employed or contractual workers, NDOL will implement a self-attestation calendar which will be signed and dated by the participant verifying the hours worked in each pay period cycle before payment is awarded. The Self-Attestation Calendar includes the following statement, "By signing below I declare that this calendar and the hours and dates indicated above is a true and accurate accounting of hours worked during time period indicated." The self-attestation calendar will be stored in the participant's NEworks electronic file. Additionally, the following procedure has been established to ensure that verification of other assistance is documented; 1) the TAA Coordinator sends an email to the UI TRA Coordinator requesting the number of weeks of TRA payments received by the client and the date Unemployment Insurance eligibility from the Trade affected employer ended or would have ended, 2) the TAA Coordinator will use this information to calculate the start and end dates of the eligibility period (up to 2 years) and to calculate the reduction in available funds if TRA was received, 3) the TAA Coordinator will send this information to the field Case Manager who is responsible for saving a copy of the email/response to the client's Enterprise Content Management (ECM) record and applying the appropriate

dates and reductions to the RTAA/ATAA payment process. NDOL Trade Administration will monitor the process to ensure accountability.

Corrective Action Plan: NDOL implemented the Self-Attestation Calendar and process outlined above on October 30, 2013.

Contact: Joan Modrell

Anticipated Completion Date: October 30, 2013

Finding 2013-086

Program: CFDA 17.225 – Unemployment Insurance - Admin. – Allowable Costs/Cost Principles

Grant Number & Year: #UI23905OJ0, PY 2013

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per OMB Circular A-87, allowable costs must be necessary, reasonable and adequately documented. A good internal control plan requires policies and procedures for a thorough review of mileage reimbursements to ensure travel expenses are reasonable and proper. The Agency should also have adequate monitoring procedures in place to ensure employees are performing the duties assigned to them and properly recording their work time.

Condition: Three unemployment insurance field representatives had questionable mileage reimbursements totaling $8,297. There was also a potential payroll overpayment of $1,818 for the month tested – based on the conclusion that, if the field representatives were not performing visits in the field, they may not have been working.

Questioned Costs: $2,655 known

Context: Within the Agency, the Unemployment Insurance Tax Division is responsible for collecting and processing employer tax and wage reports and pursuing delinquent payments of employer taxes. The Division had 18 Unemployment Insurance Field Representatives on staff. In addition to performing duties in their offices, these field representatives were also required to travel frequently to employers' places of business around the State to carry out specified on-site procedures, such as auditing employers and following up on delinquent taxes. Field representatives used their personal vehicles for business travel and were subsequently reimbursed for the mileage claimed. From July 1, 2012, through June 30, 2013, the 18 field representatives were reimbursed a total of $86,165 for their combined claimed mileage.

Field Rep 2 Testing

During testing of mileage reimbursements, the APA noted inconsistencies with the places of travel claimed by Field Representative 2 (Field Rep 2).

The APA selected four days on Field Rep 2's November 2012 mileage reimbursement and called a total of 14 employers who were listed as having been visited during that time. As a result of those reported visits, Field Rep 2 claimed an "assignment completed" status on the corresponding cases. According to the Agency, an "assignment completed" designation indicated the field representative visited the employer and obtained the necessary information to complete that particular task.

The APA's inquiry revealed that the employers listed were either not visited by Field Rep 2 or unsure whether any such visit had occurred, as set out in the table below:

Days Tested November 2012 - Field Rep 2	Number Employers APA Called	Number Employers Confirmed Field Rep 2 Did Not Visit	Number Employers Unsure Of Field Rep 2 Visit	Number Employers Confirmed Field Rep 2 Visit
11/19/2012	4	3	1	-
11/20/2012	4	3	1	-
11/28/2012	4	4	-	-
11/30/2012	2	2	-	-
TOTAL	**14**	**12**	**2**	**-**

Because the mileage claimed appeared unreasonable based on the locations noted in his travel logs, the APA contacted Field Rep 2 to obtain additional supporting documentation and information. This was necessary to determine the exact locations visited, as the travel logs maintained by Field Rep 2 were insufficiently documented to allow for an independent recalculation of the actual mileage incurred. The APA's request for additional documentation and information occurred prior to calling any employers.

Field Rep 2 was aware the APA was questioning the legitimacy of his mileage reimbursement. When the APA later contacted the employers regarding the specifics Field Rep 2 had provided, they disagreed with the information – in particular, the two visits documented on November 30th.

For one of those visits, Field Rep 2 indicated he met with one of the owners in the Menards' parking lot in Norfolk, Nebraska. This was not the employer's place of business. When the APA called the employers to ask if they had met with the field representative as claimed, they both denied any such meeting. Moreover, neither remembered having ever met with the field representative. For the other of those visits, Field Rep 2 indicated he met with the employer's certified public accountant (CPA) at the CPA's home. The APA spoke with the employer to obtain contact information for the CPA; however, the employer stated that he did not have a CPA by the name Field Rep 2 provided. The employer said also that he had never met with Field Rep 2. The APA was unable to locate a CPA with the name claimed by Field Rep 2.

Due to the number of inconsistencies noted, the APA reviewed the April 2013 mileage reimbursements for Field Rep 2 and several other field representatives. The APA called 90 employers from seven field representatives' logs. We noted that the travel logs maintained by Field Rep 2, Field Rep 4, and Field Rep 14 contained similar discrepancies. In all, 26 employers indicated the field representatives had not met with them or visited their place of business.

Field Rep Tested for April 2013	Number Employers APA Called Note 1	Number Employers Confirmed Field Rep Did Not Visit	Number Employers Confirmed Field Rep Visit
Field Rep 1	7	-	7
Field Rep 2 (Note 2)	23	17	6
Field Rep 4 (Note 2)	21	5	16
Field Rep 5	9	-	9
Field Rep 6	9	-	9
Field Rep 9	8	-	8
Field Rep 14	13	4	9
TOTAL	**90**	**26**	**64**

Note 1: The APA initially selected four to five days from each field representative's travel logs and called all employers listed as visited. However, when an employer denied being visited, the APA expanded testing for that field representative, calling all employers for the entire month of April 2013.
Note 2: The number of employers called included two who were documented as having been visited by the field representatives on two separate days during the month tested. The APA included each occurrence separately in the count.

Due to the discrepancies noted, the APA calculated the mileage variance by removing mileage claimed for employers who denied Field Rep 2 had visited them.

Based on the days tested by the APA in November 2012 and April 2013, a total of 484 miles reimbursed were either unconfirmed or over-claimed by Field Rep 2. The APA recalculated the mileage claimed for the businesses documented but was unable to determine why there were variances. This unconfirmed and over-claimed mileage accounted for $273.

Furthermore, Field Rep 2 claimed mileage for visits to employers with whom he was unable to make contact because, allegedly, the employer was not at the place of business. The APA did not call these employers, as Field Rep 2 indicated contact had not been made. However, the APA questions the validity of any mileage claimed for days on which all the employers denied having met with the field representative. Therefore, the APA calculated an additional questionable reimbursement of 759 miles or $426. This results in questionable mileage reimbursements totaling 1,243 (484 + 759) miles or $699 for the days tested by the APA.

Based on the limited testing performed, the APA believes that additional testing would have produced a similar result – which necessarily brings into question the majority of Field Rep 2's mileage claimed for reimbursement. Extrapolating upon the conclusion that 73% of the mileage tested was over-claimed or unsupported, the Agency may have overpaid $8,159 ($11,177 * 73%) for mileage reimbursements during the year.

Additionally, 29 of the 37 employers contacted during testing for November 2012 and April 2013 indicated Field Rep 2 had not visited their places of business. According to Agency records, moreover, Field Rep 2 appears not to have been in the office or using leave when he was supposed to have been making those visits. Therefore, we concluded the actual time worked was not accurately recorded.

It is reasonable to assume that Field Rep 2 was not performing any work-related activities on the days tested, as such activities could not be documented or supported. Thus, the APA also questions certain payroll expenditures for Field Rep 2. Based on hours documented out of the office on the days tested, we question $1,818 (71.5 hours * $25.428 pay rate).

Based on the limited testing performed, the APA believes that additional testing would have produced similar results – which necessarily brings into question Field Rep 2's payroll for other days on which mileage was claimed for reimbursement.

The APA had planned to interview Field Rep 2 further about the travel log discrepancies and related payroll issues; however, to our surprise, he retired on July 31, 2013, which was soon after the APA expanded testing for the month of April 2013. Even though both the Agency and Field Rep 2 were well aware of the APA's ongoing examination of questionable travel reimbursements, neither informed us of the retirement. Therefore, while attempting to make the necessary arrangements for a follow-up interview, the APA was unaware that Field Rep 2 had already retired and left State employment. By the time the APA learned of this development, it was too late to carry out the interview.

Field Rep 4 Testing

Five of 21 employers contacted by the APA stated they had not met with Field Rep 4. Two remembered having phone conversations with Field Rep 4; however, they denied having met with her.

Due to the discrepancies noted, the APA calculated the mileage variance by removing employers who denied having been visited by Field Rep 4. For the month of April 2013, reimbursements were made for 86 miles of travel apparently not performed, which amounted to $49.

Furthermore, for one day tested, on which all employers confirmed having been visited by Field Rep 4, the APA noted discrepancies in the mileage claimed. Despite recalculating the mileage based upon the businesses listed, we were unable to determine the cause of the variance. The unexplained variance amounted to 16 miles, or a reimbursement of $9, in addition to the questionable mileage reimbursements noted above.

The APA discussed with Field Rep 4 the mileage and reimbursement issues addressed herein, including the employers who claimed not to have been visited. However, Field Rep 4 was unable to provide either an explanation for the employers' responses or any additional documentation to support that the claimed visits or travel were actually performed.

Field Rep 14 Testing

Four of the 13 employers contacted by the APA denied having ever met with Field Rep 14. Due to the discrepancies noted, the APA calculated the mileage variance by removing employers who denied having been visited by Field Rep 14. For the month of April 2013, reimbursements were made for 30 miles of travel apparently not performed, which amounted to $17.

Furthermore, for nine days tested, where all employers confirmed having been visited by Field Rep 14, the APA noted discrepancies in the mileage claimed. Despite recalculating the mileage based upon the businesses listed, we were unable to determine the cause of the variances. This unexplained variance amounted to 112 miles, or a reimbursement of $63.

The APA discussed with Field Rep 14 the mileage and reimbursement issues addressed herein, including the employers who claimed not to have been visited. However, Field Rep 14 was unable to provide an explanation for either the employers' responses or the variances noted, lacking any documentation to support the claimed travel or visits.

Cause: When the APA questioned one Agency supervisor about the review procedures performed to substantiate the accuracy of mileage reimbursements, that supervisor explained that the daily travel logs were designed to make all field representatives accountable for their time. Moreover, the supervisor claimed to know how long it takes to complete assignments in the field and to drive to the various destinations. The supervisor claimed also to review the logs every day and, if something appeared inconsistent, he would contact the field representative for clarification.

The supervisor did not confirm with each employer listed on the travel logs that the claimed visits had actually taken place. Nevertheless, he stated, all field representatives know that anything listed on the travel logs are verifiable and, if something cannot be verified, disciplinary action would be forthcoming.

Despite the supervisor's assertions, the APA was unable to verify that the Agency examined the travel logs in detail or that any reviews were performed to ensure the validity of mileage claimed and reimbursed. Therefore, based upon the issues noted, the APA concluded that adequate supervisor monitoring was not conducted.

Effect: Without policies and procedures for the review of mileage reimbursements by immediate supervisors, there is an increased risk that travel reimbursements will be excessive and/or fraudulent. Furthermore, because this lack of oversight has resulted in the likelihood that travel claimed by field representatives was not performed, there is also an increased risk of excessive payroll expenses for time not worked on Federal programs – which could have a decidedly detrimental impact on the Agency's eligibility for future grants of Federal funds.

Recommendation: We recommend the Agency establish adequate monitoring and supervisory procedures to ensure that all employees are appropriately performing, as well as reporting upon, their assigned duties both in the office and while traveling in the field. These procedures should include steps for determining that employees are paid only for time actually worked or leave used. The Agency should also establish policies and procedures for the review of mileage reimbursements, which would include recalculating mileage based on destinations traveled and subsequent procedures to verify that the travel was actually performed.

Management Response: The Nebraska Department of Labor (NDOL) does not agree with the finding. The APA states that the field representatives had questionable mileage reimbursement. The practice has been to use odometer readings, a recognized accountable plan by the IRS for mileage reimbursements. The APA chose to utilize Map Quest for their review. While both methods produce mileage information, the use of Map Quest does not confirm or disprove the odometer readings. Labor believes that there is a substantial difference between inadequately documented mileage reimbursements and the theft of state funds. Collections of past due taxes from the businesses contacted by the APA indicate that the employers in questions were in fact contacted even if the person contacted by the APA does not recall the visit. The mileage logs in question were prepared and reviewed in accordance with standard practices applicable to field representative travel reimbursements. Daily logs and travel reimbursement requests do not routinely contain the name of the actual person contacted at the employer's place of business or the number of visits to a particular business on a single day. The NDOL believes that the lack of this additional information and the fact that employers were only contacted by the APA months after the actual contact is primarily responsible for the alleged discrepancy rather than any misconduct. Management intends to review the current procedures and documentation requirements for the field representatives. Part of this review will include making modifications to the daily reports so that the mileage reimbursement requests will be better documented. The Tax Field Manager will enhance the monitoring of daily field activities reported including mileage reimbursements. Proper completion of the daily report will be included in field trainings.

Corrective Action Plan: The following changes have been implemented to ensure improved supporting documentation is on file for future reviews:

- the form has been modified by UI Tax to include:
    - the specific name of the person visited
    - physical/locational address visited

    - the order the locations were visited
    - expanded reason when a visit is not completed
- All items will be scanned on a daily basis from the daily reports

In addition, NDOL will:

- UI Tax will survey other state agencies to determine the best practices from their procedures
- UI Tax will train at the annual meeting in April for the tax field reps
- Financial Services Division will have Compliance and Monitoring aid in the development of travel audit procedures
- NDOL will continue to cooperate with any inquiries
- Financial Services Division has viewed two different software systems, which will offer greater flexibility to capture travel information to create improved accountability

Contact: Chris Nider/Debbie Kay Ward

Anticipated Completion Date: June 30, 2014

APA Response: Odometer readings alone are incapable of substantiating where a field representative has traveled or whether he or she was performing State business during such excursions. The individuals in question used their own vehicles for both personal and business travel; therefore, odometer readings would prove useless, making no distinction between the two types of mileage incurred. Realizing this, the APA utilized MapQuest in accordance with DAS-suggested practice for reviewing and recalculating mileage reimbursements. Unlike the Agency, the APA took the time to differentiate between inadequately documented mileage and mileage claims that, due to compelling circumstances, should be questioned as possible theft. In doing so, the APA never suggested that the employers had not been contacted; rather, based upon the responses to our inquiries, we questioned whether specific field representatives had actually visited the employers as claimed. The APA interviewed several individuals associated with the businesses, such as owners, bookkeepers, CPAs, etc., to ensure that anyone who could have met with the field representative was questioned. Additionally, to increase the likelihood that the visits would be remembered, the APA selected the April 2013 travel logs for review and contacted employers in June 2013, only two months after the visits had supposedly been made – effectively negating the Agency's claims regarding delayed inquiries. Thus, the APA is confident in the results of those inquiries. That the Agency appears willing to dismiss those results in such a cavalier fashion is indicative of serious, systemic problems with its employee oversight and accountability.

COMMISSION ON LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding 2013-087

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: All open grants including 2009-SU-B9-0039, FFY 2009

Federal Grantor Agency: Department of Justice

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. (4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*

OMB Circular A-87, Section C.1. states, "To be allowable under Federal awards, costs must meet the following general criteria: … j. Be adequately documented." A good internal control plan requires procedures to monitor subrecipients and ensure compliance with Federal requirements.

OMB Circular A-133 § 315 states:

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

Condition: The Agency did not have adequate subrecipient monitoring procedures and subrecipient A-133 reports were not on file. Documentation was not adequate to support payments to subrecipients were for allowable activities, in accordance with allowable cost principles, and per procurement requirements. A similar finding was noted in the prior Single Audit. The summary schedule of prior audit findings states, "corrective action plan is complete."

Questioned Costs: $20,000 known

Context: Our testing of subrecipient monitoring noted the following:

- The Agency did not have procedures in place to ensure subrecipient A-133 audit reports were received, reviewed, and deficiencies followed up on.
- For three of four subrecipients tested, the most current A-133 audit report was not on file.
- The Agency's written policy was to monitor new subrecipients within the first twelve months and other subrecipients every three years. The Agency was attempting to review all subrecipients annually, but this was not the current Agency policy. The reviews included documentation for one quarter of expenditures. Expenditures were reviewed for allowability and to make sure they were approved in the original grant application.
- One subrecipient tested used Federal funds to enter into a $200,000 contract. The procurement process for this contract was not monitored for compliance with Federal requirements.
- One subrecipient tested had an on-site review during the fiscal year; however, the expenditures tested by the Agency were fiscal year 2012 expenditures, no fiscal year 2013 expenditures were reviewed. Adequate documentation to support expenditures was not on file. Payments were made based on Cash Reports. The cash reports included a breakdown of the quarter's expenses by cost categories and were reviewed by Agency staff; however, no invoices or detailed supporting documentation were on file, therefore it was not possible to determine if the $20,000 payment tested was for allowable activities per the Grant.

For the fiscal year, ended June 30, 2013, payments of $2,184,731 were made to 14 subrecipients. An additional $1,013,357 was passed through to four State Agencies. Federal payment errors noted were $20,000. The total Federal sample tested was $603,306. The dollar error rate for the sample was 3.32% ($20,000/$603,306) which estimates the potential dollars at risk for fiscal year 2013 to be $72,533 (3.32% dollar error rate multiplied by $2,184,731 population).

Cause: The Agency does not require subrecipients to remit supporting documentation with cash requests. Additionally, the Agency's written policy is to monitor subrecipients once every three years.

Effect: Without procedures to ensure adequate subrecipient monitoring, there is an increased risk subrecipients' expenditures are not allowable.

Recommendation: We recommend monitoring be improved to provide reasonable assurance subrecipients' expenditures are allowable. This monitoring should include reviews of supporting documentation for the expenditures reported on the quarterly cash reports and include all applicable compliance requirements including the subrecipients' procurement policies and procedures. This monitoring should also include consideration of whether subrecipient expenditures are covered by A-133 audits. The Agency should ensure required A-133 audit reports are received, reviewed, and deficiencies followed up on. Additionally, the Agency's policy should be changed to require reviews be completed more often than every three years. Annual reviews and final reviews should be completed before the grant is closed.

Management Response: Starting in August 2013, the Crime Commission began to review all supporting documentation for JAG grants. It is now a requirement to submit back up documentation prior to receiving funds. Currently, the Crime Commission does receive and review all required A-133 reports. Operating Instruction #10 does define the monitoring process for all Crime Commission subgrantees. Monitoring policy and procedures will be revised to require a desk review at least every year for all subgrantees in addition to the on-site review every three years. Grants awarded to new projects are monitored at least once during the first twelve (12) months of funding. Grants awarded to existing projects are monitored at least once every thirty-six (36) months.

Corrective Action Plan: Monitoring policy and procedure will be revised to require a desk review at least every year for all subgrantees in addition to the on-site review every three years.

Contact: Lisa Stamm

Anticipated Completion Date: February 1, 2014

Finding 2013-088

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant (JAG) Program – Reporting

Grant Number & Year: 2012-DJ-BX-0661, FFY 2012

Federal Grantor Agency: Department of Justice

Criteria: Per 2 CFR § 170 (January 1, 2013) Subpart C Appendix A - I. 2. 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.)

Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting (August 27, 2010 Appendix B 1.1.1 Key Federal Funding Accountability and Transparency Act (FFATA) Data Elements states:

FFATA specifies the data that should be captured for each Federal award, regardless of award type. These key data elements are:

- *The name of the entity receiving the award*
- *The amount of the award*
- *Information on the award including transaction type, funding agency, the North American Industry Classification System code (NAICS) or Catalog of Federal Domestic Assistance (CFDA) number, program source, and an award title descriptive of the purpose of each funding action*
- *The location of the entity receiving the award and the primary location of performance under the award including the city, state, congressional district, and country*
- *A unique identifier of the entity receiving the award and of the parent entity of the recipient, should the entity be owned by another entity . . .*
- *Any other relevant information specified by OMB.*

A good internal control plan should include procedures to ensure information is accurate and reported timely.

Condition: The following issues were noted related to Transparency Act Reporting:

- Three of seven subawards to non-State agencies over $25,000 were not reported on FSRS.gov (FFATA Subaward Reporting System).

- For two of two subawards tested, the action was not reported on FSRS.gov no later than the last day of the month following the month in which the subaward obligation was made. The subawards tested were obligated September 27, 2012, and October 18, 2012. The information was entered on June 28, 2013. The information should have been entered no later than October 31, 2012, and November 30, 2012.

- For two of two subawards tested, the subaward date (month and year the subaward was made against the Federal Award ID Number) was not accurately reported and did not agree to supporting documentation. The reported date was June 28, 2013; grants were awarded August 17, 2012.

- For one of two subawards tested, the subaward obligation/action date (date the subaward agreement was signed) was not accurately reported and did not agree to supporting documentation. The Agency reported November 2, 2012, and the date signed was October 18, 2012.

- For two of two subawards tested, the date of report submission (date the recipient entered the obligation into FSRS.gov) was not accurately reported and there was no supporting documentation on file. The date of the report submission was June 28, 2013. This date is automatically populated by the system.

- For two of two subawards tested, there was no documentation of the review of the data uploaded other than the fact that the data was on the website.

A similar comment was noted in the prior Single Audit.

Questioned Costs: None

Context: Agency staff re-entered the four grants the auditor was able to view on USAspending.gov on June 28, 2013, after it was noted the information was not on the FSRS.gov website. Because the grants were re-entered, there was no supporting documentation that the subawards were reported on FSRS.gov no later than the last day of the month following the month in which the subaward obligation was made. Therefore, the subaward date and the obligation date were incorrect. Agency staff tried to enter the remaining three subrecipient grants onto FSRS.gov but technical issues related to the website prevented the data from being transferred to USAspending.gov.

Cause: Agency staff believed all sub-grants were entered on time. The Agency believes the information for these sub-grants was accidentally deleted from FSRS.gov by support staff. The Agency does not have any supporting documentation showing the first date the sub-grants were entered.

Effect: Information reported was not correct.

Recommendation: We recommend the Agency develop procedures to ensure information is reported on FSRS.gov timely and accurately. The information reported should be reviewed by a supervisor and this review should be documented.

Management Response: FFATA reporting difficulties, the date DOJ entered the Federal award and discrepancies between subgrantee information and SAMS caused multiple delays in entering all FFATA information. All FFATA information is reviewed prior to submission and this is documented via an internal FFATA spreadsheet.

Corrective Action Plan: Documentation of submission(s) difficulty will be on file. In addition, each individual FFATA report will be saved as back up documentation.

Contact: Lisa Stamm

Anticipated Completion Date: November 1, 2013

Finding 2013-089

Program: CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant – Program Grants to States and Territories – Reporting

Grant Number & Year: 2009-SU-B9-0039; FFY 2009

Federal Grantor Agency: Department of Justice

Criteria: 28 CFR § 66.20 (July 1, 2012) 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 states:

> *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.

Per OMB Circular A-133 § 315:

> *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 amount reported as received on the ARRA 1512 report for the quarter ended March 31, 2013, was reported incorrectly as the expenditure amount, which was not the same as the amount received. In addition, amounts reported as disbursed to sub-grantees were incorrect. ARRA 1512 reporting errors was a comment in the prior Single Audit. The summary schedule of prior audit findings states, "corrective action plan is complete."

Questioned Costs: None

Context: The ARRA 1512 amount reported for Funds Invoiced/Received was $7,649,972. The funds received per EnterpriseOne were $8,238,012, a difference of $588,040.

For 5 of 26 sub-grantees, the Sub-Awards Disbursed amounts reported were incorrect as follows:

Sub-Grant	Reported	Actual	Variance
Cedar County Grant 09-DX-9034	$ 75,920	$ 391,100	$ 315,180
Lancaster County Grant 09-DX-9026	265,500	295,017	29,517
City of Lincoln Grant 09-DX-9016	326,357	59,790	(266,567)
City of Lincoln Grant 09-DX-9035	310,840	333,600	22,760
Nebraska State Patrol Grant 09-DX-9030	247,781	263,944	16,163

Cause: Unknown

Effect: The reporting was not accurate and was non-compliant with Federal regulations.

Recommendation: We recommend the Agency improve procedures to ensure Federal reports are accurate.

Management Response: This was a data entry error and the 1512 has been corrected and approved by the Department of Justice.

Corrective Action Plan: This report has been corrected and the final 1512 has been approved by the Department of Justice.

Contact: Lisa Stamm

Anticipated Completion Date: N/A

Finding 2013-090

Program: CFDA 16.588 – Violence Against Women Formula Grants – Allowability & Subrecipient Monitoring

Grant Number & Year: 2011-WF-AX-0035, FFY 2011

Federal Grantor Agency: Department of Justice

Criteria: OMB Circular A-133 § 300 requires the auditee to:

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

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:

> *[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.*

OMB Circular A-133 § 315 states:

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

A good internal control plan would include procedures to ensure expenditures are allowable.

Condition: We noted procedures were not adequate to ensure expenditures were allowable or subrecipient compliance requirements were met. This was also a comment in the prior Single Audit.

Questioned Costs: $143,245 known

Context: We reviewed two subrecipient payments and noted expenditures tested did not have adequate documentation. The subrecipients 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. Payments during the fiscal year for the two subgrants tested totaled $143,245. Total expenditures for CFDA 16.588 for the fiscal year ended June 30, 2013, were $868,763 and included 16 subrecipients. Additional monies of $274,938 were paid to three other State Agencies.

Cause: Subrecipient expenditures were not verified to supporting documentation because the Agency relied on financial reviews. Although this provides some assurance, the reviews did not include 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:** At this time, our workload does not allow us to check all documentation for all federally funded grants. Documentation is checked during a financial monitor. Operating Instruction #10 defines agency monitoring of grant awards. Currently, all subgrant programs are monitored based upon requirements as established by the Agency, which include a review of the program activities and financial review of the expenditure of program dollars.
>
> **Corrective Action Plan:** Operating Instruction #10 does define the monitoring process for all Crime Commission subgrantees. Monitoring policy and procedure will be revised to require a desk review at least every year for all subgrantees in addition to the on-site review every three years. Grants awarded to new projects are monitored at least once during the first twelve (12) months of funding. Grants awarded to existing projects shall be monitored at least once every thirty-six (36) months.
>
> **Contact:** Lisa Stamm
>
> **Anticipated Completion Date:** February 1, 2014

DEPARTMENT OF ROADS

Finding 2013-091

Program: Various, including CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Grant Number & Year: All open grants, including NE-18-X036, FFY 2013; NE-86-X001, FFY 2010 (ARRA)

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-133, § __.300(a), requires the State to "[i]dentify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." Additionally, § __.300(d) directs the State to 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: We noted the Agency did not accurately report Federal expenditures on the SEFA. We informed the Department of Administrative Services (DAS), and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The following SEFA variances were noted:

CFDA	Program	Originally Reported	Revised	Change
20.500	Federal Transit Capital Investment Grants	$0	$186,403	$186,403
20.505	Metropolitan Transportation Planning	$2,185,138	$1,474,006	$(711,132)
20.509	Formula Grants for Rural Areas	$3,585,808	$4,799,017	$1,213,209
20.509 ARRA	Formula Grants for Rural Areas	$0	$5,455,589	$5,455,589
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$2,398,962	$1,710,482	$(688,480)
20.513 ARRA	Enhanced Mobility of Seniors and Individuals with Disabilities	$5,455,589	$0	$(5,455,589)

Cause: The wrong CFDA numbers were tied to apportionment codes in the Agency's Project Finance System. No one was reviewing the CFDA numbers tied to the apportionment codes.

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

Recommendation: We recommend the Agency implement procedures to ensure all CFDA's are accurately presented on the SEFA. Apportionment codes and grant numbers should be reviewed to ensure proper set up in the Project Finance System.

Management Response: The Agency concurs with this finding.

Corrective Action Plan: Transit Section will be responsible to provide the CFDA number, which is provided as part of the grant process, along with any new apportionment codes that they ask to be implemented in the future. A verification of all current apportionment codes in the project finance system has already been made to insure all existing CFDA numbers are correct.

Contact: Rebecca Fleming

Anticipated Completion Date: January 1, 2014

Finding 2013-092

Program: CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Grant Number & Year: NE-18-X036, FFY 2013; NE-18-X034, FFY 2011; NE-86-X001, FFY 2010 (ARRA)

Federal Grantor Agency: U.S. Department of Transportation

Criteria: A good internal control plan includes procedures to ensure Federal reports are accurate and submitted in accordance with regulations.

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)(ii), (January 1, 2012) 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 49 CFR § 18.20(a)(1) (October 1, 2012), fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports.

Section 2.5 of the OMB Memorandum M-09-21, dated June 22, 2009, states:

All data contained in each quarterly recipient report will be cumulative in order to encompass the total amount of funds expended to date. This means that reports due on October 10, 2009, will include funding from February 17, 2009 (the date the Act was enacted by Congress) through September 30, 2009.

Condition: The Agency did not report subawards, as required by the Federal Funding Accountability and Transparency Act (FFATA). The Agency did not accurately report expenditures for the ARRA Section 1512 report or Federal Financial Reports (FFR).

Questioned Costs: None

Context: We noted the following:

- The Agency did not report subawards required by FFATA. During State fiscal year 2013, there were 41 subrecipients awarded $3,662,169 and 16 vehicles purchased for $628,204 that should have been reported through the Federal Subaward Reporting System.
- Expenditures were not accurately reported on the Section 1512 report tested. For the quarter ended March 31, 2013, the Agency only included expenditures through February 2013 and did not include March 2013 expenditures.

Quarter Ended	Reported Expenditures	Actual Expenditures	Under Reported
March 31, 2013	$7,010,209	$7,545,088	$(534,879)

- Expenditures were not accurately reported for all three FFRs tested. The annual FFR submitted for the NE-18-X034 grant was for the period through September 30, 2012, and only included expenditures through September 19, 2012. The ARRA September 2012 quarterly FFR did not include September 2012 expenditures. The ARRA March 2013 quarterly FFR reported expenditures for December 2012 through February 2013 and did not include March 2013 expenditures.

Period Ended	Grant	Line Item	Reported	Actual	Variance
Sept 2012	NE-18-X034	Period Expenditures	$412,353	$451,175	$(38,822)
Sept 2012	NE-18-X034	Cumulative Expenditures	$3,890,260	$3,937,688	$(47,428)
Sept 2012	NE-86-X001	Period Expenditures	$787,573	$1,712,292	$(924,719)
Sept 2012	NE-86-X001	Cumulative Expenditures	$3,695,808	$4,620,530	$(924,722)
March 2013	NE-86-X001	Period Expenditures	$1,208,386	963,406	$244,980
March 2013	NE-86-X001	Cumulative Expenditures	$7,010,209	$7,545,088	$(534,879)

Cause: The Agency indicated that it was unaware of the FFATA reporting requirements. The Agency was reporting expenditures based on Federal receipts drawn instead of expenditures paid.

Effect: Inaccurate reporting could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure all reports are accurate and submitted as required.

Management Response: The Agency concurs with this finding.

Corrective Action Plan: Billings will be scheduled at or as close to the end of the reporting period for the FFR to permit all expenditures approved for disbursement in the Roads Payment System to be included in the Project Finance System's Special Bill report.

FFATA--The Transit Section will review subawards monthly and submit the applicable FFATA report within 30 days.

Contact: Frank Faughn

Anticipated Completion Date: March 1, 2014

Finding 2013-093

Program: CFDA 20.509 – Formula Grants for Rural Areas – Earmarking

Grant Number & Year: NE-18-X026, FFY 2007; NE-18-X027, FFY 2008; NE-18-X030, FFY 2009

Federal Grantor Agency: U.S. Department of Transportation

Criteria: 49 USC § 5311(f)(1) (2011) provides, "A State shall expend at least 15 percent of the amount made available in each fiscal year to carry out a program to develop and support intercity bus transportation." 49 USC § 5311(f)(2) adds:

> *A State does not have to comply with paragraph (1) of this subsection in a fiscal year in which the chief executive officer of the State certifies to the Secretary, after consultation with affected intercity bus service providers, that the intercity bus service needs of the State are being met adequately.*

Condition: The Agency did not spend at least 15% on intercity bus transportation and did not have a certification from the Governor that the intercity bus service needs of the State were being adequately met.

Questioned Costs: None

Context: The Agency had a certification on file from the Agency director for fiscal years 2008 and 2009. The certifications were not signed by the Governor. Three grants closed during the fiscal year. The grant years and percents spent for intercity bus transportation were: 2007 grant 3%; 2008 grant 4%; and 2009 grant 7%.

Cause: The Agency indicated that it had performed research in 2011 to identify the needs of the State for intercity bus services but had not followed through with a certification.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency obtain an annual certification from the Governor when intercity bus spending will be below 15% of the amount made available.

Management Response: The Agency concurs with this finding.

Corrective Action Plan: The Transit Section is working with the University of Nebraska to conduct the intercity bus consultative process for 2014, which will be the basis for determining the intercity bus service needs of the State. The Agency will request the required intercity certification from the Governor that the needs are being met adequately.

Contact: Kari Ruse

Anticipated Completion Date: June 2014

<u>Finding 2013-094</u>

Program: CFDA 20.509 – Formula Grants for Rural Areas – Allowability & Suspension and Debarment & Subrecipient Monitoring

Grant Number & Year: All open grants, including NE-18-X036, FFY 2013; NE-18-X034, FFY 2011; NE-86-X001, FFY 2010 (ARRA)

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87, Attachment A, § (A)(2)(a), states, in relevant part:

> *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 requires costs to be reasonable, necessary, and adequately supported.

OMB Circular A-87, Attachment B, § 13, states:

> *a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.*
>
> *b. Such costs will be equitably apportioned to all activities of the governmental unit. Income generated from any of these activities will be offset against expenses.*

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.

49 CFR § 18.20(a) (October 1, 2012) states, in relevant 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 2 CFR § 25, Appendix A, § I(B) (January 1, 2013):

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.

2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

31 USC § 7502(f)(2) (2012) states, in relevant part:

Each pass-through entity shall (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter[.]

49 USC § 5311(g)(2)(A) (2011) provides, as is relevant, "[A] grant made under this section for operating assistance may not exceed 50 percent of the net operating costs for the project, as determined by the Secretary."

Per 2 CFR § 180.300 (January 1, 2013):

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS [Excluded Parties List System]; or
(b) Collecting a certification from that person; or
(c) Adding a clause or condition to the covered transaction with that person.

2 CFR § 176.210(c) (January 1, 2013) 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.

OMB Circular A-133, § __.300, says that 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 compliance requirements.

Condition: The Agency did not have adequate procedures to monitor subrecipient compliance with Federal laws and regulations. The Agency did not have adequate documentation on file to support that payments to subrecipients were for allowable activities, in accordance with allowable cost principles and per Davis-Bacon Act requirements.

Questioned Costs: $108,169 known

Context: We tested 26 expenditures, of which 21 were payments to subrecipients. For 20 of 21 subrecipient payments tested, adequate supporting documentation was not obtained and reviewed by the Agency. Documentation on file for operating assistance reimbursements only included worksheets, and amounts were not verified to invoices or timesheets. In addition, one reimbursement did not meet matching requirements; two reimbursements were not mathematically accurate; and one reimbursement included employee morale costs but lacked documentation to show that the expenditure was equitably apportioned to all activities of the governmental unit. Total expenditures for operating assistance reimbursements were $3,256,061 during the fiscal year.

We also reviewed seven subrecipients for monitoring and noted:

- The Agency did not have any documentation of site visits performed prior to State fiscal year 2013. Three of seven subrecipients tested did not have a site visit performed during the year or any evidence of the last site visit done, if ever. Four subrecipients had a site visit but had no documentation to support expenditures were reviewed for allowability and compliance with Federal regulations.
- The Agency did not have procedures in place to review the excluded parties list prior to awarding funds or to monitor subrecipients to ensure they were reviewing the excluded parties list.
- For all five non-ARRA subrecipients tested, the Agency did not have any procedures to obtain the DUNS number.
- The Agency did not have procedures in place to make subrecipients aware of the Federal award name and number or the CFDA name in the award letter or the award agreement. None of the seven subawards tested included the required information.
- For both subawards tested that were required to follow the Davis-Bacon Act, the agreement included the requirement to comply with the act; however, the site visit did not have documentation of monitoring for such compliance.
- The Agency did not have procedures to make the subrecipient aware of the Federal award number and the CFDA number at the time of the subaward and the disbursement of funds. For both ARRA subrecipients tested, the required information was not provided.

The Agency paid 64 subrecipients a total of $8,796,111 during the fiscal year.

Cause: Inadequate procedures and documentation.

Effect: There is an increased risk for errors or fraud to occur and not be detected.

Recommendation: We recommend the Agency implement procedures to ensure subrecipient expenditures are allowable and in accordance with Federal regulations. We further recommend the Agency check the excluded parties list, obtain DUNS numbers, and inform subrecipients of award information.

Management Response: The Agency concurs with this finding.

Corrective Action Plan:

1. Thirty-seven 5311 site visits were conducted in calendar year 2013. Site visits are on schedule to be conducted at least every three years at each 5311 subrecipient.

   In cooperation with the NDOR Controller Division, the Transit Section will develop guidelines for conducting desktop and onsite reviews for the transit systems. The activities to determine this criteria will include the following:

   1. Review the audit checklist previously developed for these reviews and identify relevant review perimeters
   2. Develop a risk assessment worksheet
   3. Develop sampling methodology
   4. Create a review schedule based on risk factors

   The audit criteria and procedures will be included in the NDOR Transit Section State Management Plan.

2. The 5311 application for operating assistance now requires the applicant to conduct a search of the excluded parties list and provide supporting documentation as proof.

3. The 5311 application for operating assistance now requires the applicant to include the agency DUNS number.

4. Beginning immediately, all agreements will include the Federal award name and number of the CFDA name.

5. The Transit Section currently has one active construction project in Scottsbluff County. During a site visit conducted in February 2014, it was discovered that the required posters (including Prevailing Wage) were not posted. The District Office is following up to ensure the posters are accessible and in the appropriate location. Wage certification statements are being forwarded weekly from the contractor to the architectural firm providing oversight to the project. These statements along with all project documentation will be forwarded to the Agency at project closeout. For all future infrastructure projects, an infrastructure site visit checklist will be developed.

Contact: Kari Ruse

Anticipated Completion Date: April 1, 2014

SECRETARY OF STATE

Finding 2013-095

Program: CFDA 90.401 – Help America Vote Act Requirements Payments – Allowable Costs/Cost Principles

Grant Number & Year: 2003

Federal Grantor Agency: U.S. Election Assistance Commission

Criteria: OMB Circular A-87, Attachment B, §§ 8(h)(4) & (5), states, in relevant part:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A Federal award and a non Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.
(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards . . . .

Condition: One employee tested did not have adequate documentation to support charging part of the employee's time to a Federal program. The employee's timesheet listed only the total hours worked each day and did not differentiate between the time spent on Federal and non-Federal programs.

Questioned Costs: Unknown

Context: For the month tested, the employee received gross wages of $1,356 paid from CFDA 90.401, Help America Vote Act (HAVA). Per review of the State's accounting system, $195,609 in HAVA funds was used to pay employee salaries during the fiscal year. HAVA is accounted for in the Elections Administration Cash Fund. Agency staff indicated they were unaware of the OMB requirement. Thus, any staff paid with Federal grant funds would not have adequate documentation, as required by OMB Circular A-87.

Cause: Agency was unfamiliar with requirement.

Effect: Increased risk for misuse of grant funds.

Recommendation: We recommend the Agency implement procedures to ensure proper documentation for all employees paid with Federal grants in accordance with Federal regulations.

Management Response: The agency agrees with the recommendation and has already changed the timekeeping policies and procedures for those employees paid for either partially or wholly with federal funds.

Corrective Action Plan: Timesheets have been correctly prepared since July 2013.

Contact: Suzie Hinzman

Anticipated Completion Date: July 2013

SUPREME COURT

Finding 2013-096

Program: Various, including: CFDA 93.563 – Child Support Enforcement; CFDA 20.610 – State Traffic Safety Information System Improvement Grants; and CFDA 16.588 – Violence Against Women Formula Grants – Allowable Cost Principles

Grant Number & Year: Various, including #0G1204NE4004, FFY 2012

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

Criteria: OMB A-87, Attachment B, § 8(h)(3), states:

> *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

OMB A-87, Attachment B, § 8(h)(4), states, in relevant 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 which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.*

OMB A-87, Attachment B, § 8(h)(5), states, in relevant part:

> *Personnel activity reports or equivalent documentation must meet the following standards:*
> *(a) They must reflect an after the fact distribution of the actual activity of each employee,*
> *(b) They must account for the total activity for which each employee is compensated,*
> *(c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
> *(d) They must be signed by the employee.*
> *(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes….*

A good internal control plan requires procedures to ensure adequate documentation is on file to support that payroll is charged to the proper activity.

Condition: Payroll was not charged to Federal grants in accordance with OMB Circular A-87.

Questioned Costs: $136,022

Context: The Supreme Court receives Federal grants from other State agencies. During our calendar year 2012 attestation, we reviewed 35 Supreme Court employees paid from Federal funds and noted the following:

- Two employees paid solely from a Traffic Safety grant did not have certifications that 100% of time was worked on the Federal grant.

- Twelve employees with time charged to both Federal and State funds did not have personnel activity reports completed for the time worked on the grants.

Grant	CFDA	# Employees paid from grant	Federal Charges 7/1/2012 thru 12/31/2012
Traffic Safety	20.610	2	$16,719
Child Support Enforcement	93.563	11	97,835
Violence Against Women	16.588	1	21,468
Total Questioned Costs			$136,022

Cause: The Agency was unaware of the Federal requirements and had not been fully informed of them by pass-through State agencies.

Effect: Without adequate documentation of time worked on Federal grants, there is an increased risk payroll will not be charged correctly.

Recommendation: We recommend the Agency implement procedures to ensure employees record their time worked on Federal grants either through personnel activity reports or through a certification in accordance with OMB A-87.

Management Response: Please note that the 2 employees related to the Traffic Safety grant and all but one of the employees related to the Child Support Enforcement grant are no longer paid from Federal funds. These employees are now paid from other funds sources due to the grant or contracts related to the grant expiring. It is the intent of the Supreme Court to comply with the OMB A-87 requirements for the remaining employees paid from Federal funds.

Corrective Action Plan: For the employee that spends 100% of their time on grant activities a certification will be developed to document that all time is grant related. For the employee that spends less than 100% of their time on grant activities a time record will be developed. OMB regulations will be reviewed to make sure all requirements are completed.

Contact: Eric Asboe, Budget and Fiscal Officer

Anticipated Completion Date: July 1, 2014

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-13-01	Various 10.555	National School Lunch Program Subrecipient Monitoring	Procedures have been adjusted to ensure all applicable subrecipients receive a management decision from the Nebraska Department of Education (NDE) for pass-through grants. Monitoring of the new procedures is ongoing. A Program Determination Letter from the U.S. Department of Education has been received indicating the corrective action plan is sufficient.	No Current Finding
12-13-02	10.558 10.553 10.555 10.556 10.559	Child and Adult Care Food Program & Child Nutrition Cluster Reporting	Procedures have been adjusted to ensure CACFP and CNP expenditures are reported in a timely manner in compliance with Federal requirements. NDE will continue to seek additional guidance from USDA regarding FFATA reporting until permanent guidance is issued.	Repeated with Changes Finding 2013-008
12-13-03 11-13-01	10.558	Child and Adult Care Food Program Suspension and Debarment	The corrective action plan has been implemented.	Repeated with Changes Finding 2013-009
12-13-04	10.558	Child and Adult Care Food Program Eligibility	Interim corrective action plan has been implemented. The .NET version of Colyar/CNP System is still projected to be implemented for the 2014-15 School Year.	Repeated with Changes Finding 2013-010
12-13-05	84.027	Special Education Grants to States Reporting	Procedures have been adjusted to ensure IDEA award amounts are reported in a timely manner in compliance with Federal requirements. NDE will continue to seek additional guidance from USED regarding FFATA reporting until permanent guidance is issued.	No Current Finding
12-13-06	84.027 84.173	Special Education Grants to States & Special Education Preschool Grants Reporting	NDE continues to use the system that was praised by Federal officials from OSEP in September 2011. Procedures related to corrections to the data have also been implemented.	Repeated with Changes Finding 2013-012
12-13-07	84.010	Title I Grants Special Tests & Provisions	Procedures have been implemented to ensure data is reported accurately for upcoming years.	No Current Finding

Nebraska Department of Education (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-13-08	84.389	Title I Grants (ARRA) Reporting	Procedures for ensuring ARRA 1512 reports remaining to be filed will be correct and accurate have been implemented.	No Current Finding
12-13-09	84.010	Title I Grants Reporting	Procedures have been adjusted to ensure Title I award amounts are reported in a timely manner in compliance with Federal requirements. NDE will continue to seek additional guidance from USED regarding FFATA reporting until permanent guidance is issued.	Repeated with Changes Finding 2013-015
12-13-10	84.010 84.389	Title I Grants Title I Grants (ARRA) Reporting	Documentation has been submitted to USED regarding a Program Determination Letter clearing this finding, but the letter has not been issued yet.	No Current Finding
11-13-05	96.001 96.006	Disability Insurance/SSI Cluster Suspension and Debarment	Resolved by an email from Eric Ryan at the Kansas City Regional Office of the SSA.	No Current Finding

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-23-01	Various 17.258 17.259 17.260 17.278	WIA Cluster Allowability	Finding has been resolved. The confidential agreement that is required by the U.S. Social Security Administration and the U.S. Department of Labor was signed by the Nebraska Auditor of Public Accounts on May 22, 2013. Once the agreement was signed, full access was given to the state auditors to the Benefit Payment System, the Tax System, Papervision (a document retrieval system) and to the Electronic Content Management System.	No Current Finding
12-23-03 11-23-01 10-23-01 09-23-01 09-23-03 08-23-04	17.258 17.259 17.260 17.278	Various WIA Cluster Allowable Costs/Cost Principles	The programming was successful and all overtime hours, whether compensated or not, are included in allocations. The State's enterprise accounting system does not pick up hours unless there are dollars attached. The exempt overtime hours do not have any pay or dollars to them. So, although they are in the payroll system, they did not flow over to the general ledger detail. The exempt overtime hours are straight hours since they are not compensated. These hours are recorded as Pay Type 585. All overtime hours are used in the calculation of any allocations which are based upon hours. The Nebraska Department of Labor (NDOL) submitted the data required by the U.S. Department of Labor (USDOL) for the cost allocation plans in the format provided by Regional USDOL. NDOL has received the advice for the FY11-12, and has been assured that the 3 years of data which were submitted will be reviewed.	No Current Finding
12-23-04	17.258 17.259 17.260 17.278	Various WIA Cluster Allowable Costs/Cost Principles	Based upon materiality, this should not have been raised to the level of a finding. If every Career Center coded all postage wrong for the entire year, then this finding would total only $9,613. To extrapolate the $13.00 questioned postage costs in one cost center to the population that includes salaries at over 2.5 million of the $2,604,506 population is not reasonable and representative sampling. The auditors extrapolated the error to be $108,868, but the total postage was only $9,613. We would respectfully request this finding be considered resolved.	No Current Finding

Nebraska Department of Labor (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-23-05	17.258 17.259 17.260 17.278	WIA Cluster Allowability & Subrecipient Monitoring	Management has the requested documentation for all the transactions cited by the auditors. The cash disbursement journals were in-house at the time of the audit, but due to turnover in staff, were not readily accessible.	No Current Finding
12-23-06 11-23-03 10-23-04	17.258 17.259 17.260 17.278	WIA Cluster Allowability & Eligibility	The Nebraska Department of Labor has revised its State Policy on “PELL Grants and Other Financial Aid Issues”. The policy now emphasizes the need to document whether a PELL grant has been received or not and the need to coordinate training cost when utilizing WIA funds. The State Monitor will continue to review case files annually for compliance.	Repeated with Changes Finding 2013-084
12-23-07	17.258 17.259 17.260 17.278	WIA Cluster Reporting	Nebraska Department of Labor (NDOL) has been in contact with another state with similar requirements. Workforce Investment Act Youth distribution, which was delayed due to the federal budget, was issued in May 2013. This was the first distribution after the audit report. The due date of the FFATA report was June 30, 2013. NDOL completed FFATA reporting on June 28, 2013.	No Current Finding
12-23-08	17.258 17.259 17.260 17.278	WIA Cluster Cash Management	Nebraska Department of Labor (NDOL) has started the process of cleaning up the old business units. At this point each grant will be evaluated on whether the general ledger is correct. There are several old grants that are part of the settlement. NDOL has been in contact with the U.S. Department of Labor and will start with the older grants, the journal entries which are in question was the first step of reconciling the revenue accounts to the PMS draw downs. Since many of these accounts have been out of sync since the grants began, this is a long and arduous process.	Pending Federal Resolution

Nebraska Department of Health and Human Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-25-02	Various 93.658	Various Foster Care Title IV-E Allowable Costs/Cost Principles	Corrective action plan in progress. Will receive first report for quarter ended December 31, 2013.	Repeated with Changes Finding 2013-022
12-25-03 11-25-05	93.575	Child Care and Development Block Grant Period of Availability	Corrective action plan in progress. Department is awaiting response from ACF to response dated 11/13/2012.	No Current Finding
12-25-04	Various 93.778	Various Medical Assistance Program Allowable Costs/Cost Principles	Corrective action plan is complete.	Repeated with Changes Finding 2013-024
12-25-05	93.977 93.791	Various State Survey and Certification Money Follows the Person Allowable Costs/Cost Principles	Corrective action plan is complete.	Repeated with Changes Finding 2013-026
12-25-06	93.558	Temporary Assistance for Needy Families Cash Management	Corrective action plan in progress. Will be implemented for quarter ended December 31, 2013.	Repeated with Changes Finding 2013-021
12-25-07 11-25-06 10-25-04 09-25-31	10.555	National School Lunch Program Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-028
12-25-08 11-25-07 10-25-05	10.555	National School Lunch Program Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-027

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
12-25-09	10.555	National School Lunch Program Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-029
12-25-10 11-25-09 10-25-08 09-25-27	10.568 10.569	Emergency Food Assistance Cluster Subrecipient Monitoring, Eligibility	Corrective action plan is complete.	No Current Finding
12-25-11 11-25-10 10-25-09 09-25-28 09-25-30	10.568	Emergency Food Assistance Program Allowability, Subrecipient Monitoring	Corrective action plan is complete.	No Current Finding
12-25-12	10.568	Emergency Food Assistance Program Period of Availability	Corrective action plan is complete.	No Current Finding
12-25-13	10.568	Emergency Food Assistance Program Reporting	Corrective action plan is complete.	No Current Finding
12-25-14	14.257	Homelessness Prevention and Rapid Re-Housing Allowability, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2013-032
12-25-15 11-25-18	93.044 93.045 93.053	Aging Cluster Reporting	Anticipated completion date is December 31, 2013.	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
12-25-16 11-25-15 10-25-11	93.044 93.045 93.053	Aging Cluster Allowability, Matching, Earmarking, Subrecipient Monitoring	Anticipated completion date is December 31, 2013.	Repeated with Changes Finding 2013-033
12-25-17 11-25-17 10-25-12	93.044 93.045 93.053	Aging Cluster Reporting	Anticipated completion date is December 31, 2013.	Repeated with Changes Finding 2013-034
12-25-18 11-25-16 10-25-13	93.044 93.045 93.053	Aging Cluster Cash Management	Corrective action plan is complete.	Repeated with Changes Finding 2013-035
12-25-19 11-25-19 10-25-15	93.268	Immunization Grants Allowability	Corrective action plan is complete.	No Current Finding
12-25-20 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, Eligibility, Special Tests & Provisions	Monitoring of reports and adding alerts to the reports has been implemented. Recouping of the overpayments is in progress.	Repeated with Changes Finding 2013-042

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
12-25-21 11-25-24	93.558	TANF Allowable Costs/Cost Principles, Eligibility	Corrective action plan is complete.	Repeated with Changes Finding 2013-043
12-25-22	93.558	TANF Maintenance of Effort, Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-041
12-25-23 11-25-22	93.558	TANF Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-044
12-25-24 11-25-23 10-25-21	93.558 93.714	TANF TANF (ARRA) Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-045
12-25-25	93.558	TANF Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-048
12-25-26	93.568	Low-Income Home Energy Assistance Allowability	Corrective action plan is complete.	Repeated with Changes Finding 2013-050 Finding 2013-054

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
12-25-27	93.568	Low-Income Home Energy Assistance Period of Availability	Corrective action plan is complete.	Repeated with Changes Finding 2013-049
12-25-28 11-25-27 10-25-24	93.569	Community Services Block Grant Cash Management, Subrecipient Monitoring	Corrective action plan is complete.	No Current Finding
12-25-29 11-25-28 10-25-25	93.569	Community Services Block Grant Allowability, Subrecipient Monitoring	Corrective action plan is complete.	No Current Finding
12-25-30	93.575 93.596 10.558	CCDF Cluster Child and Adult Care Food Program Allowability, Eligibility, Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-055
12-25-31 11-25-31 10-25-28 09-25-35 08-25-12 07-26-12	93.575 93.596	CCDF Cluster Allowability, Eligibility	Corrective action plan is complete.	Repeated with Changes Finding 2013-056
12-25-32 11-25-32	93.575 93.596	CCDF Cluster Special Tests & Provisions	Corrective action plan is not applicable.	Repeated with Changes Finding 2013-059

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
12-25-33 11-25-33	93.575 93.596	CCDF Cluster Allowable Costs, Eligibility, Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-060
12-25-34 11-25-34 11-25-35 11-25-36 10-25-29 10-25-30 10-25-31 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, Period of Availability, Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-061
12-25-35 11-25-38	93.658	Foster Care Subrecipient Monitoring, Reporting	Corrective action plan is complete.	No Current Finding
12-25-36 11-25-39	93.659	Adoption Assistance Allowable Costs/Cost Principles, Eligibility	Corrective action plan is complete.	Repeated with Changes Finding 2013-063

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
12-25-37 11-25-40 10-25-32 09-25-15 08-25-18 07-26-16	93.667	Social Services Block Grant Allowability	Corrective action plan is complete.	Repeated with Changes Finding 2013-065
12-25-38	93.767	Children's Health Insurance Program Matching, Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-066
12-25-39	93.767	Children's Health Insurance Program Matching	Corrective action plan in progress. Adjustment to federal report will be made by October 31, 2013; Correcting journal entry posted October 18, 2012; Adjustment to MMIS and NFOCUS subsystems made on October 1, 2012.	Repeated with Changes Finding 2013-067
12-25-40 11-25-43 10-25-38 09-25-06 08-25-21 07-26-22 06-26-07	93.778	Medicaid Matching, Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-068
12-25-41	93.778	Medicaid Matching	Corrective action plan in progress. Adjustment to federal report will be made by October 31, 2013; Correcting journal entry posted October 18, 2012; Adjustment to MMIS and NFOCUS subsystems made on October 1, 2012.	Repeated with Changes Finding 2013-071

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
12-25-42	93.778	Medicaid Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2013-075
12-25-43 11-25-45 10-25-37 09-25-11	93.778	Medicaid Allowability	Corrective action plan in progress. Adjustment to federal report will be made by October 31, 2013; Training was conducted in October 2012; Supervisory reviews are being conducted.	Repeated with Changes Finding 2013-074
12-25-44	93.778	Medicaid Allowability, Eligibility	Corrective action plan is complete.	No Current Finding
12-25-45 11-25-56	93.778	Medicaid Eligibility	Corrective action plan in progress. Journal entries were corrected on November 8, 2012; Case reviews being conducted.	No Current Finding
12-25-46 11-25-48 10-25-39 09-25-10	93.778	Medicaid Special Tests & Provisions	Corrective action plan in progress. The Agency hired staff in June 2013 and is working towards more timely completion of adjustments and reconciliations.	Repeated with Changes Finding 2013-070
12-25-47 11-25-51	93.778	Medicaid Special Tests & Provisions	Corrective action plan is not applicable.	Repeated with Changes Finding 2013-078

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
12-25-48 11-25-57 10-25-42 09-25-12	93.778	Medicaid Allowable Costs, Eligibility	Corrective action plan in progress. Adjustment to federal report will be made by October 31, 2013; Results being provided within 45 days.	No Current Finding
12-25-49 11-25-47 10-25-34 09-25-07 08-25-22	93.778	Medicaid Allowable Costs, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2013-072
12-25-50	93.778	Medicaid Allowability	Corrective action plan in progress. Adjustment to federal report will be made by October 31, 2013; The SCR was implemented in July 2013.	Repeated with Changes Finding 2013-073
12-25-51	93.994	Maternal and Child Health Services Block Grant Allowability	Corrective action plan is not applicable.	No Current Finding
12-25-52	93.283	CDC Investigations and Technical Assistance Allowability	Corrective action plan is complete.	Repeated with Changes Finding 2013-040
12-25-53	93.283	CDC Investigations and Technical Assistance Allowability, Subrecipient Monitoring	Corrective action plan in progress. Department policies for allowable costs and sub-recipient monitoring will be approved by November 30, 2013.	Repeated with Changes Finding 2013-038

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-25-54	93.283	CDC Investigations and Technical Assistance Allowability	Corrective action plan is complete.	Repeated with Changes Finding 2013-039
12-25-55	93.283	CDC Investigations and Technical Assistance Eligibility	Corrective action plan is complete.	No Current Finding
12-25-56	93.283	CDC Investigations and Technical Assistance Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-037
12-25-57	93.283	CDC Investigations and Technical Assistance Matching, Reporting	Corrective action plan is complete.	No Current Finding

Nebraska Military Department

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-31-01	97.036	Disaster Grants Reporting	The Nebraska Emergency Management Agency (NEMA) has attempted to resolve issues regarding FFATA reporting with numerous individuals at FEMA. One NEMA staff member has spent in excess of eighty hours in phone and email conversations to correct the issues with entering FFATA information. Each time one issue was corrected another would come up in a series of events over the last 60+ days. NEMA will continue and try to resolve FFATA issue with FEMA. At the present time, there is no solution. Once the issues with entering data have been corrected NEMA will assign staff to immediately enter the data to fulfill the FFATA requirements.	No Current Finding

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	Auditee believes this finding is not valid and does not warrant action. Six years have passed since the audit report in which the finding first occurred was submitted to the Federal clearinghouse. The Federal agency has never followed up with the auditee on this audit finding, nor has the Federal agency issued a management decision. The U.S. Fish and Wildlife Service Office of Inspector General has just completed a program audit of these programs and there were no findings related to this issue.	No Current Finding

Department of Administrative Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-65-02 11-65-04	93.778	Medicaid Allowable Costs/Cost Principles	This finding's corrective action plan is fully implemented and complete. The purchasing assessment using revised methodology was implemented effective July 1, 2014, as indicated in the corrective action plan. The revised formula for determining the purchasing assessment is consistently applied to all agencies, boards, and commissions.	No Current Finding

Energy Office

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-71-01	81.042	Weatherization Assistance for Low-Income Persons Cash Management	This corrective action plan was implemented February 12, 2013. The Agency revised the reimbursement requests documents to track sub-grantees unliquidated obligations and outstanding advance payments on a monthly basis. The US Department of Energy Expenditure Summary report is used to monitor sub-grantee spending on a monthly basis and compared to budgeted amounts as stated in the State Plan. The Weatherization Assistance Program Division Chief reviews requests for cash advances and ensures compliance with cash management requirements. Subaward includes clause for requesting cash advances, which are not to exceed 10% of the award amount.	Repeated with Changes Finding 2013-016
12-71-02	81.042	Weatherization Assistance for Low-Income Persons Eligibility, Subrecipient Monitoring	The Agency has the required procedures in place to verify client eligibility and ensure that sub-grantees of U.S. Department of Energy grants maintain required adequate documentation on file to support the eligibility of clients receiving weatherization assistance. The exception to client eligibility verification related to Weatherization Trust is the documents required to verify eligibility are in the custody of the Nebraska State Patrol. Weatherization Trust has not been a service provider of the weatherization assistance program since May of 2012, their aid agreement was terminated and payments beginning January 2012 were withheld. Once the documents are released by the Nebraska State Patrol the Agency will have the ability to verify any client eligibility that remains questioned by the State Auditor. At this time an investigation by the Nebraska State Patrol remains ongoing and a date cannot be determined.	No Current Finding

Energy Office (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-71-03	81.042 93.568	Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance Subrecipient Monitoring	The Agency conducts annual program compliance reviews of all its weatherization program sub-grantees. Weatherization Trust has not been a service provider of the weatherization assistance program since May of 2012, their aid agreement was terminated and payments beginning January 2012 were withheld. The Agency will continue the annual review of the subgrantees and will conduct an analysis prior to annual program compliance reviews to ensure that samples adequately reflect program and financial activity. Monitoring activities are presently underway and will continue through 2013.	No Current Finding
12-71-04	81.042 93.568	Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance Reporting	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. The Nebraska State Patrol currently maintains an active investigation of the subgrantee. 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.	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
12-78-01 11-78-01	16.738 16.803	JAG Program Cluster Allowability, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2013-087
12-78-02 11-78-03	16.738 16.803	JAG Program Cluster Subrecipient Monitoring	Corrective action plan is complete.	No Current Finding
12-78-03 11-78-04	16.738 16.803	JAG Program Cluster Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2013-089
12-78-04	16.738	JAG Grant Reporting	This finding deals with entering Federal Transparency Reporting data for Grant 2011-DJ-BX-0025. We have made several attempts to enter data for this award but this award has not been set up on the federal reporting site. Therefore, we are currently unable to enter data for that grant. We are working with the Federal Program Manager for this grant program and hope to have this grant set up by the Bureau of Justice Assistance. Once the grant is set up we will enter the required data.	Repeated with Changes Finding 2013-088
12-78-05	16.588	Violence Against Women Allowability, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2013-090

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Department of Environmental Quality

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-84-01 11-84-02 10-84-03	66.458	Capitalization Grants for Clean Water State Revolving Fund Activities Allowed, Subrecipient Monitoring	Implemented corrective action as of 2/28/13.	No Current Finding
12-84-02	66.458	Capitalization Grants for Clean Water State Revolving Fund Program Income	Implemented corrective action as of 2/28/13.	No Current Finding
12-84-03	66.458	Capitalization Grants for Clean Water State Revolving Fund Cash Management	Implemented corrective action as of 3/4/13.	No Current Finding
12-84-04 11-84-05 10-84-04	66.458	Capitalization Grants for Clean Water State Revolving Fund Reporting	Implemented corrective action as of 2/28/13.	No Current Finding
12-84-05	66.468	Capitalization Grants for Drinking Water State Revolving Fund Activities Allowed, Subrecipient Monitoring	Implemented corrective action as of 2/28/13.	No Current Finding
12-84-06	66.468	Capitalization Grants for Drinking Water State Revolving Fund Allowable Costs	Corrective action plan completed on 6/30/2013.	No Current Finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Department of Environmental Quality (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
12-84-07	66.468	Capitalization Grants for Drinking Water State Revolving Fund Cash Management	Implemented corrective action as of 3/4/13.	No Current Finding
12-84-08 11-84-04 10-84-07	66.468	Capitalization Grants for Drinking Water State Revolving Fund Reporting	Implemented corrective action as of 2/28/13.	No Current Finding