STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2014

Issued on March 25, 2015

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2014

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STATE OF NEBRASKA

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FINANCIAL SECTION

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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, 2014, 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 UNeHealth, 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 Program, and the Nebraska State Colleges Facilities Corporation, which represent 48%, 41%, and 35%, 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 18%, 20%, and 19% 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Nebraska Foundation, the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation,

the University Dental Associates, the UNeHealth, 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 Program, the Nebraska State Colleges Facilities Corporation, and the College Savings Plan were not audited in accordance with *Government Auditing Standards.*

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 of 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, 2014, 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.

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 18, the Budgetary Comparison Schedules on pages 56 through 61; and the Information About Infrastructure Assets Reported Using the Modified Approach on page 62, 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 16, 2014, 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

Pat Reding, CPA, CFE
Assistant Deputy Auditor

Lincoln, Nebraska
December 16, 2014, except for our report on other information for which the date is March 20, 2015.

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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, 2014. 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. 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 2014 required by the Governmental Accounting Standards Board (GASB). Statement No. 66, *Technical Corrections-2012; an amendment of GASB Statements No. 10 and No. 62* and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* had little effect since the State was already in compliance with the new requirements. Statement No. 67 *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* modified pension financial statements and specified the required approach to measuring pension liabilities and Statement No. 65, *Items Previously Reported as Assets and Liabilities* changed items presented on the Balance Sheet and 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, 2014 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, 2014 by $13.0 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 $1.5 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 2014 resulting in an increase in net position of $553 million. This increase in net position was comparable to the increase in 2013 of $569 million.

Fund Level:

General Fund receipts for 2014 were $97 million above the original budgeted amount and above the final budget by $14 million. Expenditures were $307 million less than the original and final budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $313 million in excess revenues prior to a legislatively mandated property tax relief transfer of $113 million in addition to other financing sources causing an increase in fund balances of $229 million, and thereby increasing the fund balance on June 30, 2014 to $1,262 million. Other governmental funds revenues exceeded expenditures by $191 million, chiefly due to unrealized market gains. Adding to these operating gains, such other funds received $12 million in net other financing sources. This $203 million net increase resulted in raising such fund balances at June 30, 2014 to $2,596 million.

The $460 million of net position of the Unemployment Insurance Fund represents 83% of the enterprise funds. Such fund had a $21 million increase in net position for 2014 compared to a $36 million increase in 2013, a $15 million difference. This was due to business assessment fees collected from employers exceeding the unemployment insurance claims in 2013 and being relatively consistent in 2014.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $430 million at June 30, 2014, which is a $43 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 19) 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 20 and 21) 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 95% of all activity of the primary government. It includes general government; education; health and social 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 22) 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 23 and 25).

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 13 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 34.

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 $14,582 million at June 30, 2014 as compared to $14,096 million at June 30, 2013. As total liabilities only totaled $1,621 million, net position amounted to $12,961 million as of June 30, 2014. As of June 30, 2013, these amounts were $1,688 million and $12,408 million, respectively. By far the largest portion of the State of Nebraska's net position (66 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.

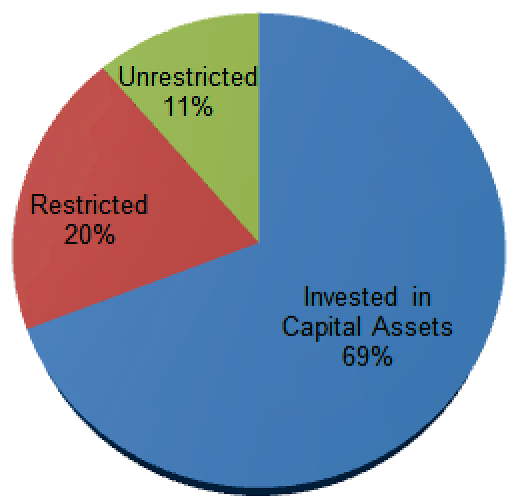
For Governmental Activities other than capital assets, the majority of the restricted net position consists of the Permanent School Trust, the Tobacco Settlement Trust, the Intergovernmental Trust and the loans to political subdivisions for drinking water and clean water projects.

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	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Current and Other Non-current Assets	$ 5,380	$ 5,003	$ 605	$ 595	$ 5,985	$ 5,598
Capital Assets	8,590	8,491	7	7	8,597	8,498
Total Assets	13,970	13,494	612	602	14,582	14,096
Non-current Liabilities	401	433	29	40	430	473
Other Liabilities	1,165	1,181	26	34	1,191	1,215
Total Liabilities	1,566	1,614	55	74	1,621	1,688
Net position:						
Net Investment in Capital Assets	8,572	8,469	7	7	8,579	8,476
Restricted	2,430	2,217	462	441	2,892	2,658
Unrestricted	1,402	1,194	88	80	1,490	1,274
Total Net Position	$ 12,404	$ 11,880	$ 557	$ 528	$ 12,961	$ 12,408

Governmental Activities
Net Postion - Total $12,404 million



Over 79% of the State's non-capital assets consist of cash and investments. It should be noted that $200 million in 2014 and $221 million in 2013 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 effect on 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 15% 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 ($538 million in 2013); tax refunds payable of $383 million ($384 million in 2013); 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 $430 million ($473 million in 2013). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling $106 million for 2014 ($111 million for 2013), Medicaid claims for

$169 million ($202 million in 2013), and the calculated amount for vested sick leave due employees when they retire and accrued vacation of $130 million in 2014 ($130 million for 2013). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), which totaled $18 million at June 30, 2014 and $6 million of obligations under other financing arrangements (See Note 9 to the Financial Statements). There was also a net pension obligation of $0.9 million (See Note 13 to the Financial Statements).

The $524 million increase in net position of Governmental Activities, was due to the $103 million increase in the net investment in capital assets, the $213 million increase in restricted net position, and the $208 million increase in unrestricted net position. The major cause of the increase was a $200 million increase in taxes collected.

At the end of June 30, 2014, 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 2014, 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)

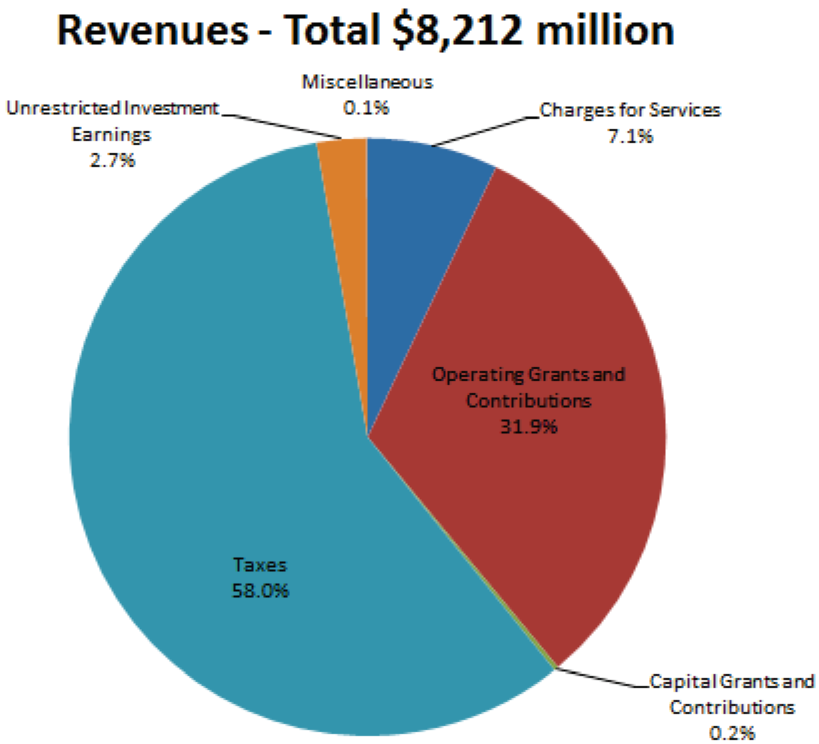
	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues						
Charges for Services	$ 581	$ 598	$ 308	$ 371	$ 889	$ 969
Operating Grants and Contributions	2,622	2,704	-	-	2,622	2,704
Capital Grants and Contributions	19	20	-	-	19	20
General Revenues						
Taxes	4,764	4,564	-	-	4,764	4,564
Unrestricted Investment Earnings	223	97	15	10	238	107
Miscellaneous	3	2	-	-	3	2
Total Revenues	8,212	7,985	323	381	8,535	8,366
EXPENSES						
General Government	507	459	-	-	507	459
Conservation of Natural Resources	143	143	-	-	143	143
Culture - Recreation	31	31	-	-	31	31
Economic Development and Assistance	89	96	-	-	89	96
Education	1,712	1,645	-	-	1,712	1,645
Higher Education - Colleges and Universities	618	572	-	-	618	572
Health and Social Services	3,226	3,197	-	-	3,226	3,197
Public Safety	376	384	-	-	376	384
Regulation of Business and Professions	124	134	-	-	124	134
Transportation	920	859	-	-	920	859
Interest on Long-term Debt	1	1	-	-	1	1
Unemployment Insurance	-	-	122	168	122	168
Lottery	-	-	121	121	121	121
Excess Liability	-	-	1	4	1	4
Cornhusker State Industries	-	-	12	9	12	9
Total Expenses	7,747	7,521	256	302	8,003	7,823
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	465	464	67	79	532	543
Transfers	38	40	(38)	(40)	-	-
Contributions to Permanent Fund Principal	21	26	-	-	21	26
Increase (Decrease) in Net Position	524	530	29	39	553	569
Net Position - Beginning (as restated)	11,880	11,350	528	489	12,408	11,839
Net Position - Ending	$ 12,404	$ 11,880	$ 557	$ 528	$ 12,961	$ 12,408

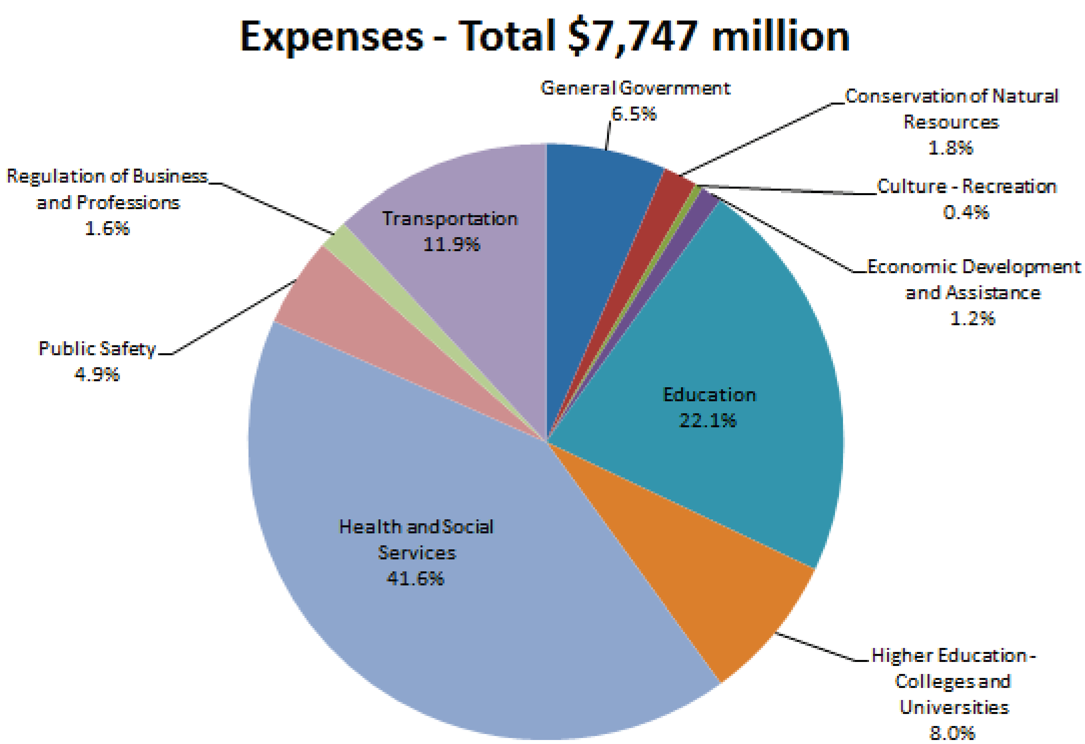
Governmental Activities

Governmental activities increased the State's net position by $524 million in 2014 ($530 million increase in 2013). Governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were $3,222 million and were used to partially offset program expenses of $7,747 million, leaving net expenses of $4,525 million. Only 7% of total expenses were spent on general government expenses. General taxes, investment earnings, miscellaneous, contributions to the permanent fund principal, and transfers all totaling $5,049 million, were $524 million more than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were up $200 million compared to an increase of $318 million in 2013. Program revenues decreased 3% from 2013, chiefly due to income from operating grants being down $82 million. Increases in education, health and social services and transportation expenses contributed to the $226 million increase in program expenses. The change in Net Position remained stable from 2013 to 2014 compared to the $222 million increase from 2012 to 2013. While the General Fund has more investments than other programs, it maintains safer investments and actually showed an increase in investment income in 2014 over 2013 of $39 million, due to the increased invested balance.

STATE OF NEBRASKA
Governmental Activities
As of June 30, 2014





Program expenses, net of revenue, increased by $326 million in 2014, as shown below:

GOVERNMENTAL ACTIVITIES

(in millions of dollars)

	2014	2013
Program Expenses, Net of Revenue		
General Government	$ (413)	$ (371)
Conservation of Natural Resources	(51)	(40)
Culture - Recreation	(7)	(8)
Economic Development and Assistance	(36)	(30)
Education	(1,317)	(1,233)
Higher Education - Colleges and University	(618)	(572)
Health and Social Services	(1,379)	(1,337)
Public Safety	(266)	(235)
Regulation of Business and Professions	11	11
Transportation	(448)	(383)
Interest on Long-Term Debt	(1)	(1)
Subtotal	(4,525)	(4,199)
General Revenues		
Taxes	4,764	4,564
Unrestricted Investment Earnings	223	97
Miscellaneous	3	2
Transfers	38	40
Contributions to Permanent Fund Principal	21	26
Increase (Decrease) in Net Position	$ 524	$ 530

Four functional areas of the State comprise 84% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Education expenses were up $67 million, Health and Social Services was up $29 million, Higher Education was up $46 million, and Transportation expenses were up $61 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 $29 million for 2014, which was net of a $38 million transfer to the governmental activities. Most of the $308 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 $11 million in 2014. This gain, when combined with the $10 million in investment income, produced a $21 million increase in net position for the Unemployment Insurance Fund. Lottery revenues of $158 million generated net revenue of $37 million, which was offset by the $38 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, 2014, the State's Governmental Funds reported combined ending fund balances of $3,858 million. Of this amount, $538 million is nonspendable, either due to its form or legal constraints, and $1,889 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 $843 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 $47 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining $541 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 $372 million. However, such refunds payable are $12 million less than the expected taxes owed the State. Other assets of the General Fund available to pay non tax-refund liabilities exceed such liabilities by $1,290 million.

On June 30, 2013, the General Fund had a positive fund balance of $1,033 million. For 2014 expenditures increased $211 million from 2013 and revenues increased by $152 million. The revenues were $200 million more than expenditures for 2014 while revenues were $260 million more than expenditures in 2013. The General Fund balance in 2014 increased by $229 million, after adjusting for transfers in and out of the General Fund, ending with a fund balance of $1,262 million on June 30, 2014.

Revenues in 2014, significantly more than anticipated, were up $152 million over 2013 chiefly due to an increase in income tax revenue of $25 million (a 1% increase) over 2013, an increase in sales and use tax revenue of $65 million (a 4% increase) over 2013, and an increase in investment income of $39 million (a 918% an increase) over 2013. 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 four areas. Education expenditures increased $86 million and Higher Education – Colleges and University expenditures increased $33 million due to increased aid to education, which has been a major initiative of the Governor. General Government expenditures increased $43 million mainly because Supreme Court hired additional staff and related operational expenditures for juvenile probation and Public Safety expenditures increased $22 million, mainly due to an increase in payroll for public safety personnel.

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 2014.

The Cash Reserve Fund was at $429 million at the beginning of 2013. 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 Cash Reserve Fund balance at June 30, 2013 of $384 million. In 2014 there was a statutory transfer from the Fund to the General Fund of $4 million and other net transfers in of $339 million leaving a Fund balance of $719 million at June 30, 2014. 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 $2,596 million at June 30, 2014. Of this amount, $536 million is nonspendable, either due to its form or legal constraints, and $1,889 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $124 million of total fund balance has been committed to specific purposes. The remaining $47 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 $840 million. The non-major special revenue fund balances totaled $843 million.

Governmental funds other than the General Fund saw an increase in fund balances of $203 million. The fund balances of the following funds increased: the Highway Fund ($32 million), the Health and Social Service Fund ($55 million), the Permanent School Fund ($95 million), and the other Nonmajor Funds ($21 million.) The Federal Fund had a slight decrease.

The Highway Fund had a $60 million increase in sales and use taxes, a $11 million decrease in federal grants revenue and a $47 million increase in operating expenses. These changes are why the Highway Fund had a $32 million increase in its fund balance in 2014 as opposed to a $7 million decrease in 2013.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2014 there was a decrease in federal grants and contracts of $74 million and investment income increased $3 million. Expenditures in 2014 decreased by $15 million for Education, decreased $6 million for Conservation of Natural Resources, decreased $14 million for Economic Development and Assistance, increased $6 million for Health and Social Services, and decreased $39 million for Public Safety. Revenues exceeded expenditures by $8 million before transfers. Transfers out decreased $2 million in 2014 compared to a an increase of $6 million in 2013. At the end of 2014 there was a net decrease in the fund of $1 million, compared to a $2 million decrease in 2013.

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 $27 million increase in investment income in 2014 (chiefly unrealized gains in the market value of investments) compared to a $40 million increase in 2013. There was a $55 million increase in fund balance in 2014, as opposed to a $38 million increase in 2013.

The Permanent School Fund had a $22 million increase in revenue, chiefly due to a $29 million increase in investment income caused by unrealized gains in the market value of investments in 2014, compared to a $42 million investment income increase in 2013 (when compared to 2012). Expenditures decreased $3 million in 2014. There was a $95 million increase in fund balance in 2014, as opposed to a $71 million increase in 2013, a change of $24 million.

The Nonmajor Funds revenues remained about the same between 2013 and 2014. Expenditures increased $3 million in Conservation of Natural Resources and decreased $10 million in Regulation of Business and Professions. There were $29 million in net transfers in for the Nonmajor Funds in 2014 versus $103 million in net transfers in for 2013. As a result, the fund balances increased $21 million in 2014 as opposed to a $83 million increase in 2013.

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 $460 million at the end of 2014. This fund's net position increased $21 million in 2014, because business assessment fees were less than unemployment claims paid out by $1 million, investment earnings of $10 million and other 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 $46 million prior to a $38 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 $4 million and earned $4 million in investment earnings for a net position increase of $8 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net position increased $1,805 million to $12,541 million in 2014 due to a strong performance by the stock market in 2014. Interest and dividend income in 2014 was $139 million versus $137 million in 2013. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $110 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $359 million. The total net position in the College Savings Plan now totals over three billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2014 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 decrease in 2014 by $40 million over 2013 net tax revenue of $3,960 million. This forcasted decrease was 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. Because revenues continued to show an increasing trend during 2014, the State's Forecasting Board made two new forecasts throughout the year. At the end, the forecasted net tax revenues were $82 million above the original forecast. However, that increased forecast was still less than actual tax revenues of $4,017 million by $14 million, leaving the State with actual tax revenues, net of refunds, of $97 million above the original budget on a budgetary basis. Agencies continued to watch their General Fund expenditures and spent $307 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, caused the State to finish 2014 with General Fund revenues of $281 million more than expenditures on a budgetary basis, prior to net transfers out. There was a net $84 million transferred out for specific purposes. The fund balance on a budgetary basis increased from $1,195 million to $1,392 million in 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the State had invested $8.6 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 2014 totaled $48 million, compared to $50 million for 2013.

CAPITAL ASSETS AS OF JUNE 30

(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Land	$ 573	$ 562	$ -	$ -	$ 573	$ 562
Buildings and Equipment	470	456	7	7	477	463
Infrastructure	7,246	7,078	-	-	7,246	7,078
Subtotal	8,289	8,096	7	7	8,296	8,103
Construction in Progress	301	395	-	-	301	395
Total	$ 8,590	$ 8,491	$ 7	$ 7	$ 8,597	$ 8,498

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 2013, indicated an overall system rating of 81, a rating that has been very consistent over the past six years.

For 2014, it was estimated that the State needed to spend $302 million to preserve and maintain the roads at the abovementioned level. The State actually spent $300 million on roads in 2014, compared to $335 million in 2013. For 2015, it is estimated that the State needs to spend $327 million, an increase from actual 2014 and an increase from the average of the previous five years.

The State also spent $177 million on capitalized infrastructure and land purchases relating to roads in 2014 ($70 million in 2013), most notably reconstructing (a) Interstate 80 between Omaha and Lincoln, (b) US-370 North, (c) US-34 over Missouri River, (d) US-75 South of Bellevue, and (e) US-10 with I-80 Kearney East bypass interchange. Major land purchases included land purchased near three State highways. At June 30, 2014, the State had contractual commitments of $647 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 $19 million less than at June 30, 2013 as a result of new highway construction and repair work being financed by the federal government.

During 2014, the State added $63 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 14 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2014	2013
Capitalized Leases:	$ 18	$ 23

There were no new bonds issued or outstanding in 2014 or 2013. Three new capitalized leases were added in 2014 (two leases were added in 2013). 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.

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 2015 are currently projected to exceed actual 2014 revenues by $165 million on a nominal basis. 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. In addition, the growth in recent years in the prison inmate population presents an additional challenge due to increased operating costs and possible capital asset improvements. 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, 2014, this Fund had a $719 million balance. A transfer of $97 million was made from the General Fund in July 2014 as statutorily required. This and other transfers resulted in a balance of $816 million at November 30, 2014. Future significant statutory disbursements from this fund in the future include $58 million to be transferred to the Capital Projects Fund. With the improved revenue forecast, the State currently projects an additional $62 million transfer into the Cash Reserve Fund in July 2015.

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, 2014

(Dollars in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 225,112	$ 428,080	$ 653,192	$ 638,205
Receivables, net of allowance				
Taxes	436,652	-	436,652	-
Due from Federal Government	290,808	-	290,808	-
Other	153,809	39,860	193,669	468,271
Internal Balances	(1,254)	1,254	-	-
Investments	3,759,961	124,497	3,884,458	2,215,810
Loans Receivable	279,767	-	279,767	36,114
Investment in Joint Venture	-	-	-	316,599
Other Assets	28,800	3,694	32,494	27,109
Restricted Assets:				
Cash and Cash Equivalents	11,108	-	11,108	535,766
Other	-	2,422	2,422	64,183
Securities Lending Collateral	195,032	5,241	200,273	-
Capital assets:				
Land	572,954	315	573,269	87,680
Infrastructure	7,246,226	-	7,246,226	-
Construction in Progress	300,901	-	300,901	235,686
Land Improvements	-	-	-	225,830
Buildings and Equipment	1,125,686	14,121	1,139,807	2,769,798
Less Accumulated Depreciation	(656,038)	(7,181)	(663,219)	(1,039,680)
Total Capital Assets	8,589,729	7,255	8,596,984	2,279,314
Total Assets	$ 13,969,524	$ 612,303	$ 14,581,827	$ 6,581,371
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on bond refunding	$ -	$ -	$ -	$ 6,640
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ 6,640
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 520,966	$ 18,761	$ 539,727	$ 227,139
Tax Refunds Payable	382,605	-	382,605	-
Deposits	8,838	-	8,838	16,127
Unearned Revenue	56,424	2,233	58,657	101,367
Obligations under Securities Lending	195,032	5,241	200,273	-
Noncurrent Liabilities:				
Due within one year	223,313	14,398	237,711	119,774
Due in more than one year	177,953	14,588	192,541	829,026
Total Liabilities	$ 1,565,131	$ 55,221	$ 1,620,352	$ 1,293,433
DEFERRED INFLOWS OF RESOURCES				
Deferred service concession arrangement receipts	$ -	$ -	$ -	$ 13,591
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ 13,591
NET POSITION				
Net Investment in Capital Assets	$ 8,571,554	$ 7,255	$ 8,578,809	$ 1,699,342
Restricted for:				
Education	18,394	-	18,394	2,024,975
Health and Social Services	564,950	-	564,950	-
Conservation of Natural Resources	527,112	-	527,112	-
Transportation	290,488	-	290,488	-
Licensing and Regulation	87,710	-	87,710	-
Other Purposes	143,392	2,422	145,814	342,394
Unemployment Insurance Benefits	-	459,642	459,642	-
Debt Service and Construction	10,498	-	10,498	430,484
Permanent Trusts:				
Nonexpendable	526,502	-	526,502	-
Expendable	262,011	-	262,011	-
Unrestricted	1,401,782	87,763	1,489,545	783,792
Total Net Position	$ 12,404,393	$ 557,082	$ 12,961,475	$ 5,280,987

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

(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	$ 507,065	$ 90,336	$ 3,883	$ -
Conservation of Natural Resources	143,324	34,550	55,066	2,154
Culture – Recreation	30,532	20,225	2,520	802
Economic Development and Assistance	89,109	2,529	50,566	-
Education	1,712,015	46,522	348,376	-
Higher Education - Colleges and University	618,033	-	-	-
Health and Social Services	3,226,402	109,740	1,737,660	-
Public Safety	376,449	33,265	61,449	15,701
Regulation of Business and Professions	123,879	131,969	3,272	-
Transportation	919,679	112,175	359,327	-
Interest on Long-term Debt	627	-	-	-
Total governmental activities	7,747,114	581,311	2,622,119	18,657
Business-type activities:				
Unemployment Insurance	122,351	133,665	-	-
Lottery	121,046	157,896	-	-
Excess Liability	1,174	5,478	-	-
Cornhusker State Industries	11,582	11,336	-	-
Total business-type activities	256,153	308,375	-	-
Total Primary Government	$ 8,003,267	$ 889,686	$ 2,622,119	$ 18,657
COMPONENT UNITS:				
University of Nebraska	$ 1,989,241	$ 977,169	$ 318,692	$ 12,788
State Colleges	116,928	45,183	16,033	2,056
Total Component Units	$ 2,106,169	$ 1,022,352	$ 334,725	$ 14,844

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
$ (412,846)	$ -	$ (412,846)	$ -
(51,554)	-	(51,554)	-
(6,985)	-	(6,985)	-
(36,014)	-	(36,014)	-
(1,317,117)	-	(1,317,117)	-
(618,033)	-	(618,033)	-
(1,379,002)	-	(1,379,002)	-
(266,034)	-	(266,034)	-
11,362	-	11,362	-
(448,177)	-	(448,177)	-
(627)	-	(627)	-
(4,525,027)	-	(4,525,027)	-
-	11,314	11,314	-
-	36,850	36,850	-
-	4,304	4,304	-
-	(246)	(246)	-
-	52,222	52,222	-
(4,525,027)	52,222	(4,472,805)	-
-	-	-	(680,592)
-	-	-	(53,656)
-	-	-	(734,248)
2,387,039	-	2,387,039	-
1,792,176	-	1,792,176	-
344,335	-	344,335	-
128,281	-	128,281	-
104,366	-	104,366	-
7,579	-	7,579	-
223,246	14,772	238,018	56,666
3,322	2	3,324	559,292
-	-	-	618,033
21,241	-	21,241	-
38,274	(38,274)	-	-
5,049,859	(23,500)	5,026,359	1,233,991
524,832	28,722	553,554	499,743
11,879,561	528,360	12,407,921	4,781,244
$ 12,404,393	$ 557,082	$ 12,961,475	$ 5,280,987

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

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
Assets and Deferred Outflows of Resources							
Assets:							
Cash and Cash Equivalents	$ 48,065	$ 8,931	$ 2,557	$ 2,885	$ 1,099	$ 31,474	$ 95,011
Cash on Deposit with Fiscal Agents	-	-	-	-	-	11,108	11,108
Investments	1,393,900	275,102	82,192	534,814	736,210	737,743	3,759,961
Securities Lending Collateral	88,070	17,382	5,927	18,170	20,063	45,420	195,032
Receivables, net of allowance							
Taxes	384,254	51,619	-	-	-	779	436,652
Due from Federal Government	3	36,786	253,126	-	-	893	290,808
Loans	-	-	13,251	159	-	266,357	279,767
Other	35,492	5,489	33,192	31,664	33,878	12,283	151,998
Due from Other Funds	70,357	161	157	3,361	-	3,379	77,415
Inventories	942	8,551	524	100	-	325	10,442
Prepaid Items	860	-	11	-	-	75	946
Other	585	-	654	-	13,206	1,330	15,775
Total Assets	2,022,528	404,021	391,591	591,153	804,456	1,111,166	5,324,915
Deferred Outflows of Resources	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	$ 2,022,528	$ 404,021	$ 391,591	$ 591,153	$ 804,456	$ 1,111,166	$ 5,324,915
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities:							
Accounts Payable and Accrued Liabilities	$ 116,956	$ 83,883	$ 173,030	$ 7,196	$ 46,452	$ 30,404	$ 457,921
Tax Refunds Payable	372,369	10,234	-	-	-	2	382,605
Deposits	586	1,410	4,520	420	256	1,646	8,838
Due to Other Funds	51,259	1,465	79,104	293	6	6,236	138,363
Obligations under Securities Lending	88,070	17,382	5,927	18,170	20,063	45,420	195,032
Claims Payable	88,186	-	78,718	-	-	-	166,904
Unearned Revenue	2,959	-	43,973	21	8,982	-	55,935
Total Liabilities	720,385	114,374	385,272	26,100	75,759	83,708	1,405,598
Deferred Inflows of Resources:							
Revenues not yet available	40,385	-	-	20,934	-	-	61,319
Fund Balances:							
Nonspendable:							
Inventories and Prepaid Items	1,802	8,551	535	100	-	400	11,388
Endowment Principal	-	-	-	-	506,987	19,515	526,502
Restricted	-	281,096	5,784	543,398	221,710	837,198	1,889,186
Committed	719,065	-	-	-	-	124,154	843,219
Assigned	-	-	-	621	-	46,191	46,812
Unassigned	540,891	-	-	-	-	-	540,891
Total Fund Balances	1,261,758	289,647	6,319	544,119	728,697	1,027,458	3,857,998
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 2,022,528	$ 404,021	$ 391,591	$ 591,153	$ 804,456	$ 1,111,166	$ 5,324,915

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, 2014

(Dollars in Thousands)

Total fund balances for governmental funds		$ 3,857,998
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	572,954	
Infrastructure	7,246,226	
Construction in progress	300,901	
Other capital assets	1,035,543	
Accumulated depreciation	(592,863)	8,562,761
Certain tax revenues and charges are earned but not available and therefore are unearned in the funds.		61,319
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.		61,395
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	(380)	
Obligations under other financing arrangements	(5,565)	
Compensated absences	(124,425)	
Net pension obligation	(941)	
Claims and judgments	(7,769)	(139,080)
Net position of governmental activities		$ 12,404,393

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, 2014

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES							
Income Taxes	$ 2,383,717	$ -	$ -	$ 3,538	$ -	$ -	$ 2,387,255
Sales and Use Taxes	1,530,416	249,368	-	-	-	4,583	1,784,367
Petroleum Taxes	-	331,114	-	-	6,313	13,221	350,648
Excise Taxes	68,777	-	-	8,496	-	51,008	128,281
Business and Franchise Taxes	82,088	-	-	-	-	22,278	104,366
Other Taxes	(64)	2,542	-	-	-	5,101	7,579
Federal Grants and Contracts	91	344,800	2,264,871	148	-	30,065	2,639,975
Licenses, Fees and Permits	19,007	84,588	630	60,559	1,031	147,074	312,889
Charges for Services	2,732	24,160	4,567	25,343	-	37,652	94,454
Investment Income	34,452	5,989	2,007	66,233	88,164	23,750	220,595
Rental Income	(12)	445	8	367	42,644	22,019	65,471
Surcharge	-	-	-	-	-	50,378	50,378
Other	3,035	3,377	1,420	15,653	15,438	21,578	60,501
Total Revenues	4,124,239	1,046,383	2,273,503	180,337	153,590	428,707	8,206,759
EXPENDITURES							
Current:							
General Government	388,020	-	3,916	-	-	73,882	465,818
Conservation of Natural Resources	35,862	-	35,290	-	-	73,476	144,628
Culture – Recreation	5,741	-	1,901	-	-	23,372	31,014
Economic Development and Assistance	11,860	-	51,788	-	-	25,734	89,382
Education	1,281,773	-	348,984	-	58,289	19,666	1,708,712
Higher Education - Colleges and University	590,459	-	-	-	-	27,574	618,033
Health and Social Services	1,344,217	-	1,744,574	125,520	-	3,061	3,217,372
Public Safety	259,316	-	75,488	-	-	42,282	377,086
Regulation of Business and Professions	3,363	-	3,270	-	-	116,716	123,349
Transportation	3,508	1,004,902	-	-	-	17,213	1,025,623
Capital Projects	-	-	-	-	-	12,164	12,164
Debt Service:							
Principal	-	-	-	-	-	2,110	2,110
Interest	-	-	-	-	-	260	260
Total Expenditures	3,924,119	1,004,902	2,265,211	125,520	58,289	437,510	7,815,551
Excess (Deficiency) of Revenues Over (Under) Expenditures	200,120	41,481	8,292	54,817	95,301	(8,803)	391,208
OTHER FINANCING SOURCES (USES)							
Transfers In	44,665	356	274	1,235	-	80,682	127,212
Transfers Out	(16,354)	(9,350)	(9,787)	(1,582)	-	(51,865)	(88,938)
Proceeds from Other Financing Arrangements	-	-	-	-	-	1,360	1,360
Proceeds from Capital Leases	-	-	-	380	-	-	380
Total Other Financing Sources (Uses)	28,311	(8,994)	(9,513)	33	-	30,177	40,014
Net Change in Fund Balances	228,431	32,487	(1,221)	54,850	95,301	21,374	431,222
FUND BALANCES, JULY 1 (as restated)	1,033,327	257,160	7,540	489,269	633,396	1,006,084	3,426,776
FUND BALANCES, JUNE 30	$ 1,261,758	$ 289,647	$ 6,319	$ 544,119	$ 728,697	$ 1,027,458	$ 3,857,998

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, 2014

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ 431,222
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	137,787	
Capital assets sold	(1,190)	
Depreciation expense	(37,476)	99,121
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	(1,360)	(1,360)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.		(380)
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	2,110	
Capital lease payments	1,007	3,117
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.		(8,879)
Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Deferred inflows of resources increased by this amount this year.		7,293
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	39	
Decrease in net pension obligation	119	
Increase in claims and judgments	(5,460)	(5,302)
Change in net position of governmental activities		$ 524,832

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

State of Nebraska

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2014

(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	$ 388,408	$ 39,672	$ 428,080	$ 130,770
Receivables, net of allowance	26,897	12,963	39,860	1,667
Due from Other Funds	-	1,360	1,360	12,983
Inventories	-	3,178	3,178	379
Prepaid Items	-	40	40	1,258
Other	-	476	476	-
Total Current Assets	415,305	57,689	472,994	147,057
Noncurrent Assets:				
Restricted Long-Term Deposits	-	2,422	2,422	-
Long-Term Investments	55,361	69,136	124,497	-
Securities Lending Collateral	3,498	1,743	5,241	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	349	13,772	14,121	90,143
Less Accumulated Depreciation	(349)	(6,832)	(7,181)	(63,175)
Total Capital Assets	-	7,255	7,255	26,968
Total Noncurrent Assets	58,859	80,556	139,415	26,968
Total Assets	$ 474,164	$ 138,245	$ 612,409	$ 174,025
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 1,289	$ 17,472	$ 18,761	$ 16,357
Due to Other Funds	-	106	106	502
Capital Lease Obligations	-	-	-	5,675
Claims, Judgments and Compensated Absences	9,728	4,670	14,398	39,950
Unearned Revenue	-	2,233	2,233	489
Total Current Liabilities	11,017	24,481	35,498	62,973
Noncurrent Liabilities:				
Capital Lease Obligations	-	-	-	12,120
Claims, Judgments and Compensated Absences	7	14,581	14,588	37,537
Obligations under Securities Lending	3,498	1,743	5,241	-
Total Noncurrent Liabilities	3,505	16,324	19,829	49,657
Total Liabilities	$ 14,522	$ 40,805	$ 55,327	$ 112,630
DEFERRED INFLOWS OF RESOURCES				
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ -
NET POSITION				
Net Investment in Capital Assets	-	7,255	7,255	9,173
Restricted for:				
Lottery Prizes, Noncurrent	-	2,422	2,422	-
Unemployment Insurance Benefits	459,642	-	459,642	-
Unrestricted	-	87,763	87,763	52,222
Total Net Position	$ 459,642	$ 97,440	$ 557,082	$ 61,395

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, 2014

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES				
Charges for Services	$ 120,717	$ 174,710	$ 295,427	$ 347,409
Federal	12,923	-	12,923	-
Other	25	-	25	1,301
Total Operating Revenues	133,665	174,710	308,375	348,710
OPERATING EXPENSES				
Personal Services	63	6,093	6,156	36,023
Services and Supplies	439	33,592	34,031	126,767
Lottery Prizes	-	92,821	92,821	-
Unemployment Claims	121,836	-	121,836	-
Insurance Claims	-	814	814	187,262
Depreciation	13	482	495	10,221
Total Operating Expenses	122,351	133,802	256,153	360,273
Operating Income (Loss)	11,314	40,908	52,222	(11,563)
NONOPERATING REVENUES (EXPENSES)				
Investment Income	10,079	4,693	14,772	2,651
Gain (Loss) on Sale of Capital Assets	-	2	2	387
Other	-	-	-	(354)
Total Nonoperating Revenues (Expenses)	10,079	4,695	14,774	2,684
Income (Loss) Before Transfers	21,393	45,603	66,996	(8,879)
Transfers Out	(274)	(38,000)	(38,274)	-
Change in Net Position	21,119	7,603	28,722	(8,879)
NET POSITION, JULY 1 (as restated)	438,523	89,837	528,360	70,274
NET POSITION, JUNE 30	$ 459,642	$ 97,440	$ 557,082	$ 61,395

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, 2014

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	$ 128,657	$ 204,358	$ 333,015	$ 23,130
Cash Received from Interfund Charges	-	8,930	8,930	329,583
Cash Received from Federal Government	12,923	-	12,923	-
Cash Paid to Employees	(70)	(6,006)	(6,076)	(35,925)
Cash Paid to Suppliers	(350)	(32,777)	(33,127)	(117,722)
Cash Paid for Lottery Prizes	-	(132,796)	(132,796)	-
Cash Paid for Insurance Claims	(127,292)	(6,327)	(133,619)	(186,243)
Cash Paid for Interfund Services	(10)	(1,120)	(1,130)	(10,493)
Net Cash Flows from Operating Activities	13,858	34,262	48,120	2,330
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	(274)	(38,000)	(38,274)	-
Net Cash Flows from Noncapital Financing Activities	(274)	(38,000)	(38,274)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(389)	(389)	(5,608)
Proceeds from Sale of Capital Assets	-	3	3	1,290
Principal Paid on Capital Leases	-	-	-	(8,704)
Interest Paid on Capital Leases	-	-	-	(354)
Net Cash Flows from Capital and Related Financing Activities	-	(386)	(386)	(13,376)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(122,203)	(122,203)	-
Proceeds from Sale of Investment Securities	(5,660)	122,751	117,091	-
Interest and Dividend Income	10,098	2,273	12,371	2,788
Net Cash Flows from Investing Activities	4,438	2,821	7,259	2,788
Net Increase (Decrease) in Cash and Cash Equivalents	18,022	(1,303)	16,719	(8,258)
CASH AND CASH EQUIVALENTS, JULY 1	370,386	40,975	411,361	139,028
CASH AND CASH EQUIVALENTS, JUNE 30	$ 388,408	$ 39,672	$ 428,080	$ 130,770

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, 2014

(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)	$ 11,314	$ 40,908	$ 52,222	$ (11,563)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	13	482	495	10,221
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	7,813	133	7,946	(10)
(Increase) Decrease in Due from Other Funds	-	(634)	(634)	4,274
(Increase) Decrease in Inventories	-	(486)	(486)	46
(Increase) Decrease in Prepaid Items	-	(40)	(40)	23
(Increase) Decrease in Long-Term Deposits	-	(52)	(52)	-
and Accrued Liabilities	206	(407)	(201)	(937)
Increase (Decrease) in Due to Other Funds	-	5	5	(482)
Increase (Decrease) in Claims Payable	(5,488)	(5,513)	(11,001)	1,019
Increase (Decrease) in Unearned Revenue	-	(134)	(134)	(261)
Total Adjustments	2,544	(6,646)	(4,102)	13,893
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 13,858	$ 34,262	$ 48,120	$ 2,330

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	$ -	$ -	$ -	$ 4,790
Change in Fair Value of Investments	-	2,460	2,460	-
Total Noncash Transactions	$ -	$ 2,460	$ 2,460	$ 4,790

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

State of Nebraska

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2014

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 7,618	$ 26,582	$ 94,739
Investments:			
U.S. Treasury Notes and Bonds	413,156	-	-
U.S. Treasury Bills	4,461	-	-
Government Agency Securities	12,942	-	-
Corporate Bonds	729,276	-	-
International Bonds	222,469	-	-
Equity Securities	1,674,080	-	-
Private Equity	538,088	-	-
Options	(64)	-	-
Mortgages	500,301	-	-
Private Real Estate	277,740	-	-
Adr's, GDRs & Trust	4,173	-	-
Asset Backed Securities	79,059	-	-
Bank Loans	219,675	-	-
Municipal Bonds	34,460	-	-
Commingled Funds	7,648,893	3,407,540	-
Guaranteed Investment Contracts	83,387	-	-
Short Term Investments	423,379	-	-
Total Investments	12,865,475	3,407,540	-
Securities Lending Collateral	311,115	-	-
Receivables:			
Contributions	26,860	-	-
Interest and Dividends	16,505	822	384
Other	468,873	-	716
Total Receivables	512,238	822	1,100
Due from Other Funds	47,357	-	-
Capital Assets:			
Buildings and Equipment	11,440	-	-
Less Accumulated Depreciation	(11,435)	-	-
Total Capital Assets	5	-	-
Other Assets	-	14,390	-
Total Assets	$ 13,743,808	$ 3,449,334	$ 95,839
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	$ -	$ -	$ -
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 881,615	$ 6,161	$ 224
Due to Other Governments	10,048	-	72,058
Deposits	-	935	-
Due to Other Funds	135	9	-
Obligations under Securities Lending	311,115	-	-
Accrued Compensated Absences	355	-	-
Other Liabilities	-	-	23,557
Total Liabilities	$ 1,203,268	$ 7,105	$ 95,839
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	$ -	$ -	$ -
NET POSITION			
Restricted for:			
Pensions	$ 12,540,540	$ -	$ -
College Savings Plan	-	3,412,299	-
Other Purposes	-	29,930	-
Total Net Position	$ 12,540,540	$ 3,442,229	$ -

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, 2014

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS		
Contributions:		
Participant Contributions	$ 233,458	$ 358,523
Client Contributions	-	89
State Contributions	120,118	-
Political Subdivision Contributions	167,710	-
Court Fees	3,812	-
Total Contributions	525,098	358,612
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,808,299	435,427
Interest and Dividend Income	138,715	6,471
Securities Lending Income	2,602	-
Total Investment Income	1,949,616	441,898
Investment Expenses	25,815	15,079
Securities Lending Expenses	498	-
Total Investment Expense	26,313	15,079
Net Investment Income	1,923,303	426,819
Escheat Revenue	-	11,462
Other Additions	312	4,154
Total Additions	2,448,713	801,047
DEDUCTIONS		
Benefits	612,197	230,636
Refunds	17,345	-
Amounts Distributed to Outside Parties	-	11,571
Administrative Expenses	5,156	1,345
Other Deductions	9,153	-
Total Deductions	643,851	243,552
Change in Net Position Restricted for:		
Pensions	1,804,862	-
College Savings Plan	-	554,570
Other Purposes	-	2,925
NET POSITION-BEGINNING OF YEAR	10,735,678	2,884,734
NET POSITION-END OF YEAR	$ 12,540,540	$ 3,442,229

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

State of Nebraska

STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2014

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 610,232	$ 27,973	$ 638,205
Receivables, net of allowance			
Loans	34,091	2,023	36,114
Other	464,005	4,266	468,271
Investments	2,163,313	52,497	2,215,810
Investment in Joint Venture	316,599	-	316,599
Other Assets	25,743	1,366	27,109
Restricted Assets:			
Cash and Cash Equivalents	483,986	51,780	535,766
Investments Held by Trustee	64,183	-	64,183
Capital assets:			
Land	86,230	1,450	87,680
Land Improvements	197,686	28,144	225,830
Construction in Progress	202,643	33,043	235,686
Buildings and Equipment	2,563,367	206,431	2,769,798
Less Accumulated Depreciation	(953,750)	(85,930)	(1,039,680)
Total Capital Assets	2,096,176	183,138	2,279,314
Total Assets	$ 6,258,328	$ 323,043	$ 6,581,371
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	$ 6,589	$ 51	$ 6,640
Total Deferred Outflows of Resources	$ 6,589	$ 51	$ 6,640
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 214,288	$ 12,851	$ 227,139
Deposits	16,042	85	16,127
Unearned Revenue	99,368	1,999	101,367
Noncurrent Liabilities:			
Due within one year	115,004	4,770	119,774
Due in more than one year	772,666	56,360	829,026
Total Liabilities	$ 1,217,368	$ 76,065	$ 1,293,433
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement receipts	$ 13,591	$ -	$ 13,591
Total Deferred Inflows of Resources	$ 13,591	$ -	$ 13,591
NET POSITION			
Net Investment in Capital Assets	$ 1,559,636	$ 139,706	$ 1,699,342
Restricted for:			
Education	2,024,975	-	2,024,975
Other Purposes	279,252	63,142	342,394
Construction and Debt Service	420,565	9,919	430,484
Permanent Trusts:			
Unrestricted	749,530	34,262	783,792
Total Net Position	$ 5,033,958	$ 247,029	$ 5,280,987

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, 2014

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Expenses:			
Compensation and benefits	$ 1,246,860	$ 64,184	$ 1,311,044
Supplies and materials	287,432	11,663	299,095
Contractual services	139,237	4,308	143,545
Repairs and maintenance	68,132	4,587	72,719
Utilities	33,480	4,513	37,993
Communications	13,819	479	14,298
Depreciation	117,964	7,302	125,266
Scholarships and fellowships	70,195	5,994	76,189
Other	12,122	13,898	26,020
Total Operating Expenses	1,989,241	116,928	2,106,169
Program Revenues:			
Charges for Services	977,169	45,183	1,022,352
Operating Grants and Contributions	318,692	16,033	334,725
Capital Grants and Contributions	12,788	2,056	14,844
Total Program Revenues	1,308,649	63,272	1,371,921
Net (Expense) Revenue	(680,592)	(53,656)	(734,248)
General Revenues:			
Interest and investment earnings	54,758	1,908	56,666
Miscellaneous	552,831	6,461	559,292
Payments from the State of Nebraska	554,707	63,326	618,033
Total General Revenues	1,162,296	71,695	1,233,991
Change in Net Position	481,704	18,039	499,743
Net Position - Beginning (as restated)	4,552,254	228,990	4,781,244
Net Position - Ending	$ 5,033,958	$ 247,029	$ 5,280,987

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. These component units are reported in a separate column in the government-wide financial statements.

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, Health, and Social Services 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 $2,893,121 of restricted net position, of which $1,630,050 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. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues available if the revenues are collected within 60 days after year end, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying activity takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment insurance taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred inflows of resources.

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, 2014, 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, except guaranteed investment contracts are valued at contract value. 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 Activities. Interfund services provided and used are accounted for as revenues, expenditures or expenses in the funds involved. Activities 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 activities 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, 2014 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, 2014, the carrying amounts of the State's deposits were $81,348 and the bank balances were $101,661. 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, 2014.

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, 2013. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2014.

State of Nebraska (dollars expressed in thousands)

The primary government's investments at June 30, 2014 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, 2014

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	$ 970,400	4.02	$ 413,156	5.61
U.S. Treasury Bills	7,191	0.01	4,461	0.14
Government Agency Securities	970,618	3.23	12,942	5.95
Corporate Bonds	1,586,677	4.06	729,276	5.85
International Bonds	11,358	4.58	222,469	7.43
Mortgages	40,075	4.01	500,301	4.03
Asset Backed Securities	4,728	1.29	79,059	1.81
Bank Loans	-	-	219,675	0.18
Commingled Funds	198,506	5.20	884,211	5.22
Municipal Bonds	5,293	10.67	34,460	10.33
Guaranteed Investment Contracts	7,032	2.69	83,387	2.69
Short Term Investments	281,553	0.03	423,379	0.26
	4,083,431		3,606,776	
Other Investments				
Adr's, GDRs & Trust	96		4,173	
Equity Securities	64,953		1,674,080	
Private Equity	57,042		538,088	
Commingled Funds	782,883		10,172,222	
Options	-		(64)	
Private Real Estate	18,304		277,740	
U.S. Treasury Investment Pool	382,801		-	
Less: Component Unit Investment in State Investment Pool	(793,161)		-	
Total Investments	4,596,349		16,273,015	
Securities Lending Short-term Collateral Investment Pool	200,273		311,115	
Total	$ 4,796,622		$ 16,584,130	

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. 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, 2014 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, 2014

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 970,618	$ -	$ 925,649	$ -	$ -	$ -	$ -	$ 44,969
Corporate Bonds	1,586,677	168,705	456,061	855,023	69,260	16,441	4,605	16,582
International Bonds	11,358	-	203	2,389	8,736	30	-	-
Mortgages	40,076	4,932	1,377	858	909	219	711	31,070
Asset Backed Securities	4,728	3,211	892	130	70	-	304	121
Commingled Funds	198,506	-	-	-	-	-	-	198,506
Short Term Investments	281,553	-	-	4,040	-	-	-	277,513
Municipal Bonds	5,293	1,755	1,764	846	770	-	158	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2014

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 11,888	$ -	$ 7,345	$ -	$ -	$ 2,567	$ -	$ 1,976
Corporate Bonds	729,531	45,273	23,762	222,319	234,670	138,396	45,262	19,849
International Bonds	220,678	48,761	56,566	20,580	81,153	6,532	2,474	4,612
Mortgages	495,297	54,801	18,003	7,932	5,188	3,448	618	405,307
Asset Backed Securities	78,385	40,256	17,436	7,378	5,898	2,723	1,849	2,845
Commingled Funds	899,574	-	-	-	-	-	-	899,574
Short Term Investments	460,705	-	-	-	1,675	-	-	459,030
Municipal Bonds	33,695	8,920	11,283	9,367	3,742	383	-	-

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, 2014, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (9 percent) and Federal Home Loan Bank (9 percent). At June 30, 2014, 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 35 to 42 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, 2014

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 1	$ 234	$ 401
Brazilian Real	(209)	212	956
Canadian Dollar	11	1,492	-
Chilean Peso	-	-	269
Columbian Peso	-	-	207
Czech Koruna	-	35	-
Danish Krone	-	161	-
Euro Currency	(12)	10,417	7,640
Hong Kong Dollar	-	208	-
Indian Rupee	-	-	491
Indonesian Rupiah	-	165	-
Japanese Yen	36	3,131	-
Malaysian Ringgit	1	57	-
Mexican Peso	241	394	2,403
New Israeli Sheqel	-	19	-
New Zeland Dollar	-	83	-
Norwegian Krone	-	456	-
Philippine Peso	-	41	686
Polish Zloty	24	-	-
Pound Sterling	11	5,143	-
Singapore Dollar	9	789	-
South African Rand	-	3	-
South Korean Won	7	789	-
Swedish Krona	-	715	-
Swiss Franc	1	3,380	-
Thailand Baht	-	61	-
Total	$ 121	$ 27,985	$ 13,053

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2014

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ 529	$ 4,835	$ 3,995
Brazilian Real	(1,023)	1,007	3,237
Canadian Dollar	256	24,118	8,610
Chilean Peso	-	-	885
Columbian Peso	-	-	713
Czech Koruna	-	759	-
Danish Krone	-	6,311	-
Euro Currency	4,237	406,342	140,927
Hong Kong Dollar	1	22,062	-
Indian Rupee	-	-	1,623
Indonesian Rupiah	114	3,435	-
Japanese Yen	961	156,447	16,832
Malaysian Ringgit	10	1,378	-
Mexican Peso	1,008	4,113	19,678
New Zealand Dollar	-	261	7,305
Norwegian Krone	2	6,891	14,801
Philippine Peso	3	-	2,052
Polish Zloty	5	2,543	-
Pound Sterling	2,239	123,502	27,306
Singapore Dollar	388	15,858	-
South African Rand	86	344	-
South Korean Won	139	20,306	-
Swedish Krona	-	27,324	2,019
Swiss Franc	193	97,183	-
Thailand Baht	-	1,695	-
Turkish Lira	-	605	-
Total	$ 9,148	$ 927,319	$ 249,983

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, 2014 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2014, 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, 2014

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 1,544	$ 252	$ 22,756
Fixed Income Futures	-	140	131,085
Fixed Income Options	-	425	-
Foreign Currency Options	(36)	80	(11,000)
Futures Options	-	3	-
FX Forwards	28	(203)	23,232
Interest Rate Swap	444	(482)	21,309
Rights	9	(1)	1

DERIVATIVE INVESTMENTS AT JUNE 30, 2014

FIDUCIARY FUND

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 6,097	$ 1,924	$ 74,554
Fixed Income Futures	-	(1,665)	434,305
Fixed Income Options	-	2,570	-
Foreign Currency Options	(184)	502	(56,700)
Futures Options	52	(181)	1,123
FX Forwards	294	(6,151)	317,437
Interest Rate Swap	(1,625)	(4,679)	115,491
Rights	-	539	-
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, 2014, 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, 2014, was $1,507 for Governmental and Business-Type Activities and $8,982 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 $10,488. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 94 percent for the Governmental and Business-Type Activities and 75 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, 2014 are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2014
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ (2)	$ -
Brazilian Real	(214)	8	-
Euro Currency	(4)	17	9
Japanese Yen	(53)	-	-
Pound Sterling	-	2	-
Mexican Peso	157	3	-
Total	$ (114)	$ 28	$ 9

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2014
FIDUCIARY FUND

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ (28)	$ -
Brazilian Real	(1,167)	-	-
Canadian Dollar	-	165	-
Swiss Franc	-	39	-
Czech Koruna	-	(4)	-
Danish Krone	-	12	-
Euro Currency	(667)	(186)	-
Pound Sterling	-	(108)	-
Indian Rupee	-	(101)	-
Japanese Yen	(304)	198	-
South Korean Won	-	192	-
Mexican Peso	1,026	(42)	-
Malaysian Ringgit	-	183	-
Norwegian Krone	-	393	-
New Zealand Dollar	-	(437)	-
Polish Zloty	-	7	-
Singapore Dollar	-	5	-
Thailand Baht	-	5	-
Total	$ (1,112)	$ 293	$ -

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 2.93 percent during fiscal year 2014. The fair value of these contracts is $74,651, and the contract value is $71,736. 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, 2014					
			AAA	AA	A	BBB	BB	UNRATED
Asset Backed Securities	1.38	$ 8,652	$ 8,414	$ -	$ 103	$ -	$ -	$ 135
Corporate Bonds	3.13	31,513	635	5,357	14,235	10,115	-	1,171
Government Agency Securities	3.04	9,038	-	8,128	267	-	-	643
International Bonds	2.53	1,305	516	789	-	-	-	-
Mortgages	1.91	9,331	4,065	328	161	-	-	4,777
Short Term Investments	-	2,174	-	-	-	-	-	2,174
US Treasury Notes	4.43	12,638	5,643	-	-	-	-	6,995
		$ 74,651						

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2014 is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 21,380,752
Carrying amount of Deposits	81,348
Total	$ 21,462,100
Statement of Net Position:	
Cash and Cash Equivalents	$ 653,192
Investments	3,884,458
Restricted Cash and Cash Equivalents	11,108
Securities Lending Collateral	200,273
Statement of Fiduciary Net Position:	
Cash and Cash Equivalents	128,939
Investments	16,273,015
Securities Lending Collateral	311,115
Total	$ 21,462,100

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2014:

Governmental Activities:	
General Fund	$ 95,628
Federal Fund	9,949
Health and Social Services Fund	5,910
Total Governmental Activities	$ 111,487
Business-type Activities:	
Unemployment Insurance	$ 8,853
Total Business-type Activities	$ 8,853

Of the taxes and other receivables, $40,385 and $20,934, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred inflows of resources 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, 2014 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 561,967	$ 11,400	$ 413	$ 572,954
Infrastructure	7,077,548	168,678	-	7,246,226
Construction in progress	395,089	70,032	164,220	300,901
Total capital assets, not being depreciated	8,034,604	250,110	164,633	8,120,081
Capital assets, being depreciated:				
Buildings and improvements	617,735	23,612	1,059	640,288
Equipment	465,994	38,692	19,288	485,398
Total capital assets, being depreciated	1,083,729	62,304	20,347	1,125,686
Less accumulated depreciation for:				
Buildings and improvements	269,579	14,647	958	283,268
Equipment	357,420	33,049	17,699	372,770
Total accumulated depreciation	626,999	47,696	18,657	656,038
Total capital assets, being depreciated, net	456,730	14,608	1,690	469,648
Governmental activities capital assets, net	$ 8,491,334	$ 264,718	$ 166,323	$ 8,589,729
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 355	$ -	$ 6	$ 349
Less accumulated depreciation	342	13	6	349
Total Unemployment Insurance, net	13	(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	8,442	-	-	8,442
Equipment	5,239	388	297	5,330
Total capital assets, being depreciated	13,681	388	297	13,772
Less accumulated depreciation for:				
Buildings and improvements	2,267	211	-	2,478
Equipment	4,380	271	297	4,354
Total accumulated depreciation	6,647	482	297	6,832
Total capital assets, being depreciated, net	7,034	(94)	-	6,940
Total Nonmajor Enterprise, net	7,349	(94)	-	7,255
Business-type activities capital assets, net	$ 7,362	$ (107)	$ -	$ 7,255

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

Governmental activities:	
General Government	$ 18,064
Conservation of Natural Resources	1,392
Culture – Recreation	1,679
Economic Development and Assistance	217
Education	1,593
Health and Social Services	1,566
Public Safety	10,037
Regulation of Business and Professions	771
Transportation	12,377
Total depreciation expense - Governmental activities	$ 47,696

State of Nebraska (dollars expressed in thousands)

Construction Commitments. At June 30, 2014, the State had contractual commitments of approximately $646,767 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$	331,443
State funds		307,189
Local funds		8,135
	$	646,767

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, 2014 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	$ -	$ 70	$ 53	$ 415	$ 125	$ 551	$ 3,397	$ 46,648	$ 51,259
Highway Fund	-	-	104	4	119	610	628	-	1,465
Federal Fund	70,352	3	-	2,657	2,920	98	3,074	-	79,104
Health and Social Services	-	2	-	-	7	42	242	-	293
Permanent School Fund	-	-	-	-	-	-	6	-	6
Nonmajor Governmental Funds	5	40	-	285	146	21	5,030	709	6,236
Nonmajor Enterprise Funds	-	11	-	-	2	-	93	-	106
Internal Service Funds	-	35	-	-	60	38	369	-	502
Pension Trust	-	-	-	-	-	-	135	-	135
Private Purpose Trust	-	-	-	-	-	-	9	-	9
TOTALS	$ 70,357	$ 161	$ 157	$ 3,361	$ 3,379	$ 1,360	$ 12,983	$ 47,357	$ 139,115

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, 2014 consist of the following:

	TRANSFERRED TO:					
TRANSFERRED FROM:	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ -	$ -	$ -	$ 16,354	$ 16,354
Highway Fund	12	-	-	-	9,338	9,350
Federal Fund	-	-	-	-	9,787	9,787
Health & Social Services Fund	1,582	-	-	-	-	1,582
Nonmajor Governmental Funds	43,071	356	-	360	8,078	51,865
Unemployment Fund	-	-	274	-	-	274
Nonmajor Enterprise Funds	-	-	-	875	37,125	38,000
TOTALS	$ 44,665	$ 356	$ 274	$ 1,235	$ 80,682	$ 127,212

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, 2014 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	$ 14,055	$ 4,938	$ 5,959	$ 553	$ -	$ 3,199	$ 1,358	$ 2	$ 223	$ 30,287
Payables to Vendors	70,088	63,983	46,959	6,639	41,755	22,460	14,013	1,247	10,203	277,347
Payables to Governments	32,813	14,962	120,112	4	4,697	4,725	317	2	26	177,658
Due to Fiduciary Funds *	-	-	-	-	-	-	47,357	-	-	47,357
Miscellaneous	-	-	-	-	-	20	-	38	7,020	7,078
TOTALS	$ 116,956	$ 83,883	$ 173,030	$ 7,196	$ 46,452	$ 30,404	$ 63,045	$ 1,289	$ 17,472	$ 539,727

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

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2014 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 273,702	$ 1,855,402	$ 1,881,738	$ 247,366	$ 206,469
Capital Lease Obligations	22,716	5,170	9,711	18,175	5,725
Obligations Under Other Financing Arrangements	6,315	1,360	2,110	5,565	780
Compensated Absences	129,288	14,719	14,788	129,219	10,339
Net Pension Obligation	1,060	-	119	941	-
Totals	$ 433,081	$ 1,876,651	$ 1,908,466	$ 401,266	$ 223,313
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 15,216	$ 121,804	$ 127,292	$ 9,728	$ 9,728
Compensated Absences	13	-	6	7	-
Totals for Unemployment Insurance	15,229	121,804	127,298	9,735	9,728
Nonmajor Enterprise Funds:					
Claims Payable	23,890	814	6,327	18,377	4,603
Compensated Absences	818	122	66	874	67
Totals for Nonmajor Enterprise Funds	24,708	936	6,393	19,251	4,670
Totals for Business-type Activities	$ 39,937	$ 122,740	$ 133,691	$ 28,986	$ 14,398

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, 2014 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2015	$ 5,924
2016	5,730
2017	4,154
2018	2,217
2019	504
2020-2024	113
Total Minimum Payments	18,642
Less: Interest and executory costs	467
Present value of net minimum payments	$ 18,175

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, 2014:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 30,381
Less: accumulated depreciation	(15,475)
Carrying value	$ 14,906

The minimum annual lease payments for operating leases as of June 30, 2014 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2015	$ 7,618
2016	1,912
2017	1,259
2018	1,061
2019	1,052
2020-2024	2,970
2025-2029	371
2030-2034	217
Total	$ 16,460

Primary Government operating lease payments for the year ended June 30, 2014 totaled $14,307.

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, 2014, 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 $49,260 were received under these and other lease agreements for the year ended June 30, 2014.

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 1.45 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	$ 780	$ 220	$ 1,000
2016	1,350	170	1,520
2017	340	132	472
2018	355	121	476
2019	365	109	474
2020-2024	1,850	309	2,159
2025-2029	525	21	546
Total	$ 5,565	$ 1,082	$ 6,647

10. Governmental Fund Balances

The State's governmental fund balances represent: (1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are imposed by law through constitutional provisions or are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2014, follows:

Governmental Fund Balances

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Funds
Restricted for:						
Education	$ -	$ -	$ -	$ -	$ 221,710	$ 21,702
Health and Social Services	-	-	-	543,398	-	37,137
Conservation of Natural Resources	-	-	-	-	-	527,112
Transportation	-	281,096	-	-	-	9,845
Licensing and Regulation	-	-	-	-	-	87,710
Economic Development	-	-	-	-	-	45,295
Public Safety	-	-	-	-	-	37,397
Culture – Recreation	-	-	-	-	-	21,520
Other Purposes	-	-	5,784	-	-	38,982
Debt Service	-	-	-	-	-	10,498
Total Restricted	$ -	$ 281,096	$ 5,784	$ 543,398	$ 221,710	$ 837,198
Committed to:						
Economic Stabilization	719,065	-	-	-	-	-
Other Purposes	-	-	-	-	-	124,154
Total Committed	$ 719,065	$ -	$ -	$ -	$ -	$ 124,154
Assigned to:						
Education	-	-	-	-	-	155
Health and Social Services	-	-	-	621	-	1,402
Licensing and Regulation	-	-	-	-	-	42,788
Economic Development	-	-	-	-	-	49
Public Safety	-	-	-	-	-	486
Culture – Recreation	-	-	-	-	-	60
Other Purposes	-	-	-	-	-	1,251
Total Assigned	$ -	$ -	$ -	$ 621	$ -	$ 46,191

State of Nebraska (dollars expressed in thousands)

11. 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. A $5,500 liability is recorded in the government-wide financial statements. The case was submitted and is pending decision by the United States Supreme Court.

12. 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.

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 $44,563 at a discounted rate of 2.0 percent ($5,853).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2014, and 2013, were as follows:

	Fiscal Year	
	2014	2013
Beginning Balance	$ 71,674	$ 65,633
Current Year Claims and Changes in Estimates	(185,224)	(169,376)
Claim Payments	186,243	175,417
Ending Balance	$ 72,693	$ 71,674

13. 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, 2013.

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, 2013, there were 15,644 active members, 6,532 inactive members, and 1,052 retirees or beneficiaries receiving benefits. Members contributed $32,429 and the State contributed $50,550 during the year ended December 31, 2013, 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, 2013.

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, 2013, there were 7,543 active members, 2,645 inactive members, and 384 retirees or beneficiaries receiving benefits. Members contributed $12,695 and counties contributed $18,806 during the year ended December 31, 2013, 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 is 9.78% of their compensation and the school district's contribution is 101 percent of the employees' contribution.

Judges' Retirement. The Judges' Retirement System is a single-employer defined benefit pension system. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Courts, Workers' Compensation Court, County Courts, and Juvenile Courts. Benefits are based on both service and final average salary. Benefits vest when the judge takes office.

Members' contributions, a portion of court fees collected, and the State's contribution, which is based on an annual actuarial valuation, fund the plan. The judges contribute between one and nine percent of their salary.

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

Members are required to contribute sixteen percent of their monthly salary, and State Patrol contributes sixteen percent. The State's contribution is based on an annual actuarial valuation.

The following tables provide the schedules of funding progress, which present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits, and the primary actuarial assumptions used in the most recent actuarial reports for the defined benefit plans. Information presented for the cost-sharing plans is for the plan as a whole.

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						
12/31/2013	$ 1,130,203	$ 1,139,773	$ 9,570	99.2%	$ 535,526	1.8%
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
County Cash Balance						
12/31/2013	$ 323,882	$ 322,994	$ (888)	100.3%	$ 206,511	(0.4)%
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
School						
6/30/2014	$ 8,622,024	$ 10,426,113	$ 1,804,089	82.7%	$ 1,774,680	101.7%
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
Judges'						
6/30/2014	$ 144,730	$ 156,327	$ 11,597	92.6%	$ 21,705	53.4%
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
State Patrol						
6/30/2014	$ 325,967	$ 401,416	$ 75,449	81.2%	$ 25,934	290.9%
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

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2013	12/31/2013	6/30/2014	6/30/2014	6/30/2014
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar amount, closed	Level dollar amount, closed	Level percent of payroll, closed	Level percent of payroll, closed	Level percent of payroll, closed
Amortization Period	12 years	25 years	26 years	27 years	25 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					
12/31/2013	$ -	$ 32,632	$ 32,632	120%	$ -
12/31/2012	-	32,511	32,511	100%	-
12/31/2011	-	31,188	31,188	100%	-
County Cash Balance					
12/31/2013	$ 11,498	$ -	$ 11,498	124%	$ -
12/31/2012	12,800	-	12,800	100%	-
12/31/2011	11,908	-	11,908	100%	-
School					
6/30/2014	$ 167,710	$ 35,613	$ 203,323	100%	$ -
6/30/2013	161,923	66,073	227,996	79%	-
6/30/2012	145,582	46,896	192,478	88%	-
Judges'					
6/30/2014	$ -	$ 3,906	$ 3,906	100%	$ -
6/30/2013	-	3,180	3,180	100%	-
6/30/2012	-	3,484	3,484	100%	-
State Patrol					
6/30/2014	$ -	$ 8,651	$ 8,651	100%	$ 941
6/30/2013	-	7,404	7,404	78%	1,060
6/30/2012	-	7,730	7,730	100%	1,170

The Net Pension Obligation for the State Patrol Retirement plan decreased by $119 in 2014. The Annual Pension Cost for the State Patrol Retirement plan was calculated by taking the Annual Required Contribution of $8,753, adding $85 interest calculated on the Net Pension Obligation, and subtracting the $187 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, 2013, there was a balance of $580 in the State ERBF and a balance of $367 in the County ERBF.

14. 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, 2014, 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, 2014
COMPONENT UNITS		
University of Nebraska	0.25%-6.00%	$ 757,965
Nebraska State Colleges	0.30%-5.25%	55,282
Component Units Total		$ 813,247

State of Nebraska (dollars expressed in thousands)

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	$ 46,382	$ 34,438	$ 80,820
2016	52,848	33,337	86,185
2017	61,098	31,309	92,407
2018	75,374	29,002	104,376
2019	50,195	25,772	75,967
2020 - 2024	220,955	98,156	319,111
2025 - 2029	137,030	60,228	197,258
2030 - 2034	92,420	31,902	124,322
2035 - 2039	57,650	13,834	71,484
2040 - 2044	19,295	1,702	20,997
Total	$ 813,247	$ 359,680	$ 1,172,927

15. Restatements

The Highway Fund beginning Fund Balance for fiscal years 2014 and 2013 was increased by $1,675 due to an overstatement of accounts payable in a prior fiscal year. This resulted in an increase in the Governmental Activities Net Position – Beginning on the Statement of Activities of $1,675.

The Lottery Fund restated their Beginning Net Position due to a $521 overstatement of accounts payable in 2013. This resulted in an understatement to their Net Position – End of Year. To reflect this restatement in 2014, Business-Type Activities Net Position – Beginning on the Statement of Activities and Non-Major Enterprise Funds Net Position – July 1 on the Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds were both increased by $521.

Component Units Net Position – Beginning on the Statement of Activities decreased $6,407. Of this amount, $5,716 was due to University of Nebraska's implementation of GASB Statement No. 65. The remaining $691 decrease in Net Position was in State Colleges. The implementation of GASB Statement No. 65 resulted in a $481 decrease in Net Position for State Colleges. In fiscal year 2013, errors in the accrual of some liabilities and assets decreased State Colleges Net Position by $210.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2014

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 3,920,662	$ 4,002,975	$ 4,017,383	$ 14,408
Federal Grants and Contracts	120	120	120	-
Sales and Charges	21,137	21,137	21,137	-
Other	33,421	33,421	33,421	-
Total Revenues	3,975,340	4,057,653	4,072,061	14,408
EXPENDITURES				
Current:				
General Government	288,570	291,469	267,307	24,162
Conservation of Natural Resources	50,815	50,341	35,843	14,498
Culture – Recreation	7,330	8,032	5,624	2,408
Economic Development and Assistance	22,951	22,951	11,613	11,338
Education	1,867,530	1,865,862	1,827,015	38,847
Health and Social Services	1,575,331	1,565,735	1,386,773	178,962
Public Safety	276,890	281,532	250,247	31,285
Regulation of Business and Professions	4,760	4,760	3,509	1,251
Transportation	-	3,600	3,508	92
Capital Projects	4,265	4,383	-	4,383
Total Expenditures	4,098,442	4,098,665	3,791,439	307,226
Excess (Deficiency) of Revenues Over (Under) Expenditures	(123,102)	(41,012)	280,622	321,634
OTHER FINANCING SOURCES (USES)				
Transfers In	387,286	387,286	387,286	-
Transfers Out	(471,524)	(471,524)	(471,524)	-
Other	205	205	205	-
Total Other Financing Sources (Uses)	(84,033)	(84,033)	(84,033)	-
Net Change in Fund Balance	(207,135)	(125,045)	196,589	321,634
FUND BALANCES, JULY 1	1,195,351	1,195,351	1,195,351	-
FUND BALANCES, JUNE 30	$ 988,216	$ 1,070,306	$ 1,391,940	$ 321,634

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2014, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2014	
General	$ 672,875
Cash Reserve	719,065
Budgetary fund balances	1,391,940
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record State contributions due pension funds	(46,645)
Record claims payable	(88,186)
Record other net accrued receivables and liabilities	4,649
GAAP fund balance, June 30, 2014	$ 1,261,758

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2014

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 157,046	$ 157,046	$ 157,046	$ -
Federal Grants and Contracts	429,070	429,070	429,070	-
Sales and Charges	583,422	583,422	583,422	-
Other	195,808	195,808	195,808	-
Total Revenues	1,365,346	1,365,346	1,365,346	-
EXPENDITURES				
Current:				
General Government	193,019	197,617	185,297	12,320
Conservation of Natural Resources	128,913	133,530	78,575	54,955
Culture – Recreation	32,088	32,198	23,120	9,078
Economic Development and Assistance	76,429	80,022	25,212	54,810
Education	623,458	633,731	481,231	152,500
Health and Social Services	174,300	174,444	128,216	46,228
Public Safety	52,098	52,066	35,255	16,811
Regulation of Business and Professions	162,763	163,075	116,465	46,610
Transportation	916,717	946,717	782,915	163,802
Capital Projects	53,662	53,531	20,607	32,924
Total Expenditures	2,413,447	2,466,931	1,876,893	590,038
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,048,101)	(1,101,585)	(511,547)	590,038
OTHER FINANCING SOURCES (USES)				
Transfers In	1,156,404	1,156,404	1,156,404	-
Transfers Out	(567,535)	(567,535)	(567,535)	-
Other	2,821	2,821	2,821	-
Total Other Financing Sources (Uses)	591,690	591,690	591,690	-
Net Change in Fund Balance	(456,411)	(509,895)	80,143	590,038
FUND BALANCES, JULY 1	1,030,976	1,030,976	1,030,976	-
FUND BALANCES, JUNE 30	$ 574,565	$ 521,081	$ 1,111,119	$ 590,038

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2014, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2014	
Cash	$ 1,111,119
Construction	92,892
Federal	78,010
Revolving	368,256
Budgetary fund balances	1,650,277
Unbudgeted fund balances	1,895,277
Non-major fund balances	(1,320,232)
Differences due to basis of accounting	(656,540)
GAAP fund balance, June 30, 2014	$ 1,568,782
Actual Fund Balances of Major Funds, June 30, 2014	
Highway	$ 289,647
Federal	6,319
Health and Social Services	544,119
Permanent School	728,697
GAAP fund balance, June 30, 2014	$ 1,568,782

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2014

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	1,930	1,930	1,930	-
Total Revenues	1,930	1,930	1,930	-
EXPENDITURES				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	99,728	99,728	20,044	79,684
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	56,806	56,806	1,994	54,812
Total Expenditures	156,534	156,534	22,038	134,496
Excess (Deficiency) of Revenues Over (Under) Expenditures	(154,604)	(154,604)	(20,108)	134,496
OTHER FINANCING SOURCES (USES)				
Transfers In	8,000	8,000	8,000	-
Transfers Out	-	-	-	-
Other	-	-	-	-
Total Other Financing Sources (Uses)	8,000	8,000	8,000	-
Net Change in Fund Balance	(146,604)	(146,604)	(12,108)	134,496
FUND BALANCES, JULY 1	105,000	105,000	105,000	-
FUND BALANCES, JUNE 30	$ (41,604)	$ (41,604)	$ 92,892	$ 134,496

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2014

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,532,059	2,532,059	2,532,059	-
Sales and Charges	19,634	19,634	19,634	-
Other	5,755	5,755	5,755	-
Total Revenues	2,557,448	2,557,448	2,557,448	-
EXPENDITURES				
Current:				
General Government	6,584	6,875	3,971	2,904
Conservation of Natural Resources	53,322	54,481	47,145	7,336
Culture – Recreation	3,533	3,918	2,008	1,910
Economic Development and Assistance	96,628	118,310	54,048	64,262
Education	1,039,495	1,045,628	846,531	199,097
Health and Social Services	1,909,706	1,911,846	1,513,546	398,300
Public Safety	173,093	199,133	91,476	107,657
Regulation of Business and Professions	8,514	7,961	3,274	4,687
Transportation	-	-	-	-
Capital Projects	144	-	-	-
Total Expenditures	3,291,019	3,348,152	2,561,999	786,153
Excess (Deficiency) of Revenues Over (Under) Expenditures	(733,571)	(790,704)	(4,551)	786,153
OTHER FINANCING SOURCES (USES)				
Transfers In	34,149	34,149	34,149	-
Transfers Out	(34,838)	(34,838)	(34,838)	-
Other	(225)	(225)	(225)	-
Total Other Financing Sources (Uses)	(914)	(914)	(914)	-
Net Change in Fund Balance	(734,485)	(791,618)	(5,465)	786,153
FUND BALANCES, JULY 1	83,475	83,475	83,475	-
FUND BALANCES, JUNE 30	$ (651,010)	$ (708,143)	$ 78,010	$ 786,153

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2014

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,131	2,131	2,131	-
Sales and Charges	556,714	556,714	556,714	-
Other	182,806	182,806	182,806	-
Total Revenues	741,651	741,651	741,651	-
EXPENDITURES				
Current:				
General Government	230,674	239,812	192,098	47,714
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	562	562	561	1
Education	629,938	706,338	530,347	175,991
Health and Social Services	-	-	-	-
Public Safety	21,564	21,564	14,150	7,414
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
Total Expenditures	882,738	968,276	737,156	231,120
Excess (Deficiency) of Revenues Over (Under) Expenditures	(141,087)	(226,625)	4,495	231,120
OTHER FINANCING SOURCES (USES)				
Transfers In	110,566	110,566	110,566	-
Transfers Out	(128,223)	(128,223)	(128,223)	-
Other	2,375	2,375	2,375	-
Total Other Financing Sources (Uses)	(15,282)	(15,282)	(15,282)	-
Net Change in Fund Balance	(156,369)	(241,907)	(10,787)	231,120
FUND BALANCES, JULY 1	379,043	379,043	379,043	-
FUND BALANCES, JUNE 30	$ 222,674	$ 137,136	$ 368,256	$ 231,120

See independent auditors' report

Budgetary Process

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

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

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

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

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

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

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

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

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

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

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

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

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

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2014, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2014, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

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

For the Year Ended June 30, 2014

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	2013	2012	2011	2010	2009	2008
Very Good	39%	36%	33%	31%	32%	32%
Good	35%	38%	41%	44%	47%	47%
Fair	23%	23%	23%	22%	19%	19%
Poor	3%	3%	3%	3%	2%	2%
Overall System Rating	81	81	80	80	81	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	2015	2014	2013	2012	2011	2010
Estimated	$ 327	$ 302	$ 313	$ 288	$ 267	$ 211
Actual		300	335	278	218	270
Difference		(2)	22	(10)	(49)	59

SINGLE AUDIT SECTION

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By Federal Agency

For the Fiscal Year Ended June 30, 2014

Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Agriculture, U.S. Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	$	782,055
Wetlands Reserve Program	Game and Parks Commission	10.072		63,792
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093		87,109
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170		276,200
State Mediation Grants	Agriculture, Department of	10.435		124,225
Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477		8,400
Food Safety Cooperative Agreements	Agriculture, Department of	10.479		135,932
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.551		246,809,251
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	^	14,870,380
Total SNAP Cluster				261,679,631
Child Nutrition Cluster:				
School Breakfast Program	Education, Department of	10.553		15,452,339
National School Lunch Program	Education, Department of	10.555		66,555,041
National School Lunch Program	Health and Human Services, Department of	10.555		8,397,387
Total National School Lunch Program				74,952,428
Special Milk Program for Children	Education, Department of	10.556		60,971
Summer Food Service Program for Children	Education, Department of	10.559		2,687,647
Summer Food Service Program for Children	Health and Human Services, Department of	10.559		100,997
Total Summer Food Service Program for Children				2,788,644
Total Child Nutrition Cluster				93,254,382
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557		31,000,647
Child and Adult Care Food Program	Education, Department of	10.558		33,578,683
Child and Adult Care Food Program	Health and Human Services, Department of	10.558		243,849
Total Child and Adult Care Food Program				33,822,532
State Administrative Expenses for Child Nutrition	Education, Department of	10.560		1,553,517
State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560		154,504
Total State Administrative Expenses for Child Nutrition				1,708,021

^Amounts taken from financial status reports

ARRA - American Recovery and Reinvestment Act

See accompanying notes to the Schedule of Expenditures of Federal Awards

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Agriculture, U.S. Department of (Continued)					
	Food Distribution Cluster:				
	Commodity Supplemental Food Program	Health and Human Services, Department of	10.565		3,243,925
	Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568		407,722
	Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569		2,576,107
	Total Food Distribution Cluster				6,227,754
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, Department of	10.572		59,380
	Team Nutrition Grants	Education, Department of	10.574		72,890
	Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		250,718
	WIC Grants To States (WGS)	Health and Human Services, Department of	10.578		109,815
	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Health and Human Services, Department of	10.580		36,458
	Fresh Fruit and Vegetable Program	Education, Department of	10.582		1,917,035
	Child Nutrition Direct Certification Performance Awards	Education, Department of	10.589		26,433
	Cooperative Forestry Assistance	Game and Parks Commission	10.664		18,360
	Forest Service Schools and Roads Cluster:				
	Schools and Roads - Grants to Counties	Education, Department of	10.666		198,698
	Forest Legacy Program	Game and Parks Commission	10.676		339,800
	Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		197,928
Total U.S. Department of Agriculture				$	432,398,195
Commerce, U.S. Department of					
	State and Local Implementation Grant Program	Administrative Services	11.549	$	89,303
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Library Commission	11.557		176,153
ARRA	State Broadband Data and Development Grant Program Recovery	Public Service Commission	11.558		835,504
	Manufacturing Extension Partnership	Economic Development, Department of	11.611		233,073
Total U.S. Department of Commerce				$	1,334,033
Corporation for National and Community Service					
	State Commissions	Health and Human Services, Department of	94.003	$	235,620
	AmeriCorps	Health and Human Services, Department of	94.006		1,894,009
	Program Development and Innovation Grants	Health and Human Services, Department of	94.007		7,963
Total Corporation for National and Community Service				$	2,137,592

^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, 2014

Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Defense, U.S. Department of				
Payments to States in Lieu of Real Estate Taxes	Education, Department of	12.112	$	230,638
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113		144,018
Military Construction, National Guard	Military Department	12.400		15,700,883
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401		20,635,785
National Guard ChalleNGe Program	Military Department	12.404		57,064
US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P-0171, W912F-06-P-0101		345
Total U.S. Department of Defense			$	36,768,733
Education, U.S. Department of				
Adult Education - Basic Grants to States	Education, Department of	84.002	$	2,798,137
Title I Grants to Local Educational Agencies	Education, Department of	84.010		50,864,780
Migrant Education_State Grant Program	Education, Department of	84.011		5,633,869
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, Department of	84.013		299,961
Special Education Cluster (IDEA):				
Special Education_Grants to States	Education, Department of	84.027		72,936,017
Special Education_Preschool Grants	Education, Department of	84.173		2,306,841
Total Special Education Cluster (IDEA)				75,242,858
Career and Technical Education -- Basic Grants to States	Education, Department of	84.048		6,800,893
Rehabilitation Services_Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Commission for the	84.126		3,368,508
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126		15,903,407
Total Rehabilitation Services_Vocational Rehabilitation Grants to States				19,271,915
Migrant Education_Coordination Program	Education, Department of	84.144		103,140
Rehabilitation Services_Client Assistance Program	Education, Department of	84.161		121,722
Independent Living_State Grants	Blind and Visually Impaired, Commission for the	84.169		30,941
Independent Living_State Grants	Education, Department of	84.169		309,712
Total Independent Living_State Grants				340,653
Douglas Teacher Scholarships	Education, Department of	84.176		3,944
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired, Commission for the	84.177		212,201
Special Education-Grants for Infants and Families	Education, Department of	84.181		3,078,967

^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 #	2014 Expenditures
	Education, U.S. Department of (Continued)			
	Supported Employment Services for Individuals with the Most Significant Disabilities	Blind and Visually Impaired, Commission for the	84.187	48,914
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, Department of	84.187	522,000
	Total Supported Employment Services for Individuals with the Most Significant Disabilities			570,914
	Education for Homeless Children and Youth	Education, Department of	84.196	296,858
	Assistive Technology	Education, Department of	84.224	379,292
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Commission for the	84.265	20,400
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	4,498
	Total Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training			24,898
	Twenty-First Century Community Learning Centers	Education, Department of	84.287	4,925,446
	Foreign Language Assistance	Education, Department of	84.293	133,730
	Special Education - State Personnel Development	Education, Department of	84.323	659,986
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	87,597
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330	33,186
	Rural Education	Education, Department of	84.358	120,459
	English Language Acquisition State Grants	Education, Department of	84.365	2,560,854
	Mathematics and Science Partnerships	Education, Department of	84.366	545,099
	Improving Teacher Quality State Grants	Education, Department of	84.367	10,392,554
	Improving Teacher Quality State Grants	Postsecondary Education, Coordinating Commission for	84.367	313,416
	Total Improving Teacher Quality State Grants			10,705,970
	Grants for State Assessments and Related Activities	Education, Department of	84.369	4,368,670
	Striving Readers	Education, Department of	84.371	38,675
	Statewide Data Systems Cluster:			
	Statewide Longitudinal Data Systems	Education, Department of	84.372	388,451
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, Department of	84.377	1,837,129
ARRA	School Improvement Grants, Recovery Act	Education, Department of	84.388	3,980,238
	Total School Improvement Grants Cluster			5,817,367
	College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378	1,505,886
	Total U.S. Department of Education			$ 197,936,378

^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, 2014

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
	U.S. Election Assistance Commission				
	Help America Vote Act Requirements Payments	Secretary of State	90.401	$	243,322
	Total U.S. Election Assistance Commission			$	243,322
	Energy, U.S. Department of				
	State Energy Program	Energy Office	81.041	$	729,940
	Weatherization Assistance for Low-Income Persons	Energy Office	81.042		1,175,681
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy Office	81.042		422,377
	Total Weatherization Assistance for Low-Income Persons				1,598,058
	State Energy Program Special Projects	Energy Office	81.119		123,092
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Game and Parks Commission	81.122		15,948
	State Heating Oil and Propane Program	Energy Office	81.138		6,000
	Total U.S. Department of Energy			$	2,473,038
	Environmental Protection Agency, U.S.				
	State Indoor Radon Grants	Health and Human Services, Department of	66.032	$	131,476
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034		262,180
	State Clean Diesel Grant Program	Environmental Quality, Department of	66.040		24,630
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419		118,251
	Water Pollution Control State, Interstate, and Tribal Program Support	Game and Parks Commission	66.419		14,330
	Total Water Pollution Control State, Interstate, and Tribal Program Support				132,581
	State Public Water System Supervision	Health and Human Services, Department of	66.432		984,934
	State Underground Water Source Protection	Oil and Gas Commission	66.433		83,945
	Water Quality Management Planning	Environmental Quality, Department of	66.454		130,759
	Clean Water State Revolving Fund Cluster:				
	Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458		5,279,644
	Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460		2,301,273
	Regional Wetland Program Development Grants	Game and Parks Commission	66.461		184,864
	Drinking Water State Revolving Fund Cluter:				
	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468		9,952,785
	Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804		504,405

^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, 2014

Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Environmental Protection Agency, U.S. (Continued)				
Performance Partnership Grants	Agriculture, Department of	66.605		757,647
Performance Partnership Grants	Environmental Quality, Department of	66.605		4,995,112
Total Performance Partnership Grants				5,752,759
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608		17,870
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services, Department of	66.707		166,658
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802		511,811
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Quality, Department of	66.805		734,850
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809		151,463
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817		479,591
Total U.S. Environmental Protection Agency			$	27,788,478
Equal Employment Opportunity Commission, U.S.				
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	$	439,942
Total U.S. Equal Employment Opportunity Commission			$	439,942
General Services Administration				
Donation of Federal Surplus Personal Property	Correctional Services, Department of	39.003	$	1,364,940
Total General Services Administration			$	1,364,940
Health and Human Services, U.S. Department of				
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	$	8,266
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		76,158
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043		153,139
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		1,973,640
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, Department of	93.045		4,064,654
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053		1,085,474
Total Aging Cluster				7,123,768

^Amounts taken from financial status reports
ARRA - American Recovery and Reinvestment Act
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Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Health and Human Services, U.S. Department of (Continued)				
Medicare Enrollment Assistance Program	Insurance, Department of	93.071		77,974
Lifespan Respite Care Program	Health and Human Services, Department of	93.072		97,022
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, Department of	93.048		449,534
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052		920,934
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster:				
Public Health Emergency Preparedness	Health and Human Services, Department of	93.069		5,236,984
National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889		2,150,130
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster				7,387,114
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	Education, Department of	93.079		27,619
Guardianship Assistance Recovery	Health and Human Services, Department of	93.090	^	287,126
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, Department of	93.092		327,266
Food and Drug Administration_Research	Agriculture, Department of	93.103		543,186
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services, Department of	93.104		189,984
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110		239,955
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116		281,556
Emergency Medical Services for Children	Health and Human Services, Department of	93.127		131,018
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130		158,292
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136		420,791
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150		523,060
Family Planning_Services	Health and Human Services, Department of	93.217		2,191,048
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234		200,330
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, Department of	93.235		232,135
State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241		729,722
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, Department of	93.243		107,961
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Supreme Court, Nebraska	93.243		310,772
Total Substance Abuse and Mental Health Services_Projects of Regional and National Significance				418,733

^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, 2014

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251		328,846
	Occupational Safety and Health Program	Health and Human Services, Department of	93.262		157,527
	Immunization Cooperative Agreements	Health and Human Services, Department of	93.268		19,132,024
	Adult Viral Hepatitis Prevention and Control	Health and Human Services, Department of	93.270		107,299
	Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279		61,115
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, Department of	93.283		6,895,067
	State Partnership Grant Program to Improve Minority Health	Health and Human Services, Department of	93.296		182,176
	Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301		575,792
ARRA	ARRA - State Primary Care Offices	Health and Human Services, Department of	93.414		24,971
	Food Safety and Security Monitoring Project	Agriculture, Department of	93.448		399,438
	Ruminant Feed Ban Support Project	Agriculture, Department of	93.449		265,139
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, Department of	93.505		1,622,288
	PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, Department of	93.507		786,916
	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511		317,224
	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		1,063,706
	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Insurance, Department of	93.525		272,332
	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		157,660
	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		319,466
	PPHF2013: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 2013 PPHF	Health and Human Services, Department of	93.548		180,666
	Transitional Living for Homeless Youth	Health and Human Services, Department of	93.550		207,832
	Promoting Safe and Stable Families	Health and Human Services, Department of	93.556		1,290,284
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, Department of	93.558	^	43,846,363
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Health and Human Services, Department of	93.714	^	303,602
	Total TANF Cluster				44,149,965

^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, 2014

	Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Child Support Enforcement	Health and Human Services, Department of	93.563	^	21,533,773
	Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, Department of	93.566		3,323,677
	Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568		26,114,258
	Low-Income Home Energy Assistance	Energy Office	93.568		2,951,735
	Total Low-Income Home Energy Assistance				29,065,993
	Community Services Block Grant	Health and Human Services, Department of	93.569		4,060,104
	CCDF Cluster:				
	Child Care and Development Block Grant	Health and Human Services, Department of	93.575	^	26,653,630
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596	^	23,695,011
	Total CCDF Cluster				50,348,641
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, Department of	93.576		496,287
	Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, Department of	93.584		223,904
	State Court Improvement Program	Supreme Court, Nebraska	93.586		146,624
	Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597		96,336
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599		419,614
	Head Start Cluster:				
	Head Start	Education, Department of	93.600		101,632
ARRA	ARRA - Head Start	Education, Department of	93.708		128,067
	Total Head Start Cluster				229,699
	Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617		10,835
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630		446,213
	Children's Justice Grants to States	Health and Human Services, Department of	93.643		129,717
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, Department of	93.645		1,887,212
	Foster Care_Title IV-E	Health and Human Services, Department of	93.658	^	11,187,237
	Adoption Assistance	Health and Human Services, Department of	93.659	^	11,753,499
ARRA	Adoption Assistance Recovery	Health and Human Services, Department of	93.659	^	(380)
	Total Adoption Assistance				11,753,119
	Social Services Block Grant	Health and Human Services, Department of	93.667		9,410,851
	Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669		217,651
	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, Department of	93.671		1,141,060

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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 #		2014 Expenditures
	Health and Human Services, U.S. Department of (Continued)				
	Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674		1,335,368
ARRA	ARRA - State Grants to Promote Health Information Technology	Administrative Services	93.719		351,600
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Health and Human Services, Department of	93.724		15,000
	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		533,075
	State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	Health and Human Services, Department of	93.735		116,935
	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		136,664
	Children's Health Insurance Program	Health and Human Services, Department of	93.767	^	58,811,445
	Medicaid Cluster:				
	State Medicaid Fraud Control Units	Attorney General	93.775		566,352
	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, Department of	93.777	^	4,774,717
	Medical Assistance Program	Health and Human Services, Department of	93.778	^	1,090,537,383
ARRA	Medical Assistance Program Recovery	Health and Human Services, Department of	93.778	^	(327,027)
	Total Medical Assistance Program				1,090,210,356
	Total Medicaid Cluster				1,095,551,425
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779		391,066
	Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780		698,028
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, Department of	93.791		2,049,944
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, Department of	93.913		233,418
	HIV Care Formula Grants	Health and Human Services, Department of	93.917		3,501,967
	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938		58,355
	HIV Prevention Activities_Health Department Based	Health and Human Services, Department of	93.940		958,484
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944		189,013
	Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, Department of	93.945		725,325
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946		145,303

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ARRA - American Recovery and Reinvestment Act
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Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Health and Human Services, U.S. Department of (Continued)				
Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958		1,847,076
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959		6,854,471
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977		421,361
Preventive Health and Health Services Block Grant	Health and Human Services, Department of	93.991		1,121,459
Maternal and Child Health Services Block Grant to the States	Health and Human Services, Department of	93.994		4,085,523
Medicated Feed Inspection	Agriculture, Department of	HHSF223200840123C		148,765
Food Inspection	Agriculture, Department of	HHSF223200940012C		48,705
Total U.S. Department of Health and Human Services			$	1,428,151,785
Homeland Security, U.S. Department of				
Homeland Security Grant Program	Military Department	97.067	$	7,547,859
Homeland Security Grant Program	Motor Vehicles, Department of	97.067		309,556
Total Homeland Security Grant Program				7,857,415
Boating Safety Financial Assistance	Game and Parks Commission	97.012		704,098
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023		88,284
Flood Mitigation Assistance	Natural Resources, Department of	97.029		29,924
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036		24,758,970
Hazard Mitigation Grant	Military Department	97.039		2,277,300
National Dam Safety Program	Natural Resources, Department of	97.041		236,120
Emergency Management Performance Grants	Military Department	97.042		3,526,613
State Fire Training Systems Grants	Fire Marshal	97.043		22,637
Cooperating Technical Partners	Natural Resources, Department of	97.045		183,057
Emergency Operations Centers	Military Department	97.052		331,984
Interoperable Emergency Communications	Military Department	97.055		23,197
Buffer Zone Protection Program (BZPP)	Military Department	97.078		402,184
Total U.S. Department of Homeland Security			$	40,441,783
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	$	11,978,587

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
Housing & Urban Development, U.S. Department of (Continued)				
Emergency Solutions Grant Program	Health and Human Services, Department of	14.231		1,229,222
Home Investment Partnerships Program	Economic Development, Department of	14.239		4,664,051
Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241		341,903
Continuum of Care Program	Health and Human Services, Department of	14.267		7,734
Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401		241,284
Total U.S. Department of Housing & Urban Development			$	18,462,781
Institute of Museum and Library Services				
Grants to States	Library Commission	45.310	$	1,664,814
National Leadership Grants	Historical Society	45.312		19,422
Laura Bush 21st Century Librarian Program	Library Commission	45.313		183,876
Total Institute of Museum and Library Services			$	1,868,112
Interior, U.S. Department of				
Cultural Resource Management	Education, Department of	15.224	$	875
Cultural Resources Management	Historical Society	15.511		4,103
Recreation Resources Management	Game and Parks Commission	15.524		199,115
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	Game and Parks Commission	15.605		4,470,106
Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611		8,715,678
Total Fish and Wildlife Cluster				13,185,784
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615		253,931
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617		1,367
Enhanced Hunter Education and Safety Program	Game and Parks Commission	15.626		218,113
Landowner Incentive Program	Game and Parks Commission	15.633		453,496
State Wildlife Grants	Game and Parks Commission	15.634		1,110,085
Migratory Bird Joint Ventures	Game and Parks Commission	15.637		22,640
Challenge Cost Share	Game and Parks Commission	15.642		1,546
Research Grants (Generic)	Game and Parks Commission	15.650		58,800
Endangered Species Conservation – Recovery Implementation Funds	Game and Parks Commission	15.657		7,835
Adaptive Science	Game and Parks Commission	15.670		12,523
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904		817,976
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916		196,823
Total U.S. Department of Interior			$	16,545,012

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Justice, U.S. Department of				
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission for	16.017	$	244,659
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523		260,053
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Attorney General	16.528		40,000
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540		450,076
Missing Children's Assistance	State Patrol	16.543		237,619
Title V_Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548		19,138
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550		52,305
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554		307,660
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575		2,517,213
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576		18,972
Drug Court Discretionary Grant Program	Supreme Court, Nebraska	16.585		17,785
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588		1,133,141
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593		117,381
State Criminal Alien Assistance Program	Correctional Services, Department of	16.606		633,673
Public Safety Partnership and Community Policing Grants	State Patrol	16.710		6,083
Enforcing Underage Drinking Laws Program	Roads, Department of	16.727		41,553
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission for	16.738		1,196,936
DNA Backlog Reduction Program	State Patrol	16.741		261,931
Paul Coverdell Forensic Sciences Improvement Grant Program	State Patrol	16.742		34,528
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	State Patrol	16.748		74,093
Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750		68,850
ARRA Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	State Patrol	16.810		2,568
NICS Act Record Improvement Program	State Patrol	16.813		184,593
John R. Justice Prosecutors and Defenders Incentive Act	Law Enforcement and Criminal Justice, Commission for	16.816		51,900
Total U.S. Department of Justice			$	7,972,710

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Labor, U.S. Department of					
	Labor Force Statistics	Labor, Department of	17.002	$	671,645
	Compensation and Working Conditions	Worker's Compensation Court	17.005		41,581
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207		5,527,358
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801		638,268
	Local Veterans' Employment Representative Program	Labor, Department of	17.804		130,076
	Total Employment Service Cluster				6,295,702
	Unemployment Insurance - Federal	Labor, Department of	17.225		13,678,677
	Unemployment Insurance - State	Labor, Department of	17.225		103,213,497
	Unemployment Insurance - Admin	Labor, Department of	17.225		18,116,703
ARRA	Unemployment Insurance - Admin Recovery	Labor, Department of	17.225		194,678
	Total Unemployment Insurance				135,203,555
	Senior Community Service Employment Program	Health and Human Services, Department of	17.235		707,253
	Trade Adjustment Assistance	Labor, Department of	17.245		704,728
	WIA Cluster:				
	WIA Adult Program	Labor, Department of	17.258		1,767,185
	WIA Youth Activities	Labor, Department of	17.259		2,234,526
	WIA Dislocated Worker Formula Grants	Labor, Department of	17.278		2,280,304
	Total WIA Cluster				6,282,015
	WIA Pilots, Demonstrations, and Research Projects	Labor, Department of	17.261		301,647
	Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271		157,735
	Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273		49,170
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, Department of	17.275		49,084
	Consultation Agreements	Labor, Department of	17.504		572,775
Total U.S. Department of Labor				$	151,036,890

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2014 Expenditures
National Aeronautics and Space Administration				
Education	Education, Department of	43.008	$	116,205
Total National Aeronautics and Space Administration			$	116,205
National Endowment for the Arts				
Promotion of the Arts_Partnership Agreements	Arts Council	45.025	$	732,366
Total National Endowment for the Arts			$	732,366
President, Executive Office of				
High Intensity Drug Trafficking Areas Program	State Patrol	95.001	$	953,204
Total President, Executive Office of			$	953,204
Small Business Administration				
State Trade and Export Promotion Pilot Grant Program	Economic Development, Department of	59.061	$	166,482
Total Small Business Administration			$	166,482
Social Security Administration				
Disability Insurance/SSI Cluster:				
Social Security_Disability Insurance	Education, Department of	96.001	$	9,479,400
Supplemental Security Income	Education, Department of	96.006		722,716
Supplemental Security Income	Blind and Visually Impaired, Commission for the	96.006		396,193
Total Supplemental Security Income				1,118,909
Total Disability Insurance/SSI Cluster				10,598,309
Total Social Security Administration			$	10,598,309
State, U.S.Department of				
Criminal Justice Systems	Corrections, Department of	19.703	$	20,990
Total U.S. Department of State			$	20,990

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	Transportation, U.S. Department of				
	Airport Improvement Program	Aeronautics, Department of	20.106	$	14,549,910
	Highway Planning and Construction Cluster:				
	Highway Planning and Construction	Roads, Department of	20.205		333,234,820
ARRA	Highway Planning and Construction Recovery	Roads, Department of	20.205		416,792
	Total Highway Planning and Construction				333,651,612
	Recreational Trails Program	Game and Parks Commission	20.219		433,885
	Total Highway Planning and Construction Cluster				334,085,497
	Highway Training and Education	Education, Department of	20.215		32,320
	National Motor Carrier Safety	State Patrol	20.218		2,517,430
	Commercial Vehicle Information Systems and Networks	State Patrol	20.237		56,600
	Federal Transit Cluster:				
	Federal Transit_Capital Investment Grants	Roads, Department of	20.500		86,128
	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Roads, Department of	20.505		3,481,514
	Formula Grants for Rural Areas	Roads, Department of	20.509		5,280,114
ARRA	Formula Grants for Rural Areas	Roads, Department of	20.509		1,180,318
	Total Formula Grants for Rural Areas				6,460,432
	Transit Services Programs Cluster:				
	Enhanced Mobility for Seniors and Individuals with Disabilities	Roads, Department of	20.513		724,337
	Highway Safety Cluster:				
	State and Community Highway Safety	Roads, Department of	20.600		1,666,390
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Roads, Department of	20.601		1,783,508
	Occupant Protection Incentive Grants	Roads, Department of	20.602		505,494
	State Traffic Safety Information System Improvement Grants	Roads, Department of	20.610		370,833
	Incentive Grant Program to Increase Motorcyclist Safety	Roads, Department of	20.612		75,633
	Total Highway Safety Cluster				4,401,858
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614		49,809
	Pipeline Safety Program State Base Grant	Fire Marshal	20.700		349,537
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703		328,122
	Total U.S. Department of Transportation			$	367,123,494

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Veterans Affairs, U.S. Department of					
Veterans State Domiciliary Care	Health and Human Services, Department of	64.014	^	$	1,569,100
Veterans State Nursing Home Care	Health and Human Services, Department of	64.015	^		15,858,033
Total U.S. Department of Veterans Affairs				$	17,427,133
TOTAL EXPENDITURES OF FEDERAL AWARDS				$	2,764,501,907

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Administrative Services					
	State and Local Implementation Grant Program	Commerce, U.S. Department of	11.549	$	89,303
ARRA	ARRA - State Grants to Promote Health Information Technology	Health and Human Services, U.S. Department of	93.719		351,600
Total Administrative Services				$	440,903
Aeronautics, Department of					
	Airport Improvement Program	Transportation, U.S. Department of	20.106	$	14,549,910
Total Department of Aeronautics				$	14,549,910
Agriculture, Department of					
	Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$	782,055
	Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170		276,200
	State Mediation Grants	Agriculture, U.S. Department of	10.435		124,225
	Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477		8,400
	Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479		135,932
	WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, U.S. Department of	10.572		59,380
	Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576		250,718
	Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		757,647
	Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103		543,186
	Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448		399,438
	Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449		265,139
	Medicated Feed Inspection	Health and Human Services, U.S. Department of	HHSF223200840123C		148,765
	Food Inspection	Health and Human Services, U.S. Department of	HHSF223200940012C		48,705
	Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A		197,928
Total Department of Agriculture				$	3,997,718
Arts Council					
	Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025		732,366
Total Arts Council				$	732,366

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Attorney General				
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	Justice, U.S. Department of	16.528	$	40,000
Medicaid Cluster:				
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775		566,352
Total Attorney General			$	606,352
Blind and Visually Impaired, Commission for the				
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	$	3,368,508
Independent Living_State Grants	Education, U.S. Department of	84.169		30,941
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177		212,201
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187		48,914
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265		20,400
Disability Insurance/SSI Cluster:				
Supplemental Security Income	Social Security Administration	96.006		396,193
Total Commission for the Blind and Visually Impaired			$	4,077,157
Correctional Services, Department of				
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	$	633,673
Criminal Justice Systems	State, U.S. Department of	19.703		20,990
Donation of Federal Surplus Personal Property	General Services Administration	39.003		1,364,940
Total Department of Correctional Services			$	2,019,603
Economic Development, Department of				
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	$	233,073
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		11,978,587

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Economic Development, Department of (Continued)				
Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239		4,664,051
State Trade and Export Promotion Pilot Grant Program	Small Business Administration	59.061		166,482
Total Department of Economic Development			$	17,042,193
Education, Department of				
Child Nutrition Cluster:				
School Breakfast Program	Agriculture, U.S. Department of	10.553	$	15,452,339
National School Lunch Program	Agriculture, U.S. Department of	10.555		66,555,041
Special Milk Program for Children	Agriculture, U.S. Department of	10.556		60,971
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559		2,687,647
Total Child Nutrition Cluster				84,755,998
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		33,578,683
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		1,553,517
Team Nutrition Grants	Agriculture, U.S. Department of	10.574		72,890
Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582		1,917,035
Child Nutrition Direct Certification Performance Awards	Agriculture, U.S. Department of	10.589		26,433
Forest Service Schools and Roads Cluster:				
Schools and Roads - Grants to Counties	Agriculture, U.S. Department of	10.666		198,698
Payments to States in Lieu of Real Estate Taxes	Defense, U.S. Department of	12.112		230,638
Cultural Resource Management	Interior, U.S. Department of	15.224		875
Highway Training and Education	Transportation, U.S. Department of	20.215		32,320
Education	National Aeronautics and Space Administration	43.008		116,205
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002		2,798,137
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010		50,864,780
Migrant Education_State Grant Program	Education, U.S. Department of	84.011		5,633,869
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, U.S. Department of	84.013		299,961
Special Education Cluster (IDEA):				
Special Education_Grants to States	Education, U.S. Department of	84.027		72,936,017
Special Education_Preschool Grants	Education, U.S. Department of	84.173		2,306,841
Total Special Education Cluster (IDEA)				75,242,858

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	Education, Department of (Continued)			
	Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048	6,800,893
	Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	15,903,407
	Migrant Education_Coordination Program	Education, U.S. Department of	84.144	103,140
	Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161	121,722
	Independent Living_State Grants	Education, U.S. Department of	84.169	309,712
	Douglas Teacher Scholarships	Education, U.S. Department of	84.176	3,944
	Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	3,078,967
	Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	522,000
	Education for Homeless Children and Youth	Education, U.S. Department of	84.196	296,858
	Assistive Technology	Education, U.S. Department of	84.224	379,292
	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	4,498
	Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	4,925,446
	Foreign Language Assistance	Education, U.S. Department of	84.293	133,730
	Special Education - State Personnel Development	Education, U.S. Department of	84.323	659,986
	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	87,597
	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	33,186
	Rural Education	Education, U.S. Department of	84.358	120,459
	English Language Acquisition State Grants	Education, U.S. Department of	84.365	2,560,854
	Mathematics and Science Partnerships	Education, U.S. Department of	84.366	545,099
	Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	10,392,554
	Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	4,368,670
	Striving Readers	Education, U.S. Department of	84.371	38,675
	Statewide Data Systems Cluster:			
	Statewide Longitudinal Data Systems	Education, U.S. Department of	84.372	388,451
	School Improvement Grants Cluster:			
	School Improvement Grants	Education, U.S. Department of	84.377	1,837,129
ARRA	School Improvement Grants, Recovery Act	Education, U.S. Department of	84.388	3,980,238
	Total School Improvement Grants Cluster			5,817,367

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	Education, Department of (Continued)				
	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	Health and Human Services, U.S. Department of	93.079		27,619
	Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234		200,330
	Head Start Cluster:				
	Head Start	Health and Human Services, U.S. Department of	93.600		101,632
ARRA	ARRA - Head Start	Health and Human Services, U.S. Department of	93.708		128,067
	Total Head Start Cluster				229,699
	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		58,355
	Disability Insurance/SSI Cluster:				
	Social Security_Disability Insurance	Social Security Administration	96.001		9,479,400
	Supplemental Security Income	Social Security Administration	96.006		722,716
	Total Disability Insurance/SSI Cluster				10,202,116
	Total Department of Education			$	325,637,523
	Energy Office				
	State Energy Program	Energy, U.S. Department of	81.041	$	729,940
	Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042		1,175,681
ARRA	Weatherization Assistance for Low-Income Persons Recovery	Energy, U.S. Department of	81.042		422,377
	Total Weatherization Assistance for Low-Income Persons				1,598,058
	State Energy Program Special Projects	Energy, U.S. Department of	81.119		123,092
	State Heating Oil and Propane Program	Energy, U.S. Department of	81.138		6,000
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		2,951,735
	Total Energy Office			$	5,408,825
	Environmental Quality, Department of				
	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	$	144,018
	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034		262,180
	State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040		24,630

^ - 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, 2014

State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Environmental Quality, Department of (Continued)				
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		118,251
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		130,759
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458		5,279,644
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		2,301,273
Drinking Water State Revolving Fund Cluster:				
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468		9,952,785
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		4,995,112
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608		17,870
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		511,811
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Protection Agency, U.S.	66.805		734,850
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809		151,463
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		479,591
Total Department of Environmental Quality			$	25,104,237
Equal Opportunity Commission				
Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401	$	241,284
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		439,942
Total Equal Opportunity Commission			$	681,226
Fire Marshal				
Pipeline Safety Program State Base Grant	Transportation, U.S. Department of	20.700	$	349,537
Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804		504,405
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043		22,637
Total Fire Marshal			$	876,579

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2014

	State Agency/Program Title	Federal Agency	CFDA or Grant #	2014 Expenditures
	Game and Parks Commission			
	Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	$ 63,792
	Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093	87,109
	Forest Legacy Program	Agriculture, U.S. Department of	10.676	339,800
	Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664	18,360
	Recreation Resources Management	Interior, U.S. Department of	15.524	199,115
	Fish and Wildlife Cluster:			
	Sport Fish Restoration Program	Interior, U.S. Department of	15.605	4,470,106
	Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611	8,715,678
	Total Fish and Wildlife Cluster			13,185,784
	Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	253,931
	Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	1,367
	Enhanced Hunter Education and Safety Program	Interior, U.S. Department of	15.626	218,113
	Landowner Incentive Program	Interior, U.S. Department of	15.633	453,496
	State Wildlife Grants	Interior, U.S. Department of	15.634	1,110,085
	Migratory Bird Joint Ventures	Interior, U.S. Department of	15.637	22,640
	Challenge Cost Share	Interior, U.S. Department of	15.642	1,546
	Research Grants (Generic)	Interior, U.S. Department of	15.650	58,800
	Endangered Species Conservation – Recovery Implementation Funds	Interior, U.S. Department of	15.657	7,835
	Adaptive Science	Interior, U.S. Department of	15.670	12,523
	Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916	196,823
	Highway Planning and Construction Cluster:			
	Recreational Trails Program	Transportation, U.S. Department of	20.219	433,885
	Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	14,330
	Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	184,864
ARRA	Electricity Delivery and Energy Reliability, Research, Development and Analysis Recovery	Energy, U.S. Department of	81.122	15,948
	Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	704,098
	US Army Corps of Engineers	Defense, U.S. Department of	DACW45-00-0-0001	345
	Total Game and Parks Commission			$ 17,584,589

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STATE OF NEBRASKA

Schedule of Expenditures of Federal Awards - By State Agency

For the Fiscal Year Ended June 30, 2014

State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Health and Human Services, Department of				
Child Nutrition Cluster:				
National School Lunch Program	Agriculture, U.S. Department of	10.555	$	8,397,387
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559		100,997
Total Child Nutrition Cluster				8,498,384
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551		246,809,251
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	^	14,870,380
Total SNAP Cluster				261,679,631
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557		31,000,647
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		243,849
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		154,504
Food Distribution Cluster:				
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565		3,243,925
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568		407,722
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569		2,576,107
Total Food Distribution Cluster				6,227,754
WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578		109,815
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Agriculture, U.S. Department of	10.580		36,458
Emergency Solutions Grant Program	Housing & Urban Development, U.S. Department of	14.231		1,229,222
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241		341,903
Continuum of Care Program	Housing & Urban Development, U.S. Department of	14.267		7,734
Senior Community Service Employment Program	Labor, U.S. Department of	17.235		707,253
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	^	1,569,100
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	^	15,858,033
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032		131,476
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432		984,934
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707		166,658

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Health and Human Services, Department of (Continued):				
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		8,266
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		76,158
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		153,139
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		1,973,640
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045		4,064,654
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053		1,085,474
Total Aging Cluster				7,123,768
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048		449,534
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052		920,934
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster:				
Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069		5,236,984
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889		2,150,130
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster				7,387,114
Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072		97,022
Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090	^	287,126
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092		327,266
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services, U.S. Department of	93.104		189,984
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110		239,955
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116		281,556
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127		131,018
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130		158,292

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	State Agency/Program Title	Federal Agency	CFDA or Grant #	2014 Expenditures
	Health and Human Services, Department of (Continued):			
	Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136	420,791
	Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	523,060
	Family Planning_Services	Health and Human Services, U.S. Department of	93.217	2,191,048
	Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	232,135
	State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	729,722
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	107,961
	Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	328,846
	Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262	157,527
	Immunization Cooperative Agreements	Health and Human Services, U.S. Department of	93.268	19,132,024
	Adult Viral Hepatitis Prevention and Control	Health and Human Services, U.S. Department of	93.270	107,299
	Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	61,115
	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	6,895,067
	State Partnership Grant Program to Improve Minority Health	Health and Human Services, U.S. Department of	93.296	182,176
	Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	575,792
ARRA	ARRA - State Primary Care Offices	Health and Human Services, U.S. Department of	93.414	24,971
	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505	1,622,288
	PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, U.S. Department of	93.507	786,916
	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	1,063,706
	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	157,660
	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	319,466
	PPHF2013: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 2013 PPHF	Health and Human Services, U.S. Department of	93.548	180,666
	Transitional Living for Homeless Youth	Health and Human Services, U.S. Department of	93.550	207,832
	Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,290,284

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
	Health and Human Services, Department of (Continued):				
	TANF Cluster:				
	Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	^	43,846,363
ARRA	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	Health and Human Services, U.S. Department of	93.714	^	303,602
	Total TANF Cluster:				44,149,965
	Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	^	21,533,773
	Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, U.S. Department of	93.566		3,323,677
	Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		26,114,258
	Community Services Block Grant	Health and Human Services, U.S. Department of	93.569		4,060,104
	CCDF Cluster:				
	Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	^	26,653,630
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	^	23,695,011
	Total CCDF Cluster				50,348,641
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576		496,287
	Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, U.S. Department of	93.584		223,904
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597		96,336
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599		419,614
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630		446,213
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643		129,717
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645		1,887,212
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	^	11,187,237
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	^	11,753,499
ARRA	Adoption Assistance Recovery	Health and Human Services, U.S. Department of	93.659	^	(380)
	Total Adoption Assistance				11,753,119
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667		9,410,851
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669		217,651
	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, U.S. Department of	93.671		1,141,060
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674		1,335,368
ARRA	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	Health and Human Services, U.S. Department of	93.724		15,000

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State Agency/Program Title		Federal Agency	CFDA or Grant #		2014 Expenditures
Health and Human Services, Department of (Continued):					
	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		533,075
	State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	Health and Human Services, U.S. Department of	93.735		116,935
	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		136,664
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	^	58,811,445
	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	^	4,774,717
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	^	1,090,537,383
ARRA	Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778	^	(327,027)
	Total Medical Assistance Program				1,090,210,356
	Total Medicaid Cluster				1,094,985,073
	Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		2,049,944
	Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		233,418
	HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		3,501,967
	HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		958,484
	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		189,013
	Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945		725,325
	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		145,303
	Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		1,847,076
	Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		6,854,471
	Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		421,361
	Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991		1,121,459
	Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994		4,085,523
	State Commissions	Corporation For National and Community Service	94.003		235,620
	AmeriCorps	Corporation For National and Community Service	94.006		1,894,009
	Program Development and Innovation Grants	Corporation For National and Community Service	94.007		7,963
Total Department of Health and Human Services				$	1,751,220,954

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STATE OF NEBRASKA

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State Agency/Program Title		Federal Agency	CFDA or Grant #		2014 Expenditures
Historical Society					
	Cultural Resources Management	Interior, U.S. Department of	15.511	$	4,103
	Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904		817,976
	National Leadership Grants	Institute of Museum and Library Services	45.312		19,422
Total Historical Society				$	841,501
Insurance, Department of					
	Medicare Enrollment Assistance Program	Health and Human Services, U.S. Department of	93.071	$	77,974
	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Health and Human Services, U.S. Department of	93.511		317,224
	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Health and Human Services, U.S. Department of	93.525		272,332
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779		391,066
	Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780		698,028
Total Department of Insurance				$	1,756,624
Labor, Department of					
	Labor Force Statistics	Labor, U.S. Department of	17.002	$	671,645
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207		5,527,358
	Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801		638,268
	Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804		130,076
	Total Employment Service Cluster				6,295,702
	Unemployment Insurance - Federal	Labor, U.S. Department of	17.225		13,678,677
	Unemployment Insurance - State	Labor, U.S. Department of	17.225		103,213,497
	Unemployment Insurance - Admin	Labor, U.S. Department of	17.225		18,116,703
ARRA	Unemployment Insurance - Admin Recovery	Labor, U.S. Department of	17.225		194,678
	Total Unemployment Insurance				135,203,555
	Trade Adjustment Assistance	Labor, U.S. Department of	17.245		704,728

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	State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
	Labor, Department of (Continued)				
	WIA Cluster:				
	WIA Adult Program	Labor, U.S. Department of	17.258		1,767,185
	WIA Youth Activities	Labor, U.S. Department of	17.259		2,234,526
	WIA Dislocated Worker Formula Grants	Labor, U.S. Department of	17.278		2,280,304
	Total WIA Cluster				6,282,015
	WIA Pilots, Demonstrations, and Research Projects	Labor, U.S. Department of	17.261		301,647
	Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271		157,735
	Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273		49,170
ARRA	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	Labor, U.S. Department of	17.275		49,084
	Consultation Agreements	Labor, U.S. Department of	17.504		572,775
	Total Department of Labor			$	150,288,056
	Law Enforcement and Criminal Justice, Commission for				
	Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$	244,659
	Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523		260,053
	Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540		450,076
	Title V_Delinquency Prevention Program	Justice, U.S. Department of	16.548		19,138
	State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550		52,305
	Crime Victim Assistance	Justice, U.S. Department of	16.575		2,517,213
	Crime Victim Compensation	Justice, U.S. Department of	16.576		18,972
	Violence Against Women Formula Grants	Justice, U.S. Department of	16.588		1,133,141
	Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593		117,381
	JAG Program Cluster:				
	Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738		1,196,936
	John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816		51,900
	Total Commission for Law Enforcement and Criminal Justice			$	6,061,774
	Library Commission				
ARRA	Broadband Technology Opportunities Program (BTOP) Recovery	Commerce, U.S. Department of	11.557	$	176,153
	Grants to States	Institute of Museum and Library Services	45.310		1,664,814
	Laura Bush 21st Century Librarian Program	Institute of Museum and Library Services	45.313		183,876
	Total Library Commission			$	2,024,843

^ - 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, 2014

State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
Military Department				
Military Construction, National Guard	Defense, U.S. Department of	12.400	$	15,700,883
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401		20,635,785
National Guard ChalleNGe Program	Defense, U.S. Department of	12.404		57,064
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703		328,122
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		7,547,859
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036		24,758,970
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		2,277,300
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		3,526,613
Emergency Operations Centers	Homeland Security, U.S. Department of	97.052		331,984
Interoperable Emergency Communications	Homeland Security, U.S. Department of	97.055		23,197
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078		402,184
Total Military Department			$	75,589,961
Motor Vehicles, Department of				
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067	$	309,556
Total Department of Motor Vehicles			$	309,556
Natural Resources, Department of				
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	$	88,284
Flood Mitigation Assistance	Homeland Security, U.S. Department of	97.029		29,924
National Dam Safety Program	Homeland Security, U.S. Department of	97.041		236,120
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045		183,057
Total Department of Natural Resources			$	537,385
Oil and Gas Commission				
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	$	83,945
Total Oil and Gas Commission			$	83,945
Postsecondary Education, Coordinating Commission for				
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	$	313,416
College Access Challenge Grant Program	Education, U.S. Department of	84.378		1,505,886
Total Coordinating Commission for Postsecondary Education			$	1,819,302

^ - 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, 2014

	State Agency/Program Title	Federal Agency	CFDA or Grant #		2014 Expenditures
	Public Service Commission				
ARRA	State Broadband Data and Development Grant Program Recovery	Commerce, U.S. Department of	11.558	$	835,504
	Total Public Service Commission			$	835,504
	Roads, Department of				
	Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	$	41,553
	Highway Planning and Construction Cluster:				
	Highway Planning and Construction	Transportation, U.S. Department of	20.205		333,234,820
ARRA	Highway Planning and Construction Recovery	Transportation, U.S. Department of	20.205		416,792
	Total Highway Planning and Construction Cluster				333,651,612
	Federal Transit Cluster				
	Federal Transit_Capital Investment Grants	Transportation, U.S. Department of	20.500		86,128
	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Transportation, U.S. Department of	20.505		3,481,514
	Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509		5,280,114
ARRA	Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509		1,180,318
	Total Formula Grants for Rural Areas				6,460,432
	Transit Services Programs Cluster:				
	Enhanced Mobility of Seniors and Individuals with Disabilities	Transportation, U.S. Department of	20.513		724,337
	Highway Safety Cluster:				
	State and Community Highway Safety	Transportation, U.S. Department of	20.600		1,666,390
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Transportation, U.S. Department of	20.601		1,783,508
	Occupant Protection Incentive Grants	Transportation, U.S. Department of	20.602		505,494
	State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610		370,833
	Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612		75,633
	Total Highway Safety Cluster				4,401,858
	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614		49,809
	Total Department of Roads			$	348,897,243
	Secretary of State				
	Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	$	243,322
	Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617		10,835
	Total Secretary of State			$	254,157

^ - 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, 2014

State Agency/Program Title		Federal Agency	CFDA or Grant #		2014 Expenditures
State Patrol					
	Missing Children's Assistance	Justice, U.S. Department of	16.543	$	237,619
	National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554		307,660
	Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710		6,083
	DNA Backlog Reduction Program	Justice, U.S. Department of	16.741		261,931
	Paul Coverdell Forensic Sciences Improvement Grant Program	Justice, U.S. Department of	16.742		34,528
	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	Justice, U.S. Department of	16.748		74,093
	Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750		68,850
ARRA	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	Justice, U.S. Department of	16.810		2,568
	NICS Act Record Improvement Program	Justice, U.S. Department of	16.813		184,593
	National Motor Carrier Safety	Transportation, U.S. Department of	20.218		2,517,430
	Commercial Vehicle Information Systems and Networks	Transportation, U.S. Department of	20.237		56,600
	High Intensity Drug Trafficking Areas Program	Executive Office of the President	95.001		953,204
Total State Patrol				$	4,705,159
Supreme Court, Nebraska					
	Drug Court Discretionary Grant Program	Justice, U.S. Department of	16.585	$	17,785
	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243		310,772
	State Court Improvement Program	Health and Human Services, U.S. Department of	93.586		146,624
Total Nebraska Supreme Court				$	475,181
Worker's Compensation Court					
	Compensation and Working Conditions	Labor, U.S. Department of	17.005	$	41,581
Total Worker's Compensation Court				$	41,581
TOTAL EXPENDITURES OF FEDERAL AWARDS				$	2,764,501,907

^ - 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, 2014.

Federal awards for the following discretely presented component units of the State are reported upon separately:

University of Nebraska
Nebraska State College System

(b) Basis of Presentation

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Because the Schedule presents only a selected portion of the operations of the State, it is not intended to and does not present the financial position, changes in net assets or cash flows of the State. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA) whenever possible.

Federal Awards—Pursuant to OMB Circular A-133, Federal awards are defined as assistance provided by a Federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary Federal awards, including food stamps, food commodities, surplus property, and vaccines are included as Federal awards and are reported on the Schedule.

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

(c) Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting, except for certain amounts reported by the Department of Health and Human Services (DHHS). The amounts for DHHS denoted with a caret (^) were taken from the Federal financial status reports.

Grants Between State Agencies—Certain primary recipient State agencies pass grant money through to subrecipient State agencies. These transactions are only shown in the primary recipient's expenditures on the accompanying Schedule to avoid overstating the aggregate level of Federal awards expended by the State;

nonetheless, purchases of services between State agencies using Federal monies are reported as expenditures by the purchasing agency and as revenue for services by the providing agency in the State's basic financial statements.

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

Nonmonetary Assistance—The Schedule contains amounts for nonmonetary assistance programs. The Supplemental Nutrition Assistance Program (SNAP) is presented at the dollar value of food stamp benefits disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The 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, 2014, the inventory balance of nonmonetary assistance for food commodities at the State level was $399,857.

(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	$8,397,387
10.558	Child and Adult Care Food Program	243,849
10.559	Summer Food Service Program for Children	100,997
10.565	Commodity Supplemental Food Program	2,440,587
10.569	Emergency Food Assistance Program	2,576,107

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 $3,736,644 was delivered directly to subrecipients.

The Immunization Cooperative Agreements (CFDA 93.268) included expenditures of $17,250,737 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 39.003) program. Donated Federal surplus personal property in 2014 was valued at the historical cost of $9,099,600 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, 2014
66.458	Capitalization Grants for Clean Water State Revolving Funds	$149,411,224
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$95,544,101

New loans provided from these programs totaling $7,648,388 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.

(8) Supplemental Nutrition Assistance Program (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 7.79 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2013.

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, 2014, 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 16, 2014. 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 UNeHealth, 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 Program, the Nebraska State Colleges Facilities Corporation and the College Savings Plan, as described in our report on the State of Nebraska's financial statements. The financial statements of these entities were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting
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 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, and 2014-008.

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 16, 2014

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, 2014. 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, 2014. 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 Low-Income Home Energy Assistance, CCDF Cluster, Adoption Assistance, Formula Grants for Rural Areas

As described in Findings 2014-046, 2014-047, 2014-048, 2014-049, 2014-053, 2014-061, 2014-083 and 2014-084 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
2014-046	93.568	Low-Income Home Energy Assistance	Reporting
2014-047	93.568	Low-Income Home Energy Assistance	Reporting
2014-048	93.568	Low-Income Home Energy Assistance	Reporting
2014-049	93.568	Low-Income Home Energy Assistance	Reporting
2014-053	93.575, 93.596	CCDF Cluster	Allowability & Eligibility
2014-061	93.659	Adoption Assistance	Allowability & Eligibility
2014-083	20.509	Formula Grants for Rural Areas	Allowability, Davis-Bacon Act, Suspension and Debarment & Subrecipient Monitoring
2014-084	20.509	Formula Grants for Rural Areas	Earmarking

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 Low-Income Home Energy Assistance, CCDF Cluster, Adoption Assistance, Formula Grants for Rural Areas

In our opinion, except for the noncompliance described in the Basis for Qualified 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 Low-Income Home Energy Assistance, CCDF Cluster, Adoption Assistance, and Formula Grants for Rural Areas for the year ended June 30, 2014.

Basis for Adverse Opinion on Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster, CCDF Cluster, Foster Care Title IV-E

As described in Findings 2014-031, 2014-032, 2014-051 and 2014-059 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
2014-031	93.069, 93.889	HPP and PHEP Cluster	Matching & Reporting
2014-032	93.069, 93.889	HPP and PHEP Cluster	Allowability, Cash Management, Subrecipient Monitoring
2014-051	93.575, 93.596	CCDF Cluster	Reporting
2014-059	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 programs.

Adverse Opinion on HPP and PHEP Aligned Cooperative Agreements Cluster, CCDF Cluster, Foster Care-Title IV-E

In our opinion, because of the significance of the matters 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 the HPP and PHEP Aligned Cooperative Agreements Cluster, CCDF Cluster and Foster Care Title IV-E for the year ended June 30, 2014.

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, 2014.

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, as listed below. Our opinion on each major Federal program is not modified with respect to these matters.

Finding #	CFDA #	Federal Program	Compliance Requirement
2014-009	14.228	Community Development Block Grants	Reporting
2014-010	14.228	Community Development Block Grants	Allowability & Subrecipient Monitoring
2014-011	10.558	Child and Adult Food Care Program	Eligibility
2014-012	84.010	Title I Grants to Local Educational Agencies	Reporting

Finding #	CFDA #	Federal Program	Compliance Requirement
2014-013	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Reporting
2014-014	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Reporting
2014-015	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Program Income
2014-016	84.367	Improving Teacher Quality State Grants	Special Tests
2014-017	96.001	Social Security Disability Insurance	Reporting
2014-018	81.042	Weatherization Assistance for Low Income Persons	Allowable Costs
2014-019	93.568	Low-Income Home Energy Assistance	Eligibility, Earmarking, Subrecipient Monitoring
2014-020	Various; 10.551, 93.558, 93.767	Various; SNAP, TANF, CHIP	Cash Management
2014-021	Various; 93.778	Various; Medical Assistance Program	Allowable Costs
2014-022	Various; 93.778	Various; Medical Assistance Program	Allowable Costs
2014-023	93.658; 93.556	Foster Care Title IV-E; Promoting Safe and Stable Families	Allowable Costs & Matching
2014-024	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Allowability & Subrecipient Monitoring
2014-025	64.015	Veterans State Nursing Home Care	Reporting
2014-026	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 & Subrecipient Monitoring
2014-027	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	Reporting

Finding #	CFDA #	Federal Program	Compliance Requirement
2014-028	93.044, 93.045, 93.053	Aging Cluster	Cash Management
2014-029	93.044, 93.045, 93.053	Aging Cluster	Reporting
2014-030	93.069	Public Health Emergency Preparedness	Reporting
2014-033	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Period of Availability
2014-034	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability & Subrecipient Monitoring
2014-035	93.283, 93.270	Centers for Disease Control and Prevention – Investigations and Technical Assistance, Adult Viral Hepatitis Prevention and Control	Reporting
2014-036	93.558	Temporary Assistance for Needy Families	Allowability
2014-037	93.558	Temporary Assistance for Needy Families	Eligibility
2014-038	93.558	Temporary Assistance for Needy Families	Allowability
2014-039	93.558	Temporary Assistance for Needy Families	Reporting
2014-040	93.558	Temporary Assistance for Needy Families	Reporting
2014-041	93.558	Temporary Assistance for Needy Families	Allowability
2014-042	93.558	Temporary Assistance for Needy Families	Special Tests
2014-043	93.558	Temporary Assistance for Needy Families	Special Tests
2014-044	93.568	Low-Income Home Energy Assistance	Allowability & Eligibility
2014-045	93.568	Low-Income Home Energy Assistance	Earmarking
2014-050	93.568	Low-Income Home Energy Assistance	Period of Availability

Finding #	CFDA #	Federal Program	Compliance Requirement
2014-052	93.575	Child Care and Development Block Grant	Earmarking
2014-054	93.575, 93.596	CCDF Cluster	Allowability
2014-055	93.575, 93.596	CCDF Cluster	Special Tests
2014-056	93.575, 93.596	CCDF Cluster	Special Tests
2014-057	93.575, 93.596	CCDF Cluster	Reporting
2014-058	93.658	Foster Care Title IV-E	Special Tests
2014-060	93.658	Foster Care Title IV-E	Allowability & Eligibility & Reporting
2014-062	93.667	Social Services Block Grant	Period of Availability
2014-063	93.667	Social Services Block Grant	Allowability
2014-064	93.767	Children’s Health Insurance Program	Reporting
2014-065	93.778	Medical Assistance Program	Matching & Reporting
2014-066	93.778	Medical Assistance Program	Allowability
2014-067	93.778	Medical Assistance Program	Allowability & Eligibility
2014-068	93.778	Medical Assistance Program	Eligibility
2014-069	93.778	Medical Assistance Program	Allowability & Eligibility
2014-070	93.778	Medical Assistance Program	Period of Availability & Special Tests
2014-071	93.778	Medical Assistance Program	Special Tests
2014-072	93.778	Medical Assistance Program	Allowability
2014-073	93.778	Medical Assistance Program	Allowability & Subrecipient Monitoring
2014-074	93.778	Medical Assistance Program	Eligibility
2014-075	93.778	Medical Assistance Program	Special Tests
2014-077	17.225	Unemployment Insurance	Reporting
2014-078	45.310	Grants to States	Allowability

Finding #	CFDA #	Federal Program	Compliance Requirement
2014-079	45.310	Grants to States	Allowability, Earmarking & Reporting
2014-080	45.310	Grants to States	Subrecipient Monitoring
2014-081	16.738	Edward Byrne Memorial Justice Assistance Grant Program	Allowability & Subrecipient Monitoring
2014-082	16.738	Edward Byrne Memorial Justice Assistance Grant Program	Reporting
2014-085	20.509	Formula Grants for Rural Areas	Reporting
2014-086	16.588	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 2014-031, 2014-032, 2014-046, 2014-047, 2014-048, 2014-049, 2014-051, 2014-053, 2014-059, 2014-061, 2014-083 and 2014-084 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 2014-026, 2014-027, 2014-036, 2014-037, 2014-038, 2014-040, 2014-044, 2014-045, 2014-055, 2014-058, 2014-060, 2014-062, 2014-065, 2014-067, 2014-070, 2014-074, 2014-076, 2014-081 and 2014-085 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.

Lincoln, Nebraska
March 20, 2015

Pat Reding, CPA, CFE
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007 and 2014-008. 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 2014-026, 2014-027, 2014-036, 2014-037, 2014-038, 2014-040, 2014-044, 2014-045, 2014-055, 2014-058, 2014-060, 2014-062, 2014-065, 2014-067, 2014-070, 2014-074, 2014-076, 2014-081 and 2014-085.

   We consider items 2014-031, 2014-032, 2014-046, 2014-047, 2014-048, 2014-049, 2014-051, 2014-053, 2014-059, 2014-061, 2014-083 and 2014-084 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Unmodified for all major programs except for Low-Income Home Energy Assistance, Adoption Assistance, and Formula Grants for Rural Areas, which were qualified and Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements Cluster, CCDF Cluster, 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	10.551 and 10.561	SNAP Cluster
CFDA	14.228	CDBG - State-Administered CDBG Cluster
CFDA	15.605 and 15.611	Fish and Wildlife Cluster

CFDA	16.738	JAG Program Cluster
CFDA	17.225	Unemployment Insurance
CFDA	20.205 and 20.219	Highway Planning and Construction Cluster
CFDA	20.509	Formula Grants for Rural Areas
CFDA	64.015	Veterans State Nursing Home Care
CFDA	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States
CFDA	84.367	Improving Teacher Quality State Grants
CFDA	93.044, 93.045 and 93.053	Aging Cluster
CFDA	93.069 and 93.889	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements Cluster
CFDA	93.268	Immunization Cooperative Agreements
CFDA	93.558 and 93.714	TANF Cluster
CFDA	93.563	Child Support Enforcement
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	93.667	Social Services Block Grant
CFDA	93.775, 93.777 and 93.778	Medicaid Cluster
CFDA	96.001 and 96.006	Disability Insurance/SSI Cluster

h) Dollar threshold used to distinguish between Type A and Type B programs: $8,293,505

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

II. Findings Related to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2014-001

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 accordance with Neb. Rev. Stat. § 81-1125.01 (Reissue 2014), the CAFR is to be completed at least 20 days before the commencement of each regular session of the Legislature. 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, 2014. The APA requested this information be submitted for testing, with supporting documentation, by September 19, 2014. However, the last of the information was not provided until October 8, 2014, 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.

Furthermore, the draft report submitted by State Accounting was incomplete and inaccurate. State Accounting provided the first draft on December 1, 2014, and two drafts thereafter, that required revisions for formatting and incorrect information, such as inaccurate management discussion and analysis, inaccurate statistical information, and inaccurate cash flow statements. The final draft was not provided until December 12, 2014.

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 $3,430,203 for an incorrect payable to an understatement of $8,902,972 for an incorrect receivable, both performed by the Department of Health and Human Services.

- Errors were also noted in information prepared by State Accounting to support entries made to the financial statements and information to generate footnotes. Those errors included, but were not limited to the following: the College Savings Plan cash and cash equivalents was understated by $9,959,000 in the Statement of Net Position; an accrual for accounts payable was understated by $4,710,130; the property and equipment capital lease disclosure was understated by $2,500,000; the Internal Service Funds Statement of Cash Flows was misstated by $2,340,000; and the operating leases disclosure was overstated by $1,381,292.

A similar finding has been noted since the fiscal year 2007 audit.

State Accounting did make correcting entries for all material amounts, as recommended by the APA. 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 timely in accordance with State statute.

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 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 EDUCATION

Finding 2014-002

Incorrect Accrual Information

The Department of Administrative Services State Accounting Division (State Accounting) prepares the State Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires agencies to have procedures for the reporting of accurate financial information to State Accounting.

We noted that three of six accruals tested were not properly reported to State Accounting for inclusion in the financial statements. For one accrual, the incorrect amount was included on the response form for an overstatement of $20,885,605. The other two accruals were not properly calculated, causing the accruals to be overstated by $1,597,949, and $74,199. The total overstatement was $22,557,753. Corrections were sent to State Accounting.

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

> We recommend the Agency implement procedures to ensure amounts reported are complete and accurate.

Agency Response: NDE has reviewed and updated its procedures to ensure all accruals submitted to State Accounting in the future are reviewed for completeness and accuracy.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2014-003

Accrual Information

The Department of Administrative Services State Accounting Division (State Accounting) prepares the Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. State Accounting required all State agencies to report their accruals by August 6, 2014. A good internal control plan requires agencies to have procedures for the reporting of accurate financial information to State Accounting in a timely manner.

The Agency did not submit its accrual response form to State Accounting until September 23, 2014. Furthermore, the form was not complete; the intergovernmental receivable and payable accruals were not submitted until October 7, 2014. The nonmonetary transaction form was also revised twice after the first version was provided. One revision was submitted on October 7, 2014; the second was submitted on October 8, 2014.

Throughout the audit, several items were not accurately reported to State Accounting. According to the Agency's accrual response forms, three individuals were involved in the reporting of the accruals, including a review performed by the Agency's internal audit staff. Substantial audit adjustments were still needed to ensure the financial statements were materially correct. 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 receivables and payables reported by the Agency to State Accounting:

Description	Accrual Type	Dollar Error
Medicaid Drug Rebate	Receivable	$ 7,951,784
Intergovernmental	Receivable	$ 3,936,887
NFOCUS	Payable	$ 3,430,203
Intergovernmental	Payable	$ 1,114,875
State Ward Education	Payable	$ 905,785
Patient and County Billings	Receivable	$ 860,781
Nonmonetary Transactions	Inventory	$ 855,710
Women, Infants, & Children	Receivable	$ 653,674
NFOCUS General Fund	Receivable	$ 270,911
NFOCUS Federal Fund	Receivable	$ 264,453
Medicaid Estate Recovery	Receivable	$ 63,361

Additional information is as follows:

- The Medicaid drug rebate receivable was understated by $7,951,784. Medicaid drug rebates were established by law to require drug manufacturers to provide rebates for their drug products paid for by Medicaid. The receivable was understated because the Agency used a report with balances as of July 31, 2014, instead of June 30, 2014. The Agency also did not properly allocate the receivable between the Federal and General funds. The Agency used the prior year's allocation percentages.

- The Agency determined amounts due to and from the Federal government and reported these to State Accounting as payables and/or receivables for each Federal program. In order to calculate the amounts, the Agency used Federal Financial Status Reports (FSR) for each program. Due to an error in the reporting of the Child Care program FSR, the receivable was understated by $3,936,887, and the payable was overstated by $1,114,875.

- The Agency did not properly allocate the NFOCUS payable between the Federal and General funds. The Federal fund was understated and the General fund was overstated by $3,430,203. The improper allocation was specifically identified in the Child Care program. The Agency allocated the entire payable to the General fund due to a restricted draw down established by the Federal government. The Agency was required to receive Federal approval of all expenditures prior to the Agency drawing down funds; therefore, the Agency estimated the entire payable to individuals to be a State liability. However, once the expenditures are approved the Federal government would reimburse for the agreed upon grant terms. Therefore, the Agency should have calculated an estimated Federal allocation and did so upon the Auditor of Public Account's (APA) request.

- The State Ward Education payable was overstated by $905,785 due to doubling of payables already recorded in the State accounting system and a lack of documentation to support the amounts used in the calculation. The Agency submitted a revised calculation to State Accounting on October 8, 2014.

- The patient and county billings receivable was overstated by $860,781. 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 Lincoln Regional Center (LRC) and BSDC both contained receivable balances that should not have been reported, causing an overstatement of $851,749. A portion of the LRC balance that was overstated was for Medicare Part D. According to the Agency, it had not pursued reimbursement from the Federal government due to an issue with the vendor's system that tracked the pharmacy claims. The issue started in November 2013 and is not expected to be resolved until March 2015. Reimbursement of Medicare Part D claims can only be obtained within 60 days of the service. As of June 30, 2014, the amount outstanding was $454,737. The Agency indicated it was going to pursue other avenues to recover the lost funds through the vendor. However, this had not been resolved as of the audit fieldwork. If the Agency does not resolve the issue until March 2015, there are further claims that are at risk of not being recovered.

- o Ten of 25 patient balances tested were not pursued by the Agency for collection or write-off in a timely manner. Six of the 10 balances tested were determined by the Agency to be inaccurately reported as receivables. One account was outstanding since 2003, the case closed in January 2007 due to bankruptcy, the individual then passed away in 2008, but the Agency had not written-off the balance. Another individual's balance had been approved for write-off but not removed from the system. The Agency had not adjusted the individual's balances or decreased the calculated receivable to account for these, causing an overstatement of $31,810.

- o The Hastings Regional Center allowance was improper, causing an understatement of $22,778.

- The nonmonetary transaction accrual form used to report inventories to State Accounting was overstated by $855,710 for revenues and disbursements. Transfers between programs were erroneously included, causing the activity to be overstated.

- The Agency reported a payable to individuals from the Women, Infants, and Children (WIC) program for $1,020,328. State Accounting then recorded a corresponding receivable from the Federal government for the same amount. However, $653,674 was already on hand to pay claims and, therefore, would not be necessary from the Federal government, causing the receivable to be overstated.

- The NFOCUS receivable was not properly reported, causing the General fund to be understated by $270,911 and the Federal fund to be overstated by $264,453. The inaccurate reporting was due to an improper allocation between the General and Federal funds, clerical errors, and a lack of documentation.

- The Medicaid estate recovery receivable was overstated by $63,361. The receivable is based upon claims filed against the estates of deceased persons who received Medicaid assistance. For 4 of 10 account balances tested, the balance was not properly recorded. Furthermore, there was a lack of adequate documentation for one land contract tested.

A similar finding has been noted since the June 30, 2004, audit.

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 and timeliness of the CAFR accruals, there is a greater risk material misstatements may occur and remain undetected.

> We recommend the Agency implement procedures to ensure information is complete, accurate, and submitted timely. The Agency should also have adequate procedures in place for a secondary review to verify the information is supported, reasonable, and accurate. We also recommend the Agency work to resolve issues with the LRC Medicare Part D claims to ensure recovery of funds.

Agency Response: The Agency is continuing to review and enhance its process for reporting timely and accurate accrual information. This includes establishing procedures that outline a review process and documentation standards for all accrual items. The Agency will continue to work in cooperation with the Department of Administrative Services, Accounting Section as well as the Nebraska Auditor of Public Accounts Office on the accrual reporting process.

The Agency's Information Systems and Technology Section will continue to work with the software vendor for a resolution to the Lincoln Regional Center Medicare Part D billing issue. In addition, Financial Responsibility will formulate a plan for an interim process until a system change is implemented.

Finding 2014-004

External MMIS User Access

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . .*
>
> *Agencies or data owner (s) should perform annual user reviews of access and appropriate privileges.*

A good internal control plan requires terminated users' access to be removed timely.

The Medicaid Management Information System (MMIS) supports the operation of the Medicaid program. The objective of MMIS is to improve and expedite claims processing, efficiently control program costs, effectively increase the quality of services, and examine cases of suspected program abuse.

For 123 of 245 external MMIS users tested, from 2 of 1,136 provider entities, the users were no longer active employees of the external entity. The Agency tracked user access through a single Excel workbook, with a separate spreadsheet for each provider entity. An adequate monitoring process was not in place to identify users who had terminated from those external entities.

A similar finding was noted during the prior audit.

When access to MMIS is not terminated timely, it creates the opportunity for unwarranted access to protected information.

> We recommend the Agency implement policies and procedures to periodically review external users' MMIS access in order to ensure access is removed in a timely manner. We also recommend the Agency notify external users of the importance of notifying the Agency to remove access upon termination.

Agency Response: The EDI Help Desk has begun to take corrective actions toward improvement of the documentation, maintenance, and control of external MMIS access. Work hours have been delegated to the project, and employees are taking steps to improve our external MMIS access control overall. Our focus involves updating the External MMIS User spreadsheet, reaching out to providers to update contact information and user status and/or remove access for non-responsive parties, reviewing and implementing processes for renewing and enrolling external MMIS users, and implementing disciplinary procedures for access abuse and misuse. The Agency anticipates improvement over the course of the coming months as well as next year.

Finding 2014-005

NFOCUS User Access

NITC Standards & Guidelines, Information Security Policy 8-101, Section 4.3.2.3, Separation of Duties, states:

> *To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical.*

NITC Standards & Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts . . . . The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . .*
>
> *Agencies or data owner (s) should perform annual user reviews of access and appropriate privileges.*

The Supervisors Guide – N-FOCUS Role Based Access Profile Assignment for Internal Staff, states, in part:

> *Access to N-FOCUS is based on the job tasks performed by the individual. The direct supervisor must complete, sign, and submit the N-FOCUS Access Request Checklist before appropriate access will be assigned. Use of the checklist is required for new hires as well as when there is a change in assigned duties.*
>
> *Each job activity corresponds to a defined access role in the N-FOCUS system. By checking the appropriate job activity or activities, the individual will be assigned the appropriate N-FOCUS access role(s).*
>
> *To meet state and federal security safeguard requirements, each individual with access to N-FOCUS must have their access level reviewed on an annual basis.*

A good internal control plan requires only limited individuals with supervisory duties have the access to override or force pay claims.

The Nebraska Family Online Client User System (NFOCUS) application is used to automate benefit/service delivery and case management for several Agency programs. NFOCUS processes include client/case intake, eligibility determination, case management, service authorization, benefit payments, claims processing and payments, provider contract management, interfacing with other State and Federal organizations, and management and government reporting.

Eight NFOCUS profiles allowed users to create an organization, a service approval, and a service authorization, and also enter a claim for payment. Additionally, six of those profiles also allowed users to create a master case (client). Finally, one of the eight NFOCUS profiles had the ability to preprint and adjust claims; that group had 88 users connected to it.

For 5 of 25 NFOCUS users tested, access was not appropriate for the user's job responsibilities per the NFOCUS employee checklist and discussion with the user's supervisor. Additionally, for 3 of 21 users tested, the NFOCUS Access Request Checklist was not properly completed.

Furthermore, the ability to force pay claims that had been suspended due to an edit check was granted to 53 individuals, some with non-supervisory duties such as data entry operators and case aides.

A similar finding was noted during the prior audit.

When one person has the ability to create an organization, the service approval, service authorization, and then enter the claim, there is an increased risk for unauthorized payments of claims and increased risk of fraud. When users have access to applications that are unnecessary and unreasonable for the performance of their job duties, there is an increased risk for fraud and misuse of funds. Without the proper completion of the NFOCUS Access Request Checklist, the Agency is unable to ensure that the user is assigned only to the access that is reasonable and necessary for the performance of the user's job duties. When the ability to force pay claims is not limited to a few individuals with supervisory duties, there is an increased risk claims will be erroneously paid, resulting in loss of funds.

> We recommend the Agency remove user access that is not required for employee job responsibilities or that cause a lack of segregation of duties. We also recommend the Agency establish procedures to ensure the NFOCUS Access Checklist is properly completed, maintained, and reviewed annually or when there is a change of assigned duties. The procedures should include ensuring any access not requested on a checklist, including small groups and internet groups, be removed from the user's access. Finally, we recommend the Agency assign the ability to force pay claims only to supervisors who are able to review claims and determine the appropriateness of overriding an edit check.

Agency Response: The Agency has initiated a project to review all NFOCUS profile functionality and access assignments. The DHHS Internal Audit (IA) section is taking the lead in planning, coordinating, and management of the project. The IA section will observe the work and job duties performed by Division Business Units who utilize the NFOCUS data system. Based upon the documented work flow and job duties the IA will work with the NFOCUS support staff to update, modify, and add appropriate access profiles to address minimum necessary access requirements. The project has already been initiated with two CFS Division business units with a project plan starting date of January 2015.

The DHHS Human Resources and Development Section has initiated a project to incorporate an annual review of workers IT access into the annual worker HR Performance Review process. The annual review will be included in the EDC Performance process documented and tracked in the EDC LINK tracking tool. The HR Section has begun work with the NFOCUS staff to identify worker access assignments to be incorporated into the review process. The targeted date for implementation is January 2015.

The NFOCUS security team removed the Force Pay (FP) functionality from the base access profile removing FP from all 53 previously assigned individuals on November 9, 2014. A new special Force Pay (FP) group profile was created for better management of FP functionality. The new FP group profile functionality is not inherited from any other access profile and must be assigned specifically to individuals and requires approval from a granting authority before being assigned. The FP profile was put into production on November 9, 2014.

Finding 2014-006

TANF Cash Reserve Funds

TANF is a block grant program, meaning the Federal government allocates money to Nebraska based on a formula. For the last several years Nebraska has received an authorization of approximately $57 million annually.

As of June 30, 2014, DHHS had $55,862,935 in Federal TANF funds authorized but not expended:

Grant Year	Federal Dollars Authorized	Cumulative Federal Expenditures (Note 2)	Adjustments (Note 3)	Available Funds
2011	$57,513,601	$53,004,826		$ 4,508,775
2012	$57,091,001	$37,433,190		$19,657,811
2013	$57,513,601	$44,344,738		$13,168,863
2014	$43,356,086 (Note 1)	$16,454,873	$8,373,727	$18,527,486
Total Available Federal Funds at June 30, 2014				**$55,862,935**

Note 1: Total amount authorized by the Federal government for grant year 2014 is $57,363,601, but only $43,356,086 was authorized as of June 30, 2014. An additional $14,007,515 was authorized in July 2014.
Note 2: Expenditures by grant year can be charged in that year or subsequent years.
Note 3: Adjustments include timing differences for administrative expenditures due to the Cost Allocation Plan and transfer of funds to the Child Care Cluster not yet made.

DHHS has maintained similar balances of available Federal funds in previous fiscal years. For the previous two fiscal years, DHHS could have used $14,743,235 in Federal funds instead of State general funds, which would have reduced the burden on Nebraska taxpayers.

State Fiscal Year	Potential Savings in State Funds
June 30, 2013	$8,221,899
June 30, 2014	$6,521,336
Total Both Years	**$14,743,235**

To determine the potential savings of State funds, the APA reviewed expenditures in the State Maintenance-of-Effort (MOE) programs. MOE is the amount of expenditures from State funds required to be maintained year-to-year to be eligible for Federal funding. The required MOE for Nebraska is $28,375,365.

There are two MOE programs, the State MOE in TANF and the MOE in Separate State Programs. The Separate State Programs are not allowable Federal expenditures and must be paid from State funds; the expenditures in these programs have been sufficient to meet MOE requirements because they exceed the required MOE of $28,375,365. The expenditures charged to the State MOE in TANF are allowable Federal expenditures and include TANF grant assistance payments to individuals and work subsidies and training. The APA determined that $14,743,235 in expenditures for State fiscal year 2013 and 2014 could have been paid with Federal funds.

The APA asked DHHS for the intended use of these funds and for an explanation for using State funds when Federal funds were available. DHHS responded that "having unspent TANF funds ensures a level of program stability for individuals and families in Nebraska." As an example, DHHS cited the prior year's Federal government shutdown as an instance in which the reserve was helpful in the event new Federal funds were unavailable. DHHS also indicated that the Department of Revenue has a program that assists in meeting MOE requirements, and that program could end at any time. Additionally, DHHS identified the increasing amount of allowable Child Welfare claims eligible for TANF as a reason for the significant reserve.

The APA acknowledges that some level of reserve may be appropriate, but it does not appear the reasons cited by DHHS would require a balance of over $50 million of unused Federal funds. Furthermore, DHHS did not have a comprehensive plan for the use of these Federal funds. DHHS could have increased assistance to needy families by increasing benefit amounts or expanded services or eligibility.

Sound business practice and government accountability require procedures to ensure available Federal funds are used to offset State general fund expenditures, when possible, to reduce the Nebraska taxpayer burden. When available Federal funds are not used for program expenditures Nebraska taxpayers are unduly burdened.

> We recommend DHHS implement procedures to ensure available Federal funds are used in lieu of State funds when possible to reduce the burden on Nebraska taxpayers. DHHS should also develop a comprehensive plan and work with the Nebraska Legislature to set a reasonable reserve level and determine the best use of these funds.

DHHS Response: DHHS does not agree with the APA's contention that there are no procedures in place to ensure Federal funds are used in lieu of State funds. DHHS would like to note that since FFY 2007 the use of state funds for TANF expenditures has decreased and federal expenditures for TANF have increased. As part of the last two Biennial Budget Requests, DHHS proposed to replace a portion of the General Funds used in the Temporary Assistance for Needy Families (TANF) program.

DHHS would also note that the benefit level for ADC households is set by the Nebraska Legislature and cannot be adjusted without changes to the State Statute. DHHS has been working on broadening supportive services for ADC clients to increase assistance to needy families. Some of these additional supports are ones questioned by the APA in this report as unnecessary, including vehicle registration, insurance, and repair costs. DHHS agrees that continued cooperation with the Nebraska Legislature is important in order to set a reserve level that is reasonable and so that federal funds can be utilized over state funds.

APA Response: As noted, we identified over $6 million of potential savings in State Funds for fiscal year 2014; and over $55 million of available Federal Funds at June 30, 2014. The Agency should work with the Legislature to develop a comprehensive plan to use these funds and, when possible, reduce the Nebraska taxpayer burden.

DEPARTMENT OF LABOR

Finding 2014-007

Errors in Financial Information

A good internal control plan and sound business practices require procedures to ensure information used to compile financial statements is complete and accurate. Furthermore, good internal controls require accounting records to be reconciled timely to the bank and variances identified and explained.

We noted several instances where financial information was incomplete or inaccurately recorded in the accounting system used to generate the State's financial statements. Consequently, audit adjustments were necessary to ensure the financial statements were materially correct.

The Agency used four separate bank accounts for the Unemployment Compensation (UC) program. Two were used primarily to receipt taxes; the third was used to disburse benefits, and the fourth was the trust fund held with the Federal government. Prior to July 1, 2013, the Agency utilized QuickBooks to record UC activity. During June 2014, the Agency started entering UC activity into the State's accounting system for the fiscal year. During testing of the financial activity entered into the accounting system, we noted the following issues:

- The Agency did not record a receivable for amounts due for April, May, and June 2014 from non-profits and governmental entities that participated in the UC reimbursable option. This resulted in an understatement of charges for services and receivables, net of allowance, for $1,775,402.

- The Agency entered UC contribution activity into the accounting system using a journal entry template that it developed. The Agency used daily reports from the Tax Management System (TMS), a system that tracked the receipt of UC funds from employers. However, the Agency's accounting area did not have an understanding of the activity being reported from the TMS system in order to make the proper journal entries.

  The APA reviewed the fiscal year activity and determined the following:

  - Investment income was overstated by $918,889.
  - Charges for services were understated by $488,545.
  - Operating expenses were overstated by $317,815.
  - Other operating revenues were understated by $90,280.
  - Unemployment claims were overstated by $22,249.

- State Unemployment Insurance Tax (SUIT) received was recorded in the UC fund as revenues. Neb. Rev. Stat. § 48-622.01(1) (Cum. Supp. 2012) requires SUIT monies to be transferred quarterly to the State Unemployment Insurance Trust Fund. When the Agency recorded the monies to the State Unemployment Insurance Trust Fund, they were recorded as revenues again. This caused a doubling of revenues between the two funds, resulting in an overstatement of $3,093,357 in charges for services.

- Penalties and interest monies collected were recorded initially to the UC fund, on the State's accounting system as revenues. Neb. Rev. Stat. § 48-621 (Cum. Supp. 2012) and Neb. Rev. Stat. § 48-656 (Reissue 2010) require the penalties and interest collected to be moved to the Employment Security Special Contingent Cash Fund. When the Agency recorded the monies to the Employment Security Contingent Cash Fund, they were recorded as revenues again. This caused a doubling of revenues between the two funds, resulting in an overstatement of $511,226 in Other Operating Revenues.

- The Agency received Reed Act funds from the Federal government and recorded the funds as revenue in the UC trust account. When the Agency expended the funds in the Reed Act fund, the monies were transferred to the Reed Act fund and recorded as revenue again. This resulted in the Federal grants and contracts revenue being overstated by $273,532.

- The Agency's calculation of claims liability was not complete, causing the claims, judgments, and compensated absences liability and the unemployment claims expense to be understated by $191,451.

- During the year, monies in the UC trust account were transferred to the UC benefit account in order to make payments to claimants from the benefit fund. After performing entries for the entire fiscal year, the Agency determined the transfers recorded in the accounting system did not agree between the funds. To correct the error, the Agency made an adjustment for $5,068,709. However, the APA determined the Agency's adjustment did not properly account for timing differences, resulting in an understatement of transfers in and unemployment claims expense of $963,312.

- The Agency entered activity through daily journal entries for interest receivable due from employers during the fiscal year. The Agency did not know the correct beginning balance for the receivable and, therefore, it could not determine the correct ending balance at June 30, 2014. Therefore, the Agency decided to remove the activity entered during the year and report no balance. For the fiscal year ended June 30, 2014, the net decrease was $21,187.

The following issues were noted regarding the Agency's reconciliation process between the accounting records and the bank:

- The Agency did not complete monthly reconciliations to ensure the activity recorded in the accounting system was accurate. In September 2014, after all activity had been entered into the system for the fiscal year, the Agency reconciled the bank to the accounting system and performed adjusting entries to balance.

- The benefits account reconciliation was not accurate. Payments totaling $595 were included as outstanding items at June 30, 2014; however, they were not outstanding. Additionally, $17,318 in payments issued prior to June 30, 2014, which had not cleared the bank, were not included as outstanding items. Due to the inaccurate reconciling items, cash was overstated by $16,723 in the accounting system at June 30, 2014.

- Prior to adjustments being made by the Agency to reconcile the trust account, the APA noted a variance of $1,955. The Agency was unsure what the variance consisted of and did not research the variance. Instead, the Agency adjusted the accounting system to agree to the bank balance. It is unknown if cash reflected in the accounting system for the trust account was accurate since reconciling items were not researched.

When adequate procedures are not in place to ensure the accuracy of financial information used to compile the financial statements, there is a greater risk that material misstatements may occur and remain undetected.

> We recommend the Agency implement procedures to ensure that all financial information is complete and accurate. We also recommend the Agency perform reconciliations timely and ensure any variances identified are investigated.

Agency Response: Agency agrees that procedures need to be updated to match the new system which was being converted from QuickBooks during this time period. Agency will research, develop and document procedures to ensure that financial information is complete and accurate. Bank reconciliations are now done on a monthly basis. A new template has been implemented for transfers to eliminate the double booking of revenues. Supporting documentation is being brought current.

DEPARTMENT OF ROADS

Finding 2014-008

Management Maintenance System Inventory

The Department of Administrative Services State Accounting Division (State Accounting) prepares the Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report inventory balances at the end of the fiscal year on an accrual response form. State Accounting required all State agencies to report their accruals by August 6, 2014. A good internal control plan requires agencies to have procedures for the reporting of accurate financial information to State Accounting in a timely manner. Additionally, a good internal control plan requires procedures to ensure inventory counts and prices used are accurate and properly supported. Furthermore, there should be written policies and procedures to reconcile physical inventory counts to system records.

The Agency reported road maintenance inventory for shale, gravel, and rock to State Accounting at year end. The Agency did not submit its accrual response form until September 15, 2014, and did not provide documentation to the APA until November 4, 2014, some 55 days after first requested by the APA.

The Agency performed its inventory counts on April 1, 2014, at several sites across the State. Each of the seven districts then compiled the site inventories and reported the balances to the Agency's accounting division. The Agency used the site counts from April 1, 2014, along with purchases and usage recorded in the Management Maintenance System (MMS) for April 1, 2014, through June 30, 2014, to calculate the balance reported in the CAFR for $6,016,327.

During testing, the APA determined the inventory balance was understated by $199,308. The following issues were noted:

- The Agency did not have support for the prices used to convert the April 1 inventory counts to dollar values. After the APA inquired, the Agency provided new prices that were supported by contracts; however, there were still six prices that the Agency could not support. The use of incorrect prices caused an understatement of the April 1 inventory balance by $219,485.

- Usage recorded in MMS from April 1, 2014, to June 30, 2014, was valued using incorrect prices. This caused an overstatement of the June 30, 2014, balance by $23,384.

- The APA attended two districts' physical inventory counts on April 1, 2014. The purpose was to ensure counts reported to calculate the June 30, 2014, balance agreed to what the APA had observed. However, there were several variances ranging from an overstatement of 429 tons or $5,700 to an understatement of 577 tons or $8,762.

The incorrect counts caused a net understatement of the April 1 inventory balance by $3,207. It is unknown why there were differences between the APA-observed inventory counts and what was reported to the Agency's accounting division. Therefore, it is unknown if the other district counts were accurately reported because site inventory documentation was not retained. Only the final calculated tons were submitted.

Furthermore, the Agency lacked both procedures for reconciling inventory counts to system balances and policies on when to adjust system balances. The Agency recorded inventory purchases and usage during the fiscal year into MMS to track inventory. After the physical inventory counts were performed on April 1, the Agency did not compare the inventory balance in the system to the results of the inventory counts to determine whether system adjustments were necessary. Starting with the prior year's ending balance reported in the fiscal year 2013 CAFR and adjusting for purchases and usage recorded in MMS during the fiscal year 2014 (with adjusted prices), the ending inventory would have been $5,080,884, a difference of $935,443.

Without adequate policies and procedures to ensure inventories are accurate and reconciled to system balances, there is an increased risk inventory balances will be misstated on the financial statements.

> We recommend the Agency establish policies and procedures to ensure inventory counts and prices used to value inventory are accurate and supported, reconciliation procedures are performed between physical counts and system records, and inventory balances reported to State Accounting are reasonable and accurate.

Agency Response: The Department of Roads recognizes the issues with maintaining an accurate inventory balance. Materials are located at over 175 locations across the state that are accessed by several hundred employees. Materials are purchased by the truck loads, dumped into stock piles, then issued out by the payloader. The inventory value is calculated by estimating the measurement of the remaining pile. This results in the potential for a variance from accounting inventory levels. Therefore, NDOR is currently researching a change in the accounting practices to be able to direct cost these materials items. The goal is to eliminate the inventory by June 30, 2015.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF ECONOMIC DEVELOPMENT

Finding 2014-009

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

Grant Number & Year: B-13-DC-31-0001, FFY 2013

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

Criteria: 2 CFR § 170.320 (January 1, 2014) 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), 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 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 properly complete subaward reporting under the Transparency Act.

Questioned Costs: None

Context: The Agency was awarded $10,423,511 for the Federal fiscal year (FFY) 2013 grant. As of June 30, 2014, the Agency had made 44 subawards of the FFY 2013 grant, which were over $25,000 each, for a total of $10,110,525 in subawards subject to Transparency Act reporting requirements. We tested seven subawards and noted the following:

- Six subawards were never reported. The amount of these subawards ranged from $90,000 to $250,000 and totaled $1,136,500.

- One subaward, for $300,000, was reported three months late. Also, the subaward date and subaward number were not correctly reported.

A similar issue was noted in the prior audit.

Cause: The Agency was not aware of the requirement until it had been brought to its attention during the prior year audit, and staff involved in completing the reports did not fully understand the reporting system or how to properly complete the reporting requirements.

Effect: Non-compliance with Federal regulations, which could result in sanctions from the Federal awarding agency.

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

> **Management Response:** The Department does not dispute the issue identified. Upon completion of the 2013-2014 A-133 audit, the department implemented a strategy for compliance with the reporting requirements of the Federal Funding Accountability and Transparency Act ("FFATA"). Applicants for CDBG funding provide necessary FFATA information with submission of the original application. Problems with entering information in the FFATA Sub-award Reporting System impeded full compliance with this requirement.
>
> **Corrective Action Plan:** The Department will ensure that the employee(s) responsible for compliance with FFATA reporting receives adequate training (to be identified with the assistance of State Accounting) to achieve compliance with the strategy previously adopted but not implemented due to issues with understanding and using the reporting system. This will result in full compliance with the Act. In addition, the Department will implement a process for regular review of award and contract information found in www.USASpending.gov to ensure that all required information has been accurately required. This review will occur at least semi-annually.
>
> **Contact:** Jennifer Long, Federal Aid Administrator
>
> **Anticipated Completion Date:** Training – July 31, 2015; Semi-annual review – December 31, 2015

Finding 2014-010

Program: CFDA 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Allowability and Subrecipient Monitoring

Grant Number & Year: All open grants, including B-13-DC-31-0001, FFY 2013

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

Criteria: OMB Circular A-87 requires costs to be reasonable, necessary, and adequately supported.

OMB Circular A-133 § __.400(d)(3) 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 . . . ."

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 that adequate documentation be maintained to support amounts claimed by and paid to subrecipients and that procedures be in place to ensure subrecipients are utilizing Federal funds passed through for authorized purposes and in compliance with all applicable regulations at least annually.

Condition: The Agency did not obtain supporting documentation for payments to subrecipients, and adequate monitoring procedures were not performed.

Questioned Costs: Unknown

Context: The Agency makes payments to subrecipients based upon requests submitted by the subrecipient. However, the Agency did not require source documentation, such as invoices, contracts, or timesheets, to be submitted with the request to support the costs were allowable and in accordance with Federal requirements. The Agency had an informal policy to perform on-site monitoring of projects once the project was 60-70% complete and planning projects once 100% complete. Subrecipients were also subject to A-133 audit requirements, which would provide some assurance if the program were audited as a major program.

Nine of 25 subrecipient payments tested, totaling $130,249, did not have source documentation on file or financial monitoring performed. Nor did any of the nine have an A-133 audit for the fiscal year, with the Community Development Block Grant (CDBG) as a major program. Consequently, there was not adequate documentation to support the payments were for allowable costs in accordance with Federal requirements. Projects were over 70% complete (73%, 87%, 90%, 100%) at June 30, 2014, for four of the nine without financial monitoring. After auditor inquiry, the Agency obtained supporting documentation for the nine payments.

The total sample tested was $607,043. The total aid expenditures for the fiscal year ended June 30, 2014, was $11,396,458.

Cause: The Agency's policy was to perform monitoring at some point during the project period. In June 2014, the Agency updated monitoring procedures to "require source documentation on all expenditures that meet a specified threshold. This threshold will include all CDBG requests exceeding 25% of the total CDBG award and all CDBG requests exceeding $100,000." Also, "One randomly selected CDBG disbursement will require submission of source documentation for each grantee annually." These procedures were not in effect during most of the fiscal year. Seven of the disbursements noted above were paid before the prior audit was issued.

Effect: Increased risk of the misuse of Federal funds and non-compliance with Federal regulations, which could result in sanctions from the Federal awarding agency.

Recommendation: We recommend the Agency implement procedures to ensure disbursements made for projects during the year are for allowable activities. These procedures should include obtaining supporting documentation for amounts claimed or performing subrecipient monitoring procedures that include a review of financial activity during the year.

> **Management Response:** While the Department does not dispute that disbursements were not selected during the annual period and reviewed in accordance with the procedure developed as a corrective action to the prior year audit, the Department disputes the determination for Questioned Costs. The Department asserts that the appropriate notation for Questioned Costs is "none". The violation identified by the auditor was that the Department did not follow adequate procedures for sub-recipient monitoring on an annual basis. A violation of federal requirements regarding use of CDBG funds for allowable expenses in accordance with agreements, law or regulations or inability to provide documentation of allowable costs to the auditor was not found. Adequate documentation supporting allowable and reasonable costs was obtained from subrecipients, reviewed by the Department and provided to the auditor within 4 business days on all disbursements tested. This documentation was reviewed and provided to the auditor the day of the exit conference. In other words, as of the date of the exit conference, the auditor did not find any questionable, unreasonable, or unallowable costs and did not have any tested disbursements that lacked adequate documentation of costs.
>
> **Corrective Action Plan:** The Department will initiate several actions to implement a review process that will satisfy this requirement. The Department will select drawdowns, one per fiscal year per project at a minimum, for additional documentation to be provided for review. The previously proposed process will be modified as needed to ensure it is properly implemented and all requests that exceed $100,000 will require additional documentation to be submitted for review. The MITAS and Filemaker grants management system will be modified to include recording of a financial monitoring of eligible activities and expenditures to be reviewed at least once during each State fiscal year for projects expending funds during that fiscal year. The CDBG administration manual will include instructions on what documentation is necessary to be submitted during the fiscal year financial monitoring.

Contact: Brian Gaskill, CDBG Program Manager

Anticipated Completion Date: The modified process will be implemented beginning May 1, 2015 and will include review of documentation for previous drawdowns submitted as needed to ensure full compliance for state fiscal year July 1, 2014 through June 30, 2015.

APA Response: Nine of 25 subrecipient payments tested (36%) did not have source documentation on file or financial monitoring performed at the time of selection by the APA. The Agency was able to request and obtain supporting documentation for the specific items from the subrecipients after the issue was noted. Federal regulations require, however, ongoing monitoring by the Agency to ensure subrecipient compliance with laws, regulations, and the provisions of contracts or grant agreements. Such monitoring would necessarily entail the concurrent compilation of adequate supporting documentation, which the Agency readily acknowledges lacking. The ultimate retrieval of supporting documentation from the subrecipients in no way mitigates the consequence of this finding; rather, such reliance upon the subrecipients highlights the Agency's underlying noncompliance. Even if no misuse of Federal funds was found by the APA's subsequent review of the documentation obtained from the subrecipients, that has no bearing upon the point of the comment – namely, that the Agency failed to provide the periodic oversight required by Federal regulations. Based upon testing, moreover, there are likely additional subrecipient payments that did not have adequate monitoring during the fiscal year. As a result, the total questioned costs are unknown.

DEPARTMENT OF EDUCATION

Finding 2014-011

Program: CFDA 10.558 – Child and Adult Care Food Program (CACFP) – Eligibility

Grant Number & Year: #2014IN109943 and #2014IN202043, FFY2014; #2013IN109943 and #2013IN202043, FFY2013

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: 7 CFR 226.6(b)(1)(xviii) (January 1, 2014) applies to new institutions and states, "Each new institution must submit information sufficient to document that it is financially viable" and "must demonstrate that it has adequate financial resources to operate the CACFP on a daily basis . . . and can document financial viability (for example, through audits, financial statements, etc.)" This same section, under paragraph (b)(2)(vii) also imposes the same requirements for renewing institutions.

The Agency's program training manuals, revised July 2013, provide information to subrecipients regarding the CACFP program, including defining financial viability documentation. Per the manual, applicants must submit "One of the following to demonstrate financial viability: profit and loss statement (most recent two months), statement of income and expenses (most recent two months), organization wide audit (most recent) or company's business plan." Additionally, the Agency has a Financial Viability Document available for subrecipients to complete which states, "All net losses must be accompanied by an explanation from the owner explaining how the organization/business remains financially viable while operating at a loss. If operating at a net loss, list other sources of income used to support this business."

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. Good internal control also requires procedures to ensure applicant information is accurate.

Condition: The Agency did not have adequate procedures to document that subrecipients were financially viable.

Questioned Costs: Unknown

Context: We tested 25 renewing and 3 new subrecipients. Some subrecipients provided audited financial statements or information prepared by a certified public accountant; however, in most cases the information submitted was not audited and did not include any support, such as bank statements, to ensure the financial information was accurate.

We noted 18 of 28 subrecipients tested did not have adequate documentation to support the determination of financial viability.

- Fifteen subrecipients appeared financially viable based on the data submitted by the applicant; however, the information was not audited and the Agency did not obtain support, such as bank statements, to ensure the financial information submitted was correct.

- One new subrecipient's financial information included expenditures and a listing of assets but did not include income or liabilities in order for an adequate determination of financial viability to be made. Additionally, the financial information provided for this subrecipient included a loss of $925 with an explanation that a small loan was available. However, the Agency did not obtain additional support for this loan. We also question whether the availability of a loan is adequate to prove financial viability, if the subrecipient does not have resources to repay the loan.

- One renewing subrecipient provided financial information that included a loss of $741 for the months submitted. Again, the file for the subrecipient included a note that indicated a small loan was available. However, the Agency did not obtain any additional information to verify the loan. Again, we question whether the availability of a loan is adequate to prove financial viability, if the subrecipient does not have the resources to repay the loan.

- One renewing subrecipient's financial information submitted included only a listing of liabilities and related monthly payments and did not include assets, income, or other expenditures to ensure the subrecipient had adequate resources to operate the program on a daily basis.

There was a total of $33,421,231 in aid paid to 348 subrecipients, including 16 new subrecipients, during the fiscal year ended June 30, 2014.

A similar finding was noted in the prior two audits.

Cause: There is a lack of uniformity in how financial viability is documented, leaving individual staff to determine if a subrecipient appears financially viable and no written procedures for staff to follow to ensure financial information provided is accurate.

Effect: Without adequate procedures 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 determining financial viability. Procedures should include obtaining sufficient documentation to ensure information provided is accurate.

> **Management Response:** We will work to implement adequate procedures for determining financial viability of subrecipients.
>
> **Corrective Action Plan:** We will work to implement adequate procedures for determining financial viability of subrecipients.

Contact: Sharon Davis, Director of Nutrition Services
Diane Stuehmer, Federal Programs & Title I Administrator

Anticipated Completion Date: July 1, 2015

Finding 2014-012

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

Grant Number and Year: S010A130027, FFY 2013

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR § 170.320 (January 1, 2014) 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) 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.)

Condition: Subawards were not reported timely.

Questioned Costs: None

Context: The Agency provided a list of 219 subawards reported for the Transparency Act. We then selected five subawards for testing and noted all five subawards tested were reported late.

- Three subawards were awarded on December 30, 2013, and not reported until May 7, 2014, which was more than three months late.
- Two subawards were awarded December 5, 2013, and not reported until February 14, 2014, which was two weeks late.

A similar finding was noted in the prior audit.

Effect: Noncompliance with Federal regulations could result in sanctions.

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

Management Response: The Department agrees that FFATA information was not reported timely during FYE June 30, 2014.

Corrective Action Plan: Revised procedures were implemented by the Department in October 2014 and were approved by the United States Department of Education Office of Elementary and Secondary Education in November 2014. A copy of these procedures has been provided to the APA.

Contact: Shane Rhian, Director of Financial Services

Anticipated Completion Date: Ongoing

Finding 2014-013

Program: CFDA 84.126 – Rehabilitation Services Vocational Rehabilitation Grants to States – Reporting

Grant Number & Year: H126A120039, FFY 2012; H126A130039, FFY 2013

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR 361.40 (July 1, 2013) requires the State agency to submit reports in compliance with any requirements necessary to ensure the accuracy and verification of the reports.

The U.S. Department of Education Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-09-04, dated August 31, 2009, provides the instructions and requirements for completing the RSA-2 Annual Vocational Rehabilitation Program/Cost Report.

A good internal control plan requires procedures to ensure reports are accurate and supporting documentation is maintained.

Condition: The Agency did not accurately report expenditures on the annual RSA-2 report in accordance with Federal requirements.

Questioned Costs: None

Context: The Agency completes the RSA-2 report on the accrual basis. Reports of expenditures are obtained from EnterpriseOne, the State's accounting system, and QE2, the Agency's case management system, to identify the required information. This information is then entered onto an Excel spreadsheet to accumulate the specific line items reported.

We tested the RSA-2 report for the Federal fiscal year ended September 30, 2013, and found several line items were not reported correctly. Many of the errors resulted from the Agency using inconsistent cut-off dates in generating reports from EnterpriseOne, while others were due to data entry errors. Our testing noted the following errors:

Report Line Item	Description	Amount Over (Under) Reported
Schedule I, Line 2.A.2.a*	Assessment, Counseling, Guidance and Placement	$ 18,733
Schedule I, Line 2.B.2*	Private Community Rehabilitation	$ 72,324
Schedule I, Line 5	Innovation and Expansion Activities	$ (72)
Schedule II, Line 14	Total Section 110 Funds Expended on Services	$ (728,817)
Schedule IV, Line 2	Expenditures from Other Rehabilitation Funds	$ (56,678)
Schedule V, Line 1	Current Allotment carried over to next FY	$ 1,211,659
Schedule V, Line 5	Current Program Income carried over to next FY	$ (65,328)

*These errors also caused additional lines to be incorrect.

Cause: The Agency experienced turnover in personnel responsible for preparing the report. Additionally, staff did not use consistent criteria for cut-off dates in generating reports from the State's accounting system and the case management system. Also, there were data entry errors when entering information into the Excel spreadsheet.

Effect: Non-compliance with Federal regulations which could result in sanctions from the Federal awarding agency.

Recommendation: We recommend the Agency implement procedures to ensure all amounts reported on the RSA-2 are accurate and adequately supported.

> **Management Response:** With the exception of a data entry error, the data on the RSA-2 was reported correctly based on the date the reports were generated in EnterpriseOne. Printed copies of the reports were maintained that adequately supported the expenditures reported. Due to month-end dates not being used at the time reports were generated, the reports could not be replicated to verify expenditures.
>
> **Corrective Action Plan:** Future reports used to complete the RSA-2 will be generated with a 9/30 date to ensure consistency and allow for verification. RSA-2 reports will be reviewed by a second individual to ensure accuracy and eliminate data entry errors.
>
> **Contact:** Cathy Callaway, Administrative Specialist II
>
> **Anticipated Completion Date:** Immediately

<u>Finding 2014-014</u>

Program: CFDA 84.126 – Rehabilitation Services Vocational Rehabilitation Grants to States – Reporting

Grant Number & Year: H126A140039, FFY 2014

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR 80.20 (July 1, 2013) provides the standards for financial management systems and requires that fiscal control and accounting procedures of the State must be sufficient to "[p]ermit preparation of reports required by this part and the statutes authorizing the grant."

A good internal control plan requires procedures be in place to ensure amounts reported are complete and accurate.

Condition: One of two SF-425 reports tested was not complete and accurate.

Questioned Costs: None

Context: The SF-425 reports are filed semi-annually for each grant. We tested two reports and noted the 2014 grant report for the period ending March 31, 2014, was not correct. The following table summarizes the variances noted:

Report Item Description	Over (Under) Reported
Federal share of unliquidated obligations	$ (743,795)
Total Federal share	$ (743,795)
Unobligated balance of Federal funds	$ 743,795
Recipient share of expenditures	$ (224,494)
Remaining recipient share to be provided	$ 224,494
Indirect expense base	$ (1,209,525)
Indirect expense amount charged	$ (108,857)
Indirect expense Federal share	$ (85,671)
Recipient share of unliquidated obligations	$ (201,307)

The indirect expense base reported did not include March expenditures posted in April. Because the report is on the accrual basis, these expenditures should have been included. Other variances were caused by inconsistent date criteria used by the Agency in generating information from EnterpriseOne, the State's accounting system, and including expenditures which were not grant expenditures.

Cause: Turnover in staff responsible for completing the reports and inadequate review of the reports and supporting documentation.

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

Recommendation: We recommend the Agency implement procedures to ensure amounts are correctly reported on the SF-425 reports.

Management Response: The SF-425 was completed prior to the posting of the March indirect cost, and these costs were inadvertently excluded.

Data on the SF-425 was reported correctly based on the date the reports were generated in EnterpriseOne. Printed copies of the reports were maintained that adequately supported the expenditures reported. Due to month-end dates not being used at the time reports were generated, the reports could not be replicated to verify expenditures.

Corrective Action Plan: SF-425 reports have been modified to include all indirect costs incurred during the reporting time period. SF-425 reports will be reviewed by a second individual to ensure accuracy and eliminate data entry errors.

Contact: Cathy Callaway, Administrative Specialist II

Anticipated Completion Date: Immediately

Finding 2014-015

Program: CFDA 84.126 – Rehabilitation Services Vocational Rehabilitation Grants to States – Program Income

Grant Number & Year: H126A130039, FFY 2013; H126A140039, FFY 2014

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR 80.21(f)(2) (July 1, 2013) states, "grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments."

34 CFR 361.63(b) (July 1, 2013) states, "Sources of program income include, but are not limited to, payments from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes[.]"

A good internal control plan requires procedures be in place to ensure program income received is expended in a timely manner prior to requesting additional Federal program funds.

Condition: The Agency was not disbursing available program income prior to drawing down additional Federal vocational rehabilitation (VR) funds.

Questioned Costs: None

Context: Program income for the VR program consists primarily of receipts from the Social Security Administration (SSA) for eligible VR clients. The Agency identifies which clients are eligible during the development of the individualized plan for employment (IPE). As costs are incurred for the eligible clients, the Agency completes a claim form, and submits the claim to the SSA for approval. The Agency then uses the approved amounts reimbursed by the SSA to pay various vendors to provide services to VR clients as well as for other costs of the VR program.

During the fiscal year ended June 30, 2014, the Agency received nine reimbursements totaling $1,127,999 for claims approved by the SSA. We selected two receipts and noted program income was not disbursed timely. During this same time, Federal funds were being drawn down for the VR program. For the receipts tested, we noted the following:

Date of Receipt	Date Fully Disbursed	Time Elapsed
9/17/2013	11/6/2013	50 days
2/10/2014	7/7/2014	147 days

As of June 30, 2014, the balance of program income not expended was $424,903 per EnterpriseOne, the State's accounting system.

Cause: Agency personnel were trying to use program income funds specifically for payment to service providers only.

Effect: Non-compliance with Federal regulations which could result in sanctions from the Federal awarding agency.

Recommendation: We recommend the Agency implement procedures to ensure program income is utilized timely prior to requesting additional Federal vocational rehabilitation funds.

Management Response: The Rehabilitation Act of 1973, as amended, appears to permit program income to be carried into the year (ending September 30) following its receipt and used for allowable expenses. Section 19(a)(2): "any amounts of program income, including reimbursement payments under the Social Security Act (42 U.S.C. 301 et seq.), received by recipients under any grant program specified in paragraph (1) that are not obligated and expended by recipients prior to the beginning of the fiscal year succeeding the fiscal year in which such amounts were received, shall remain available for obligation and expenditure by such recipients during such succeeding fiscal year."

Previously, the carryover of Program Income was allowable as evidenced by SF-425 reports submitted and accepted with a balance of Program Income.

Recently, the Rehabilitation Services Administration (RSA) provided guidance requiring the use of program income prior to the drawdown of additional Federal funds. They have cited 34 CFR 80.21(f)(2): "Except as provided in paragraph (f)(1) of this section, grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments."

The carry over authority referenced in Section 19(a)(2) of the Rehabilitation Act seems to be in direct conflict with CFR 80.21(f)(2).

Corrective Action Plan: The current data system (QE2) is currently being reprogrammed to require the spending of Program Income, if there is a balance, prior to the spending of other Federal funds. Until programming is completed, Program Income will be spent as it is received via a journal entry in EnterpriseOne.

Contact: Cathy Callaway, Administrative Specialist II

Anticipated Completion Date: Immediately

Finding 2014-016

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

Grant Number & Year: All open, including #S367A130026, FFY 2014

Federal Grantor Agency: U.S. Department of Education

Criteria: Title 34 CFR § 299.6(b) (July 1, 2013) 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) requires expenditures:

> *[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. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: We tested 25 school districts, eight of which included non-public schools. Four of the eight districts tested did not have documentation to support that non-public schools received a per-pupil amount equal to that received by public schools. We calculated the non-public school budget equal to the public school on a per-pupil basis. Non-public schools were underfunded for the following school districts tested:

School District	Calculated Budget	Actual 2013-2014 Budget	Variance (Under) Funded
Norfolk	$ 33,373	$ 5,000	$ (28,373)
Fremont	$ 2,474	$ 352	$ (2,122)
Kearney	$ 2,401	$ 1,303	$ (1,098)
South Sioux City	$ 4,626	$ 4,074	$ (552)

There were 252 school districts allocated Title II funds, of which 53 districts included non-public schools.

Cause: This finding was first noted in the Single Audit for the fiscal year ended June 30, 2013, and per discussion with the Agency, there was not enough time to implement programming changes before the applications for the 2013-2014 school year were due.

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: A new page was added to the ESEA/NCLB Consolidated application for the 2014-15 school year to calculate the minimum equitable services amount. This process will be tweaked, as appropriate, to ensure it is calculating the amounts correctly.

Corrective Action Plan: A new page was added to the ESEA/NCLB Consolidated application for the 2014-15 school year to calculate the minimum equitable services amount. This process will be tweaked, as appropriate, to ensure it is calculating the amounts correctly.

Contact: Diane Stuehmer, Federal Programs & Title I Administrator

Anticipated Completion Date: Completed

Finding 2014-017

Program: CFDA 96.001 – Social Security Disability Insurance – Reporting

Grant Number & Year: 04-1404NEDI00, FFY 2014 and 04-1304NEDI00, FFY 2013

Federal Grantor Agency: U.S. Social Security Administration

Criteria: Per the Social Security Administration Program Operations Manual System (POMS) Disability Insurance – DI Chapter and Subchapter 39506.200 – The Reporting Process – Recording and Reporting Obligations Section B. 1.:

An obligation is a financial or related transaction that creates a legal liability to pay. In most cases, the actual disbursement of funds occurs after the obligation is made. An obligation can be made in a variety of ways, such as placing an order, awarding a contract, receiving a service, etc. which requires payment during a given period or in some future period.

Obligations must be based on a bona fide need for goods or services that exist within the Federal fiscal year (October 1 through September 30) and must be made no later than six months after the close of that fiscal year (March 30). The intent of this policy is to allow the DDS sufficient time to incur the fiscal year obligation through State purchasing procedures when funding is authorized late in the year.

Obligations represent liabilities against obligational authority and include payments for goods or services received and commitments to pay for goods or services ordered . . .

Valid obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded.

Per DI 39506.203 - Updating and Reconciling Unliquidated Obligations Section A:

Valid unliquidated obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded. It is particularly important that changes in CE [consultative examinations] and MER [medical evidence of record] authorizations (e.g., cancellation or modification) are reflected in the unliquidated obligations reported by the agency. State agencies should review unliquidated obligations at least once each month to cancel those no longer valid—and screen CE authorizations to determine whether the unliquidated obligation represents an authorization still in effect.

A good internal control plan requires policies and procedures be in place to ensure adequate records are maintained to support obligations and unliquidated obligations reported.

Condition: Adequate documentation was not maintained to support the total obligated and unliquidated obligation amounts reported on the Social Security Administration (SSA) 4513 – State Agency Report of Obligations for SSA Disability Programs reports. The Agency did not maintain documentation to support the detail of the obligations that comprised the reported total obligations and unliquidated obligations amounts.

Questioned Costs: None

Context: We tested the Federal fiscal year 2014 report for the period October 1, 2013, through March 31, 2014. The Agency reported the following:

Disbursements	Unliquidated Obligations	Total Obligations
$ 4,184,091	$ 504,818	$ 4,688,908

The Agency did not have documentation to support the $504,818 unliquidated obligations reported. Therefore, $504,818 of total obligations was also not supported.

Cause: Per staff, they have never maintained this type of support and do not believe it is required.

Effect: Total obligations and unliquidated obligations amounts reported cannot be verified as accurate if there is no documentation maintained to support the amounts.

Recommendation: We recommend the Agency develop policies and procedures that ensure the obligations are supported by documents/records that describe the nature of the obligations and support the amounts recorded.

Management Response: This response is written in consideration of both the content of the exit conference agenda and comments made at the exit conference on February 10, 2015.

The exit conference agenda correctly quotes the SSA manual as stating, "Valid unliquidated obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded". It goes on, incorrectly we think, to state, "No documentation was maintained to support the total obligated and unliquidated obligation amounts reported on (the required federal reports)". We respectfully disagree with this finding and believe that we have appropriate procedures in place. The same procedures have been used for more than 20 years during which audits by APA, SSA OIG, and private firms have not reported any insufficiencies or concerns. The appropriate documentation and the process used to create, preserve, and locate it is, and always was, available for APA review.

The accounting and reporting process has been thoroughly reviewed with SSA officials who are the recipients and consumers of the reports in question as well as of the results of this audit. In the event those authorities wish to discuss the APA's finding and recommendation, we will cooperate with an SSA review of both of our accounting process and of the history of this audit.

The resulting accuracy of procedures for estimating unliquidated obligations can be assessed by considering the difference between the estimated and the actual expenditures for a closed fiscal year. For fiscal year 2013, we estimated, on September 30, 2013, that eventual total costs would be $9,488,680. Actual total expenditures were $9,441,416 – a difference of $47,264 or about one-half of one percent.

Corrective Action Plan: We have begun to fine tune the process by producing a report of the individual items that comprise the reported subtotals wherever their identification is practical. No other action is anticipated unless requested by SSA.

Contact: Douglas Willman, DDS Administrator

Anticipated Completion Date: To the extent that change is necessary, it is already done.

ENERGY OFFICE

Finding 2014-018

Program: CFDA 81.042 – Weatherization Assistance for Low-Income Persons Recovery (ARRA) – Allowable Costs/Cost Principles

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

Federal Grantor Agency: U.S. Department of Energy

Criteria: OMB Circular A-87, Attachment A, § C(1)(j), states that costs must be adequately documented. A good internal control plan requires procedures be in place to ensure contracts are on file.

Condition: The Agency was unable to provide a contract for one payment tested during our calendar year 2013 attestation of the Nebraska Department of Energy.

Questioned Costs: $25,000 known

Context: For one of five contract payments tested, the Agency was unable to provide the related contract. According to the Agency, the vendor provided software that enabled electronic reporting, tracking, and monitoring of Davis Bacon certified payroll reporting for compliance with Federal regulations. It appears from documentation on file that the contract began in 2010. In 2011, the Agency received an invoice for payment, but the Agency held the payment due to negotiations of the fee, and the software not being utilized by the Agency or its subrecipients. On July 24, 2013, the Deputy Director signed a contract addendum, even though the original contract was unable to be found, and the vendor did not provide a copy of the original agreement. The Agency paid the vendor $25,000 during the fiscal year and ended the contract in July 2013.

Cause: Unknown

Effect: Without the contract, we could not verify whether the terms of the contract were adhered to and whether the payments made to the vendor were proper and allowable. When contracts are not on file, there is an increased risk of loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure contracts are properly maintained.

Management Response: While the staff that was originally involved with this agreement are no longer employed with the Nebraska Energy Office (NEO), it appears that the original agreement was documented on the purchase order dated April 20, 2010, that included the terms of agreement that was signed by the Weatherization Division Chief at that time. The original cost proposal for Hill International, Inc, was $43,000, which covered a period of two years. This amount would not have required an RFP.

In July of 2013, the final payment of the original agreement was made. In September 2013, the NEO was notified that the system was still being accessed. Usage was due to the grant being extended, this precipitated the Deputy Director to negotiate an addendum to the original agreement to cover this period and terminate the agreement.

Corrective Action Plan: Continue to monitor procurement and review processes to stay in compliance with rules and regulations.

Contact: Thomas Tabor, Division Chief

Anticipated Completion Date: Ongoing monitoring.

Finding 2014-019

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Eligibility, Earmarking & Subrecipient Monitoring

Grant Number & Year: All open, including #G14B1NELIEA, FFY 2014

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.*

Per 42 USC § 8624(b)(9)(A) (2012), "[T]he 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 42 USC § 8624(b)(2), recipients must be low income.

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, eligibility monitoring is adequate, and costs are properly recorded.

Condition: The Agency's monitoring procedures were not adequately documented, and administrative expenditures were recorded as aid.

Questioned Costs: Unknown

Context: The Agency monitors subrecipients through various methods, including review of A-133 audits and site visits. We tested two of seven subrecipients. We noted the Agency monitoring of one subrecipient's expenses did not include reconciliation to the monthly reimbursement request from the subrecipient to the Agency. The Agency monitoring of the other subrecipient's expenses did not include a documented review of timesheets and invoices to ensure costs claimed were allowable. A similar finding was noted in the prior audit.

During annual site visits, the Agency reviewed a sample of files to ensure recipients were eligible, and documented this review on a client review form. For one subrecipient, two of the five client review forms we observed were not fully completed, so we could not verify the Agency ensured the recipients were low income.

We also noted the Agency recorded subrecipient administrative expenses during the fiscal year to aid business units. The Agency indicated it internally tracks the administration costs to ensure they are within the 10% earmarking limit; however, the earmarking limit applies, in the aggregate, to both the State and subrecipient levels. These limits are entered by business unit in the State accounting system. If costs are not correctly recorded, there is a greater risk that earmarking limits will be exceeded.

The Agency disbursed $2,686,751 in LIHEAP payments to seven subrecipients during the fiscal year. The subrecipients tested received a total of $1,053,876.

Cause: Inadequate documentation.

Effect: Increased risk of misuse of Federal funds.

Recommendation: We recommend the Agency improve monitoring procedures. Monitoring should ensure monthly reimbursement requests are accurate and supported by sufficient documentation, that subrecipient expenditures are in accordance with Federal regulations, and that eligibility reviews are adequately documented. We further recommend the Agency implement procedures to ensure administrative costs are properly recorded in the State accounting system.

> **Management Response:** The Nebraska Energy Office (NEO) has improved monitoring procedures and established Business Unit numbers for administrative costs.
>
> **Corrective Action Plan:** The NEO will include copies of client review documentation to ensure recipients are eligible and payroll can be reconciled to reimbursements.
>
> Administrative costs are properly recorded through Business Unit numbers for reimbursements to track Subgrantee and Grantee administrative costs.
>
> **Contact:** Thomas Tabor, Division Chief
>
> **Anticipated Completion Date:** These actions have been completed.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2014-020

Program: Various, including CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP); CFDA 93.558 – Temporary Assistance for Needy Families (TANF); CFDA 93.767 – Children's Health Insurance Program (CHIP) – Cash Management

Grant Number & Year: Various, including #051405NE5021, FFY 2014; #2013IS251443, FFY 2013; #G1302NETANF, FFY 2013

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

Criteria: Per 31 CFR 205.33(a) (July 1, 2013), "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 do the following:

> *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 expenditures charged to Federal grants are allowable costs per the Cost Allocation Plan (CAP); actual general ledger and allowable CAP distributions do not vary by significant amounts; and timing variances are resolved in a timely manner.

Condition: The Agency did not adequately monitor cash management compliance for grants during the fiscal year. We noted actual administrative expenditures exceeded CAP distributions during fiscal year 2014 for Federal grants of the CHIP, SNAP, and TANF programs.

Questioned Costs: $955,372 known

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

- The CHIP 2014 grant was overdrawn by $955,372 at June 30, 2014.

- The SNAP 2013 grant was overdrawn by $2,013,491 at September 30, 2013. This was not corrected until June 2014, after the Agency received a letter from the Federal grantor. The USDA compared funds drawn to outlays reported as part of the close-out for the 2013 grant and submitted a Bill for Collection to the Agency.

- The TANF 2013 grant was overdrawn by $455,465 at September 30, 2013, $539,304 at December 31, 2013, and $552,037 at March 31, 2014, and was not adjusted until the quarter ended June 30, 2014. The grant was no longer overdrawn at June 30, 2014.

- The Agency prepared a spreadsheet that was used during the fiscal year to monitor and analyze grants; however, the spreadsheet only included 2014 grants, even though prior year grants were still open for multiple programs. The spreadsheet also did not include all grants in which allowable expenditures were determined based on the CAP.

A similar finding was noted in the prior audit.

Cause: Inadequate monitoring. The Agency did not perform journal entries after each quarter to reconcile funds spent to the CAP distribution.

Effect: If cash management compliance is not adequately monitored, there is an increased risk for noncompliance with Federal regulations.

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

Management Response: The Agency partially agrees with the condition reported. The Agency has implemented procedures to monitor expenditures, which are estimated and variances corrected quarterly. Administrative expenditures are routinely only charged to the current year grant. Therefore, the monitoring method utilized by the Agency would correspond with current year grants. Additional modifications have been made to the process/procedure for monitoring administrative expenditures and the allowable CAP earnings to include trend analysis and quarterly review of earning versus spent reports. The financial services managers continue to improve this monitoring process and modifications are expected to be made as the process is refined.

The Agency is working on a reasonable allocation method for CHIP. The Agency will be able to determine the appropriate allocation for the CHIP 2014 grant and will be able to request an adjustment for up to two years from September 30, 2014, which will resolve the questioned costs.

The SNAP 2013 grant was corrected and the Agency followed the prescribed process and expedited the return of funds.

The TANF 2013 grant, although overdrawn quarterly based on estimates, the adjustments were made for the variances prior to the end of the grant year. Adjustments are indicative that monitoring was occurring and adjustments were being made to expenditures based on CAP earnings.

Corrective Action Plan: The Agency will develop and implement a reasonable and proper allocation method for CHIP expenditures and process an adjustment to claim earned expenditures based on this allocation method. Additionally, the Agency will continue to monitor CAP allocation earnings versus actual expenditures and refine this process/method to improve the timeliness of the adjustments to variances.

Contact: Barb J. Hike, Manager – Grants and Cost Allocation

Anticipated Completion Date: September 30, 2015

Finding 2014-021

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

Grant Number & Year: Various, including #051405NE5ADM, FFY 2014

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 the Cost Allocation Plan, the cost center 25C25050 Community Developmental Disabilities System states:

> *This office manages the Medicaid waivers and the Medicaid case management plan for developmentally disabled persons, coordinates the program with other programs . . . and contracts with community providers for delivery of services . . . . The cost center will be allocated to the Medicaid 50% program and the State Developmentally Disabled program based on the end-of-the-quarter count of recipients receiving benefits in each program.*

A good internal control plan requires procedures be in place to ensure programs are charged costs in accordance with relative benefits received.

Condition: The Agency did not properly allocate costs based on the end-of-the-quarter count of recipients for the quarter ended March 31, 2014.

Questioned Costs: $4,019 known

Context: We tested the Community Developmental Disabilities System cost center allocation for the quarter ended March 31, 2014, which totaled $805,163. The cost center was allocated to Medicaid and the State Developmentally Disabled (DD) program based on recipient case counts. The supporting documentation provided by the Agency showed 85 recipients who received State-only funded DD Service Coordination were included in the Federal/State match count of recipients, causing the Medicaid program to be overcharged by $8,038. The Federal share of $4,019 are questioned costs.

Cause: Unknown

Effect: When costs are not correctly allocated, programs are not charged in accordance with relative benefits received.

Recommendation: We 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 review statistics utilized in allocating costs to verify that the underlying assumptions are valid and in accordance with the Cost Allocation Plan.

Contact: Barb J. Hike, Manager – Grants and Cost Allocation

Anticipated Completion Date: June 30, 2015

<u>Finding 2014-022</u>

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

Grant Number & Year: Various, including #051405NE5ADM, FFY 2014

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

Criteria: Per 45 CFR § 95.507(a)(1) (October 1, 2013), the cost allocation plan must 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 Cost Allocation Plan. A similar finding was noted in the prior audit.

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 following programs were also affected:

- 263, Medicaid and Long-Term Care Administration (Medicaid);
- 265, Protection and Safety; and
- 267, Developmental Disabilities Services Coordination (DDSC).

These transfers affected the cost allocation because charges to these programs were allocated differently. 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 263 were charged directly to Medicaid. 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 included in these monthly entries and found it was inappropriate to charge a portion of these costs to DDSC and Medicaid. One expenditure tested was for a hotel stay for a Child & Family Services Specialist trainee. The second expenditure was for fuel purchases for Foster Care training. Neither of these expenditures should have been allocated to program 263 or 267.

We noted a total of $2,503,465 was charged to program 266 for the field offices during the fiscal year; of that total, $1,471,707 was transferred to DDSC and Medicaid.

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: The Agency is currently updating a FY 2014 CAP, which will address the separation of Medicaid and Children and Family Services. This plan is expected to be submitted to the Federal government for approval by May 1, 2015. A FY 2014 CAP could not be updated/submitted prior to the acceptance and approval of the FY 2013 CAP. Approval for the FY 2013 CAP was received October 2014.

Contact: Barbra J. Hike, Manager – Grants and Cost Allocation

Anticipated Completion Date: Federal fiscal year end September 30, 2015

Finding 2014-023

Program: CFDA 93.658 – Foster Care Title IV-E; CFDA 93.556 – Promoting Safe and Stable Families – Allowable Costs/Cost Principles & Matching

Grant Number & Year: #G1301NE1401, FFY 2013; #G1301NEFPSS, FFY 2013

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

Criteria: Per 45 CFR § 1356.60(c) (October 1, 2013):

Federal financial participation is available at the rate of fifty percent (50%) for administrative expenditures necessary for the proper and efficient administration of the title IV-E plan. The State's cost allocation plan shall identify which costs are allocated and claimed under this program.

Per the Cost Allocation Plan, cost center 25C21800 Parental Rights Termination Services:

The services in this cost center are provided by County Attorney Offices in Douglas and Lancaster Counties for Parental Right terminations necessary to [sic] for an adoption placement . . . . The cost center will be allocated to the Child Welfare Services Program and the Adoption Assistance Programs (IV-E) based on the end-of-the-quarter count of recipients in each cost center.

Per section III.C. of the Agency's contract with Lancaster County:

DHHS and the Contractor will: . . . 4. Develop schedule for desk audit/field audit over the contract year . . . .

Per the Agency's contract with a provider of home studies:

($.56.5) per mile traveled outside a 25 mile radius from the Contractors home office or the contractor employees home (whichever is closer) to the home of the subject of the home study for the purposes of completing an original home study.

Per the Nebraska State Accounting Manual, AM-005:

Pre-audit is a three-step process – three different people need to review each document that is required to be pre-audited.

A good internal control plan requires procedures be in place to ensure charges made to Federal grants are actual, allowable, and appropriately reviewed and approved.

Condition: During testing of 25 Agency non-payroll operating expenditures, we noted 2 expenditures were not in compliance with Federal and State requirements.

Questioned Costs: $34 known

Context: We randomly selected 25 Agency non-payroll operating expenditures. We noted the following:

- The Agency provides funds to both Douglas and Lancaster counties to help defray the costs of providing legal services to terminate the parental rights of children, so they can have permanency through adoption. These costs are ultimately charged through the CAP to both CFDA 93.659, Adoption Assistance, and State child welfare funds, but they were originally charged to CFDA 93.658, Foster Care. These are not allowable expenditures for the Foster Care grant. The payment tested charged $13,063 in Federal funds to the Foster Care grant, and we noted a total of $114,000 charged to the grant during the State fiscal year. The Foster Care grant was not overdrawn after the CAP distributions; however, this issue also affects cash management. The Agency is drawing funds from a grant that will not be allocated costs from these expenditures.

- For one payment, mileage was not calculated in accordance with the contract, resulting in questioned costs of $34. The contract states that the mileage should be from the contractor's home office or the contractor employee's home, whichever is closer. In this case, the employee's home was closer, but it appears the contractor's office was used as the starting point.

  For this same payment, only two people were involved in preparing, approving, and posting the document. This payment used a sensitive object code that requires a pre-audit. If a pre-audit had been performed as required, it is possible the pre-auditor would have noticed that the mileage was not calculated in accordance with contract provisions.

Federal share of operating expenditures, other than payroll for fiscal year ended June 30, 2014, totaled $134,448,368. Federal payment errors noted totaled $34. The total sample tested was $86,396. The error rate for the sample was .04% ($34/$86,396). This estimates the potential dollars at risk for the fiscal year to be $53,779 (dollar error rate multiplied by the population).

Cause: Worker error

Effect: Increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure charges made to Federal grants are actual and allowable. We also recommend three separate people be involved in preparing, approving, and posting each document that is required to be pre-audited.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will review the process of determining the actual and allowable charges to Federal grants and make enhancements. A clear expectation of a timely and accurate process for preparing, approving, and posting of documents that are required to be pre-audited will be reiterated to the Accounting Unit staff.

Contact: Mike Mason, Financial Services Administrator

Anticipated Completion Date: June 30, 2015

Finding 2014-024

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

Grant Number & Year: All open, including #3NE700706, FFY2014

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: OMB Circular A-87, Attachment A, § C(1), requires that costs charged to Federal programs be reasonable, necessary and adequately documented.

7 CFR § 246.19(b)(3) (January 1, 2014) provides, in relevant part: "The State agency shall conduct monitoring reviews of each local agency at least once every two years."

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.*

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 payments to subrecipients were allowable expenditures. Monitoring was not performed in accordance with Federal regulations.

Questioned Costs: $87,626 known

Context: The Agency receives monthly reimbursement requests from 13 local agencies. These requests list the expenses by cost categories. The monthly expense reports are reviewed by Agency staff; however, no invoices or detailed documentation is submitted to support the expenditures are allowable and in accordance with Federal regulations. The Agency contracts to have on-site fiscal reviews of the local agencies, including steps to ensure expenditures agree to supporting documentation.

We tested 25 payments totaling $1,201,079 and noted 5 payments for $87,626 did not have a fiscal review or adequate documentation to support the expenditures were for allowable costs in accordance with Federal regulations. We further noted 3 of 13 subrecipients did not have a monitoring review within the required two years.

Prior Review Date	Most Recent Review
May 2011	September 2014
May 2011	September 2014
June 2010	July 2014

The Agency disbursed $8,747,761 in aid to the local agencies during State fiscal year 2014. Of this amount, $1,273,540 was paid to the three subrecipients noted above. A similar finding was noted in the prior audit.

Cause: The Agency indicated the subrecipients noted above were lower risk and, thus, lower priority.

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 subrecipient expenditures are allowable and in accordance with Federal regulations. We further recommend monitoring reviews are completed at least once every two years.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will contract with a third party to perform fiscal reviews for the WIC program. The contract will include a schedule of reviews and timelines for completion, to meet federal monitoring requirements.

Contact: Peggy Trouba, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-025

Program: CFDA 64.015 – Veterans State Nursing Home Care – Reporting

Grant Number & Year: All open

Federal Grantor Agency: U.S. Department of Veterans Affairs

Criteria: OMB Circular A-133, §__.300(a), requires the State "identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." The State must prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with §__.300(a), 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 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 State of Nebraska has four State Veterans Homes. These facilities provide SEFA information to Cost Accounting in the Agency's central office. Cost Accounting collects the SEFA data but does not verify or audit the numbers provided by the facilities. The Agency then reports the SEFA expenditures to DAS, which compiles the information for all agencies and reports it to the auditor.

Initially Reported	Revised	Variance
$15,567,298	$15,858,033	$290,735

Cause: Clerical errors

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 facility Business Office Managers submit the United States Department of Veterans Affairs' (USDVA) invoices to the Division's Health Information Manager, who compiles the reports into the Key Performance Indicators (KPI) Spreadsheet, which is available upon request. Upon updating the KPI each month, the Health Information Manager will forward a copy of the KPI to the facility Business Office Mangers to verify accuracy. Furthermore, the fiscal analyst will review the KPI with the Business Office Mangers on the monthly budget call.

Contact: Beth Wewel, Veterans Home System Financial Analyst

Anticipated Completion Date: January 31, 2015

Finding 2014-026

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 & Subrecipient Monitoring

Grant Number & Year: All open, including #AANET3SS, FFY 2014; #AANET3CM, FFY 2014; and #AANET3HD, FFY 2014

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

Criteria: OMB Circular A-87, Attachment A, § C, requires costs charged to Federal programs to be reasonable, necessary, and 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, 2013) 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 requirements.

45 CFR § 92.24(a) (October 1, 2013) 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, 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.

Condition: For three of eight subrecipients, the Agency did not have adequate procedures to ensure the allowability of expenditures by subrecipients, and monitoring procedures were not adequately documented. A similar finding was noted in the prior audit.

Questioned Costs: $192,625 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 performed on-site reviews of expenditures incurred by subrecipients during the fiscal year; however, the Agency did not retain supporting documentation, such as invoices, general ledgers, etc., to document what procedures were performed or to substantiate that the expenditures were in accordance with State and Federal requirements. The Agency also reviews A-133 audit reports submitted by the AAAs, which would provide some assurance if the Aging Cluster were audited as a major program.

We tested a total of 23 payments to the eight AAAs. For payments to three of eight subrecipients, there was no detailed supporting documentation, monitoring documentation was not adequate, and there was no fiscal year 2014, A-133 audit on file or the A-133 audit did not include the Aging Cluster as a major program. Therefore, the support was not adequate to ensure expenditures were in accordance with Federal regulations. As a result, we question the $192,625 of payments tested to these three subrecipients.

The Agency disbursed $7,036,438 in aid to the eight AAAs during fiscal year 2014. Of this amount, $1,908,567 was Title III funds for the three subrecipients, which represents the estimated potential dollars at risk for fiscal year 2014.

Additionally, the Agency had not performed adequate monitoring procedures to ensure local matching expenditures were allowable for the Federal grant awards. The 2012 Federal grant award closed during the fiscal year, and the local matching contributions reported by the three AAAs totaled $2,047,878.

Cause: The on-site monitoring activities performed for fiscal year 2014 expenses were not adequately documented. Reviews were performed; however, the Agency did not retain support, such as invoices and general ledgers, and/or did not document the procedures performed. The employee who conducted site visits terminated during the year.

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

Recommendation: We recommend the Agency improve procedures to monitor subrecipients. Monitoring should include a written plan with procedures to ensure monthly reports are accurate and agree to support, expenditures are in accordance with Federal requirements, and adequate documentation is maintained.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Improved monitoring procedures and requirements will be drafted and implemented. Invoices and documentation reviewed during monitoring visits will be maintained and available upon request.

Contact: Cynthia Brammeier, Administrator

Anticipated Completion Date: June 1, 2015

Finding 2014-027

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 – Reporting

Grant Number & Year: All open grants, including #AANET3SS, FFY 2014; #AANET3CM, FFY 2014; and #AANET3HD, FFY 2014

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

Criteria: 45 CFR § 92.20(a) (October 1, 2013) 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.

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 Agency lacked supporting documentation for several amounts included in the Federal Financial Reports (FFRs) submitted during the fiscal year ended June 30, 2014. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Questioned Costs: Unknown

Context: The Agency is required to submit semi-annual FFRs for the Title III grants. 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 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 FFR.

- We tested the FFR for the 2013 Title III grant for the period ended March 31, 2014. The Agency did not retain the AAA spreadsheets used to prepare the reports, and the spreadsheets provided did not agree to amounts reported. Variances could have been caused by timing due to updated information after the report was submitted; however, the Agency was unable to verify this. In addition, the State's administrative expenditures reported did not agree to the State accounting system. We noted the following:

FFY 2013 Grant Report Item Description	Amount Reported	Amount per Support	Variance Over/(Under) Reported
Cash Receipts & Disbursements	$ 6,163,039	$ 6,932,916	$ (769,877)
Total Recipient Share Required	$ 1,328,040	$ 1,328,307	$ (267)
Recipient Share of Expenditures	$ 6,211,896	$ 6,508,519	$ (296,623)
Total Federal Program Income Earned	$ 4,187,604	$ 4,369,345	$ (181,741)

- We tested the 2014 Title III grant for the period ended March 31, 2014. The Agency did not retain the AAA spreadsheets used to prepare the reports and the spreadsheets provided did not agree to amounts reported. Variances could have been caused by timing due to updated information after the report was submitted; however, the Agency was unable to verify this. In addition, the Federal share of unliquidated obligations was improperly reported as zero; however, the total of subawards obligated but not liquidated totaled $5,818,343. The error caused the total Federal share and unobligated balance of Federal funds to also have variances of the same amount. For the 2014 Grant, a separate FFR was submitted for each type of allotment. Variances were noted on each of the five FFRs for the 2014 Grant. The following table sets out the combined errors noted:

FFY 2014 Grant Report Item Description	Amount Reported	Amount Per Support	Variance Over/(Under) Reported
Federal Share of Unliquidated Obligations	$ -	$ 5,818,343	$ (5,818,343)
Total Federal Share	$ 1,372,090	$ 7,190,433	$ (5,818,343)
Unobligated Balance of Federal Funds	$ 5,818,343	$ -	$ 5,818,343
Total Recipient Share Required	$ 202,382	$ 231,933	$ (29,551)
Recipient Share of Expenditures	$ 713,913	$ 980,836	$ (266,923)
Total Federal Program Income Earned	$ 1,209,067	$ 1,301,600	$ (92,533)

Cause: Clerical errors and the Agency did not have procedures to retain the electronic AAA spreadsheets used for reporting purposes. 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.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will write and implement grant specific procedures to address the unique reporting requirements of the Aging Cluster grants to include saving and maintaining supporting doucmentation received from Program personnel and utilized for all financial amounts used in reporting.

Contact: Barb Hike, Manager – Cost Accounting and Grants

Anticipated Completion Date: June 30, 2015

Finding 2014-028

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

Grant Number & Year: All open, including #AANET3SS, FFY 2014; #AANET3CM, FFY 2014; #AANET3HD, FFY 2014; and #AANENSIP, FFY 2014

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

Criteria: 31 CFR § 205.33(a) (July 1, 2013) 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, 2013) 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, Payment 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 5 of 23 expenditures tested included requests for estimated funds that were not used within one month. In these five cases, estimated funds were used up to three months after the original request was made. The Agency disbursed $7,036,438 in aid to the AAAs during fiscal year 2014.

Cause: The Agency's policy is to allow AAAs the ability to request one-month expenditures in advance. However, 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 is no longer allowing advanced funding to subrecipients. The State Unit on Aging issued a Program Instruction in December 2014, notifying all AAAs that no cash advances will be permitted after July 1, 2015.

Contact: Cynthia Brammeier, Administrator

Anticipated Completion Date: Completed.

<u>Finding 2014-029</u>

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

Grant Number & Year: All open grants, including #AANET3SS, FFY 2014; #AANET3CM, FFY 2014; #AANET3HD, FFY 2014; #AANENSIP, FFY 2014

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

Criteria: 2 CFR § 170.320 (January 1, 2014) 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, 2014) 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 included 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).*

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, "A unique identifier [DUNS Number] of the entity receiving the award and of the parent entity of the recipient, should the entity be owned by another entity" should be reported for each Federal award.

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

Condition: The Agency did not accurately report subawards required by the Transparency Act.

Questioned Costs: None

Context: We tested three subrecipients for both the Title III and the Nutrition Services Incentive Program for a total of six subawards. The following was noted:

- For one of six subawards tested, the Agency entered an incorrect DUNS number for the subrecipient, causing the Agency to show duplicate reporting for another subrecipient.

- The Agency incorrectly included State funding totaling $171,325 in the subaward amounts for three of three Title III subawards tested.

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 agrees to supporting documentation and is properly reported 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 ensure that information included on subgrants and FFATA forms are accurate.

Contact: Cynthia Brammeier, Administrator

Anticipated Completion Date: June 30, 2015

<u>Finding 2014-030</u>

Program: CFDA 93.069 – Public Health Emergency Preparedness – Reporting

Grant Number & Year: # 5U90TP000533-02, FFY14

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

Criteria: 2 CFR § 170.320 (January 1, 2014) 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), 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 policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

Condition: We noted the Agency did not report a subaward obligating over $25,000.

Questioned Costs: None

Context: Thirty-two subrecipients received $25,000 or more in combined Public Health Emergency Preparedness (PHEP) or Hospital Preparedness Program (HPP) funds during the fiscal year ended June 30, 2014. We tested subawards made to five of the subrecipients and noted the Agency failed to report one of the subawards, which obligated $28,800 in PHEP funds.

Cause: Unknown

Effect: Noncompliance with Federal regulations could result in sanctions.

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is developing and implementing policies and procedures to properly track and report subawards to ensure compliance with the Transparency Act.

Contact: Contact: Barbra J Hike, Manager - Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-031

Program: CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Reporting & Matching

Grant Number & Year: #1U90TP000533-01, FFY13

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

Criteria: Title 45 CFR § 92.20(a) (October 1, 2013) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and the tracing of funds to expenditures adequate to establish the use of these funds was not in violation of applicable regulations.

Per Notice of Award Issue Date 07/01/2012 – Grant Number 1U90TP000533-01:

> *The FFR is required on an annual basis to the awarding agency and must be submitted 90 days after the end of each budget period. A separate FFR is due for HPP and a separate FFR is due for PHEP . . . . Reporting timeframe is July 1, 2012 through June 30, 2013. The FFR should only include those funds authorized and disbursed during the timeframe covered by the report.*
>
> *Matching Requirements for HPP is 10% . . . . Match/cost sharing must be reported on the SF-425.*
>
> *Matching Funds Requirement for PHEP is 10% . . . . Match must be reported on the SF-425.*
>
> *Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee . . . These records must show how the value placed on third party in-kind contributions was derived.*

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.

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: The Agency did not have adequate procedures to ensure all required reports were submitted timely and accurately. The Agency did not have adequate documentation to support matching requirements were met.

Questioned Costs: Unknown

Context: The Agency was required to submit an annual Federal Financial Report (FFR) for July 1, 2012, through June 30, 2013, that was to include only those funds disbursed during the time frame covered by the report. This report was due to be filed within 90 days after June 30, 2013. We tested the FFR required to be submitted by September 30, 2013.

Per the Federal award document, separate FFRs were to be submitted for the National Bioterrorism Hospital Preparedness Program (HPP) and the Public Health Emergency Preparedness (PHEP).

The Agency prepared separate reports for HPP and PHEP for internal use. The Agency then combined the information from the two separate reports onto one report and submitted only the combined report through the Federal ERA Commons website. The Agency submitted this report on March 14, 2014, over five months late. The Agency did not submit the separate FFRs for the HPP and PHEP through the ERA Commons website and was not able to provide documentation that the separate FFRs were ever submitted in any way.

We also noted:

- The Agency did not report program expenditures, as recorded on EnterpriseOne, only for the period July 1, 2012, through June 2013, but rather included expenditures through March 2014.

- The Agency was required to have a Match/Cost Sharing of no less than 10% of the Federal Award for both HPP and PHEP and was required to report the Match/Cost Sharing on the FFR. Ten percent of the HPP and PHEP awards for this grant award time period were $238,073 and $530,880, respectively. The Agency showed State match expenditures of $226,473 on the HPP report and $0 State match expenditures on the PHEP report. However, on the combined report submitted, the Agency reported $0 for State match expenditures. The Agency indicated that it was meeting the match requirement through third-party in-kind contributions of one of its subrecipients. However, the Agency did not have any verifiable records from the subrecipient to support the in-kind contribution; it merely had a spreadsheet prepared by the subrecipient with no supporting documentation provided or requested by the Agency.

- The combined FFR report (submitted through the Federal ERA Commons website) did not have evidence of a supervisory review and approval.

- Clerical errors were noted in compiling the separate reports and accumulating the combined report.

The following table shows Over/(Under) reported variances for Federal and State expenditures.

	Federal Share of Expenditures			
	CFDA 93.889	CFDA 93.069	Total of Both CFDA's	Combined FFR Report
Amount Reported	$ 2,101,513	$ 4,770,412	$ 6,871,925	$ 6,871,925
Actual per EnterpriseOne	$ 1,592,812	$ 3,399,827	$ 4,992,639	$ 4,992,639
Over (Under) Reported	$ 508,701	$ 1,370,585	$ 1,879,286	$ 1,879,286

	Recipient Share (State Match)			
	CFDA 93.889	CFDA 93.069	Total of Both CFDA's	Combined FFR Report
10% of Grant (Match Required)	$ 238,073	$ 530,880	$ 768,953	$ 768,953
Match Expenditures Reported	$ 226,473	$ -	$ 226,473	$ -
Supported Match Expenditures	$ -	$ -	$ -	$ -
Amount Undermatched	$ 238,073	$ 530,880	$ 768,953	$ 768,953

Cause: Turnover in Agency personnel responsible for financial reporting and inadequate control procedures. Additionally, the Agency believed the reports should include data from the accounting system through the date of the report submission, rather than the required established reporting period.

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 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 all required reporting is completed in accordance with Federal regulations. Additionally we recommend that supporting documentation for matching requirements be maintained and be verifiable.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has developed and implemented policies and procedures to ensure accurate financial reports are submitted timely to the Federal government. Additionally, grant specific policies and procedures are being developed to appropriately meet the specific and unique requirements of each grant including submitting separate reports via email to the federal partner when the federal reporting website requires and only allows a combined report to be submitted.

The Agency will improve supporting documentation for matching requirements. Match records will be gathered and maintained in a verifiable format. Match fund records will be received, reviewed, and maintained by the Agency.

Contact: Barbra Hike, Manager – Grants & Cost Accounting
Eric Sergeant, Epidemiology Surveillance Coordinator

Anticipated Completion Date: June 30, 2015

Finding 2014-032

Program: CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Allowability, Cash Management & Subrecipient Monitoring

Grant Number & Year: #1U90TP000533-01 FFY13; #5U90TP000533-02 FFY14

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 do the following:

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.

Per 45 CFR § 92.20(a) (October 1, 2013):

Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to . . . [p]ermit 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 45 § 92.21(b) (October 1, 2013):

Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.

Per 45 § 92.22 (October 1, 2013):

(a) Limitation on use of funds. Grant funds may be used only for:

(1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and

(2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

(b) Applicable cost principles. For each kind of organization, there is a set of Federal principles for determining allowable costs. Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs. The following chart lists the kinds of organizations and the applicable cost principles.

For the costs of a-	Use the principles in-
State, local or Indian tribal government	OMB Circular A-87
Private nonprofit organization other than an (1) institution of higher education, (2) hospital, or (3) organization named in OMB Circular A-122 as not subject to that circular	OMB Circular A-122.
Educational institutions.	OMB Circular A-21.
For-profit organization other than a hospital and an organization named in OBM Circular A-122 as not subject to that circular	48 CFR Part 31.

The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government or indirectly through a pass-through entity. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates.

The cost principles articulated in the three OMB cost principles circulars are, in most cases, substantially identical, but a few differences do exist. Per OMB Circular A-87, A-122, and A-21, "The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles, except where restricted or prohibited by law." The circulars require costs to be reasonable, necessary, and adequately documented. A good internal control plan requires procedures to ensure subrecipients comply with applicable cost principles.

Condition: Subrecipient monitoring procedures were not adequate. The Agency did not have procedures to ensure payments to subrecipients were for allowable expenditures or complied with cash management requirements.

Questioned Costs: $596,571 known

Context: The Agency made payments to 35 subrecipients during the fiscal year. The Agency received requests for payment from the subrecipients; however, no invoices or detailed documentation was obtained to support payments were for actual, allowable costs of the grant. Additionally, the Agency did not conduct on-site financial monitoring of subrecipients to verify grant expenditures were allowable and in accordance with Federal regulations. We tested 24 payments totaling $597,834 to subrecipients. The Agency did not have adequate support for $596,571 to ensure expenditures were for allowable costs.

The disbursement of Federal funds to subrecipients appears to have been on a reimbursement basis; however, no supporting documentation for actual expenses was provided. Therefore, the auditor was unable to determine whether the time elapsing between the payment to the subrecipient and the subrecipient's disbursement of funds was minimized.

Subrecipient payments for the fiscal year ended June 30, 2014, totaled $6,444,323. Federal payment errors noted were $596,571. The total sample tested was $597,834. The error rate for the sample was 99.79% (596,571/597,834). This estimates the potential dollars at risk for the fiscal year to be $6,430,790 (dollar error rate multiplied by the population).

Cause: The Agency's subaward agreements allowed subrecipients to request payment for providing deliverables; however, the Agency did not have procedures to ensure subrecipients' requests were for actual and allowable costs incurred.

Effect: Without adequate supporting documentation, there is an increased risk for the misuse of Federal funds and noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure subrecipient payments are for actual and allowable costs, including procedures to ensure expenditures comply with cash management requirements.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will request subrecipients to submit invoices with payment requests for reviewing on a sample basis. The Agency staff that manage the subrecipients will be responsible for checking and ensuring invoices are accurate, and these transactions will be further checked by Administrative staff. The Agency will add additional levels of oversight to further reduce the risk for the misuse of Federal funds by conducting periodic site visits with our subrecipients.

Contact: Eric Sergeant, Epidemiology Surveillance Coordinator

Anticipated Completion Date: June 30, 2015

Finding 2014-033

Program: CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance – Period of Availability

Grant Number & Year: #5U58DP001421, ending June 29, 2013

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

Criteria: 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. The grant award requires prior approval for liquidation extensions.

A good internal control plan requires procedures to ensure expenditures are made within the grant's period of availability.

Condition: We noted expenditures for the Well-Integrated Screening and Evaluation for Women Across the Nation (WiseWoman) grant after the period of availability.

Questioned Costs: $46,016 known

Context: The funding period for the WiseWoman grant ended June 29, 2013; therefore, all obligations were required to be liquidated by September 27, 2013. We reviewed the general ledger and noted $46,016 of grant expenditures were paid after September 27, 2013. The payment dates ranged from October 2, 2013, to March 10, 2014.

A similar finding was noted in the prior audit.

Cause: The Agency believed including unliquidated obligations on the report filed September 27, 2013, allowed the expenditures after the liquidation deadline.

Effect: Increased risk for misuse of funds

Recommendation: We recommend the Agency implement procedures to ensure expenditures are liquidated within the required period of availability.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will develop a program policy for all programs managed within the Women's and Men's Health Programs (WMHP). This policy will include elements specific to the period of availability and the required liquidation date of the respective programs.

Contact: Melissa Leypoldt, Program Director

Anticipated Completion Date: March 31, 2015

Finding 2014-034

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

Grant Number & Year: #09UDP001978A, ending March 28, 2015

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

Criteria: OMB Circular A-87 states that allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-133 §__.(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: Unknown

Context: We tested two subrecipient payments and noted the following:

- For one subrecipient, the Agency did not identify the CFDA title on the subaward document. For another, the Agency did not notify the subrecipient of the CFDA title, CFDA name, award name, award number, or Federal awarding agency.

- For both 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. The total tested for these two subrecipients was $107,340. Subrecipient payments for the fiscal year ended June 30, 2014, totaled $450,562.

Cause: The Agency indicated that staff conduct biennial site visits and review and test at least one quarter of invoices. However, there were no invoices reviewed on these two subrecipients.

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

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency will follow the procedures established to ensure the following items are identified on subaward documents: CFDA title, CFDA number, award name and number, and Federal awarding agency. The Agency will follow established procedures to ensure subrecipient payments are for actual and allowable costs. One or more claims submitted to the Agency by the subrecipient per year will be tested by reviewing receipts, bills, employee records of time, and other appropriate documentation to assure all submmited costs are actual and allowable.
>
> **Contact:** Kay Wenzl, Unit Administrator
>
> **Anticipated Completion Date:** March 31, 2015

Finding 2014-035

Program: CFDA 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance; CFDA 93.270 – Adult Viral Hepatitis Prevention and Control – Reporting

Grant Number & Year: #1U51PS004067, ending October 31, 2013

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

Criteria: OMB Circular A-133 § __.300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State must 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 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. 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 $107,299 were recorded to the wrong CFDA number during the fiscal year ended June 30, 2014.

The following table illustrates the adjustments made to the SEFA:

Program	Originally Reported	Revised SEFA Amount	Change
CFDA #93.283	$ 7,002,366	$ 6,895,067	$ (107,299)
CFDA #93.270	$ -	$ 107,299	$ 107,299

A similar finding was noted in the prior audit.

Cause: The Agency personnel assigned to set up these grants in EnterpriseOne did not properly enter the necessary information for correct SEFA presentation. The business units were corrected after the fiscal year.

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 has procedures to verify the CFDA number at the time of setting up a business unit as well as preparing the SEFA. These procedures will be reviewed and updated for clarity.

Contact: Barbra J Hike, Manager - Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-036

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

Grant Number & Year: #G1302NETANF, FFY 2013; #G1402NETANF, FFY 2014

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

Criteria: The Office of Management and Budget (OMB) Circular A-87 discusses general principles for determining allowable Federal expenditures and requires the spending of Federal grant funds to be reasonable. Specifically, Attachment A, Section (C)(2), states, in relevant part:

> *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded.*

Additionally, Title 468 NAC 1-008 describes the Prudent Person Principle as follows:

> *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. Verification may be supplied in person, through the mail, or from another source (as an employer). If it would be extremely difficult or impossible for the client to furnish verification in a timely manner, the worker must offer assistance.*

Appendix 468-000-309 contains the EF Supportive Services Guidelines, including a section entitled "Automobiles; Purchase," which states, "[A] maximum of $500 is allowed to pay the tax, licensing, and insurance (typically the first three months of insurance)." Although the regulation is related to the purchase of new vehicles, Agency Policy staff informed the APA that this limit should apply to all tax, licensing, and insurance payments.

Under the "Automobiles; Licensing, Insurance, Driver's License" section, that same appendix provides:

1. *The cost of licensing or insurance not related to the purchase of automobiles is allowed if it is determined that transportation is required for participation in the client's Self-Sufficiency Contract. Again, typically, the insurance allowed is for 3 months.*
2. *The vehicle must be registered in the participant's name.*
3. *The participant must demonstrate that s/he can pay for subsequent insurance costs.*

Under the "Automobiles, Repair" section, that same appendix provides:

1. *The repair of vehicles is allowed if it is determined that transportation is required for participation in the Self-Sufficiency Contract.*
2. *The participant must show proof of ownership of the vehicle to be repaired.*
3. *The repairs should be based on the trade-in value of the vehicle.*
4. *The repairs should be limited to those that will get the vehicle into safe, good working order.*

A good internal control plan requires procedures be in place to ensure proper monitoring and controls over payments approved by contractors.

Condition: We tested Employment First (EF) supportive service payments made during the fiscal year to 20 TANF recipients. Those 20 recipients received $79,251 in EF supportive services and, of that total, $61,817 (Federal share $55,635) was not in accordance with State and Federal requirements. Total Federal expenditures for EF supportive services during the fiscal year were $3,561,839. The individuals selected each received over $1,000 supportive services during the fiscal year.

Questioned Costs: $55,635 known

Context: The following table provides a summary of the questioned costs for the EF supportive service payments.

Issue	Questioned EF Supportive Service Payments	Federal Share (90%)	State Share (10%)
Unreasonable or Unnecessary Payments	$27,989	$25,190	$2,799
Improper Registration/Insurance Costs	$13,354	$12,019	$1,335
Improper Repair Costs	$11,931	$10,738	$1,193
Documentation of Fuel Payments Limit	$7,167	$6,450	$717
Employment First Eligibility	$1,376	$1,238	$138
Transportation Not Limited to First Pay Period **(Note)**	$0	$0	$0
Totals	**$61,817**	**$55,635**	**$6,182**

Note: No dollar amounts are included because the payments have been previously questioned in one of the above categories.

We noted the following related to unreasonable or unnecessary payments:

- $11,753 in cab fares was paid while one recipient had a properly titled and registered vehicle and a valid driver's license. It appears unreasonable to pay for expensive cab rides instead of gas vouchers for the recipient's own vehicle during this time period.

- $8,016 in cab fares was paid during the fiscal year for a recipient with an expired driver's license. In a period of 19 months, the recipient offered a variety of excuses why she could not obtain a driver's license, and the Agency did not require the recipient to obtain her license, but instead paid for expensive cab rides. This same client had also incurred cab fares of at least $9,126 in the previous fiscal year.

- One recipient received $6,280 in supportive services between July and September 2013, although she had full-time employment to begin in August 2013, with a salary over $50,000. The supportive services included over $5,000 in car repairs, which exceeded the trade-in value of the vehicle.

- One recipient received $1,278 in gas payments, even though his only EF activity was attending medical appointments.

- The Agency paid $662, including over $500 in sales tax, for a vehicle registration for a brand new 2014 vehicle. The Agency had paid the recipient's vehicle registration for a different vehicle only three months previously, and there was no indication that there was anything wrong with that vehicle that would necessitate a new vehicle registration.

We found 15 cases in which the registration and insurance costs paid exceeded the $500 limitation. Additionally, for 9 of 18 cases tested, there was a lack of documentation to determine whether the insurance costs complied with the above regulations. In all nine of the cases, there was no documentation to indicate that subsequent insurance costs could be paid – in fact, in two cases, the insurance policies were canceled immediately after the coverage paid by the Agency had lapsed. Additionally, the documentation for the insurance coverage often did not identify the coverage period or which vehicle was being insured. We questioned a total of $13,354 in registration and insurance costs paid due to payments either lacking required documentation or being in excess of the specified $500 limitation.

Vehicle repair costs were not paid in accordance with regulations for 4 of 10 cases tested. In three instances, vehicle repairs that exceeded the trade-in value of the vehicle were approved. In the fourth instance, support was lacking to document the trade-in value of the vehicle, and there were no estimates provided prior to the repairs being approved. Repair costs ranged from $1,765 to $5,789. Questioned costs totaled $11,931. A similar finding was noted in the prior audit.

Appendix 468-000-309, section "Automobiles, Fuel," states, "Fuel purchases are limited to 25 cents per mile, regardless of the component activity." While every one of the 20 cases tested included payments for gas, no documentation was available to indicate that any of the 350 fuel payments totaling $7,167 were limited to $0.25 per mile. Generally, the case workers approved a dollar amount per week, and the miles to and from homes and component activities were not documented.

We identified three cases in which the recipients were not eligible for supportive services. Questioned costs totaled $1,376. In one case, the recipient never completed his EF orientation or assessment and never signed an EF self-sufficiency contract. For another case, the recipient waived assistance. In another case, income verifications were not provided.

Appendix 468-000-309, section "Automobiles; Employment Transportation," states, "Transportation allowance (gasoline and oil, bus tokens and tickets) for employment must be limited to the first full pay period on the job." Seven of 15 cases tested included transportation costs paid after the first full pay period – a total of $11,169 costs in excess of the limitation.

According to Title 468 NAC 2-020.08C, "Public transportation must be used when available." However, for 17 of 20 cases tested, public transportation was available but not used.

We also noted EF contractors approved EF payments without an adequate review, approval, or monitoring by the Agency.

Cause: EF contractors and case workers failed to follow the published regulations and guidance related to proper payment of EF supportive services. Additionally, the Agency failed to monitor the contractor appropriately to ensure payments made by the Agency were in accordance with State and Federal requirements.

Informal Agency written policies appear to allow for repairs in excess of the trade-in value of the vehicle if approved by the Agency's Policy Unit. This contradicts Appendix 468-000-309, which states that the cost of repairs should be based on the vehicle's trade-in value. Additionally, it appears there is no lifetime limit on repairs; instead, they are considered on a per-request basis, regardless of previous repair costs incurred.

Effect: Without proper monitoring and controls over payments approved by contractors, there is an increased risk for fraud, errors, or abuse to occur and not be detected.

Recommendation: We recommend the Agency review its contracts to ensure the services provided by the contractors are performed in accordance with State and Federal requirements. The Agency should consider additional training of those employees and contractors involved in the EF program to ensure the following:

- Payments are reasonable and necessary.
- The $500 limitation for registration and insurance costs is adhered to.
- Documentation supporting insurance costs is on file and provides sufficient details, including the vehicle being insured and the coverage period.
- Documentation is available to ensure the recipient's ability to pay subsequent insurance costs.
- Payments are not made for vehicle repairs when the estimated repair costs exceed the trade-in value of the vehicle.
- Consideration is given to prior repair costs when approving payments for vehicle repairs.
- Documentation is maintained to identify the miles from the recipient's home to any of his or her component activities to ensure fuel payments are calculated in accordance with the $0.25 per mile limitation.
- Supportive service payments are appropriately terminated when the recipient is no longer eligible.
- Transportation costs are properly limited to the first full pay period of employment.

- More cost-effective forms of public transportation are used when available.
- Payments approved by the contractors are properly reviewed, approved, or otherwise monitored by Agency staff.

Management Response: The Agency Agrees with the condition reported.

Corrective Action Plan: In May 2014, Temporary Assistance to Needy Families (TANF) policy staff began to review EF Supportive Services claims. The claims are reviewed to assure services are authorized within established guidelines and regulations. In addition, payment information is now stored in Onbase so the reviews include accessing documentation in support of the paid claims. We have also revised our "Guide to EF Supportive Services" to provide better guidance.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: Completed May, 2014

Finding 2014-037

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

Grant Number & Year: #G1102NETANF, FFY 2011

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

Criteria: 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 the Nebraska State Plan for TANF (State Plan), effective October 1, 2013,

> *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. 2. A parent or needy caretaker relative, guardian or conservator of a child under the age of 12 weeks . . . .*

Title 468 NAC 3-007.04A states, in relevant part:

> *Child support (for months where the family did not receive an ADC grant) which is distributed to the custodial parent is counted as unearned income on the ADC budget.*

Per the State Plan, effective October 1, 2013:

> *Failure of a dependent child age 16, 17, or 18 to attend school without participating in any other Employment First approved work activity results in removal of the child's needs from the ADC unit. The sanction will last until the failure to participate ceases.*

Per the State Plan, effective July 1, 2011, "Eligibility for ADC cash assistance must be redetermined every twelve months." Per the State Plan, effective October 1, 2013, "Eligibility for ADC cash assistance must be redetermined every six months."

Per 468 NAC 2-016, earnings of a child age 18 or younger and in school should be disregarded.

Per NAC 468-000-208:

> *If there is a difference of more than $300 between the quarterly SEW (State Earned Wages) file wages and the wages in the case record, the worker shall resolve the discrepancy. If the difference in wage totals less than $300, the worker shall document the difference in the case record, but no further verification is required if the income has terminated.*

Per 468 NAC 1-009.03D, "If a client agrees to waive his/her right to a timely notice in situations requiring timely notice, the worker must obtain a statement signed by the client to be filed in the case record." The benefits should cease as soon as possible after the form is signed and submitted.

Condition: Ten of 40 TANF cash assistance payments tested were not in compliance with State and Federal requirements, resulting in known questioned costs of $1,384. A similar finding was noted in previous audit reports.

We also performed a detailed review of the Employment First (EF) supportive service payments made during the fiscal year to 20 TANF recipients. For these, we also performed an eligibility review of each case and noted errors in 12 of the cases, resulting in known questioned costs of $4,806.

Questioned Costs: $6,190 known

Context: During our cash assistance testing, we noted the following:

- For one payment tested, the family was not eligible for TANF because the recipient's adoptive mother was receiving adoption subsidy payments for the care of the recipient, resulting in questioned costs of $291.

- One payment tested comprised three months' of assistance. The worker exempted the mother from Employment First for those months because they were the last three months of her pregnancy. However, an exemption is only appropriate for the last month of pregnancy. This resulted in questioned costs of $89 for one month. Another month was paid entirely from State-only funds, which resulted in overpayments for State maintenance of effort (MOE).

- For one payment tested, the family was not eligible for TANF because income the mother received for child support was not considered, resulting in questioned costs of $178.

- For one payment tested, the Agency did not include the income of one parent. The Agency caught this later and set up an overpayment in NFOCUS; however, as of June 30, 2014, only a portion has been recouped, resulting in questioned costs of $123. The Agency also issued a duplicate TANF payment to the family for the same month. The Agency also caught this error, but none has been recouped as of the end of the fiscal year, resulting in questioned costs outside of the sample of $291.

- For one payment tested, a 17-year-old child was included in the unit even though he was not going to school, resulting in questioned costs of $57. He was exempted from Employment First (EF); however, the Nebraska State Plan only allows EF exemptions for adults or minor parents.

- Annual eligibility redeterminations were overdue. For one case tested, the review was due in January 2014, but it still had not been completed as of June 30, 2014. For another case, the review was two months late and, when it was completed, the family was determined ineligible for assistance, resulting in questioned costs outside of our sample of $355. For two additional cases, the review was two to three months overdue.

- For one payment tested, income of a child attending school was improperly included, resulting in an underpayment of $122.

Federal payment errors noted were $1,384 in overpayments (of which $738 was in our sample) and $122 in underpayments. The total Federal sample tested was $10,230, and total Federal cash assistance for the fiscal year was $14,888,197. Based on the sample tested, the case error rate was 25% (10/40). The dollar error rate for the sample was 7.21% for overpayments ($738/$10,230) and 1.19% for underpayments ($122/$10,230), which estimates the potential dollars at risk for fiscal year 2014 to be $1,073,439 in overpayments and $177,170 in underpayments for a net effect of $896,269 in overpayments (dollar error rate multiplied by population). Each of the payments tested was funded with 80% Federal and 20% State MOE funds. The errors noted above represent the Federal portion only. Net overpayments of $376 were noted for State MOE.

During our eligibility review of 20 EF recipients, we noted $4,806 overpayments of cash assistance (Federal share).

- For three cases, the income reported by the SEW interface was different than the income used to determine the cash assistance payment. Because the difference was more than $300, the caseworker should have verified the wages and determined if any overpayments occurred. These errors resulted in questioned costs of $2,346.

- For five cases, the Agency was aware of new employment, but it was not added to the budget, resulting in questioned costs of $1,389. For one case, child support income was inappropriately excluded, resulting in questioned costs of $134. For another case, an ineligible spouse's income was inappropriately excluded, resulting in questioned costs of $589.

- Recipients may forgo cash assistance payments, despite remaining eligible for them, if they sign a waiver. For one case, the recipient signed a waiver effective May 2014, but the payment for that month was still made, resulting in questioned costs of $234.

- For one case, the unit size included a child who was not part of the permanent household. The child resided with her father in a different household, resulting in questioned costs of $114.

Cause: Worker error

Effect: Increased risk for misuse of Federal funds.

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

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has instituted a series of "Policy Refresher Trainings" for eligibility staff and is using the Ecomonic Assistance Continous Quality Improvement (CQI) to enhance the current system of Economic Assistance case reviews.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: April 30, 2015

Finding 2014-038

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

Grant Number & Year: Various, including #G1402NETANF, FFY 2014

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

Criteria: OMB Circular A-87, Attachment A, § C(1), requires that costs be necessary, reasonable, and adequately documented.

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 should include procedures to ensure rates charged are reasonable, necessary, and adequately documented.

Per the Child Welfare service contracts:

> *DHHS shall pay the Contractor for partial hours according to the following schedule: a) 0-15 minutes - .25 hour b) 16-30 minutes - .50 hour c) 31-45 minutes - .75 hour d) 46-60 minutes – 1.00 hour. . . .*
>
> *Tracker Service – provided to youth living in a community based setting. Trained staff monitor, support, and supervise youth in the community through face-to-face meetings, telephone calls, and collateral contacts with other adults e.g., parents, teachers. Violations of curfew, school attendance, or conditions of liberty will be reported to case manager . . . . DHHS shall pay the contractor $34.00 per day for tracker activities and ongoing contact with youth and family.*

Contracts prior to July 1, 2013, stated:

> *Staff providing Parenting Skills/Visitation Services must be at least 19 years of age and have obtained a high school diploma or GED, and have a minimum two years experience in the human services field. The experience could include: social work, counseling/guidance, psychology, sociology, human development, mental health education, or a closely related human service field . . . . The Contractor may petition the Department, in writing, for a determination of equivalent qualifications regarding a potential employee who does not meet the qualifications set forth above.*

Condition: Six of 15 child welfare claims tested did not comply with Federal and State requirements. We further noted rates for various child welfare services charged to TANF were not adequately supported. A similar finding was noted in the prior audit.

Questioned Costs: $3,756 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 paid date, which pulled cases for certain services (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 case or certain other assistance program cases. After performing the query, the Agency transferred the total payments – $6,832,729 – from State general funds to Federal TANF funds. We tested 15 claims from these entries and noted the following:

- For one claim for family support, the provider systematically rounded partial hours of work up to full hours, resulting in questioned costs of $3,466. For another claim for family support, the same provider overbilled one hour, resulting in questioned costs of $47.

- For one claim for family support, there was a mathematical error, resulting in an overpayment of $47. Additionally for this case, the person providing the service had only five months' valid experience.

- One claim billed for tracker services every day, including weekends, for which no services were provided, resulting in questioned costs of $136.

- For one claim for drug screening and testing, the provider double-billed the drug test by charging the full rate for two drug categories (Urinalysis or Saliva Test and ETG-80-Hour Alcohol Test) instead of an all-inclusive rate, resulting in questioned costs of $60.

- For one claim tested, the service provided was drug screening and testing. The State Plan allows payment for this type of service only when provided for a child. For this payment, totaling $5,400, the service was provided for the parents. An additional $122,344 of drug screening and testing was paid on behalf of adults for the entire journal entry tested; however, in July 2014, the Agency performed a journal entry to remove this payment, as well as all drug screening and testing payments for adults, out of Federal funds. Additionally, for the claim tested, the monthly report submitted to the caseworker showed only 24 tests and six refusals were provided, but the provider billed for 54 tests and no refusals.

The total Federal questioned costs noted during testing were $3,756. The total Federal sample tested was $41,328, and total transfers to TANF from child welfare were $6,832,729. Based on the sample tested, the case error rate was 40% (6/15). The dollar error rate for the sample tested was 9.09% ($3,756/$41,328), which estimates the potential dollars at risk for fiscal year 2014 to be $621,095 (dollar error rate multiplied by population).

We further noted issues with the following rates that are charged to TANF:

- Per the Agency, the following rates were based on discussions with providers. The Agency did not perform its own independent analysis.

Service Type	Rate
In-Home Safety	$45 per hour
Tracker Services	$34 per day
Family Support Services	$47 per hour
Drug Screening & Testing	$100 per test (maximum)

- The following rate was based on a study performed in 1995 by an independent contractor, but it has evolved considerably since then. Per the Agency, rates changed over time based on periodic legislative or inflationary increases, and evolving expectations of the service.

Service Type	Rate in 1995	Current Rate
Intensive Family Preservation	$4,924 per case	$430 per week for 15 weeks

The service was provided by a team consisting of a licensed mental health practitioner and a skill builder (no specific qualifications required for contracts beginning July 1, 2013). No minimum number of hours was required to be provided. The Agency indicated that, due to the nature of the service, it was expected that some weeks and cases would have a higher level of service than others. During our testing, we noted one of three cases provided fewer than five hours of service per week. For all three cases, we looked at all weeks provided, not only those in our sample.

Contractor	Total Paid	Average Hours Per Week			Average Hourly Rate	Was the family preserved?
		Therapist	Skill Builder	Total		
Paradigm, Inc.	$6,450	1.25	1.67	2.92	$ 147.26	Yes

- The Agency paid $34 per day for tracker service. Tracker services are typically authorized for a child living at home with truancy issues. The tracker monitors that the child is attending school, meeting curfew, etc., through meetings and phone calls. However, the Agency did not have any specific standards for the level of service to be performed on a daily basis.

Due to the lack of specificity in the contractual language, the $34 per day could be for one phone call or for several meetings – or even for no contact at all. Agency personnel indicated the $34 per day is allowable regardless of either the time spent on the case or whether any service was provided on a particular day. However, the contract states the contractor will be paid per day for tracker activities and ongoing contact. Therefore, if there is no tracker activity or contact on a particular day, no payment should be made for that day.

Cause: 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 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 revised the TANF State Plan which was approved by ACF with an effective date of July 1, 2014. Child welfare claims outlined in the updated TANF State Plan are included in the NFOCUS claims level detail report that only includes eligible and allowable expenditures related to TANF.

The Agency revised it's Foster Care Maintenance rates in July 2014 and is planning on reviewing Group Home rates. Additonal rate structures will not be reviewed in the short term due to appropriated budget amounts not being set for SFY16-SFY17. Prior to revising additional rate structures, the Agency will need to ensure there is enough funding to implement potential higher rates.

Contact: Mindi Alley, CFS Financial Officer

Anticipated Completion Date: June 30, 2016

Finding 2014-039

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

Grant Number & Year: #G1302NETANF, FFY 2013

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

Criteria: Title 45 CFR § 92.20(a) (October 1, 2013) 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: The Agency did not have adequate procedures to ensure reports were accurate. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: We noted errors in one of five ACF-196 reports tested. The 2013 grant ACF-196 report for the quarter ended September 30, 2013, had the following errors:

- Line 6m – Other, Federal TANF Expenditures – which is where the Agency reports child welfare expenditures was understated by $3,340,870. The Agency used the wrong program number to search for available expenditures. The program number for child welfare changed from 347 to 354, but the report preparer searched for expenditures in program 347. An internal review by the Agency noted the error and corrected the amount on the quarter ended March 31, 2014, report.

- The report was not on the cash basis of accounting. The Agency reported $1,475,346 in child care transfers that were not recorded to EnterpriseOne, the State's accounting system, until November 18, 2013.

Cause: For the cash basis issue, 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. However, that is inconsistent with reporting of other expenditures and not in accordance with the cash basis of accounting. Other errors were due to staff turnover and inadequate review. The Agency does not take amounts directly from EnterpriseOne; it puts amounts into spreadsheets to accumulate, increasing the risk for errors to occur. A reconciliation to EnterpriseOne was not performed until the March 31, 2014, internal 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 properly reported.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is in the process of developing and implementing grant specific procedures as well as improving written procedures and policies related to report review. Reconciliation of awards, expenditures and draws will be completed with reporting.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-040

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

Grant Number & Year: #G1102NETANF, FFY 2011

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

Criteria: Per 45 CFR § 265.3(a) (October 1, 2013), 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 45 CFR § 265.7 (October 1, 2013), the ACF-199 and ACF-209 reports must be complete and accurate. A complete and accurate report requires that the State report data for all required elements (i.e., no data are missing). Administration for Children and Families (ACF) instructions require an ACF-199 report to be submitted for any case for families receiving assistance under the TANF program. A good internal control plan requires review procedures or automated controls to verify data is being reported accurately, and errors are corrected in a timely manner.

Condition: The Agency did not perform a review of individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. We requested the ACF-199 and ACF-209 reports for 11 cases, which comprised 82 key line items. For one of these cases, there was no corresponding ACF-199 or ACF-209 report. This omission resulted in nine key line items not being reported.

Questioned Costs: None

Context: The Agency set up a review procedure during the fiscal year but did not implement it during the fiscal year. The Agency has traditionally not reported cases that were retroactively determined to be eligible in a prior month. The Agency pulls the information from NFOCUS for the ACF-199 and ACF-209 reports for the previous month on the third Saturday of the month. The Agency should be able to include retroactive payments in this pull, but it has chosen not to. There were 7,924 retroactive payments made during the fiscal year totaling $1,430,817 (Federal and State share) that should have been reported on either the ACF-199 or ACF-209 reports.

A similar finding was noted in the prior audit.

Cause: The Agency indicated retroactive payments are not reported on the ACF-199 or ACF-209 reports.

Effect: Increased risk of significant information for the ACF-199 and ACF-209 reports being reported incorrectly, which could result in Federal sanctions.

Recommendation: We recommend the Agency compare the submitted report to individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. We further recommend the Agency implement procedures to ensure the ACF-199 and ACF-209 reports submitted are complete. When performing a review, the Agency should select cases from actual payments made instead of cases reported on the ACF-199 and ACF-209 reports, to ensure all applicable cases were actually reported.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has received guidance from ACF that there is no requirement to report retroactive payments on the ACF-199 or ACF-209. The Agency agrees to change practice so its selection of cases to review will be made from actual payments made rather than cases reported on the ACF-199 and ACF-209 reports.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2015

<u>Finding 2014-041</u>

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

Grant Number & Year: Various, including #G1402NETANF, FFY 2014

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

Criteria: OMB Circular A-133 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. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: The Agency paid $12,363,223 (Federal share) during the fiscal year to two contractors to provide EF case management and program services for TANF recipients. The Agency pays the contractors monthly for costs based on invoices submitted. The Agency reviews the invoices for reasonableness and, beginning in February 2014, the Agency implemented a procedure where contractors were to provide documentation to support their invoice cost for one month of each quarter. However, this review was not adequate, as the documentation reviewed was only summary level reports from the contractors' accounting system; payrolls, invoices, or detailed accounting records were not reviewed.

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 were unable to reconcile:

Total Federal Expenditures per A-133 Audit	$2,420,589
Total Federal Expenditures per State Accounting System	$2,170,291
Variance	$250,298

Additionally, we attempted to reconcile the variance using both Federal and State expenditures per the State accounting system but we were still unable to reconcile:

Total Federal Expenditures per A-133 Audit	$2,420,589
Total Federal and State Expenditures per State Accounting System	$2,515,098
Variance	$(94,509)

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. The Agency was unable to provide an explanation for this variance but indicated it could be due to timing. The Agency has decided to defer its determination on whether the EF contractors are subrecipients or vendors until it releases a request for proposal for new contractors, which is not expected to be effective July 1, 2015.

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 evaluate its current process for requesting and reviewing supporting documentation from contractors to ensure expenditures are allowable. This evaluation will include determining the feasibility of requesting detailed source documents to review on a sample basis. The Agency will document any modifications to the current process in its written procedures.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2015

Finding 2014-042

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

Grant Number & Year: #G1102NETANF, FFY 2011

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

Criteria: Per 45 CFR § 264.30 (October 1, 2013), 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) and that sanctions imposed are proper.

Condition: Sanctions were not imposed timely or were incorrectly imposed. A similar finding was noted in the prior audit.

Questioned Costs: $17 known

Context: We tested 40 cases where an individual was determined not to be cooperating with Child Support Enforcement; of those, 13 required a sanction. Three of these cases were not sanctioned or were sanctioned in the incorrect months, resulting in questioned costs. We also noted four cases where sanctions were inappropriately imposed. We noted the following:

- For one case, two months of sanctions were missed. The Agency identified this on June 11, 2014, and made a referral to the Overpayment Unit to set up an overpayment. However, an overpayment has not been set up as of September 30, 2014. This resulted in an overpayment of $166 State maintenance of effort.

- For one case, the worker sanctioned the case one month late resulting in questioned costs of $17 (Federal share) and $5 (State maintenance of effort).

- For one case, the worker sanctioned the case two months late and lifted the sanction one month late, resulting in a net State maintenance of effort overpayment of $77.

- For two cases, the amount sanctioned was not correct, resulting in underpayments of $114 (Federal share) and $28 (State maintenance of effort). The worker may have confused the differences in rules for Medicaid and TANF. The non-cooperating individual's Medicaid should close (but not the children's) and the entire TANF grant should be reduced by 25%. For these cases, the worker reduced the TANF grant to a unit size of two instead of three (similar to Medicaid rules), instead of a 25% reduction.

- For two cases, a total of seven months were inappropriately sanctioned, resulting in underpayments of $473 (Federal share) and $119 (State maintenance of effort).

Cause: Monthly, the Agency reviews the CSE Sanctions Not Imposed report and sets alerts for workers to impose sanctions if necessary. This control has helped keep questioned costs within one or two months, but it does not ensure the sanctioned amounts are correct.

Effect: Increased risk for overpayments and underpayments.

Recommendation: We recommend the Agency improve procedures to ensure individuals are appropriately sanctioned when they are not cooperating with CSE, and amounts sanctioned are proper.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has recently assigned additional staff to assure CSE sanctions are imposed timely. In addition we are developing a report that will allow staff to be more proactive with CSE Sanction Requests.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2015

Finding 2014-043

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

Grant Number & Year: #G1102NETANF, FFY 2011

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

Criteria: Per 45 CFR § 261.14(a) (October 1, 2013):

If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.

Title 468 NAC 2-020.09B1 identifies the punishment for lack of participation, stating, "If the parent(s) fails or refuses to participate in EF without good cause, the result is the loss of ADC cash assistance for the entire family." Title 468 NAC 2-020.09B1a(1) outlines the length of each sanction:

If the individual who has failed or refused to participate in EF is a parent, the sanctions will be as follows:

1. *The first imposition of a sanction will last one month or until the failure to participate ceases, whichever is longer.*

> 2. *The second sanction will last for three months or until the failure to participate ceases, whichever is longer.*
> 3. *The third and subsequent sanctions must not be imposed without a second-level supervisory review. This sanction will last for a minimum of 12 months or until the failure to participate ceases, whichever is longer.*

A good internal control plan requires procedures be in place to ensure the minimum sanction period is satisfied.

Condition: We tested 40 cases requiring Employment First (EF) sanctions and noted one case was not sanctioned the entire required period, resulting in known questioned costs of $471.

We also reviewed EF supportive service payments made during the fiscal year to 20 TANF recipients. For these, we also performed a sanction review and noted errors in seven of the cases, resulting in known questioned costs of $1,402.

Questioned Costs: $1,873 known

Context: During our testing of 40 EF sanctions, we noted one case tested had a third sanction that requires a loss of TANF for a minimum of 12 months. However, 10 months into the sanction, the recipient reapplied and was determined eligible for TANF. This resulted in two months of questioned costs totaling $471.

Federal payment errors noted were $471. Based on the sample tested, the case error rate was 2.5% (1/40). We calculated the total number of cases closed during the fiscal year due to an EF sanction to be approximately 1,524.

During our review of 20 supportive service recipients, we found the following issues with sanctions:

- For one case, the sanction was supposed to be imposed from April 2013 through March 2014 but was never imposed due to caseworker error, resulting in questioned costs of $1,160. In another case, the sanction was supposed to be imposed June 2014, but it was not imposed until July 2014, resulting in questioned costs of $242.

- For one case, the EF contractor requested a sanction, but the Agency never approved or denied it.

- For one case, a sanction was requested for May 2014, because participation requirements were not met for January, February, and March 2014. The sanction was not approved as the case closed for failure to provide information. The case was reopened on April 30, 2014, but no review of the sanction was performed. Additionally, the case did not meet the participation requirements for October 2013. As such, a sanction should have been requested after the October 2013 nonparticipation.

- For three cases, the recipient was not participating with EF but a sanction was not requested or imposed.

Cause: Worker error

Effect: When sanctions are not properly requested or imposed due to non-participation with program requirements, there is an increased risk of payments being made for ineligible cases.

Recommendation: We recommend the Agency adequately monitor its contractors and provide additional training so that the contractors can ensure sanctions are requested and approved when necessary. The Agency should implement procedures to ensure sanctions are reviewed timely. Finally, the Agency should ensure that necessary sanctions are recorded and processed timely so that cash assistance payments are not made during a sanction period.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The issues cited regarding EF Sanctions are problems related to the eligibility staff action on such sanction requests. The Agency has trained all DHHS Supervisors in appropriate review of sanctions requests and will be working with Human Resources & Development to develop ongoing sanction training for DHHS staff.

Contact: Betty Toelle, TANF Program Manager

Anticipated Completion Date: March 31, 2015

<u>Finding 2014-044</u>

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability & Eligibility

Grant Number & Year: #G13B1NELIEA, FFY 2013; #G14B1NELIEA, FFY 2014

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

Criteria: 45 CFR § 96.30(a) (October 1, 2013) 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) (2013), "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 1-009 defines the term 'household' as "[a]n individual or group of individuals living together as one economic unit for whom residential energy is customarily purchased in common or who make undesignated payments for energy in the form of rent." Per Title 476 NAC 5-001.01, "A group of individuals (related or unrelated) who live together are considered a single family living arrangement if they: (1) Live together as one economic unit; (2) Customarily purchase residential energy in common; and (3) Apply for energy assistance as a single household." Per 476 NAC 3-001, "Only one application per household may be approved." A good internal control plan requires procedures to ensure household size is correctly determined.

Per Title 476 NAC 3-001.03B, "The total annual income of non-public assistance households qualifying for energy assistance payments must not exceed the income guidelines according to size of the household." A good internal control plan requires procedures to accurately assess all household income in order to determine eligibility.

Condition: We noted 2 of 40 energy assistance payments tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Questioned Costs: $326 known

Context: In one case, duplicate crisis assistance was paid. The payment of $112 was approved once but paid twice. In another case, two individuals in the same household received separate energy payments, resulting in questioned costs within the sample of $76 and questioned costs outside the sample of $138.

Federal payment errors noted within the sample were $188. The total Federal sample tested was $10,358, and the total energy assistance payments for the fiscal year were $22,929,715. Based on the sample tested, the case error rate was 5% (2/40). The dollar error rate for the sample was 1.82% ($188/$10,358), which estimates the potential dollars at risk for the fiscal year 2014 to be $417,321 (dollar error rate multiplied by population).

Cause: The Agency did not follow regulations due to caseworker error and 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 State and Federal regulations. The Agency should ensure that payments are not duplicated, and that only one application per household is approved and paid.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Program staff has been working over the last year with the Program Accuracy Team to have a larger number of cases reviewed for the LIHEAP program. The Agency has instituted a series of "Policy Refresher Trainings" for eligibility staff and is using the Economic Assistance Continuous Quality Improvement (CQI) to enhance the current system of Economic Assistance case reviews.

Contact: Karma Stockwell, Program Manager

Anticipated Completion Date: April 30, 2015

Finding 2014-045

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Earmarking

Grant Number & Year: #G12B1NELIEA, FFY 2012; #G13B1NELIEA, FFY 2013

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

Criteria: Per 42 USC § 8624(b)(9)(A) (2012), "[T]he 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 45 CFR § 96.88(a) (October 1, 2013):

> *Any expenditure for governmental functions normally associated with administration of a public assistance program must be included in determining administrative costs subject to the statutory limitation on administrative costs, regardless of whether the expenditure is incurred by the State, a subrecipient, a grantee, or a contractor of the State.*

A good internal control plan requires procedures be in place to ensure the administration limit is not exceeded.

Condition: The Agency did not have adequate controls to ensure earmarking limits were adhered to. The Agency exceeded the administration limit by $265,320 for the 2013 grant and by $71,814 for the 2012 grant.

Questioned Costs: $337,134 known

Context: The Agency utilizes the State accounting system and the Grant Project Status (GPS) Report to track and monitor earmarking requirements. The GPS Report shows grant totals by business unit for authorized amounts, expenditures, and unexpended balances. However, the administration limit for 2013 and 2012 were set up incorrectly. In addition, administration costs were erroneously coded to aid business units.

We noted the following:

2013 Grant	
Total authorization	$ 28,196,439
10% administration limit	2,819,644
Administration authorization set up in GPS	2,911,602
Administration costs charged to administration business units	2,910,922
Amount in excess of 10% limit ($2,819,644 - $2,910,922)	91,278
Administration costs coded to aid business units	174,042
Total administration costs in excess of 10% limit	$ 265,320

For the 2012 grant, we noted in the prior audit the administration limit was exceeded by $656,590. The Agency did not correct this error during the current year and instead exceeded the administration limit by an additional $71,814.

2012 Grant	
Total authorization	$ 30,207,907
10% administration limit	3,020,791
Administration authorization set up in GPS	3,818,366
Administration costs charged to administration business units	3,737,775
Amount in excess of 10% limit ($3,020,791 - $3,737,775)	716,984
Administration costs coded to aid business units	11,420
Total administration costs in excess of 10% limit	728,404
Less questioned costs reported in prior audit	656,590
Questioned costs for fiscal year 2014	$ 71,814

Cause: Ineffective grant management. Administration limits were not properly set up in the accounting system. Subrecipient costs were coded entirely to aid even though a portion was for administration.

Effect: Administration charges over the 10% limit are unallowable and will need to be repaid to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure earmarking requirements are adhered to. The Agency should code administration costs correctly in the accounting system. Funds used 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 is conducting regular monthly meetings amongst finance and program staff to ensure award amounts are set up correctly and to develop procedures to monitor the administration limit. Additionally, The Nebraska Energy Office has been set up with specific business units to more accurately track administration versus aid spending.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-046

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #G12B1NELIEA, FFY 2012; #G13B1NELIEA, FFY 2013

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

Criteria: Per LIHEAP Terms and Conditions Addendum: Additional Financial Requirements, the Form SF-425 "Federal Financial Report" (FFR) must be submitted within 90 days following the end of each Federal Fiscal Year.

Per FFR instructions, Line 10f Federal Share of Unliquidated Obligations, "Unliquidated obligations on a cash basis are obligations incurred, but not yet paid . . . . Those obligations include direct and indirect expenses incurred but not yet paid or charged to the award, including amounts due to subrecipients and contractors."

A good internal control plan requires procedures to ensure all required reports are submitted timely and accurately.

Condition: The final 2012 grant FFR was not completed, and the 2013 grant interim FFR was incorrect. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: The final 2012 grant FFR for September 30, 2013, was due December 31, 2013, but was not completed as of the date of our inquiry, on November 12, 2014.

The 2013 grant interim FFR for September 30, 2013, reported unliquidated obligations as $0, but this amount should have been $3,750,647, as this amount represents subawards to subrecipients not yet expended.

2013 Grant Interim FFR	Reported	Actual
Federal share of expenditures	$ 20,316,151	$ 20,316,151
Federal share of unliquidated obligations	$ 0	$ 3,750,647
Total Federal share	$ 20,316,151	$ 24,066,798
Unobligated balance of Federal funds	$ 7,880,288	$ 4,129,641

Cause: Staff turnover and inadequate review.

Effect: Noncompliance with regulations and inaccurate information reported to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure all required reports are accurate and submitted on time.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is developing and implementing reporting procedures as well as conducting regular monthly meetings amongst finance and program staff to ensure reporting deadlines are met and reports accurately reflect unliquidated obligations by verifying unspent subawards.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-047

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #G12B1NELIEA, FFY 2012; #G13B1NELIEA, FFY 2013; #G14B1NELIEA, FFY 2014

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

Criteria: 2 CFR § 170.320 (January 1, 2014) 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, 2014), states:

> *Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).*

2 CFR § 170, Appendix A, § I(a)(2), states:

> *i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov.*
>
> *ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)*

Per Appendix C of the Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting, the subaward 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 procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

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). A similar finding was noted in the prior audit.

Questioned Costs: None

Context: Grant 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 the Transparency Act because both agencies are at the same level of government.

We noted DHHS reported its contract with NEO on the Transparency Act website; however, until July 2014, no subawards with community action agencies were reported. During the prior audit, we noted that eight subawards totaling $4,453,083 were made from the 2012 grant and should have been reported, but they were not. These 2012 grant subawards were still not reported at the date of our fieldwork in December 2014.

The 2013 grant subawards were reported in July 2014. There were eight subawards totaling $3,969,226. We tested two subawards and noted they were reported 9 and 14 months late. Additionally, for these two, the subaward obligation/action date was reported as the beginning of the Federal fiscal year, instead of the date the subaward was actually signed.

Eight subawards totaling $3,158,200 were made from the 2014 grant during the fiscal year and were subject to Transparency Act reporting, but they had not yet been reported.

Cause: DHHS employee turnover.

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

Recommendation: We recommend procedures be implemented to ensure the required Transparency Act reporting is completed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is revising and implementing FFATA reporting templates, policies and procedures to include subawards made by the Nebraska Energy Office and other pass through grantees of Department of Health and Human Services, as well as, reporting all subawards timely, accurately and in accordance with Federal regulations. The Nebraska Energy Office was encouraged to comply with the Agency's request for completion of the subaward FFATA reporting worksheet for 2014.

The Agency will report LIHEAP 2012, 2013, and 2014 subawards not already reported in accordance with Federal regulations.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting
Karma Stockwell, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-048

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #G13B1NELIEA, FFY 2013

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

Criteria: Per 45 CFR § 96.82(a) (October 1, 2013), *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 complete and accurate and agrees to supporting documentation.

Condition: We tested the Annual Report on Households Assisted by LIHEAP filed for the 2013 grant and noted the report was not complete or accurate, and reported items did not agree to supporting documentation. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: Section III of the Household Report includes data related to the number of assisted households with vulnerable members. A household is classified as vulnerable if it has at least one member who belongs to any of the following groups: Elderly (age 60 or over), Disabled, or Young Child (age 5 or younger). This data is further reported by type of assistance: heating, cooling, crisis, and weatherization.

We noted the following:

- Line 5 of Section III is "Any Type of LIHEAP Assistance," which should be an unduplicated count for each target group. For example, a household with two elderly individuals is considered one household. If that household received both heating and cooling assistance, it would be listed once on Line 1 – heating, once on line 2 – cooling, and once on line 5 – any type of assistance. However, for each target group, the Agency reported line 5 as the sum of all heating, cooling, and crisis assistance (weatherization was not included). A simple sum implied that every household that received assistance only received one type (heating, cooling, or crisis), which was not correct, as many households receive more than one type.

- Section III, Line 5, Column D, reports the number of households by any vulnerable group. For example a household that includes an elderly person and a young child would be counted as one household in column D. Line 5 for elderly, disabled, or young child assisted households was originally reported as 40,033, which was the same amount reported for the unduplicated count of all households reported in Section I. Section I includes all households, with or without vulnerable members. This implied that every household the Agency assisted contained at least one vulnerable member, which was not correct. After the Federal government brought this error to the Agency's attention, the Agency revised the number to 38,358 households on its October 31, 2014, submission. However, the Agency was unable to provide support for the revised number.

Cause: The NFOCUS query used to compile the households report did not provide all data necessary. Also, the Agency was unable to combine weatherization data from the Nebraska Energy Office (NEO) with Agency heating, cooling, and crisis assistance to report unduplicated counts.

Effect: Inaccurate and incomplete information was reported to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure household reports are complete and accurate and agree to supporting documentation.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: Program has been working with NFOCUS to ensure that all data necessary for the yearly household report is accurate. In addition, LIHEAP Program staff has been working with the Nebraska Energy Office to ensure timely and accurate information is supplied to the Agency for reporting.

Contact: Karma Stockwell, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-049

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Reporting

Grant Number & Year: #G13B1NELIEA, FFY 2013

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

Criteria: Per 45 CFR § 96.81(b) (October 1, 2012), "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." A good internal control plan requires procedures to ensure the reallotment amount is calculated and reported correctly.

Condition: The Agency reported a reallotment amount of $2,180,356 for the 2013 grant, but it should have reported only $1,317,254, a variance of $863,102. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: Grantees must submit a report indicating the amount of funds expected to be carried forward to the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit must also be reported and are called the "reallotment amount," as the funds are subject to reallotment by the Federal grantor to other states. The Agency prepared the required Carryover Report for the FFY 2013 grant and reported a reallotment amount of $2,180,356 of the grant authorization of $28,196,439. We calculated the amount to be only $1,317,254:

Unexpended balance at 9/30/13 per accounting system	$ 7,880,288
Allowable carryover of 10%	(2,819,644)
Remainder	5,060,644
Unallowable administrative costs*	7,257
Less obligations not paid to subrecipients by 9/30/13	(3,750,647)
Grant authorization that should have been returned to Federal government for reallotment	$ 1,317,254

*As of September 30, 2013, the Agency exceeded its 10% administration costs limit by $7,257. Therefore, it could not consider these funds to be obligated.

On May 28, 2014, the Agency received a negative grant award for the $2,180,356 amount it reported to be realloted.

Cause: Ineffective grant management.

Effect: Without adequate procedures to administer Federal grants, there is an increased risk for loss or misuse of funds. The State lost $863,102 in available Federal funding.

Recommendation: We recommend the Agency devote resources to ensuring LIHEAP grants are administered in accordance with Federal regulations, including procedures to ensure reports are properly completed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The LIHEAP Program staff will ensure steps are taken to input and verify the correct business unit is utilized when entering a request for payment.

Additionally, Financial Services is developing policies and procedures to suspend and close grants that have passed the period of availability for expenditure. LIHEAP Program and Grant staff will work closely together to monitor and close the LIHEAP grants.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting
Karma Stockwell, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-050

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Period of Availability

Grant Number & Year: #G12B1NELIEA, FFY 2012

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

Criteria: Per 45 CFR § 96.14(2) (October 1 2013), "No funds may be obligated after the end of the fiscal year following the fiscal year for which they were allotted." A good internal control plan requires procedures be in place to ensure period of availability requirements are met.

Condition: We noted two expenditures charged to the 2012 grant were not obligated by the September 30, 2013 deadline.

Questioned Costs: $11,277 known

Context: We tested $16,625 of the $24,487 in expenditures made by the Agency after September 30, 2013, which were charged to the 2012 grant. Two of the three expenditures tested were obligated after the period of availability. On May 24, 2014, the Agency sent letters to two organizations allowing them to purchase fans to distribute to needy individuals. This was after the obligation deadline for the 2012 grant of September 30, 2013. The organizations purchased fans totaling $11,277 and were both reimbursed on June 19, 2014.

Cause: Worker error.

Effect: Questioned costs for funds spent after the obligation period will need to be repaid to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure period of availability requirements are adhered to.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The LIHEAP Program staff will ensure steps are taken to input and verify the correct business unit is utilized when entering a request for payment.

Additionally, Financial Services is developing policies and procedures to suspend and close grants that have passed the period of availability for expenditure. LIHEAP Program and Grant staff will work closely together to monitor and close the LIHEAP grants.

Contact: Barbra J Hike, Manager – Grants & Cost Accounting
Karma Stockwell, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-051

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Grant Number & Year: All open, including #G1401NECCDF, FFY 2014

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

Criteria: Title 45 CFR § 92.20(a) (October 1, 2013) requires that fiscal control and accounting procedures of the State be sufficient to permit the preparation of required reports and 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 support for amounts reported.

Condition: The Agency neither completed all required reports nor accurately reported child care expenditures. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: Of the 12 ACF-696 reports required during State fiscal year 2014, four were not submitted as of February 5, 2015, and five were submitted but were later rescinded because they were incorrect:

Reports Not Submitted	Submitted But Later Rescinded
2012 grant quarter ended March 31, 2014	2012 grant quarter ended September 30, 2013
2013 grant quarter ended March 31, 2014	2013 grant quarter ended September 30, 2013
2014 grant quarter ended March 31, 2014	2012 grant quarter ended December 31, 2013
2012 grant quarter ended June 30, 2014	2013 grant quarter ended December 31, 2013
	2014 grant quarter ended December 31, 2013

The only reports available for audit at the time of our fieldwork in February 2015 were the 2011 grant final report and the 2013 and 2014 grant reports for the quarter ended June 30, 2014. We tested all three of these reports and noted the following errors:

<u>2014 Grant Quarter Ended June 30, 2014</u>

- The Agency is on a Federally-mandated restricted drawdown for child care, which means all expenditures are paid from State general funds first, and later journal entries draw Federal funds once Federal approval is obtained. However, the amounts reported did not correspond to the accounting system after considering those journal entries nor to Federal draw down requests. The Agency indicated it is still cleaning up the 2014 grant claims and may make further report adjustments and journal entries in the future.

Line on Report	Report	Accounting System	Variance
1(g) Direct Services, Mandatory Funds	$ 7,878,184	$ 6,109,299	$ 1,768,885
1(g) Direct Services, Matching Funds	$ 18,051,057	$ 19,706,519	$ (1,655,462)

- Matching Funds are to be paid based on the Federal Medical Assistance Percentage of 54.74% Federal and 45.26% State match. Total Federal share was reported as $9,150,308, which would require a match of $7,565,636, but $8,900,749 was reported for a variance of $1,335,113 State match overstated.

2011 Grant Final Report Quarter Ended September 30, 2013

Line on Report	Report	Actual	Variance
1(b) Quality Activities Excluding Targeted Funds, Discretionary Funds	$ 2,371,080	$ 2,396,578	$ (25,498)
1(d) Quality Expansion Targeted Funds, Discretionary Funds	$ 1,181,253	$ 1,039,251	$ 142,002

Errors were due to reporting authorized amounts instead of expenditures and misclassification of expenditures.

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 is working with the federal partners through the Restricted Draw Down process. This process has been very helpful toward developing and refining processes and procedures. The Agency is accurately and timely identifying appropriate claims level detail as well as preparing accurate and timely reports that have been reviewed and approved by Grants Management and Program Managers. The review will include ensuring the reported amounts are accurate per the Agency's accounting system.

The Agency is in the process of developing and implementing policies and procedures for the three hundred plus specific grant terms and conditions to ensure that turnover at the agency level will reduce errors or omissions.

Contact: Barb Hike, Manager – Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-052

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Grant Number & Year: #1101NECCDF, FFY 2011

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

Criteria: According to 45 CFR § 98.16(h) (October 1, 2013), 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, 2013) 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 2011 funds targeted by Congress was not met.

Questioned Costs: $43,198 known

Context: Congress targeted $1,069,084 to be spent on Quality Expansion activities for the 2011 grant. The Agency reported a total of $1,181,253 for Quality Expansion on the ACF-696 report; however, $27,952 of that total was not spent, and $114,050 was misclassified. The actual amount spent for Quality Expansion was $1,039,251, which was under the minimum by $29,833.

In addition, $13,365 of 2011 grant funds targeted by Congress to be spent on School Age Resource and Referral activities was not expended at the end of the grant.

Category	Minimum Required	Amount Reported	Actual Amount	Amount Targeted Funds Not Met
Quality Expansion	$ 1,069,084	$ 1,181,253	$ 1,039,251	$ 29,833
School Age Resource and Referral	$ 110,379	$ 110,379	$ 97,014	$ 13,365

A similar finding was noted in the prior audit.

Cause: Ineffective grant management. The Agency misclassified expenditures as targeted funds that were not. Additionally, the Agency reported authorized amounts as expended even though the amounts actually spent were less.

Effect: Noncompliance with Federal regulations and misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure funds targeted by Congress are spent as required.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is developing and implementing grant specific policies and procedures to ensure the classification of percentage of aggregate funds expended by the Agency meets the requirements for targeted funds by Congress. The determination of the amount and type of targeted funds is determined jointly by the publication provided by the federal partners late within the grant year, program and grants management. Additionally, policies and procedures in grants management are being modified to include approval for redistribution of authorized amounts by appropriate program personnel.

The Agency is developing and implementing policies and procedures to ensure reporting is accurate and based on expenditures and not authorized grant amounts.

Contact: Barb Hike – Manager Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-053

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability and Eligibility

Grant Number & Year: Various, including #G1301NECCDF, FFY 2013; #G1401NECCDF, FFY 2014

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))*

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 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[.]"

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."

Per Title 392 NAC 3-006.06:

> *There is a $12,000 market value limit for the family's first motor vehicle. The family's vehicle market value in excess of $12,000 is applied to the $6,000 resource limit. If the family has more than one motor vehicle, the worker must apply the limit to the vehicle with the greatest fair market value. Any other motor vehicles are treated as nonliquid resources and the equity is counted in the resource limit.*

Per Title 392 NAC 3-006.07:

> *The worker verifies the value of non-excluded resources and loans at the time of application and redetermination if the total amount of countable resources indicated on the application is $1500 or more. Client declaration is accepted when the total amount of resources indicated on the application is less than $1500.*

OMB Circular A-87 requires costs to be reasonable, necessary, and adequately supported.

Title 392 NAC 2-003.04B states, in relevant part, "At least every 12 months the worker must . . . [c]onduct a redetermination of each client's eligibility[.]"

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: $848 known

Context: We tested 40 child care claims and noted 20 claims with errors. Some payments had more than one type of error. We noted the following:

- Based on income, certain families are required to pay a fee or co-pay for child care. For three claims tested, the families should have provided a co-pay before child care was paid by the Agency. For one claim, 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 limit for the family to be eligible without co-pay. For two other claims, the Agency had determined co-pay was required, but the providers were paid the entire amount, instead of net of the required co-pay.

- For three payments tested, the families' resources were not properly considered. Per review of the DMV website, one family had four cars. Two cars were appropriately considered, but the other two cars were not included in the family's resources. As a result, the total resources were over the limit, and the family was not eligible for child care assistance. Two other families reported resources over $1,500, which were not verified by the Agency.

- One payment did not adequately document the need for child care. Child care was authorized while the parent was at school and recovering from a medical procedure. The Agency did not have support for the parent's class schedules or medical procedure.

- Two payments included child care claimed while the child was in school.

- Seven payments did not agree to attendance records.

Per Claim	Per Attendance Records
10 days, 19 one-way trips	10 days
10 days	8 days
21 days	15 days
1 day, 22 hours	1 day, 20 hours
1 day, 28 hours	8 days
3 days, 71 hours	3 days, 68 hours
4 days, 60 hours, 20 one-way trips	60 hours, 40 one-way trips

- For two claims for services in July 2013, the attendance calendars were signed and dated by the provider and the client after we requested calendars. The attendance records were signed on December 24, 2014, and January 2, 2015. For a claim for February 2014 services, attendance records were not signed by the parent and were not signed by the provider until December 27, 2014.

- Six claims exceeded the child care hours authorized. For one of those claims, there was no written authorization for child care services on file.

- Eligibility reviews were not completed at least every 12 months for five cases tested. Reviews were 4 to 23 months late.

Federal payment errors noted for the sample tested were $379. The total Federal sample tested was $3,621, and total child care Federal assistance claims for the fiscal year were $28,573,038. Based on the sample tested, the case error rate was 50% (20/40). The dollar error rate for the sample was 10.47% ($379/$3,621), which estimates the potential dollars at risk for fiscal year 2014 to be $2,991,597 (dollar error rate multiplied by the population). In addition to the $379 Federal questioned costs noted on the sample items tested, we also noted $469 of Federal questioned costs on other line items of the claims reviewed.

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 ensure billing documents agree with provider agreements and attendance sheets.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has enhanced previously implemented processes for monitoring attendance calendars, billing documents, Child Care Provider Agreements, and client authorizations. The Agency will continue to review the data from these monitoring reviews to make further revisions if needed. The Agency is in the process of revising CCDF State policy and procedures to align with the Child Care and Development Block Grant Act of 2014.

Contact: Nicole Vint, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-054

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability

Grant Number & Year: #G1301NECCDF, FFY 2013

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

Criteria: 45 CFR § 98.67(a) (October 1, 2013) 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 4-003.01A 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: $112 known

Context: We compared Agency attendance records for six 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 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 DHHS and NDE attendance calendars did not agree for one child tested. The attendance records submitted to DHHS showed eight more days than the attendance records submitted to NDE, resulting in Federal questioned costs of $112. Total Federal share of payments for the six children tested was $886.

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.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will evaluate our internal process for reviewing attendance calendars for accuracy.

Contact: Nicole Vint, Program Manager

Anticipated Completion Date: June 30, 2015

Finding 2014-055

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Grant Number & Year: Various, including #G1401NECCDF, FFY 2014

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

Criteria: Per 45 CFR § 98.41 (October 1, 2013), 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 391 NAC 3-005.03:

> *To determine compliance with licensing regulations, the Department will conduct unannounced inspections: 1. A minimum of once each year of child care centers licensed for 29 or fewer children; and 2. A minimum of twice each year of child care center licensed for 30 or more children.*

Per 391 NAC 3-005.09A, "The Department will make a fire inspection referral . . . 2. Every two years following the initial fire inspection . . . [.]"

A good internal control plan requires adequate documentation be maintained to support compliance with health and safety requirements and to ensure compliance with 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 36 child care providers subject to the health and safety requirements. We noted the following:

- For three 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, communicable diseases, and the suitability of play materials, equipment, fixtures, and furnishings.

- 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. Two child care centers did not have a fire inspection performed within the last two years.

Last Inspection	Date of Agency Referral	Referred to
March 10, 2010	Feb. 2012, Feb. 2013, and Feb. 2014	Omaha Bureau of Fire Prevention
March 31, 2011	Feb. 2013 and Feb. 2014	Lincoln Bureau of Fire Prevention

A similar finding was noted in the prior audit.

Cause: The Agency stated there was limited staff. 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 childcare providers.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will conduct training of Child Care Inspection Specialists in April 2015. Monitoring will be performed by Child Care Licensing Supervisor in Omaha to ensure that all items on the checklist are answered. Program staff will meet with Omaha Bureau of Fire Prevention and Lincoln Bureau of Fire Prevention regarding requirement for Fire Safety Inspection every two years and will continue to send referrals when inspections are not conducted.

Contact: Pat Urzedowski, Program Manager

Anticipated Completion Date: May 31, 2015

Finding 2014-056

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Grant Number & Year: Various, including #G1401NECCDF, FFY 2014

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

Criteria: Per 45 CFR § 98.60(i) (October 1, 2013), "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.

DHHS Collection Policy states:

2. DHHS will send regular billing statements for all accounts receivable, except when prohibited by law.

3. The following procedure will be followed for accounts which are 90 days overdue, unless suitable arrangements have been made for payment:

a. DHHS will send the Debtor a letter . . .

b. If no response is received within 30 days of the initial letter, DHHS will send the Debtor a second letter . . .

c. If no response is received within 30 days of the second letter, DHHS will take the following action, based on the dollar value of the account . . .

iv. More than $2,000.00 – Referral to [Legal and Regulatory Services] LRS for decision on further collection efforts. LRS will initiate legal action or refer the account to the DHHS collection agency.

Condition: We tested 25 cases referred to the Special Investigations Unit (SIU) and noted three reviews were not completed on a timely basis. A similar finding was noted in the prior audit. We also noted three cases had an accounts receivable amount that was not adequately pursued for collection.

Questioned Costs: Unknown

Context: The SIU had 245 open cases during the fiscal year. We noted the following during our testing of 25 cases:

Three cases were not investigated in a timely manner.

- One case was referred to the SIU in September 2011. No documentation was provided showing any work had been performed on this case since January 2012.
- One case was referred to the SIU in January 2012. No documentation was provided showing any work had been performed on this case during the fiscal year.
- One case was referred to the SIU in February 2013. No documentation was provided showing any work had been performed on this case since March 2013.
- For all three cases noted, the individuals continued to receive services since the referral.

We also noted three separate cases that had accounts receivable established as a result of the investigation. However, it appears the accounts receivable were not adequately pursued for collection.

- One case had a $1,247 accounts receivable established in June 2013; however, no monthly billing statements had been sent as of January 30, 2015.
- One case had a $3,186 accounts receivable established in July 2013, but the first monthly billing statement was not sent until November 1, 2014.

- One case had a $2,284 accounts receivable established in July 2013, and monthly billing statements were sent. However, no payments had been received on this account, and it was not sent to the collections department as specified in the DHHS Collection Policy.

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, as well as ensuring the related accounts receivable are adequately pursued.

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. When accounts receivable are not adequately pursued in accordance with established Agency policy, there is an increased risk for the loss of Federal funds.

Recommendation: We recommend the Agency review procedures to ensure cases referred to the Special Investigations Unit are reviewed, and appropriate dispositions are made on a timely basis. We also recommend the Agency implement procedures to ensure accounts receivable are adequately pursued and that established collection procedures are followed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency is updating procedures that will allow each program case list to be checked monthly to ensure all steps in the collection process are currently being followed. In addition, the SIU program manager will review each child care investigation with the assigned investigator every calendar quarter to assess case progression to ensure timely and appropriate case dispositions.

Contact: Craig Barnett, Administrator I, Medicaid/Financial Responsibility
Jana McDonough, Program Manager

Anticipated Completion Date: June 30, 2015

<u>Finding 2014-057</u>

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Grant Number & Year: All open, including #G1401NECCDF, FFY 2014

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

Additional Information: The following SEFA variances were noted:

CFDA	Program	Originally Reported	Revised	Change
93.575	Child Care and Development Block Grant	$ 10,427,413	$ 26,653,630	$ 16,226,217
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	$ 26,948,326	$ 23,695,011	$ (3,253,315)

Cause: The Agency reports certain programs on the SEFA from Federal financial status reports. The reports were not completed at the time the SEFA was prepared. Instead, the Agency used expenditures from the State accounting system plus administrative costs earned per the Cost Allocation Plan. This did not take into account material adjustments that were later made. Once the Federal reports were completed, they should have been used to correct the SEFA expenditures, but the SEFA was not adjusted until we informed DAS.

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

Recommendation: We recommend the Agency implement adequate procedures to ensure Federal expenditures are properly reported on the SEFA consistent with prior year methodologies.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The reports for June 30, 2014 were completed after a site visit from the federal partners which was after the due date of SEFA. Therefore, the personnel completing the SEFA at the time utilized the best available resources. After the site visit by the federal partners, there was information gained regarding options for reporting and technical assistance with the specifications of the grant and therefore, the Agency did make adjustments to better match the options available to Nebraska for appropriate use of funds as shared with us by our federal partners.

The Agency has continued to gain compliance technical assistance from the federal partners assisting the Agency in the development and implementation of grant specific policies and procedures regarding reporting. The options provided allow the Agency more flexibility in spending and provide a higher level of compliance with regulations.

Contact: Barb Hike - Manager Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-058

Program: CFDA 93.658 – Foster Care Title IV-E – Special Tests & Provisions

Grant Number & Year: #0G1301NE1401, FFY 2013; #0G1401NE1401, FFY 2014

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

Criteria: Per 45 CFR § 1356.21(m) (October 1, 2013):

> *In meeting the requirements of section 471(a)(11) of the Act, the title IV–E agency must review at reasonable, specific, time-limited periods to be established by the agency: (1) The amount of the payments made for foster care maintenance and adoption assistance to assure their continued appropriateness[.]*

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, October 31, 2013, 8.3B TITLE IV-E, Foster Care Maintenance Payments Program:

> *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 child care 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.*

Condition: The State Plan does not include specific periods for review of foster care rates. Group home rates were not supported with adequate documentation to show that rates were reasonable, and they only include components that are allowable as maintenance payments.

Questioned Costs: Unknown

Context: In addition to payments to foster families, the Agency pays various contractors to care for children placed in group homes. The group home rate is based on a study from 1995. The group home rate includes administration, consultative services, and vacancy factor, which are not allowable maintenance payments unless the group home meets the definition of a child care institution, and then the rates are only allowable based on the proportion of the children in the home under IV-E compared to children under other programs.

The total Federal share of group home payments claimed as maintenance during the fiscal year was $556,448. A similar finding was noted in the prior audit.

Cause: A rate study for payments to foster parents was reported to the Legislature December 15, 2012, with changes starting July 1, 2014; the study did not include group home rates. Group home rates were analyzed in 1995. Regular, gradual rate changes have been made since 1995, but the Agency did not have documentation to support the basis for the rate increases or that the group home rate only included allowable elements.

Effect: Noncompliance with Federal requirements and increased risk for misuse of funds.

Recommendation: We recommend the Agency develop a specific schedule to review all foster care rates. We further recommend the Agency ensure rates only include allowable elements, in accordance with applicable cost principles.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will work with Group Home providers to develop a reasonable and allowable rate methodology as it relates to group home care, similar to the process conducted related to foster care in Spring 2014. These rates would be effective in the new contracts beginning July 1, 2015.

The rates implemented July 1, 2014 are the true cost of raising a child in Nebraska. The Agency will develop a schedule to review all foster care rates.

Contact: Mindi Alley, CFS Financial Officer

Anticipated Completion Date: July 1, 2015

Finding 2014-059

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

Grant Number & Year: #0G1301NE1401, FFY 2013; #0G1401NE1401, FFY 2014

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

Criteria: 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.

To be eligible, the removal and foster care placement of a child must meet the requirements of 42 USC § 672(a)(2)(B) (2010), which states:

(B) the child's placement and care are the responsibility of -

(i) the State agency administering the State plan approved under section 671 of this title;

(ii) any other public agency with which the State agency administering or supervising the administration of the State plan has made an agreement which is in effect; or

(iii) an Indian tribe or a tribal organization (as defined in section 679c(a) of this title) or a tribal consortium that has a plan approved under section 671 of this title in accordance with section 679c of this title;

In order to be eligible for payments, a State must have a plan approved by the Secretary, which per 42 USC § 671:

(32) provides that the State will negotiate in good faith with any Indian tribe, tribal organization or tribal consortium in the State that requests to develop an agreement with the State to administer all or part of the program under this part on behalf of Indian children who are under the authority of the tribe, organization, or consortium, including foster care maintenance payments on behalf of children who are placed in State or tribally licensed foster family homes . . .

A good internal control plan includes procedures to ensure contracts are signed before services and payments begin.

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 child care 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.

OMB Circular A-87 requires that costs be necessary, reasonable, and adequately documented.

Condition: We noted 21 of 26 Foster Care payments tested did not comply with Federal and State requirements.

Questioned Costs: $2,985 known

Context: The Federal share of Foster Care maintenance claimed during the fiscal year was $3,982,164. Approximately 82% paid was for childcare services, and 18% was paid for maintenance other than childcare. We randomly selected 26 claims for testing and noted the following:

- Nineteen payments for childcare services were for adopted children who were no longer in Foster Care. The Federal share of the 19 claims was $2,668.

- One payment was for a child in the custody of the Omaha Tribe. The contract between the Tribe and the Agency was not signed at the time of services or at the time of payment. Payment was made in December 2013 for October 2013 services. The contract stated it was effective starting October 1, 2013; however, it was not signed by the Tribe until January 21, 2014, and was not signed by the Agency until February 11, 2014.

- One payment was for group home care at the contracted rate of $116 per day. The rate included administrative cost components, and there was no allocation of costs based on proportion of IV-E children, per Federal regulations. The Federal share of the payment tested was $317.

The Federal-questioned costs noted during testing totaled $2,985. The Federal sample tested totaled $3,455. Federal aid expenditures claimed for the fiscal year totaled $3,982,164. Based on the sample tested, the case error rate was 80.77% (21/26). The dollar error rate for the sample tested was 86.40%, which estimates the potential dollars at risk for fiscal year 2014 to be $3,440,590 (dollar error rate multiplied by population).

A similar finding was noted in the prior audit.

Cause: The prior audit finding was not corrected during the fiscal year.

Effect: Unallowable costs were charged to the grant.

Recommendation: We recommend the Agency implement procedures to ensure all Foster Care benefits are terminated when eligibility expires. We also recommend contracts be signed before services are performed and before payment is made. We recommend that maintenance charges for group home services include only costs as defined by 42 USC § 675(4)(A).

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In July of 2014, the Agency discovered that the business units used to pay for IV-E child care for children in IV-E eligible subsidized adoptions and IV-E eligible subsidized guardianships were the same business units used to pay for IV-E eligible foster care maintenance payments.

An N-FOCUS query was developed to identify all IV-E eligible child care services, and to differentiate payments by (1) IV-E Foster Care Program Cases; (2) IV-E Subsidized Adoption Program Cases; and, (3) IV-E Subsidized Guardianship Program Cases. The effective date for the new business units was August 10, 2014.

The claims reviewed for SFY 2014 pre-dated the correction.

Contact: Doug Kreifels, CFS Administrator

Anticipated Completion Date: August 10, 2014

Finding 2014-060

Program: CFDA 93.658 – Foster Care Title IV-E – Allowability & Eligibility & Reporting

Grant Number & Year: #0G0801NE1401, FFY 2008; #0G1301NE1401, FFY 2013; #0G1401NE1401, FFY 2014

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

Criteria: OMB Circular A-87 states that, to be allowable, costs must be necessary, reasonable, and adequately documented.

Per 45 CFR § 92.20 (October 1, 2012):

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

A good internal control plan requires procedures to ensure reports are accurate and complete. A good internal control plan also requires procedures to discontinue benefits when eligibility expires. Foster Care maintenance expenses are not allowable after a child is adopted.

Condition: Journal entries by the Agency to adjust Foster Care funds were not in accordance with Federal regulations.

Questioned Costs: $539,358 known

Context: We tested seven journal entries adjusting Foster Care funds and noted the following:

- Five entries relate to the deferment of maintenance claims by the Federal grantor and the subsequent reinstatement of funds. The Agency compared the net claimable dollars for each quarter to actual Federal expenditures for the quarter. A journal entry was prepared for the difference. Where Federal funds expended exceeded allowable claims, the charges were moved to the State General Fund. Where allowable claims exceeded Federal funds drawn, the Agency charged Federal funds. However, another journal entry used $516,245 of these claims to move expenditures from the 2013 grant to the 2008 grant, and the credit to the 2013 grant was also used in the comparison of allowable claims. The underlying transactions were costs from October 22, 2012, to November 8, 2012. Therefore, those underlying transactions of $516,245 were charged to both the 2008 grant and the 2013 grant. We also noted the September 2013 quarterly report included an increasing adjustment of $516,245. This was the journal entry moving costs from the 2013 grant to the 2008 grant and should not have been reported as an adjustment.

The listing of allowable claims used in the reconciliation of costs included children that were noted in the prior audit as not eligible for IV-E Foster Care. In the prior audit, we noted 14 of 20 childcare claims tested were not allowable, as the claims were for children that had been adopted. We reviewed the claims used in the reconciliation and noted that these adopted children were still included in the listing of allowable claims. We noted $41,450 in claims related to those 14 adopted children; the Federal share of $23,113 is considered questioned costs.

A similar finding was noted in the prior audit.

Cause: The Agency did not properly consider prior adjustments and audit findings.

Effect: Unallowable costs were charged.

Recommendation: We recommend the Agency ensure charges are in accordance with Federal requirements. We also recommend the Agency implement procedures to ensure Federal reports are accurate.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Department will work with ACF to identify the appropriate claim level detail to support the drawdown of the $516,425. Additionally, Grant specific procedures to address journal entries for claims and closeout of grants is in the process of being written and implemented and will be implemented no later than 6/30/15.

A System Change Request modifying N-FOCUS to differentiate child care between IV-E Foster Care, IV-E Subsidized Adoption, and IV-E Subsidized Guardianship was implemented 8/11/14. A journal entry to correct current year expenditures will be prepared and approved.

Contact: Barbra J Hike, Manager - Grants & Cost Accounting

Anticipated Completion Date: June 30, 2015

Finding 2014-061

Program: CFDA 93.659 – Adoption Assistance – Allowability & Eligibility

Grant Number & Year: #1401NE1407, FFY 2014; #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 the maintenance of documentation to support such compliance.

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 FY 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)). 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)).

Per 42 USC 673(c) (2011):

> (1) *in the case of a child who is not an applicable child for a fiscal year, the child shall not be considered a child with special needs unless-*
>
> *(A) the State has determined that the child cannot or should not be returned to the home of his parents; and*
>
> *(B) the State had first determined (A) that there exists with respect to the child a specific factor or condition (such as his ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that such child cannot be placed with adoptive parents without providing adoption assistance under this section or medical assistance under subchapter XIX of this chapter, and (B) that, except where it would be against the best interests of the child because of such factors as the existence of significant emotional ties with prospective adoptive parents while in the care of such parents as a foster child, a reasonable, but unsuccessful, effort has been made to place the child with appropriate adoptive parents without providing adoption assistance under this section or medical assistance under subchapter XIX of this chapter . . . .*

Condition: Adoption Assistance payments were not in accordance with Federal regulations for 5 of 40 payments tested.

Questioned Costs: $671 known

Context: We tested 40 Adoption Assistance payments and noted for four cases the non-applicable child did not meet the eligibility requirements of the AFDC program. We also noted one case did not have documentation that the non-applicable child met the special needs requirement. A similar finding was noted in the prior audit.

The total Federal share of errors noted was $671. The total Federal sample tested was $8,036, and the Federal share of expenditures for adoption subsidies for fiscal year 2014 was $10,807,100. The dollar error rate for the sample was 8.35% ($671/$8,036), which estimates the potential dollars at risk for fiscal year 2014 to be $902,393 (dollar error rate multiplied by population).

Cause: Clerical errors and inadequate review.

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: On Tuesday October 21, 2014, face-to-face refresher training entitled, "Determining IV-E Eligibility for Applicable Child and Sibling(s) of Applicable Child" was provided at the Quarterly Income Maintenance Foster Care All Staff meeting by the IV-E Program Specialist. In addition, an N-FOCUS System Change Request (SCR) was entered on January 21, 2014 to address the systemic error that caused improper eligibility determination. The SCR change was implemented on July 13, 2014 to correct this systemic error. The Department acknowledges the importance of readily available, quality documentation that supports case decisions regarding the determination of adoption assistance payments. Additional training will be offered to Children and Family Services Specialists and their supervisors who determine eligibility for adoption assistance. This training will be completed by all applicable staff by no later than February 28, 2015.

Contact: Doug Kreifels, CFS Service Delivery Administrator

Anticipated Completion Date: February 28, 2015

<u>Finding 2014-062</u>

Program: CFDA 93.667 – Social Services Block Grant – Period of Availability

Grant Number & Year: #G1201NESOSR, FFY 2012

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

Criteria: Per 42 USC 1397a(c), SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year. Per the 2012 grant award, the Social Services Block Grant is available for expenditures made in accordance with the State's plan under title XX of the Social Security Act, for the period October 1, 2011, through September 30, 2013. Good internal control requires procedures to ensure compliance with Federal requirements.

Condition: The 2012 grant award was charged for expenditures after the period of availability.

Questioned Costs: $359,725 known

Context: Payroll costs for October 2013 services totaling $359,725 were paid in October and November 2013 and were charged to the 2012 SSBG grant.

Cause: The Accounting Manager indicated he was not aware of the period of availability requirement for the grant.

Effect: Improper use of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all individuals responsible for charging costs to grants are aware of period of availability requirements. We further recommend the Agency implement procedures to ensure compliance with Federal requirements.

> **Management Response:** The Agency partially agrees with the condition reported. While the Agency agrees that the grant award specifies the funds are available for expenditures for the period October 1, 2011, through September 30, 2013, there are no clear provisions in the terms and conditions of the grant specifying a period of availability.
>
> **Corrective Action Plan:** The Agency will implement a policy to address how payroll expenditures will be posted to Federal grants that overlap Federal fiscal years.
>
> **Contact:** Don Swartz, Accounting Unit Manager
> Barb Hike, Cost Accounting & Grants Management Unit Manager
>
> **Anticipated Completion Date:** June 30, 2015

APA Response: As noted above, 42 USC 1397a(c) requires SSBG funds be expended by the State in the fiscal year allotted or in the succeeding fiscal year.

Finding 2014-063

Program: CFDA 93.667 – Social Services Block Grant – Allowability

Grant Number & Year: #G1401NESOSR, FFY 2014

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

Criteria: Per 45 CFR § 96.30(a) (October 1, 2013), "[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 5-001.01A, Chore Service Need, "Chore Service is not provided based on the demand of the client. Any person receiving Social Services must have a defined need for the service in order to meet eligibility requirements."

Per Title 473 NAC 5-001.07, Case Management Documentation, "To authorize Chore Service, the worker shall document the specific components of Chore Service to be provided and frequency of provision."

Per Agency directive to meal providers dated August 5, 2013:

> *Effective immediately; all Title XX, Block Grant meal providers must complete validation and verification of meal service by obtaining Block Grant client signatures. A minimum of 8% of your Block Grant clients must sign each month either when they receive meals or within 20 days after the month has ended. This applies to home delivered as well as congregate meals. These signatures must be kept and made available to the State when requested.*

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 acknowledge services were received. If the client does not acknowledge receipt of the services, the Agency should have other procedures to ensure the services were actually provided.

Condition: We noted 2 of 40 claims tested did not comply with State and Federal regulations.

Questioned Costs: $76 known

Context: For two 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.

- One client tested was authorized for 7.5 hours per week of chore services, which included one occurrence for laundry. The provider billed for 7.5 hours of chore services plus one occurrence for essential shopping each week for five weeks. The shopping was not in accordance with the service authorization, resulting in Federal questioned costs of $18.

- For another client tested, the provider was paid for 31 days of delivered meals. The provider did not have documentation signed by the client or verification of 8% of clients. The Federal share of questioned costs was $58.

The total Federal sample tested was $862, and Federal errors for payments tested were $76. Total Social Services Block Grant Federal assistance payments for fiscal year 2014 were $1,816,052. The dollar error rate for the sample was 8.82% ($76/$862), which estimates the potential dollars at risk for fiscal year 2014 to be $160,176 (dollar error rate multiplied by population).

Cause: Inadequate oversight

Effect: Noncompliance with Federal and State regulations and inadequate approvals increases the risk of loss and/or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are made in compliance with State and Federal regulations and are properly approved.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency started a monthly review of Social Services for the Aged and Disabled (SSAD) cases on the NEARS case review system. The review includes client eligibility and services authorizations. An additional process is being developed to review authorizations and claims for all SSAD services. Job Aids for all SSAD services and a process guide for Resource Development are currently being developed.

Contact: Nicole Vint, CCDF/SSBG Program Manager

Anticipated Completion Date: May 31, 2015

Finding 2014-064

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

Grant Number & Year: #051405NE5021, FFY 2014

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

Criteria: Title 45 CFR § 92.20 (October 1, 2013), 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.

Questioned Costs: Unknown

Context: The Federal share of current expenditures reported for the quarter ended March 31, 2014, was $12,345,760; the total per the general ledger was $11,452,504. Adjustments totaling $315,725 were reported in June 2014, and adjustments of ($1,180,014) were reported in September 2014, for a remaining unresolved variance of $28,967. CHIP aid does not reconcile between the CMS-64 and EnterpriseOne due to the following:

- When recording drug rebates in EnterpriseOne, 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 compiling the CMS-64, the Agency 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 reconcile EnterpriseOne to what was reported on the CMS-64 for drug rebates during State fiscal year 2014.

- CHIP reductions are not reported for CHIP on the CMS-64. Total reductions are reported based on various categories (health insurance, casualty insurance, etc.). The Medicaid Management Information System (MMIS) automatically interfaces with EnterpriseOne to record reductions for both Medicaid and CHIP; however, since EnterpriseOne does not distinguish the various categories (health insurance, casualty insurance, etc.), the Agency does not report separately for CHIP.

- All Medicaid MMIS expenditures are reported on the CMS-64 report. An MMIS sub-report is run to identify what portion of total expenditures is for CHIP. Per the Agency, the logic to create the MMIS report is flawed because aid per this report should match aid per EnterpriseOne, but it does not.

A similar finding was noted in the prior audit.

Cause: The Agency indicated a system change to MDR was implemented to split drug rebates based on an allocation method using the eligibility of the client to determine the funding source. The change was phased in over the course of fiscal year 2014. Changes to address the MMIS reports were not yet implemented for fiscal year 2014.

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.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The reconciliation process established in early SFY 2014 has continued to be a work in progress, with improvements made each quarter. The final (and current) reconcilation process has been enhanced to include reconciling to Federal and State funds and was fully implemented in the first quarter of SFY 2015. A copy of the written reconcilation process which documents each step of the process is available upon request. The current reconciliation process will be applied to all previous reconciliations, as time allows. Changes to address MMIS reporting issues related to CHIP are expected to be implemented in June 2015.

Contact: Kim Collins, Program Analysis and Research Administrator

Anticipated Completion Date: Continuous

<u>Finding 2014-065</u>

Program: CFDA 93.778 – Medical Assistance Program – Matching & Reporting

Grant Number & Year: #051405NE5MAP, FFY 2014; #051305NE5MAP, FFY 2013

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

Criteria: Title 45 CFR § 92.20 (October 1, 2013) 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 was not in violation of applicable regulations. Title 42 CFR § 433.10 (October 1, 2013) 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 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: Both CMS-64 reports tested had errors noted. Reconciliation procedures need improvement to ensure reports are accurate, and adjustments are made in a timely manner. A similar finding has been noted in our prior Single Audit reports.

Questioned Costs: Unknown

Context: We tested two of four quarterly reports and noted the following:

- Six current quarter expenditure items were reported incorrectly on the September 2013 quarterly report. Individual variances ranged from $1,840,323 physician services underreported to $130 medical transportation overreported. The Agency should have review procedures to ensure items are properly reported before submission. The net Federal share of variances was $1,436,078 underreported.

- The June 2013 reconciliation included unreported payments to three Agency facilities. Two of the facility payments were included as adjustments on the September 2013 report, but the amounts were not properly reported. The Agency subsequently corrected the amounts on the March and June 2014 reports. The third facility payment was still not reported as of the June 2014 report. The Federal share of the payment was $24,188.

- The September 2013 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. Also, the reconciliation had a remaining unexplained variance of $68,820. The auditor noted four items in error, which left an unexplained ($74,881) variance.

- The Federal share of expenditures was underreported by $277,527 on the March 2014 report due to the following:

    - Two items did not agree to the general ledger.
    - Two items did not report the proper matching percentage.
    - A supporting worksheet for collections contained a formula error.
    - Drug rebates were allocated between Medicaid and CHIP.

- The March 2014 reconciliation was prepared for Medicaid and CHIP expenditures in total, not separated by Federal program. The reconciliation had a remaining unexplained Federal variance of $12,106. The auditor noted two items tested in error, which left an unexplained Federal variance of $220,515.

The Agency reported a total of $1,090,210,356 Federal expenditures for the Medical Assistance Program in fiscal year 2014.

Cause: 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 reports are accurate. Quarterly reconciliations 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: The reconciliation process established in early SFY 2014 has continued to be a work in progress, with improvements made each quarter. The final (and current) reconcilation process has been enhanced to include reconciling to Federal and State funds and was fully implemented in the first quarter of SFY 2015.

A copy of the written reconcilation process, which documents each step of the process, is available upon request. The current reconciliation process will be applied to all previous reconciliations, as time allows.

Contact: Kim Collins, Program Analysis and Research Administrator

Anticipated Completion Date: Continuous

Finding 2014-066

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051305NE5MAP, FFY 2013; #051405NE5MAP, FFY 2014

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

Criteria: Good internal control requires procedures to ensure payments are proper, adequately supported, and in accordance with State and Federal regulations.

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 30-004(1) includes the following methodology for determining the cost effectiveness of health plans:

> *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.*

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.*

The six-month/twelve-month review reminder notice sent to each participant states, in relevant part, "[D]ental, vision, and other types of insurance are not covered under HIPP."

Condition: Health insurance premium payments (HIPP) were not adequately supported and were not in accordance with regulations.

Questioned Costs: $21,016 known

Context: We selected 20 HIPP payees and noted the following:

- For two cases tested, the cost effectiveness calculation was not performed or documented, resulting in questioned costs of $6,411. (Federal share)

  A cost effectiveness calculation was not performed for one participant until July 2014. Additionally, plan documentation did not clearly identify the participant as a covered dependent. Also, documentation received in 2012 indicated the participant was covered under his father's employee and children plan; however, documentation obtained in January 2014 only identified the father as the policyholder and did not identify the covered dependents. Another participant did not have a cost effectiveness calculation; however, per our review of Medicaid claims, medical costs covered by insurance were more than HIPP payments. Consequently, there were no questioned costs.

- For four cases tested, the premium payments included items not covered under the HIPP Program, such as dental insurance. The Federal share of questioned costs totaled $1,796. For three of the cases, a breakdown of premiums by coverage level was not obtained, even though the insurance card provided indicated the plan included medical and dental insurance coverage.

- For one case, the HIPP Program reimbursed the total premium amount. The participant should have been reimbursed for only the employee's share of the premium. Providing reimbursement for both the employee and employer shares resulted in overpayments. (Federal share $7,042)

- In one case, payments through February 2014 were based on a September 2010 pay stub. No current information was on file to support the premium amount paid. Also, a copy of the health insurance card obtained in February 2009 identified the participant as a covered dependent; however, the next insurance card received in May 2011 was from a different insurance company, with a different employer. There was insufficient documentation to determine the correct premium amount during this time and whether the participant was a covered dependent. All premium payments during this time period are questioned costs. (Federal share $4,686)

- In six cases tested, the payment did not agree to supporting documentation, resulting in a Federal share of questioned costs of $1,081. Errors included not deducting an employee premium credit, calculating deductions for 26 pay periods instead of 24 periods, and not properly accounting for premium decreases.

- The health insurance card provided for four participants only noted the policyholder of the plan and did not identify the participant as a covered dependent. For three of these participants, additional documentation was later received that identified them as dependents covered under the plan.

For all cases tested, the premium payments were made by the HIPP Program directly to the policyholders, rather than to the insurance companies or employers. It is likely that many of the issues identified may have been prevented or minimized had DHHS complied with regulations and made the payments directly to the insurance providers or employers.

The total Federal share of errors noted was $21,016. The total Federal sample tested was $135,633, and the Federal share of expenditures for HIPP for fiscal year 2014 was $940,096. The dollar error rate for the sample was 15.49% ($21,016/$135,633), which estimates the potential dollars at risk for fiscal year 2014 to be $145,621 (dollar error rate multiplied by population).

A similar finding was noted in the prior audit.

Cause: The Agency did not obtain adequate documentation to determine the correct payment amount.

Effect: Without adequate policies and procedures in place to ensure proper processing of the HIPP Program payments, there is an increased risk for loss or misuse of State and Federal funds.

Recommendation: We recommend the Agency implement procedures to properly document the cost effectiveness calculations. The Agency should re-evaluate the cost effectiveness calculations on a regular basis, at least annually, or at any time there is a significant change in the circumstances that would affect the cost effectiveness for participants. We also recommend the Agency implement controls to ensure payments are accurate and supported with adequate documentation. We further recommend the Agency implement procedures to make payments to the insurance provider or employer, when possible, rather than reimbursing the employee or policyholder directly. Finally, we recommend the Agency take appropriate action to recover overpayments.

Management Response: The Agency partially agrees with the condition reported. We appreciate the acknowledgement by your office of the program improvements made in order to ensure compliance with regulations. In addition to the items noted, the Agency has implemented a six-month review process to verify ongoing medical insurance coverage and premium amounts, secondary reviews on payment requests, and quality assurance reviews by management staff on a monthly and quarterly basis. Since the last audit, the Agency also researched best practices and trends in other states, sought guidance from CMS, and has made significant progress on redrafting 471 NAC Chapter 30 (Payment for Health Insurance Premiums).

Based on a review of the audit findings, the Agency respectfully disagrees that the findings were significant and demonstrate an urgent need for corrective action. Based on our review, the overpayment amount is $4,016.17, as opposed to the amount reported by the APA's office.

While the audit does note opportunities for improvement, the overall results demonstrate the significant progress and corrective action since the last audit conducted.

Corrective Action Plan: The Agency has already implemented improved internal controls related to this program and will continue to monitor this program and adopt additional internal controls as warranted.

The Program Integrity Administrator and the DHHS Office Manager who oversee the HIPP program will continue to conduct random reviews of cost-effectiveness determinations to ensure that such determinations are calculated and documented in accordance with Title 471 NAC 30-004 prior to enrolling any participant in the HIPP program.

The Agency will pursue collection of overpayments in accordance with the DHHS Collections Policy.

Contact: Melanie Standifer, Office Manager

Anticipated Completion Date: June 30, 2015

APA Response: We disagree with the Agency on the dollar amount of questioned costs.

Finding 2014-067

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051305NE5MAP, FFY 2013; #051405NE5MAP, FFY 2014

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

Criteria: Per Section 1902(a) of the Social Security Act:

A State plan for Medical assistance must . . . (27) provide for agreements with every person or institution providing services under the State plan under which such person or institution agrees (A) to keep such records as are necessary fully to disclose the extent of the services provided to individuals receiving assistance under the State plan . . . .

Per OMB Circular A-87, allowable costs must be adequately documented.

Title 471 NAC 15-006.06C states that after receiving a provider's timesheet and billing document, the beneficiary's social service worker or designee must verify that "[t]he hours worked and services provided fall within the parameters of those authorized" by the service needs assessment.

Title 471 NAC Chapter 15 contains multiple references to the Form MC-37 "Service Provider Time Sheet." However, the form used during the fiscal year was the MC-39, a less descriptive form.

A good internal control plan requires procedures be in place to ensure Federal and State regulations are followed. All income should be verified and all private insurance investigated.

Condition: During testing of personal assistance service (PAS) claims, we noted the Agency does not obtain adequate supporting documentation to ensure claims are allowable per State and Federal requirements.

Questioned Costs: $4,018 known

Context: The Agency offers personal assistance services (housekeeping, assistance with hygiene, assistance with mobility, etc.) to Medicaid recipients with disabilities and chronic conditions. The services are based on individual needs and criteria that must be determined in a written service needs assessment (SNA). Providers fill out timesheets that are signed by the recipients to indicate services were actually provided. Providers submit these timesheets along with billing documents to the Agency for payment.

In July 2011, the U.S. Department of Health & Human Services Office of the Inspector General (OIG) performed a review of PAS claims to determine whether claims were made in accordance with Federal and State requirements. The OIG reviewed 100 claims, and the largest issue found was this: For a portion of each of 87 claims, providers billed for services and time allotments that differed significantly from those laid out in the beneficiaries' SNAs. For these 87 claims, the information varied enough from the nature and extent of [PAS] authorized in the SNA for us to question some portion of the claim.

For example, if the SNA indicated the recipient needed help with the laundry, but the actual service provided per the timesheet was cleaning the kitchen, the OIG disallowed these costs. Because of the OIG's audit, the Agency repaid $4,482,429 to the Federal government on the March 2014 quarterly report.

In September 2011, the Agency sent a Provider Bulletin to all PAS providers to inform them that the form they use to document PAS work performed was changing from the MC-37 form to the MC-39 form. The new form was less descriptive – instead of listing all activities performed, it showed times in and out only. The new form is not adequate for Federal and State requirements, and the Agency did not change its regulations to refer to the new form.

We tested 10 personal assistance claims and noted the new, less descriptive form, was used in all 10 instances. For all claims tested, the Agency did not have adequate documentation on file to support the services paid were in accordance with the service needs assessment. However, the provider did maintain its own internal support for 3 of the 10 claims. This additional detail supported a portion of the claims tested, which explains why we did not question 100% of the population.

Federal payment errors noted were $1,737. The total Federal sample tested was $2,236, and the total Federal share of PAS claims during the fiscal year was $9,498,646. Based on the sample tested, the case error rate was 100% (10/10). The dollar error rate for the sample was 77.68% ($1,737/$2,236) which estimates the potential dollars at risk for fiscal year 2014 to be $7,378,548 (dollar error rate multiplied by population).

We also noted that the budget for one of the payments tested included a $160 medical disregard for five months after the policy expired, including the specific month tested. The Agency discovered the error after the fact but did not recalculate any budgets or assess any overpayments. Without the medical disregard, the recipient was over income for Medicaid. Medicaid payments, excluding PAS claims, totaled $2,281 for the fiscal year and are questioned costs.

We also noted one of the recipients tested had private insurance coverage. The Agency did not check to see if the private insurance would have paid for the PAS.

Cause: Unknown – the individuals who decided to change forms no longer work for the Agency.

The Agency does not check for third-party liability for any PAS claims because they are paid out of a different system (NFOCUS) than the system that stores the third-party liability information (MMIS). Most medical claims are paid out of MMIS.

Effect: When insufficient supporting documentation is maintained for PAS payments, this increases the risk the services provided were not in accordance with the recipients' needs and increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all applicable Federal and State regulations are followed.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will publish a Provider Bulletin informing providers of the Nebraska Medicaid Regulation 471 NAC 15-006.05(11a) provider responsibility to maintain documentation supporting the provision of services to each client served and the documentation aligns with activities described on the service authorization. The Agency will revise the MC-39 form to align with the Personal Assistance Services (PAS) Medicaid Regulations.

As the PAS claims are paid out of the NFOCUS system which does not have the system capability to edit against Third Party Liability information contained in the MMIS, the Agency will analyze the feasibility of moving the PAS claims payment function to the current MMIS or include in the scope of the MMIS replacement project.

Contact: Chad Frank, Administrator

Anticipated Completion Date: June 30, 2015

Finding 2014-068

Program: CFDA 93.778 – Medical Assistance Program – Eligibility

Grant Number & Year: #051305NE5MAP, FFY 2013; #051405NE5MAP, FFY 2014

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 477 NAC 21-001.01, "If the total equity value of available non-excluded resources exceeds the established maximum, the client is ineligible." Per 477 NAC 21-001.16, 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 477 NAC 21-001.09I, Transfer of Ownership:

> *Once it's been determined that the alternate care spouse is otherwise eligible, the case is approved without waiting for completion of the transfer. The client must be advised of the 90-day period. If the couple fails to complete the transfer within 90 days, the case is closed.*

Per Title 477 NAC 21-001.15B12, Motor Vehicles:

> *One motor vehicle [is excluded] regardless of its value as long as it is necessary for the client or a member of his/her household for employment or medical treatment must be disregarded. If the client has more than one motor vehicle, the vehicle with the greatest equity must be excluded. Any other motor vehicles are treated as non-liquid resources and the equity is counted in the resource limit.*

Per Title 477 NAC 21-001.25A, Deprivation of Resources:

> *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 477 NAC 21-001.25D1, Look Back Period:

> *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 income, resources, and expenses are updated for changes timely, adequately documented, and verified.

Condition: The Agency did not adequately verify the income and resources of individuals to ensure limits were not exceeded, and the individuals were eligible.

Questioned Costs: $18,979 known

Context: During testing of 15 nursing facility residents, we noted the following:

- For one case, the resource total of cash and life insurance was $109. The recipient's vehicle was excluded from the resource limit for medical purposes. However, because the recipient was residing in a nursing facility, and medical transportation is covered, this resource was not allowable for exclusion. The recipient valued the vehicle at $3,200. We reviewed the Department of Motor Vehicles (DMV) website and noted the recipient had title to two additional vehicles, including a Winnebago motor home. These vehicles were not declared by the recipient, so they were not considered in the determination of her eligibility. Also, the recipient indicated on her application that she had not "sold, traded or given away any item of substantial value within the past 5 years." However, per our review of the county assessor website, the recipient sold a home for $50,000 within that time frame. If the home was sold for less than fair market value, this would be a deprivation of resources necessitating a financial penalty. The home did appear to be sold for fair market value. Because the Agency does not perform its own independent search of undeclared resources, the Agency was unaware that the recipient was not truthful on her application.

  The Agency did not adequately document that the recipient was under the resource limit. This resulted in questioned costs for the specific payment tested of $1,784 and an additional $10,219 outside of our sample.

- For one case, the recipient's share of cost was understated by $30 ($16 Federal share – questioned costs) because the Agency did not timely update the budget for annual increases in social security payment amounts.

  Additionally for this case, the recipient'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 any documentation that the Agency verified $14,109 in accounts in both spouses' names was appropriately transferred to the community spouse. The case should have closed, resulting in questioned costs outside of our sample of $6,949.

- For one case, a disregard for house insurance was valued at $40 on the budget, but the verified amount was only $20, resulting in questioned costs of $11.

A similar finding was noted in the prior audit.

Federal payment errors noted were $1,811. The total Federal sample tested was $39,905, and the total claims paid to nursing facilities for recipients who entered the facility for the first time during the fiscal year were $29,805,588. Based on the sample tested, the case error rate was 20% (3/15). The dollar error rate for the sample was 4.54% ($1,811/$39,905), which estimates the potential dollars at risk for fiscal year 2014 to be $1,353,174 (dollar error rate multiplied by population).

Cause: Worker error and inadequate review

Effect: If income, resources, and expenses are not adequately verified, there is an increased risk recipients will be inappropriately determined eligible for Medicaid or determined eligible with an incorrect share of cost.

Recommendation: We recommend the Agency implement procedures to ensure all income, resources, and expenses are updated for changes timely, adequately documented, and verified.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: As of October 2013, the Agency has assigned all nursing home cases to specialized staff to ensure these complex cases are handled accurately and timely. The Agency has PAS and MLTC Eligibility Supervisors that complete second level case reviews on a sample of cases to ensure eligibility is determined accurately. Agency staff utilize a State Department of Motor Vehicles interface and Kelly Blue Book to verify vehicle ownership and valuation and require clients to provide verification of property or land and any values associated. Based on the APA's 2012 and 2013 findings, a review of Agency's processes for verifying resources was completed. A Resource Verification Guide was created and provided to all MLTC Eligibility staff on May 7, 2014. The PAS unit is planning a targeted review on resource verifications.

The Agency believes with the assignment of complex cases and the creation of the verification guide we have reduced the potential for errors.

Contact: Catherine Gekas Steeby, Administrator

Anticipated Completion Date: March 31, 2015

Finding 2014-069

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051305NE5MAP, FFY 2013; #051405NE5MAP, FFY 2014

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.

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 may bill "only for services which are authorized and actually provided."

Per Title 480 NAC 5-005.D(1), "The parent or primary caregiver is responsible for the basic cost of routine child care. The Aged and Disabled Medicaid Waiver is responsible for the payment of the service above the basic cost of routine child care."

A good internal control plan requires procedures be in place to ensure services do not exceed authorized limits, supporting documentation is properly completed and signed by the client, and correct amounts are paid.

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: $364 known

Context: During testing, we noted the following:

- For one payment tested, a client authorized for only eight partial days of chore service was provided nine partial days, resulting in questioned costs of $6.

- For one payment tested, the client was authorized for up to 20 hours of chore service per week. This service authorization was exceeded by seven hours for the two weeks tested, resulting in questioned costs of $46.

- For one payment tested, 91 hours of child care per week was authorized, but the parent appears to have had only one full-time job. Therefore, 91 hours per week does not seem reasonable. In addition, 2.5 hours were improperly billed at the same time by two different providers, resulting in questioned costs of $11. Additionally for this case, one provider improperly billed the daily rate plus four hours when he worked 12 hours continuously. Per the service authorization, the day rate should be billed any time continuous care is provided for six or more hours in a day or up to 24 hours. Only the daily rate should have been billed, resulting in questioned costs outside of the sample of $19.

- For one child care payment tested, the provider improperly billed an extra two hours each day in addition to the daily rate. Per the service authorization, the daily rate should be billed if care exceeds six hours in a day. Only the daily rate should have been billed, resulting in questioned costs of $149. Additionally for this case, there was no documentation to support that the parents were paying at least the basic cost of routine child care, resulting in questioned costs outside of the sample of $92.

- For one payment tested, the provider billed 149 roundtrip miles for a shopping trip to Wal-Mart. Several Wal-Marts were closer to the client. The Agency did not document why the further Wal-Mart was necessary. One was 48 miles closer roundtrip, resulting in questioned costs of $12.

- One provider billed for a partial day when he recorded only 1.5 hours of work. Per the service authorization, a partial day should be billed when working 5 to 13 hours. The reviewer noted there was an error, and the Individual Provider Record of Services (IPROS) and billing document were resubmitted for payment. The amount recorded was changed to 8 hours worked instead of 1.5, but the IPROS was not signed by the client to attest that services were provided for the additional 6.5 hours, resulting in questioned costs outside of the sample of $29.

A similar finding was noted in the prior audit.

Federal payment errors noted in the sample were $224. The total Federal sample tested was $4,396, and total home-based aged and disabled waiver payments for State fiscal year 2014 were $24,054,154. Based on the sample tested, the case error rate was 20% (5/25). The dollar error rate for the sample was 5.10% ($224/$4,396), which estimates the potential dollars at risk for fiscal year 2014 to be $1,226,762 (dollar error rate multiplied by population).

Cause: Inadequate review procedures

Effect: Without procedures to ensure payments are adequately supported and reviewed, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all aged and disabled waiver payments are adequately supported and reviewed. This should include comparing billings to authorizations and support of time worked submitted by the providers.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will make AD waiver supervisors aware of these issues in order to better reinforce waiver exceptions with services coordination and claims review staff. Additionally, the Agency will review the process of information submitted by local supervisors to identify and make any enhancements in the process.

Contact: Pattie Flury, Administrator

Anticipated Completion Date: March 1, 2015

Finding 2014-070

Program: CFDA 93.778 – Medicaid Assistance Program – Period of Availability & Special Tests and Provisions

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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

Criteria: According to 42 CFR §447.253(g) (October, 1, 2013), "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(d) (October 1, 2013), 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 a documented segregation of duties. Good internal control also requires audit results be reviewed to determine whether costs have been accurately reported and whether any payment adjustments are appropriate.

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

- The preliminary adjustment for critical access hospitals' outpatient rates was not timely.

- The final adjustment for inpatient rates for critical access hospitals has not been done since 2006.

- The Agency has not reviewed inpatient rates for non-critical access hospitals since 2009, except for annual increases mandated by the Legislature. The 2009 rebasing of cost rates for was not based on audited cost reports.

- There was a lack of documented segregation of duties over the hospital cost reports process.

Questioned Costs: $177,152 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. Critical access hospitals are approved rural hospitals.

For non-critical access hospitals, inpatient 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.

For critical access hospitals, inpatient and outpatient rates are determined based on actual costs, using the original cost report each hospital files with the Agency each year. The original cost report is due to the Agency within five months of the hospital's year end. Two individuals were involved with calculating rates; however, the preparation and approval of the rates were not adequately documented to ensure a segregation of duties over the process. At completion, a letter is sent to the hospital, stating the amount of the adjustment refund or repayment. 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. We tested preliminary rate adjustment payments for seven critical access hospitals and noted the preliminary rate adjustments were not within the period of availability for four of seven tested (one to four months late), resulting in questioned costs of $177,152.

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 adjustment 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, when obtained, the Agency relies on these audits for all the Medicaid hospitals. Audited cost reports are used to make final adjustment payments to critical access hospitals. Final, audited cost reports can generally be obtained from the independent auditor 18 months after the hospital's year end. In prior audits, we noted the Agency has not adjusted rates since 2006. During the current fiscal year, the Agency obtained audited cost reports for 2010 and 2011 and performed some adjustment calculations for 2010. However, no actual adjustments were made. The Agency has not obtained audited cost reports for 2007, 2008, or 2009.

Retroactive payments tested totaled $466,413. (Federal share) Total Federal share of retroactive payments made during the fiscal year was $4,785,668. Based on this sample, the case error rate is 57.14% (4/7). The dollar error rate for the sample is 37.98% ($177,152/$466,413), which estimates the potential dollars at risk for fiscal year 2014 to be $1,817,597.

The Federal share of inpatient hospital payments for the fiscal year totaled $65,454,734; outpatient hospital payments totaled $15,475,995. A similar finding was noted in the five prior audits.

Cause: The Agency acknowledged not having devoted adequate resources to this issue.

Effect: Without procedures to ensure all final audited cost reports are received, the Agency is unaware of issues arising from the audited cost reports, which increases the risk for excessive payments to occur and not be detected. When inpatient rates for non-critical access hospitals are based on inappropriate source data and when rebasing is not performed timely, there is an increased risk calculated rates will be in excess of actual costs. 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 go undetected.

Recommendation: We recommend the Agency implement procedures to ensure preliminary and final adjustments for critical access hospitals' inpatient and outpatient rates are performed timely. Inpatient rates for non-critical access hospitals should be reviewed timely and rebased using audited cost reports. We further recommend segregation of duties over the hospital cost reports process be documented.

Management Response: The Agency partially agrees with the condition reported. The Agency agrees that the preliminary adjustment for critical access hospitals outpatient rates was not timely. However, it should be noted that a majority of the outpatient rates were set in a timely manner. Only 6 of 65 hospitals outpatient rates were not set timely.

The Agency disagrees that the final adjustment inpatient rates for critical access hospitals has not been done since 2006. Audited cost reports for 2010 have been obtained and several audited cost report settlement payments as well as requests for payments (from facilities) have been settled. A plan is in place to purchase all audited cost reports, starting with 2010 until current. And once caught up, start working backwards from 2009.

The Agency disagrees that there was a lack of documented segregation of duties over the hospital cost report process. The entry, review, and approval roles are segregated amongst staff. A detail of the segregation of duties is outlined in the Standard Operating procedures, which is available upon request.

Corrective Action Plan: The Agency will initiate the procurement process to solicit the services of a consultant to rebase inpatient rates for noncritical access hospitals.

Contact: Flora Coan, Administrator;
Kim Collins, Financial and Program Analysis Unit Manager

Anticipated Completion Date: June 30, 2015

APA Response: We noted four of seven hospital outpatient rates tested were not set timely. During testing, we noted the Agency calculated the cost settlement for 2010 but had not paid any hospitals or requested any refunds during the fiscal year for

2010 cost settlements. Although segregation of duties is outlined in the Standard Operating procedures, there was no documentation to support the procedures were followed and that duties were segregated.

<u>Finding 2014-071</u>

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

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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

Criteria: Per 42 CFR § 447.253 (October 1, 2013):

> *The Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and Federal laws, regulations, and quality and safety standards . . . . The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.*

Per the Nebraska Medicaid State Plan, Attachment 4.19-D, § 12-011.11 (Audits):

> *The Department will perform at least one initial desk audit and may perform subsequent desk audits and/or a periodic field audit of each cost report. Selection of subsequent desk audits and field audits will be made as determined necessary by the Department to maintain the integrity of the Nebraska Medical Assistance Program. The Department may retain an outside independent public accounting firm, licensed to do business in Nebraska or the state where the financial records are maintained, to perform the audits. Audit reports must be completed on all field audits and desk audits. All audit reports will be retained by the Department for at least three years following the completion and finalization of the audit.*

Per AICPA Professional Standards AU Section 326.08:

> *Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control) . . . . Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles.*

A sufficient internal control plan requires procedures 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 that the Agency has performed only one audit of long-term care facilities during the last five years. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: We noted the Agency performed only one field audit on long-term care facilities during the last five years. One field audit was completed in September 2011 for the fiscal year ended 2010. The last field audit previous to this was completed in July 2008 for the fiscal years ended 2005 and 2006.

In State fiscal year 2014, the Agency began performing risk assessments of long-term care facilities. We tested 26 desk audits and noted 2 of these were considered "high risk." For one of these, the issue has persisted for several years with no follow up.

The Agency paid $183,664,979 to long-term care facilities for Medicaid in fiscal year 2014 (Federal share).

Cause: The Agency does not dedicate adequate resources to the task of field audits. Though intending to contract with a private CPA to perform field audits of high risk facilities, the Agency did not do so during the fiscal year.

Effect: 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 devote adequate resources to field audits of long-term care facilities.

Management Response: The Agency does not agree with the condition reported. The Agency's desk audit involves a much more detailed review than standard "desk audits", which typically consist of a limited-scope examination of documents. The Agency's desk audit process is functionally similar to a field audit, as it involves a detailed review of extensive supporting documentation requested from the provider. The Agency has implemented a risk assessment tool of long-term care facility reports.

Corrective Action Plan: The Agency will continue to perform detailed desk audits of nursing facility cost reports. Should the desk audit indicate a need for a field audit, the Agency will procure the services of a certified public accountants firm to perform the field audits.

Contact: Flora Coan, Administrator

Anticipated Completion Date: June 30, 2015

APA Response: The Agency paid nearly $334 million to nursing facilities for Medicaid in fiscal year 2014 ($183,664,979 Federal funds and $150,329,108 State funds) and over $980 million in the last three fiscal years. No field audits were completed, even though some facilities were considered high risk. 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 2014-072

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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

Criteria: Per OMB Circular A-87, Attachment A, § C(1)(j), costs must be adequately documented. Per the contract with the provider, the Agency "will provide reimbursement of actual approved costs . . . ." (Emphasis added.)

Condition: The Agency had inadequate supporting documentation for the amounts paid for team behavioral consultations.

Questioned Costs: $1,122,375

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. Inadequate procedures are performed to ensure the total costs paid are correct. The Agency ensures the totals on the provider's detailed listing recalculate to the invoice amount. If the totals do not agree, an inquiry is made. The Agency additionally performed a site visit during the year and indicated staff reviewed some invoices. However, the Agency did not document what invoices were reviewed and did not tie provider invoices to Agency payments. Total Federal share of payments to the provider during the fiscal year was $1,122,375.

A similar finding was noted in the prior audit.

Cause: Based on our audit, the Agency enhanced its procedures to obtain a detailed listing of the total costs but did not verify the costs reported by the provider to actual invoices, payroll registers, etc.

Effect: Increased risk of loss or misuse of Federal funds

Recommendation: We recommend the Agency implement procedures to ensure amounts paid are adequately supported and in accordance with Federal requirements.

> **Management Response:** The Agency agrees with the condition reported.
>
> **Corrective Action Plan:** The Agency implemented a process for obtaining and evaluating billing submissions from the contractor.
>
> In addition, Agency staff will meet at the OMNI Behavioral Health periodically to do an in-depth review of the actual documentation behind each of the line items that are documented to support billing from OMNI. Reviewers will document the receipts reviewed and the outcome of their analysis. The first in-depth on-site evaluation of this nature took place on December 4, 2014 and no significant issues were noted.
>
> After further discussion with State Auditor staff, it was also determined that along with the in-depth reviews, Agency staff will randomly pick at least one line item each month and request the spreadsheet for that line item.

Contact: Kim McFarland, Contract Coordinator

Anticipated Completion Date: June 30, 2015

APA Response: The APA did discuss methods for ensuring amounts paid are adequately supported and in accordance with Federal requirements. However, we were not involved in determining the Agency's revised procedures.

Finding 2014-073

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

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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, all administrative payments were received, or prior findings were resolved timely.

Questioned Costs: $23,238 known

Context: The Agency has contracts with two consortiums that distribute 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 $12,919,941 in Federal funds to the Nebraska Medicaid Schools Consortium and the Nebraska Association of School Boards (NASB) Medicaid Consortium during the year, which then distributed the funds to schools.

The Agency ensured the 3% is collected; however, we noted $16,834 Federal share was inappropriately returned to the Nebraska Schools Medicaid Consortium.

The Agency received the A-133 audit for the NASB Medicaid Consortium for its year ended August 31, 2012. There was a finding related to over-reporting of costs totaling $1,102. The Agency submitted a management decision regarding the finding to the subrecipient on April 7, 2014, which is eleven months after the A-133 report date of May 10, 2013. Management decisions are supposed to be issued within six months; the decision was five months late.

The Nebraska Department of Education (NDE) reviews school district audit reports and has historically informed the Agency of any findings related to programs administered by the Agency. NDE notified the Agency of one school district audit finding with Medicaid questioned costs totaling $6,404 on March 14, 2013. As of November 2014, the Agency has not followed up or issued 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: Inadequate procedures

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 school claim payments 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 withdrew the inaccurately collected 3% Federal Share from the Nebraska School Medicaid Consortium. The Agency has implemented internal controls that outline procedures for the Agency Accounting to accurately drawn down the 3% fee per consortium. These procedures outline the process for Consortium(s) utilizing a Depository Fund or a Consortium(s) utilizing a paper check payment process.

As recommended in the 2013 Single State Audit, the Agency utilized an accounting and consulting firm to complete a review of the NEBMAC program. Recommendations provided by this report are currently being reviewed by management staff.

The Agency will perform timely follow up on recommendations from all audit findings.

Contact: Chad Frank, Administrator

Anticipated Completion Date: June 30, 2015

Finding 2014-074

Program: CFDA 93.778 –Medical Assistance Program – Eligibility

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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

Criteria: 42 CFR § 435.916 (October 1, 2013) requires the Agency to redetermine the eligibility of Medicaid beneficiaries at least every 12 months. A good internal control plan requires policies to ensure eligibility determinations are completed every 12 months.

Condition: Three of 25 Medicaid managed care recipients tested did not have eligibility redeterminations completed every 12 months.

Questioned Costs: $526 known

Context: During testing of managed care recipients, we noted the following:

- For one case, the annual eligibility redetermination due in May 2013 was not completed. The case was not closed until December 2013, resulting in questioned costs of $12 in our sample and $514 outside of our sample.
- For one case, the annual eligibility redetermination due in May 2014 was not completed. The case was not closed until October 2014.
- For one case, the annual eligibility redetermination was four months late.

Federal payment errors noted were $12. The total Federal sample tested was $1,829, and total Federal managed care payments for the fiscal year were $280,872,375. Based on the sample tested, the case error rate was 12% (3/25). The dollar error rate for the sample was 0.66% ($12/$1,829), which estimates the potential dollars at risk for fiscal year 2014 to be $1,853,758 (dollar error rate multiplied by population).

A similar finding was noted in the prior audit.

Cause: Worker error

Effect: Without timely eligibility redeterminations, there is an increased risk of improper payments for ineligible recipients.

Recommendation: We recommend the Agency implement procedures to ensure eligibility redeterminations are performed when required, and cases are closed on a timely basis.

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 and timely eligibility determinations.

Contact: Catherine Gekas Steeby, Administrator

Anticipated Completion Date: Completed

Finding 2014-075

Program: CFDA 93.778 – Medicaid Assistance Program – Special Tests and Provisions

Grant Number & Year: All open, including #051405NE5MAP, FFY 2014

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

Criteria: 42 CFR § 455.1 (October 1, 2013) sets forth the requirements for a State fraud detection and investigation program, including a method to verify whether services reimbursed by Medicaid were actually furnished to beneficiaries. 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.

Neb. Rev. Stat. § 84-710 (Reissue 2014) requires receipts for any money belonging to the State be paid into the State treasury "within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."

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 7 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: $6,546 known

Context: One case was referred to the Medicaid Fraud Control Unit (MFCU) for potential fraud. The provider potentially submitted duplicate service codes on the same date for a single service. The claims in question totaled $6,412 Federal share. Although there was an ongoing fraud investigation, an Agency staff member unaware of the investigation reviewed and paid the claims. The case was then closed with no further action.

For five cases, a check received by the Agency was not deposited within three business days, as required by State statute:

Check Amount	Check Received Date	Deposit Date	Days Late
$245	January 23, 2014	Never deposited*	251*
$350	December 19, 2013	July 3, 2014	191
$1,381	January 24, 2014	March 14, 2014	44
$379	December 9, 2013	January 17, 2014	36
$7,766	October 8, 2013	October 17, 2013	6

* The check had not been deposited as of October 6, 2014. The Federal share of $134 is considered questioned costs.

One case was opened November 16, 2012. No work was performed on the case for 14 months, from March 2013 to May 2014, because the staff member assigned to the case had an extended illness. The Agency did not reassign the case during her absence. The Agency has not yet determined whether there were any overpayments or fraud.

A similar finding was noted in the prior audit.

Cause: System limitations, worker error, and failing to devote adequate resources to depositing checks and working cases in a timely manner

Effect: Loss or misuse of Federal funds

Recommendation: We recommend the Agency implement procedures to ensure claims under investigation of fraud are not paid. We further recommend the Agency deposit all checks within timeframes established by State statute. We further recommend the Agency implement procedures to ensure cases are worked timely.

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

The Agency disagrees that the procedure codes billed in the above cited case were duplicates. Agency staff reviewed documentation submitted and determined that both services that were billed on the same service date were payable. The MFCU closed the investigation after learning of the Agency determination that both services were payable. Established protocols preclude the disclosure to non-Program Integrity employees of the status of an ongoing investigation.

The Agency agrees that State laws governing the deposit of funds received should be followed. However, in many situations, given the Federal reporting requirements, it is not possible to complete all of the tasks that are necessary to apply refunds to claims and deposit a check in to the correct account. Further, if the amount of the check exceeds what the Agency can accept for a refund, the entire check must be returned since this account does not allow for the return of overages to providers. Finally, if a provider submits a check as part of a self-disclosure, cashing the check could be considered a tacit agreement that the provider has made a full and accurate disclosure of erroneous claims. This could limit the ability of the Agency (and possibly other law enforcement entities) from fully investigating a provider’s claims submissions for fraud, waste, and abuse.

There are no State or Federal laws specifying the timeliness of Program Integrity investigations. All Program Integrity cases are investigated thoroughly. Cases and projects are worked in a priority that is regularly assessed by the individual investigator and administration. However, the Agency agrees that cases should be reassigned if/when there is an extended employee leave.

Corrective Action Plan: Medicaid & Long-Term Care (MLTC) staff will collaborate with staff in the Financial Services Section to continue documenting that all checks for refunds are under appropriate controls, and deposited as timely as possible. The Agency will collaborate on proposing that the State law be amended to accommodate all of the tasks that must be accomplished to deposit a check accurately. MLTC and Financial Services will collaborate to establish a lock box and associated payment account to cash checks immediately and be able to return excess amounts to providers. MLTC will consult with legal staff and law enforcement entities to determine if interpretations related to self-disclosures are appropriate. The Agency will also continue to assess staff workload, reassign cases as workload or employee leaves dictate.

Contact: Anne Harvey, Program Manager

Anticipated Completion Date: June 30, 2015

APA Response: Although there are no specific guidelines on the timeliness of investigations, good internal control requires cases to be reviewed without extended delays. Without timely reviews, there is an increased risk for errors or possible fraud to continue, causing additional loss of funds.

Finding 2014-076

Program: Various, including CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

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

Summary: Audit finding #2014-004 (External MMIS User Access) and Audit finding #2014-005 (N-FOCUS User Access), included in Part II of this report, relate to both the financial statements and Federal awards. The findings relate to user access and controls over MMIS and N-FOCUS and affect all Federal programs utilizing these systems. The Medicaid Management Information System (MMIS) supports the operation of the Medicaid program. The Nebraska Family Online Client User System (N-FOCUS) application is used to automate benefit/service delivery and case management for several Agency programs, including Medicaid, TANF, SSBG, Foster Care, and the Child Care and Development Block Grant.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency has initiated a project to review all N-FOCUS profile functionality and access assignments. The DHHS Internal Auditors (IA) office is taking the lead in planning, coordinating, and management of the project. The IA office will observe the work and job duties performed by Division Business Units who utilize the N-FOCUS data system. Based upon the documented work flow and job duties the IA will work with the N-FOCUS support staff to update, modify, and add appropriate access profiles to address minimum necessary access requirements. The project has already been initiated with the two CFS Division business units with a project plan starting date of January 2, 2015. Due to size and complexity of 30 business units using a single data system, the project completion timeline is 12 months.

The DHHS Human Resources and Development Division has initiated a project to incorporate an annual review of workers IT access into the annual worker HR Performance Review process. The annual review will be included in the EDC Performance process documented and tracked in the EDC LINK tracking tool. The HR Division has begun work with the N-FOCUS Support Staff to identify worker access assignments to be incorporated into the review process. The targeted date for implementation is January 2015.

The N-FOCUS security team removed the Force Pay (FP) functionality from the base access profile removing FP from all 53 previously assigned individuals on November 9, 2014. A new special Force Pay (FP) group profile was created for better management of FP functionality. The new FP group profile functionality is not inherited from any other access profile and must be assigned specifically to individuals and requires approval from a granting authority before being assigned. The FP profile was put into production on November 9, 2014 and assigned to only seven individuals (six workers in Financial Services, and one worker in Developmental Disabilities).

The EDI Help Desk has begun to take corrective actions toward improvement of the documentation, maintenance, and control of external MMIS access. Work hours have been delegated to the project and will continue. Employees are taking steps to improve our external MMIS access control overall. Our focus involves updating the External MMIS User spreadsheet, reaching out to providers to update contact information and user status and/or removing access for non-responsive parties, reviewing and implementing processes for renewing and enrolling external MMIS users, and implementing procedures, including corrective action for access abuse and misuse. The Agency anticipates improvement over the course of the coming months, as well as next year.

Contact: Allan Albers, IT Infrastructure Support Analyst/Senior
Bob Kane, Administrator

Anticipated Completion Date: June 30, 2015

DEPARTMENT OF LABOR

Finding 2014-077

Program: CFDA 17.225 – Unemployment Insurance – Reporting

Grant Number & Year: All open grants, including UI-25218-14-55-A-31, FFY 2014

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133, § __.300(a), requires the State to "[i]dentify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." 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 on the SEFA. We informed the Department of Administrative Services (DAS) and the Agency of the errors, and the SEFA was adjusted.

Questioned Costs: None

Context: The Agency reports Unemployment Insurance (UI) program expenditures to be included on the SEFA to DAS. DAS then compiles the information for all agencies and reports to the Auditor of Public Accounts.

Beginning with the October 2013 Employment & Training Administration (ETA) 2112 report, the Agency changed how child support withholdings from benefit payments were reported on the ETA 2112 reports. These withholdings were no longer shown as a transfer into the Benefit Payment Account from the Unemployment Trust Fund; instead, they were shown as a separate line item disbursement from the Unemployment Trust Fund. This resulted in UI State benefits being understated. We also noted $9,102 included as administration that should have been Federal benefits.

The effects on the SEFA for CFDA 17.225 were:

SEFA	Originally Reported	Revised	Change
UI – Federal	$ 13,669,575	$ 13,678,677	$ 9,102
UI – State	$ 101,354,216	$ 103,213,497	$ 1,859,281
UI – Admin	$ 18,125,805	$ 18,116,703	$ (9,102)
UI – Admin (Recovery)	$ 194,678	$ 194,678	$ -
Total UI	**$ 133,344,274**	**$ 135,203,555**	**$ 1,859,281**

Cause: Reporting instructions were not specific, and the Agency thought the change to child support withholding reporting was more accurate. After we brought this issue to the Agency's attention, clarification was obtained from the Federal grantor that child support withholdings should be reported on the ETA 2112 report in the same manner as Federal withholdings, so the Benefit Payment account more accurately reflects the actual disbursements.

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

Recommendation: We recommend the Agency implement procedures to ensure amounts are properly reported on the SEFA.

> **Management Response:** We erroneously thought that by breaking out the child support it gave a more accurate reporting of our activities. After the APA brought this to our attention, Federal guidance was received that we needed to go back to our old reporting method. As indicated above, the SEFA was adjusted to reflect these transactions. We are again including the child support in the transfer amount from the Trust fund and the benefit account. We will perform a closer review of any transactions that are moving expenses to or from the period of the SEFA report.
>
> **Corrective Action Plan:** Effective August 2014, we reverted back to our old reporting methods based on guidance from the Department of Labor. At that time, we initiated other internal tracking methods to break out the child support amounts.
>
> **Contact:** Kim Schreiner
>
> **Anticipated Completion Date:** Completed August of 2014

LIBRARY COMMISSION

Finding 2014-078

Program: CFDA 45.310 – Grants to States – Allowability

Grant Number & Year: #LS-00-12-0028-12, FFY 2012; #LS-00-13-0028-13, FFY 2013

Federal Grantor Agency: Institute of Museum and Library Services

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: Our calendar year 2013 attestation report noted that the Agency did not have proper documentation to support time charged to Federal programs when employees worked on multiple activities.

Questioned Costs: Unknown

Context: Upon inquiry with the Agency, it was determined that six Agency staff were charging time to both a Federal award and a non-Federal award during July 1, 2013, to December 31, 2013. The Agency was unaware of the OMB requirement; therefore, none of these six staff would have adequate documentation supporting the percentage split between Federal and non-Federal programs. The Agency indicated Federal time charged was estimated based on staff discussions related to employees' job responsibilities. The following table summarizes, by grant number, the gross wages paid to the six staff members from July 1, 2013, to December 31, 2013:

CFDA	Grant Number	Amount
45.310	LS-00-13-0028-13	$37,920
45.310	LS-00-12-0028-12	32,102
	Total	$70,022

Cause: Agency was unaware of the Federal requirement.

Effect: Increased risk for misuse of grant funds.

Recommendation: We recommend the Agency implement procedures to ensure proper documentation for all staff paid with Federal grants is on file in accordance with Federal regulations.

Management Response: The Commission was aware of the requirement but not the extent of documentation necessary to support expenditures. State and Federal payroll allocations for Commission staff are appropriate. The nature of the Library Commission's programs and services are such that in most instances there is minimal difference between activities that are State or Federal. The Commission recognizes that for those activities that are identifiable as State activities expenditures for personnel salaries and benefits must reflect those distinctions.

Corrective Action Plan: The Commission will address payroll requirements with the Institute of Museum and Library Services to assure that Federal requirements are appropriately documented.

Contact: Jerry Breazile, Business Manager

Anticipated Completion Date: August 30, 2014

Finding 2014-079

Program: CFDA 45.310 – Grants to States – Allowability & Earmarking & Reporting

Grant Number & Year: #LS-00-12-0028-12, FFY 2012

Federal Grantor Agency: Institute of Museum and Library Services

Criteria: 20 USC § 9132(a), relating to Subchapter II – Library Services and Technology, states:

Not more than 4 percent of the total amount of funds received under this subchapter for any fiscal year by a State may be used for administrative costs.

According to 45 CFR § 1183.20(a) (October 1, 2013):

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.*

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.*

A good internal control plan requires procedures to ensure amounts reported to the Federal awarding agency are accurate and properly supported.

Condition: The Agency did not have adequate documentation to support that it was in compliance with the requirement that no more than four percent of the Federal grant award be used for administrative expenses. In addition, the Agency allocated 25 percent of rent expense to the Federal grant; however, this allocation does not appear to be in accordance with OMB A-87, and the Agency did not have documented support that rent expense was a program expense rather than an administrative expense.

Questioned Costs: $133,999 known

Context: The Agency was awarded $1,377,353 for the 2012 grant, of which four percent, or $55,094, could be used for administration. Per the final financial status report for the 2012 grant, the Agency reported the maximum amount of $55,094 was spent on administrative costs. Per the Agency's support, administrative costs included $53,714 in payroll and $2,290 in other operating expenditures for a total of $56,004 – some $910 over the maximum allowed amount. The Agency indicated some of the $53,714 included payroll for program expenditures; however, there was no detail or documentation to support the amount of payroll claimed as program expenditures. Also, the Agency did not have any documentation to support that any payroll could be claimed as program expenditures.

Also, the Agency did not separately identify program expenditures from administrative expenditures on the State's accounting system; therefore, we were unable to determine if the amount spent on administrative expenses fell within the cap requirement. Instead, a manual spreadsheet was used by the Agency to track administrative expenditures; however, we were unable to determine if this spreadsheet was complete and listed all administrative-related expenditures.

In addition, we noted that $133,999 for rent was charged to the 2012 grant as a program expense. Per discussion with the Director, it has been the Agency's long-standing practice to allocate rent as a program expense on a 75 percent State and 25 percent Federal basis in proportion to the Agency's annual State and Federal appropriations. This practice does not appear to be in accordance with OMB A-87, which requires allocations to be based upon relative benefits received. Therefore, we consider $133,999 to be questioned costs. Additionally, the APA was unable to determine if rent expense should be classified as an administrative expense rather than as a program expense and, therefore, be subject to the four percent administrative cap.

The following table illustrates how the Agency spent the 2012 grant:

Expenditure Type	Amount
Payroll	$688,216
Operating	178,274
Travel	17,307
Capital Outlay	550
Aid	493,006
Total	**$1,377,353**

The Agency did not have adequate documentation to support only $55,094 of grant expenses were administrative expenses.

Cause: In part, it should be noted that the Agency employee who created the final financial status report terminated employment in January 2014, and the current staff was unable to locate documentation to address appropriately the questions raised.

Effect: Increased risk of noncompliance with Federal requirements and increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure expenditures noted on Federal reports can be traced to the accounting system. Additionally, we recommend the Agency work with the Federal grantor to determine what expenses are considered administrative. Finally, we recommend the Agency determine an appropriate allocation of rent to the Federal award, based on the relative benefits received.

Management Response: The 75% State and 25% Federal cost allocation for office lease space is appropriate but the Commission recognizes that this split is not adequately documented. The Commission's Talking Book and Braille Service (TBBS) is largely supported from the LSTA State program grant. The TBBS, for example, occupies approximately 35% of the Commission's leased office space. This space usage exceeds the total spent from LSTA funds for leased office space.

The Commission's expenses for administration of the LSTA State program grant are largely supported from the Commission's State general fund appropriation.

Corrective Action Plan: Commission management will seek guidance from the Institute of Museum and Library Services to assure that administrative expenses charged to the Federal grant are properly documented and are within the 4% Federal funds expenditure cap.

The Commission is reviewing space usage and will allocate office space lease costs accordingly (i.e., administrative, reference/information services, publications clearinghouse, TBBS, Technology & Access Services, Library Development, etc.).

Contact: Jerry Breazile, Business Manager

Anticipated Completion Date: September 30, 2014

Finding 2014-080

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Grant Number & Year: #LS-00-12-0028-12, FFY 2012; #LS-00-13-0028-13, FFY 2013

Federal Grantor Agency: Institute of Museum and Library Services

Criteria: Title 236 NAC 2-008.03 states:

> *Funds designated for support of regional multi-type library systems shall be disbursed to the systems according to a formula and guidelines adopted annually by the Commission Board. The formula shall have two parts: an equal base allocation for each system, and an allocation based on an approved system service plan.*

45 CFR § 1183.20(a) (October 1, 2013) states, in part:

> *A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds.*

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

> *A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.*

According to Section (3) of the August 18, 2003, agreement between the Agency and the Republican Valley Library System:

> *The System will provide or perform the following, related to financial matters . . . . Have a biennial audit completed and submitted to the Commission's Business Manager.*

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 process to determine the amount of aid provided was not approved by the Board, as required by rules and regulations, and subrecipient monitoring procedures were not adequate.

Questioned Costs: Unknown

Context: The State of Nebraska is divided into six regional library systems. These systems are non-profit entities governed by boards that are representative of libraries and citizens in the region. The systems were established to provide access to improved library services. A significant portion of the systems' funding comes from the Agency through both State and Federal funds.

We tested one payment to a regional library system during State fiscal year 2014. The aid payment tested was to the Republican Valley Library System (System) for $24,356 and paid with the 2012 grant. During testing of this payment, the following was noted:

- The Board did not approve the process used to determine the amount of aid to provide to the System. Instead, the Agency based the aid payment to the regional system upon the prior year's funding, plus an amount for increased anticipated expenses of the System.

- The agreement required the System to have a biennial audit completed and submitted to the Agency. An audit provides an independent opinion on whether the financial statements are fairly presented in all material respects. Rather than an audit, the Agency received a compilation of the System's financial statements, which did not provide an opinion on the financial statements or any assurance that grant funds were properly spent.

- The Agency did not notify the System of the CFDA title and number, award number, award year, and Federal awarding agency, as required by OMB Circular A-133.

- To monitor the funds received, the System was required to submit a plan of service to the Agency that detailed its goals and objectives. The Agency also received a compilation of the System's financial statements, as noted above. Furthermore, the Agency indicated that an Agency staff representative attended all System board meetings. At the board meetings, a detailed listing of System expenditures was provided. This listing was reviewed for allowability; however, the Agency did not compare the expenditure listing to the System's financial statements to ensure no expenditures were left off of the listings provided at the board meetings. Additionally, the Agency did not review support for the expenditures included on the System listings to ensure they were allowable per Federal regulations.

The following amounts were paid, from Federal funds, to the six regional systems as aid during the time period of July 1, 2013, to December 31, 2013:

CFDA	Grant Number	CY13 Amount
45.310	LS-00-12-0028-12	$137,803
45.310	LS-00-13-0028-13	41,655
Total		$179,458

Cause: The Agency was not familiar with the Federal requirements. Additionally, the Agency was unaware that a compilation of financial statements was different than an audit.

Effect: Noncompliance with rules and regulations, Federal requirements, and agreements in place, as well as an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency follow established rules and regulations and ensure its board approves the formula and guidelines used to calculate funding to the regional systems. Additionally, we recommend the Agency notify the systems of the grant information, as required by OMB Circular A-133. Finally, we recommend the Agency strengthen its monitoring procedures by comparing the systems' detailed expenditure listings to the compiled financial statements and implement procedures to review support for these expenditures to ensure they are allowable.

Management Response: Annual payments to the regional library systems have been maintained at approximately the same level over the past few fiscal years. This reflects biennium appropriations that remained at prior levels, including both State and Federal funds. As such, Commission board approval was not sought to affirm these amounts.

Corrective Action Plan: Annual approval for regional system funding allocations will be requested per Commission rules & regulations.

The Commission acknowledges that regional library system contract amendments did not reference the appropriate Federal requirements for financial management. The Commission included these references in its most recent grant agreement amendments. In addition, the Commission will issue a reminder to the regional library systems of sub-grant requirements applicable to the Library Services and Technology Act.

Contact: Rod Wagner, Director, or Richard Miller, Library Development Director

Anticipated Completion Date: September 1, 2014

COMMISSION ON LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding 2014-081

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant (JAG) Program – Allowability & Subrecipient Monitoring

Grant Number & Year: All open grants including 2013-DJ-BX-0021, FFY 2013

Federal Grantor Agency: U.S. Department of Justice

Criteria: OMB Circular A-87 states that to be allowable, costs must be reasonable, necessary, and adequately documented.

OMB Circular A-133 § 400(d) states,

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

A good internal control plan requires procedures to monitor subrecipients and ensure compliance with Federal requirements. Good internal control also requires procedures to ensure A-133 audit reports are received, reviewed, and any findings are appropriately followed up.

Condition: The Agency did not have adequate documentation to support payments to subrecipients were for allowable activities, in accordance with allowable cost principles. Furthermore, the Agency did not have A-133 reports on file for three of four subrecipients tested.

Questioned Costs: $6,035 known

Context: We noted the following:

- Two of five subrecipient payments tested, totaling $6,035, did not have any documentation to support that the payment was made in accordance with Federal regulations. No on-site reviews or other procedures were performed to ensure payments were allowable. However, the Agency indicated that after August 2013, supporting documentation from subrecipients was being requested. The two payments noted were paid prior to this change.

- The Agency did not have procedures to ensure subrecipient A-133 audit reports were received, reviewed, and deficiencies followed up. For three of four subrecipients tested, the most current A-133 audit report was not on file. All three subrecipients had A-133 audits due during fiscal year 2014; furthermore, all three subrecipient audits were available on the Federal Audit Clearinghouse during fiscal year 2014. The Agency had neither obtained the audits from the subrecipient nor reviewed the Federal Audit Clearinghouse reports. None of the A-133 audits had findings that would have required the Agency's follow up.

A similar finding was noted in the prior audit.

For fiscal year ended June 30, 2014, payments of $487,264 were made to ten subrecipients. Federal payments tested with no supporting documentation totaled $6,035. The total Federal sample tested was $26,790. The dollar error rate for the sample was 22.53% ($6,035/$26,790), which estimates the potential dollars at risk for fiscal year 2014 to be $109,781 (22.53% dollar error rate multiplied by $487,264 population).

Cause: The Agency did not always require subrecipients to provide supporting documentation when requesting funds. The Agency did not have an adequate system to track the filing of subrecipient audit reports, and therefore, did not have all of the audit reports on file.

Effect: Noncompliance with Federal regulations. Also, without adequate monitoring procedures there is an increased risk for unallowable subrecipient expenditures to be paid.

Recommendation: We recommend monitoring be improved to ensure subrecipient expenditures are allowable and in accordance with Federal regulations. This monitoring should include reviews of supporting documentation for expenditures reported on the subrecipient cash reports. Furthermore, we recommend the Agency ensure A-133 audit reports are received, reviewed and deficiencies are appropriately followed up.

Management Response: Of the $6,035 in questioned costs, $4,368 was paid to the Indian Center of Lincoln for an Alcohol and Drug Counselor and $1,667 was paid Banister's Leadership Academy for a Leadership Specialist. These are allowable expenses of the grant.

During the time of these payments, our Financial Program Manager conducted annual on-site reviews of all federal grant programs. The Indian Center's last two on-site reviews were on July 18, 2013 and July 9, 2014. Banister's Leadership Academy's had an on-site review on April 30, 2013 and a desk review was performed on June 16, 2014. During these reviews the Financial Program Manager looked at the supporting documentation for the expenses reported on the subrecipient's cash report for a randomly selected quarter. At on-site visits the Financial Program Manager also reviews other financial and programmatic records and observes operations. The two payments that are the questioned costs were not in the randomly selected transaction when the Financial Program Manager did the on-site review. As a result of the grant application review process, quarterly desk reviews, and annual on-site reviews we believed our subrecipient's activities were adequately monitored to ensure that Federal awards were used for authorized purposes in compliance with the grant agreements. Many of our payments to subrecipients are reoccurring in nature.

Corrective Action Plan: As a result of past audit findings, the Crime Commission hired two Federal Aid Administrators to audit all documentation prior to payment to subrecipients. Effective January 1, 2015, the Crime Commission changed its procedures to require supporting documentation for payments to subrecipients. All federal grants are now reimbursed after review and approval of supporting documentation.

All subgrantees are required to submit their current A-133 audit report prior to the issue of the grant award. Crime Commission will utilize the Federal Audit Clearinghouse Database to obtain audit reports subsequent to the grant award. The A-133 audit reports are reviewed by the Grants Division Chief and recorded in our internal Grant Management Information System. An audit tracking sheet for A-133 audits was developed, which includes year of the audit, date received, due date of next audit, documentation the audit has been reviewed, and any follow- up action if necessary. If findings are in relation to our pass-through funds the Grants Division Chief will issue a management decision within 6 months and ensure appropriate corrective action is taken.

Contact: Lisa Stamm, Chief, Grants Division

Anticipated Completion Date: Completed.

APA Response: The Agency indicated they conducted annual on-site reviews. However, the monitoring procedures performed were for the 2013 grant funds; we tested the 2012 grant funds and there was no monitoring performed during the fiscal year for the two subrecipients tested. Also, as the Agency indicates, audits were obtained prior to the subaward; but A-133 audits were not obtained subsequent to the expenditure of grant funds by the subrecipient, as required by A-133.

Finding 2014-082

Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant (JAG) Program – Reporting

Grant Number & Year: 2010-DJ-BX-0461, FFY 2010; 2012-DJ-BX-0661, FFY 2012

Federal Grantor Agency: U.S. Department of Justice

Criteria: 28 CFR § 66.20 (July 1, 2013) 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, 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.

2 CFR § 170 (January 1, 2014) establishes requirements for recipients' reporting of information on subawards and executive total compensation, as required by the Federal Funding Accountability and Transparency Act of 2006 referred to as the "Transparency Act".

Per 2 CFR § 170 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.)*

OMB Circular A-133 § ___.300 requires the State:

> *(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received . . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.*

A good internal control plan should include procedures to ensure information is reported timely. Good internal control also requires each grant and grant year be separately identified in the accounting system. The accounting system of the State is EnterpriseOne. EnterpriseOne utilizes business units, which are unique cost centers.

Condition: The Agency did not have individual business units set up in EnterpriseOne to separately account for the financial activity of the 2009, 2010, 2011, and 2012 JAG grants. The business units used by the Agency accounted for all four grants collectively. Furthermore, for all three of the subawards tested, the action was not reported on FSRS.gov as required – which is no later than the last day of the month following the month in which the subaward obligation was made. A similar finding was noted in the prior audit.

Questioned Costs: None

Context: The Agency used manual spreadsheets to accumulate expenditure information by grant year since separate business units were not used for each grant year. The Agency had three business units, with multiple grant years accumulated in each. During the fiscal year, $384,471 in expenditures were recorded to the three business units in EnterpriseOne.

The September 30, 2013, Financial Status Report (FSR) for the 2010 JAG grant, included Federal share of expenditures for the period of $13,211. The amount reported could not be traced to EnterpriseOne as the grant was not tied to a specific business in EnterpriseOne. Therefore, we could not determine the completeness of the report. We also tested the quarter ended March 31, 2014, FSR for the 2012 JAG grant, in which the Agency reported $997,509 of cumulative Federal expenditures. We were unable to trace $14,400 of the Federal expenditures to the specific grant in EnterpriseOne.

Three subawards tested were obligated in December 2013, but the information was not entered until December 2014. The information should have been reported no later than January 2014.

Cause: The Agency did not establish individual business units in EnterpriseOne. The Agency did not have adequate procedures to ensure subawards were submitted timely in FSRS.gov.

Effect: Information was not reported timely. The ability to track and report activity for individual grants is more difficult when separate business units for each grant are not used.

Recommendation: We recommend the Agency ensure information is reported on FSRS.gov timely. Furthermore, we recommend the Agency separately identify each grant and grant year in EnterpriseOne.

Management Response: Federal Funding Accountability and Transparency Act (FFATA) – Grant award information was entered into FSRS.gov on multiple occasions. During the period of this audit our agency was not submitting information until all data was correct. As part of a prior year's audit, Crime Commission submitted its FFATA procedures to the US Department of Justice on October 10, 2014. These procedures were effective in July 2014, which was after the period of this audit.

Unique business units – During the period of this audit, Crime Commission was still expending some funds from the 2010 and 2011 JAG grants. These grants did not have unique business units. The 2012 JAG Administration and JAG Aid funds are set up in the state's accounting system with unique business units. During the course of this audit, we also set up unique business units for the two 2012 JAG subgrants which were awarded to the Crime Commission.

Corrective Action Plan: Federal Funding Accountability and Transparency Act (FFATA) – The Grants Division Chief will work with support staff to ensure all FFATA information is entered no later than the end of the month following the month in which the payment was made. Our agency will now submit data once the grant award information is complete and re-open if necessary to submit further data. Documentation will be made accordingly.

Unique business units – We have corrected the finding that pertains to unique business units for each JAG grant beginning with the 2012 JAG grant. In October 2014, we provided a reconciliation for the U.S. Department of Justice for the expenditures on the 2009, 2010, 2011, and 2012 grants at June, 30, 2014. This reconciliation was reviewed and approved by the Department of Justice in December 2014. The $14,400 error was an error on Grant 12-DA-317 awarded to the Crime Commission. This grant now has a unique business unit set up in the state's accounting system. The FSR for the 2012 JAG grant for the period ending September 30, 2013 corrected this $14,400 error.

In response to the audit finding that pertains to the $14,400 error on the March 31, 2014 FSR for the 2012 JAG grant, it should be noted that this FSR contains a prior adjustment of $14,400. The adjustment was made on the 2012 JAG FSR submitted on December 5, 2013.

In addition to the unique business units we have created for the JAG block grants beginning with the 2012 Award, we have also created unique business units for the two JAG subgrants which were awarded to the Crime Commission. This will allow for easy reconciliations for the 2012 JAG funds and going forward to the 2013 JAG grant and beyond.

Contact: Federal Funding Accountability and Transparency Act (FFATA) – Lisa Stamm, Chief, Grants Division,

Unique business units – Bruce Ayers, Chief, Budget and Accounting Division

Anticipated Completion Date: Federal Funding Accountability and Transparency Act FFATA – Ongoing, Unique business units – Completed

DEPARTMENT OF ROADS

Finding 2014-083

Program: CFDA 20.509 – Formula Grants for Rural Areas and ARRA Formula Grants for Rural Areas – Allowability & Davis-Bacon Act & Suspension and Debarment & Subrecipient Monitoring

Grant Number & Year: All open grants, including NE-18-X034, FFY 2011; NE-18-X036, FFY 2013; NE-86-X001, FFY 2010 (ARRA)

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87 requires costs to be reasonable, necessary, and adequately supported.

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

> *A pass-through entity shall perform the following for the Federal awards it makes:*
>
> *(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.*
>
> *(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
>
> *(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.*

Per 2 CFR § 180.300 (January 1, 2014), when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person.

2 CFR 25.205 (January 1, 2014) states, "An agency may not make an award to an entity until the entity has complied with the requirements described in § 25.200 to provide a valid DUNS number . . ."

Per 29 CFR 3.3(b) (July 1, 2013):

> *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 payroll 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 . . .*

2 CFR § 176.210(c) (January 1, 2014) states,

> *Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.*

2 CFR § 176.210(d) (January 1, 2014) provides, in relevant part, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above."

2 CFR § 176.50(c) (January 1, 2014) states, as is relevant:

> *Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration [now called System for Award Management or SAM] . . . at all times during which they have active federal awards funded with Recovery Act funds.*

Per OMB Circular A-133, § __.300(b), 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 made to subrecipients were for allowable activities, in accordance with allowable cost principles and per Davis-Bacon Act requirements.

Questioned Costs: $79,629 known

Context: We tested monitoring procedures for 7 of 62 subrecipients and noted:

- The Agency did not inform subrecipients of the Federal award name and number or the CFDA title and number in the award letter or the award agreement. None of the seven subawards tested included the required information.
- The Agency did not review the excluded parties list prior to awarding funds. Additionally, the Agency did not monitor subrecipients to ensure they were reviewing the excluded parties list.
- For all six non-ARRA subrecipients tested, the Agency did not have procedures to obtain the DUNS number.
- The Agency did not obtain the required weekly certified payrolls for one subrecipient tested subject to Davis-Bacon requirements.

- For the one ARRA subrecipient tested, the Agency did not inform the subrecipient of the Federal award or CFDA number at the time of the subaward or the disbursement of funds. At the time of subaward, the Agency did not ensure the subrecipient had a current registration in the System for Award Management (SAM) and did not advise the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Award (SEFA) and the SF-SAC.

- The Agency did not perform adequate subrecipient monitoring. We noted four instances where the Agency did not issue a monitoring report at all and two other instances where the Agency did not follow up to ensure corrective action was taken on the findings noted during subrecipient monitoring.

We also tested 23 payments to subrecipients totaling $192,767. For 20 payments totaling $79,629, adequate supporting documentation was not obtained and reviewed by the Agency. Documentation on file only included worksheets prepared by the subrecipient. The Agency did not obtain any additional support, such as invoices or timesheets, or perform other procedures to verify the accuracy of the amounts reported on the worksheet. Aid payments to subrecipients for fiscal year 2014 totaled $6,246,417. Based on the sample tested, the dollar error rate was 41.31% ($79,629/$192,767), which estimates the potential dollars at risk for fiscal year 2014 to be $2,580,395 (dollar error rate multiplied by population).

A similar finding was noted during the prior audit.

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:

- inform subrecipients of award information and SEFA reporting requirements;

- check current SAM registration for excluded parties;

- obtain DUNS numbers prior to awarding funds;

- obtain certified payrolls for subrecipients subject to Davis-Bacon Act requirements;

- follow-up on subrecipient findings; and

- implement procedures to ensure subrecipient expenditures are allowable and in accordance with Federal regulations.

Management Response: NDOR does not contest this finding.

Corrective Action Plan:

1. Effective immediately, all agreements will contain language informing the subrecipient of the reporting requirements to comply with OMB Circular A-133.

2. Effective immediately, the NDOR Transit Section will check the excluded parties list prior to awarding federal funds.

3. The DUNS number is currently required as part of the application process for Section 5311 and 5310 funds. This process change was implemented in fiscal year 2014.

4. The NDOR Transit Section will require weekly certified payroll information from all future capital construction projects.

5. All Section 5311 site visit follow up reports have been forwarded to subrecipients with deadlines to respond to findings.

6. Beginning in fiscal year 2014, the NDOR Transit Section implemented a financial desktop review process based on selected criteria. The reviews are currently being conducted and documented.

Contact: Kari Ruse, Transit Liaison Manager

Anticipated Completion Date: March 1, 2015

Finding 2014-084

Program: CFDA 20.509 – Formula Grants for Rural Areas – Earmarking

Grant Number & Year: NE-18-X034, FFY 2011

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. One grant closed during the fiscal year, and the Agency spent $116,299, or 1.75% of the total grant funds received, on intercity bus expenditures.

A similar finding was noted during the prior audit.

Cause: The Agency indicated it conducted an intercity bus study to determine the needs of the State. The Agency forwarded the results of the study to the FTA and is waiting on further guidance from the FTA before requesting a certification letter from the Governor.

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: NDOR does not contest this finding.

Corrective Action Plan: The annual certification will be obtained for fiscal years where intercity bus spending was below 15% of the amount made available.

Contact: Ryan Huff, Rail and Public Transportation Division Manager

Anticipated Completion Date: May 4, 2015

<u>Finding 2014-085</u>

Program: CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Grant Number & Year: NE-18-X034, FFY 2011; NE-18-X036, FFY 2013; NE-18-X040, FFY 2014

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, 2014) 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, 2014) 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, 2013), fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports.

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 on the 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 2014, subrecipients received $6,246,417 in Federal aid that should have been reported through the Federal Subaward Reporting System.

- Expenditures were not correctly reported for one of the two FFRs tested. The annual FFR submitted for the NE-18-X036 grant did not include expenditures for the last month of the period and also incorrectly included expenditures for the month prior to the reporting period.

Period Ended	Line Item	Reported	Actual	Variance
Sept. 2013	Period Expenditures	$ 1,833,619	$ 1,878,955	$ (45,336)
Sept. 2013	Cumulative Expenditures	$ 1,907,006	$ 2,079,411	$ (172,405)

A similar finding was noted during the prior audit.

Cause: The Agency indicated it was aware of FFATA reporting requirements but had not begun reporting subawards. Additionally, expenditures were reported using Federal billings submitted during the period, which would include the October 2012 billing with September 2012 expenditures and not the October 2013 billing, which would include September 2013 expenditures.

Effect: Inaccurate reporting could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure all reports are accurate, complete, and submitted as required.

Management Response: NDOR does not contest this finding.

Corrective Action Plan:

1. The NDOR Transit Section will review subawards monthly and submit the applicable FFATA report within 30 days.

2. NDOR will change our expenditure reporting to reflect the correct expenditures for the report period.

Contact: Kari Ruse, Transit Liaison Manager
Frank Faughn, Federal Aid Grants Administrator

Anticipated Completion Date: July 1, 2015

SUPREME COURT

Finding 2014-086

Program: CFDA 16.588 – Violence Against Women Formula Grants – Allowable Cost Principles

Grant Number & Year: 2012-WF-AX-0006, FFY 2012

Federal Grantor Agency: U.S. Department of Justice

Criteria: 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 payroll is charged to the proper activity.

Condition: Payroll charges were not in accordance with OMB Circular A-87. A similar finding was noted in the prior audit.

Questioned Costs: Unknown

Context: One employee with time charged to both Federal and State funds did not have personnel activity reports completed for the time worked on the grants. Total payroll charged to the grant during fiscal year 2014 was $37,473.

Cause: The Agency was not aware of requirements and had not been fully informed of requirements 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 time worked on Federal grants in accordance with OMB A-87.

Management Response: The one employee with time charged to both Federal and State funds left employment in August 2014. The new employee in this position started tracking grant and non-grant related time starting with the timesheet for September 2014.

Corrective Action Plan: Timesheet revised to track grant and non-grant related time.

Contact: Eric Asboe, Budget and Fiscal Officer

Anticipated Completion Date: September 1, 2014

Nebraska Department of Economic Development

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-006	14.228	Community Development Block Grants Reporting	Corrective action is complete.	Repeated with Changes Finding 2014-009
2013-007	14.228	Community Development Block Grants Suspension and Debarment	Corrective action is complete.	No Current Finding

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-008 12-13-02	10.558, 10.553, 10.555, 10.556, 10.559	Child and Adult Care Food Program & Child Nutrition Cluster Reporting	Corrective action is complete.	No Current Finding
2013-009 12-13-03 11-13-01	10.558	Child and Adult Care Food Program Suspension and Debarment	Corrective action is complete.	No Current Finding
2013-010 12-13-04	10.558	Child and Adult Care Food Program Eligibility	Corrective action is complete.	Repeated with Changes Finding 2014-011
2013-011	10.558	Child and Adult Care Food Program Activities Allowed	Corrective action is complete.	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
2013-012 12-13-06	84.027 84.173	Special Education Grants to States & Special Education Preschool Grants Reporting	The language necessary for the certification process has been submitted to the department computer system contractor, who will have the work completed by August 2014. The actual submission will be in October 2014 and at that time the corrective action will be complete.	No Current Finding
2013-013	84.367	Improving Teacher Quality State Grants Special Tests & Provisions	1) Completed: We helped the South Sioux City schools amend the 2013-14 Title IIA application, so it provided appropriate professional development services to private school staff. That application has been approved. 2) In Process: The Nebraska Department of Education changed the 2014-15 public/private school consultation form so it included student membership information. After the fact it was determined we could use student membership data from reports at our agency for the equitable participation part of the form. People are working on that process now. 3) In Process: We have been making preparations to add a private school " equitable participation" page to the 2014-15 Title IIA application that can be used to create the private school allocation calculations using student membership data. The anticipated completion date is November 2014.	Repeated with Changes Finding 2014-016
2013-014	84.367	Improving Teacher Quality State Grants Reporting	Ongoing - Education continues to strive to meet the reporting requirements. A post-upload review is currently being done to help ensure that data is being reported correctly.	No Current Finding
2013-015 12-13-09	84.010	Title I Grants Reporting	Ongoing – Education continues to strive to meet the reporting requirements. A post-upload review is currently being done to help ensure that data is being reported correctly.	Repeated with Changes Finding 2014-012

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Energy Office

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-016 12-71-01	81.042	Weatherization Assistance for Low-Income Persons Cash Management	Corrective action is complete.	No Current Finding
2013-017	81.042	Weatherization Assistance for Low-Income Persons Davis-Bacon Act	Corrective action is complete.	No Current Finding
2013-018	93.568	Low-Income Home Energy Assistance Subrecipient Monitoring	Corrective action is complete.	Repeated with Changes Finding 2014-019

Nebraska Department of Health and Human Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-019	Various 10.557 93.778	Various WIC Medicaid Allowability	The Agency strongly disagrees with the comments made in this finding by the Auditor. No corrective action plan is warranted.	No Current Finding
2013-020	Various 93.658	Various Foster Care Title IV-E Allowable Costs/Cost Principles	Corrective action plan is partially complete. The 2012 and 2013 Cost Allocation Plan has been submitted. The 2014 plan is being drafted.	Repeated with Changes Finding 2014-021
2013-021 12-25-06	Various 93.658	Various Foster Care Title IV-E Cash Management	Corrective action plan is not completed. Corrective action plan will be completed by October 30, 2014.	Repeated with Changes Finding 2014-020
2013-022 12-25-02	Various 93.568 93.778 93.558	Various LIHEAP Medicaid TANF Allowable Costs/Cost Principles	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014. Questioned costs will be returned by October 30, 2014.	No Current Finding
2013-023	Various 93.658 93.568 93.558	Various Foster Care Title IV-E LIHEAP TANF Allowable Costs/Cost Principles	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014. Questioned costs will be returned by October 30, 2014.	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
2013-024 12-25-04	Various 93.658 93.568 93.667	Various Foster Care Title IV-E LIHEAP Social Services Block Grant Allowable Costs/Cost Principles	Corrective action plan is partially complete. Procedures have been drafted and implemented. Internal audits are ongoing. Questioned costs will be returned by October 30, 2014.	No Current Finding
2013-025	Various 93.778	Various Medicaid Allowable Costs/Cost Principles	Corrective action plan is not complete. Proposed change will be included in the 2014 Cost Allocation Plan.	Repeated with Changes Finding 2014-022
2013-026 12-25-05	Various 93.778	Various Medicaid Allowable Costs/Cost Principles	Corrective action plan is partially complete. New procedures were implemented. Questioned costs will be returned by October 30, 2014.	No Current Finding
2013-027 12-25-08 11-25-07 10-25-05	10.555 10.569	National School Lunch Emergency Food Assistance (Commodities) Reporting	Corrective action plan is complete.	No Current Finding
2013-028 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.	No Current Finding
2013-029 12-25-09	10.555	National School Lunch Program Special Tests & Provisions	Corrective action plan is complete.	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
2013-030	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Allowability, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2014-024
2013-031	10.557	WIC Eligibility	Corrective action plan is complete.	No Current Finding
2013-032 12-25-14	14.257	Homelessness Prevention and Rapid Re-Housing Allowability, Subrecipient Monitoring	Corrective action plan is complete.	No Current Finding
2013-033 12-25-16 11-25-15 10-25-11	93.044 93.045	Aging Cluster Allowability, Matching, Earmarking, Subrecipient Monitoring	Corrective action plan is complete.	Repeated with Changes Finding 2014-026
2013-034 12-25-17 11-25-17 10-25-12	93.044 93.045 93.053	Aging Cluster Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2014-027
2013-035 12-25-18 11-25-16 10-25-13	93.044 93.045 93.053	Aging Cluster Cash Management	Corrective action plan is not complete. Procedures need to be documented and implemented.	Repeated with Changes Finding 2014-028

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
2013-036	93.283 93.520 93.270	CDC Investigations and Technical Assistance CDC ACA Communities Putting Prevention to Work Adult Viral Hepatitis Prevention and Control Reporting	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014.	Repeated with Changes Finding 2014-035
2013-037 12-25-56	93.283	CDC Investigations and Technical Assistance Reporting	Corrective action plan is partially complete. Procedures were developed and implement regarding review of FSRs and Transparency Act reporting but the procedures did not address timeliness of FSRs.	No Current Finding
2013-038 12-25-53	93.283	CDC Investigations and Technical Assistance Allowability, Subrecipient Monitoring	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014.	Repeated with Changes Finding 2014-034
2013-039 12-25-54	93.283	CDC Investigations and Technical Assistance Allowability	Corrective action plan is complete.	No Current Finding
2013-040 12-25-52	93.283	CDC Investigations and Technical Assistance Allowability, Period of Availability	Corrective action plan is partially complete. Procedures were reviewed and revised. Questioned costs need to be reviewed.	Repeated with Changes Finding 2014-033

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
2013-041 12-25-22	93.558 93.714	TANF Cluster Reporting	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014.	Repeated with Changes Finding 2014-039
2013-042 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 Eligibility	Corrective action plan is partially complete. Procedures were enhanced but do not include all the issues identified in the findings. Questioned costs will be returned by November 15, 2014.	Repeated with Changes Finding 2014-037
2013-043 12-25-21 11-25-24	93.558	TANF Allowability	Corrective action plan is partially complete. A review process was implemented. A review of the rate structure will be completed by June 30, 2015 and questioned costs will be returned by November 15, 2014.	Repeated with Changes Finding 2014-038
2013-044 12-25-23 11-25-22	93.558	TANF Reporting	Corrective action plan is partially complete. Procedures have been drafted but were not implemented till after June 30, 2014.	Repeated with Changes Finding 2014-040
2013-045 12-25-24 11-25-23 10-25-21	93.558	TANF Special Tests & Provisions Reporting	Corrective action plan is complete.	No Current Finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-046	93.558 93.714	TANF Cluster Allowability	Corrective action plan is complete.	Repeated with Changes Finding 2014-041
2013-047	93.558	TANF Allowability	Corrective action plan is not complete. The process was enhanced but procedures need to be drafted and questioned costs will be returned by November 15, 2014.	Repeated with Changes Finding 2014-036
2013-048 12-25-25	93.558	TANF Special Tests & Provisions	Corrective action plan is partially complete. Procedures were revised but not implemented till after June 30, 2014. Questioned costs will be returned by November 15, 2014.	Repeated with Changes Finding 2014-042
2013-049 12-25-27	93.568	Low-Income Home Energy Assistance Earmarking, Period of Availability, Reporting	Corrective action plan is partially complete. Procedures were drafted and implemented. Questioned costs will be reviewed by September 30, 2014.	Repeated with Changes Finding 2014-045 and Finding 2014-049
2013-050 12-25-26	93.568	Low-Income Home Energy Assistance Allowability	Corrective action plan is partially complete. Procedures were drafted and implemented. Questioned costs will be returned by September 30, 2014.	Repeated with Changes Finding 2014-044
2013-051	93.568	Low-Income Home Energy Assistance Reporting	Corrective action plan is partially complete. Procedures will be drafted and implemented by September 30, 2014.	Repeated with Changes Finding 2014-047

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
2013-052	93.568	Low-Income Home Energy Assistance Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2014-048
2013-053	93.568	Low-Income Home Energy Assistance Period of Availability, Reporting	Corrective action plan is partially complete. Procedures were drafted and implemented. Questioned costs will be returned by September 30, 2014.	No Current Finding
2013-054 12-25-26	93.568	Low-Income Home Energy Assistance Allowability, Period of Availability	Corrective action plan is partially complete. Procedures have been revised to reduce the likelihood of reoccurrence. Questioned costs will be returned by September 30, 2014.	No Current Finding
2013-055 12-25-30	93.575 93.596 10.558	CCDF Cluster Child and Adult Care Food Program Allowability	Corrective action plan is not complete. Discussions have occurred. Questioned costs will be returned by September 30, 2014.	Repeated with Changes Finding 2014-054
2013-056 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 partially complete. Procedures have been drafted and implemented. Questioned costs will be returned by September 30, 2014.	Repeated with Changes Finding 2014-053

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
2013-057	93.575 93.596	CCDF Cluster Reporting	Corrective action plan is complete.	Repeated with Changes Finding 2014-051
2013-058	93.575	Child Care Development Block Grant Earmarking	Corrective action plan is not complete. Procedures will be implemented by August 31, 2014 and questioned costs will be reviewed by September 30, 2014.	Repeated with Changes Finding 2014-052
2013-059 12-25-32 11-25-32	93.575 93.596	CCDF Cluster Special Tests & Provisions	Corrective action plan is partially complete. Regulations were enacted and training was provided. Meetings with the State Fire Marshal and Omaha Bureau of Fire Prevention are in the process of being scheduled.	Repeated with Changes Finding 2014-055
2013-060 12-25-33 11-25-33	93.575 93.596	CCDF Cluster Special Tests & Provisions	Corrective action plan is partially complete. Reviews of high risk cases will begin in July 2014.	Repeated with Changes Finding 2014-056
2013-061 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 Title IV-E Allowability, Eligibility	Corrective action plan is partially complete. A system change request for NFOCUS has been submitted with implementation by August 31, 2014. Questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-059

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
2013-062	93.658	Foster Care Title IV-E Reporting	Corrective action plan is partially complete. Procedures have been drafted and implemented. The reconciliation will be completed by September 30, 2014.	Repeated with Changes Finding 2014-060
2013-063 12-25-36 11-25-39	93.659	Adoption Assistance Allowability, Eligibility	Corrective action plan is partially complete. Training has been provided. The procedure manual will be developed by September 30, 2014 and the questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-061
2013-064	93.659	Adoption Assistance Level of Effort	Corrective action plan is complete.	No Current Finding
2013-065 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 partially complete. SSBG was added to the NEARS case review system. Sample testing will begin July 1, 2014. Questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-063
2013-066 12-25-38	93.767	Children's Health Insurance Program Matching, Reporting	Corrective action plan is partially complete. Reconciliation procedures have been enhances and will be applied to the 2013 state fiscal year by June 30, 2015.	Repeated with Changes Finding 2014-064
2013-067 12-25-39	93.767	Children's Health Insurance Program Matching	Corrective action plan is partially complete. Reconciliation procedures have been enhanced. The amounts will be corrected on the CMS 64 for the quarter ended September 30, 2014.	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
2013-068 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 partially complete. Reconciliation procedures have been enhanced and will be applied to the 2013 state fiscal year by June 30, 2015.	Repeated with Changes Finding 2014-065
2013-069	93.778	Medicaid Allowability, Eligibility	Corrective action plan is partially complete. Agency employees have been reorganized and a resource verification plan has been implemented. Questioned costs will be reviewed with the federal awarding agency by December 31, 2014.	Repeated with Changes Finding 2014-068
2013-070 12-25-46 11-25-48 10-25-39 09-25-10	93.778	Medicaid Period of Availability, Special Tests & Provisions	Corrective action plan is complete.	Repeated with Changes Finding 2014-070
2013-071 12-25-41	93.778	Medicaid Matching	Corrective action plan is partially complete. Reconciliation procedures have been enhanced. The amounts will be corrected on the CMS 64 for the quarter ended September 30, 2014.	No Current Finding
2013-072 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 partially complete. Procedures have been drafted and implemented to ensure collection. A CPA firm has been contracted to review the accuracy of claims submitted by the Consortiums with an anticipated completion date of December 31, 2014.	Repeated with Changes Finding 2014-073
2013-073 12-25-50	93.778	Medicaid Allowability	Corrective action plan is partially complete. A system change requested was submitted with implementation by July 31, 2014. Questioned costs will be returned by October 30, 2014.	No Current Finding

Nebraska Department of Health and Human Services (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-074 12-25-43 11-25-45 10-25-37 09-25-11	93.778	Medicaid Allowability, Eligibility	Corrective action plan is partially complete. Guidance and training was provided. Questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-069
2013-075 12-25-42	93.778	Medicaid Special Tests & Provisions	Corrective action plan is partially complete. Procedures were drafted and implemented. Questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-075
2013-076	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action plan is complete.	No Current Finding
2013-077	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action plan is partially complete. Procedures for supporting documentation have been implemented. Review of prior support documentation will be completed by September 30, 2014.	Repeated with Changes Finding 2014-072
2013-078 12-25-47 11-25-51	93.778	Medicaid Special Tests & Provisions	Corrective action plan is partially complete. A risk assessment tool has been developed and will be implemented by August 1, 2014.	Repeated with Changes Finding 2014-071
2013-079	93.778 93.767	Medicaid Children's Health Insurance Program Eligibility	Corrective action plan is partially complete. Agency employees have been reorganized and regulations modified. Questioned costs will be returned by October 30, 2014.	Repeated with Changes Finding 2014-074
2013-080	93.778	Medicaid Allowability	Correction action plan is partially complete. The Agency has taken numerous steps to strengthen internal controls. Questioned costs will be reviewed with the federal awarding agency by December 31, 2014.	Repeated with Changes Finding 2014-066

Nebraska Historical Society

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-081	15.904	Historic Preservation Fund Grants-In-Aid Allowable Costs/Cost Principles	Corrective action is complete.	No Current Finding

Nebraska Department of Labor

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-082	17.275	Program of Competitive Grants for Worker Training Reporting	The Nebraska Department of Labor (NDOL) is aware of the weekend deadlines. In the past, if the report was due on a weekend the assumption was made you had until Monday to file. All 1512's since this one have been filed on time. The auditors validated June 30, 2013, the next quarter, and had no remarks on the timeliness.	No Current Finding
2013-083	17.275	Program of Competitive Grants for Worker Training Allowability, Eligibility	NDOL modified its Policy on Outside Employment (K5-Notification of Outside Employment Policy) in July of 2014. These modifications included additional language to identify what could constitute a possible conflict of interest and how they will be reviewed and how the ultimate decision will be determined.	No Current Finding
2013-084 12-23-06 11-23-03 10-23-04	17.258 17.259 17.278	WIA Cluster Allowability & Eligibility	Both policies have been modified since the audit. The PELL Grant and Other Aid Policy were modified in August of 2013. The OJT Policy was modified in February of 2014. Both were expanded to include language addressing the issues raised in the audit.	No Current Finding
2013-085	17.225	Unemployment Insurance Eligibility	NDOL implemented the Self-Attestation Calendar on October 30, 2013.	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
2013-086	17.225	Unemployment Insurance Allowable Costs/Cost Principles	Several changes have been made in this area to provide for better supporting documentation. Sequence of visits is now being captured. The name of the individual and the street address is being documented. To ensure improved supporting documentation continues, Unemployment Insurance Tax Division did and will continue to hold training sessions. At the annual meeting in April for the Unemployment Insurance Field Representatives this has become a permanent part of the presentation. Some of these changes were made immediately, while others later, all were completed by June 30, 2014.	No Current Finding
12-23-08	17.258 17.259 17.260 17.278	WIA Cluster Cash Management	Numerous grants have been closed over the last year. Last quarter we closed the PY10/FY11 awards (A20207XXX). Our next targets for closing are our PY11/FY12 grants (XX21409XXX). At this point, we feel we are current in this area.	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
2013-087 12-78-01 11-78-01	16.738 16.803	JAG Program Cluster Allowability, Subrecipient Monitoring	Working with the US Department of Justice on closing finding 12-78-01. The US Department of Justice, Office of the Inspector General (OIG), Chicago Regional Audit Office has closed 11-78-01.	Repeated with Changes Finding 2014-081
2013-088 12-78-04	16.738	JAG Grant Reporting	Sent information regarding finding 12-78-04 to the US Department of Justice on 7-25-2014. Waiting to hear if the US Department of Justice is going to close the finding.	Repeated with Changes Finding 2014-082
2013-089 12-78-03 11-78-04	16.803	Recovery Act - JAG Grant Reporting	Corrective action is complete. The US Department of Justice, Office of the Inspector General (OIG), Chicago Regional Audit Office has closed findings 12-78-03 and 11-78-04.	No Current Finding
2013-090 12-78-05	16.588	Violence Against Women Allowability, Subrecipient Monitoring	Working with the US Department of Justice on closing finding 12-78-05.	No Current Finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Roads

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-091	Various 20.509	Various Formula Grants for Rural Areas Reporting	Corrective action is complete.	No Current Finding
2013-092	20.509	Formula Grants for Rural Areas Reporting	Corrective action is complete.	Repeated with Changes Finding 2014-085
2013-093	20.509	Formula Grants for Rural Areas Earmarking	Corrective action plan is in progress and the anticipated completion date is July 2014.	Repeated with Changes Finding 2014-084
2013-094	20.509	Formula Grants for Rural Areas Allowability, Suspension & Debarment, Subrecipient Monitoring	Corrective action plan is in progress and the anticipated completion date is August 2014.	Repeated with Changes Finding 2014-083

Nebraska Secretary of State

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-095	90.401	Help America Vote Act Allowable Costs/Cost Principles	Corrective action is complete.	No Current Finding

Nebraska Supreme Court

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Agency Response Status of Finding	Auditor Comments/ Current Finding
2013-096	93.563 20.610 16.588	Child Support Enforcement State Traffic Safety Information System Improvement Grants Violence Against Women Formula Grants Allowable Costs/Cost Principles	Two positions are affected by this finding. Both employees have been contacted. Planned corrective action - One position will be filled by a new employee in July 2014 who will be tracking time spent on the grant, and second position will be verifying that 100% of time is spent on the grant.	Repeated with Changes Finding 2014-086