STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2016

Issued on March 13, 2017

STATE OF NEBRASKA

Basic Financial Statements and
Uniform Guidance Compliance Reports

Year Ended June 30, 2016

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STATE OF NEBRASKA

Basic Financial Statements and
Uniform Guidance Compliance Reports

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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, 2016, 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 UNMC Science Research Fund, 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 activity of the Nebraska State College System Revenue and Refunding Bond Program, and the Nebraska State Colleges Facilities Corporation, which represent 44%, 36%, and 22%, 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 20%, 21%, and 17% of the assets, net position or fund balances, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information for the College Savings Plan is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the

University of Nebraska Foundation, the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, the Nebraska Utility Corporation, the Nebraska State College System Foundations, the Nebraska State College System Revenue and Refunding Bond Program, and the Nebraska State Colleges Facilities Corporation 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, 2016, 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 65 through 70, the Information About Infrastructure Assets Reported Using the Modified Approach on page 71, and the Information About Pension Plans on pages 72 through 88, 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.

Supplementary and 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 15, 2016, 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.

Philip J. Olsen

Philip J. Olsen, CPA, CISA
Audit Manager

Lincoln, Nebraska
December 15, 2016, except for our report on supplementary information for which the date is March 10, 2017.

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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, 2016. 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 one new standard in 2016 required by the Governmental Accounting Standards Board (GASB) that had an impact on the June 30, 2016 financial statements. Statement No. 72, *Fair Value Measurement and Application*, enhances financial reporting by requiring measurement of fair value using a consistent and detailed definition and accepted valuation techniques with disclosures of the impact of fair value measurements on financial position. There was no restatement of prior year amounts as a result of implementing this statement. The State also implemented the following three new standards in 2016 that had no impact on the June 30, 2016 financial statements. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* improves the usefulness and reporting of information about pension plans. Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides guidance on the hierarchy of the sources of accounting principles used to prepare financial statements. Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost-based fair value measurement.

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, 2016 along with an analysis of the State's capital assets and long-term debt related to capital assets.

FINANCIAL HIGHLIGHTS

Government-wide:

The assets and deferred outflows of the State exceeded its liabilities and deferred inflows at June 30, 2016 by $12.9 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 $1.1 billion, most of which is available to be used to fund future needs of the State. The primary government's net expenses exceeded net general revenues, contributions and transfers for 2016 resulting in a decrease in net position of $28 million. This decrease in net position follows an increase in 2015 of $300 million.

Fund Level:

General Fund revenues for 2016 were $166 million below the original budgeted amount and below the final budget by $112 million. Expenditures were $420 million less than the original budgeted amount and below the final budget by $314 million. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $24 million in excess revenues prior to a legislatively mandated property tax relief transfer of $202 million in addition to other financing sources causing a decrease in fund balances of $216 million, and thereby decreasing the fund balance on June 30, 2016 to $1,128 million. Other governmental funds expenditures exceeded revenues by $27 million, chiefly due to market changes. In addition to these operating changes, other governmental funds received $89 million in net other financing sources. This $62 million net increase resulted in raising such fund balances at June 30, 2016 to $2,698 million.

The $488 million of net position of the Unemployment Insurance Fund represents 83% of the enterprise funds. Such fund had a $24 million increase in net position for 2016 compared to a $5 million increase in 2015, an increase in growth of $19 million. Business assessment fees collected from employers exceeded the unemployment insurance claims in 2016. Business assessment fees from employers, net of unemployment insurance claims was up 33% over 2015.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $813 million at June 30, 2016, which is a $95 million increase from the prior year, primarily due to an increase in net accrued pension liability. The remaining liabilities consist of claims payable for workers' compensation, medical excess liability, capital lease obligations, 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 Trust 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 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 Trust 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 beginning on page 32.

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, and certain pension plan actuarial information.

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 and deferred outflows of resources totaled $15,118 million at June 30, 2016 as compared to $15,089 million at June 30, 2015, as restated. As total liabilities and deferred inflows of resources only totaled $2,253 million, net position amounted to $12,865 million as of June 30, 2016. As of June 30, 2015, these amounts were $2,196 million and $12,893 million, respectively, as restated. By far the largest portion of the State of Nebraska's net position (68 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, dams, etc.). The State uses these capital assets to provide services to citizens; thus, these assets are not available for future spending.

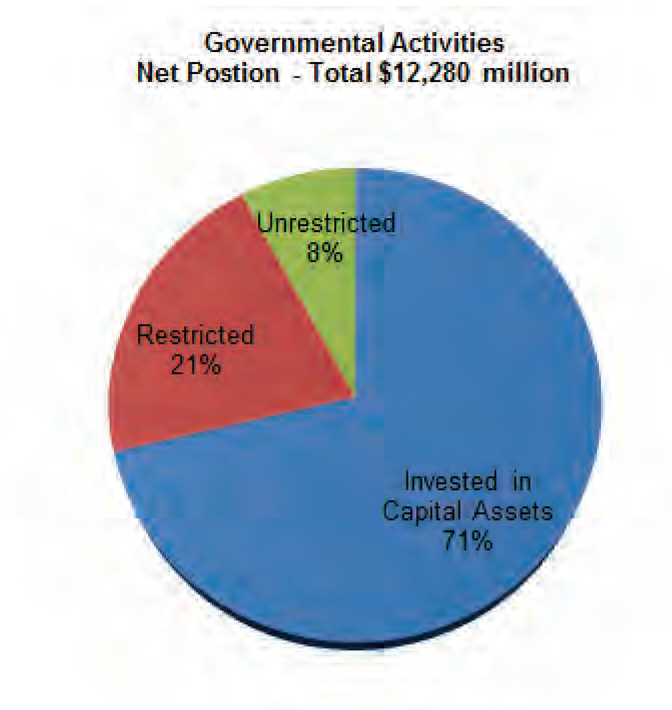
Restricted net position is subject to external restrictions, constitutional provisions, or enabling legislation on how it can be used. It is also not available for future general government spending.

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

The net position for business-type activities chiefly represents cash set aside for future unemployment insurance benefits.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Current and Other Non-current Assets	$ 5,450	$ 5,701	$ 644	$ 628	$ 6,094	$ 6,329
Capital Assets	8,792	8,689	7	7	8,799	8,696
Total Assets	14,242	14,390	651	635	14,893	15,025
Deferred Outflows of Resources	225	64	-	-	225	64
Non-current Liabilities	788	691	25	27	813	718
Other Liabilities	1,225	1,248	41	47	1,266	1,295
Total Liabilities	2,013	1,939	66	74	2,079	2,013
Deferred Inflows of Resources	174	183	-	-	174	183
Net position:						
Net Investment in Capital Assets	8,758	8,674	7	7	8,765	8,681
Restricted	2,553	2,501	490	466	3,043	2,967
Unrestricted	969	1,157	88	88	1,057	1,245
Total Net Position(as restated)	$ 12,280	$ 12,332	$ 585	$ 561	$ 12,865	$ 12,893



Approximately 76% of the State's non-capital assets consist of cash and investments. It should be noted that $95 million in 2016 and $139 million in 2015 of such assets represent "Securities Lending Collateral," an amount established in accordance with GASB guidelines 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 17% of the non-capital assets.

Liabilities largely reflect three groupings which represent 96% of total State liabilities, not including the obligations under securities lending explained in the above paragraph. These are operational payables, which consist of accounts payable and accrued liabilities totaling $684 million in 2016 ($703 million in 2015); tax refunds payable of $399 million ($381 million in 2015); and long-term payables, discussed in the following paragraph.

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 $813 million in 2016 ($718 million in 2015). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, capital lease obligations, unemployment insurance, and employee health insurance totaling $99 million in 2016 ($105 million in 2015), Medicaid claims for $209 million in 2016 ($176 million in 2015), the State's liability for pension funds of $337 million in 2016 ($289 million in 2015), and the calculated amount for vested sick leave due to employees when they retire and accrued vacation of $132 million in 2016 ($132 million for 2015). Another minor amount of long-term liabilities consists of capital lease obligations (See Note 8 to the Financial Statements), which totaled $35 million at June 30, 2016, compared to $15 million at June 30, 2016.

The $52 million decrease in net position of Governmental Activities for 2016, was due to a $84 million increase in the net investment in capital assets, a $52 million increase in restricted net position, and a $188 million decrease in unrestricted net position. The major source of the decrease was a $15 million decrease in taxes collected.

At the end of June 30, 2016, the State reported a positive balance 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 2016, 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)

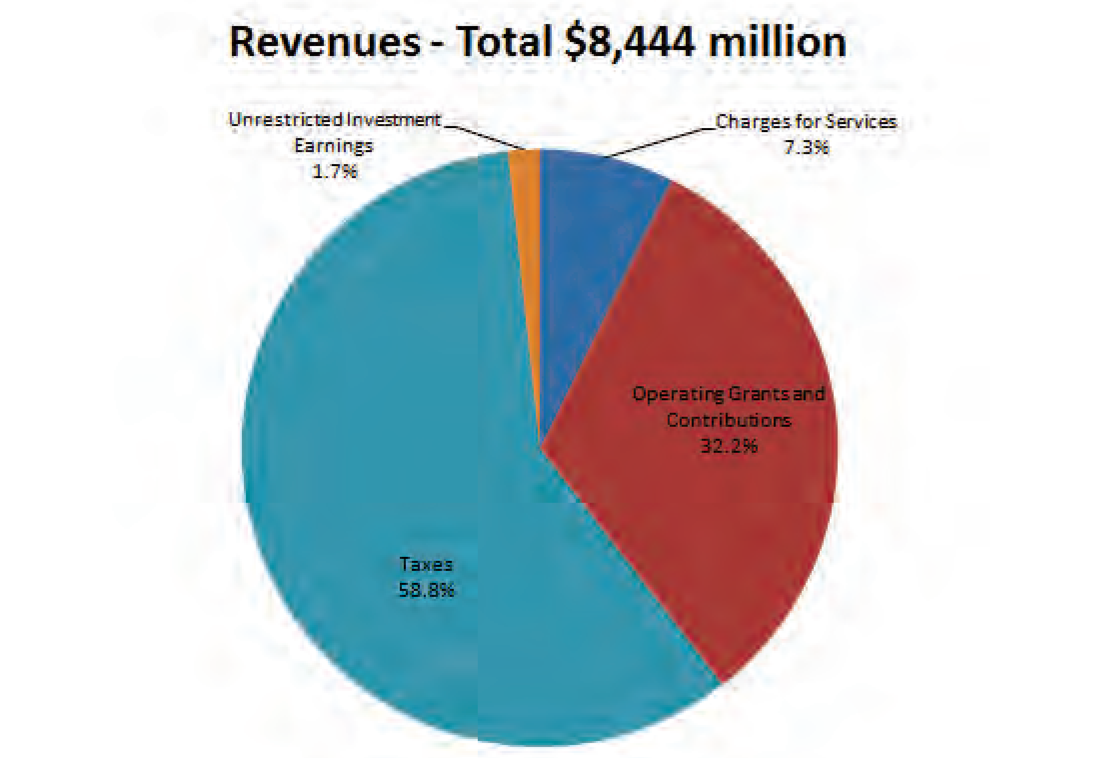
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
REVENUES						
Program Revenues						
Charges for Services	$ 617	$ 612	$ 295	$ 284	$ 912	$ 896
Operating Grants and Contributions	2,719	2,648	-	-	2,719	2,648
Capital Grants and Contributions	-	3	-	-	-	3
General Revenues						
Taxes	4,961	4,976	-	-	4,961	4,976
Unrestricted Investment Earnings	145	89	16	12	161	101
Miscellaneous	2	1	-	-	2	1
Total Revenues	8,444	8,329	311	296	8,755	8,625
EXPENSES						
General Government	632	548	-	-	632	548
Conservation of Natural Resources	144	150	-	-	144	150
Culture - Recreation	37	32	-	-	37	32
Economic Development and Assistance	100	108	-	-	100	108
Education	1,800	1,724	-	-	1,800	1,724
Higher Education - Colleges and Universities	676	651	-	-	676	651
Health and Social Services	3,478	3,350	-	-	3,478	3,350
Public Safety	409	408	-	-	409	408
Regulation of Business and Professions	118	125	-	-	118	125
Transportation	1,096	982	-	-	1,096	982
Interest on Long-term Debt	-	1	-	-	-	1
Net Pension Expense	80	29	-	-	80	29
Unemployment Insurance	-	-	79	94	79	94
Lottery	-	-	136	123	136	123
Excess Liability	-	-	9	6	9	6
Cornhusker State Industries	-	-	14	13	14	13
Total Expenses	8,570	8,108	238	236	8,808	8,344
Excess/(Deficiency) Before Transfers and Contributions: Permanent Fund Principal	(126)	221	73	60	(53)	281
Net Transfers In (Out)	49	56	(49)	(56)	-	-
Contributions: Permanent Fund Principal	25	19	-	-	25	19
Increase/(Decrease) in Net Position	(52)	296	24	4	(28)	300
Net Position - Beginning (as restated)	12,332	12,036	561	557	12,893	12,593
Net Position - Ending	$ 12,280	$ 12,332	$ 585	$ 561	$ 12,865	$ 12,893

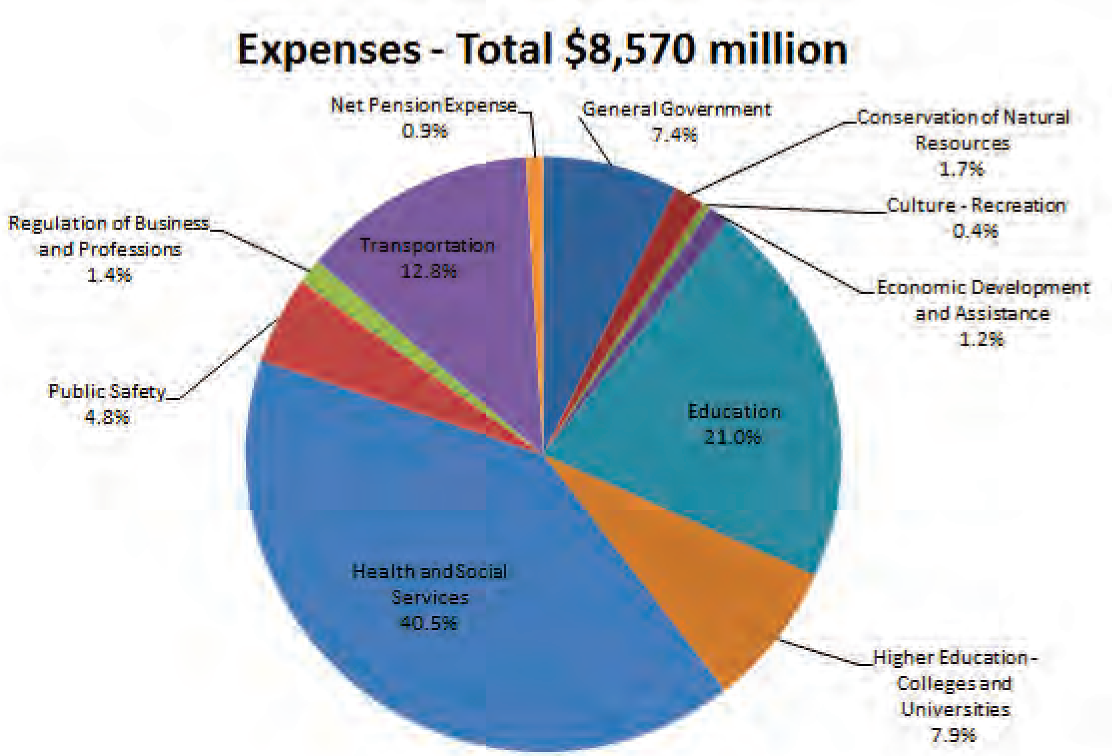
Governmental Activities

Governmental activities decreased the State's net position by $52 million in 2016 ($296 million increase in 2015) and represent 96% of all primary government revenues. Program revenues from governmental activities were $3,336 million and were used to partially offset program expenses of $8,570 million, leaving net expenses of $5,234 million. Only 7% of total expenses were incurred for general government services. General revenues from taxes, investment earnings, and miscellaneous sources, plus contributions to the permanent fund principal, and transfers, totaling $5,182 million, were $52 million less than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were down $15 million, over 2015, compared to an increase of $212 million in 2015 over 2014. Program revenues increased 2% from 2015, chiefly due to income from operating grants being up $71 million. Increases in general government, education, health and social services and transportation expenses contributed to the $462 million increase in program expenses. The change in Net Position decreased $348 million from 2015 to 2016 compared to the $228 million decrease from 2014 to 2015. While the General Fund has more investments than other programs, it maintains safer investments and actually showed an increase in investment income in 2016 over 2015 of $33 million, which was a smaller change than the $56 million increase for governmental activities as investment gains started decreasing during 2015.

STATE OF NEBRASKA
Governmental Activities
As of June 30, 2016





Four functional areas of the State comprise 82% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. Education expenses were up $76 million, Health and Social Services was up $128 million, Higher Education was up $25 million, and Transportation expenses were up $114 million. All the other functional areas had small variances in net expenses.

Program expenses, net of revenue, increased by $389 million in 2016, over 2015, as shown below:

GOVERNMENTAL ACTIVITIES

(in millions of dollars)

	2016	2015
Program Expenses, Net of Revenue		
General Government	$ (532)	$ (424)
Conservation of Natural Resources	(46)	(44)
Culture - Recreation	(7)	(6)
Economic Development and Assistance	(48)	(63)
Education	(1,375)	(1,323)
Higher Education - Colleges and University	(677)	(651)
Health and Social Services	(1,579)	(1,501)
Public Safety	(291)	(281)
Regulation of Business and Professions	14	17
Transportation	(613)	(539)
Interest on Long-Term Debt	-	(1)
Net Pension Expense	(80)	(29)
Subtotal	(5,234)	(4,845)
General Revenues		
Taxes	4,961	4,976
Unrestricted Investment Earnings	145	89
Miscellaneous	2	1
Transfers	49	56
Contributions: Permanent Fund Principal	25	19
Increase(Decrease) in Net Position(as restated)	$ (52)	$ 296

Business-type Activities

The business-type activities increased the State's net position by $24 million for 2016, which was net of a $49 million transfer to governmental activities. Most of the $295 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 $19 million in 2016. This gain, when combined with transfers and $11 million in investment income, produced a $24 million increase in net position for the Unemployment Insurance Fund. Lottery revenues of $179 million generated operating income of $44 million, which was offset by a $43 million transfer to 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, 2016, the State's Governmental Funds reported combined ending fund balances of $3,827 million. Of this amount, $557 million is nonspendable, either due to its form or legal constraints, and $1,983 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Revenue restricted by enabling legislation, and public school land lease revenues are included in restricted fund balance. An additional $844 million of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $46 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining $397 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 $388 million. However, such refunds payable are $29 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 $1,139 million.

On June 30, 2015, the General Fund had a positive fund balance of $1,344 million. For 2016, expenditures increased $246 million from 2015 and revenues decreased by $31 million. The revenues were $178 million less than expenditures for 2016 while revenues were $98 million more than expenditures in 2015. The General Fund balance in 2016 decreased by $216 million, after adjusting for transfers in and out of the General Fund, ending with a fund balance of $1,128 million on June 30, 2016.

Revenues began decreasing during mid 2016 finishing $31 million down from 2015. This decrease was chiefly due to a decrease in income tax revenue of $59 million (a 2% decrease) from 2015, a decrease in sales and use tax revenue of $22 million (a 1% decrease) from 2015, and increase in business and franchise taxes of $24 million (a 40% increase) and investment income of $33 million (a 127% increase) over 2015. 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 five areas. Education expenditures increased $50 million and Higher Education – Colleges and University expenditures increased $23 million due to increased payroll costs. Health and Social Services expenditures increased $92 million due to increased aid; General Government expenditures increased $76 million mainly due to an increase in payments for property tax credits; and Public Safety expenditures increased $15 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 2016.

The Cash Reserve Fund balance was $719 million at the beginning of 2015. In 2015, there was a net statutory transfer from the Fund to the General Fund of $68 million and other net transfers in of $77 million, leaving a Cash Reserve Fund balance at June 30, 2015 of $728 million. In 2016, there was a statutory transfer to the Fund from the General Fund of $85 million and other transfers out of $82 million leaving a Fund balance of $731 million at June 30, 2016. 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 $2,698 million at June 30, 2016. Of this amount, $556 million is nonspendable, either due to its form or legal constraints, and $1,983 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $113 million of total fund balance has been committed to specific purposes. The remaining $46 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent.

The three major funds presented as special revenue funds are the Highway Fund, the Federal Fund and the Health and Social Services Fund, with total fund balances of $744 million. The non-major special revenue fund balances totaled $1,000 million.

Governmental funds other than the General Fund saw an increase in fund balances of $62 million. The fund balances of the following funds increased: the Permanent School Fund ($30 million) and the other Nonmajor Funds ($95 million). The fund balances of the following funds decreased: the Highway Fund ($55 million), and the Health and Social Service Fund ($8 million).

The Highway Fund had a $13 million increase in sales and use taxes, a $24 million increase in federal grants revenue and a $85 million increase in operating expenses. These changes are mainly why the Highway Fund had a $55 million decrease in its fund balance in 2016 as opposed to a $27 million decrease in 2015.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2016, there was an increase in federal grants and contracts revenue of $26 million and investment income increased $2 million. Expenditures in 2016 increased by $16 million for Education, decreased $3 million for Conservation of Natural Resources, decreased $9 million for Economic Development and Assistance, increased $35 million for Health and Social Services, and decreased $12 million for Public Safety. Revenues exceeded expenditures by $13 million before transfers. Transfers out decreased $14 million in 2016 compared to an increase of $18 million in 2015. At the end of 2016 there was a slight increase in the fund, compared to a $4 million decrease in 2015.

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 an $8 million decrease in investment income in 2016 (chiefly due to changes in the market value of investments) compared to a $48 million decrease in 2015. There was an $8 million decrease in fund balance in 2016, as opposed to a $8 million decrease in 2015.

The Permanent School Fund had an $11 million increase in revenue, chiefly due to a $3 million increase in investment income caused by changes in the market value of investments in 2016, compared to a $67 million investment income decrease in 2015 (when compared to 2014). Expenditures increased $4 million in 2016. There was a $30 million increase in fund balance in 2016, as opposed to a $23 million increase in 2015, a change of $7 million.

The Nonmajor Funds revenues increased $49 million compared to 2015. Expenditures increased $8 million in Conservation of Natural Resources, $3 million in Culture-Recreation, and $14 million in Transportation. Regulation of Business and Professions decreased $6 million. There were $111 million in net transfers in for the Nonmajor Funds in 2016 versus $95 million in net transfers in for 2015. As a result, the fund balances increased $95 million in 2016 as opposed to a $51 million increase in 2015.

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 $488 million at the end of 2016. This fund's net position increased $24 million in 2016, because business assessment fees exceeded unemployment claims paid out by $17 million, investment earnings of $11 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 $43 million prior to a $43 million transfer from the Lottery's net income to governmental funds. Such transfer was used primarily for education and environmental studies. The Excess Liability Fund had an operating loss of $5 million and earned $4 million in investment earnings for a net position decrease of $1 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net position decreased $12 million to $12,931 million in 2016 mainly due to a decrease in the fair value of investments in 2016. Interest and dividend income in 2016 was $162 million versus $152 million in 2015. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $185 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $381 million. The total net position in the College Savings Plan now totals almost four billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2016 the State continued to rebound from the effects of the national recession. Forecasted revenues, upon which the State's budgeted General Fund expenditures are based, were anticipated to increase in 2016 by $158 million over 2015 net tax revenue of $4,190 million. Because revenues continued to show a decreasing trend during 2016, the State's Forecasting Board made two new forecasts throughout the year. At the end, the forecasted net tax revenues were $54 million below the original forecast. However, that decreased forecast was still more than actual tax revenues of $4,182 million by $112 million, leaving the State with actual tax revenues, net of refunds, of $166 million below the original budget on a budgetary basis. Agencies continued to watch their General Fund expenditures and spent $314 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, caused the State to finish 2016 with General Fund revenues of $44 million more than expenditures on a budgetary basis, prior to net transfers out. There was a net $239 million transferred out for specific purposes. The fund balance on a budgetary basis decreased from $1,455 million at the beginning of the fiscal year to $1,261 million at June 30, 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the State had invested $8.8 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 2016 totaled $50 million, compared to $48 million for 2015.

CAPITAL ASSETS AS OF JUNE 30

(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Land	$ 585	$ 579	$ -	$ -	$ 585	$ 579
Buildings and Equipment	483	458	7	7	490	465
Infrastructure	7,458	7,330	-	-	7,458	7,330
Subtotal	8,526	8,367	7	7	8,533	8,374
Construction in Progress	266	322	-	-	266	322
Total	$ 8,792	$ 8,689	$ 7	$ 7	$ 8,799	$ 8,696

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 method, referred to as the modified approach. Under this 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 2015, indicated an overall system rating of 84, a rating that has been very consistent over the past seven years.

For 2016, it was estimated that the State needed to spend $306 million to preserve and maintain the roads at the above-mentioned level. The State actually spent $441 million on roads in 2016, compared to $348 million in 2015. For 2017, it is estimated that the State needs to spend $317 million, a decrease from actual 2016 and a decrease from the average of the previous five years.

The State also spent $133 million on capitalized infrastructure and land purchases relating to roads in 2016 ($88 million in 2015), most notably reconstructing (a) Highway 77, Wahoo Bypass, (b) Highway 77, Fremont South Bridge, and (c) Highway 77, Broad Street in Fremont. Major land purchases included land purchased near five State highways. At June 30, 2016, the State had contractual commitments of $761 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 $49 million more than at June 30, 2015 as a result of new highway construction and repair work being funded directly by the State.

During 2016, the State added $77 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	
	2016	2015
Capitalized Leases:	$ 35	$ 15

There were no new bonds issued or outstanding in 2016 or 2015. Three new capitalized leases were added in 2016 (two leases were added in 2015). 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

Although state and national economies continue to improve, moderate growth in tax receipts is forecasted. Net General Fund tax revenues for fiscal year 2016 decreased 1.3% over 2015 and fell short of projections. Tax revenues for 2017 are currently projected to exceed actual 2016 revenues by $87 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 the potential for 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, 2016, this Fund had a $731 million balance. The statutorily required transfer from the General Fund to the Cash Reserve Fund in July 2016 will not be made because the state fiscal year 2015-16 revenues did not exceed the certified forecast. However, other transfers since the end of the last fiscal year have resulted in a Cash Reserve Fund balance of $681 million at November 30, 2016. Future significant statutory disbursements from this fund include transfers of $43 million to the Nebraska Capital Construction Fund.

CONTACTING THE STATE ACCOUNTING OFFICE

This report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional information, contact the State Accounting Division of Administrative Services, 1526 K Street, Suite 240, Lincoln, NE 68508, (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, 2016

(Dollars in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 279,599	$ 457,592	$ 737,191	$ 675,751
Receivables, net of allowance				
Taxes	475,542	-	475,542	-
Due from Federal Government	316,717	-	316,717	-
Other	221,591	42,254	263,845	480,693
Internal Balances	(909)	909	-	-
Investments	3,669,511	132,306	3,801,817	2,142,646
Loans Receivable	345,493	-	345,493	37,311
Investment in Joint Venture	-	-	-	385,080
Net Pension Asset	6,153	-	6,153	-
Other Assets	36,219	5,646	41,865	28,988
Restricted Assets:				
Cash and Cash Equivalents	8,563	-	8,563	585,724
Other	-	2,350	2,350	17,260
Securities Lending Collateral	91,309	3,216	94,525	-
Capital assets:				
Land	584,777	315	585,092	141,702
Infrastructure	7,458,524	-	7,458,524	-
Construction in Progress	265,771	-	265,771	452,930
Land Improvements	-	-	-	281,826
Buildings and Equipment	1,201,817	14,415	1,216,232	3,156,852
Less Accumulated Depreciation	(718,577)	(7,860)	(726,437)	(1,173,395)
Total Capital Assets	8,792,312	6,870	8,799,182	2,859,915
Total Assets	$ 14,242,100	$ 651,143	$ 14,893,243	$ 7,213,368
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow related to pensions	$ 224,590	$ -	$ 224,590	$ -
Deferred loss on bond refunding	-	-	-	7,674
Total Deferred Outflows of Resources	$ 224,590	$ -	$ 224,590	$ 7,674
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 649,190	$ 35,112	$ 684,302	$ 280,540
Tax Refunds Payable	399,235	-	399,235	-
Deposits	16,903	-	16,903	14,021
Unearned Revenue	66,896	3,110	70,006	120,595
Obligations under Securities Lending	91,309	3,216	94,525	-
Noncurrent Liabilities:				
Due within one year	260,057	14,602	274,659	155,175
Due in more than one year	190,972	10,064	201,036	944,720
Net Pension Liability	337,411	-	337,411	-
Total Liabilities	$ 2,011,973	$ 66,104	$ 2,078,077	$ 1,515,051
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow related to pensions	$ 174,221	$ -	$ 174,221	$ -
Deferred service concession arrangement receipts	-	-	-	14,523
Total Deferred Inflows of Resources	$ 174,221	$ -	$ 174,221	$ 14,523
NET POSITION				
Net Investment in Capital Assets	$ 8,757,532	$ 6,870	$ 8,764,402	$ 2,112,269
Restricted for:				
Education	25,929	-	25,929	2,098,977
Health and Social Services	546,819	-	546,819	-
Conservation of Natural Resources	629,420	-	629,420	-
Transportation	214,898	-	214,898	-
Licensing and Regulation	109,736	-	109,736	-
Other Purposes	186,818	2,350	189,168	316,819
Unemployment Insurance Benefits	-	488,058	488,058	-
Debt Service and Construction	-	-	-	395,195
Permanent Trusts:				
Nonexpendable	552,285	-	552,285	-
Expendable	288,544	-	288,544	-
Unrestricted	968,515	87,761	1,056,276	768,208
Total Net Position	$ 12,280,496	$ 585,039	$ 12,865,535	$ 5,691,468

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	$ 631,739	$ 95,871	$ 3,575	$ -
Conservation of Natural Resources	144,326	39,476	58,666	189
Culture – Recreation	37,118	25,725	4,207	25
Economic Development and Assistance	99,611	1,065	50,331	-
Education	1,799,893	51,790	372,628	470
Higher Education - Colleges and University	676,456	-	-	-
Health and Social Services	3,477,627	124,134	1,775,293	-
Public Safety	409,403	37,731	80,225	262
Regulation of Business and Professions	118,005	129,750	2,494	-
Transportation	1,096,243	110,984	371,947	-
Interest on Long-term Debt	192	-	-	-
Net Pension Expense	79,670	-	-	-
Total governmental activities	8,570,283	616,526	2,719,366	946
Business-type activities:				
Unemployment Insurance	78,747	97,748	-	-
Lottery	135,819	179,473	-	-
Excess Liability	9,010	3,928	-	-
Cornhusker State Industries	13,830	13,505	-	-
Total business-type activities	237,406	294,654	-	-
Total Primary Government	$ 8,807,689	$ 911,180	$ 2,719,366	$ 946
COMPONENT UNITS:				
University of Nebraska	$ 2,211,066	$ 1,062,379	$ 373,267	$ 6,514
State Colleges	122,316	49,702	14,315	2,153
Total Component Units	$ 2,333,382	$ 1,112,081	$ 387,582	$ 8,667

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: Permanent Fund Principal

Transfers

Total General Revenues, Contributions 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
$ (532,293)	$ -	$ (532,293)	$ -
(45,995)	-	(45,995)	-
(7,161)	-	(7,161)	-
(48,215)	-	(48,215)	-
(1,375,005)	-	(1,375,005)	-
(676,456)	-	(676,456)	-
(1,578,200)	-	(1,578,200)	-
(291,185)	-	(291,185)	-
14,239	-	14,239	-
(613,312)	-	(613,312)	-
(192)	-	(192)	-
(79,670)	-	(79,670)	-
(5,233,445)	-	(5,233,445)	-
-	19,001	19,001	-
-	43,654	43,654	-
-	(5,082)	(5,082)	-
-	(325)	(325)	-
-	57,248	57,248	-
$ (5,233,445)	$ 57,248	$ (5,176,197)	$ -
$ -	$ -	$ -	$ (768,906)
-	-	-	(56,146)
$ -	$ -	$ -	$ (825,052)
2,520,240	-	2,520,240	-
1,827,206	-	1,827,206	-
363,824	-	363,824	-
133,620	-	133,620	-
109,649	-	109,649	-
6,404	-	6,404	-
144,734	15,882	160,616	64,239
2,159	20	2,179	284,019
-	-	-	676,449
24,712	-	24,712	-
49,414	(49,414)	-	-
5,181,962	(33,512)	5,148,450	1,024,707
(51,483)	23,736	(27,747)	199,655
12,331,979	561,303	12,893,282	5,491,813
$ 12,280,496	$ 585,039	$ 12,865,535	$ 5,691,468

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

State of Nebraska

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2016

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
Assets							
Assets:							
Cash and Cash Equivalents	$ 82,659	$ 12,503	$ 7,730	$ 5,740	$ 2,480	$ 56,939	$ 168,051
Cash on Deposit with Fiscal Agents	-	-	-	-	-	8,563	8,563
Investments	1,253,670	205,267	63,457	517,671	813,666	815,780	3,669,511
Securities Lending Collateral	30,688	5,025	1,484	13,392	20,697	20,023	91,309
Receivables, net of allowance							
Taxes	416,623	58,120	-	-	-	799	475,542
Due from Federal Government	3	35,109	279,953	-	-	1,652	316,717
Loans	-	-	16,513	178	-	328,802	345,493
Other	44,203	8,512	40,684	32,520	75,036	18,757	219,712
Due from Other Funds	60,060	275	197	2,820	-	1,986	65,338
Inventories	618	2,755	124	102	-	237	3,836
Prepaid Items	469	-	22	-	-	195	686
Other	540	-	-	-	25,842	3,341	29,723
Total Assets	$ 1,889,533	$ 327,566	$ 410,164	$ 572,423	$ 937,721	$ 1,257,074	$ 5,394,481
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities:							
Accounts Payable and Accrued Liabilities	$ 131,396	$ 97,327	$ 178,122	$ 11,229	$ 124,412	$ 45,734	$ 588,220
Tax Refunds Payable	387,722	11,513	-	-	-	-	399,235
Deposits	541	1,659	10,069	676	229	3,729	16,903
Due to Other Funds	63,405	4,177	70,010	355	18	14,347	152,312
Obligations under Securities Lending	30,688	5,025	1,484	13,392	20,697	20,023	91,309
Claims Payable	104,060	-	90,959	-	-	-	195,019
Unearned Revenue	3,621	-	51,212	26	11,369	-	66,228
Total Liabilities	721,433	119,701	401,856	25,678	156,725	83,833	1,509,226
Deferred Inflows of Resources:							
Revenues not yet available	39,689	-	-	18,766	-	-	58,455
Fund Balances:							
Nonspendable:							
Inventories and Prepaid Items	1,087	2,755	146	102	-	432	4,522
Endowment Principal	-	-	-	-	532,770	19,515	552,285
Restricted	-	205,110	8,162	527,322	248,226	994,578	1,983,398
Committed	730,655	-	-	-	-	113,034	843,689
Assigned	-	-	-	555	-	45,682	46,237
Unassigned	396,669	-	-	-	-	-	396,669
Total Fund Balances	1,128,411	207,865	8,308	527,979	780,996	1,173,241	3,826,800
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,889,533	$ 327,566	$ 410,164	$ 572,423	$ 937,721	$ 1,257,074	$ 5,394,481

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, 2016

(Dollars in Thousands)

Total fund balances for governmental funds		$	3,826,800
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	584,777		
Infrastructure	7,458,524		
Construction in progress	265,771		
Other capital assets	1,091,890		
Accumulated depreciation	(642,454)		8,758,508
Certain tax revenues and charges are earned but not available and therefore are unearned in the funds.			58,455
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.			59,303
Deferred Inflows and Outflows related to Pension, they are not related to governmental funds. These Deferred Inflows & Outflows consist of:			
Deferred Inflows related to Pension	(174,221)		
Deferred Outflows related to Pension	224,590		50,369
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	(460)		
Compensated absences	(126,930)		
Net pension liability/asset	(331,258)		
Claims and judgments	(14,291)		(472,939)
Net position of governmental activities		$	12,280,496

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, 2016

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES							
Income Taxes	$ 2,513,438	$ -	$ -	$ 4,099	$ -	$ -	$ 2,517,537
Sales and Use Taxes	1,526,973	283,111	-	-	-	18,381	1,828,465
Petroleum Taxes	-	350,424	-	-	1,872	13,399	365,695
Excise Taxes	70,340	-	-	9,208	-	54,072	133,620
Business and Franchise Taxes	82,870	-	-	-	-	26,779	109,649
Other Taxes	(433)	2,602	-	-	-	4,235	6,404
Federal Grants and Contracts	624	343,377	2,331,589	103	-	44,565	2,720,258
Licenses, Fees and Permits	19,380	90,473	640	57,107	855	154,281	322,736
Charges for Services	2,863	18,241	4,640	27,859	-	59,381	112,984
Investment Income	59,389	8,593	3,242	10,054	24,700	35,919	141,897
Rental Income	2	477	3	407	48,937	25,115	74,941
Surcharge	-	-	-	-	-	43,099	43,099
Other	3,110	2,738	3,482	12,609	22,823	23,418	68,180
Total Revenues	4,278,556	1,100,036	2,343,596	121,446	99,187	502,644	8,445,465
EXPENDITURES							
Current:							
General Government	544,163	-	2,939	-	-	76,291	623,393
Conservation of Natural Resources	34,022	-	31,195	-	-	80,001	145,218
Culture – Recreation	10,001	-	3,364	-	-	30,948	44,313
Economic Development and Assistance	13,904	-	51,967	-	-	34,136	100,007
Education	1,381,365	-	372,838	-	69,500	19,071	1,842,774
Higher Education - Colleges and University	635,009	-	7	-	-	41,440	676,456
Health and Social Services	1,541,615	-	1,787,149	128,857	-	19,453	3,477,074
Public Safety	292,976	-	79,101	-	-	45,708	417,785
Regulation of Business and Professions	3,670	-	2,197	-	-	112,027	117,894
Transportation	-	1,144,453	-	-	-	31,379	1,175,832
Capital Projects	-	-	-	-	-	28,174	28,174
Debt Service:							
Principal	-	-	-	-	-	1,425	1,425
Interest	-	-	-	-	-	7	7
Total Expenditures	4,456,725	1,144,453	2,330,757	128,857	69,500	520,060	8,650,352
Excess (Deficiency) of Revenues Over (Under) Expenditures	(178,169)	(44,417)	12,839	(7,411)	29,687	(17,416)	(204,887)
OTHER FINANCING SOURCES (USES)							
Transfers In	67,228	-	705	1,013	-	180,815	249,761
Transfers Out	(104,826)	(10,805)	(13,436)	(1,344)	-	(69,936)	(200,347)
Proceeds from Other Financing Arrangements	-	-	-	-	64	1,428	1,492
Total Other Financing Sources (Uses)	(37,598)	(10,805)	(12,731)	(331)	64	112,307	50,906
Net Change in Fund Balances	(215,767)	(55,222)	108	(7,742)	29,751	94,891	(153,981)
FUND BALANCES, JULY 1 (as restated)	1,344,178	263,087	8,200	535,721	751,245	1,078,350	3,980,781
FUND BALANCES, JUNE 30	$ 1,128,411	$ 207,865	$ 8,308	$ 527,979	$ 780,996	$ 1,173,241	$ 3,826,800

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, 2016

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ (153,981)
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	132,951	
Capital assets sold	(1,739)	
Depreciation expense	(38,240)	92,972
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	(1,425)	(1,425)
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	1,425	
Capital lease payments	85	1,510
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.		(8,794)
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.		1,489
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	(420)	
Decrease in net pension liability/asset	(149,607)	
Increase in deferred inflows related to pension	8,489	
Increase in deferred outflows related to pension	160,749	
Increase in claims and judgments	(2,465)	16,746
Change in net position of governmental activities		$ (51,483)

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

State of Nebraska

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2016

(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	$ 419,514	$ 38,078	$ 457,592	$ 112,217
Receivables, net of allowance	21,493	20,761	42,254	1,768
Due from Other Funds	-	1,013	1,013	39,803
Inventories	-	5,219	5,219	467
Prepaid Items	-	10	10	1,507
Other	-	417	417	-
Total Current Assets	441,007	65,498	506,505	155,762
Noncurrent Assets:				
Restricted Long-Term Deposits	-	2,350	2,350	-
Long-Term Investments	56,380	75,926	132,306	-
Securities Lending Collateral	1,380	1,836	3,216	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	246	14,169	14,415	109,927
Less Accumulated Depreciation	(246)	(7,614)	(7,860)	(76,123)
Total Capital Assets	-	6,870	6,870	33,804
Total Noncurrent Assets	57,760	86,982	144,742	33,804
Total Assets	$ 498,767	$ 152,480	$ 651,247	$ 189,566
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 2,984	$ 32,128	$ 35,112	$ 14,336
Due to Other Funds	-	104	104	930
Capital Lease Obligations	-	-	-	9,735
Claims, Judgments and Compensated Absences	6,345	8,257	14,602	43,794
Unearned Revenue	-	3,110	3,110	668
Total Current Liabilities	9,329	43,599	52,928	69,463
Noncurrent Liabilities:				
Capital Lease Obligations	-	-	-	24,585
Claims, Judgments and Compensated Absences	-	10,064	10,064	36,215
Obligations under Securities Lending	1,380	1,836	3,216	-
Total Noncurrent Liabilities	1,380	11,900	13,280	60,800
Total Liabilities	$ 10,709	$ 55,499	$ 66,208	$ 130,263
NET POSITION				
Net Investment in Capital Assets	-	6,870	6,870	(516)
Restricted for:				
Lottery Prizes	-	2,350	2,350	-
Unemployment Insurance Benefits	488,058	-	488,058	-
Unrestricted	-	87,761	87,761	59,819
Total Net Position	$ 488,058	$ 96,981	$ 585,039	$ 59,303

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, 2016

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES				
Charges for Services	$ 95,925	$ 196,906	$ 292,831	$ 387,143
Federal	1,212	-	1,212	-
Other	611	-	611	1,557
Total Operating Revenues	97,748	196,906	294,654	388,700
OPERATING EXPENSES				
Personal Services	-	6,667	6,667	38,131
Services and Supplies	12	38,428	38,440	138,121
Lottery Prizes	-	104,645	104,645	-
Unemployment Claims	78,735	-	78,735	-
Insurance Claims	-	8,417	8,417	212,957
Depreciation	-	502	502	11,311
Total Operating Expenses	78,747	158,659	237,406	400,520
Operating Income (Loss)	19,001	38,247	57,248	(11,820)
NONOPERATING REVENUES (EXPENSES)				
Investment Income	11,367	4,515	15,882	2,837
Gain (Loss) on Sale of Capital Assets	-	20	20	366
Other	-	-	-	(177)
Total Nonoperating Revenues (Expenses)	11,367	4,535	15,902	3,026
Income (Loss) Before Transfers	30,368	42,782	73,150	(8,794)
Transfers Out	(6,631)	(42,783)	(49,414)	-
Change in Net Position	23,737	(1)	23,736	(8,794)
NET POSITION, JULY 1	464,321	96,982	561,303	68,097
NET POSITION, JUNE 30	$ 488,058	$ 96,981	$ 585,039	$ 59,303

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, 2016

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	$ 98,475	$ 187,180	$ 285,655	$ 26,335
Cash Received from Interfund Charges	-	10,397	10,397	352,269
Cash Received from Federal Government	1,212	-	1,212	-
Cash Paid to Employees	-	(6,626)	(6,626)	(37,680)
Cash Paid to Suppliers	924	(17,216)	(16,292)	(126,605)
Cash Paid for Lottery Prizes	-	(104,906)	(104,906)	-
Cash Paid for Insurance Claims	(80,141)	(9,750)	(89,891)	(219,755)
Cash Paid for Interfund Services	(144)	(999)	(1,143)	(9,227)
Net Cash Flows from Operating Activities	20,326	58,080	78,406	(14,663)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	(6,631)	(42,783)	(49,414)	-
Net Cash Flows from Noncapital Financing Activities	(6,631)	(42,783)	(49,414)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(348)	(348)	3,448
Proceeds from Sale of Capital Assets	-	26	26	1,138
Principal Paid on Capital Leases	-	-	-	(6,090)
Interest Paid on Capital Leases	-	-	-	(177)
Net Cash Flows from Capital and Related Financing Activities	-	(322)	(322)	(1,681)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(219,886)	(219,886)	-
Proceeds from Sale of Investment Securities	(20)	198,167	198,147	-
Interest and Dividend Income	11,337	2,875	14,212	2,773
Net Cash Flows from Investing Activities	11,317	(18,844)	(7,527)	2,773
Net Increase (Decrease) in Cash and Cash Equivalents	25,012	(3,869)	21,143	(13,571)
CASH AND CASH EQUIVALENTS, JULY 1	394,502	41,947	436,449	125,788
CASH AND CASH EQUIVALENTS, JUNE 30	$ 419,514	$ 38,078	$ 457,592	$ 112,217

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, 2016

(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)	$ 19,001	$ 38,247	$ 57,248	$ (11,820)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	-	502	502	11,311
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	1,826	(36)	1,790	51
(Increase) Decrease in Due from Other Funds	-	58	58	(10,516)
(Increase) Decrease in Inventories	-	(2,450)	(2,450)	(59)
(Increase) Decrease in Prepaid Items	-	(10)	(10)	(8)
(Increase) Decrease in Long-Term Deposits	-	70	70	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	1,057	22,368	23,425	2,858
Increase (Decrease) in Due to Other Funds	(144)	15	(129)	(51)
Increase (Decrease) in Claims Payable	(1,414)	(1,333)	(2,747)	(6,798)
Increase (Decrease) in Unearned Revenue	-	649	649	369
Total Adjustments	1,325	19,833	21,158	(2,843)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 20,326	$ 58,080	$ 78,406	$ (14,663)

NONCASH TRANSACTIONS:

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	$ -	$ -	$ -	$ 25,480
Change in Fair Value of Investments	-	1,649	1,649	-
Total Noncash Transactions	$ -	$ 1,649	$ 1,649	$ 25,480

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

State of Nebraska

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2016

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 5,804	$ 22,481	$ 108,598
Investments:			
U.S. Treasury Notes and Bonds	520,282	-	-
U.S. Treasury Bills	87	-	-
Government Agency Securities	16,505	-	-
Corporate Bonds	707,529	-	-
International Bonds	166,320	-	-
Equity Securities	1,733,839	-	-
Private Equity	794,471	-	-
Options	(19)	-	-
Mortgages	566,809	-	-
Private Real Estate	390,942	-	-
Adr's, GDRs & Trust	3,633	-	-
Asset Backed Securities	109,354	-	-
Bank Loans	278,605	-	-
Municipal Bonds	17,461	-	-
Commingled Funds	7,658,880	3,848,458	-
Short Term Investments	192,911	-	-
Total Investments	13,157,609	3,848,458	-
Securities Lending Collateral	262,953	-	-
Receivables:			
Contributions	29,223	-	-
Interest and Dividends	16,234	643	499
Other	668,077	-	597
Total Receivables	713,534	643	1,096
Due from Other Funds	47,303	-	-
Capital Assets:			
Buildings and Equipment	6,592	-	-
Less Accumulated Depreciation	(6,587)	-	-
Total Capital Assets	5	-	-
Other Assets	-	2,172	-
Total Assets	$ 14,187,208	$ 3,873,754	$ 109,694
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 986,477	$ 5,023	$ 20,066
Due to Other Governments	6,671	-	69,065
Deposits	-	2,389	-
Due to Other Funds	104	7	-
Obligations under Securities Lending	262,953	-	-
Accrued Compensated Absences	407	-	-
Other Liabilities	-	-	20,563
Total Liabilities	$ 1,256,612	$ 7,419	$ 109,694
NET POSITION			
Restricted for:			
Pensions	$ 12,930,596	$ -	$ -
College Savings Plan	-	3,849,971	-
Other Purposes	-	16,364	-
Total Net Position	$ 12,930,596	$ 3,866,335	$ -

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, 2016

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS		
Contributions:		
Participant Contributions	$ 244,350	$ 381,280
Client Contributions	-	11
State Contributions	125,520	-
Political Subdivision Contributions	179,609	-
Court Fees	3,459	-
Total Contributions	552,938	381,291
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	58,763	(3,245)
Interest and Dividend Income	161,688	4,381
Securities Lending Income	2,613	-
Total Investment Income	223,064	1,136
Investment Expenses	41,121	18,491
Securities Lending Expenses	856	-
Total Investment Expense	41,977	18,491
Net Investment Income	181,087	(17,355)
Escheat Revenue	-	4,335
Other Additions	184	1,243
Total Additions	734,209	369,514
DEDUCTIONS		
Benefits	716,337	272,427
Refunds	15,890	-
Amounts Distributed to Outside Parties	-	20,649
Administrative Expenses	5,651	1,165
Other Deductions	8,615	-
Total Deductions	746,493	294,241
Change in Net Position Restricted for:		
Pensions	(12,284)	-
College Savings Plan	-	91,251
Other Purposes	-	(15,978)
NET POSITION-BEGINNING OF YEAR	12,942,880	3,791,062
NET POSITION-END OF YEAR	$ 12,930,596	$ 3,866,335

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

State of Nebraska

STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2016

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 640,266	$ 35,485	$ 675,751
Receivables, net of allowance			
Loans	36,168	1,143	37,311
Other	476,335	4,358	480,693
Investments	2,088,871	53,775	2,142,646
Investment in Joint Venture	385,080	-	385,080
Other Assets	27,708	1,280	28,988
Restricted Assets:			
Cash and Cash Equivalents	534,550	51,174	585,724
Investments Held by Trustee	17,260	-	17,260
Capital assets:			
Land	140,349	1,353	141,702
Land Improvements	251,580	30,246	281,826
Construction in Progress	426,895	26,035	452,930
Buildings and Equipment	2,908,978	247,874	3,156,852
Less Accumulated Depreciation	(1,072,685)	(100,710)	(1,173,395)
Total Capital Assets	2,655,117	204,798	2,859,915
Total Assets	$ 6,861,355	$ 352,013	$ 7,213,368
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	$ 7,630	$ 44	$ 7,674
Total Deferred Outflows of Resources	$ 7,630	$ 44	$ 7,674
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 267,991	$ 12,549	$ 280,540
Deposits	13,750	271	14,021
Unearned Revenue	119,233	1,362	120,595
Noncurrent Liabilities:			
Due within one year	149,500	5,675	155,175
Due in more than one year	877,918	66,802	944,720
Total Liabilities	$ 1,428,392	$ 86,659	$ 1,515,051
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement receipts	$ 14,523	$ -	$ 14,523
Total Deferred Inflows of Resources	$ 14,523	$ -	$ 14,523
NET POSITION			
Net Investment in Capital Assets	$ 1,953,065	$ 159,204	$ 2,112,269
Restricted for:			
Education	2,098,977	-	2,098,977
Other Purposes	250,591	66,228	316,819
Construction and Debt Service	388,084	7,111	395,195
Unrestricted	735,353	32,855	768,208
Total Net Position	$ 5,426,070	$ 265,398	$ 5,691,468

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, 2016

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Expenses:			
Compensation and benefits	$ 1,391,225	$ 68,726	$ 1,459,951
Supplies and materials	308,716	12,126	320,842
Contractual services	209,248	5,205	214,453
Repairs and maintenance	69,270	4,142	73,412
Utilities	32,595	4,441	37,036
Communications	11,044	446	11,490
Depreciation	117,998	8,141	126,139
Scholarships and fellowships	64,924	4,507	69,431
Other	6,046	14,582	20,628
Total Operating Expenses	2,211,066	122,316	2,333,382
Program Revenues:			
Charges for Services	1,062,379	49,702	1,112,081
Operating Grants and Contributions	373,267	14,315	387,582
Capital Grants and Contributions	6,514	2,153	8,667
Total Program Revenues	1,442,160	66,170	1,508,330
Net (Expense) Revenue	(768,906)	(56,146)	(825,052)
General Revenues:			
Interest and investment earnings	61,797	2,442	64,239
Miscellaneous	278,182	5,837	284,019
Payments from the State of Nebraska	621,432	55,017	676,449
Total General Revenues	961,411	63,296	1,024,707
Change in Net Position	192,505	7,150	199,655
Net Position - Beginning (as restated)	5,233,565	258,248	5,491,813
Net Position - Ending	$ 5,426,070	$ 265,398	$ 5,691,468

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 dependent 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 $3,044,857 of restricted net position, of which $1,689,580 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 and Airport Development 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, 2016, approximates fair value due to their short-term nature. 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 recorded at fair value in accordance with generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The State's valuation methodologies are generally based on quoted markets prices. These valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. 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 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 trustee for 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 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 collection items 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 (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, 2016 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, 2016, the carrying amounts of the State's deposits were $42,538 and the bank balances were $101,099. 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 $21,954 at June 30, 2016.

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.

Following are two different presentations of the primary government's investments, by investment type, at June 30, 2016. The first table below presents all investments stated at fair value using valuation techniques to measure fair value, followed by a table presenting investments at fair value for financial statement purposes, with debt securities presented with effective duration stated in years.

The State utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the State has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information for external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

State of Nebraska (dollars expressed in thousands)

For financial statement purposes, the investment amounts for some funds presented in the fiduciary fund financial statements reflect balances per audited financial statements for the period ended December 31, 2015. The underlying investments for these funds as of June 30, 2016 are included in the fair value measurement calculations and investment risk disclosures presented below for fiduciary funds.

PRIMARY GOVERNMENT INVESTMENTS AT JUNE 30, 2016 AT FAIR VALUE MEASUREMENTS USING:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Notes and Bonds	$ 1,432,054	$ -	$ 1,432,054	$ -
Government Agency Securities	1,107,045	-	1,107,045	-
Corporate Bonds	2,347,318	-	2,344,950	2,368
International Bonds	170,868	-	170,868	-
Mortgages	639,095	258	638,471	366
Asset Backed Securities	114,373	-	111,739	2,634
Bank Loans	282,679	-	282,679	-
Commingled Funds	935,511	935,511	-	-
Municipal Bonds	19,373	-	19,373	-
Short Term Investments	367,467	40,750	326,717	-
	7,415,783	976,519	6,433,896	5,368
Other Investments				
Adr's, GDRs & Trust	4,639	4,639	-	-
Equity Securities	1,809,023	1,809,019	4	-
Private Equity	17,182	17,142	39	-
Commingled Funds	7,307,371	3,175,151	4,132,221	-
Options	(21)	(30)	9	-
U.S. Treasury Investment Pool	415,345	-	415,345	-
Total Investments	$ 16,969,322	$ 5,982,440	$ 10,981,514	$ 5,368

Investments measured at the net asset value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice period
Real Estate Funds:				
Core	$ 576,800	$ -	Quarterly	90 Days
Non-Core	227,048	170,497		
Private Equity Funds	591,881	484,858		
Short Term Investment Funds	266,582	-		
Opportunistic Credit Funds	103,198	-		
Other - Distressed Securities	149	-		
Total invetments measured at net asset value	$ 1,765,658	$ 655,355		
Total	18,734,980			
Other Investments not classified	399,113			
Component unit investment in State investment pool	(910,400)			
Other fair value measurements	3,781,768			
Total Investments at fair value	$ 22,005,461			

Debt securities and other investments classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities and other investments classified in Level 2 are valued using the following approaches:

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short Term Investments: quoted prices for identical securities in markets that are not active;
- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets;
- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices;
- Commingled Funds: published fair value per share (unit) for each fund.

Debt securities and other investments including Asset Backed Securities, Corporate Bonds, and Mortgages, classified in Level 3 are valued using unobservable inputs, such as reviews, recommendations and adjustments made by portfolio management; or, the use of internal data to develop unobservable inputs if there is no objective information available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented in the consolidated statements of financial position. Investments valued using the net asset value per share are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The State values these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions. The NAV table also presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the State's alternative investments.

Other investments not classified. The following investments with fair value for financial statement purposes at June 30, 2016 were not classified for fair value measurement purposes: Securities Lending Short-term Collateral Investment Pool Investments in the amount of $357,478 loaned to broker-dealers and banks under the securities lending program; Other Investments in the amount of $33,072 presented as Commingled Funds held by a custodian for certain member accounts of the Nebraska Public Employees Retirement Systems Deferred Compensation Plan; and, Debt Securities in the amount of $8,563 presented as Short Term Investments held by a trustee representing the balance of unexpended funds received from the issuance of capital lease obligations.

Other fair value measurements. The fair value of certain Other Investment amounts presented as Commingled Funds for the Nebraska Educational Savings Plan Trust (Trust) were measured on December 31, 2015. These investments were not re-valued on June 30, 2016. Following is a summary of the fair value measurement and related input level as presented in the Trust's December 31, 2015 audited financial statements: Fair Value $3,848,458; Input Levels: 1 - $2,537,675; 2 - $1,310,783; 3 - $0. Additional information regarding these assets and related measurement details can be found in the Trust's audited financial statement located on the Nebraska State Treasurer's Office web site at treasurer.nebraska.gov.

The fair value of investments for the State and County Employees' Retirement Plans are reported for financial statement purposes as of December 31, 2015. The investment balances on June 30, 2016 were re-valued for fair value measurement purposes, resulting in a decrease in fair value of $66,690.

State of Nebraska (dollars expressed in thousands)

The primary government's investments at June 30, 2016 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, 2016 FOR FINANCIAL STATEMENT PURPOSES

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
Debt Securities	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
U.S. Treasury Notes and Bonds	$ 899,916	3.67	$ 520,282	8.23
U.S. Treasury Bills	-	-	87	-
Government Agency Securities	1,089,208	3.58	16,505	6.80
Corporate Bonds	1,635,640	4.19	707,529	5.89
International Bonds	1,516	3.83	166,320	8.58
Mortgages	78,571	2.31	566,809	2.44
Asset Backed Securities	7,554	1.00	109,354	1.54
Bank Loans	400	-	278,605	0.15
Commingled Funds	218,556	5.19	710,526	5.17
Municipal Bonds	2,413	10.50	17,461	10.50
Short Term Investments	263,754	0.48	192,911	0.12
	4,197,528		3,286,389	
Other Investments				
Adr's, GDRs & Trust	381		3,633	
Equity Securities	72,265		1,733,839	
Private Equity	101,268		794,471	
Commingled Funds	738,702		10,796,812	
Options	(4)		(19)	
Private Real Estate	26,831		390,942	
U.S. Treasury Investment Pool	415,345		-	
Less: Component Unit Investment in State Investment Pool	(910,400)		-	
Total Investments	4,641,916		17,006,067	
Securities Lending Short-term Collateral Investment Pool	94,525		262,953	
Total	$ 4,736,441		$ 17,269,020	

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.

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 primary government's rated debt investments as of June 30, 2016 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, 2016

	FAIR VALUE	QUALITY RATINGS AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 1,089,207	$ -	$ 1,064,660	$ -	$ -	$ -	$ -	$ 24,547
Corporate Bonds	1,635,639	170,565	426,957	843,595	176,900	10,028	5,003	2,591
International Bonds	1,516	-	515	309	-	15	568	109
Mortgages	78,571	3,599	4,047	14	1,003	-	273	69,635
Asset Backed Securities	7,554	1,576	884	111	909	266	2,889	919
Commingled Funds	218,556	-	-	-	-	-	-	218,556
Short Term Investments	263,754	-	-	3,179	-	-	-	260,575
Municipal Bonds	2,413	1,531	882	-	-	-	-	-
Bank Loans	400	-	-	-	-	-	-	400

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2016

	FAIR VALUE	QUALITY RATINGS AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 17,838	$ -	$ 14,940	$ 327	$ -	$ 309	$ 1,535	$ 727
Bank Loans	282,279	-	-	-	-	-	-	282,279
Corporate Bonds	711,678	12,886	24,791	138,790	392,198	84,680	39,614	18,719
International Bonds	169,352	20,023	35,082	66,437	29,680	3,264	5,237	9,629
Mortgages	560,524	51,656	23,051	3,248	7,411	2,765	3,033	469,360
Asset Backed Securities	106,819	43,356	10,120	16,406	7,444	1,359	15,044	13,090
Commingled Funds	716,954	-	-	-	-	-	-	716,954
Short Term Investments	188,071	-	-	-	-	-	-	188,071
Municipal Bonds	16,960	3,948	11,603	1,098	-	311	-	-

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, 2016, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (11 percent) and Federal Home Loan Bank (9 percent). At June 30, 2016, 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 25 to 45 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, 2016

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ (2)	$ 570	$ -
Brazilian Real	3	125	116
Canadian Dollar	(22)	1,534	-
Columbian Peso	-	-	273
Czech Koruna	-	173	-
Danish Krone	14	311	-
Euro Currency	19	7,216	2,134
Hong Kong Dollar	4	583	-
Indian Rupee	-	-	432
Indonesian Rupiah	2	53	-
Japanese Yen	30	3,091	384
Malaysian Ringgit	5	358	-
Mexican Peso	127	252	717
New Israeli Sheqel	-	58	-
New Zealand Dollar	-	13	-
Norwegian Krone	1	174	-
Philippine Peso	-	42	-
Polish Zloty	19	58	-
Pound Sterling	17	3,736	1,001
Singapore Dollar	6	1,127	-
South African Rand	-	108	-
South Korean Won	-	509	-
Swedish Krona	6	1,517	-
Swiss Franc	10	3,864	-
Thailand Baht	(4)	73	-
Total	$ 235	$ 25,545	$ 5,057

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2016

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	$ (62)	$ 11,202	$ 4,826
Brazilian Real	41	4,154	437
Canadian Dollar	(56)	31,239	7,375
Columbian Peso	-	-	1,682
Czech Koruna	-	669	272
Danish Krone	-	12,579	1,196
Euro Currency	4,614	302,955	77,209
Hong Kong Dollar	287	20,304	-
Indian Rupee	-	-	2,447
Indonesian Rupiah	28	2,543	-
Japanese Yen	415	153,502	58,603
Malaysian Ringgit	29	6,649	944
Mexican Peso	597	4,267	5,333
New Israeli Sheqel	-	223	267
New Zealand Dollar	2	79	2,343
Norwegian Krone	61	1,527	223
Philippine Peso	3	-	-
Polish Zloty	83	1,421	1,159
Pound Sterling	433	94,660	21,468
Singapore Dollar	97	28,441	1,231
South African Rand	3	3,467	424
South Korean Won	-	14,812	3,532
Swedish Krona	-	37,790	887
Swiss Franc	-	103,981	2,357
Thailand Baht	-	2,336	-
Turkish Lira	-	2,735	243
Total	$ 6,575	$ 841,535	$ 194,458

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 futures and options contract values 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, 2016 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2016, 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, 2016

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ (226)	$ 169	$ 28,312
Fixed Income Futures	-	977	20,334
Fixed Income Options	7	65	45,800
Foreign Currency Options	(37)	223	(6,059)
Futures Options	(4)	93	(16)
FX Forwards	(7)	(147)	43,061
Interest Rate Swap	(4,163)	(5,328)	101,805
Warrants	-	-	1

DERIVATIVE INVESTMENTS AT JUNE 30, 2016

FIDUCIARY FUND

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ (554)	$ 567	$ 100,382
Fixed Income Futures	-	4,013	41,148
Fixed Income Options	42	366	262,900
Foreign Currency Options	(225)	1,355	(35,051)
Futures Options	(25)	523	(97)
FX Forwards	607	2,403	303,025
Interest Rate Swap	(23,366)	(28,330)	452,685
Rights	-	(1)	-
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, 2016, 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, 2016, was $650 for Governmental and Business-Type Activities and $4,853 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 $5,503. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 60 percent for the Governmental and Business-Type Activities and 53 percent for the Fiduciary Fund, held with three counterparties. The counterparties are rated A or BBB.

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, 2016 are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2016
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ (21)	$ (2)
Canadian Dollar	(112)	-	-
Yuan Renminbi	-	65	-
Euro Currency	(17)	11	(4)
Pound Sterling	-	85	(2)
Japanese Yen	-	(121)	-
South Korean Won	-	(21)	-
Mexican Peso	(14)	3	-
Malaysian Ringgit	-	(4)	-
Russian Ruble	-	(3)	-
New Taiwan Dollar	-	(1)	-
Total	$ (143)	$ (7)	$ (8)

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2016
FIDUCIARY FUND

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ (86)	$ (18)
Canadian Dollar	(706)	(16)	-
Swiss Franc	-	17	-
Yuan Renminbi	-	419	-
Danish Krone	-	7	-
Euro Currency	202	469	(24)
Pound Sterling	-	576	(9)
Hong Kong Dollar	-	(5)	-
Japanese Yen	-	(700)	-
South Korean Won	-	(137)	-
Mexican Peso	(3)	109	-
Malaysian Ringgit	-	(27)	-
Norwegian Krone	-	9	-
New Zealand Dollar	-	(4)	-
Polish Zloty	-	(21)	-
New Russian Ruble	-	(18)	-
Swedish Krona	-	16	-
Singapore Dollar	-	(2)	-
Thailand Baht	-	1	-
Turkish Lira	-	3	-
New Taiwan Dollar	-	(4)	-
South African Rand	-	1	-
Total	$ (507)	$ 607	$ (51)

State of Nebraska (dollars expressed in thousands)

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2016 is as follows:

Disclosure Regarding Deposits and Investments:	
Total Investments	$ 22,005,461
Carrying amount of Deposits	42,538
Total	$ 22,047,999
Statement of Net Position:	
Cash and Cash Equivalents	$ 737,191
Investments	3,801,817
Restricted Cash and Cash Equivalents	8,563
Securities Lending Collateral	94,525
Statement of Fiduciary Net Position:	
Cash and Cash Equivalents	136,883
Investments	17,006,067
Securities Lending Collateral	262,953
Total	$ 22,047,999

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2016:

Governmental Activities:	
General Fund	$ 102,507
Federal Fund	15,677
Health and Social Services Fund	7,583
Total Governmental Activities	$ 125,767
Business-type Activities:	
Unemployment Insurance	$ 4,943
Total Business-type Activities	$ 4,943

Of the taxes and other receivables, $39,689 and $18,766, 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, 2016 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 579,205	$ 5,572	$ -	$ 584,777
Infrastructure	7,329,963	128,561	-	7,458,524
Construction in progress	321,610	94,356	150,195	265,771
Total capital assets, not being depreciated	8,230,778	228,489	150,195	8,309,072
Capital assets, being depreciated:				
Buildings and improvements	644,887	27,201	1,423	670,665
Equipment	499,967	49,491	18,306	531,152
Total capital assets, being depreciated	1,144,854	76,692	19,729	1,201,817
Less accumulated depreciation for:				
Buildings and improvements	297,182	14,409	33	311,558
Equipment	389,059	35,142	17,182	407,019
Total accumulated depreciation	686,241	49,551	17,215	718,577
Total capital assets, being depreciated, net	458,613	27,141	2,514	483,240
Governmental activities capital assets, net	$ 8,689,391	$ 255,630	$ 152,709	$ 8,792,312
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 324	$ -	$ 78	$ 246
Less accumulated depreciation	324	-	78	246
Total Unemployment Insurance, net	-	-	-	-
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	5,516	348	137	5,727
Total capital assets, being depreciated	13,958	348	137	14,169
Less accumulated depreciation for:				
Buildings and improvements	2,689	211	-	2,900
Equipment	4,554	291	131	4,714
Total accumulated depreciation	7,243	502	131	7,614
Total capital assets, being depreciated, net	6,715	(154)	6	6,555
Total Nonmajor Enterprise, net	7,030	(154)	6	6,870
Business-type activities capital assets, net	$ 7,030	$ (154)	$ 6	$ 6,870

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

Governmental activities:	
General Government	$ 18,160
Conservation of Natural Resources	1,727
Culture – Recreation	1,915
Economic Development and Assistance	197
Education	1,518
Health and Social Services	1,726
Public Safety	9,886
Regulation of Business and Professions	532
Transportation	13,890
Total depreciation expense - Governmental activities	$ 49,551

State of Nebraska (dollars expressed in thousands)

Construction Commitments. At June 30, 2016, the State had contractual commitments of approximately $760,879 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$	262,707
State funds		492,038
Local funds		6,134
	$	760,879

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, 2016 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	$ -	$ 43	$ 34	$ 2	$ 336	$ 223	$ 15,464	$ 47,303	$ 63,405
Highway Fund	-	-	152	2	204	567	3,252	-	4,177
Federal Fund	60,044	3	-	2,713	1,332	81	5,837	-	70,010
Health and Social Services	-	2	-	-	-	25	328	-	355
Permanent School Fund	14	-	-	-	-	-	4	-	18
Nonmajor Governmental Funds	1	193	11	103	64	40	13,935	-	14,347
Nonmajor Enterprise Funds	-	9	-	-	1	-	94	-	104
Internal Service Funds	1	25	-	-	49	77	778	-	930
Pension Trust	-	-	-	-	-	-	104	-	104
Private Purpose Trust	-	-	-	-	-	-	7	-	7
TOTALS	$ 60,060	$ 275	$ 197	$ 2,820	$ 1,986	$ 1,013	$ 39,803	$ 47,303	$ 153,457

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, 2016 consist of the following:

	TRANSFERRED TO:				
TRANSFERRED FROM:	General Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ -	$ -	$ 104,826	$ 104,826
Highway Fund	26	-	-	10,779	10,805
Federal Fund	-	-	-	13,436	13,436
Health & Social Services Fund	1,000	-	-	344	1,344
Nonmajor Governmental Funds	66,202	45	90	3,599	69,936
Unemployment Fund	-	660	-	5,971	6,631
Nonmajor Enterprise Funds	-	-	923	41,860	42,783
TOTALS	$ 67,228	$ 705	$ 1,013	$ 180,815	$ 249,761

State of Nebraska (dollars expressed in thousands)

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

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2016 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	$ 19,886	$ 6,542	$ 7,034	$ 751	$ -	$ 4,374	$ 1,926	$ -	$ 298	$ 40,811
Payables to Vendors	71,951	75,089	49,429	9,435	117,239	34,876	11,507	2,952	24,978	397,456
Payables to Governments	39,559	15,696	121,659	1,043	7,173	6,007	234	-	19	191,390
Due to Fiduciary Funds *	-	-	-	-	-	-	47,303	-	-	47,303
Miscellaneous	-	-	-	-	-	477	-	32	6,833	7,342
TOTALS	$ 131,396	$ 97,327	$ 178,122	$ 11,229	$ 124,412	$ 45,734	$ 60,970	$ 2,984	$ 32,128	$ 684,302

* 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, 2016 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 254,662	$ 2,050,753	$ 2,020,756	$ 284,659	$ 238,392
Capital Lease Obligations	15,475	25,480	6,175	34,780	9,820
Obligations Under Other Financing Arrangements	-	1,425	1,425	-	-
Compensated Absences	131,142	18,309	17,861	131,590	11,845
Net Pension Liability	289,309	48,102	-	337,411	-
Totals	$ 690,588	$ 2,144,069	$ 2,046,217	$ 788,440	$ 260,057
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 7,759	$ 78,727	$ 80,141	$ 6,345	$ 6,345
Compensated Absences	-	7	7	-	-
Totals for Unemployment Insurance	7,759	78,734	80,148	6,345	6,345
Nonmajor Enterprise Funds:					
Claims Payable	18,748	8,417	9,750	17,415	8,176
Compensated Absences	910	78	82	906	81
Totals for Nonmajor Enterprise Funds	19,658	8,495	9,832	18,321	8,257
Totals for Business-type Activities	$ 27,417	$ 87,229	$ 89,980	$ 24,666	$ 14,602

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, 2016 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2017	$ 10,374
2018	8,443
2019	6,726
2020	5,954
2021	3,304
2022-2026	1,586
Total Minimum Payments	36,387
Less: Interest and executory costs	1,607
Present value of net minimum payments	$ 34,780

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, 2016:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 48,480
Less: accumulated depreciation	(19,197)
Carrying value	$ 29,283

The minimum annual lease payments for operating leases as of June 30, 2016 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2017	$ 9,278
2018	3,847
2019	3,767
2020	3,640
2021	3,386
2022-2026	6,090
2027-2031	4,904
2032-2036	3,798
Total	$ 38,710

Primary Government operating lease payments for the year ended June 30, 2016 totaled $14,546.

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, 2016, 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 $54,338 were received under these and other lease agreements for the year ended June 30, 2016.

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.

On June 18, 2015 the State in-substance defeased the Drinking Water State Revolving Fund Revenue Bonds, series 2010A, by depositing $2,680 with an escrow agent in trust. The in-substance defeasance was funded by available cash. Debt is considered defeased in substance for accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt. These bonds are scheduled to be redeemed on July 1, 2017.

Accordingly, trust account assets and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2016, bonds totaling $2,315 are considered defeased.

As of June 30, 2016 the State has no Obligations Under Other Financing Arrangements.

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, 2016, follows:

Governmental Fund Balances

	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Funds
Restricted for:						
Education	$ -	$ -	$ -	$ -	$ 248,226	$ 29,289
Health and Social Services	-	-	-	527,322	-	36,944
Conservation of Natural Resources	-	-	-	-	-	629,420
Transportation	-	205,110	-	-	-	10,512
Licensing and Regulation	-	-	-	-	-	109,736
Economic Development	-	-	-	-	-	62,556
Public Safety	-	-	-	-	-	28,710
Culture – Recreation	-	-	-	-	-	48,153
Other Purposes	-	-	8,162	-	-	39,258
Total Restricted	$ -	$ 205,110	$ 8,162	$ 527,322	$ 248,226	$ 994,578
Committed to:						
Economic Stabilization	730,655	-	-	-	-	-
Other Purposes	-	-	-	-	-	113,034
Total Committed	$ 730,655	$ -	$ -	$ -	$ -	$ 113,034
Assigned to:						
Education	-	-	-	-	-	635
Health and Social Services	-	-	-	555	-	1,541
Licensing and Regulation	-	-	-	-	-	40,211
Economic Development	-	-	-	-	-	75
Public Safety	-	-	-	-	-	695
Culture – Recreation	-	-	-	-	-	91
Other Purposes	-	-	-	-	-	2,434
Total Assigned	$ -	$ -	$ -	$ 555	$ -	$ 45,682

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, except for the following event identified subsequent to June 30, 2016: On November 16, 2016 the State disclosed having received, on or before June 30, 2016, audit reports claiming payment for disallowed costs, penalties and fines for the State's failure to meet federal requirements related to various federal grant programs. The State is in the process of contesting these claims. However, there exists a reasonable possibility that they will be settled in the future at an estimated amount of $45 million or more.

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.

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. All vehicles owned by the State are covered to the maximum of $5,000 limit and a $300 retention per occurrence for liability (bodily injury and property damage to personal or real property) caused by a State vehicle. There is also an additional $300 corridor retention.

Risk Management has procured excess commercial crime coverage in the amount of $31,000 with a self-insured retention of $25. Risk Management has procured excess property coverage in the amount of $251,000 with a self-insured retention of $200. Each State agency has the option of purchasing insurance coverage for its contents, i.e. personal property. This coverage is not required, but Risk Management will purchase such coverage on behalf of an agency at its direction. 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 $45,432 at a discounted rate of 2.0 percent ($7,534).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2016, and 2015, were as follows:

	Fiscal Year 2016	Fiscal Year 2015
Beginning Balance	$ 78,146	$ 72,693
Current Year Claims and Changes in Estimates	(222,553)	(192,391)
Claim Payments	219,755	197,844
Ending Balance	$ 75,348	$ 78,146

13. Pension Plans

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of each plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by each plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 County Employee Retirement System. The plans have been created in accordance with Internal Revenue Code, Sections 401(a), 414(h) and 414(k). 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 on the Nebraska Public Employees Retirement System (NPERS) website at: npers.ne.gov. Information on NPERS may also 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 all plan administration expenses among the retirement systems administered by the Board, and all such expenses shall be provided from the investment income earned by the various retirement funds.

The main benefits provided by each of these plans are retirement benefits. However, the plan also provides ancillary benefits in the event of pre-retirement death, disability, or termination of employment prior to meeting the eligibility requirements to retire.

Following is a summary of each of these plans:

State Employees' Retirement. This 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. For both Cash Balance and Defined Contribution plans, benefits are vested after three years of plan participation. Members can become vested in less than three years if they attain age 55 before terminating employment, die before terminating employment or qualify for disability retirement.

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 in the normal form. The normal form of payment is a single life annuity with five-year-certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity and have the option to purchase a built in cost-of-living adjustments of 2.5 percent annually. If the retiree elects an annuity with no cost-of-living adjustments, the monthly annuity amount will never change. If the retiree purchases the cost-of-living adjustment, the annuity dollar amount increases 2.5 percent each year. Also available are additional forms of payment allowed under the plan, which are actuarially equivalent to the normal form, including the option of a full or partial lump-sum.

Under the defined contribution option, a member upon attainment of age 55, regardless of service, the retirement allowance is equal to the sum of the employee and employer accounts. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

For both the cash balance and defined contribution plans, the amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the plan's fiscal year ended December 31, 2015.

Participation in the plan is required for all permanent full-time employees upon employment. Part-time employees may elect voluntary participation upon reaching age 18. Each member contributes 4.8 percent of their compensation. The State matches a member's contribution at a rate of 156 percent. Benefit and contribution provisions are established by State law (Neb. Rev. Stat. §§ 84-1301 through 84-1333 (Reissue 2014) and may be amended only by the Nebraska Legislature. Pursuant to state statute, an actuarial valuation is performed each year to determine the actuarial required contribution. To the extent member and State payroll-related contributions are insufficient to meet the full actuarial contribution; the remainder is paid by the State.

As of December 31, 2015, there were 24,986 members in the plan. Of these members, 15,663 were active, 7,887 were inactive, and 1,436 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $34,770 and State contributions of $54,213 for the plan year ended December 31, 2015.

School Employees' Retirement. The State is the plan sponsor for the School Retirement System, a cost-sharing multiple-employer defined benefit pension plan, with 266 participating school districts; and, the Service Annuity Plan, a single-employer defined benefit pension plan. The State is also a non-employer contributing entity for the Omaha School Employees' Retirement System.

Participation in the School plan is required for all permanent employees of a Nebraska school district (other than the Omaha Public School District), an educational service unit, the state or county (if the position with the state or county requires a teaching certificate), working at least 20 hours per week on an ongoing basis, or with a full-time contract. Once an employee meets the requirements to participate in the plan, they will remain in the plan until termination or retirement. Members' benefits are vested after five years of plan participation or when termination occurs at age 65 or later.

In this plan, the State is in a special funding situation and contributes 2 percent of estimated payroll for the plan year. The employees' contribution is 9.78 percent of their compensation. Pursuant to state statute, a fixed contribution rate is paid by the employers. Currently the school district's contribution is 101 percent of the employees' contribution. Benefit and contribution provisions are established by State law (Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Cum. Supp. 2016, Reissue 2014) and may be amended only by the Nebraska Legislature.

Normal retirement age is 65. Unreduced benefits are also available for a member who is at least age 55 and whose age plus service equals or exceed 85 (Rule of 85). The monthly benefit is equal to the greater of: 1) The sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service; or 2) the average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor (currently 2 percent) set by statute, and an actuarial factor based on age. For an employee who became a member on or after July 1, 2013, the monthly benefit is equal to the greater of: 1) The sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service; or 2) the average of the five 12-month periods of service in which such compensation was the greatest, multiplied by the total years of creditable service, multiplied by a formula factor (currently 2 percent) set by statute, and an actuarial factor based on age. Benefit calculations vary with early retirement.

For employees who became members prior to July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit. For employees who became members on or after July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent.

The accompanying financial statements include member contributions of $177,152, employer contributions of $179,609, and State contributions of $36,920 for the plan year ended June 30, 2016.

The Service Annuity Plan provides benefits for the employees of the Omaha Public School District equal to $3.50 times years of services. In this plan, the State is in a special funding situation because the benefits provided to the employees of the Omaha Public School District are funded exclusively by the State. There are no employee or employer contributions made to the plan. The benefit and contribution provisions for this plan are established by State law and may be amended only by the Nebraska Legislature.

Retirement is at age 65 with 5 years of service. Early retirement is at age 55 with 10 years of service, five of which must be with the Omaha Public School District. The benefit vests when the member has five years of service.

As of September 1, 2015, there were 8,377 members in the plan. Of these members, 7,393 were active and 984 were inactive. For the fiscal year ending June 30, 2016, the Service Annuity received $997 in non-employer contributions from the State.

Under state statutes, the State, as a non-employer contributing entity with a special funding situation in the Omaha School Employees' Retirement System, contributes 2% of the members' compensation. The accompanying financial statements include the State's special funding contribution of $6,661 for the plan year ended June 30, 2016.

Judges Retirement. The Judges Retirement System is a single-employer defined benefit pension plan. 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 vest when the member takes office.

Retirement is at age 65 with benefits calculated using the compensation for the three 12-month periods of service as a judge in which compensation was the greatest, or the average monthly compensation, multiplied by the total years of service and the formula factor of 3.5 percent, subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement.

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

The plan is funded by members' contributions, a portion of court fees collected, and the State's contribution. Benefit and contribution provisions are established by State law (Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2016)) and may be amended only by the Nebraska Legislature. Each member hired after July 1, 2004, contributes nine percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute five percent of their monthly salary for the remainder of their active service. All other members contribute seven percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute one percent of their monthly salary for the remainder of their active service. A six dollar fee for each case is collected for District and County courts, Juvenile courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County courts. An actuarial valuation is performed each year to determine the actuarial required contribution. To the extent member contributions and court fees are insufficient to meet the full actuarial required contribution, the remainder is paid by the State.

As of June 30, 2016, there were 335 members in the plan. Of these members, 149 were active, 2 were inactive, 5 were disabled and 179 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $1,651, court fees of $3,459 and State contributions of $0 for the plan year ended June 30, 2016.

State Patrol Retirement. The State Patrol Retirement System is a single-employer defined benefit pension plan for officers of the Nebraska State Patrol.

Participation is required upon employment. Members are required to contribute sixteen percent of their monthly salary, and the State Patrol contributes sixteen percent. Benefit and contribution provisions are established by State law (Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Cum. Supp. 2016, Reissue 2014) and may be amended only by the Nebraska Legislature. Pursuant to this statute, an actuarial valuation is performed each year to determine the actuarial required contribution. To the extent the member and employer statutory contributions are insufficient to meet the full actuarial required contribution; the remainder is paid by the State as an additional contribution. Member benefits vest when the officer completes six years of service.

Unreduced retirement benefits are payable upon meeting the following criteria: 1) age 50 and 25 years of service, 2) age 55 and 10 years of service, or 3) age 60 regardless of service. The retirement benefit is calculated using the compensation for the three 12-month periods of service in which compensation was the greatest, multiplied by the total years of service and the formula factor of 3.0 percent, subject to a maximum of 75 percent of the final average salary. The calculation varies with early retirement which is available at age 50 and 10 years of service.

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 60% of the purchasing power of the initial benefit.

Deferred Retirement Option Plan (DROP) Neb. Rev. Stat. § 81-2041 (Cum. Supp. 2016) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an IRC § 414(k) Deferred Compensation Plan (DCP). After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

As of June 30, 2016, there were 891 members in the plan. Of these members, 393 were active, 27 were inactive, 15 were disabled, 52 were participating in the DROP program, and 404 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $4,360, and State contributions of $7,086 for the plan year ended June 30, 2016.

Other Plan Administered

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. For both Cash Balance and Defined Contribution plans, benefits are vested after three years of plan participation. Members can become vested in less than three years if they attain age 55 before terminating employment, die before terminating employment or qualify for disability retirement.

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 18. Part-time elected officials may exercise the option to participate. 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. The State does not contribute to this plan.

As of December 31, 2015, there were 11,342 members in the plan. Of these members, 7,610 were active, 3,219 were inactive, and 513 were retirees or beneficiaries receiving benefits. Members contributed $13,391 and counties contributed $19,643 during the year ended December 31, 2015, which was equal to required contributions.

Net Pension Liability/(Asset)

The net pension liability/(asset) calculation for the Judges, Patrol and Service Annuity plans, and the collective net pension liability for the School plan were performed with a measurement date of June 30, 2015. The total pension asset for the Judges plan and the total pension liability for the Patrol, Service Annuity and School plans as of June 30, 2015 were determined based on the annual actuarial funding valuation report prepared as of July 1, 2015.

The net pension asset calculation for the State Employees' Retirement plan was performed with a measurement date of December 31, 2015. The total pension asset as of December 31, 2015 was determined based on the annual actuarial funding valuation report prepared as of January 1, 2016.

The net pension liability calculation for the Omaha School Employees' Retirement System was performed with a measurement date of August 31, 2015. The total pension liability as of August 31, 2015 was determined based on the annual actuarial funding valuation report prepared as of September 1, 2014.

The State Employees' Retirement plan, the State Patrol Retirement plan and the Judges' Retirement plan are all single employer plans with the State as the employer. The State will report 100 percent of the net pension liability/(asset) for each of those plans.

The State is a non-employer with a special funding situation for the school retirement plans. The State reported a $289,829 total pension liability for its proportionate share of the collective net pension liability for the school retirement plans. The State's share is a combination of $188,604 from the Nebraska Public Employees Retirement System's School plan, $3,392 from the Service Annuity plan, and $97,833 from the Omaha School Employees' Retirement System. The State's percentage of its proportionate share of the net pension liability for the Nebraska Public Employees Retirement System's School plan is 17.32 percent, the Service Annuity plan is 100 percent, and the Omaha School Employees' Retirement System is 16.84 percent. In the School plan and the Omaha School Employees Retirement System, the determination of proportionate share is based on individual employer contribution information.

State of Nebraska (dollars expressed in thousands)

The key actuarial assumptions used to measure the total pension liability, as of the latest valuation date, are as follows:

	STATE CASH BALANCE	STATE PATROL RETIREMENT	JUDGES' RETIREMENT	SCHOOL RETIREMENT AND SERVICE ANNUITY	OMAHA SCHOOL EMPLOYEES' RETIREMENT
Measurement Date	12/31/2015	6/30/2015	6/30/2015	6/30/2015	8/31/2015
Actuarial Valuation Date	1/1/2016	7/1/2015	7/1/2015	7/1/2015	9/1/2014
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar amount, closed	Level percent of payroll, closed	Level percent of payroll, closed	Level percent of payroll, closed	Level percent of payroll, closed
Single Amortization Period	25 years	22 years	23 years	21 years	30 years
Asset Valuation Method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market	market related smoothed value
Actuarial Assumptions:					
Investment Rate of Return **	7.75%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases **	4.0% to 5.43%	4.0% to 9.5%	4.0%	4.0% to 9.0%	4.0% to 5.6%

** Includes assumed inflation of 3.25% per year for State, Judges Patrol, and School plans, 3.00% for Omaha School Employees Retirement System

Mortality Rates. The Judges, State, School, and Service Annuity plans' pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set back one year (sex distinct with 55 percent of male rates for males and 40 percent of female rates for females).

The Judges, State, School, and Service Annuity plans' post-retirement rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set-back one year (sex distinct). The Patrol plan's post-retirement mortality rates are the same as pre-retirement rates.

The Patrol plan's pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set-back one year (sex distinct).

The Omaha School Employees' Retirement System pre-retirement mortality rates were based on the RP 2000 Combined Mortality Table, female rates set back 1 year and male rates with no set back, projected on a generational basis using Scale AA. Post-retirement mortality rates are the same as pre-retirement rates.

The Patrol, School and Service Annuity plans' disability mortality rates were based on the 1983 Railroad Retirement Board Disabled Annuitants Mortality (unisex). The Judges plan did not utilize a disability mortality rate.

The Omaha School Employees' Retirement System post-disability mortality rates were based on the same tables as the post-retirement tables, with ages set forward 10 years.

The actuarial assumptions used in the January 1, 2016 valuation for the State are based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2011. The experience study report is dated August 20, 2012.

The actuarial assumptions used in the July 1, 2015, valuations for the School, Judges, and Patrol plans are based on the results of the most recent actuarial experience study, for the period July 1, 2006 - June 30, 2011. The experience study report is dated August 20, 2012.

The actuarial assumptions used in the September 1, 2014 valuation for the Omaha School Employees' Retirement System were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2012. The experience study report is dated December 23, 2013.

State of Nebraska (dollars expressed in thousands)

Target Asset Allocation. The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The School, Service Annuity, State, Judges, and Patrol plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocations as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
US Stocks	29.00%	4.4%
Non-US Stocks	13.50%	5.2%
Global Stocks	15.00%	4.8%
Fixed Income	30.00%	2.1%
Real Estate	7.50%	4.4%
Private Equity	5.00%	6.7%
Total	100.00%	

*Geometric mean, net of investment expense

For the Omaha School Employees' Retirement System, the target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by the System's investment consultant for the last experience study, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Small Cap US Equity	12.00%	7.1%
Global Equity	15.00%	7.6%
Specialty Funds	15.00%	11.0%
Alternatives	25.00%	7.6%
Fixed Income	5.00%	3.4%
High Yield Investments	16.00%	5.9%
Real Estate	12.00%	7.0%
Total	100.00%	

*Arithmetic mean, net of investment expenses

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent for the State and 8 percent for Judges, Patrol and Schools. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that State contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

State of Nebraska (dollars expressed in thousands)

The change in the net pension liability/(asset) is presented in the following schedules:

Judges Retirement Plan

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance at 6/30/2014	$ 156,327	$ 158,790	$ (2,463)
Changes for the year:			
Service Cost	4,759	-	4,759
Interest on Total Pension Liability	12,171	-	12,171
Differences between expected and actual experience	(2,614)	-	(2,614)
Court fees	-	2,977	(2,977)
State Appropriations	-	94	(94)
Benefit payments, including member refunds	(8,548)	(8,548)	-
Employee contributions	-	1,611	(1,611)
Net investment income	-	5,959	(5,959)
Administrative expenses	-	(83)	83
Net changes	5,768	2,010	3,758
Balance at 6/30/2015	$ 162,095	$ 160,800	$ 1,295

State Retirement Plan

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance at 12/31/2014	$ 1,199,842	$ 1,305,037	$ (105,195)
Changes for the year:			
Service Cost	57,305	-	57,305
Interest on Total Pension Liability	89,967	-	89,967
Benefit term Changes	35,892	-	35,892
Differences between expected and actual experience	721	-	721
Benefit payments, including member refunds	(85,278)	(85,278)	-
Employer contributions	-	43,339	(43,339)
Employee contributions	-	27,799	(27,799)
Net investment income	-	14,784	(14,784)
Administrative expenses	-	(1,079)	1,079
Transfers	5,849	5,849	-
Net changes	104,456	5,414	99,042
Balance at 12/31/2015	$ 1,304,298	$ 1,310,451	$ (6,153)

State Patrol Retirement Plan

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance at 6/30/2014	$ 401,416	$ 357,317	$ 44,099
Changes for the year:			
Service Cost	7,563	-	7,563
Interest on Total Pension Liability	31,350	-	31,350
Differences between expected and actual experience	(10,659)	-	(10,659)
Benefit payments, including member refunds	(19,459)	(19,459)	-
Employer contributions	-	8,647	(8,647)
Employee contributions	-	4,180	(4,180)
Net investment income	-	13,333	(13,333)
Administrative expenses	-	(117)	117
Other changes	-	22	(22)
Net changes	8,795	6,606	2,189
Balance at 6/30/2015	$ 410,211	$ 363,923	$ 46,288

State of Nebraska (dollars expressed in thousands)

Sensitivity of the net pension liability/(asset) to changes in the discount rate. The following presents the net pension liability/(asset) of the plans calculated using the current discount rate of 8 percent for Judges, Patrol, and School. A current discount rate of 7.75 percent was used for the State plan. The table also shows what the plans' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Net Pension Liability / (Asset)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
School	$ 567,877	$ 289,829	$ 58,424
Judges	17,695	1,295	(12,848)
Patrol	100,789	46,288	1,664
	1% Decrease (6.75%)	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
State	$ 104,779	$ (6,153)	$ (101,272)

Changes to Actuarial Assumptions Subsequent Event to June 30, 2016. At the October 17, 2016 Board Meeting, the Nebraska Public Employees Retirement Board voted to accept the economic and demographic assumptions recommended by the actuary outlined in the 2016 Experience study with an effective date of January 1, 2018, for the State and County Cash Balance Plans. The effective date for the School, Judges, and Patrol plans is July 1, 2017. The key changes in economic assumptions are as follows: Price Inflation, Investment Return, General Wage Growth, Wage Inflation, Cash Balance Interest Crediting Rate, and Cost of Living Adjustment. The key changes in demographic assumptions are as follows: Post Retirement Mortality, Pre-Retirement Mortality, Retirement, Termination, Disability, and Disabled Life Mortality. Details of the assumption changes effective for future years are available in the audited pension financials.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports prepared by the Nebraska Public Employees Retirement Board and the Omaha School Employee Retirement System.

State of Nebraska (dollars expressed in thousands)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As a result of its requirement to contribute to these retirement plans, the State recognized expense of $79,670 for the year ended June 30, 2016. Of this amount, $5,167 pension income was recognized for the Nebraska Public Employees Retirement System's School plan, $73,503 expense was recognized for the State plan, $9,422 pension expense was recognized for the Omaha School Plan, $224 pension expense was recognized for the State Patrol Plan, $851 pension expense was recognized for the Judges Plan, and $837 in pension expense was recognized for the Service Annuity. In the accompanying financial statements, presented as of June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources from the following sources:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Actuarial Calculations:		
Judges Retirement		
Differences between expected and actual experience	$ 22	$ 2,021
Net difference between projected and actual earnings on pension plan investments	5,272	8,214
Patrol Retirement		
Differences between expected and actual experience	-	10,486
Net difference between projected and actual earnings on pension plan investments	11,991	18,280
School Retirement		
Differences between expected and actual experience	131	33,383
Net difference between projected and actual earnings on pension plan investments	75,779	90,954
Changes in proportion	126	3,095
State Retirement		
Differences between expected and actual experience	608	7,788
Net difference between projected and actual earnings on pension plan investments	75,538	-
Total Actuarial Calculations	169,467	174,221
Employer Contributions Paid Subsequent to Actuarial Measurement Date:		
Judges Retirement	3,459	-
Patrol Retirement	7,086	-
School Retirement	44,578	-
TOTAL	$ 224,590	$ 174,221

State of Nebraska (dollars expressed in thousands)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Judges Outflow	Judges Inflow	Patrol Outflow	Patrol Inflow	School Outflow	School Inflow	State Outflow	State Inflow
2017	$ 4,787	$ 3,331	$ 10,084	$ 9,279	$ 63,538	$ 38,619	$ 19,557	$ 1,715
2018	1,328	3,331	2,998	9,279	18,960	38,619	19,557	1,715
2019	1,321	3,331	2,998	9,194	18,960	38,619	19,557	1,715
2020	1,318	243	2,998	1,013	18,960	6,670	17,312	1,715
2021	-	-	-	-	15	1,794	112	1,715
Thereafter			-	-	55	15	51	927
Total	$ 8,754	$ 10,236	$ 19,078	$ 28,765	$ 120,488	$ 124,336	$ 76,146	$ 9,502

Payable to the Pension Plans

At June 30, 2016, the State reported a payable of $47,303 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2016.

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, 2016, 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, 2016
COMPONENT UNITS		
University of Nebraska	1.00%-6.00%	$ 826,625
Nebraska State Colleges	0.30%-5.05%	67,049
Component Units Total		$ 893,674

State of Nebraska (dollars expressed in thousands)

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2017	$ 61,061	$ 36,768	$ 97,829
2018	90,970	33,984	124,954
2019	71,756	30,778	102,534
2020	55,032	28,272	83,304
2021	72,485	26,301	98,786
2022 - 2026	180,900	101,499	282,399
2027 - 2031	155,320	64,695	220,015
2032 - 2036	102,855	35,937	138,792
2037 - 2041	70,490	14,442	84,932
2042 - 2046	31,745	2,995	34,740
2047	1,060	19	1,079
Total	$ 893,674	$ 375,690	$ 1,269,364

15. Restatements

Component Units Net Position – The Nebraska State College System restated prior year net position due to overstatement of some liabilities and understatement of assets. These errors caused the fiscal year 2015 ending net position to be understated. As a result, the beginning Net Position for Component Units on the Statement of Activities increased by $457.

University of Nebraska Foundation – As of July 1, 2015, the Board of Directors for the UNF Charitable Gift Fund (UNFCGF), a related organization, amended its articles of incorporation and bylaws to grant control of its board to the Board of Directors of the Foundation. The Foundation has accounted for the change in control as a change in reporting entity for financial reporting purposes. As such, the financial statements of the UNFCGF are consolidated with the Foundation's 2016 financial statements and its net assets as of July 1, 2015 of $4,736, have been reflected as an addition to net assets in the accompanying statement of activities.

The Federal Fund beginning Fund Balance for fiscal year 2015 was increased by $5,957 due to a loans receivable that had not been reported in the prior year. This resulted in an increase in the Governmental Activities Net Position – Beginning on the Statement of Activities of $5,957.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2016

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 4,348,099	$ 4,294,243	$ 4,182,224	$ (112,019)
Federal Grants and Contracts	624	624	624	-
Sales and Charges	22,219	22,219	22,219	-
Other	34,975	34,975	34,975	-
Total Revenues	4,405,917	4,352,061	4,240,042	(112,019)
EXPENDITURES				
Current:				
General Government	375,688	377,657	354,255	23,402
Conservation of Natural Resources	47,646	47,566	34,533	13,033
Culture – Recreation	13,194	13,278	10,442	2,836
Economic Development and Assistance	25,423	25,671	13,093	12,578
Education	2,016,004	2,010,981	1,967,932	43,049
Health and Social Services	1,802,478	1,695,420	1,524,174	171,246
Public Safety	321,947	326,351	287,441	38,910
Regulation of Business and Professions	4,144	4,177	3,780	397
Transportation	-	-	-	-
Capital Projects	8,989	8,989	-	8,989
Total Expenditures	4,615,513	4,510,090	4,195,650	314,440
Excess (Deficiency) of Revenues Over (Under) Expenditures	(209,596)	(158,029)	44,392	202,421
OTHER FINANCING SOURCES (USES)				
Transfers In	152,313	152,313	152,313	-
Transfers Out	(391,593)	(391,593)	(391,593)	-
Other	226	226	226	-
Total Other Financing Sources (Uses)	(239,054)	(239,054)	(239,054)	-
Net Change in Fund Balance	(448,650)	(397,083)	(194,662)	202,421
FUND BALANCES, JULY 1	1,455,381	1,455,381	1,455,381	-
FUND BALANCES, JUNE 30	$ 1,006,731	$ 1,058,298	$ 1,260,719	$ 202,421

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2016, follows:

Actual Fund Balances, budgetary basis, June 30, 2016	
General	$ 530,064
Cash Reserve	730,655
Budgetary fund balances	1,260,719
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record State contributions due pension funds	(47,303)
Record claims payable	(104,060)
Record other net accrued receivables and liabilities	19,055
GAAP fund balance, June 30, 2016	$ 1,128,411

See independent auditors' report

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2016

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 176,265	$ 176,265	$ 176,265	$ -
Federal Grants and Contracts	413,749	413,749	413,749	-
Sales and Charges	635,073	635,073	635,073	-
Other	193,651	193,651	193,651	-
Total Revenues	1,418,738	1,418,738	1,418,738	-
EXPENDITURES				
Current:				
General Government	292,795	295,401	279,402	15,999
Conservation of Natural Resources	165,959	180,754	78,692	102,062
Culture – Recreation	92,661	93,190	29,651	63,539
Economic Development and Assistance	79,393	98,937	33,108	65,829
Education	660,680	693,478	488,567	204,911
Health and Social Services	205,497	205,597	145,447	60,150
Public Safety	60,173	60,173	37,926	22,247
Regulation of Business and Professions	168,064	167,407	112,863	54,544
Transportation	974,694	989,694	943,506	46,188
Capital Projects	44,933	44,933	17,699	27,234
Total Expenditures	2,744,849	2,829,564	2,166,861	662,703
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,326,111)	(1,410,826)	(748,123)	662,703
OTHER FINANCING SOURCES (USES)				
Transfers In	1,345,938	1,345,938	1,345,938	-
Transfers Out	(612,571)	(612,571)	(612,571)	-
Other	3,203	3,203	3,203	-
Total Other Financing Sources (Uses)	736,570	736,570	736,570	-
Net Change in Fund Balance	(589,541)	(674,256)	(11,553)	662,703
FUND BALANCES, JULY 1	1,174,790	1,174,790	1,174,790	-
FUND BALANCES, JUNE 30	$ 585,249	$ 500,534	$ 1,163,237	$ 662,703

A reconciliation of the budgetary basis versus GAAP fund balance for the Major Funds as of June 30, 2016, follows :	
Actual Fund Balances, budgetary basis, June 30, 2016	
Cash	$ 1,163,237
Construction	85,150
Federal	57,657
Revolving	400,840
Budgetary fund balances	1,706,884
Unbudgeted fund balances	2,124,844
Non-major fund balances	(1,599,167)
Differences due to basis of accounting	(707,413)
GAAP fund balance, June 30, 2016	$ 1,525,148
Actual Fund Balances of Major Funds, June 30, 2016	
Highway	$ 207,865
Federal	8,308
Health and Social Services	527,979
Permanent School	780,996
GAAP fund balance, June 30, 2016	$ 1,525,148

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2016

(Dollars in Thousands)	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	1,639	1,639	1,639	-
Total Revenues	1,639	1,639	1,639	-
EXPENDITURES				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	73,397	73,397	38,767	34,630
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	67,899	70,945	11,962	58,983
Total Expenditures	141,296	144,342	50,729	93,613
Excess (Deficiency) of Revenues Over (Under) Expenditures	(139,657)	(142,703)	(49,090)	93,613
OTHER FINANCING SOURCES (USES)				
Transfers In	60,880	60,880	60,880	-
Transfers Out	-	-	-	-
Other	-	-	-	-
Total Other Financing Sources (Uses)	60,880	60,880	60,880	-
Net Change in Fund Balance	(78,777)	(81,823)	11,790	93,613
FUND BALANCES, JULY 1	73,360	73,360	73,360	-
FUND BALANCES, JUNE 30	$ (5,417)	$ (8,463)	$ 85,150	$ 93,613

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2016

(Dollars in Thousands)	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	2,582,763	2,582,763	2,582,763	-
Sales and Charges	20,613	20,613	20,613	-
Other	10,719	10,719	10,719	-
Total Revenues	2,614,095	2,614,095	2,614,095	-
EXPENDITURES				
Current:				
General Government	5,505	7,407	3,984	3,423
Conservation of Natural Resources	56,175	64,103	48,727	15,376
Culture – Recreation	3,709	5,116	2,734	2,382
Economic Development and Assistance	83,794	99,750	53,528	46,222
Education	1,016,364	1,019,972	876,778	143,194
Health and Social Services	2,269,802	2,270,165	1,553,906	716,259
Public Safety	74,415	131,950	80,556	51,394
Regulation of Business and Professions	3,325	3,325	2,064	1,261
Transportation	-	-	-	-
Capital Projects	74,005	74,005	-	74,005
Total Expenditures	3,587,094	3,675,793	2,622,277	1,053,516
Excess (Deficiency) of Revenues Over (Under) Expenditures	(972,999)	(1,061,698)	(8,182)	1,053,516
OTHER FINANCING SOURCES (USES)				
Transfers In	41,768	41,768	41,768	-
Transfers Out	(41,181)	(41,181)	(41,181)	-
Other	(1,453)	(1,453)	(1,453)	-
Total Other Financing Sources (Uses)	(866)	(866)	(866)	-
Net Change in Fund Balance	(973,865)	(1,062,564)	(9,048)	1,053,516
FUND BALANCES, JULY 1	66,705	66,705	66,705	-
FUND BALANCES, JUNE 30	$ (907,160)	$ (995,859)	$ 57,657	$ 1,053,516

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State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2016

(Dollars in Thousands)	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ -	$ -	$ -	$ -
Federal Grants and Contracts	5,127	5,127	5,127	-
Sales and Charges	580,224	580,224	580,224	-
Other	238,034	238,034	238,034	-
Total Revenues	823,385	823,385	823,385	-
EXPENDITURES				
Current:				
General Government	245,671	246,961	207,793	39,168
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	662	662	652	10
Education	673,186	780,396	576,734	203,662
Health and Social Services	-	-	-	-
Public Safety	23,105	23,105	18,053	5,052
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	-	-	-	-
Total Expenditures	942,624	1,051,124	803,232	247,892
Excess (Deficiency) of Revenues Over (Under) Expenditures	(119,239)	(227,739)	20,153	247,892
OTHER FINANCING SOURCES (USES)				
Transfers In	111,933	111,933	111,933	-
Transfers Out	(103,836)	(103,836)	(103,836)	-
Other	2,735	2,735	2,735	-
Total Other Financing Sources (Uses)	10,832	10,832	10,832	-
Net Change in Fund Balance	(108,407)	(216,907)	30,985	247,892
FUND BALANCES, JULY 1	369,855	369,855	369,855	-
FUND BALANCES, JUNE 30	$ 261,448	$ 152,948	$ 400,840	$ 247,892

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR BUDGETARY COMPARISONS

For the Year Ended June 30, 2016

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 and airport development 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 2016, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2016, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

State of Nebraska

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

For the Year Ended June 30, 2016

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	2015	2014	2013	2012	2011	2010
Very Good	37%	38%	39%	36%	33%	31%
Good	45%	37%	35%	38%	41%	44%
Fair	16%	22%	23%	23%	23%	22%
Poor	2%	3%	3%	3%	3%	3%
Overall System Rating	84	81	81	81	80	80

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 84 actual).

Fiscal Year	2017	2016	2015	2014	2013	2012
Estimated	$ 317	$ 306	$ 327	$ 302	$ 313	$ 288
Actual		441	348	300	335	278
Difference		135	21	(2)	22	(10)

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REQUIRED SUPPLEMENTARY INFORMATION
INFORMATION ABOUT PENSION PLANS

For the Year Ended June 30, 2016

SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years

(Dollar amounts in thousands)

	June 30, 2015*	June 30, 2014*
State's proportion of the School plan collective net pension liability	17.32%	17.44%
State's net pension liability for the Service Annuity plan	100.00%	100.00%
State's proportion of the Omaha School Employees Retirement System collective net pension liability	16.84%	16.84%
State's total proportionate share of the School plan collective net pension liability	$ 188,604	169,592
Employer's proportionate share of the School plan collective net pension liability	$ 900,492	802,660
Total collective net pension liability for the School plan	$ 1,089,096	972,252
State's net pension liability for the Service Annuity plan	$ 3,392	2,879
State's proportionate share of the Omaha School Employees Retirement System collective net pension liability	$ 97,833	72,739
Employer's proportionate share of the Omaha School Employees Retirement System collective net pension liability	$ 483,189	359,251
Total collective net pension liability for the Omaha School Employees Retirement System	$ 581,022	431,990
State's proportionate share, as an employer, of the School plan collective net pension liability (a)	3,149	2,996
School plan employer's covered-employee payroll (b)	$ 6,102	6,319
Employer's proportionate share of the School plan collective net pension liability as a percentage of the employer's covered-employee payroll (a) / (b)	51.61%	47.41%
School plan Fiduciary net position as a percentage of the total pension liability	89.88%	90.66%
Service Annuity plan Fiduciary net position as a percentage of the total pension liability	76.90%	80.33%
Omaha School Employees Retirement System Fiduciary net position as a percentage of the total pension liability	67.58%	74.98%

This schedule is presented to illustrate the requirement to show information for 10 years. Additional years will be reported as they become available.

*The Omaha School Employees' Retirement System has a measurement date of August 31.

SCHEDULE OF STATE CONTRIBUTIONS

School Employees Retirement Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

		2016	2015
School plan statutorily required contribution	$	36,920	35,494
Service Annuity plan statutorily required contribution	$	997	998
Omaha School Employees Retirement System statutorily required contribution	$	6,661	6,453
School plan contributions in relation to the statutorily required contribution	$	36,920	35,494
Service Annuity plan contributions in relation to the statutorily required contribution	$	997	998
Omaha School Employees Retirement System contributions in relation to the statutorily required contribution	$	6,661	6,453
School plan annual contribution deficiency (excess)	$	-	-
Service Annuity plan annual contribution deficiency (excess)	$	-	-
Omaha School Employees Retirement System annual contribution deficiency (excess)	$	-	-
State's contributions, as an employer, in relation to the statutorily required contribution (a)	$	623	603
School plan employer's covered-employee payroll (b)	$	6,307	6,102
Contributions recognized by the School plan in relation to the statutorily required contribution as a percentage of the employer's covered-employee payroll (a) / (b)		9.88%	9.88%

This schedule is presented to illustrate the requirement to show information for 10 years. Additional years will be reported as they become available.

See independent auditors' report

STATE PATROL RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY

(Dollars in Thousands)

	2015	2014
Total Pension Liability		
Service Cost	$7,563	$8,174
Interest	31,350	30,165
Differences between expected and actual experience	(10,659)	(3,788)
Benefit payments, including member refunds	(19,459)	(20,010)
Net change in Total Pension Liability	$8,795	$14,541
Total Pension Liability - beginning	$401,416	$386,875
Total Pension Liability - ending (a)	$410,211	$401,416
Plan Fiduciary Net Position		
Employer contributions	$8,647	$8,753
Employee contributions	4,180	4,134
Net investment income	13,333	54,950
Benefit payments, including member refunds	(19,459)	(20,010)
Administrative expenses	(117)	(121)
Other	22	21
Net change in Plan Fiduciary Net Position	$6,606	$47,727
Plan Fiduciary Net Position - beginning	$357,317	$309,590
Plan Fiduciary Net Position - ending (b)	$363,923	$357,317
Net Pension Liability - ending (a) - (b)	$46,288	$44,099
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	88.72%	89.01%
Covered payroll	$26,294	$25,624
Employers' Net Pension Liability as a percentage of covered payroll	176.04%	172.10%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

STATE PATROL RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$7,053	$8,074	$8,753	$9,769	$7,775	$7,563	$6,260	$5,385	$4,856	$5,059
Actual employer contributions**	$7,053	$8,074	$8,753	$7,516	$7,775	$5,957	$6,260	$5,385	$4,856	$5,059
Annual contribution deficiency (excess)	-	-	-	$2,253	-	$1,606	-	-	-	-
Covered-employee payroll*	$27,048	$26,294	$25,624	$26,902	$27,391	$27,988	$27,625	$28,386	$27,839	$26,204
Actual contributions as a percentage of covered-employee payroll*	26.08%	30.71%	34.16%	27.94%	28.39%	21.28%	22.66%	18.97%	17.44%	19.31%

*Covered-employee payroll is based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer.

**Includes any additional appropriations by the State beyond the regular, payroll-related contributions. 2015 excludes $573 in military service credits.

Note: Information prior to 2013 was produced by the prior actuary.

JUDGES' RETIREMENT PLAN

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY

(Dollars in thousands)

	2015	2014
Total Pension Liability		
Service Cost	$4,759	$4,257
Interest	12,171	11,568
Differences between expected and actual experience	(2,614)	42
Benefit payments, including member refunds	(8,548)	(8,122)
Net change in Total Pension Liability	$5,768	$7,745
Total Pension Liability - beginning	$156,327	$148,582
Total Pension Liability - ending (a)	$162,095	$156,327
Plan Fiduciary Net Position		
Employer contributions*	$3,071	$3,906
Employee contributions	1,611	1,519
Net investment income	5,959	24,543
Benefit payments, including member refunds	(8,548)	(8,122)
Administrative expenses	(83)	(78)
Net change in Plan Fiduciary Net Position	$2,010	$21,768
Plan Fiduciary Net Position - beginning	$158,790	$137,022
Plan Fiduciary Net Position - ending (b)	$160,800	$158,790
Net Pension (Asset) Liability - ending (a) - (b)	$1,295	($2,463)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	99.20%	101.58%
Covered payroll	$21,587	$20,100
Employers' Net Pension Liability as a percentage of covered payroll	6.00%	(12.26%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

*Employer contributions for 2015 consist of $2,977 in Court Fees and $94 in State Appropriations.

JUDGES' RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$3,459	$3,727	$3,906	$3,180	$3,484	$3,580	$3,615	$3,491	$3,353	$3,208
Actual employer contributions**	$3,459	$3,071	$3,906	$3,180	$3,484	$3,580	$3,615	$3,491	$3,353	$3,208
Annual contribution deficiency (excess)	-	$656	-	-	-	-	-	-	-	-
Covered-employee payroll*	$22,178	$21,587	$20,100	$19,005	$18,182	$18,773	$18,373	$17,990	$17,004	$16,423
Actual contributions as a percentage of covered-employee payroll*	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%	19.72%	19.53%

*Covered-employee payroll is based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer. For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

**Employer contributions include court fees and State contributions.

Note: Information prior to 2013 was produced by the prior actuary.

See independent auditors' report

STATE EMPLOYEES' RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY

(Dollars in thousands)

	2015	2014
Total Pension Liability		
Service Cost	$57,305	$54,921
Interest	89,967	85,696
Benefit term changes	35,893	-
Differences between expected and actual experience	721	(11,217)
Transfers	5,849	4,195
Benefit payments, including member refunds	(85,278)	(73,527)
Net change in Total Pension Liability	$104,457	$60,068
Total Pension Liability - beginning	$1,199,841	$1,139,773
Total Pension Liability - ending (a)	$1,304,298	$1,199,841
Plan Fiduciary Net Position		
Employer contributions	$43,340	$41,456
Employee contributions	27,799	26,603
Net investment income	14,784	83,524
Benefit payments, including member refunds	(85,278)	(73,527)
Administrative expenses	(1,079)	(910)
Transfers	5,849	4,195
Net change in Plan Fiduciary Net Position	$5,415	$81,341
Plan Fiduciary Net Position - beginning	$1,305,036	$1,223,695
Plan Fiduciary Net Position - ending (b)	$1,310,451	$1,305,036
Net Pension Liability/(Asset) - ending (a) - (b)	($6,153)	($105,195)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	100.47%	108.77%
Covered payroll	$578,789	$553,631
Employers' Net Pension Liability as a percentage of covered payroll	(1.06%)	(19.00%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

See independent auditors' report

STATE EMPLOYEES' RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollars in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$29,117	$31,986	$35,129	$32,983	$27,256	$26,361	$24,632	$19,975	$19,145	$12,565
Actual employer contributions**	$44,314	$42,392	$40,345	$35,794	$31,496	$30,987	$30,895	$29,213	$25,599	$20,318
Annual contribution deficiency (excess)	($15,197)	($10,406)	($5,216)	($2,811)	($4,240)	($4,626)	($6,263)	($9,238)	($6,454)	($7,753)
Covered-employee payroll*	$591,799	$566,127	$538,790	$478,020	$420,619	$413,827	$412,596	$390,129	$341,870	$286,880
Actual contributions as a percentage of covered-employee payroll*	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.08%

*Covered-employee payroll is based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer.

**Provided by Nebraska Public Employees Retirement System

Notes to Required Supplementary Information for Pension Plans

For the Year Ended June 30, 2016

School

Changes of benefit and funding terms: The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of July 1 listed below:

2014: As scheduled, the State contribution rate increased from 1% of covered payroll to 2%.

2013: Legislative Bill 553, which was passed by the 2013 Legislature, increased the State's payroll related contribution from 1% to 2% of pay, effective July 1, 2014. LB 553 also made some changes to the benefit structure for members hired on or after July 1, 2013 (Tier 2), including changing the period over which to determine final average salary to the highest 60 months rather than the current highest 36 months of service and changing the maximum cost of living adjustment from 2.5% to 1%. LB 553 also removed the scheduled reduction in the employee contribution rate in 2017. In addition, it required the use of the Entry Age Normal, level percent of payroll, method to determine the costs for the Omaha State Service Annuity and changed the amortization of the unfunded actuarial accrued liability to be based on payments determined as a level percent of payroll instead of a level dollar amount.

2011: Under Legislative Bill 382 passed during the 2011 Legislative session, the member contribution rate increased from 8.28% to 8.88% on September 1, 2011. Effective September 1, 2012, the member contribution rate was scheduled to increase to 9.78% and then decrease to 7.28% effective September 1, 2017. The employer contribution rate match remained unchanged at 101% of the member contribution rate. The current State of Nebraska contribution rate of 1% remained in effect until July 1, 2017, at which time it was scheduled to decrease to 0.7%.

2009: Under Legislative Bill 187, from September 1, 2009 to September 1, 2014, the member contribution rate was scheduled to increase from 7.28% to 8.28% and the State match to increase from 0.7% to 1.0% of covered pay. On September 1, 2014, the member contribution rate was scheduled to return to 7.28% and the State match to 0.7%.

2007: Per LB 596, passed in 2007, a one-time adjustment was made to the annuities of School members so that the current annuity was not less than 85% of the original annuity amount adjusted by the CPI-W. The statutory member contribution rate decreased to 7.28% as of September 1, 2007. Under existing statutes the rate was scheduled to drop to 7.25% on September 1, 2007.

2006: Per LB 1019, the unfunded actuarial accrued liability was reinitialized as of July 1, 2006 and amortized over a closed 30-year period.

Changes in actuarial assumptions:

7/1/2012 valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.
- Retirement rates are based on age and retirement eligibility. 100% retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a 1 year age setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- Disabled mortality was changed to the 1983 Railroad Retirement Board Disabled Annuitants Mortality setback one year from the 1983 Railroad Retirement Board Disabled Annuitants Mortality. The prior assumption was based on the same table with no setback.
- Termination rates are service based and were decreased from the prior valuation based on actual experience.
- Disability rates were decreased by 50% from the prior valuation.
- Price inflation assumption was lowered to 3.25% from 3.50%.
- Economic productivity assumption was lowered to 0.75% from 1.00%.

7/1/2007 valuation:

- Salary increase assumption was converted from age-based to service-based, grading down from 7.50% for less than one year of service to 4.50% after 40 years of service.
- Retirement rates were increased at age 55 and decreased for ages 57 through age 65.
- Withdrawal rates were converted from age-and-service-based to service-based only and grade down from 27% (males) and 32% (females) for employees with less than one year of service to 1% (males) and 3% (females) and back up to 10% (males) and 7% (females) at 34 (or more) years of service.
- Existing disability rates were reduced by 50% at each age.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a two-year age setback to the 1994 GAM table, projected to 2010.

Method and assumptions used in calculations of actuarially determined contributions.

The System is funded with contribution rates that are 9.78% of monthly salary for members, contribution rates that are 101% of the members' rates (9.88% of monthly salary) for the school districts and 2.00% of monthly salary for the State of Nebraska. The actuarially determined contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported in the most recent Measurement Date, June 30, 2015 (based on the July 1, 2014 actuarial valuation):

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed

Remaining amortization period	Range from 22 to 30 years (Single Equivalent Amortization Period is 23 years)
Asset valuation method	5-year smoothed market
Price Inflation	3.25 percent
Wage growth rate	4.00 percent
Salary increase, including inflation	4.00 to 9.00 percent
Long-term investment rate of return, net of investment expense, and including inflation	8.00 percent
Cost-of-living adjustments	Service annuity – none Formula annuity – For members hired before January 1, 2013, it is 2.5% per annum, compounded annually and 3.25% per annum, compounded annually, after reaching 75% purchasing power floor benefit. For members hired on or after January 1, 2013, it is 1.0% per annum, compounded annually, and there is no floor for the purchasing power of the benefit.

Service Annuity

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of July 1 listed below:

None

Changes in actuarial assumptions:

9/1/2012 valuation:

- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.
- Retirement rates are based on age and retirement eligibility. 100% retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.
- Pre-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a 1 year age setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- Termination rates are service based and were decreased from the prior valuation based on actual experience.
- Disability rates were decreased by 50% from the prior valuation.
- Price inflation assumption was lowered to 3.25% from 3.50%.
- Economic productivity assumption was lowered to 0.75% from 1.00%.

9/1/2007 valuation:

- Salary increase assumption was converted from age-based to service-based, grading down from 7.50% for less than one year of service to 4.50% after 40 years of service.
- Retirement rates were increased at age 55 and decreased for ages 57 through age 65.
- Withdrawal rates were converted from age-and-service-based to service-based only and grade down from 27% (males) and 32% (females) for employees with less than one year of service to 1% (males) and 3% (females) and back up to 10% (males) and 7% (females) at 34 (or more) years of service.
- Existing disability rates were reduced by 50% at each age.
- Pre-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a two-year age setback to the 1994 GAM table, projected to 2010.

Method and assumptions used in calculations of Actuarially Determined Contributions.

The Plan is funded with contribution amounts from the State which are actuarially determined to fund the Service Annuity benefit. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, June 30, 2015.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Rage from 21 to 30 years (Single Equivalent Amortization Period is 21 years)
Asset valuation method	5-year smoothed market
Price inflation	3.25 percent
Salary increases, including wage inflation	4.00 to 9.00 percent
Long-term rate of return, net of investment expense, and including inflation	8.00 percent

Omaha School Employees

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 listed below:

2013: The 2013 session of the Nebraska Legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.30% of pay to 9.78% of pay. The School District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.3930% of pay to 9.8778% of pay. The State contribution rate also increased permanently from 1.00% (plus $973,301) to 2.00% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1.00% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

2011: The member contribution rate was increased by the 2011 Legislature from 8.30% to 9.30%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1.00% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.

2009: Legislation passed in 2009 increased the employee contribution rate from 7.30% to 8.30% of pay. The School District contributes 101% of the employee rate so the District's contribution increased from 7.373% to 8.383% of pay. The legislation that enacted these changes also provided for a temporary increase in the State's contribution rate from 0.70% to 1.00% of pay for July 2009 to July 2014.

2007: Legislation passed in 2007 increased the employee contribution rate from 6.30% to 7.30% of pay and provided for the employer contribution rate of 101% of the employee rate.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of contributions was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7.00% to 3.00%.

9/1/2010 valuation:

- The inflation assumption was changed from 3.50% to 3.00%.
- The real rate of return increased from 4.50% to 5.00%.
- The productivity portion of the general wage increase assumption increased from 0.50% to 1.00%.

9/1/2008 valuation:

- Mortality table was changed to the RP-2000 table with age adjustments (+1 male, -1 female) and generational projections of mortality improvements.
- Retirement rates were adjusted to better fit the observed experience.
- The use of a disability assumption was eliminated.
- Termination rates were modified to better fit the observed experience.
- Small adjustments based on actual experience were made to the election of a refund assumption.

9/1/2007 valuation:

- The actuarial value of assets was reset to the actual market value.
- The funding policy was set equal to the normal cost plus amortization of the unfunded actuarial liability over a closed 30 year period, commencing September 1, 2007.

Method and assumptions used in calculations of Actuarially Determined Contributions.

The System is funded by statutory contribution rates for members, the School District and the State of Nebraska. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions (from the September 1, 2014 actuarial valuation) were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, August 31, 2015 (based on the September 1, 2014 actuarial valuation).

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Market related smoothed market
Price inflation	3.00 percent
Salary increases, including wage inflation	4.00 to 5.60 percent
Long-term rate of return, net of investment expense, and including inflation	8.00 percent
Cost-of-living adjustments	1.50 percent if hired before July 1, 2013 1.00 percent if hired on or after July 1, 2013 Medical COLA of $10/month for each year retired (max $250/month)

State Patrol

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of July 1 listed below:

2016: Legislative Bill 467 (LB 467) created a new tier of State Patrol members that are employed on or after July 1, 2016. This new tier includes changes to benefits and contributions as follows:

- Member and employer contributions are increased from 16% of pay to 17% of pay.

- Compensation no longer includes compensation for unused sick leave, unused vacation leave, unused holiday compensatory time, unused compensatory time, or any other type of unused leave, compensatory time, or similar benefits, converted to cash payments.
- Final average salary moves from the highest three 12-month periods to the highest five 12-month periods. During the five year period, the member's compensation for the preceding plan year is capped at an eight percent increase.
- The automatic COLA is capped at 1.0% instead of 2.5%. However, a 1.5% discretionary COLA may be granted in addition to the automatic COLA if certain criteria are met.
- The DROP program is eliminated.

2013: Legislative Bill 553 (LB 553) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in state statute, the employee and employer contribution rate each decreased from 19% of pay to 16%.

2011: Under LB 382 passed during the 2011 Legislative session, both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.

2010: As scheduled, the member and employer contribution rates increased to 16% each.

2009: Under Legislative Bill 188, the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remained unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increased to 16%.

2008: The DROP was first reflected with an assumption that 100% of members who are eligible for the DROP will either retire or elect to participate in DROP.

2007: LB 324 made the current contribution rates of 13% for members and 15% for employers permanent (the rates were scheduled to drop to 12% for members and 13% for employers on July 1, 2007). LB 324 also added a Deferred Retirement Option Plan (DROP) for members who are at least 50 and have 25 years of service. The effective date of the DROP was the earlier of September 1, 2008 or the first of the month following receipt of a Favorable Determination Letter from the Internal Revenue Service so it was not reflected in the July 1, 2007 actuarial valuation.

2006: Per LB 1019, the unfunded actuarial accrued liability was reinitialized as of July 1, 2006 and amortized over a closed 30-year period.

Changes in actuarial assumptions:

7/1/2012 valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.50% for less than one year of service to 4.00% at 30 years of service. Prior valuation rates graded from 9.00% for less than one year to 4.50% at 25 years of service.
- Retirement rates are based on age and retirement eligibility. The rates were increased for early retirement (reduced benefits available at 50 years of age and 10 years of service) and decreased for normal retirement (unreduced benefits available at 55 years of age and 10 years of service).
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement males rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a 1 year setback, projected to 2015.
- The assumption to value deferred vested members was changed to assume they elect the greater of the present value of an annuity at earliest unreduced retirement eligibility or a refund of contributions.
- Consumer price inflation was lowered from 3.50% to 3.25%.
- Economic productivity was lowered from 1.00% to 0.75%.

7/1/2007 valuation:

- Salary increases were converted from age-based to service-based, grading down from 9.0% for less than one year of service to 4.5% at 25 years of service.
- Retirement rates were reduced for both reduced (50 years of age and 10 years of service) and unreduced (55 years of age and 10 years of service or 50 years of age and 25 years of service) early retirement.
- Withdrawal rates were changed from 3.0% at all ages to service-based rates grading down from 4.0% for less than one year of service to 1.5% at 6 years, reducing farther to 1.0% at 15 years and beyond.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table to the 1994 GAM table projected to 2010.
- Disabled Mortality was changed from the 1971 GAM table to the 1983 Railroad Retirement Board Disabled Annuitants Mortality table.

Method and assumptions used in calculations of Actuarially Determined Contributions.

The Plan is funded by statutory contribution rates for members and the employer (State of Nebraska). State Statutes require the State of Nebraska to make additional contributions if the regular, payroll-related contributions are insufficient to meet the actuarial required contribution for the year. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, June 30, 2015 (based on the July 1, 2015 actuarial valuation).

Actuarial cost method	Entry Age
Amortized method	Level percentage of payroll, closed
Remaining amortization period	Range from 21 to 30 years (Single Equivalent Amortization Period is 22 years)
Asset valuation method	5-year smoothed market
Price inflation	3.25 percent
Wage growth rate	4.00 percent
Salary increases, including wage inflation	4.00 to 9.50 percent
Long-term rate of return, net of investment expense, and including price inflation	8.00 percent
Cost-of-living adjustment	2.50% with a floor benefit equal to 60% purchasing power of original benefit

Judges

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of July 1 listed below:

2015: LB 468, which was passed by the 2015 Nebraska Legislature, made changes to the benefit structure for judges who become members on or after July 1, 2015 including the calculation of final average salary based on the highest 5 years rather than the highest 3 years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board’s discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015 was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased-in over two years. Ultimately, in fiscal year 2018 the additional funding is estimated to be $1.3 million. Due to the valuation date of July 1, 2015, the change to the benefit structure had no impact on the valuation results.

2013: Legislative Bill 553 (LB 553) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from six to five dollars on July 1, 2014. Legislative Bill 306 (LB 306) removed the language to decrease the court fees so the court fee in future years remains at six dollars. The passage of Legislative Bill 414 (LB 414) in 2009 increased the member contribution rate by 1 percent, but this increase was scheduled to be removed July 1, 2014. Legislative Bill 306 (LB 306) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.

2009: LB 414 passed during the 2009 Legislative session amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from $5 to $6 per case.

2008: LB 1147 amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before at age 62 to as early as age 55.

2006: Per LB 1019, Nebraska Revised Statutes Section 24-703(9) was amended such that the unfunded actuarial accrued liability is reinitialized as of July 1, 2006 and amortized over a 30-year period.

Changes in actuarial assumptions:

7/1/2012 valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a 1 year setback, projected to 2015.
- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.
- Consumer price inflation was lowered to 3.25% from 3.50%.
- Economic productivity was lowered to 0.75% from 1.00%.

7/1/2008 valuation:

- Retirement rates were increased at age 62 through 64 to account for the possible increase in retirements due to the subsidized early retirement factors.

7/1/2007 valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.
- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a 2-year setback to the 1994 GAM table, projected to 2010.

Method and assumptions used in calculations of Actuarially Determined Contributions.

The Plan is funded with contribution rates that vary by date of hire and service for members, variable court fees as well as contributions from the State of Nebraska that cover the remaining required amounts, if necessary. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, June 30, 2015 (based on the July 1, 2015 actuarial valuation).

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 26 to 30 years (Single Equivalent Amortization Period is 23 years)

Asset valuation method	5-year smoothed market
Price inflation	3.25 percent
Wage growth rate	4.00 percent
Salary increases, including inflation	4.00 percent
Long-term rate of return, net of investment expense, and including inflation	8.00 percent
Cost-of-living adjustments	2.50% with a floor benefit equal to 75% purchasing power of original benefit

State Employees

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of January 1 listed below:

2016: The Board granted a dividend of 4.53%.

2013: The 2012 Nebraska Legislature passed LB 916, as amended by AM1739, which created an election period beginning September 1, 2012 and ending October 31, 2012 during which members in the State Defined Contribution Plan could elect to transfer their account balances to the State Employees' Retirement System Cash Balance Benefit Fund.

2009: The Board granted a dividend of 5.18%.

2008: Under Legislative Bill 328, enacted by the 2007 Legislature, members of the State Defined Contribution Plan could elect to transfer their account balance and participate in the State Employees' Retirement System Cash Balance Benefit Fund. The election period was from November 1, 2007 to December 31, 2007.

The Board granted a dividend of 2.73%.

2007: Legislative Bill 366, enacted in 2006, eliminated the 12-month waiting period for participation. Effective January 1, 2007, any State employee who had not completed 12 continuous months of employment immediately became a member of the System. Any State employee hired in 2007 or later becomes a member of the System at their date of hire.

The bill also increased the member contribution rate from 4.33% of pay up to $19,954 and 4.86% on pay over $19,954, to 4.8% on all pay. This increase also resulted in an increase in the employer contribution rate.

The Board granted a dividend of 13.50%.

2006: The Board granted a dividend of 2.80%.

Changes in actuarial assumptions:

1/1/2013 valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.
- Salary increases were changed to rates grading down from 5.43% for less than one year of service to 4.00% at 20 years of service. Prior rates graded from 5.9% for less than one year of service to 4.5% at 20 years of service.
- Retirement rates increased at age 65 to 69 and 100% probability of retirement was extended to age 80 from age 70.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with 1-year setback, projected to 2015 (pre- retirement rates are adjusted by 55% for males and 40% for females).

- The select and ultimate termination rates were increased.
- Disability rates were removed.
- Price inflation was lowered from 3.50% to 3.25% per year.
- Economic productivity was lowered from 1.00% to 0.75% per year.
- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 50% elect a lump sum and 50% elect an annuity.

1/1/2008 valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits was changed from 7.60% to 7.75%.
- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 5.9% with less than one year of service to 4.5% with 20 years of service.
- Retirement rates were decreased at ages 60 through 63 and 65 through 69.
- The select period for termination of employment rates was extended to five years with a general decrease in select and ultimate rates prior to age 30 and increases after age 30.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a one-year setback to the 1994 GAM table, projected to 2010.

Method and assumptions used in calculations of actuarially determined contributions.

The Plan is funded with fixed contribution rates for members and the State of Nebraska. If such contributions are less than the Actuarially Determined Contribution, the State makes an additional contribution. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the January 1 preceding the first day of the fiscal year in which contributions are reported (January 1, 2015 actuarial valuation applies for contributions reported for July 1, 2015 to June 30, 2016).

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent fiscal year, June 30, 2016 (based on the January 1, 2015 actuarial valuation).

Actuarial cost method	Entry age
Amortization method	Level dollar amount, closed
Remaining amortization period	25 years
Asset valuation method	5-year smoothed market
Price inflation	3.25 percent
Wage inflation	4.00 percent
Salary increases, including wage inflation	4.00 to 5.43 percent
Long-term rate of return, net of investment expense, and including price inflation	7.75 percent
Interest crediting rate, including dividends	6.75 percent

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, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Agriculture, U.S. Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	$ 896,604	$
Wetlands Reserve Program	Game and Parks Commission	10.072	20,417	
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093	282,885	
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170	527,704	
Organic Certification Cost Share Programs	Agriculture, Department of	10.171	90,327	
State Mediation Grants	Agriculture, Department of	10.435	162,338	
Food Safety Cooperative Agreements	Agriculture, Department of	10.479	97,346	
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.551	241,031,340	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	17,268,188 ^	2,615,271
Total SNAP Cluster			258,299,528	2,615,271
Child Nutrition Cluster:				
School Breakfast Program	Education, Department of	10.553	17,656,301	17,656,301
National School Lunch Program	Education, Department of	10.555	69,631,320	69,631,320
National School Lunch Program	Health and Human Services, Department of	10.555	13,184,313	
Total National School Lunch Program			82,815,633	69,631,320
Special Milk Program for Children	Education, Department of	10.556	56,912	56,912
Summer Food Service Program for Children	Education, Department of	10.559	2,889,271	2,807,747
Summer Food Service Program for Children	Health and Human Services, Department of	10.559	11,809	
Total Summer Food Service Program for Children			2,901,080	2,807,747
Total Child Nutrition Cluster			103,429,926	90,152,280
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557	29,926,785	9,213,899
Child and Adult Care Food Program	Education, Department of	10.558	33,641,038	33,374,604
Child and Adult Care Food Program	Health and Human Services, Department of	10.558	247,515	
Total Child and Adult Care Food Program			33,888,553	33,374,604
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,761,620	
State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560	1,464,546	
Total State Administrative Expenses for Child Nutrition			3,226,166	-
Food Distribution Cluster:				
Commodity Supplemental Food Program	Health and Human Services, Department of	10.565	2,639,235	615,077
Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568	334,359	332,031
Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569	2,307,432	
Total Food Distribution Cluster			5,281,026	947,108

^ - 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, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Agriculture, U.S. Department of (Continued)					
WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, Department of	10.572		16,108	
Team Nutrition Grants	Education, Department of	10.574		281,770	34,773
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		158,747	
WIC Grants To States (WGS)	Health and Human Services, Department of	10.578		1,195,039	45,167
Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579		167,225	167,225
Fresh Fruit and Vegetable Program	Education, Department of	10.582		2,005,494	2,005,494
Forest Service Schools and Roads Cluster:					
Schools and Roads - Grants to Counties	Education, Department of	10.666		188,972	188,972
Agriculture Conservation Easement Program	Game and Parks Commission	10.931		42,586	
Regional Conservation Partnership Program	Game and Parks Commission	10.932		7,795	
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		188,382	
Emerging Markets Program	Agriculture, Department of	10.603		28,350	
Total U.S. Department of Agriculture			$	440,410,073	138,744,793
Commerce, U.S. Department of					
State and Local Implementation Grant Program	Administrative Services	11.549	$	114,364	
Total U.S. Department of Commerce			$	114,364	-
Corporation for National and Community Service					
State Commissions	Health and Human Services, Department of	94.003	$	206,073	
AmeriCorps	Health and Human Services, Department of	94.006		1,632,067	1,621,110
Total Corporation for National and Community Service			$	1,838,140	1,621,110
Defense, U.S. Department of					
Payments to States in Lieu of Real Estate Taxes	Education, Department of	12.112	$	285,421	285,421
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113		146,023	
Military Construction, National Guard	Military Department	12.400		261,968	
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401		20,788,818	
Total U.S. Department of Defense			$	21,482,230	285,421

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Education, U.S. Department of					
Adult Education - Basic Grants to States	Education, Department of	84.002	$	2,424,826	2,011,426
Title I Grants to Local Educational Agencies	Education, Department of	84.010		80,694,260	79,917,742
Migrant Education_State Grant Program	Education, Department of	84.011		5,634,268	5,285,640
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, Department of	84.013		272,102	269,557
Special Education Cluster (IDEA):					
Special Education_Grants to States	Education, Department of	84.027		72,554,838	69,879,565
Special Education_Preschool Grants	Education, Department of	84.173		2,110,820	1,561,179
Total Special Education Cluster (IDEA)				74,665,658	71,440,744
Career and Technical Education -- Basic Grants to States	Education, Department of	84.048		7,179,806	6,265,384
Rehabilitation Services_Vocational Rehabilitation Grants to States	Commission for the Blind and Visually Impaired	84.126		3,250,128	
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126		17,829,199	6,639,262
Total Rehabilitation Services_Vocational Rehabilitation Grants to States				21,079,327	6,639,262
Migrant Education_Coordination Program	Education, Department of	84.144		61,287	35,389
Rehabilitation Services_Client Assistance Program	Education, Department of	84.161		148,656	
Independent Living_State Grants	Commission for the Blind and Visually Impaired	84.169		(97)	
Independent Living_State Grants	Education, Department of	84.169		134,322	114,860
Total Independent Living_State Grants				134,225	114,860
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Commission for the Blind and Visually Impaired	84.177		223,486	
Special Education-Grants for Infants and Families	Education, Department of	84.181		2,744,156	2,033,318
Supported Employment Services for Individuals with the Most Significant Disabilities	Commission for the Blind and Visually Impaired	84.187		20,545	
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, Department of	84.187		458,439	458,439
Total Supported Employment Services for Individuals with the Most Significant Disabilities				478,984	458,439
Education for Homeless Children and Youth	Education, Department of	84.196		304,221	261,513
Assistive Technology	Education, Department of	84.224		17,555	
Rehabilitation Services Demonstration and Training Programs	Education, Department of	84.235		133,250	3,325
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265		1,170	
Twenty-First Century Community Learning Centers	Education, Department of	84.287		5,021,410	4,696,816
Special Education - State Personnel Development	Education, Department of	84.323		828,512	244,842
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326		63,949	41,489
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330		31,301	31,301

^ - Amounts taken from financial status reports
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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Education, U.S. Department of (Continued)					
Rural Education	Education, Department of	84.358		90,325	82,446
English Language Acquisition State Grants	Education, Department of	84.365		3,716,381	3,507,940
Mathematics and Science Partnerships	Education, Department of	84.366		771,649	727,628
Supporting Effective Instruction State Grant	Education, Department of	84.367		12,615,300	12,328,537
Supporting Effective Instruction State Grant	Postsecondary Education, Coordinating Commission for	84.367		278,362	264,231
Total Supporting Effective Instruction State Grant				12,893,662	12,592,768
Grants for State Assessments and Related Activities	Education, Department of	84.369		3,847,525	
Statewide Longitudinal Data Systems	Education, Department of	84.372		1,787,531	
School Improvement Grants	Education, Department of	84.377		3,941,123	3,774,612
College Access Challenge Grant Program	Postsecondary Education, Coordinating Commission for	84.378		886,631	514,895
Total U.S. Department of Education			$	230,077,236	200,951,336
U.S. Election Assistance Commission					
Help America Vote Act Requirements Payments	Secretary of State	90.401	$	207,722	
Total U.S. Election Assistance Commission			$	207,722	-
Energy, U.S. Department of					
State Energy Program	Energy Office	81.041	$	395,749	
Weatherization Assistance for Low-Income Persons	Energy Office	81.042		1,639,362	1,263,633
State Energy Program Special Projects	Energy Office	81.119		39,313	
State Heating Oil and Propane Program	Energy Office	81.138		6,405	
Total U.S. Department of Energy			$	2,080,829	1,263,633
Environmental Protection Agency, U.S.					
State Indoor Radon Grants	Health and Human Services, Department of	66.032	$	177,506	42,618
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034		277,244	
State Clean Diesel Grant Program	Environmental Quality, Department of	66.040		59,405	
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419		232,260	
State Public Water System Supervision	Health and Human Services, Department of	66.432		967,782	
State Underground Water Source Protection	Oil and Gas Commission	66.433		79,000	
Water Quality Management Planning	Environmental Quality, Department of	66.454		95,208	

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Environmental Protection Agency, U.S. (Continued)				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	7,080,870	6,880,590
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	2,849,845	
Regional Wetland Program Development Grants	Game and Parks Commission	66.461	72,602	
Drinking Water State Revolving Fund Cluster:				
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	10,708,985	8,543,829
Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804	374,193	
Performance Partnership Grants	Agriculture, Department of	66.605	504,664	
Performance Partnership Grants	Environmental Quality, Department of	66.605	4,991,641	
Total Performance Partnership Grants			5,496,305	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services, Department of	66.707	169,149	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802	537,389	
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Quality, Department of	66.805	988,978	
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	568,837	
Total U.S. Environmental Protection Agency			$ 30,735,558	15,467,037
Equal Employment Opportunity Commission, U.S.				
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	$ 546,048	
Total U.S. Equal Employment Opportunity Commission			$ 546,048	-
General Services Administration				
Donation of Federal Surplus Personal Property	Correctional Services, Department of	39.003	$ 1,134,619	
Total General Services Administration			$ 1,134,619	-
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	$ 16,607	4,999
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	85,496	85,496
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043	111,789	111,789

^ - 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, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, U.S. Department of (Continued)					
Aging Cluster:					
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Health and Human Services, Department of	93.044	2,276,607		1,958,086
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, Department of	93.045	4,027,026		3,875,502
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053	1,109,637		1,109,637
Total Aging Cluster			7,413,270		6,943,225
Medicare Enrollment Assistance Program	Insurance, Department of	93.071	127,684		64,063
Lifespan Respite Care Program	Health and Human Services, Department of	93.072	102,402		1,041
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, Department of	93.048	497,274		90,002
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Insurance, Department of	93.048	223,593		146,240
Total Special Programs for the Aging_Title IV_and Title II_Discretionary Projects			720,867		236,242
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052	842,609		838,410
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	5,212,420		4,405,597
National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889	1,051,322		896,809
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster			6,263,742		5,302,406
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	Education, Department of	93.079	98,612		44,900
Guardianship Assistance Recovery	Health and Human Services, Department of	93.090	132,400	^	
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, Department of	93.092	269,430		215,497
Well-Integrated Screening & Evaluation for Women Across the Nation	Health and Human Services, Department of	93.094	671,973		
Food and Drug Administration_Research	Agriculture, Department of	93.103	538,389		
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110	250,195		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116	208,000		12,160
Emergency Medical Services for Children	Health and Human Services, Department of	93.127	109,267		
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130	171,405		
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136	590,148		264,931
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150	326,745		314,784
Grants to State for Loan Repayment Program	Health and Human Services, Department of	93.165	180,563		
Family Planning_Services	Health and Human Services, Department of	93.217	2,103,968		1,768,590
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	302,852		174,732

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ARRA - American Recovery and Reinvestment Act
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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2016

Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, U.S. Department of (Continued)					
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, Department of	93.235	192,220		96,589
State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241	708,291		343,202
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, Department of	93.243	2,370,660		1,893,810
Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251	226,937		
Occupational Safety and Health Program	Health and Human Services, Department of	93.262	161,194		
Immunization Cooperative Agreements	Health and Human Services, Department of	93.268	21,412,931		829,411
Adult Viral Hepatitis Prevention and Control	Health and Human Services, Department of	93.270	111,772		
Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279	242,372		
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, Department of	93.283	3,642,102		8,834
State Partnership Grant Program to Improve Minority Health	Health and Human Services, Department of	93.296	105,664		
Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301	614,144		614,144
National State Based Tobacco Control Programs	Health and Human Services, Department of	93.305	903,207		206,346
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	Health and Human Services, Department of	93.314	138,143		
Epidemiology & Laboratory Capacity for Infectious Diseases	Health and Human Services, Department of	93.323	650,893		113,875
State Health Insurance Assistance Program	Insurance, Department of	93.324	417,141		137,370
Behavioral Risk Factor Surveillance System	Health and Human Services, Department of	93.336	246,133		
ACL Independent Living State Grants	Commission for the Blind and Visually Impaired	93.369	54,224		
ACL Independent Living State Grants	Education, Department of	93.369	127,565		119,758
Total ACL Independent Living State Grants			181,789		119,758
Food Safety and Security Monitoring Project	Agriculture, Department of	93.448	402,286		
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	6,813		
State-ACL Assistive Technology	Education, Department of	93.464	399,382		
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, Department of	93.505	1,789,556		1,390,006
PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, Department of	93.507	45,564		5,457
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511	281,187		
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	651,526		365
State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges	Insurance, Department of	93.525	281,505		
Promoting Safe and Stable Families	Health and Human Services, Department of	93.556	1,421,919		981,287
TANF Cluster:					
Temporary Assistance for Needy Families	Health and Human Services, Department of	93.558	36,376,843	^	
Child Support Enforcement	Health and Human Services, Department of	93.563	17,551,914	^	6,323,116

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Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, U.S. Department of (Continued)					
Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, Department of	93.566	3,685,078	^	780,940
Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568	28,387,926		
Low-Income Home Energy Assistance	Energy Office	93.568	2,935,358		2,811,098
Total Low-Income Home Energy Assistance			31,323,284		2,811,098
Community Services Block Grant	Health and Human Services, Department of	93.569	5,208,251		5,146,750
CCDF Cluster:					
Child Care and Development Block Grant	Health and Human Services, Department of	93.575	19,188,031		516,526
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596	22,103,331		
Total CCDF Cluster			41,291,362		516,526
Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, Department of	93.576	415,522		415,522
Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, Department of	93.584	451,482		451,482
State Court Improvement Program	Supreme Court, Nebraska	93.586	484,941		
Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597	89,800		89,800
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599	653,578		653,578
Head Start	Education, Department of	93.600	134,460		3,000
Adoption and Legal Guardianship Incentive Payments	Health and Human Services, Department of	93.603	188,798		48,255
Voting Access for Individuals with Disabilities_Grants to States	Secretary of State	93.617	100,000		
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630	371,052		153,094
Children's Justice Grants to States	Health and Human Services, Department of	93.643	131,071		119,205
Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, Department of	93.645	1,257,268		
Foster Care_Title IV-E	Health and Human Services, Department of	93.658	15,900,875	^	2,949,005
Adoption Assistance	Health and Human Services, Department of	93.659	18,205,700	^	
Social Services Block Grant	Health and Human Services, Department of	93.667	9,346,954		
Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669	275,352		234,359
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, Department of	93.671	921,926		911,186
Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674	1,996,545		1,354,244
ARRA Advance Interoperable Health Information Technology Services to Support Health Information Exchange	Administrative Services	93.719	152,633		151,442
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	Health and Human Services, Department of	93.733	846,205		
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	73,393		

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Federal Agency/Program Title	State Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Health and Human Services, U.S. Department of (Continued)				
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	Health and Human Services, Department of	93.757	3,465,506	2,274,933
Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PPHF)	Health and Human Services, Department of	93.758	2,600,999	1,082,652
Children's Health Insurance Program	Health and Human Services, Department of	93.767	60,502,288 ^	
Medicaid Cluster:				
State Medicaid Fraud Control Units	Attorney General	93.775	658,443	
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, Department of	93.777	4,155,159 ^	
Medical Assistance Program	Health and Human Services, Department of	93.778	1,089,155,068 ^	9,527,152
ARRA Medical Assistance Program Recovery	Health and Human Services, Department of	93.778	(137,131) ^	
Total Medical Assistance Program			1,089,017,937	9,527,152
Total Medicaid Cluster			1,093,831,539	9,527,152
Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780	332	
Money Follows the Person Rebalancing Demonstration	Health and Human Services, Department of	93.791	1,221,748	50,931
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Health and Human Services, Department of	93.815	561,689	
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Health and Human Services, Department of	93.817	13,973	1,681
Grants to States for Operation of Offices of Rural Health	Health and Human Services, Department of	93.913	186,786	16,250
HIV Care Formula Grants	Health and Human Services, Department of	93.917	2,827,846	2,513,992
HIV Prevention Activities_Health Department Based	Health and Human Services, Department of	93.940	1,177,908	344,565
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944	221,245	28,386
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, Department of	93.945	904,832	367,311
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946	155,841	
Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958	1,929,038	1,754,081
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959	7,656,012	7,171,788
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977	467,382	83,828
Maternal and Child Health Services Block Grant to the States	Health and Human Services, Department of	93.994	3,836,214	1,548,420
Medicated Feed Inspection Contract	Agriculture, Department of	HHSF223201310061C	69,244	
Tissue Residue Inspection Contract	Agriculture, Department of	HHSF223201310043I	430	
Food Inspection Contract	Agriculture, Department of	HHSF223201310051C	28,314	
Total U.S. Department of Health and Human Services			$ 1,428,337,197	73,002,291

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Homeland Security, U.S. Department of					
Homeland Security Grant Program	Military Department	97.067	$	3,398,109	1,353,095
Homeland Security Grant Program	Motor Vehicles, Department of	97.067		19,651	
Total Homeland Security Grant Program				3,417,760	1,353,095
Boating Safety Financial Assistance	Game and Parks Commission	97.012		623,188	
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023		154,912	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036		29,974,315	29,974,315
Hazard Mitigation Grant	Military Department	97.039		5,056,285	5,056,285
National Dam Safety Program	Natural Resources, Department of	97.041		269,798	
Emergency Management Performance Grants	Military Department	97.042		3,722,684	2,481,972
State Fire Training Systems Grants	Fire Marshal	97.043		29,742	
Cooperating Technical Partners	Natural Resources, Department of	97.045		695,733	
Pre-Disaster Mitigation	Military Department	97.047		281,487	281,487
SHSP-State Homeland Sec Prog	Military Department	97.073		(192,758)	
Total U.S. Department of Homeland Security			$	44,033,146	39,147,154
Housing & Urban Development, U.S. Department of					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Economic Development, Department of	14.228	$	10,010,449	9,498,071
Emergency Solutions Grant Program	Health and Human Services, Department of	14.231		920,853	844,660
Home Investment Partnerships Program	Economic Development, Department of	14.239		1,645,726	1,414,464
Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241		340,786	264,230
Continuum of Care Program	Health and Human Services, Department of	14.267		26,504	20,484
Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401		186,883	
Total U.S. Department of Housing & Urban Development			$	13,131,201	12,041,909
Institute of Museum and Library Services					
Grants to States	Library Commission	45.310	$	1,444,875	332,486
National Leadership Grants	Historical Society	45.312		13,553	
Total Institute of Museum and Library Services			$	1,458,428	332,486
Interior, U.S. Department of					
Fish, Wildlife and Plant Conservation Resource Management	Game and Parks Commission	15.231	$	16,314	
Cultural and Paleontological Resources Management	Education, Department of	15.224		910	910
Cultural Resources Management	Historical Society	15.511		5,606	
Recreation Resources Management	Game and Parks Commission	15.524		225,524	

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Interior, U.S. Department of (Continued)					
Fish and Wildlife Cluster:					
Sport Fish Restoration Program	Game and Parks Commission	15.605		3,530,190	
Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611		10,038,327	
Total Fish and Wildlife Cluster				13,568,517	-
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608		1,846	
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615		34,651	
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617		577	
Enhanced Hunter Education and Safety Program	Game and Parks Commission	15.626		41,678	
Landowner Incentive Program	Game and Parks Commission	15.633		2,032	
State Wildlife Grants	Game and Parks Commission	15.634		1,527,589	
Migratory Bird Joint Ventures	Game and Parks Commission	15.637		87,542	
National Outreach and Communication	Game and Parks Commission	15.653		3,679	
Endangered Species Conservation – Recovery Implementation Funds	Game and Parks Commission	15.657		53,848	
Adaptive Science	Game and Parks Commission	15.670		87,002	
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904		767,882	116,273
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916		51,570	51,570
Total U.S. Department of Interior			$	16,476,767	168,753
Justice, U.S. Department of					
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission for	16.017	$	281,570	277,872
Services for Trafficking Victims	Attorney General	16.320		63,286	
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523		116,048	88,656
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540		319,546	212,097
Missing Children's Assistance	State Patrol	16.543		278,267	20,933
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550		53,577	
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554		673,349	
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575		3,606,317	2,971,304
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576		46,776	
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579		18,485	
Drug Court Discretionary Grant Program	Supreme Court, Nebraska	16.585		19,981	
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588		1,152,973	797,694
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593		32,989	13,001
State Criminal Alien Assistance Program	Correctional Services, Department of	16.606		210,476	
Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission for	16.738		1,290,530	592,128

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	Justice, U.S. Department of (Continued)				
	DNA Backlog Reduction Program	State Patrol	16.741	290,176	
	Paul Coverdell Forensic Sciences Improvement Grant Program	State Patrol	16.742	78,531	
	Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750	54,018	
	NICS Act Record Improvement Program	State Patrol	16.813	600,911	96,679
	John R. Justice Prosecutors and Defenders Incentive Act	Law Enforcement and Criminal Justice, Commission for	16.816	31,205	
	Equitable Sharing Program	State Patrol	16.922	1,404,071	
	Equitable Sharing Program	Correctional Services, Department of	16.922	25,521	
	Total Equitable Sharing Program			1,429,592	-
	Total U.S. Department of Justice			$ 10,648,603	5,070,364
	Labor, U.S. Department of				
	Labor Force Statistics	Labor, Department of	17.002	$ 750,554	
	Compensation and Working Conditions	Worker's Compensation Court	17.005	44,464	
	Employment Service Cluster:				
	Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	5,076,863	
	Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	710,792	
	Local Veterans' Employment Representative Program	Labor, Department of	17.804	231,497	
	Total Employment Service Cluster			6,019,152	-
	Unemployment Insurance - Federal	Labor, Department of	17.225	1,348,545	
	Unemployment Insurance - State	Labor, Department of	17.225	77,281,383	
	Unemployment Insurance - Admin	Labor, Department of	17.225	18,039,439	
	Total Unemployment Insurance			96,669,367	-
	Senior Community Service Employment Program	Health and Human Services, Department of	17.235	686,471	98,153
	Trade Adjustment Assistance	Labor, Department of	17.245	450,383	
	WIA/WIOA Cluster:				
	WIA/WIOA Adult Program	Labor, Department of	17.258	1,506,363	1,075,249
	WIA/WIOA Youth Activities	Labor, Department of	17.259	2,180,940	1,385,837
ARRA	WIA Dislocated Workers Recovery	Labor, Department of	17.260	164	
	WIA/WIOA Dislocated Worker Formula Grants	Labor, Department of	17.278	2,046,446	711,126
	Total WIA Cluster			5,733,913	3,172,212
	WIA Pilots, Demonstrations, and Research Projects	Labor, Department of	17.261	515,322	
	H-1B Job Training Grants	Labor, Department of	17.268	1,457,906	

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Labor, U.S. Department of (Continued)					
Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271		127,497	
Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273		72,492	
WIOA National Dislocated Worker Grant/WIA National Emergency Grants	Labor, Department of	17.277		2,874,224	
Consultation Agreements	Labor, Department of	17.504		565,589	
Total U.S. Department of Labor			$	115,967,334	3,270,365
National Endowment for the Arts					
Promotion of the Arts_Partnership Agreements	Arts Council	45.025	$	759,573	548,014
Total National Endowment for the Arts			$	759,573	548,014
President, Executive Office of					
High Intensity Drug Trafficking Areas Program	State Patrol	95.001	$	1,107,039	756,206
Total President, Executive Office of			$	1,107,039	756,206
Small Business Administration					
State Trade and Export Promotion Pilot Grant Program	Economic Development, Department of	59.061	$	276,139	276,139
Total Small Business Administration			$	276,139	276,139
Social Security Administration					
Disability Insurance/SSI Cluster:					
Social Security_Disability Insurance	Education, Department of	96.001	$	10,554,864	3,185,250
Supplemental Security Income	Education, Department of	96.006		1,219,623	518,101
Supplemental Security Income	Commission for the Blind and Visually Impaired	96.006		662,786	
Total Supplemental Security Income				1,882,409	518,101
Total Disability Insurance/SSI Cluster				12,437,273	3,703,351
Total Social Security Administration			$	12,437,273	3,703,351
State, U.S.Department of					
Criminal Justice Systems	Correctional Services, Department of	19.703	$	24,878	
Total U.S. Department of State			$	24,878	-

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2016 Expenditures		2016 Subrecipients
Transportation, U.S. Department of						
Airport Improvement Program	Aeronautics, Department of	20.106	$	28,160,539		28,116,010
Highway Planning and Construction Cluster:						
Highway Planning and Construction	Roads, Department of	20.205		325,501,267		3,416,812
Recreational Trails Program	Game and Parks Commission	20.219		1,462,936		1,171,157
Total Highway Planning and Construction Cluster				326,964,203		4,587,969
National Motor Carrier Safety	State Patrol	20.218		2,662,611		
Commercial Driver's License Program Improvement Grant	Motor Vehicles, Department of	20.232		39,513		
Commercial Vehicle Information Systems and Networks	State Patrol	20.237		63,600		48,600
Federal Transit Cluster:						
Federal Transit_Capital Investment Grants	Roads, Department of	20.500		171,251		
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Roads, Department of	20.505		6,010,728		1,494,827
Formula Grants for Rural Areas	Roads, Department of	20.509		6,768,580		5,405,828
Transit Services Programs Cluster:						
Enhanced Mobility for Seniors and Individuals with Disabilities	Roads, Department of	20.513		584,956		
Highway Safety Cluster:						
State and Community Highway Safety	Roads, Department of	20.600		1,973,960		1,110,871
National Priority Safety Programs	Roads, Department of	20.616		2,897,122		1,663,232
Total Highway Safety Cluster				4,871,082		2,774,103
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614		63,621		
Pipeline Safety Program State Base Grant	Fire Marshal	20.700		381,157		78,067
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703		295,949		88,695
Total U.S. Department of Transportation			$	377,037,790		42,594,099
Veterans Affairs, U.S. Department of						
Veterans State Domiciliary Care	Health and Human Services, Department of	64.014	$	1,405,774	^	
Veterans State Nursing Home Care	Health and Human Services, Department of	64.015		16,414,763	^	
Total U.S. Department of Veterans Affairs			$	17,820,537		-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	2,768,142,724	$	539,244,461

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Administrative Services					
State and Local Implementation Grant Program	Commerce, U.S. Department of	11.549	$	114,364	$
ARRA Advance Interoperable Health Information Technology Services to Support Health Information Exchange	Health and Human Services, U.S. Department of	93.719		152,633	151,442
Total Administrative Services			$	266,997	151,442
Aeronautics, Department of					
Airport Improvement Program	Transportation, U.S. Department of	20.106	$	28,160,539	28,116,010
Total Department of Aeronautics			$	28,160,539	28,116,010
Agriculture, Department of					
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$	896,604	
Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170		527,704	
Organic Certification Cost Share Programs	Agriculture, U.S. Department of	10.171		90,327	
State Mediation Grants	Agriculture, U.S. Department of	10.435		162,338	
Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479		97,346	
WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, U.S. Department of	10.572		16,108	
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576		158,747	
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		504,664	
Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103		538,389	
Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448		402,286	
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449		6,813	
Medicated Feed Inspection Contract	Health and Human Services, U.S. Department of	HHSF223201310061C		69,244	
Tissue Residue Inspection Contract	Health and Human Services, U.S. Department of	HHSF223201310043I		430	
Food Inspection Contract	Health and Human Services, U.S. Department of	HHSF223201310051C		28,314	
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A		188,382	
Emerging Markets Program	Agriculture, U.S. Department of	10.603		28,350	
Total Department of Agriculture			$	3,716,046	-
Arts Council					
Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025	$	759,573	548,014
Total Arts Council			$	759,573	548,014

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Attorney General					
Services for Trafficking Victims	Justice, U.S. Department of	16.320	$	63,286	
Medicaid Cluster:					
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775		658,443	
Total Attorney General			$	721,729	-
Blind and Visually Impaired, Commission for the					
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	$	3,250,128	
Independent Living_State Grants	Education, U.S. Department of	84.169		(97)	
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177		223,486	
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187		20,545	
ACL Independent Living State Grants	Health and Human Services, U.S. Department of	93.369		54,224	
Disability Insurance/SSI Cluster:					
Supplemental Security Income	Social Security Administration	96.006		662,786	
Total Commission for the Blind and Visually Impaired			$	4,211,072	-
Correctional Services, Department of					
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	$	210,476	
Equitable Sharing Program	Justice, U.S. Department of	16.922		25,521	
Criminal Justice Systems	State, U.S. Department of	19.703		24,878	
Donation of Federal Surplus Personal Property	General Services Administration	39.003		1,134,619	
Total Department of Correctional Services			$	1,395,494	-
Economic Development, Department of					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Housing & Urban Development, U.S. Department of	14.228	$	10,010,449	9,498,071
Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239		1,645,726	1,414,464
State Trade and Export Promotion Pilot Grant Program	Small Business Administration	59.061		276,139	276,139
Total Department of Economic Development			$	11,932,314	11,188,674

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

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2016

State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Education, Department of				
Child Nutrition Cluster:				
School Breakfast Program	Agriculture, U.S. Department of	10.553	$ 17,656,301	17,656,301
National School Lunch Program	Agriculture, U.S. Department of	10.555	69,631,320	69,631,320
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	56,912	56,912
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	2,889,271	2,807,747
Total Child Nutrition Cluster			90,233,804	90,152,280
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	33,641,038	33,374,604
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,761,620	
Team Nutrition Grants	Agriculture, U.S. Department of	10.574	281,770	34,773
Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579	167,225	167,225
Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582	2,005,494	2,005,494
Forest Service Schools and Roads Cluster:				
Schools and Roads - Grants to Counties	Agriculture, U.S. Department of	10.666	188,972	188,972
Payments to States in Lieu of Real Estate Taxes	Defense, U.S. Department of	12.112	285,421	285,421
Cultural and Paleontological Resources Management	Interior, U.S. Department of	15.224	910	910
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002	2,424,826	2,011,426
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	80,694,260	79,917,742
Migrant Education_State Grant Program	Education, U.S. Department of	84.011	5,634,268	5,285,640
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, U.S. Department of	84.013	272,102	269,557
Special Education Cluster (IDEA):				
Special Education_Grants to States	Education, U.S. Department of	84.027	72,554,838	69,879,565
Special Education_Preschool Grants	Education, U.S. Department of	84.173	2,110,820	1,561,179
Total Special Education Cluster (IDEA)			74,665,658	71,440,744
Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048	7,179,806	6,265,384
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	17,829,199	6,639,262
Migrant Education_Coordination Program	Education, U.S. Department of	84.144	61,287	35,389
Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161	148,656	
Independent Living_State Grants	Education, U.S. Department of	84.169	134,322	114,860
Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	2,744,156	2,033,318
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	458,439	458,439

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Education, Department of (Continued)				
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	304,221	261,513
Assistive Technology	Education, U.S. Department of	84.224	17,555	
Rehabilitation Services Demonstration and Training Programs	Education, U.S. Department of	84.235	133,250	3,325
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	1,170	
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	5,021,410	4,696,816
Special Education - State Personnel Development	Education, U.S. Department of	84.323	828,512	244,842
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	63,949	41,489
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	31,301	31,301
Rural Education	Education, U.S. Department of	84.358	90,325	82,446
English Language Acquisition State Grants	Education, U.S. Department of	84.365	3,716,381	3,507,940
Mathematics and Science Partnerships	Education, U.S. Department of	84.366	771,649	727,628
Supporting Effective Instruction State Grant	Education, U.S. Department of	84.367	12,615,300	12,328,537
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	3,847,525	
Statewide Longitudinal Data Systems	Education, U.S. Department of	84.372	1,787,531	
School Improvement Grants	Education, U.S. Department of	84.377	3,941,123	3,774,612
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	98,612	44,900
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	302,852	174,732
ACL Independent Living State Grants	Health and Human Services, U.S. Department of	93.369	127,565	119,758
State-ACL Assistive Technology	Health and Human Services, U.S. Department of	93.464	399,382	
Head Start	Health and Human Services, U.S. Department of	93.600	134,460	3,000
Disability Insurance/SSI Cluster:				
Social Security_Disability Insurance	Social Security Administration	96.001	10,554,864	3,185,250
Supplemental Security Income	Social Security Administration	96.006	1,219,623	518,101
Total Disability Insurance/SSI Cluster			11,774,487	3,703,351
Total Department of Education			$ 366,821,793	330,427,630

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ARRA - American Recovery and Reinvestment Act
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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Energy Office					
State Energy Program	Energy, U.S. Department of	81.041	$	395,749	
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042		1,639,362	1,263,633
State Energy Program Special Projects	Energy, U.S. Department of	81.119		39,313	
State Heating Oil and Propane Program	Energy, U.S. Department of	81.138		6,405	
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		2,935,358	2,811,098
Total Energy Office			$	5,016,187	4,074,731
Environmental Quality, Department of					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	$	146,023	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034		277,244	
State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040		59,405	
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		232,260	
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		95,208	
Clean Water State Revolving Fund Cluster:					
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458		7,080,870	6,880,590
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		2,849,845	
Drinking Water State Revolving Fund Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468		10,708,985	8,543,829
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		4,991,641	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		537,389	
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Protection Agency, U.S.	66.805		988,978	
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		568,837	
Total Department of Environmental Quality			$	28,536,685	15,424,419
Equal Opportunity Commission					
Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401	$	186,883	
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		546,048	
Total Equal Opportunity Commission			$	732,931	-

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Fire Marshal				
Pipeline Safety Program State Base Grant	Transportation, U.S. Department of	20.700	$ 381,157	78,067
Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804	374,193	
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	29,742	
Total Fire Marshal			$ 785,092	78,067
Game and Parks Commission				
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	$ 20,417	
Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093	282,885	
Agriculture Conservation Easement Program	Agriculture, U.S. Department of	10.931	42,586	
Regional Conservation Partnership Program	Agriculture, U.S. Department of	10.932	7,795	
Fish, Wildlife and Plant Conservation Resource Management	Interior, U.S. Department of	15.231	16,314	
Recreation Resources Management	Interior, U.S. Department of	15.524	225,524	
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	Interior, U.S. Department of	15.605	3,530,190	
Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611	10,038,327	
Total Fish and Wildlife Cluster			13,568,517	-
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	1,846	
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	34,651	
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	577	
Enhanced Hunter Education and Safety Program	Interior, U.S. Department of	15.626	41,678	
Landowner Incentive Program	Interior, U.S. Department of	15.633	2,032	
State Wildlife Grants	Interior, U.S. Department of	15.634	1,527,589	
Migratory Bird Joint Ventures	Interior, U.S. Department of	15.637	87,542	
National Outreach and Communication	Interior, U.S. Department of	15.653	3,679	
Endangered Species Conservation – Recovery Implementation Funds	Interior, U.S. Department of	15.657	53,848	
Adaptive Science	Interior, U.S. Department of	15.670	87,002	
Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916	51,570	51,570
Highway Planning and Construction Cluster:				
Recreational Trails Program	Transportation, U.S. Department of	20.219	1,462,936	1,171,157
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	72,602	
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	623,188	
Total Game and Parks Commission			$ 18,214,778	1,222,727

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, Department of					
Child Nutrition Cluster:					
National School Lunch Program	Agriculture, U.S. Department of	10.555	$ 13,184,313		
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	11,809		
Total Child Nutrition Cluster			13,196,122		-
SNAP Cluster:					
Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551	241,031,340		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	17,268,188	^	2,615,271
Total SNAP Cluster			258,299,528		2,615,271
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	29,926,785		9,213,899
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	247,515		
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,464,546		
Food Distribution Cluster:					
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	2,639,235		615,077
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	334,359		332,031
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	2,307,432		
Total Food Distribution Cluster			5,281,026		947,108
WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578	1,195,039		45,167
Emergency Solutions Grant Program	Housing & Urban Development, U.S. Department of	14.231	920,853		844,660
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	340,786		264,230
Continuum of Care Program	Housing & Urban Development, U.S. Department of	14.267	26,504		20,484
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	686,471		98,153
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	1,405,774	^	
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	16,414,763	^	
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	177,506		42,618
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	967,782		
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	169,149		
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	16,607		4,999
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	85,496		85,496

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, Department of (Continued)					
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	111,789		111,789
Aging Cluster:					
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Health and Human Services, U.S. Department of	93.044	2,276,607		1,958,086
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045	4,027,026		3,875,502
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053	1,109,637		1,109,637
Total Aging Cluster			7,413,270		6,943,225
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048	497,274		90,002
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052	842,609		838,410
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	5,212,420		4,405,597
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	1,051,322		896,809
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster			6,263,742		5,302,406
Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072	102,402		1,041
Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090	132,400	^	
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092	269,430		215,497
Well-Integrated Screening & Evaluation for Women Across the Nation	Health and Human Services, U.S. Department of	93.094	671,973		
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	250,195		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	208,000		12,160
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	109,267		
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130	171,405		
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136	590,148		264,931
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	326,745		314,784
Grants to State for Loan Repayment Program	Health and Human Services, U.S. Department of	93.165	180,563		
Family Planning_Services	Health and Human Services, U.S. Department of	93.217	2,103,968		1,768,590
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	192,220		96,589
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	708,291		343,202
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	2,370,660		1,893,810

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures		2016 Subrecipients
Health and Human Services, Department of (Continued)					
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	226,937		
Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262	161,194		
Immunization Cooperative Agreements	Health and Human Services, U.S. Department of	93.268	21,412,931		829,411
Adult Viral Hepatitis Prevention and Control	Health and Human Services, U.S. Department of	93.270	111,772		
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	242,372		
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	3,642,102		8,834
State Partnership Grant Program to Improve Minority Health	Health and Human Services, U.S. Department of	93.296	105,664		
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	614,144		614,144
National State Based Tobacco Control Programs	Health and Human Services, U.S. Department of	93.305	903,207		206,346
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	Health and Human Services, U.S. Department of	93.314	138,143		
Epidemiology & Laboratory Capacity for Infectious Diseases	Health and Human Services, U.S. Department of	93.323	650,893		113,875
Behavioral Risk Factor Surveillance System	Health and Human Services, U.S. Department of	93.336	246,133		
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505	1,789,556		1,390,006
PPHF 2012 National Public Health Improvement Initiative	Health and Human Services, U.S. Department of	93.507	45,564		5,457
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	651,526		365
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,421,919		981,287
TANF Cluster:					
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	36,376,843	^	
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	17,551,914	^	6,323,116
Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, U.S. Department of	93.566	3,685,078	^	780,940
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	28,387,926		
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	5,208,251		5,146,750
CCDF Cluster:					
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	19,188,031		516,526
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	22,103,331		
Total CCDF Cluster			41,291,362		516,526

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	Health and Human Services, Department of (Continued)					
	Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576	415,522		415,522
	Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, U.S. Department of	93.584	451,482		451,482
	Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	89,800		89,800
	Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599	653,578		653,578
	Adoption and Legal Guardianship Incentive Payments	Health and Human Services, U.S. Department of	93.603	188,798		48,255
	Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630	371,052		153,094
	Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	131,071		119,205
	Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645	1,257,268		
	Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	15,900,875	^	2,949,005
	Adoption Assistance	Health and Human Services, U.S. Department of	93.659	18,205,700	^	
	Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	9,346,954		
	Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	275,352		234,359
	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, U.S. Department of	93.671	921,926		911,186
	Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674	1,996,545		1,354,244
	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	Health and Human Services, U.S. Department of	93.733	846,205		
	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	73,393		
	State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	Health and Human Services, U.S. Department of	93.757	3,465,506		2,274,933
	Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PPHF)	Health and Human Services, U.S. Department of	93.758	2,600,999		1,082,652
	Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767	60,502,288	^	
	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	4,155,159	^	
	Medical Assistance Program	Health and Human Services, U.S. Department of	93.778	1,089,155,068	^	9,527,152
ARRA	Medical Assistance Program Recovery	Health and Human Services, U.S. Department of	93.778	(137,131)	^	
	Total Medical Assistance Program			1,089,017,937		9,527,152
	Total Medicaid Cluster			1,093,173,096		9,527,152

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Health and Human Services, Department of (Continued)					
Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		1,221,748	50,931
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Health and Human Services, U.S. Department of	93.815		561,689	
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Health and Human Services, U.S. Department of	93.817		13,973	1,681
Grants to States for Operation of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		186,786	16,250
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		2,827,846	2,513,992
HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		1,177,908	344,565
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		221,245	28,386
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945		904,832	367,311
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		155,841	
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		1,929,038	1,754,081
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		7,656,012	7,171,788
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		467,382	83,828
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994		3,836,214	1,548,420
State Commissions	Corporation For National and Community Service	94.003		206,073	
AmeriCorps	Corporation For National and Community Service	94.006		1,632,067	1,621,110
Total Department of Health and Human Services			$	1,753,070,098	85,062,388
Historical Society					
Cultural Resources Management	Interior, U.S. Department of	15.511	$	5,606	
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904		767,882	116,273
National Leadership Grants	Institute of Museum and Library Services	45.312		13,553	
Total Historical Society			$	787,041	116,273
Insurance, Department of					
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048	$	223,593	146,240
Medicare Enrollment Assistance Program	Health and Human Services, U.S. Department of	93.071		127,684	64,063
State Health Insurance Assistance Program	Health and Human Services, U.S. Department of	93.324		417,141	137,370
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Health and Human Services, U.S. Department of	93.511		281,187	
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Health and Human Services, U.S. Department of	93.525		281,505	
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780		332	
Total Department of Insurance			$	1,331,442	347,673

^ - 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, 2016

State Agency/Program Title	Federal Agency	CFDA or Grant #	2016 Expenditures	2016 Subrecipients
Labor, Department of				
Labor Force Statistics	Labor, U.S. Department of	17.002	$ 750,554	
Employment Service Cluster:				
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	5,076,863	
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	710,792	
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	231,497	
Total Employment Service Cluster			6,019,152	-
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	1,348,545	
Unemployment Insurance - State	Labor, U.S. Department of	17.225	77,281,383	
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	18,039,439	
Total Unemployment Insurance			96,669,367	-
Trade Adjustment Assistance	Labor, U.S. Department of	17.245	450,383	
WIA/WIOA Cluster:				
WIA/WIOA Adult Program	Labor, U.S. Department of	17.258	1,506,363	1,075,249
WIA/WIOA Youth Activities	Labor, U.S. Department of	17.259	2,180,940	1,385,837
ARRA WIA Dislocated Workers Recovery	Labor, U.S. Department of	17.260	164	
WIA/WIOA Dislocated Worker Formula Grants	Labor, U.S. Department of	17.278	2,046,446	711,126
Total WIA Cluster			5,733,913	3,172,212
WIA Pilots, Demonstrations, and Research Projects	Labor, U.S. Department of	17.261	515,322	
H-1B Job Training Grants	Labor, U.S. Department of	17.268	1,457,906	
Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271	127,497	
Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	72,492	
WIOA National Dislocated Worker Grant/WIA National Emergency Grants	Labor, U.S. Department of	17.277	2,874,224	
Consultation Agreements	Labor, U.S. Department of	17.504	565,589	
Total Department of Labor			$ 115,236,399	3,172,212
Law Enforcement and Criminal Justice, Commission for				
Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$ 281,570	277,872
Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	116,048	88,656
Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540	319,546	212,097
State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	53,577	

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

State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Law Enforcement and Criminal Justice, Commission for (Continued)					
Crime Victim Assistance	Justice, U.S. Department of	16.575		3,606,317	2,971,304
Crime Victim Compensation	Justice, U.S. Department of	16.576		46,776	
Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579		18,485	
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588		1,152,973	797,694
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593		32,989	13,001
Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738		1,290,530	592,128
John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816		31,205	
Total Commission for Law Enforcement and Criminal Justice			$	6,950,016	4,952,752
Library Commission					
Grants to States	Institute of Museum and Library Services	45.310	$	1,444,875	332,486
Total Library Commission			$	1,444,875	332,486
Military Department					
Military Construction, National Guard	Defense, U.S. Department of	12.400	$	261,968	
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401		20,788,818	
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703		295,949	88,695
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		3,398,109	1,353,095
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036		29,974,315	29,974,315
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		5,056,285	5,056,285
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		3,722,684	2,481,972
Pre-Disaster Mitigation	Homeland Security, U.S. Department of	97.047		281,487	281,487
SHSP-State Homeland Sec Prog	SHSP-State Homeland Sec Prog	97.073		(192,758)	
Total Military Department			$	63,586,857	39,235,849
Motor Vehicles, Department of					
Commercial Driver's License Program Improvement Grant	Transportation, U.S. Department of	20.232	$	39,513	
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		19,651	
Total Department of Motor Vehicles			$	59,164	-

^ - 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, 2016

State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Natural Resources, Department of					
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	$	154,912	
National Dam Safety Program	Homeland Security, U.S. Department of	97.041		269,798	
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045		695,733	
Total Department of Natural Resources			$	1,120,443	-
Oil and Gas Commission					
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	$	79,000	
Total Oil and Gas Commission			$	79,000	-
Postsecondary Education, Coordinating Commission for					
Supporting Effective Instruction State Grant	Education, U.S. Department of	84.367	$	278,362	264,231
College Access Challenge Grant Program	Education, U.S. Department of	84.378		886,631	514,895
Total Coordinating Commission for Postsecondary Education			$	1,164,993	779,126
Roads, Department of					
Highway Planning and Construction Cluster:					
Highway Planning and Construction	Transportation, U.S. Department of	20.205	$	325,501,267	3,416,812
Federal Transit Cluster:					
Federal Transit_Capital Investment Grants	Transportation, U.S. Department of	20.500		171,251	
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Transportation, U.S. Department of	20.505		6,010,728	1,494,827
Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509		6,768,580	5,405,828
Transit Services Programs Cluster:					
Enhanced Mobility of Seniors and Individuals with Disabilities	Transportation, U.S. Department of	20.513		584,956	
Highway Safety Cluster:					
State and Community Highway Safety	Transportation, U.S. Department of	20.600		1,973,960	1,110,871
National Priority Safety Programs	Transportation, U.S. Department of	20.616		2,897,122	1,663,232
Total Highway Safety Cluster				4,871,082	2,774,103
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614		63,621	
Total Department of Roads			$	343,971,485	13,091,570

^ - 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, 2016

State Agency/Program Title	Federal Agency	CFDA or Grant #		2016 Expenditures	2016 Subrecipients
Secretary of State					
Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	$	207,722	
Voting Access for Individuals with Disabilities_Grants to States	Health and Human Services, U.S. Department of	93.617		100,000	
Total Secretary of State			$	307,722	-
State Patrol					
Missing Children's Assistance	Justice, U.S. Department of	16.543	$	278,267	20,933
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554		673,349	
DNA Backlog Reduction Program	Justice, U.S. Department of	16.741		290,176	
Paul Coverdell Forensic Sciences Improvement Grant Program	Justice, U.S. Department of	16.742		78,531	
Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750		54,018	
NICS Act Record Improvement Program	Justice, U.S. Department of	16.813		600,911	96,679
Equitable Sharing Program	Justice, U.S. Department of	16.922		1,404,071	
National Motor Carrier Safety	Transportation, U.S. Department of	20.218		2,662,611	
Commercial Vehicle Information Systems and Networks	Transportation, U.S. Department of	20.237		63,600	48,600
High Intensity Drug Trafficking Areas Program	Executive Office of the President	95.001		1,107,039	756,206
Total State Patrol			$	7,212,573	922,418
Supreme Court, Nebraska					
Drug Court Discretionary Grant Program	Justice, U.S. Department of	16.585	$	19,981	
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586		484,941	
Total Nebraska Supreme Court			$	504,922	-
Worker's Compensation Court					
Compensation and Working Conditions	Labor, U.S. Department of	17.005	$	44,464	
Total Worker's Compensation Court			$	44,464	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	2,768,142,724	$ 539,244,461

^ - 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.

(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, 2016.

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 award program in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Uniform Guidance, 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 Uniform Guidance, 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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.

(d) Indirect Cost Rate

The State has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Nonmonetary Assistance Inventory

Nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2016, the inventory balance of nonmonetary assistance for food commodities at the State level was $0.

(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	$13,184,313
10.558	Child and Adult Care Food Program	247,515
10.559	Summer Food Service Program for Children	11,809
10.565	Commodity Supplemental Food Program	1,963,107
10.569	Emergency Food Assistance Program	2,307,432

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 $8,083,428 was delivered directly to subrecipients.

The Immunization Cooperative Agreements (CFDA 93.268) included expenditures of $18,933,377 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 2016 was valued at the historical cost of $7,564,126 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, 2016
66.458	Capitalization Grants for Clean Water State Revolving Funds	$210,569,962
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$91,225,419

New loans provided from these programs totaling $13,436,007 are included as current year expenditures on the Schedule.

(7) Airport Improvement Program

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

<u>Independent Auditor's Report</u>

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, 2016, 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 15, 2016. 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 UNMC Science Research Fund, 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 activity of 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 the University of Nebraska Foundation, the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, the Nebraska Utility Corporation, the Nebraska State College System Foundations, the activity of the Nebraska State College System Revenue and Refunding Bond Program, and the Nebraska State Colleges Facilities Corporation 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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, and 2016-010.

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 other 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.

Philip J. Olsen

Lincoln, Nebraska
December 15, 2016

Philip J. Olsen, CPA, CISA
Audit Manager

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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) *Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016. 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 which are not included in the schedule of expenditures of Federal awards during the year ended June 30, 2016. 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 of compliance.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Aging Cluster, Family Planning Services, Centers for Disease Control and Prevention Investigations and Technical Assistance, Adoption Assistance, Formula Grants for Rural Areas

As described in Findings 2016-021, 2016-024, 2016-025, 2016-029, 2016-044 and 2016-062 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
2016-021	93.044, 93.045	Aging Cluster	Allowability & Subrecipient Monitoring
2016-024	93.217	Family Planning Services	Allowability, Program Income & Subrecipient Monitoring
2016-025	93.217	Family Planning Services	Period of Availability
2016-029	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Allowability & Subrecipient Monitoring
2016-044	93.659	Adoption Assistance	Allowability & Eligibility
2016-062	20.509	Formula Grants for Rural Areas	Allowability & Subrecipient Monitoring

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

Qualified Opinion on Aging Cluster, Family Planning Services, Centers for Disease Control and Prevention Investigations and Technical Assistance, 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 Aging Cluster, Family Planning Services, Centers for Disease Control and Prevention Investigations and Technical Assistance, Adoption Assistance, and Formula Grants for Rural Areas for the year ended June 30, 2016.

Basis for Adverse Opinion on Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster, CCDF Cluster

As described in Findings 2016-022 and 2016-037 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
2016-022	93.069, 93.889	HPP and PHEP Cluster	Allowability, Cash Management, Subrecipient Monitoring
2016-037	93.575, 93.596	CCDF Cluster	Allowability & Eligibility

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

Adverse Opinion on HPP and PHEP Aligned Cooperative Agreements Cluster, CCDF Cluster

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 and CCDF Cluster for the year ended June 30, 2016.

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 auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance 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
2016-011	Various, 93.778	Various, Medical Assistance Program	Allowable Costs
2016-012	Various, 93.778	Various, Medical Assistance Program	Reporting
2016-013	Various, 93.217	Various, Family Planning Services	Reporting
2016-014	Various, 93.778	Various, Medical Assistance Program	Reporting
2016-015	93.103, 93.448	Food and Drug Administration Research, Food Safety and Security Monitoring Project	Allowable Costs
2016-016	Various, 93.778	Various, Medical Assistance Program	Allowability

Finding #	CFDA #	Federal Program	Compliance Requirement
2016-017	Various, 93.558	Various, TANF	Allowability
2016-018	Various, 10.561, 93.778	Various, State Administrative Matching Grants for the SNAP, Medical Assistance Program	Allowability
2016-019	Various, 93.283, 93.778	Various, Centers for Disease Control & Prevention – Investigations and Technical Assistance, Medical Assistance Program	Allowability
2016-020	93.767	Children’s Health Insurance Program	Cash Management
2016-023	93.069, 93.889	HPP and PHEP Cluster	Allowability
2016-026	93.217	Family Planning Services	Cash Management & Subrecipient Monitoring
2016-027	93.217	Family Planning Services	Reporting
2016-028	93.217	Family Planning Services	Procurement
2016-030	93.558	Temporary Assistance for Needy Families	Allowability & Eligibility
2016-031	93.558	Temporary Assistance for Needy Families	Allowability
2016-032	93.558	Temporary Assistance for Needy Families	Allowability
2016-033	93.558	Temporary Assistance for Needy Families	Allowability & Subrecipient Monitoring
2016-034	93.558	Temporary Assistance for Needy Families	Reporting
2016-035	93.558	Temporary Assistance for Needy Families	Reporting
2016-036	93.568	Low-Income Home Energy Assistance	Allowability & Eligibility
2016-038	93.575, 93.596	CCDF Cluster	Reporting
2016-039	93.575, 93.596	CCDF Cluster	Special Tests
2016-040	93.575	Child Care and Development Block Grant	Earmarking

Finding #	CFDA #	Federal Program	Compliance Requirement
2016-041	93.658	Foster Care Title IV-E	Allowability & Eligibility
2016-042	93.658	Foster Care Title IV-E	Allowability
2016-043	93.658	Foster Care Title IV-E	Subrecipient Monitoring
2016-045	93.659	Adoption Assistance	Reporting
2016-046	93.767, 93.778	CHIP, Medical Assistance Program	Matching & Reporting
2016-047	93.778	Medical Assistance Program	Allowability
2016-048	93.778	Medical Assistance Program	Allowability & Eligibility
2016-049	93.778	Medical Assistance Program	Allowability & Eligibility
2016-050	93.778	Medical Assistance Program	Special Tests
2016-051	93.778	Medical Assistance Program	Allowability
2016-052	93.778	Medical Assistance Program	Allowability
2016-053	93.778	Medical Assistance Program	Allowability & Special Tests
2016-054	93.778	Medical Assistance Program	Allowability
2016-055	93.778	Medical Assistance Program	Allowability
2016-057	16.575	Crime Victim Assistance	Allowable Costs
2016-058	45.310	Grants to States	Subrecipient Monitoring
2016-059	12.401	National Guard Military Operations and Maintenance Projects	Cash Management
2016-060	20.205	Highway Planning and Construction	Reporting
2016-061	20.205	Highway Planning and Construction	Allowability
2016-063	20.509	Formula Grants for Rural Areas	Reporting

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 the Uniform Guidance, 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 2016-021, 2016-022, 2016-024, 2016-025, 2016-029, 2016-037, 2016-044 and 2016-062 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 2016-011, 2016-014, 2016-023, 2016-026, 2016-030, 2016-031, 2016-033, 2016-034, 2016-038, 2016-041, 2016-042, 2016-043, 2016-046, 2016-050, 2016-055 and 2016-056 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pat Reding

Lincoln, Nebraska
March 10, 2017

Pat Reding, CPA, CFE
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

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 opinion

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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009 and 2016-010. No material weaknesses were noted.

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 2016-011, 2016-014, 2016-023, 2016-026, 2016-030, 2016-031, 2016-033, 2016-034, 2016-038, 2016-041, 2016-042, 2016-043, 2016-046, 2016-050, 2016-055 and 2016-056.

   We consider items 2016-021, 2016-022, 2016-024, 2016-025, 2016-029, 2016-037, 2016-044 and 2016-062 to be material weaknesses in internal control over the major programs.

e) Type of report issued on compliance for major programs: Unmodified opinion for all major programs except for Aging Cluster, Family Planning Services, Centers for Disease Control and Prevention Investigations and Technical 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 and CCDF Cluster which were adverse.

f) The audit disclosed audit findings, which are required to be reported in accordance with 2 CFR § 200.516(a) and are included in the schedule of findings and questioned costs in Part III.

g) The following table shows programs tested as major programs:

CFDA	12.401	National Guard Military Operations and Maintenance (O&M) Projects
CFDA	20.106	Airport Improvement Program
CFDA	20.205, 20.219	Highway Planning and Construction Cluster
CFDA	20.509	Formula Grants for Rural Areas
CFDA	84.010	Title I Grants to Local Educational Agencies
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	93.217	Family Planning Services
CFDA	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
CFDA	93.558	Temporary Assistance for Needy Families
CFDA	93.575 and 93.596	CCDF Cluster
CFDA	93.658	Foster Care – Title IV-E
CFDA	93.659	Adoption Assistance
CFDA	93.775, 93.777 and 93.778	Medicaid Cluster

h) Dollar threshold used to distinguish between Type A and Type B programs: $8,304,428

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

II. Findings Related to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2016-001

CAFR Preparation

The Department of Administrative Services (DAS), State Accounting Division (State Accounting) prepares the State of Nebraska Comprehensive Annual Financial Report (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. For the fiscal year ended June 30, 2016, CAFR, this date was determined to be December 15, 2016. Therefore, the Auditor of Public Accounts (APA) agreed to a list of items to be prepared by DAS – 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, the first completed draft of the report was received on the morning of December 9, 2016, or five business days before the statutory required completion date. The APA requested that a completed first draft be submitted by November 28, 2016, in order to successfully complete our audit of the report under normal working conditions. Given the late submission of the 156-page CAFR, extraordinary effort and resources had to be utilized in order to meet the deadline.

Had any additional adjustments or issues been identified from the numerous late submissions (discussed in further detail below), or from the ongoing Statewide Single Audit, non-compliance with 81-1125.01 would have been the likely outcome. That likely outcome would have been made all the more probable by the near material Federal fund dollar amount of proposed adjustments that were not made by DAS. For this reason, we strongly suggest DAS refrain from accumulating large unadjusted amounts in future CAFR audits to mitigate the risk of a modified Independent Auditor's Report or non-compliance with State statute.

Furthermore, the draft report submitted by DAS – State Accounting was incomplete and inaccurate. DAS – State Accounting first provided an incomplete draft on December 5, 2016, in order for the APA to begin their work on the report. The incomplete draft required several revisions to correct formatting problems and incorrect information. Incomplete or missing information included disclosure for the newly implemented Governmental Accounting Standards Board Statement (GASBS) 72, Fair Value Measurement and Application, and there were continued issues with information provided for GASBS 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. As noted already, the final draft was not provided until December 15, 2016, which was 10 days after the date requested by the auditors and the date the report was statutorily required to be completed.

As of November 28, 2016, there were 34 past-due items that had not yet been received from DAS to complete the audit, and some information was as many as 28 days past due. The statistical information, footnotes, and management discussion and analysis ranged from 17 days to 27 days late. Some of this information was received only five business days prior to the date the CAFR was statutorily required to be completed.

During testing of the CAFR, we noted the following:

- The APA proposed 32 adjustments during the audit, 14 of which were not made by DAS – State Accounting. At the fund level, the accumulated uncorrected errors ranged from an overstatement of $8,304,385 to an understatement of $1,222,649. At the government-wide level, the accumulated uncorrected errors ranged from an overstatement of $13,513,268 to an understatement of $2,676,290. The APA also proposed adjustments, totaling $38,267,815, to correct beginning balances.

- DAS – State Accounting made several errors in the capital asset supporting documentation. Errors ranged from an understatement of $2,128,999 in buildings to an overstatement of $20,473,290 in buildings. Furthermore, DAS – State Accounting included assets as current year additions and/or deletions with dates outside of the fiscal year audited. There were also assets with dates inside of the fiscal year audited that were not included in current year additions and/or deletions.

- When making adjustments to prior period activity, State agencies record the transactions as a miscellaneous adjustment during the current fiscal year. The activity within this account should be analyzed by DAS – State Accounting, and proper adjustments should be made to ensure the financial statements are properly presented for these adjustments. DAS – State Accounting did not perform an adequate review of these accounts since only the Federal Fund was reviewed. After the APA requested DAS review all miscellaneous adjustment activity, DAS – State Accounting reviewed only line items over $1,000,000. These transactions should be reviewed at the fund level, and a lower threshold should be used when reviewing smaller funds.

- Several adjustments were necessary for missing or inaccurate State agency accrual information. For instance, the Department of Health and Human Services did not accurately report the Medicaid Drug Rebate receivable or the Third Party Liability, causing adjustments totaling $14,562,847. The Department of Economic Development understated accounts receivable by $5,490,356.

- The State Street Bank All Holdings report was used to prepare the Investment Footnote. The Holdings report initially received from DAS – State Accounting did not include two investment holdings held outside State Street Bank that totaled $3,881,529,391.

Similar findings related to errors in the preparation of the CAFR have been noted since the fiscal year 2007 audit. Adequate DAS staff resources needed to prepare and review the CAFR and supporting documentation was lacking, and these deficiencies appear to be the primary causes of the significant issues addressed in this comment, as well as similar ones preceding it for the past several years.

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

A good internal control plan requires an adequate review of draft financial reports and information used to prepare the CAFR, including the information provided by other State agencies.

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 DAS dedicate or hire a sufficient number of staff to ensure internally prepared information is complete, accurate, and submitted timely to the auditors. We recommend DAS refrain from accumulating significant unadjusted amounts to help ensure the timely completion of the CAFR. We also recommend DAS continue to work with State agency personnel to ensure accrual information is supported and has a sound accounting base. Lastly, we recommend DAS – State Accounting continue to conduct periodic meetings with the APA to discuss items to be provided and issues identified during the course of the audit.

Department Response: State Accounting will continue development of procedures, training and safeguards to prevent errors in the future and to prepare, review and submit work papers and the CAFR on an accurate and timely basis.

Finding 2016-002

EnterpriseOne Business Continuity Planning – Inadequate Set up and Testing of Redundant Environment

DAS has hardware in place, IBM Power Systems Capacity BackUp (CBU), in case there should be a failure of EnterpriseOne (E1), the State's accounting system; however, that hardware has not been completely set up or thoroughly tested. DAS noted the CBU is set up for data replication but not as a failover system. A failover system would ensure the E1 application could be switched over to redundant or standby equipment (and business could be continued as usual) in the event of disruption or failure of the E1 production environment. DAS indicated that, even in a best case scenario, it would take days to get the E1 application up and running using the CBU. Additionally, DAS stated the E1 application could only run off the CBU for a short time (approximately 30 days) and that other hardware would need to be set up to take over for the CBU. Accordingly, the DAS E1 business continuity planning lacks procedures that would enable a timely resumption of business processing in the event of E1 disruption or failure.

COBIT 5, a business framework for the governance and management of enterprise information technology, DSS04.02 Maintain a continuity strategy, states, in part, the following:

Evaluate business continuity management options and choose a cost-effective and viable continuity strategy that will ensure enterprise recovery and continuity in the face of a disaster or other major incident or disruption . . . 2. Conduct a business impact analysis to evaluate the impact over time of a disruption to critical business functions and the effect that a disruption would have on them. 3. Establish the minimum time required to recover a business process and supporting IT based on an acceptable length of business interruption and maximum tolerable outage . . . 5. Analyze continuity requirements to identify the possible strategic business and technical options . . . 8. Identify resource requirements and costs for each strategic technical option and make strategic recommendations. 9. Obtain executive business approval for selected strategic options.

COBIT 5, DSS04.03 Develop and implement a business continuity response, states, in part, the following:

Develop a business continuity plan (BCP) based on the strategy that documents the procedures and information in readiness for use in an incident to enable the enterprise to continue its critical activities . . . 4. Define the conditions and recovery procedures that would enable resumption of business processing, including updating and reconciliation of information databases to preserve information integrity . . . .

COBIT 5, DSS04.04 Exercise, test and review the BCP, states, in part, the following:

Test the continuity arrangements on a regular basis to exercise the recovery plans against predetermined outcomes and to allow innovative solutions to be developed and help to verify over time that the plan will work as anticipated.

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Technology Disaster Recovery Plan Standard 8-201 (August 2006), Section 1, Standard, states, in part, the following:

Each agency must have an Information Technology Disaster Recovery Plan that supports the resumption and continuity of computer systems and services in the event of a disaster. The plan will cover processes, procedures, and provide contingencies to restore operations of critical systems and services as prioritized by each agency. The Disaster Recovery Plan for Information Technology may be a subset of a comprehensive Agency Business Resumption Plan which should include catastrophic situations and long-term disruptions to agency operations.

Good internal control requires procedures/hardware to be completely set up and thoroughly tested to ensure the timely resumption of business processing in the event of application disruption or failure.

When hardware intended to take over in the event of critical application failure has not been completely set up and thoroughly tested, there is increased risk of prolonged discontinuation of government processes in the event of application disruption or failure.

> We recommend DAS implement effective business continuity controls, including adequate set up and testing of existing hardware or purchased hardware/services, to ensure continuity of operations for its E1 application in the event of application disruption or failure.

Department Response: DAS will establish business continuity controls to ensure continuity of operations for its JDE E1 application in the event of application disruption or failure.

DEPARTMENT OF EDUCATION

Finding 2016-003

Average Daily Membership Verification

During our review of State Aid, we noted all five audit firms tested did not appear to perform adequate compliance testing of school districts' Average Daily Membership (ADM) to provide sufficient assurance that amounts reported to the Department were correct. The testing of ADM compliance by district auditors was also inconsistent.

ADM is an integral figure used within the State Aid formula to determine the amount of aid provided to school districts.

The Department distributed $973,036,624 of State Aid in the State fiscal year ended June 30, 2016.

The Department's administrative rules and regulations, Title 92 Nebraska Administrative Code (NAC) Chapter 1-003.03, state the following, in relevant part:

> *The audit shall include tests for compliance with the calculation of Average Daily Membership reported on the Annual Statistical Summary Report . . . .*

A good internal control plan requires procedures to ensure adequate reviews of ADM are performed.

Not ensuring the accuracy of ADM submitted by school districts increases the risk of the State Aid distribution being incorrect.

> We recommend the Department ensure that school district auditors perform adequate compliance testing of ADM. At a minimum, such testing should include the tracing of ADM to supporting documentation, the recalculation of ADM, verification of ADM reported to the Department, and the documentation of all testing procedures performed.

Department Response: As noted in the finding, Rule 1 does require independent school district auditors to test average daily membership (ADM). Per discussion with independent auditors who are performing school district audits, they are testing ADM but there have been no findings related to Membership/Attendance and thus no documentation of their testing is noted in the audit reports per auditing standards.

School districts submit attendance and membership information to the state and then average daily membership is calculated by the Department based on the submitted data. For schools to inflate their membership they would have to create fake students with unique IDs. These students would then need to have attendance records kept; test scores entered and would be on a list that teachers and others staff would review. The Department also performs analytical tests on membership information to confirm that the membership and attendance information submitted is reasonable.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2016-004

Material Adjustments

The Department of Administrative Services, State Accounting Division (DAS), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report accurate amounts for financial reporting.

The Agency indicated in its response to the Summary Schedule of Prior Audit Findings that its corrective action plan was complete regarding errors in accrual information. However, throughout testing, we noted the following items were not accurately reported to DAS:

- The Agency understated short-term payables by $2,051,744 related to the Indirect Medical Education (IME) and Direct Medical Education (DME) payments owed at June 30, 2016, but not yet paid to providers. When compiling the accrual response form, prior year figures were used instead of developing reasonable estimates based on historical and available data. The Auditor of Public Account's (APA's) proposed adjustment was made by DAS to correct the error. An additional amount of $871,858 of IME and DME long-term payables was determined to be understated for similar issues; no adjustment was proposed or made for this amount.

- The State Ward payable was overstated by $1,404,773. The amount was coded within the State accounting system as a payable at June 30, 2016, and the Agency included the amount on the accrual response form, resulting in it being counted twice. The APA's proposed adjustment was made by DAS to correct the error.

- The Medicaid, State Disability, and Children's Health Insurance Program (CHIP) payable was overstated by $2,600,000, as an adjustment was counted twice. The APA's proposed adjustment was made by DAS to correct the error.

- The Third Party Liability (TPL) receivable is for balances due from legal obligations of third parties (i.e., individuals, insurers, program, etc.). The Agency calculated the receivable by averaging total amounts recovered over the past eight years, representing the amount expected to be recovered during an entire fiscal year. The Agency estimated that only recoveries made within the first 45 days of the following fiscal year would have been submitted for collection prior to fiscal year end and considered receivable at June 30, 2016. Using this criteria as a guide, the APA calculated an overstatement of the TPL receivable to be $6,949,955. The APA's proposed adjustment was made by DAS to correct the error.

- The Medicaid Drug Rebate (MDR) program accounts receivable was overstated by $7,612,893, due to rebate checks on hand at the Agency that had not been recorded in the State's accounting system or the MDR system. The APA's proposed adjustment was made by DAS to correct the error. An additional amount of $264,418 was determined to be overstated due to mathematical errors and figures not updated from the previous year when calculating the receivable balance; no adjustment was proposed or made for this amount.

- The patient and county billings receivable was overstated by $233,240, as account balances approved for write-off by the State Claims Board were not removed. An additional amount of $19,334 was determined to be overstated, as 5 of 25 patient balances tested were not pursued by the Agency for collection or written-off in a timely manner. No adjustments were proposed or made for these immaterial amounts. Four of those five balances were inaccurately reported as receivables.

- A $3,031,549 journal entry was made in fiscal year 2016 to correct a duplicate entry made in fiscal year 2015. The entry was not properly recorded as a prior period adjustment, resulting in an overstatement of current year Federal fund expenditures and an understatement of General fund expenditures. DAS passed on the APA's proposed adjustment.

- On a quarterly basis, costs associated with printing and producing occupational licenses are allocated to various programs. The entry used to allocate expenditures incorrectly used transfer in/out account codes, which resulted in revenues and expenditures being overstated by $789,562. The APA's proposed adjustment was made by DAS to correct the error.

- Cash was overstated by $1,298,169, as a disbursement from the State Ward Child Support account on June 3, 2016, was not included in fiscal year 2016 bank activity. The APA's proposed adjustment was made by DAS to correct the error.

A similar finding was noted during the previous audit.

Title 2 CFR part 200.511(a) (January 2016), requires the auditee to prepare a summary schedule of prior audit findings. Per subsection (b)(2) of that same regulation, "When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken."

A good internal control plan requires agencies to have procedures for the reporting of accurate and complete financial information to DAS.

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

> We recommend the Agency implement procedures to ensure information is complete and accurate. The Agency should also have adequate procedures in place for a secondary review to verify the information is supported, reasonable, and accurate.

Agency Response: The Agency agrees with the condition reported.

Finding 2016-005

Medicare Part D

The Lincoln Regional Center (LRC) claims for Medicare Part D (Medicare Prescription Drug Coverage) have not been billed to the responsible parties since November 2013. According to the Agency, there were balances totaling $2,261,151, as of June 30, 2016, which are anticipated to be unrecoverable due to the passing of the maximum allowable time to recover lost revenues.

According to the Agency, various issues with the vendor's system and contract procurement process had prevented the Agency from pursuing reimbursement for Medicare Part D since November 2013.

A similar finding was noted during the previous audit.

Sound accounting practices and good internal controls require policies and procedures to pursue and resolve issues related to receivable balances.

When receivables are not billed for an extended amount of time, there is an increased risk for the loss of State funds due to the inability of DHHS to bill for reimbursement based on time restrictions.

> We recommend the Agency work to resolve their billing issues, so Medicare Part D claims can be submitted and reimbursed to the State.

Agency Response: The Agency agrees with the condition reported.

Finding 2016-006

Overpayment Mailbox

On November 30, 2011, the Agency set up the Overpayment Mailbox (Mailbox) for eligibility overpayments. Previously, Social Service Workers (SSWs) would set up overpayments and underpayments in the Nebraska Family Online Client User System (NFOCUS) as they discovered them. Eligibility overpayments were referred via email to the Mailbox to be worked by an Overpayment (OP) Unit team.

In the prior audit, we noted 12,525 referrals were unworked. The situation has not changed significantly – the figure as of June 30, 2016, was 11,580 unworked referrals. However, the Agency also had 5,687 unworked referrals labeled as "Non Pursuable," of which 5,413 were Supplemental Nutrition Assistance Program (SNAP) errors made by the Agency. This brings the total of unworked referrals to 17,267.

The Agency indicated the referrals were not pursuable because they were over 12 months old, which is in accordance with the Agency's regulations at 469 NAC 3-007.03B2 and 475 NAC 4-007.01A. Per 475 NAC 4-007.01A, "Overpayments must be established against households who were issued benefits they were not entitled to receive due to an AE [Administrative Error] for no more than 12 months before the month of initial discovery." However, this State regulation conflicts with 7 CFR § 273.18(c)(1), which requires the agency to "calculate a claim back to at least twelve months prior to when you became aware of the overpayment." (Emphasis added.)

Even if the Federal regulations did not exist, common sense and good internal control would suggest the original intent of the State regulations was not to allow the Agency to sit on overpayment referrals until they are over 12 months old, and then discard them.

We also noted that using the Outlook email account increases the risk that referrals will be inappropriately deleted.

SNAP regulation 7 CFR § 273.18(d)(1) (January 1, 2016) requires the State to "establish a claim before the last day of the quarter following the quarter in which the overpayment or trafficking incident was discovered." The Agency follows this timeframe for all programs. A good internal control plan requires procedures to be in place to ensure overpayments are established in NFOCUS in a timely manner.

Without adequate controls and resources to work suspected overpayments, timeframes set by Federal regulations may not be met. Overpayments not worked timely have a lesser chance of collection. Overpayments not worked at all will have no chance of collection. There is less incentive for the Agency to pursue collection on SNAP AE overpayments, as the Federal government requires all of those collections to be returned in their entirety to the Federal government. However, those overpayments increase the taxpayer burden at the Federal level, and the Agency should actively pursue those receivables. Considering the number of referrals not worked, there are potentially millions of dollars in overpayments that the Agency has not attempted to recover.

> We recommend the Agency implement procedures and devote adequate resources to investigating and establishing NFOCUS receivables. If the Agency continues to use the Mailbox for eligibility overpayments, care should be taken to ensure all emails are properly tracked, monitored, and maintained. We recommend the Agency define the date of discovery as the date the regular SSW first becomes aware of a potential overpayment. The Agency should comply with Federal regulations. We also recommend the Agency implement procedures to reduce the number of SNAP AE overpayments.

Agency Response: The Agency agrees with the condition reported.

<u>Finding 2016-007</u>

<u>Overpayments</u>

During testing of nine accounts receivable from NFOCUS, we noted various errors, as described below.

Receivables Not Set Up Timely
Four of six accounts receivable tested were set up after the calendar quarter, following the date of discovery. The receivables were set up 156, 152, 125, and 69 days late.

Per 7 CFR § 273.18(d)(1) (January 1, 2016), a State must "establish a claim before the last day of the quarter following the quarter in which the overpayment of trafficking incident was discovered."

Collection Policy Not Followed
The Agency's own Collection Policy was not followed for three of nine receivable accounts tested. One receivable balance was suspended because the Agency was unable to locate the provider. When a receivable is suspended, no collections efforts are performed. The provider's address was later updated when the provider applied for, and received assistance for, other NFOCUS programs; however, the account remained suspended. For the second account tested, the procedure for accounts 90 days overdue was not followed, as a director letter was not sent to the provider. For the third account, the first billing statement was sent two months late, and the director and legal letters were not sent.

Good internal control requires the Agency's Collection Policy and payment agreements to be followed. The Agency's Collection Policy states, in part, the following:

> *(2) DHHS will send regular billing statements for all accounts receivable, except when prohibited by law.*
>
> *(3) [F]or accounts which are 90 days overdue, unless suitable arrangements have been made for payment:*
>
> *a. DHHS will send the Debtor a letter, signed by the appropriate Director, requesting payment.*
>
> *b. If no response is received within 30 days of the initial letter, DHHS will send the Debtor a second letter, signed by a DHHS Legal and Regulatory Services (LRS) attorney, again requesting payment . . . .*
>
> *c. If no response is received within 30 days of the second letter, DHHS will take….action, based on the dollar value of the account.*
>
> *(6) Except in situations where collection efforts are required by law, DHHS will suspend collection efforts, with the exception of monthly billing statements, during any period that the Debtor is receiving state or federal needs-based assistance, whether or not the statute of limitations may expire prior to the termination of the needs-based assistance.*

Missed Recoupments

For two accounts receivable tested, the providers were receiving payments in NFOCUS. As such, a portion of the provider payments should have been recouped and applied towards the receivable balances. For one account, potential recoupments totaling $235 were missed during the fiscal year. For the other account, five months of recoupments, totaling $50, were missed.

Per Title 475 NAC 4-007.02A, related to SNAP, "Collection on Accounts Receivable will be done through recoupment from the household's benefit or by other collection actions."

Per Title 392 NAC 5-005, related to Child Care, "If the provider does not appeal or contact the Department to work out a repayment agreement, the overpayment will be recouped from future billings for the same or different children, or from another service."

Receivable Mishandled

A beginning receivable balance of $258 was overstated by $109. In an attempt to correct the balance, the Agency created a second receivable balance for the correct amount of $149; however, the incorrect balance of $258 was not removed.

A similar finding was noted during the previous audit.

A good internal control plan and sound business practices require procedures to ensure receivable balances are accurate.

Inadequate controls and procedures result in fewer collections of Federal and State funds that could be used to reduce the taxpayer burden.

> We recommend the Agency implement controls and procedures to ensure policies are followed. The Agency should review its collection policy and consider automating more collection processes in NFOCUS.

Agency Response: The Agency agrees with the condition reported.

Finding 2016-008

External MMIS User Access

The Medicaid Management Information System (MMIS) supports the operations 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.

In our review of access to MMIS, we noted that 402 of 919 external users tested at 9 external entities were no longer current and active employees of the external entity or no longer needed access to MMIS. For one other external entity, we were not able to verify that the 47 users were current and active employees of the external entity and required access to MMIS.

The APA requested contact information for 10 of 836 external entities for MMIS to determine if users were still active employees and needed access to perform their job duties. The entities selected and the results of this inquiry were as follows:

MMIS External Entities			
Entity	**Exceptions**	**Total Users**	**% Not Needing Access**
Aegis Sciences Corporation	8	20	40.0%
AmeriHealth Nebraska Inc.	219	364	60.2%
Boys Town	0	121	0.0%
Fallbrook Family Health Center	13	21	61.9%
Kohls Pharmacy and Homecare	43	82	52.4%
Magellan	18	52	34.6%
NE Methodist Health System	55	148	37.2%
One World Community Health Center	37	93	39.8%
Thayer County Health Services	9	18	50.0%
Total	**402**	**919**	**43.7%**

The APA also selected Children's Hospital Colorado but was unable to verify that the users were still active employees who needed MMIS access to perform their job duties.

A similar finding was noted during the previous audit.

The Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101 (December 2013), Section 4.7.2, User Account Management, states the following, in relevant part:

> *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 external entities did not inform the Agency timely when employees were terminated. The Agency performs a review of external users' access only once a year.

Failure to terminate former user access to networks and applications creates the opportunity for unauthorized access to Federally protected State data.

> We recommend the Agency improve procedures by performing more routine reviews of external users' access in order to ensure unauthorized access is removed in a timely manner. We also recommend the Agency periodically inform external entities of the importance of notifying the Agency to remove employee access upon termination.

Agency Response: The Agency agrees with the condition reported.

Finding 2016-009

Checks Not Deposited Timely

Neb. Rev. Stat. Section 84-710 (Reissue 2014) requires any money belonging to the State to be deposited to the State Treasury within three business days of receipt when the amount is $500 or more and within seven days of receipt when the amount is less than $500.

Furthermore, good internal control requires procedures to ensure that checks are restrictively endorsed immediately upon receipt, and all monies received are deposited to the State Treasury timely.

45 CFR § 75.302(a) (October 1, 2015), "Financial management and standards for financial management systems," states the following:

> *Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non- Federal [sic] entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.*

During our testing of quarterly reports submitted for the Medicaid program, we found that $1,540 in receipts were noted as having been deposited on June 24, 2016; however, as of August 18, 2016, those funds had yet to be recorded in the State's accounting system. In response to our inquiry as to the reason for the almost two-month delay in depositing those monies, DHHS staff explained, "We do not have any MDR accountants at this time. The other staff (with no MDR training) are doing their best to process the checks."

On September 1, 2016, we met with DHHS staff to determine the extent of the problem with delayed check deposits. During that meeting, we discovered numerous undeposited checks in a small safe beneath an employee's desk. According to DHHS staff, the deposit backlog was the result of a personnel shortage caused by one accountant's retirement in April of this year and another accountant having been on medical leave since June.

Our subsequent cash count of the safe's contents revealed the following:

- One hundred and ninety-two (192) checks, totaling $13,146,281, had not been deposited to the State Treasury as of September 1, 2016. Per DHHS, $17,740,623 was undeposited at August 22, 2016. Following the APA's prior inquiry about undeposited checks, however, DHHS deposited approximately $4.5 million between August 22 and August 31.

  The following table lists all of the undeposited checks worth more than $400,000 that were found during the APA's cash count:

Check Date	Amount	Endorsed
6/24/2016	$ 2,357,922	No
6/16/2016	$ 1,728,809	No
6/16/2016	$ 1,312,756	Yes
6/17/2016	$ 981,638	Yes
6/21/2016	$ 979,563	Yes
6/23/2016	$ 648,568	No
6/17/2016	$ 514,119	No
7/1/2016	$ 452,158	Yes
6/30/2016	$ 445,510	Yes

- Fifty-seven (57) checks, totaling approximately $6.8 million, were not restrictively endorsed. These checks had been received as early as June 14, 2016.

- One (1) envelope postmarked August 2, 2016, remained unopened. When DHHS opened the envelope upon our request, the contents were found to include a check for $229,225.

- The receipt date stamped on the accompanying support did not always coincide with when DHHS appears to have actually received the check. In some cases, the envelope attached to the check contained a postmark. We noted seven such envelopes that were date stamped by DHHS more than two weeks after their respective postmark dates. Additionally, several checks were not supported with a date-received stamp.

- The checks were kept in a safe under a DHHS employee's desk. That employee, along with her supervisor, had access to the safe's combination. Per discussion with the employee, she locked the safe at night. The safe was unlocked during the day, but she claimed to have kept the door closed. If the employee left her desk, she would try to remember to lock the safe; however, she admitted that it was not always locked during her absence.

- The majority of the checks were between 61-90 days old based upon the check date. The table below displays how old the checks were on the day of the cash count:

Number of Days Old Note 1	Number of Checks	Total Amount of Checks
9 to 30 days	30	$ 600,162
31 days to 60 days	49	584,931
61 days to 90 days	112	11,959,663
Greater than 90 days	1	1,525
Total	**192**	**$ 13,146,281**

Note 1: The "Number of Days Old" column was calculated based upon the check date compared to the day the cash count was performed. The APA did not use the date stamp to calculate the number of days due to issues noted previously.

Without adequate procedures to safeguard and deposit receipts to the State Treasury in a timely manner, there is an increased risk for not only the loss or theft of funds but also the violation of relevant State law and accompanying Federal regulation. Additionally, delayed deposits may result in the loss of interest earnings and inaccurate Federal Medicaid reports.

> We recommend DHHS take immediate steps to ensure all monies received are promptly deposited to the State Treasury in accordance with statute.

DHHS Response: The Agency agrees with the CAFR and Statewide Single audit finding of checks not deposited timely per Neb. Rev. Stat. Section 84-710 (Reissued 2014). In our current environment, it is difficult for Medicaid & Long Term Care (MLTC) to meet the 3-day requirement due to the current manual process involved of reconciling checks against invoices. If the checks do not reconcile, it takes a period of time to research and identify corrections. Invoices are submitted quarterly, thereby causing a large influx of checks being received in a relatively short period of time. However, MLTC is in the process of a review of the MDR program that includes process documentation, identification of internal controls, and recommendations for immediate process improvements that will address timely deposits to the State Treasury upon receipt of checks. Neb. Rev. Stat. Section 84-710 allows for the State Treasurer to grant exceptions to depositing checks within 3 business days upon written request. The Agency may seek such exception after a thorough analysis and review of the current MDR program has concluded. Obtaining an exemption would be for situations where MLTC would want to avoid the potential for a payer to claim the Agency accepted payment as full settlement of a claim.

APA Response: As noted above, there was approximately $12 million in undeposited checks held over 60 days. Due to the significance of the dollars and risks involved, the Agency needs to take immediate action to remedy the situation.

DEPARTMENT OF LABOR

Finding 2016-010

Errors in Financial Information

The Auditor of Public Accounts (APA) noted several instances of financial information being 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 Department entered Unemployment Compensation (UC) activity into the State's accounting system from the Tax Management System (TMS) and the Benefit Payment System (BPS). TMS was used to record employer contributions, and BPS was used to record benefit payments to recipients. During testing of the financial activity entered into the accounting system, the APA noted the following issues:

- The Department reimburses other States for unemployment benefits paid on the Department's behalf. At June 30, 2016, the Department did not record a payable for the amount due to other States. As a result, unemployment claims, accounts payable, and accrued liabilities were initially understated by $1,400,632, until the APA-proposed adjustment was made by the Department of Administrative Services (DAS) to correct the error.

- Accounts payable were overstated by $2,013,342 due to an improper entry in the accounting system for a transfer of State Unemployment Insurance Tax (SUIT) funds at the end of the year. The APA's proposed adjustment to accounts payable was made by DAS to correct the error.

- The Department recorded $130,363 as a payable due to another fund as of June 30, 2016; however, a receivable was not booked in the corresponding fund to which the monies were due. DAS passed on the APA's proposed adjustment.

- There was a balance of $254,655 at June 30, 2016, in TMS accounts that NDOL used to account for amounts that were unlikely to be collected. There was no allowance for doubtful accounts or bad debt expense recorded for these accounts. DAS passed on the APA's proposed adjustment.

- The Department did not evaluate contributions receivable at June 30, 2016, totaling $573,530, to calculate an allowance for doubtful accounts and bad debt expense.

- The billed interest receivable balance at January 31, 2016, totaling $145,737, was booked; however, the Department did not consider the daily entries, totaling ($6,279), which had already been recorded from July 1, 2015, through January 31, 2016. Additionally, the beginning July 1, 2015, account balance of $152,016 related to prior periods and should have been an adjustment to beginning fund balance rather than reflected as fiscal year 2016 activity. DAS passed on the APA's proposed adjustment.

- The accounts receivable account titled *Billed Interest Doubtful* had a January 31, 2016, balance of $676,446. When recording this amount, the Department did not consider the daily entries, totaling $17,778, which had already been recorded in the accounting system from July 1, 2015, through January 31, 2016. The ending balance at June 30, 2015, of $49,519 was also not considered, causing a total overstatement of $67,297 to accounts receivable and revenue. There was $609,149 related to prior periods that should have been recorded as an adjustment to the beginning fund balance rather than reflected as fiscal year 2016 activity. Additionally, a corresponding entry should have been made to allowance for doubtful accounts and bad debt expense, since amounts recorded as accounts receivable in the *Billed Interest Doubtful* account are considered highly unlikely to be collected. DAS passed on the APA's proposed adjustment.

A similar finding was noted during the previous audit.

A good internal control plan and sound business practices require adequate policies and procedures to ensure information used to compile financial statements is complete and accurate.

When adequate procedures are not in place to ensure the completeness and 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 Department implement procedures to ensure that all financial information is complete and accurate.

Department Response: Other State Wage Claims – Significant strides were made to correct the errors in revenue from previous years and while the receivable for claims from other states was booked, the payable due to other states was not. This was an oversight and the Department of Administrative Services (DAS) corrected the entry when we realized it was not made.

Transfer of SUIT entry and Payable due to Other Fund – The department has a unique accounting structure requiring the use of two different 'companies' in Enterprise One. When entries are done at year-end there are issues in which ones should or shouldn't be booked in order to properly affect the CAFR funds. We are working with DAS to figure out the proper entries and who should make them.

Allowance for Doubtful Accounts and Bad Debt – While the department does not write off accounts, we understand the reasoning that the auditors want an entry made for those that would be doubtful if we were to write any off.

Prior Year adjustment – In an effort to correct the balance in the Billed Interest Account between short term and long term we did not know there was a way to make an adjustment to a prior year that had been closed so we booked the entire amount in the current year. We now know that DAS can make adjustments to the equity section should the need arise again.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2016-011

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

Grant Number & Year: Various, including #051605NE5ADM, FFY 2016

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

Criteria: Neb. Rev. Stat. § 81-1117(2)(g) (Reissue 2014) states, in part, as it relates to information management services administrator's powers, duties, and responsibilities and the information management revolving fund, the following:

> *He or she shall provide for a system of charges for services rendered by the information management services division to any other department or agency of the state when these charges are allocable to a particular project carried on by such department or division. Such standard rate charges shall, as nearly as may be practical, reflect the actual costs incurred in the performance of services for such department or agency . . . . The charges received by the department for information management services shall be credited to a fund hereby created which shall be known as the Information Management Revolving Fund.*

Neb. Rev. Stat. § 81-8,239.09 (Reissue 2014) states, in part, the following:

> *There is hereby created the Risk Management Administration Cash Fund. The fund shall be administered by the Risk Manager. The fund shall consist of miscellaneous fees for services provided by the Risk Manager and shall be used to pay for expenses of the risk management and state claims program.*

2 CFR § 200, Appendix V, subsection (G)(2), (January 1, 2016) states the following:

> *Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant agency for indirect costs in exceptional cases.*

2 CFR § 200, Appendix V, subsection (G)(4), (January 1, 2016) states, in part, the following:

> *A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with applicable Federal cognizant agency for indirect costs regulations to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs.*

2 CFR § 200.403 (January 1, 2016) states, in part, the following:

> *Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: . . . (g) Be adequately documented.*

A good internal control plan requires the following:

- Procedures to ensure rate charges are equitable, reflect actual costs incurred, and are periodically reviewed to ensure charges are appropriate for the services provided.

- Adequate documentation is maintained to support rates/assessments charged and documentation for the approval of those rates.

Condition: We reviewed Section I of the Statewide Cost Allocation Plan (SWCAP), submitted March 2016, which includes allocated central service costs for the year ended June 30, 2017, based on activity for the year ended June 30, 2015. We also reviewed Section II of the SWCAP, regarding services billed to other State agencies for rates and charges for the year ended June 30, 2016. We noted instances of the Department of Administrative Services' (Agency) rates and fund balances not being in compliance with State and Federal regulations. We noted the following:

- *OCIO Rates and Excessive Fund Balance* – The Office of the Chief Information Officer (OCIO) fund balance was excessive as of June 30, 2015. The Agency did not have adequate documentation to support rates charged for the OCIO operations were reasonable, equitable, and reflected actual costs incurred.

- *Risk Management Rates* – The Agency's allocation of insurance costs to State agencies was based on a draft actuarial report. Also, the auto physical damage rate used did not agree to support.

- *Print Shop Rates* – Print Shop had not reviewed and updated its rates since the fiscal year ended June 30, 2010. We also noted various errors and lack of support for rates for the monthly billing for two agencies tested.

- *Copy Service Rates* – The Agency had a lack of documentation to support that certain copy service rates were equitably charged.

- *Building Rates* – In our review of the building rental rates, we noted the following:

  - The Agency did not have adequate documentation to support the building replacement values, which are used as a base in developing the building insurance rates.

  - The Agency did not have adequate support for the allocation of Lincoln grounds and Lincoln security costs in developing the building rental rates.

  - The rental rate for one of three buildings tested did not appear reasonable.

- *Other Internal Service Rates and Excessive Fund Balances* – Internal service funds identified in the State of Nebraska Comprehensive Annual Report (CAFR) as "Other Internal Service" funds, which includes the activity of the Secretary of State-Records Management and the Temporary Employee Pool – Personnel Division of the Agency, had excessive fund balances as of June 30, 2015. Despite having an excess fund balance since at least June 30, 2013, the Agency did not adjust the 2016 billing rates or issue credits.

Similar findings were noted in the prior audit.

Repeat Finding: 2015-013

Questioned Costs: Unknown

Statistical Sample: No

Context:

OCIO Rates and Excessive Fund Balance

The Agency did not have adequate documentation to support that rates charged for the OCIO operations were reasonable, equitable, and reflected actual costs incurred. Federal Fund 40000 expenditures to the OCIO totaled $18,322,597 during the fiscal year ended June 30, 2016, of which $10,262,249 was paid with Federal Medicaid dollars.

We further noted the fiscal year ended June 30, 2015, fund balance exceeded the 60 days of working capital allowed by the Federal government by $5,883,000.

Instead of lowering its rates to reflect accurately the cost of providing services, the Agency provided billing credits, rate reductions, and no-bills. Our review of this process noted the following:

The OCIO provided spreadsheets calculating the benefits to agencies for credits/no-bills/rate reductions and emails documenting discussions of approvals, but also noted that there was not currently a way to separate specific charges apart from others in some situations. The OCIO has not established a method to document that credits and rate reductions are done in an equitable manner.

Based on our review of the general ledger, it does not appear those reductions were equitable. We reviewed the revenues and expenditures for the services with credits and reductions and also the service with the largest variance that did not receive credits or no-bills. Revenues that exceed expenditures indicate excessive rate charges. Revenues less than (under) expenditures indicate that costs were not recovered; therefore, other services were over-charged to pick up the costs. Depending on the services used by an agency, Federal programs may have paid more or less than an equitable rate. The business units below include various services provided by the OCIO but can generally be described as billings for services for voice communications, customer information control system, multiple virtual storage, and distributed computing support.

Business Unit/Service	FY 2016 Revenues	FY 2016 Expenses	Revenues (Under) Expenses
65060012/Voice Communication	$ 7,073,185	$ 8,411,948	$ (1,338,763)
65070028/CICS	$ 5,991,391	$ 7,439,658	$ (1,448,267)
65070032/MVS	$ 12,379,164	$ 17,634,570	$ (5,255,406)
65070040/Computing Support	$ (65,000)	$ 32,032	$ (97,032)

All business units noted above were undercharged for the fiscal year; however, there was no documentation provided to support that balances for these services were in excess when the credits/no-bills/rate reductions were provided. Therefore, business units for other services were likely overcharged.

As evidenced by the table above, OICO rates were clearly not in accordance with statute, which requires charges to reflect actual costs.

We also reviewed nine rates charged through the OCIO's billing system for the fiscal year ended June 30, 2016. None of the rates tested had adequate documentation to support that the rates billed to agencies were reasonable and equitable. We noted the following:

- Eight of the tested rates were tested in the previous audit, which noted inadequate supporting documentation for the rate charged. Six of these rates were unchanged from the previous fiscal year, and there was no documentation on file that they were reviewed and determined to be appropriate. One of the rates was increased without supporting documentation. For another rate, the provided spreadsheet noted that the calculated cost was $76.28 per hour; however, the rate charged was $67.25, and there was no documentation to support charging the lower rate.

- We selected one rate not tested in the prior audit, the Standard Exchange Services rate of $13.90 per account. The Agency used fiscal year 2013 costs to determine the rate to bill agencies for this service for the fiscal year ended June 30, 2016. We noted the spreadsheet used to determine the rate did not agree to supporting documentation, including the following: costs of salaries tested did not agree to actual employees' pay; units for data protection backup were not consistent with actual units; and costs did not agree to vendor payments. Our overall review of the spreadsheet revealed that the Standard Exchange Services rate calculated by the OCIO was $14.79, which is $0.89 higher than the final charged rate of $13.90.

  We also noted the OCIO charged a $20 surcharge for contract programmers who were located at the OCIO; however, the Agency was unable to provide documentation that the rate was reviewed and determined appropriate.

In our prior audit, we noted the Agency charged a 7% administrative fee for communication services, such as monthly recurring line charges, long distance rates, and network WAN services; however, the Agency did not have adequate documentation to support that 7% was reasonable and in accordance with statute. In our inquiry as to whether a review of the 7% rate had been performed, Agency staff responded that they had not conducted such a review.

Risk Management Rates

In our review of the risk management rates, we noted the following issues:

- The Agency contracted with Aon, a risk consulting/actuarial firm, to provide an annual cost allocation report for fiscal year 2016 and 2017. This report provided data on allocating insurance costs to State agencies. We requested the report and received a copy marked as draft. We then requested a copy of the final report. The Agency determined from Aon that a final report was never issued, and the Agency was unaware that a final report had never been issued. Thus, the allocation of insurance costs to State agencies for the fiscal year ended June 30, 2016, were based on a draft report.

- We noted one rate, the auto physical damage rate, was set at $1.86, which did not agree to support. The Aon suggested rate and the rate calculated by the Agency were both $1.96. The Agency noted that the State Insurance Fund balance was excessive in January 2014, and the review of the risk management rates was completed in February 2014. We also noted that all other State insurance rates agreed to support. Thus, it is unclear why keeping the auto physical damage rate at $1.86 would be equitable to all agencies. Additionally, no documentation (signatures, email, etc.) was provided supporting the approval of the finalized rates by the Risk Management Director.

Print Shop Rates

Our review of Print Shop rates noted the following:

- A 35% surcharge was established for special purchases, paper costs, plate material, special order supplies, and colored ink. However, the Agency did not have support for this surcharge. This was first noted during our audit of the Materiel Division for the period July 1, 2009, through December 31, 2011.

- Our review of printing services billed to the Department of Motor Vehicles (DMV) for one month noted the DMV was undercharged a total of $61,851. This undercharge consisted of the following:

    1. An undercharge of $35,594 was due to a special discount provided on numbering. The Agency indicated the discount was given so its rates would be more competitive. However, rates should be based on actual costs; if not, some agencies will be undercharged and other agencies overcharged.

    2. An undercharge of $26,010 was due to not including perforating charges. There was no support for why this cost was not charged.

    3. We noted several items, including chipboard, security tape, red ink, and boxes, were not charged the correct price for a total undercharge of $247.

- The Agency uses the G2 system to track information for various cost centers. For large jobs, there are often multiple lines of charges on the G2 report. Because of the rates and the way the billing is processed, each job needs to be combined into a single line manually. The lines are combined that relate to the same job by looking at the job name and the time. The auditor reviewed the raw data file for one monthly billing and performed this same procedure, combining same job names into a single line. Using this process, we noted the Agency undercharged a net total of $18.

Copy Service Rates

The Agency's copy service center provides two basic services to State agencies. First, it provides copying services when State agencies requisition the copy service center to make copies. Secondly, it provides copiers on a lease basis and charges a flat overhead rate for the copier, a charge to pay for the lease of the copier, and a per-copy rate for the numbers of copies the State agency makes. The flat overhead rate is intended to cover the cost associated with the lease preparation and set up the cost of the copier. The per-copy rate is set to cover the maintenance of the copier. In our review of these rates, we noted the following:

- The Agency did not have support for the copy service center rates charged to State agencies.

- The Agency did not have documentation to support the flat overhead rate of $18.70 per month charged on each copier. Our review of this rate noted the Agency excluded various object accounts. However, the Agency noted that the accounts excluded and accounts included in the calculation were not exclusively related to the flat overhead rate, as costs and revenues of other services would also be included in the various accounts. The Agency also noted that it does not separate the activity in the fund between the various services. The Agency calculated the flat overhead rate at $33.83 for the fiscal year ended June 30, 2016, but continued to charge the $18.70 rate.

Building Rates

- The building replacement values are used by the Agency to compute the rates billed to State agencies to cover the cost of insuring State buildings. In our prior audit, we noted the Agency did not have adequate documentation to support the replacement cost. It was determined, based on discussion with Agency staff, that no corrective action has been taken since our prior audit. The replacement value of the State's buildings is calculated each year by the Agency by starting with the prior year replacement value and increasing its replacement value by an industry standard factor. However, the prior year replacement values and previous year replacement values are not supported by any documentation that an actual valuation or assessment of the building replacement values was performed.

To determine the assessment charged to State agencies, the Agency obtains an actuarial rate, which for the fiscal year ended June 30, 2016, was $.07 per $100 of replacement value, and calculates the insurance premium. For the fiscal year ended June 30, 2016, the Agency calculated billable insurance premiums to State agencies of approximately $1.2 million on building replacement values of approximately $1.7 billion.

- The rental rate charged to agencies for building space includes an allocation for indirect costs for administration, grounds keeping, security, and energy management. We noted the Agency did not have adequate support for the allocation for Lincoln grounds and Lincoln security indirect costs in developing the building rental rates. The grounds keeping allocation was split 46% turf maintenance, 31% snow removal, and 23% parking maintenance and clean up; the Agency did not have support for the split. The fiscal year 2016 indirect allocations for grounds keeping and security were $350,288 and $595,346, respectively.

- We selected 3 of 30 buildings for which the Agency develops rental rates to test the reasonableness of those rates. We noted the building rental rate charged for the Hastings Regional Center (HRC) did not appear reasonable. In our review of the Agency's accounting for the revenues and expenses for the HRC, we noted that, for the last four years, the rent revenues exceeded the Agency expenses by the following:

Fiscal Year	Rent Revenues	Expenses	Excess Revenue
2013	$ 1,064,102	$ 820,733	$ 243,369
2014	$ 1,037,642	$ 818,032	$ 219,610
2015	$ 1,037,509	$ 781,972	$ 255,537
2016	$ 1,075,071	$ 753,155	$ 321,916

Based on discussion with Agency staff, there were questions as to whether the HRC will continue to operate; therefore, the rental rates were not changed.

Other Internal Service Rates and Excessive Fund Balances

We noted that the internal service funds for the "Other Internal Service" had balances in excess of 60 days as of June 30, 2015. These funds were also in excess of Federal requirements at June 30, 2014 and 2013.

The Secretary of State bills other agencies for the management of their records. The Personnel Division of the Agency bills other agencies for providing temporary employees to their agency. The activity for both of these functions is included in "Other Internal Service" fund. For the fiscal year ended June 30, 2015, the fund balance exceeded the 60 days of working capital allowed by the Federal government by $2,235,000 for this fund. We also noted the cash fund balance at June 30, 2016, for the Personnel Division exceeded 60 days. Despite having an excess fund balance since at least June 30, 2013, the Agency did not adjust the 2016 billing rates or issue credits.

In addition, the Agency's worksheet included two cash funds that do not bill for services and, thus, should not be included as part of the calculation. The cash balances of these two funds for the fiscal year ended June 30, 2015, totaled $1,258,587. Also, the Agency did not perform a separate calculation for the Secretary of State – Records Management's internal service fund and the Personnel Division's internal service fund.

Given the fact that the Agency did not perform a separate calculation for the two separate internal service fund activities and also the fact that there was activity that should not be included in the worksheet calculation, the Agency did not have documentation of what services may have been overbilled or under-billed for these funds.

Cause: The Agency had a lack of supporting documentation regarding the rates charged for services and lack of a documented review of those rates. The Agency did not have adequate procedures to ensure rates were equitable and fund balances were not excessive.

Effect: Excess internal service fund balances indicate the fees charged to other State agencies are too high. These fees may subsequently be charged to various Federal programs. The Federal government could request excessive balances to be returned to the Federal government. Without adequate controls and procedures to ensure rates are equitable and based on actual costs, there is an increased risk that Federal programs will be overcharged for services.

Recommendation: We recommend the Agency develop procedures to ensure internal service fund balances are in accordance with Federal requirements. Additionally, we recommend the Agency review fees charged and reduce rates where appropriate. We further recommend the Agency maintain adequate documentation to support rates charged are equitable and reflect the actual costs incurred for services provided. Finally, we recommend the Agency obtain a finalized Cost Allocation Report from Aon or any other actuarial firm they contract with.

> **Management Response:** DAS regularly monitors the various fund balances and when necessary takes the appropriate action to reduce a fund balance. These actions include; rate reductions, not implementing proposed rate increases, no-bills, credits and/or rebates. Fund balances can also be reduced when expenditures exceed revenue. Increased expenditures can represent program enhancements that benefit the program's customers.
>
> Rates for FY15-16 were developed and set early in 2014. The previously mentioned repeat audit finding noted during the review of Calendar Year 2014 was received in August of 2015. The comments and recommendation were received after the rates for FY15-16, FY16-17 were already set.

<u>Finding 2016-012</u>

Program: Various, including CFDA 93.778 – Medical Assistance Program (Medicaid) – Reporting

Grant Number & Year: Various, including #051605NE5ADM, FFY 2016

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

Criteria: 2 CFR § 200 Appendix V, subsection (E)(3)(b), (January 1, 2016), notes, in part, the following:

> *For each internal service fund or similar activity with an operating budget of $5 million or more, the plan must include . . . a schedule of current rates . . . .*

Subsection (E)(3)(c) of that same regulation states, in part, the following:

> *For each self-insurance fund, the plan must include . . . a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis . . . .*

Subsection (E)(3)(d) states, in part, the following:

> *For fringe benefit costs, the plan must include: a listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information must be provided . . . a copy of the current actuarial report (including the actuarial assumptions) . . . .*

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

Condition: The Statewide Cost Allocation Plan (SWCAP) filed in March 2016, for the fiscal year ended June 30, 2017, did not include all required documentation.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: The various State agencies provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to other State agencies on a centralized basis. These central service costs should be identified and assigned to benefitted activities on a reasonable and consistent basis. The SWCAP details that process. Annually, the Agency prepares and files for approval a SWCAP with the U.S. Department of Health and Human Services. We noted the following required documentation was not included with Agency's filing of the SWCAP:

- A schedule of current billing rates.
- A copy of the current actuarial report with the actuarial assumptions used for self insurance funds.

- A listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies; and procedures used to charge or allocate the costs of the benefits to benefitted activities.

- A copy of the current actuarial report (including the actuarial assumptions) for pension and post-retirement health insurance plans.

Cause: Inadequate review of Federal filing requirements.

Effect: When required documentation is not included, there is a greater risk the SWCAP will not be accepted. In addition, the Agency is not in compliance with Federal requirements, which could result in sanctions.

Recommendation: We recommendation the Agency develop procedures to ensure compliance with SWCAP documentation requirements.

> **Management Response:** DAS will complete a review of Federal filing requirements.

<u>Finding 2016-013</u>

Program: Various, including CFDA 93.217 – Family Planning Services – Reporting

Grant Number & Year: #FPHPA076214, grant period 7/1/2015 to 6/30/2018

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

Criteria: Title 45 CFR § 75.302(a) (October 1, 2015) requires that financial management systems 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 in accordance with 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 are properly reported and agree to accounting records.

Condition: The Agency did not accurately report Family Planning Services grant expenditures on the SF-425 Federal Financial Report (FFR). The Agency did not have adequate procedures to ensure all grant expenditures were properly reported.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: The Payment Management System (PMS) is a grants payment and cash management system that also allows users to complete and certify their financial reports. The Agency is required to submit a quarterly SF-425 federal financial report (FFR) for all cash transactions completed through PMS for specified accounts.

We noted cumulative expenditures at December 31, 2015, per the accounting system, of $1,277,821 for Family Planning Services grant #FPHPA076214 were not reported. We also noted for this grant that the cumulative expenditures, as of March 31, 2016, totaling $1,646,651, were not reported on the March FFR. We notified the Agency of this error, and it was subsequently corrected for the June 30, 2016, FFR.

We tested two quarterly FFRs and agreed cash disbursements reported to the accounting system for a total of 26 grants from nine U.S. Department of Health and Human Services programs. For the quarter ended December 31, 2015, FFR, we tested cash disbursements reported totaling $359,997,887.

Cause: The Agency runs a report from the accounting system and traces grants on the FFR to the report. It appears Agency personnel missed this grant, as the grant number on the accounting system was different than the grant number automatically populated by the grantor on the FFR. The Agency does not perform procedures to ensure all Federal grants with expenditures on the accounting system are listed on the FFR.

Effect: Although the error noted affected only one Federal program, the lack of adequate controls to prevent such an error could result in errors in other Federal programs. Inaccurate financial reporting and noncompliance with Federal regulations could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure amounts are correctly reported on the FFRs.

> **Management Response:** DAS will review procedures to ensure amounts are correctly reported on the Federal Financial Report.

<u>Finding 2016-014</u>

Program: Various, including CFDA 93.778 – Medical Assistance Program – Reporting

Grant Number & Year: Various, including #051605NE5ADM, FFY 2016

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

Criteria: A good internal control plan requires adequate procedures to ensure the Schedule of Expenditures of Federal Awards (SEFA) is properly presented. A good internal control plan also requires the auditee to reconcile the SEFA to the financial statements to ensure the schedule is complete and accurate.

Title 2 CFR §200.510(b) (January 1, 2016) states, in part, the following:

> *The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended . . . . At a minimum, the schedule must:*
>
> ** * * **
>
> *(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.*
>
> *(4) Include the total amount provided to subrecipients from each Federal program.*

Neb. Rev. Stat. § 81-1111(1) (Reissue 2014) states, in part, the following:

> *Subject to the supervision of the Director of Administrative Services, the Accounting Administrator shall have the authority to prescribe the system of accounts and accounting to be maintained by the state and its departments and agencies, develop necessary accounting policies and procedures, coordinate and approve all proposed financial systems, and manage all accounting matters of the state's central system.*

Condition: Several programs did not have expenditures or the amount provided to subrecipients accurately reported on the SEFA. We notified Administrative Services of the errors, and the SEFA was subsequently adjusted. We also noted Administrative Services did not perform a reconciliation of the SEFA to the financial statements.

Repeat Finding: #2015-048

Questioned Costs: None

Statistical Sample: No

Context: Administrative Services is responsible for managing the accounting matters of the State and certifying the data collection form for the Statewide Single Audit. Administrative Services compiles the SEFA from information by the individual agencies and submits it to the auditor. During our review, we noted the following:

- Six programs, totaling $23,696,861, were included on the SEFA that did not meet the definition of Federal assistance.

- One cluster did not include all applicable programs.

- Amounts provided to subrecipients were not accurate for several programs tested, including:

CFDA	Subrecipient $ Reported	Subrecipient $ Revised
20.509	$ -	$ 5,405,828
20.600	$ -	$ 1,110,871
20.616	$ -	$ 1,663,232
45.310	$ -	$ 332,486
66.458	$ -	$ 6,880,590
66.468	$ -	$ 8,543,829
93.563	$ -	$ 6,323,116
93.599	$ -	$ 653,578
93.658	$ 2,024,195	$ 2,949,005
93.674	$ -	$ 1,354,244
93.778	$ -	$ 9,527,152
94.006	$ 558,224	$ 1,621,110
Total	$ 2,582,419	$ 46,365,041

Cause: This was the first year the audit requirements of 2 CFR 200 were applicable to the State, and it appears some agencies were not familiar with the new requirements. Administrative Services established a specific account code for aid to subrecipients; however, not all agencies utilized this account code, and Administrative Services did not have adequate procedures to ensure the accuracy of amounts that were not directly from the accounting system.

Effect: Increased risk for the SEFA to be inaccurate, which could lead to Federal sanctions or programs not audited that should be.

Recommendation: We recommend Administrative Services implement procedures to ensure the SEFA is complete and accurate.

> **Management Response:** DAS will review procedures to ensure the SEFA is complete and accurate.

DEPARTMENT OF AGRICULTURE

Finding 2016-015

Program: CFDA 93.103 - Food and Drug Administration Research; CFDA 93.448 - Food Safety and Security Monitoring Project – Allowable Costs/Cost Principles

Grant Number & Year: #4U18FD004431-04, ending 7/31/2016; #5U18FD003652-06, ending 8/31/2015; #1U18FD005520-01, ending 8/31/16

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

Criteria: Per 45 CFR § 75.403 (October 1, 2015), to be allowable costs must be adequately documented. Per 45 CFR § 75.405, "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

Per 45 CFR § 75.430(i)(1), personal services expenses must:

> *(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated . . . . (vii) support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award . . . . (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.*

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

Condition: The Agency did not maintain adequate documentation to support Federal charges for employees. A similar finding was noted in the prior audit.

Repeat Finding: #2015-014

Questioned Costs: $33,764 known

CFDA	Grant #	Questioned Costs
93.103	4U18FD004431-04	$ 14,000
93.448	5U18FD003652-06	$ 3,805
93.448	1U18FD005520-01	$ 15,959

Statistical Sample: No

Context: We selected three Federal programs and reviewed all payroll charges during the fiscal year. We noted some employees coded all of their time to general administrative work codes that did not reflect the split between Federal and State programs, and other employees coded fewer hours than what was charged to the grants. The Agency did not reconcile hours worked per the timesheets to the amounts charged to the grants. We noted questioned costs of $33,764. The total payroll charged to CFDA 93.103 and 93.448 for the fiscal year was $289,187 and $237,771, respectively. Questioned costs noted were for salaries only; related employee benefits, including health insurance and retirement, were not included in these totals but would also be unallowable.

Cause: The Agency periodically determines what it considers to be a reasonable allocation for charges to Federal funds based on personnel activity reports from the prior period and Agency knowledge. These estimates were not adjusted to actual, allowable costs. The Agency set up new codes in its timekeeping system to reflect Federal work performed but indicated it had been difficult to train employees to use the new codes.

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

Recommendation: We recommend the Agency implement procedures to ensure employee costs are adequately documented in accordance with Federal requirements.

Management Response: NDA’s Employee Reporting System is utilized to document employee activity and we acknowledge that continued instruction and more consistent oversight of ERS reports is needed to accurately report employees efforts and to support the allocation of employee personnel costs.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2016-016

Program: Various, including CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: Various, including #051605NE5ADM, FFY 2016

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

Criteria: Per OMB Circular A-87, Attachment B, and 45 CFR § 75.403 (October 1, 2015), costs must be necessary, reasonable and adequately documented. Per 45 CFR § 75.423, "Costs of alcoholic beverages are unallowable."

Per the Agency's contract for writing a new Cost Allocation Plan (CAP), payment would be made for "expenses in accordance with the Nebraska State Accounting Travel Expense Policies . . . ." Per the Nebraska State Accounting Manual:

> *Air travel shall only be authorized when it is more economical than surface transportation.*
>
> *Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. To be reimbursed, the expense must be a necessary expense, incurred in the line of duty, reason/purpose of the expense must be clearly stated, all start/stop dates and times must be recorded, and the amount of the expense must be substantiated.*
>
> *No reimbursement may be made for alcoholic beverages.*
>
> *Agencies are responsible to see that all submitted claims for food/meals are adequately substantiated. Unsubstantiated food/meals should not be reimbursed. Receipts are required unless the cost of the food/meal is under $5.00*
>
> *Detailed receipts are required as support for all expenditures except immaterial items . . . detailed receipt is defined as a receipt that shows a listing of each item purchased and the related cost. Detailed receipt does <u>not</u> include the receipt copy that only identifies an amount is being charged to the employee's credit card.*

Condition: The Agency paid excessive travel costs to a Cost Allocation Plan (CAP) contractor, including payments for alcohol. A similar finding was noted in the prior audit.

Repeat Finding: #2015-019

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency utilized a contractor to write a new cost allocation plan and correspond with the Federal government regarding the new plan. The contractor was paid $240,809 during the fiscal year over five payments. We tested two of these payments. The first payment tested, of which $10,553 was for travel, had $3,913 questionable costs for the following reasons:

- $13 for alcoholic beverages.
- $1,084 for meals based on credit card slips that did not show the detail of the purchase. The contractor admitted $78 of the total was for alcoholic beverages.
- $143 for meals over $5 with no substantiation or only substantiation of a "restaurant room charge."
- $20 for parking with no receipt.
- The Agency did not determine flying was more economical than driving, resulting in questionable charges of $2,653. The Agency tried to justify the expenses to the auditors after the fact; however, the calculation was flawed because it included productive time lost from driving but not from flying.

All contractor costs were initially charged to State funds. However, after flowing through the CAP, the costs would ultimately be charged to various Federal and State programs. The Federal share of questioned costs by program is not known.

Cause: The Agency did not adequately review the contractor expense reimbursement requests. A similar finding was noted in the prior audit; it appears monitoring improved from the first payment tested, which occurred and was paid before the prior Single audit testing was performed, to the second payment, which occurred after we brought these issues to the Agency's attention.

Effect: When expenses are not reviewed, this increases the risk they will be unallowable.

Recommendation: We recommend the Agency implement procedures to ensure all expenses are adequately reviewed for allowability.

Management Response: The Agency agrees with the condition reported.

Finding 2016-017

Program: Various, including CFDA 93.558, Temporary Assistance for Needy Families – Allowability

Grant Number & Year: Various, including #1601NETANF, FFY 2016

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

Criteria: Per 45 CFR § 75.303 (October 1, 2015):

> *The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*

Per 45 CFR § 75.405(a) (October 1, 2015):

> *A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.*

Per the Cost Allocation Plan:

> *To validate the sample results, 10% of the samples completed will be validated by the worker's supervisor in person, by telephone or by e-mail. When the sample is selected every 10th observation will be selected for the validation process. This process will result in just-in-time training opportunity for random moment time studies. Each supervisor should be trained in the completion of the observation form, validation process and the importance of accurate and timely validation responses.*

According to 45 CFR § 75.511(a) (October 1, 2015), "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings."

Per 45 CFR § 75.511(b), "The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs."

45 CFR § 75.511(b)(1) adds, "When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken."

Finally, 45 CFR § 75.511(b)(2) provides, "When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken."

A good internal control plan requires procedures to be in place to ensure the results of the Random Moment Time Study (RMTS) were correctly accumulated and applied. A good internal control plan also requires procedures to ensure observations selected by workers are correct.

Condition: We noted an error in 1 of 40 individual RMTS observations tested. We also noted 2 of 40 observations were not validated by a supervisor or reviewed by the RMTS Administrator. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-020

Questioned Costs: Unknown

Statistical Sample: No

Context: The RMTS is conducted on an ongoing basis to provide data for the allocation of direct and indirect costs to various programs. The objective is to identify employee efforts directly related to the programs administered by the Agency. The Agency utilizes two separate time studies that are applied to related cost centers for Economic and Medical Assistance, and Children and Family Services, using a common observation form. The method is based upon the laws of probability and statistical sampling techniques.

During our testing of 40 individual observations, we noted one worker selected SNAP and TANF; however, per review of case file information, she was only working on SNAP. We noted similar issues in the prior audit. The Agency indicated the prior finding was fully corrected; however, we noted this issue in the current year.

According to the CAP, "10% of the samples completed will be validated by the worker's supervisor." We selected 40 observations that were supposed to be validated. However, for two of those, this process did not occur.

Cause: Inadequate review of observations program selections. The Agency did not ensure all of the samples selected for validation were reviewed by the supervisors, as the Agency considered the validations to be a training opportunity and not a requirement.

Effect: Random moment sampling is based on the laws of probability, which, in essence, state that there is a high probability that a relatively small number of random observations will yield an accurate depiction of the overall characteristics of the population for which the sample was taken. If RMTS observations are not adequately selected for the correct program or reviewed to ensure they are correct, there is an increased risk costs will be allocated incorrectly between programs.

Recommendation: We recommend the Agency implement procedures to ensure random moment observations are accurate and adequately reviewed.

Management Response: The Agency agrees with the condition reported.

Finding 2016-018

Program: Various, including CFDA 10.561, State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP); CFDA 93.778, Medical Assistance Program – Allowability

Grant Number & Year: Various, including #16163NE406S2514, FFY 2016; #051605NE5ADM, FFY 2016

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

Criteria: Per 45 CFR § 75.303 (October 1, 2015):

> *The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*

Per 45 CFR § 75.405(a) (October 1, 2015), "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

Per the Cost Allocation Plan (CAP), the cost center 25C20975 IST Application SVCS Administrative Services Office:

> *The IST Application SVCS Administrative Services Office provides security, planning and budget coordination, and software licensing management to the agency . . . Costs associated with the IST Application SVCS Administrative Services Office will be allocated to all other [agency] cost centers based on the labor hours, LH[3], for each cost center which includes only [agency] FTEs [full-time equivalencies] not assigned to a 24 hour facility.*

Per the CAP, the cost center 25C20280 HRD Human Resources Unit:

> *The HRD Human Resources Unit provides the human resources services to offices and centers located throughout the DHHS . . . Costs Associated with the HRD Human Resources Unit will be allocated to the benefiting cost centers based on the labor hours, LH, in each cost center.*

Per the CAP, the cost center 25C21960 SA – Social Services Case Work:

> *The multiple program cost center will be allocated to the benefiting programs based on the Random Moment Time Study Methodology outlined in Appendix C-1 using the Random Moment Time Study form found in Appendix C-2 and instructions found in Appendix C-3.*

Per the CAP, the cost center 25C21920 SA – Protection and Safety Case Work:

> *The multiple program cost center will be allocated to the benefiting programs based on a Random Moment Time Study Methodology outlined in Appendix C-1 using the Random Moment Time Study form found in Appendix C-2 and instructions found in Appendix C-3.*

According to 45 CFR § 75.511 (October 1, 2015), "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings."

Per 45 CFR § 75.511(b), "The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs."

45 CFR § 75.511(b)(1) adds, "When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken."

Finally, 45 CFR § 75.511(b)(2) provides, "When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken."

A good internal control plan requires procedures to be in place to ensure programs are charged costs in accordance with relative benefits received and the CAP. A good internal control plan also requires procedures to be in place to ensure the results of the Random Moment Time Study (RMTS) are correctly accumulated and applied.

Condition: The Agency did not properly allocate costs in accordance with relative benefits received for two of four CAP allocation methodologies tested: labor hours and the RMTS. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-021

Questioned Costs: $79,082 known

Statistical Sample: No

Context: The following errors were noted:

<u>Labor Hours</u>

We tested the IST Application SVCS Administrative Services Office cost center allocation for the quarter ended June 30, 2016, which totaled $236,235. The cost center was supposed to be allocated to all other agency cost centers, except 24-hour facilities (such as intermediate care facilities for persons with developmental disabilities or youth treatment centers), based on labor hours and would ultimately be charged to various State and Federal programs. We noted the following:

- The contractor allocated the cost center based on the LH^1 definition instead of the LH^3 definition. The LH^1 includes hours for 24-hour facilities while LH^3 does not. Because of this error, 24-hour facilities were overcharged $51,623 while all other State and Federal programs were undercharged. It appears the error was isolated to this cost center but occurred for this cost center for all four quarters of the fiscal year. Costs charged to 24- hour facilities are used in calculating per diem rates that are paid with Medicaid funds.

- A total of 1,728,657 hours were used in the allocation for this cost center. An additional 40,193 hours were not used due to contractor error. This would cause some programs to be overcharged and other programs to be undercharged.

Because of the errors noted in the cost center tested, we expanded our testing to another cost center. We tested the HRD Human Resources Unit cost center allocation for the quarter ended June 30, 2016, which totaled $1,163,147. We noted a total of 2,664,241 hours were used in the allocation for this cost center. An additional 38,753 hours were not used due to contractor error.

We could not determine the dollar error associated with these issues because the Agency no longer completes the "Step down," a restatement of the CAP in Excel that provides a method to calculate the effects of changes in the CAP.

RMTS

Both RMTS allocations we tested, totaling $18,736,882, were allocated incorrectly. The primary reason was the Agency's exclusion of Guardianship Assistance Not IV-E from the allocation; this caused State funds to be undercharged, and Federal programs to be overcharged. The Agency also made small typographical errors when copying the allocation statistics from the RMTS system reports over to the Excel spreadsheet given to the contractor to perform the allocation. The Federal errors associated with the issues were the following:

CFDA	FAIN	Program	Questioned Costs or (Undercharge)
10.561	16163NE406S2514	State Administrative Matching Grants for the SNAP	$ 20,286
93.568	G16B1NELIEA	Low Income Home Energy Assistance	14,359
93.667	G1601NESOSR	Social Services Block Grant	11,649
93.658	1601NEFOST	Foster Care Title IV-E	10,986
93.558	1601NETANF	Temporary Assistance for Needy Families	9,100
93.575, 93.596	G1601NECCDF	CCDF Cluster	8,768
		Other miscellaneous Federal programs	3,934
		State Funds	(79,082)

The questioned costs noted are for the cost centers tested; similar errors would likely occur in other cost centers and quarters.

Cause: The contractor made the labor hours errors that were not detected by the Agency; the Agency made the RMTS errors.

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.

<u>Finding 2016-019</u>

Program: Various, including CFDA 93.283 Centers for Disease Control & Prevention – Investigations and Technical Assistance; CFDA 93.778 Medical Assistance Program – Allowability

Grant Number & Year: Various, including #5NU58DP003928, FFY 2016; #051605NE5ADM, FFY 2016

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

Criteria: Per 45 CFR § 75.303 (October 1, 2015):

> *The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*

According to the relevant labor contract, Section 12.6:

> *The contract poses the question that if an employee was on Sick Leave and came in later (6 pm-8 pm) to work overtime. Should they get Overtime or adjust the Sick Leave? – The answer was to adjust the Sick Leave to six hours and pay two hours of straight work time.*

A good internal control plan requires procedures to be in place to ensure employees are not overpaid.

Condition: One of 25 employees tested was overpaid three hours, resulting in an overpayment of $73. The Agency did not have adequate controls to ensure employees were properly paid.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: We tested 25 employees paid from various State and Federal programs. One employee tested was overpaid three hours. The employee was not allowed more than 80 hours per pay period. The employee recorded 77 hours of regular time and 6 hours of sick leave for a total of 83 hours. The sick leave should have been adjusted down to only 3 hours so that only 80 total hours would be paid. The employee, her supervisor, and payroll staff should have caught this error but failed to do so.

Errors noted for the sample tested were $73. The total sample tested was $44,204. Total Agency payroll for the fiscal year, excluding insurance, was $267,603,249, which included all fund types. Federal funds accounted for 35.41% of the total. Based on the sample tested, the case error rate was 4% (1/25). The dollar error rate for the sample was

0.17% ($73/$44,204), which estimates the potential Federal dollars at risk for fiscal year 2016 to be $161,089 (dollar error rate multiplied by the population multiplied by the proportion of Federal funds).

For each payroll location for each pay period, the Agency's procedure was to review 5% of the employee timesheets to actual pay in order to identify and correct errors. However, when we tested 25 of these reviews, we noted 16 of the reviews were not completed until after our request, months after the payroll dates. It appears reviews were sporadic earlier in the year and did not occur at all later in the year.

We noted the Agency also prepares a payroll spreadsheet for each biweekly payroll to ensure amounts charged are correct. However, we noted three of four biweekly payroll spreadsheets tested were partially incorrect due to clerical errors.

Cause: Employee turnover and inadequate review. The Agency had designed controls to ensure employees were properly paid; however, these controls were not consistently implemented during the fiscal year.

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

Recommendation: We recommend the Agency implement procedures to ensure employees are not overpaid. We further recommend the Agency recover the overpayment.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-020</u>

Program: CFDA 93.767 Children's Health Insurance Program (CHIP) – Cash Management

Grant Number & Year: #051405NE5021, FFY 2014

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

Criteria: Per 31 CFR § 205.33(a) (July 1, 2015), "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes."

Condition: The Agency did not adequately monitor cash management compliance for grants during the fiscal year. We noted actual administrative expenditures exceeded CAP distributions for the CHIP program. A similar finding was noted in the prior audit.

Repeat Finding: #2015-022

Questioned Costs: Unknown

Statistical Sample: No

Context: When paid, administrative costs are charged to various Federal and State programs based on estimates of what the programs will actually earn. 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 the CAP distributions by a significant amount for the CHIP program, cash management issues occurred because funds were drawn from that grant before allowable costs were incurred for that grant.

In the prior two audits, we noted the CHIP FFY 2014 grant was overdrawn. The Agency has tried to correct the imbalance but was still overdrawn by $100,969 as of June 30, 2016:

Amount Overdrawn as of	CHIP FFY 2014 grant
June 30, 2014	$ 955,372
June 30, 2015	$ 498,183
June 30, 2016	$ 100,969

Cause: The Agency did not complete a reconciliation of the CHIP FFY 2014 grant by June 30, 2016.

Effect: If cash management compliance is not adequately monitored, there is an increased risk for noncompliance with Federal regulations. Funds will need to be returned to the Federal government.

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 agrees with the condition reported.

<u>Finding 2016-021</u>

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 & Subrecipient Monitoring

Grant Number & Year: All open, including #16AANET3SS, FFY 2016; #16AANET3CM, FFY 2016; and #16AANET3HD, FFY 2016

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

Criteria: 45 CFR 75.303 (October 1, 2015), establishes that an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires 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.

OMB Circular A-87 and 45 CFR 75.403 (October 1, 2015) require costs charged to Federal programs to be reasonable, necessary, and adequately documented.

OMB Circular A-133 §___.400(d) and 45 CFR 75.352(d) (October 1, 2015) require a pass through entity to monitor the activities of a subrecipient to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward.

45 CFR § 92.20(a) (October 1, 2014) and 45 CFR § 96.30(a) (October 1, 2015) require fiscal control and accounting procedures sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the grant.

Condition: For four 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.

Repeat Finding: #2015-025

Questioned Costs: $179,695 known

CFDA	Grant #	Questioned Costs
93.044	15AANET3SS	$ 57,876
93.044	16AANET3SS	$ 34,799
93.045	14AANET3HD	$ 16,303
93.045	15AANET3HD	$ 5,800
93.045	16AANET3HD	$ 15,178
93.045	15AANET3CM	$ 11,800
93.045	16AANET3CM	$ 37,939

Statistical Sample: No

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 required at the time of payment.

The Agency performed onsite reviews and desk reviews of expenditures incurred by subrecipients during the fiscal year; however, the Agency did not have adequate supporting documentation to substantiate that the expenditures were in accordance with State and Federal requirements. The Agency also reviews Single 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 25 payments to the eight AAAs; 21 of the payments were for Title III funds. For payments to four of eight subrecipients, supporting documentation was not adequate, monitoring documentation was not adequate, and the fiscal year 2016 Single Audits were either not yet due or the Single Audits received did not include the Aging Cluster as a major program. Monitoring files for two subrecipients indicated adequate supporting documentation was not available; however, the Agency did not identify questioned costs. Furthermore, the monitoring performed did not include detailed testing of payroll expenditures, which was a majority of the AAAs expenditures claimed for the months tested, or testing of program income or matching expenditures reported by the AAAs. Therefore, the support was not adequate to ensure expenditures were in accordance with Federal regulations. As a result, we questioned the $179,695 of payments tested.

The Agency disbursed $6,943,225 in aid to the eight AAAs during fiscal year 2016. Of this amount, $3,533,366 was Title III funds for the four subrecipients without adequate monitoring, which represents the estimated potential dollars at risk for fiscal year 2016.

Cause: The Agency improved monitoring by adding desk reviews and maintaining spreadsheets of expenses tested; however, the monitoring activities were not adequately documented to support the expenses were in accordance with Federal requirements. For example, payroll records were not verified to time records, allocations were not supported, and there was no documentation that expenses were verified to client records.

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 retained.

Management Response: The Agency agrees with the condition reported.

The Agency agrees that monitoring procedures should include detailed testing of payroll expenditures. Detailed testing of payroll expenditures was implemented in August 2016 in response to the prior year's finding.

The Agency would note that all AAA's currently have site visits and desk reviews performed annually. Documentation in the form of general ledgers and invoices were obtained and reviewed during the course of these site visits and reviews and reviewed for allowability.

Finding 2016-022

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

Grant Number & Year: #3U90TP000533-03, FFY 2015; #5U90TP000533-04, FFY 2016

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

Criteria: OMB Circular A-133 §__.400(d)(3) and 45 CFR § 75.352(d) (October 1, 2015) require a pass-through entity to monitor the activities of the subrecipient to ensure that Federal awards are used in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

45 CFR § 92.20 (October 1, 2014) and 45 CFR § 75.302(a) (October 1, 2015) require the State to have accounting procedures sufficient to allow for "the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award." Good internal control requires adequate procedures to ensure financial activity is properly recorded in the accounting system.

45 CFR § 92.21(b) (October 1, 2014) and 45 CFR § 75.305(b) (October 1, 2015) require procedures for payment to minimize the time elapsing between the transfer of funds and the disbursement of those funds.

45 CFR § 75.403 (October 1, 2015) requires costs to be reasonable, necessary, and adequately documented. A good internal control plan requires procedures to ensure subrecipients comply with applicable cost principles.

45 CFR § 75.430(a) (October 1, 2015) states, as is relevant, the following:

> *Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 75.431 Compensation-fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of the part, and that the total compensation for individual employees:*
>
> * * * *
>
> *(3) Is determined and supported as provided in paragraph (i) of this section, when applicable.*

45 CFR § 75.430(i)(1) (October 1, 2015) states, as is relevant, the following:

> *Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:*
>
> ** * * **
>
> *(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . . ;*
>
> ** * * **
>
> *(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award . . . .*

45 CFR § 75.430(i)(3) (October 1, 2015) states, in relevant part, the following:

> *[C]harges for salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.*

45 CFR § 75.431 (October 1, 2015) states, in relevant part, the following:

> *(c)The cost of fringe benefits in the form of employer contributions or expenses for social security; employees life, health, unemployment, and worker's compensation insurance (except as indicated in § 75.447 Insurance and indemnification) pension plan costs (see paragraph (i) of this section); and other similar benefits are granted under established written policies. Such benefits must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities . . . .*
>
> *(d) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of entity-wide salaries and wages of the employees receiving the benefits.*

2 CFR § 200.511 (January 1, 2016) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

Condition: Subrecipient monitoring procedures were not adequate. The Agency did not have adequate procedures to ensure payments to subrecipients were for allowable expenditures or complied with cash management requirements. A similar finding was noted in the prior audit. The summary schedule of prior findings indicates the corrective action is complete; however, the finding was not fully corrected.

Repeat Finding: #2015-027

Questioned Costs: $348,636 known

CFDA #	FAIN #	Amount
93.069	UP0TP000533	$ 200,191
93.889	UP0TP000533	$ 148,445

Statistical Sample: No

Context: The Agency made payments to 34 subrecipients during the fiscal year. The Agency received requests for payment from the subrecipients; however, there was insufficient supporting documentation, such as vender invoices, cancelled checks, bank statements, timesheets, or other detailed documentation obtained, to support the payments were for actual, allowable costs of the grant. Additionally, the Agency did not conduct onsite financial monitoring of subrecipients under the National Bioterrorism Hospital Preparedness Program during the fiscal year. Further, the Agency did not conduct on-site financial monitoring until March 2016 of subrecipients under the Public Health Emergency Preparedness.

We tested 25 payments to subrecipients, totaling $356,679. We noted the Agency did not have adequate support to ensure expenditures were for actual and allowable costs for $348,636 of the $356,679 tested. We noted the following:

- Five payments were to subrecipients who had on-site reviews conducted by the Agency during the fiscal year. The payments were primarily for the reimbursement of personal services but did not have sufficient documentation to support compliance with 45 CFR § 75.430. The Agency had obtained no documentation from two subrecipients to support the compensation and obtained only summarized transaction listings for another subrecipient. Two payments only had limited support for a small portion of the reimbursement.

- Twenty payments tested had no on-site visits, and 17 of the 20 did not have supporting documentation, such as vender invoices, cancelled checks, bank statements, or timesheets, to support the payments were for actual, allowable costs of the grant. Partial documentation was on file for three payments; however, the majority of the three payments were for personal services. The Agency did not obtain timesheets, or other detailed documentation, to support the payments were in accordance with 45 CFR § 75.430. Some invoices were on file to support expenses other than personal services; however, due to inadequate documentation for personal services, the documentation was not sufficient to support adequate monitoring was conducted.

  Additionally, two of the three payments included reimbursement for fringe benefits. The fringe benefits were calculated based on 10% of the total compensation costs. There was no documentation on file to support the fringe benefits claimed were charged in accordance with 45 CFR § 75.431.

- The disbursement of Federal funds to subrecipients appears to have been on a reimbursement basis; however, adequate supporting documentation for expenses was not provided. Therefore, the auditor was unable to determine whether the time elapsing between payment to the subrecipient and the subrecipient’s disbursement of funds was minimized. Additionally, due to the lack of supporting documentation, the auditor was unable to determine whether the payment included costs for improper payments, including not accounting for discounts, refunds, rebates, trade-ins, etc., and payments for goods or services not received or incorrect amounts.

- One aid payment tested for $2,521 was charged to CFDA 93.069. However, the subaward agreement lists the awarded amount as the Nebraska Syndromic Surveillance Grant under CFDA 93.283. It appears the subaward was originally charged to CFDA 93.283 but was subsequently moved to CFDA 93.069. It is unclear why the amount was moved to CFDA 93.069; however, this subaward does not appear to belong under the Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements Cluster.

- One aid payment for $22,112 was charged to CFDA 93.069. However, the subaward indicated the funds were for CFDA 93.889. This was a healthcare coalition subaward and, per review of email discussions between Agency staff, all healthcare coalition subawards belong under CFDA 93.889. In January 2016, the Agency attempted to move the payment from CFDA 93.069 to CFDA 93.889. However, per review of the correcting journal entry in the State accounting system, the Agency incorrectly debited CFDA 93.069 and credited CFDA 93.889, causing CFDA 93.069 to be overstated by $44,224 and CFDA 93.889 to be understated by $44,224.

Subrecipient payments for the fiscal year ended June 30, 2016, totaled $5,279,906. Federal payment errors noted were $348,636. The total sample tested was $356,679. The error rate for the sample was 97.75% ($348,636/$356,679). This estimates the potential dollars at risk for the fiscal year to be $5,161,108 (dollar error rate multiplied by the population).

Cause: Subaward agreements issued during the fiscal year were revised to include wording that the Agency will reimburse the subrecipients for actual, allowable, and reasonable costs, instead of deliverables, and that the Agency would conduct periodic on-site monitoring visits. However, it was not until March 2016 that the Agency began conducting on-site visits of the Public Health Emergency Preparedness Program, and no on-site visits or desk reviews were conducted for the National Bioterrorism Hospital Preparedness Program. Additionally, the on-site visits and supporting documentation received for reimbursements to the subrecipients during the fiscal year was insufficient to ensure requests were for actual and allowable costs.

Effect: Without adequate supporting documentation, there is an increased risk for the misuse of Federal funds and noncompliance with Federal regulations. Without adequate policies and procedures to ensure financial activity is properly recorded, there is an increased risk for incorrect financial reporting.

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

Management Response: The Agency agrees with the condition reported.

Finding 2016-023

Program: CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Allowability

Grant Number & Year: #5U90TP000533-04, FFY 2016

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

Criteria: Per 45 CFR § 75.403 (October 1, 2015), to be allowable, costs must be adequately documented. Per 45 CFR § 75.405(a), "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received." Per 45 CFR § 75.430(i):

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed . . . . (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

A good internal control plan requires procedures be in place to ensure payroll costs are charged in accordance with 45 CFR § 75.

Condition: Personnel costs for the HPP and PHEP Aligned Cooperative Agreements Cluster (Cluster) were not made in accordance with Federal regulations.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: Per the Federal award, "[A]lthough aligned, HPP and PHEP remain distinct and separate programs and are funded through two different appropriations." We tested two employees with personnel costs charged to HPP and PHEP. The costs for both were charged to HPP and PHEP grants based on predetermined percentages. The Agency indicated the percentages were based on a time study performed several years ago but have not been updated since then. This is not an allowable method to allocate payroll costs. The Agency indicated all nine Cluster employees are paid in this manner. Total payroll for the Cluster for the fiscal year was $444,563 and was charged $96,049 to HPP and $348,514 to PHEP.

Cause: The Agency indicated the Federal grantor requires it to pay employees based on their original approved budget; however, the Agency could not provide written documentation supporting Federal approval to deviate from 45 CFR § 75.

Effect: Noncompliance with Federal regulations. Grants could be overcharged or undercharged if charges are based on estimates and not actual time worked.

Recommendation: We recommend the Agency implement procedures to ensure payroll costs are charged in accordance with 45 CFR § 75**.**

Management Response: The Agency agrees with the condition reported.

Finding 2016-024

Program: CFDA 93.217 – Family Planning Services – Allowability & Program Income & Subrecipient Monitoring

Grant Number & Year: #FPHPA070097, grant period 6/30/10 to 6/29/15, and #FPHPA076214, grant period 7/1/15 to 6/30/18

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

Criteria: 45 CFR § 75.303 (October 1, 2015) establishes that an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires 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.

OMB Circular A-133 §__.400(d) and 45 CFR § 75.352(d) (October 1, 2015), require a pass through entity to monitor the activities of a subrecipient to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward.

45 CFR § 92.20(a) (October 1, 2014) and 45 CFR § 96.30(a) (October 1, 2015) require fiscal control and accounting procedures sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

OMB Circular A-87 and 45 CFR § 75.403 (October 1, 2015) require costs charged to Federal programs to be reasonable, necessary, and adequately documented.

45 CFR § 75.430(h)(8)(i)(1) (October 1, 2015) states the following, in relevant part:

> *Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:*
>
> *(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;*
>
> ** * * **
>
> *(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.*
>
> *(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that: (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and (C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.*

42 CFR § 59.5(a) (October 1, 2015) provides the following, in relevant part:

> *(a) Each project supported under this part must:*
>
> ** * * **
>
> *(5) Not provide abortion as a method of family planning.*
>
> ** * * **
>
> *(7) Provide that no charge will be made for services provided to any persons from a low-income family except to the extent that payment will be made by a third party (including a government agency) which is authorized to or is under legal obligation to pay this charge.*
>
> *(8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a schedule of discounts based on ability to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines issued pursuant to 42 U.S.C. 9902(2) will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services.*

45 CFR § 75.305(b)(5) (October 1, 2015) states, in part, "To the extent available, the non-Federal entity must disburse funds available from program income . . . before requesting additional cash payments."

Condition: The Agency did not have adequate monitoring procedures to ensure payments to subrecipients were for allowable activities and costs. One subrecipient tested had abortion-related expenditures charged to the program. A similar finding was noted in the prior audit.

Repeat Finding: #2015-028

Questioned Costs: $258,408 known

Statistical Sample: No

Context: The Agency disbursed a total of $1,768,590 to 13 subrecipients during fiscal year 2016.

The Agency receives bimonthly expense reports from the subrecipients. These reports include a breakdown of the expenses by cost categories for Family Planning funds and program income. The monthly expense reports are reviewed by Agency staff; however, the Agency did not require subrecipients to submit invoices or detailed supporting documentation.

The Agency contracted with an outside party to conduct on-site fiscal reviews of expenditures incurred by subrecipients every two years. The Agency also implemented desk reviews for the subrecipients not reviewed by the outside party. We tested 12 of 13 subrecipients and noted 5 had an on-site review performed; however, the documentation on file was not adequate to determine the procedures performed, samples tested, or conclusions reached. The Agency performed one desk review; however, the documentation also was not adequate to determine the testing performed. The six remaining subrecipients tested did not have any monitoring procedures performed during the fiscal year.

We tested 12 payments to subrecipients totaling $258,408. Detailed documentation was not on file to support that the payments were allowable and, as noted, the fiscal reviews were either not performed or were inadequate. The error rate for the sample was 100%, which estimates the potential dollars at risk for the fiscal year to be $1,768,590 (dollar error rate multiplied by the population).

Furthermore, 3 of 12 subrecipient payments tested had program income that was not used prior to receiving Federal funds. Regulations require program income to be used before requesting additional Federal funds. According to the bimonthly reports, the subrecipients had $11,803, $3,513, and $3,493 in unspent program income but still received and expended the Federal grant monies paid by the Agency.

For three of the subrecipients, we performed an on-site review of one bimonthly report. We tested Family Planning Federal expenditures and program income expenditures included on the bimonthly report and noted the following:

Unallowable Abortion Related Expenses

One subrecipient, Planned Parenthood of the Heartland, performed family planning services and abortion services. Abortion services are not allowable under Family Planning.

- We tested 10 program income expenditures, including two pathology expenditures. Program income expenditures are required to adhere to Federal regulations. The two invoices included "Products of Conception," which refers to placental and/or fetal tissue that remains in the uterus after a spontaneous pregnancy loss (miscarriage), planned pregnancy termination, or preterm/term delivery. According to the subrecipient, all related charges should have been coded to abortion services and not paid with Family Planning funds. The two invoices had $80 in abortion services charged to Family Planning. We then reviewed all of the pathology invoices from this vendor for the fiscal year and determined a total of $520 was related to abortion services that were improperly charged to Family Planning.

- We also reconciled the bimonthly report submitted by the subrecipient to the accounting records and determined $250 in abortion-related payroll expenditures was improperly recorded to the Family Planning program.

<u>Expenditures not in Accordance with Federal Requirements</u>

In addition to the unallowable expenditures above, we noted the following:

- Three of three subrecipients' payroll expenditures were not in accordance with Federal regulations. We tested a total of 20 employees and noted the following:

  - One subrecipient allocated a $500 bonus between Family Planning and Women, Infants, and Children (WIC) programs, but no documentation was on file to support the allocation used. A second employee's timesheet indicated work performed that would benefit both Family Planning and WIC; however, all time was charged to the Family Planning grant.

  - The second subrecipient allocated hours worked for two employees tested to the Family Planning program and other non-grant related activities. The time allocated was based upon estimated hours, not actual time worked. A third employee's timesheet did not agree to the charges to Family Planning. The timesheet reflected no hours for Family Planning, but the grant was charged eight hours or $381.

  - One employee's timesheet tested for the third subrecipient was approved prior to all hours being worked. The individual submitted her timesheet on March 4, 2016, and the timesheet was approved on March 5, 2016 at 10:26 a.m. However, the individual worked 7.5 hours on March 5, 2016.

- One of three subrecipients did not have adequate documentation to support the allocation of expenses between Family Planning and non-Family Planning activities.

- For 1 subrecipient, 6 of the 10 program income expenditures tested were not in accordance with Federal requirements. Two expenditures noted above had abortion-related costs. Two expenditures, totaling $23,510, were not related to Family

Planning. Another expense for $381 should have been allocated among programs but was not, causing a $168 overcharge. A fourth expense for $7,459 did not have adequate support to determine whether the entire expense should have been charged to Family Planning.

Bi-Monthly Reporting

None of the three subrecipients had adequate documentation to support the amounts reported to the Agency.

- One subrecipient allocated the expenditures between Family Planning, program-generated, and other State and grant funds, but had no support for the allocation used. Therefore, actual expenditures were not being reported by funding source. Furthermore, the subrecipient's accounting records for client fees and donations did not agree to the bimonthly report. Client fees were understated by $184 and $245 when compared to the accounting system and the day sheets from the receipting system, respectively. Client donations were understated by $20 and overstated by $17, when compared to the accounting system and the receipting system, respectively. It is unknown which amounts were proper.

- The second subrecipient's bimonthly report did not agree to accounting records. Additionally, expenses were understated by $413, and revenues were understated by $1,444.

- The third subrecipient overstated payroll expenses by $23,417.

During the site reviews, the subrecipients expressed that they did not have a good understanding of how to complete the bimonthly reports. The Agency did not have written procedures for the subrecipients to refer to in order to ensure the reports were completed accurately.

Patient Fees

A grantee must charge for family planning services according to the client's ability to pay. A person from a low-income family may not be charged, except to the extent that payment will be made by a third-party who is authorized or under legal obligation to pay such charge. Individuals from other than low-income families are charged according to an established fee schedule, which is based on the cost of services. For individuals from families with incomes between 101 and 250 percent of the published Income Poverty Guidelines, such a schedule must provide discounts based on ability to pay. Fees for individuals from families with higher incomes are set to recover the reasonable cost of providing the services.

All three subrecipients were not in compliance with Federal regulations as follows:

- Two subrecipients had not updated their cost analysis since 2012, and several procedures codes were calculated higher than the fees actually being charged.

- One subrecipient charged a nominal fee of $35 for individuals below the poverty level. According to the subrecipient, the fee was considered a donation; however, the amount was in the fee schedule and policies governing the subrecipient's fees.

Furthermore, two of the subrecipients did not have adequate documentation to support families' income determinations. One subrecipient discarded the records after the income was input into their system. The second subrecipient used a 20% disregard to reduce the earned income; however, the procedure was not contained within the subrecipient's written policies.

We also noted one subrecipient incorrectly calculated income for 1 of 15 clients tested. The annual income was calculated by dividing the client's monthly income by 4 weeks and then multiplying by 52 weeks. As a result, annual income was overstated by $1,443. Instead, the subrecipient should have taken the monthly income multiplied by 12 months in a year, as there is not a standard four weeks in each month. The variance for this client did not cause an error in the poverty level; therefore, the billing was still proper. However, the income calculation methodology could result in improper client charges.

Internal Controls

One subrecipient did not have an adequate segregation of duties over receipts to ensure no one individual was able to perpetrate and to conceal errors or irregularities. The subrecipient did not have procedures to ensure cash received was deposited, as there was no initial listing of monies received, and four individuals were able to receipt monies into the clinical system, but receipts were not pre-numbered to ensure all receipts were accounted for. Furthermore, three of the individuals also prepared the daily deposit. Two of the four individuals were also able to void transactions in the system with no secondary review or documentation that a void was performed, and one of these individuals also entered the deposits into the accounting system, applied cash to the accounts receivable balances, and reconciled the system to the bank statements.

Cause: The Agency conducts fiscal reviews for each subrecipient only every two years. When fiscal monitoring is performed, there is inadequate documentation of expenditure allowability and adherence to program income requirements. Furthermore, the subrecipients do not have an understanding of how to complete the bimonthly reports accurately.

Effect: Increased risk or misuse of Federal funds and noncompliance with Federal regulations, which could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are for allowable activities in accordance with Federal regulations. We also recommend subrecipient-monitoring procedures be improved and include review of program income. Lastly we recommend the Agency implement written procedures for the accurate completion of bimonthly reports.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-025</u>

Program: CFDA 93.217 – Family Planning Services – Period of Availability

Grant Number & Year: #FPHPA070097, grant period 6/30/10 to 6/29/15

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

Criteria: 45 CFR § 74.28 (October 1, 2014) provides the following:

> *Where a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the HHS awarding agency pursuant to § 74.25(d)(1).*

Good internal controls require adequate policies and procedures to ensure awards are made to subrecipients within the funding period specified in the Federal grant award.

Condition: The Agency awarded $114,259 to 10 subrecipients during July 2015; however, the Federal grant period ended June 29, 2015.

Repeat Finding: No

Questioned Costs: $109,096 known

Statistical Sample: No

Context: For one of one subrecipient payments tested, totaling $10,128, the subaward was not made until July 21, 2015. The grant period had ended June 29, 2015. Therefore, we reviewed all subawards made by the Agency for the remaining FPHPA070097 grant funds and noted 10 subrecipient awards were granted after the period of availability. The subawards totaled $114,259, but the Agency had paid only $109,096 during the fiscal year.

Cause: According to the Agency, the award process started in June 2015; however, due to administrative issues, the awards were not signed until July 2015.

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

Recommendation: We recommend the Agency ensure awards are made within the period of availability.

Management Response: The Agency agrees with the condition reported.

Finding 2016-026

Program: CFDA 93.217 – Family Planning Services – Cash Management & Subrecipient Monitoring

Grant Number & Year: #FPHPA070097, grant period 6/30/10 to 6/29/15, and #FPHPA076214, grant period 7/1/15 to 6/30/18

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

Criteria: 31 CFR § 205.33(a) (July 1, 2015) requires a minimization of "the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes." That same regulation also requires the disbursement of funds to "to be in accord with actual, immediate cash requirements" and the "timing and amount of funds transfers [to] be as close as is administratively feasible to . . . actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs."

Prior to being supplanted by subsequent regulation, 45 CFR § 92.37(a) (October 1, 2014) required the following:

> *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.*

Current regulation, at 45 CFR § 98.60(f) (October 1, 2015), provides the following:

> *Cash advances shall be limited to the minimum amounts needed and shall be timed to be in accordance with the actual, immediate cash requirements of the State Lead Agency, its subgrantee or contractor in carrying out the purpose of the program in accordance with 31 CFR part 205.*

Similarly, 45 CFR § 75.305 (October 1, 2015) states, in relevant part, the following:

> *(a) For states, payments are governed by Treasury-State CMIA agreements and default procedures codified at 31 CFR part 205 and TFM 4A-2000 Overall Disbursing Rules for All Federal Agencies. (b) For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.*

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 on January 1, 2007), Part I, "HHS: Grants Process, Payments Section, Cash Request," Subsection I-37, states, as is relevant: "If the cash request is for an advance payment, the recipient may request funds monthly on the basis of expected disbursements during the succeeding month and the amount of Federal funds already on hand."

A good internal control plan requires controls to ensure subrecipients minimize the time advanced funds are on hand.

Condition: The Agency did not have adequate procedures to ensure advances to the subrecipients were as close as administratively feasible to the subrecipients' actual cash outlay, and were for no more than 30 days of expected disbursements. A similar finding was noted in the prior audit.

Repeat Finding: #2015-029

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency provides subrecipients bimonthly payments throughout the year. The payments are based on the amount awarded to the subrecipient divided into six equal payments. This is contrary to not only Federal regulation, which requires cash advances to be "limited to the minimum amounts needed" and "timed to be in accordance with the actual, immediate cash requirements," but also relevant Federal policy, which restricts such payments to a maximum of one month in advance. Total Federal funds of $1,768,590 were paid to subrecipients during fiscal year 2016.

Cause: The Agency pays subrecipients in six equal payments of the subaward and does not have procedures to ensure these funds were used timely.

Effect: Noncompliance with Federal regulation and policy, which could result in sanctions.

Recommendation: We recommend the Agency ensure compliance with both Federal regulation and policy. Funds advanced to subrecipients should be used in a timely manner.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-027</u>

Program: CFDA 93.217 – Family Planning Services – Reporting

Grant Number & Year: #FPHPA070097, grant period 6/30/10 to 6/29/15, and #FPHPA076214, grant period 7/1/15 to 6/30/18

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

Criteria: 45 CFR § 74.21(b) (October 1, 2014) states the following:

> *Recipients' financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements set forth in § 74.52.*

45 CFR § 75.302(b) (October 1, 2015) states, in part, the following:

> *The financial management system of each non-Federal entity must provide for the following . . .*
>
> * * * *
>
> *(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 75.341 and 74.342. . . .*
>
> *(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.*

Per Federal Financial Report (FFR) instructions, recipient share lines 10i – 10k, total recipient share required should include all matching and cost sharing provided by recipients and third-party providers to meet the level required by the Federal agency and should not include amounts in excess of the amount required by the Federal agency. Additionally, the recipient share of expenditures should be:

> *[T]he recipient share of actual cash disbursement or outlays (less any rebates, refunds, or other credits) including payments to subrecipients and contractors. This amount may include the value of allowable third party in-kind contributions and recipient share of program income used to finance the non-Federal share of the project or program.*

Per FFR instructions for lines 10l – 10o, the recipient is to report the amount of the Federal share of program income earned, excluding program income that is being allocated as part of the recipient's cost sharing amount included on line 10j (recipient share of expenditures). Additionally, the recipient is to report the amount of program income that was added to funds committed and expended to further eligible project or program activities.

Good internal controls require adequate policies and procedures to ensure Federal reporting is accurate and complete.

Condition: The Agency did not accurately report recipient share and program income on the SF-425 FFRs. A similar finding was noted in the prior audit.

Repeat Finding: #2015-030

Questioned Costs: None

Statistical Sample: No

Context: The Agency is required to submit quarterly SF-425 FFRs for all grants that have not closed. A total of four reports were submitted during the fiscal year ended June 30, 2016, for two separate grant awards. We tested two SF-425 reports and noted the following:

Report Line Item	Reported	Proper Amount	Variance
Grant #FPHPA070097 final report:			
10i. Total recipient share required	$ 1,818,031	$ 1,068,031	$ 750,000
10j. Recipient share of expenditures	$ 1,818,031	$ 1,068,031	$ 750,000
10l. Total Federal program income earned	$ 12,044,460	$ 10,872,962	$ 1,171,498
10m./10n. Program income expended	$ 12,044,460	$ 10,872,962	$ 1,171,498
Grant #FPHPA076214, December 31, 2015, quarter end report:			
10i. Total recipient share required	$ 502,700	$ 202,700	$ 300,000
10j. Recipient share of expenditures	$ 0	$ 202,700	$ 202,700
10l. Total Federal program income earned	$ 3,748,372	$ 1,133,851	$ 2,614,521
10m./10n. Program income expended	$ 3,748,372	$ 1,133,851	$ 2,614,521

Program income expended was reported on line 10m in accordance with the deduction alternative. However, program income is used in addition to the Federal program funds and should have been reported on line 10n "Program income expended in accordance with the addition alternative."

Cause: The Agency appears to have included the Maternal and Child Health Services Block Grant, included within the grant award as "Other Funds," with the recipient share required. Program income reported was based upon the subrecipient's budgeted figures, not actual amounts reported on the bimonthly reports.

Effect: Inaccurate financial reporting could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure Federal reports are accurate and in accordance with Federal requirements and instructions.

Management Response: The Agency partially agrees with the condition reported. All Federal Financial Reports (FFR) filed after the 2015 Single Audit finding was communicated to Agency staff were filed according to the Auditor's recommendations. The Agency revised and followed reporting procedures for subsequent reports after 2015 Single Audit findings were discussed. The audit report did not recognize that FFRs filed after February 2016 were filed correctly by Agency Grants Management (February 2016 is when the Agency was notified of 2015 Single Audit recommendations).

<u>Finding 2016-028</u>

Program: CFDA 93.217 – Family Planning Services – Procurement

Grant Number & Year: # FPHPA076214, grant period 7/1/15 to 6/30/18

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

Criteria: 45 CFR § 75.326 (October 1, 2015) states, in relevant part, "When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds."

Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2016) requires that State agencies follow established competitive bidding procedures when entering into contracts for services in excess of fifty thousand dollars.

Good internal controls require adequate policies and procedures to ensure contracts are awarded in accordance with State and Federal laws.

Condition: The Agency did not follow competitive bidding requirements when entering into a contract for onsite clinical reviews of Family Planning subrecipients. A similar finding was noted in the prior audit.

Repeat Finding: #2015-031

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency originally contracted with the Clinical Nurse Consultant in 2008 as a result of a 2007 Federal Site Review (Federal Review), then again for the period July 1, 2010, through June 30, 2015. The Agency recently entered into a new agreement for the period July 1, 2015, through June 30, 2018, without competitively bidding the contract.

The contract was for payment of up to 24 hours each week at $55 per hour, plus reimbursement for travel costs and up to two national conferences each year not to exceed $3,000 for each event. The total amount paid to the contractor during fiscal year 2016 was $73,312.

In 2008, the Agency determined the contractor was a sole source vendor and, therefore, competitive bidding was not necessary. In 2010, no such documentation was on file to waive the bidding requirement. During the current audit, the Agency determined the contract was exempt in accordance with Neb. Rev. Stat. § 73-507(2)(b) (Cum. Supp. 2016), which states the following types of contracts are not subject to § 73-504:

> *Contracts for services subject to federal law, regulation, or policy or state statute, under which a state agency is required to use a different selection process or to contract with an identified contractor or type of contractor[.]*

The Agency is required to submit a grant proposal detailing how the Federal award will be spent. Because the contractor in question was identified within that proposal, the Agency believes that it cannot contract with a different consultant without effectively negating the proposal. Consequently, the Agency maintains that it is required to contract with this individual in accordance with both the proposal and Federal regulations, exempting the contract from § 73-504.

Under § 73-507(2)(b), however, the Agency is exempt from the bidding process only if "required" to use an "identified contractor or type of contractor." According to the Federal Review, the Federal agency merely recommended the Agency "consider including a qualified nurse practitioner or advanced practice nurse in the staffing of the program administration and oversight." There was no actual requirement to use a qualified nurse practitioner or advanced practice nurse, much less the particular Clinical Nurse Consultant who was selected. Instead, the Agency was able to contract with any individual meeting the skill set needed. Thus, the contract was not exempt and should have been competitively bid in accordance with State law.

Cause: In 2007, the Federal Review recommended the active participation of a specially trained and experienced nurse specialist or advanced paractice nurse could benefit the program immensely by assuring updated clinical guidelines and providing monitoring and technical assistance to bring agencies into compliance, particularly in the area of clinical services. The Agency determined that this would fall under an exemption from State procurement laws.

Effect: When competitive bidding requirements are not adhered to, there is an increased risk the Agency will not receive the best services at the lowest price and will not be compliant with either Federal regulation or State statute.

Recommendation: We recommend the Agency competitively bid service contracts to ensure the fair and reasonable expenditure of public funds, to make certain that the State receives the best services for the lowest possible price, and to follow both Federal regulation and State statute.

Management Response: The Agency does not agree with the condition reported.

Finding 2016-029

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

Grant Number & Year: #NU58DP003928-04-02 budget period end 6/29/16; #NU58DP005392-02-00, FFY16

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

Criteria: 45 CFR § 75.303 (October 1, 2015) requires the Agency to establish and maintain effective internal control over the Federal award. Good internal control requires procedures to ensure costs are reasonable and adequately documented.

Per 45 CFR § 75.403, costs must be reasonable, necessary, and adequately documented. Per 45 CFR § 75.404, "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."

Per 45 CFR § 75.405, "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

45 CFR § 75.430 details the requirements needed to support the distribution of an employee's wages if the employee works on more than one Federal award.

45 CFR §75.351 states, in part, the following:

> *The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with HHS awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The HHS awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section.*
>
> *(a) Subrecipients. A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. . . . Characteristics which support the classification of the non-Federal entity as a subrecipient include when the non-Federal entity . . . (5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.*
>
> *(b) Contractors. A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. . . . Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the contractor . . . (4) Provides goods or services that are ancillary to the operation of the Federal program[.]*

Condition: We tested 25 payments and noted 4 payments with costs that were not in accordance with Federal cost principles. We also noted transactions paid as contractual services that appear to be a subrecipient relationship.

Repeat Finding: No

Questioned Costs: $41,441 known

Grant	Award #	Questioned Costs
NE Cancer Registry	NU58DP005392-02-00	$ 3,761
NE Cancer Prevention & Control Program	NU58DP003928-04-02	$ 37,680

Statistical Sample: No

Context: We noted the following:

One payment was $2,000 for an Implementation Timeline. There was not adequate support to allow for a determination that $2,000 was a reasonable charge. Per the Agency's justification, "Major Milestone Expected that established internal team works on the overall project timeline, establishing clear roles and responsibilities for the implementation of the project. Equals less than 2% of the total contract."

Two payments were for administrative costs paid to the contractor for 20% of the contract amount, or $17,840 each. There was not adequate documentation to allow for a determination that this was a reasonable charge. In the sample tested, $18,299 was paid; an additional $17,381 was paid on a separate line of coding outside of our sample. The Agency provided the following explanation:

> *The Community Health Hub model is a pilot project. The project has continued to evolve over a couple of years. The program has worked hard to find efficient and cost effective ways to increase screening across the state. In the first years no administrative costs were provided. Agencies seemed to struggle obtaining successful outcomes often citing staffing and reimbursement issues related to hidden costs incurred by local health departments. Since this is a deliverables based contract no FTE is expressly provided. Less than 20% administrative reimbursement seemed to be unlikely to make an impact[.] The program felt that 20% was substantial enough to justify Community Health Hub project as a priority for the Local Health Departments.*

One payment was paid half from the Cancer Registry Grant and half from the Enhanced Cancer Registry Grant. The Enhanced Grant is only to be used for pediatric cancer. The Agency did not have timesheets or other documentation to support that half of the hours charged were only for pediatric cancer, resulting in questioned costs of $3,761.

Total Federal questioned costs noted were $41,441 ($24,060 in the sample and $17,381 for a related payment). Contractual payments tested totaled $74,076. The Federal share of contractual payments for the fiscal year totaled $1,716,306. The dollar error rate for the sample tested was 32.48% ($24,060/$74,076), which estimates the potential dollars at risk for fiscal year 2016 to be $557,456 (dollar error rate multiplied by population).

We also noted the Agency considered Health Departments and Federally Qualified Health Centers (FQHCs) to be contractors rather than subrecipients. The purpose of the agreements was “to implement evidence based strategies based on assessment of needs” to increase education and awareness of the need for cancer screenings and to increase the number of men and women screened. The auditor considers this to be a subrecipient relationship, as the agreements use Federal funds to carry out a public purpose, and the services are key to the Federal program, rather than ancillary. The Agency did not comply with Federal requirements for subrecipient monitoring, as the Agency considered these entities to be contractors. The Agency paid $672,658 to these entities during the fiscal year ended June 30, 2016.

Cause: In the Agency’s judgment, these agreements met the definition of a contractor relationship. The justifications for costs provided by the Agency were not adequate for the auditor to determine the contracted amounts were reasonable and not excessive.

Effect: When amounts paid are not adequately documented, there is an increased risk that charges will be excessive. If entities are not properly classified as subrecipients, Federal requirements will not be adhered to, which increases the risk for unallowable costs or Federal sanctions.

Recommendation: We recommend the Agency ensure costs charged to Federal grants are necessary, reasonable, and adequately documented in accordance with Federal requirements. We also recommend the Agency obtain the guidance and concurrence of the Federal grantor to determine if Health Departments and FQHCs are contractors or subrecipients and follow all appropriate requirements if they are determined to be subrecipients.

Management Response: The Agency partially agrees with the condition reported. The Agency will contact the Center for Disease Control (CDC) requesting permission to issue these agreements as fixed-fee subawards.

<u>Finding 2016-030</u>

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

Grant Number & Year: #1302NETANF, FFY 2013; #1402NETANF, 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" and be reasonable, necessary, and adequately supported.

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 45 CFR § 205.56(a)(1)(i) (October 1, 2015):

> *The State agency shall review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the applicant's or the recipient's eligibility or the amount of assistance.*

Per the Nebraska State Plan, effective July 1, 2014, "Eligibility for [TANF] cash assistance must be redetermined every six months."

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

A good internal control plan would require overpayments to be established in a timely manner and eligibility redeterminations to be performed when required.

Condition: Seven of 40 TANF cash assistance payments tested were not in compliance with State and Federal requirements. A similar finding was noted in previous audit reports. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-034

Questioned Costs: $1,337 known

Grant #	Questioned Costs
#G1302NETANF	$ 553
#G1402NETANF	$ 784

Statistical Sample: No

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

- For one case, the individual reported no income or resources on her application. A worker reviewing the case discovered the individual was receiving contributions. The contribution income caused the recipient to be ineligible for a grant. The Agency stopped assistance going forward but did not set up an overpayment for the month tested, resulting in $178 questioned costs.

- For one case, the Agency discovered in June that the recipient had social security income starting in April. The recipient did not report the change in income, as required. With the increased income, the recipient was ineligible for a grant, resulting in $238 questioned costs outside of our sample. An overpayment referral was sent to the Agency's Overpayment Unit, but an overpayment had not been set as of November 2016.

- For one case, the Agency was not informed that the recipient earned significant income throughout the year. This information later became available to the Agency through quarterly earned income data matches. However, the Agency did not follow up on this new source of information. We recalculated the budgets and noted overpayments totaling $921 outside of our sample. Also for this case, the semiannual eligibility review was two months late and, when the review was performed, the case was closed because the recipient was over income guidelines.

- For four cases, the semiannual eligibility review was overdue, ranging from two to six months late. We did not question any costs for these cases because, when the belated reviews were performed, the recipients were redetermined eligible.

Federal questioned costs noted were $1,337, of which $178 was in our random sample of payments and $1,159 additional errors were noted for the cases tested. The total Federal sample tested was $10,768 and total Federal cash assistance for the fiscal year was $15,650,335. Based on the sample tested, the case error rate was 17.5% (7/40). The dollar error rate for the sample was 1.65% ($178/$10,768), which estimates the potential dollars at risk for fiscal year 2016 to be $258,231 (dollar error rate multiplied by population). Each of the payments tested were funded with 80% Federal and 20% State Maintenance of Effort (MOE) funds. The errors noted above represent the Federal portion only.

Cause: Worker error and inadequate review procedures. In response to prior audits, the Agency began assigning cash assistance cases to dedicated TANF workers. However, only cases with an Employment First component, which tend to be more complicated, were assigned. All of the errors we noted were related to cases that were not assigned dedicated workers.

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.

Finding 2016-031

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

Grant Number & Year: #1402NETANF, 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 45 CFR § 75.303 (October 1, 2015) 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.

The Agency's family support contracts with providers contains the following:

> *In those planned situations where [the Agency] has requested unannounced or intermittent visits, or the court has ordered "drop-in" or "semi-supervised" visits, the Contractor shall remain with the family for a minimum of 30 consecutive minutes during each intermittent "drop-in" or "semi-supervised" visit, unless otherwise directed in the service referral.*

Condition: Three of 10 child welfare claims tested did not comply with Federal and State requirements. We noted further that rates for various child welfare services charged to TANF were not adequately supported. A similar finding was noted in the prior audit.

Repeat Finding: #2015-035

Questioned Costs: $7,656 known

Statistical Sample: No

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 intensive family preservation 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 $4,003,195 from State general funds to Federal TANF funds. We tested 10 claims from these entries and noted the following:

- For one claim for family support, the provider charged the full $47 hourly rate for a drop-in that was less than 30 minutes in length, resulting in questioned costs of $47.

- The intensive family preservation service is paid on a weekly rate and is provided by a team consisting of a licensed mental health practitioner and a skill builder. 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. We tested two intensive family preservation cases. We used rates of $47 for the skill builder because that individual has similar qualifications to family support workers, who charge $47 per hour and $106 per hour for the therapists, as this rate mirrors the allowable Medicaid rate as guidelines to determine questioned costs.

    - For one case, an average of 5.17 hours per week was provided at the rate of $833 per week, which calculates to $161 per hour of work. Using the comparable rates, questioned costs were $1,582 for the payment tested and $1,298 for other claims for intensive family preservation for this case.

    - For another case, an average of 4.84 hours per week was provided at the rate of $833 per week, which calculates to $172 per hour of work. Using the comparable rates, questioned costs were $1,127 for the payment tested and $3,602 for other claims for intensive family preservation for this case.

The total Federal questioned costs noted were $7,656 ($2,756 in the sample and $4,900 for related claims). The total child welfare claims tested were $18,738. The total child welfare services paid from TANF were $4,003,195. The dollar error rate for the sample tested was 14.71% ($2,756/$18,738), which estimates the potential dollars at risk for fiscal year 2016 to be $588,870 (dollar error rate multiplied by population).

We also noted the Agency did not have adequate documentation for rates charged. Per the Agency, the following rates were based on negotiations with providers. The Agency did not perform its own independent analysis.

Service Type	Rate
Intensive Family Preservation	$833 per week for 6 weeks*
Family Support Services	$47 per hour
Drug Screening & Testing	$100 per test (maximum)

*The rate was originally based on a study performed in 1995 by an independent contractor, but it has evolved considerably since then.

Cause: Worker error and the Agency did not have adequate documentation to support the rates were reasonable.

Effect: Without adequate controls to ensure claims are paid per Federal requirements, there is an increased risk of noncompliance with those requirements and 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.

Finding 2016-032

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

Grant Number & Year: #1402NETANF, FFY 2014

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

Criteria: OMB Circular A-87 requires costs to be necessary, reasonable, and adequately documented. The Agency's Appendix 468-000-309 to Title 468 states, "Specific guidance for issuance of supportive services can be found in the Supportive Services Handbook [Handbook] in the TANF Policy Log."

Under the heading "Transportation: Insurance," the Handbook states, "Insurance is limited to a one time three-month premium for basic liability coverage . . . . Full insurance coverage is allowed if the vehicle has a lien on it and the lender requires full coverage, documentation of required full coverage is needed."

Under the heading "Employment Expenses: Transportation," the Handbook states the following:

> *Transportation allowance (gasoline and oil, bus tokens and tickets, commercial transportation) for employment must be limited to the first full pay check on the job . . . In the event of extenuating circumstances, if the participant does not have resources to buy gas for work, assistance with transportation may continue beyond the first full pay check. Document discussions with participant about the circumstances requiring additional assistance. Document efforts the participant is making to assume responsibility for car expenses.*

Under the heading "Transportation: Public Transportation," the Handbook states, "Public transportation must be used when available. Document the reasons if public transportation is available but not used."

Under the heading "Transportation: Commercial," the Handbook states, "Commercial transportation can only be authorized for up to 4 weeks in a 12 month period . . . . Exceptions to this requirement may be made if there is documentation of the need for additional weeks. Requests for exceptions should be sent to the TANF Policy Unit."

Under the heading "Transportation: Fuel and Oil," the Handbook states, "Fuel is provided for transportation to and from the individual's home and the contractor's office and/or approved EF [Employment First] activity site. This includes transporting his/her children to and from their child care provider or school . . . ."

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

A good internal control plan requires procedures to be in place to ensure services provided are in accordance with State and Federal requirements.

Condition: Employment First (EF) supportive service payments were not in accordance with State and Federal requirements. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states that the corrective action plan is complete.

Repeat Finding: #2015-036

Questioned Costs: $696 known

Statistical Sample: No

Context: The Agency contracts with two outside vendors to provide EF case management. TANF recipients participating in EF activities are provided with supportive service, such as clothing, training, and transportation. These supportive services are authorized by the EF contractors. We tested EF supportive service payments made during the fiscal year to five TANF recipients. We noted the following:

- For one case, the contractor paid for full coverage insurance instead of only basic liability. The vehicle did have a lien on it, but the contractor did not document that full coverage was needed. The $530 difference between full coverage and basic liability only is a questioned cost (Federal share $477).

- For one case, the recipient received cab rides after four weeks and after she received her first pay check, but the contractor neither documented why this was necessary nor requested approval from the TANF Policy Unit, resulting in questioned costs of $90 (Federal share $81). Additionally, public transportation was available, but the contractor did not document why it was not used.

- For one case, the recipient received weekly gas vouchers to drop her children off at daycare before attending college. For six months, the contractor erred in calculating the total miles the recipient needed, doubling the miles to take the children to daycare. This resulted in $153 questioned costs (Federal share $138).

We tested EF supportive service payments for five TANF cases. The individuals selected each received over $1,000 supportive services during the fiscal year. We tested $21,414 in EF supportive services and, of that total, $773 (Federal share $696) was not in accordance with State and Federal requirements. Total Federal expenditures for EF supportive services during the fiscal year were $1,274,281. Each of the payments tested were funded 90% Federal and 10% State MOE funds.

Cause: Worker error.

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 ensure services provided by the contractors are performed in accordance with State and Federal requirements.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-033</u>

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

Grant Number & Year: #1302NETANF, FFY 2013; #1402NETANF, FFY 2014

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

Criteria: OMB Circular A-133 and 45 CFR § 75.351 (October 1, 2015) detail characteristics that should be used to determine whether a subrecipient or contractor relationship exists. In making such a determination, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the defining characteristics will be present, and judgment should be used in determining whether an entity is a subrecipient or contractor.

45 CFR 75.303 (October 1, 2015) requires the auditee to do the following:

> *Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*

The following is found in the EF contracts between the Agency and its contractors:

> *Following the end of each month of operation, the Contractor shall submit an itemized invoice for actual and allowable costs incurred in the delivery of services under this Contract.*

Per 45 CFR § 75.326 (October 1, 2015), "When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds."

Per Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2016), "All proposed state agency contracts for services in excess of fifty thousand dollars shall be bid in the manner prescribed by the materiel division procurement manual or a process approved by the Director of Administrative Services." The procurement manual requires competitive bidding in these instances.

Per Neb. Rev. Stat. § 73-507(1) (Cum. Supp. 2016), "Subject to review by the Director of Administrative Services, the materiel division shall provide procedures to grant limited exceptions from the provisions of sections 73-504, 73-508, and 73-509 for: (a) Sole source and emergency contracts . . . ." Per Neb. Rev. Stat. § 73-502(3) (Cum. Supp. 2016), "Emergency means necessary to meet an urgent or unexpected requirement or when health and public safety or the conservation of public resources is at risk[.]"

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

Condition: The Agency did not adequately monitor expenditures of the Employment First (EF) contractors to ensure expenditures were allowable. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-040

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency paid $10,878,195 (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 reviewed the invoices for reasonableness; however, no further financial monitoring was performed. Payrolls, invoices, or detailed accounting records were not reviewed.

The Agency previously had contracts with the EF contractors that were competitively bid. The contracts went into effect in 2006 and 2007 and were originally set to expire in 2011. However, the contracts did allow for extensions through June 30, 2015. The Agency and the contractors opted to extend their contracts through June 30, 2015. As of July 1, 2015, those contracts were expired. The Agency failed to rebid the contracts or sign subaward agreements; however, the contractors did continue to provide services. On July 15, 2015, the Agency's Chief Executive Officer signed emergency deviations for both contractors, indicating the following:

> *The current contracts expire June 30, 2015 and do not include a renew clause. Since [the Agency] cannot allow a gap in the provision of Employment First services to our [TANF] recipients and there is insufficient time to release an RFP [Request for Proposal], a new contract is needed with our current provider to continue Employment First services statewide and allow time for [the Agency] to release an RFP.*

This "emergency" situation was avoidable because the Agency knew at the time the original contracts were signed when they would ultimately expire. By declaring the contracts as emergencies, the Agency was able to circumvent competitive bidding requirements. The contracts were signed July 15, 2015, but were effective back to July 1, 2015.

With regard to the contractors, we noted the following – all of which, 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 received A-133 audits for the contractors.

In the prior year corrective action plan, the Agency stated, "Effective 7/1/2016 the Agency's agreements with EF Providers will become subawards." The summary schedule of prior audit findings indicates the corrective action plan is complete. However, subaward agreements were not signed. Instead, the Agency extended the emergency contracts through September 30, 2016. After that, the Agency signed new contracts for October 1, 2016, through June 30, 2017, citing emergencies.

Cause: The Agency performed neither the corrective action noted in the prior audit nor adequate financial monitoring.

Effect: Increased risk of unallowable Federal costs and noncompliance with Federal regulations. Failure to bid contracts increases the risk the best contractor will not be used, and the best price will not be obtained. When expenses are not reviewed, this increases the risk they will be unallowable.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are allowable and in accordance with Federal regulations. We further recommend the Agency implement procedures to ensure State procurement rules are followed. Finally, we recommend the Agency sign subaward agreements with the EF contractors and comply with Federal requirements for subrecipient monitoring.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-034</u>

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

Grant Number & Year: Various, including #1402NETANF, FFY 2014

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

Criteria: Per 45 CFR § 265.3(a) (October 1, 2015), 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.

Per 45 CFR § 265.7 (October 1, 2015), the ACF-199 and ACF-209 reports must be complete and accurate. A good internal control plan requires procedures to ensure data is reported accurately, and errors are corrected in a timely manner. The July 2016 OMB Compliance Supplement identifies key line items that contain critical information.

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

Condition: The Agency did not perform an adequate 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 84 key line items. For two of these cases, one key line item was reported incorrectly. A similar finding was noted in the prior five audits. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-037

Questioned Costs: None

Statistical Sample: No

Context: We have had audit findings since State fiscal year 2011 that the Agency did not adequately review individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. During the current year, the Agency procedure was to perform reviews on 36 cases per month. However, if cases could not be located on the ACF-199 or ACF-209 reports, this was not investigated to ensure the omission was appropriate. Additionally, the reviews were months late and issues identified were not resolved.

During our testing of 11 cases and 84 key line items, we noted one key line item was reported incorrectly on two ACF-199 reports:

- One case, item 12, "Type of Family for Work Participation," was coded as "1," which means "family included only in overall work participation rate," when it should have been coded as "3," "family with no work-eligible individual." The unit consisted of one child. The mother was disabled and receiving social security income; she was not work eligible.

- One case, item 44, "Number of Months Countable toward Federal Time Limit," was coded as 0 months when it should have been coded as 6 months.

We also examined the September 2015 reviews performed by the Agency. The reviews were not completed until February 2016. One case should have been reviewed but was not, and nine items noted as possibly in error were not investigated or followed up to ensure any corrections needed were completed.

Cause: Inadequate review. The Agency was unsure why the reporting errors occurred.

Effect: Increased risk of significant information being reported incorrectly, which could result in Federal sanctions.

Recommendation: We recommend the Agency compare the submitted reports to individual case information on a sample basis to ensure the accuracy of the ACF-199 and ACF-209 reports. This review should include all key line items, and issues noted should be corrected.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-035</u>

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

Grant Number & Year: #1302NETANF, FFY 2013; #1601NETANF, FFY 2016

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

Criteria: Title 45 CFR § 75.302 (October 1, 2015) 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 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 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.

Repeat Finding: #2015-038

Questioned Costs: None

Statistical Sample: No

Context: During our analytical review, we discovered the 2013 grant ACF-196R report for the quarter ended June 30, 2016, Line 6a, Basic Assistance, Federal TANF Expenditures, was understated by $384,807.

During our detail testing of four ACF-196R reports, we noted one clerical error. The 2016 grant ACF-196R report for the quarter ended December 31, 2015, Line 6a, Basic Assistance, MOE Expenditures Separate State Programs, was overstated by $1,239,737. This error was caught by the Agency and corrected on the June 30, 2016 report.

Cause: Clerical errors by the person preparing the reports were not detected by the person reviewing the reports. The Agency uses spreadsheets to accumulate report amounts and does not perform an adequate reconciliation to the accounting system, increasing the risk for errors to occur.

Effect: Inaccurate information was reported to the Federal government. Noncompliance with Federal regulations could result in sanctions.

Recommendation: We recommend the Agency improve procedures to ensure amounts are properly reported.

Management Response: The Agency does not agree with the condition reported.

APA Response: The reports were in error and the errors were not corrected in a timely manner. The $384,807 error was not corrected by the Agency until we identified the error. The $1,239,737 error was not identified or corrected by the Agency for two quarters.

Finding 2016-036

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability & Eligibility

Grant Number & Year: #G16B1NELIEA, FFY 2016

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

Criteria: 45 CFR § 96.30(a) (October 1, 2015) requires, "[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 Nebraska Administrative Code (NAC) regulations into a State Plan, which is approved by the Federal government. Per 42 USC § 8624(d) (2014), "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 3-003.01 states the following:

> *The Department makes heating and cooling payments according to the tables published at 476-000-200 and 476-000-201 which are based upon the federal poverty level and the following factors:*
>
> *1. Fuel type (if applicable); 2. Household income; 3. Household size; and 4. Whether the Household resides in a Single-Family Arrangement or a MultiFamily Arrangement.*

Title 476 NAC 1-004 contains the following definitions:

> *Crisis Assistance means assistance intended to alleviate a crisis situation.*
>
> *Crisis Situation means a household that is under immediate threat of loss of home energy because it has received a shut off notice, had utilities discontinued, lacks energy service delivery, or anticipates removal from a provider's budget plan.*

Title 476 NAC 2-004.01 states the following:

> *To qualify for Crisis Assistance, a Household must be eligible for LIHEAP, be in a Crisis Situation and have an unanticipated inability to pay Home Energy costs because within the most recent 90 days the Household has experienced:*
>
> *1. An unanticipated medical or household expense; 2. A significant, permanent and involuntary loss of work hours, wages, or employment; 3. The departure of a primary wage earner; 4. The inability of a primary wage earner to work because of illness or injury; 5. A significant income loss because of the death of a Household member.*

Title 476 NAC 3-003.02 states, in relevant part, the following:

> *The Department makes Crisis Assistance payments for no more than the amount necessary to alleviate the Crisis Situation, up to $500 per Program Year.*

Good internal control requires procedures to ensure payments are in accordance with Federal and State requirements.

Condition: Two of fifteen energy assistance payments tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Repeat Finding: #2015-041

Questioned Costs: $687 known

Statistical Sample: No

Context: We noted the following:

- In one case, the individual lived in an apartment but received assistance based on a single family dwelling; in addition, all income of the household was not properly considered. The payment was $680 but should have been $167, resulting in questioned costs of $513.

- In another case, the individual received $174 in crisis assistance, but documentation was not on file to support the crisis situation or the amount necessary to alleviate the crisis situation, resulting in questioned costs of $174.

Federal payment errors noted were $687. The total Federal sample tested was $4,677, and total Federal cash assistance for the fiscal year was $26,902,590. Based on the sample tested, the case error rate was 13.33% (2/15). The dollar error rate for the sample was 14.69% ($687/$4,677), which estimates the potential dollars at risk for fiscal year 2016 to be $3,951,990 (dollar error rate multiplied by population).

Cause: Worker error

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

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

Management Response: The Agency agrees with the condition reported.

Finding 2016-037

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability & Eligibility

Grant Number & Year: #G1501NECCDF, FFY 2015; #G1601NECCDF, FFY 2016

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.

45 CFR § 98.67(a) (October 1, 2015) 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."

Section 2.3 of the State's Child Care and Development Fund (CCDF) Plan (State Plan) states the following:

> *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))*

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 [Employment First] 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 . . . 2. To provide service only as authorized, in accordance with the Department's standards[.] . . . 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."

Title 392 NAC 3-005.01D states, "Those individuals whose family income exceeds the maximum for LF [Low Income Family] but is equal to or less than 120 percent of the Federal Poverty Level are eligible as LC [Low Income Sliding Fee Schedule]. To be eligible under this category, the client must pay a fee as shown in the fee schedule."

Per Title 392 NAC 3-008.01D1, "The Department will not pay for child care for a child care provider's children. Some providers will send their own children to another provider for care; the Department will not pay for this care."

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."

Title 392 NAC 3-006.07 states the following:

> *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.*

Title 392 NAC 3-006.06 states:

> *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.*

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."

Title 392 NAC 1-003 defines a Preschooler as "A child age 36 months to school-age."

Per the Child Care Handbook (IV)(F), “Children are categorized by age, infant (0 to 18 months); toddler (18 months to 3 years); preschool (3 years to kindergarten); school age (kindergarten and older).”

Per the Child Care Provider Agreement (III)(14), “The Provider agrees to retain attendance calendars signed by the parent (unless the Provider is operating a child care center).”

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.

Repeat Finding: #2015-045

Questioned Costs: $5,018 known

CFDA	Grant #	Questioned Costs
93.575	#G1501NECCDF	$ 142
93.575	#G1601NECCDF	$ 2,188
93.596	#G1501NECCDF	$ 689
93.596	#G1601NECCDF	$ 1,999

Statistical Sample: No

Context: We tested 40 child care claims and noted 23 claims with errors. Some payments had more than one type of error. We noted the following:

- For three payments tested, reported resources were over $1,500, but the resources were not verified by the Agency.

- For three payments tested, child care was provided when the parent was not working or not attending a job-training or educational program. In one case, child care was authorized for employment, and one adult in a two-parent household was not working during the month tested. For another case, the parent was authorized to participate in Employment First activities; however, there was no documentation supporting any participation hours for the month tested. Additionally, for two days, this parent was providing child care subsidy services for another client while her child was receiving child care services from another child care provider. For a third case, the need for service was determined for the prior foster parents, and it is unknown if there was a need for service for the current foster parents.

- Based on income, certain families are required to pay a fee or co-pay for child care. For two claims tested, the Agency had determined a co-pay was required, but the providers failed to deduct the co-pay and were paid the entire amount.

- For two claims, the provider failed to submit the attendance records; therefore, there was not adequate support that the service was provided, and a determination could not be made on whether the hours were within the authorization.

- For nine claims, child care was provided during days and times not authorized by the caseworker. For seven of the nine claims, the number of hours attended by the child exceeded the authorized hours by 1 hour to 25.75 hours per week. For one claim, child care was authorized for when the parent attended school, and the provider billed for five days when the school was not in session. For another claim, the authorization was not updated with the correct foster parents' schedules and when child care could be provided.

- Eight payments did not agree to the attendance records. Child care providers can be paid by a daily rate and/or an hourly rate depending on how long the child attends each day. The Federal share of variances ranged from $15 to $272. For example, one claim was 21 days and 85 hours of service, but the attendance records supported only 21 days and 17 hours of service. Another claim was for five days and 85 hours, but the attendance records supported only 68.5 hours of service. For a third claim, the provider billed five days in December 2015; however, the attendance calendars supported only hours, and the parent stated this provider was closed for the holidays and had requested another provider who also billed days for this child for the same month.

- Two calendars for home providers were not appropriately signed by the parent, as required.

- Providers may receive different rates of pay based on the age of the child. The Agency is responsible for determining which age group or service code the child should be authorized under based on the age of the child. For two claims, the child was billed at the incorrect service code.

Federal payment errors noted for the sample tested were $2,045. The total Federal sample tested was $6,450 and total child care Federal assistance claims for the fiscal year were $36,894,610. Based on the sample tested, the case error rate was 57.5% (23/40). The dollar rate for the sample was 31.71% ($2,045/$6,450), which estimates the potential dollars at risk for fiscal year 2016 to be $11,699,281 (dollar rate multiplied by the population).

In addition to the $2,045 Federal questioned costs noted on the sample items tested, we also noted $653 of Federal questioned costs on other line items of the claims reviewed.

Additionally, our office received concerns regarding the benefits provided to a specific recipient, alleging the recipient's income and resources were over the limitations for public assistance programs. After reviewing the recipient's income from July 2015 through March 2016, we found the concerns to be valid for Child Care benefits, resulting in questioned costs of $2,320. The recipient's resource limit was exceeded due to ownership of a vehicle valued at $20,181, which exceeded the $12,000 motor vehicle resource limit. Because the value of the vehicle exceeded the motor vehicle limit by $8,181, that entire amount should have been considered a resource, making the recipient ineligible for child care.

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 attendance sheets. We also recommend the Agency take the necessary action to recover the overpayments.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-038</u>

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Grant Number & Year: #G1401NECCDF, FFY 2014; #G1501NECCDF, FFY2015

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

Criteria: Title 45 CFR § 75.302 (October 1, 2015) requires financial management systems 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 the use of these funds were in accordance with 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 controls to ensure expenditures are properly reported and agree to accounting records. This includes maintaining adequate support for amounts reported.

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

Condition: Several errors were noted during testing of the ACF-696 Federal Financial Reports (FFRs). A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-046

Questioned Costs: None

Statistical Sample: No

Context: We tested 3 of 11 FFRs submitted for the fiscal year. Errors included reporting amounts that did not agree to the State accounting system, reporting targeted fund expenditures on the incorrect report line, reporting funds as obligated that were not as of the report date, and reporting obligations as unliquidated that were also reported as targeted fund expenditures on the same report.

Line on Report	Per Report	Actual	Variance
FFY 2014 grant FFR for the quarter ended 6/30/16			
1(g) Direct Services, Mandatory Funds	$ 10,514,619	$ 8,954,372*	$ 1,560,247
1(h)(2) Certificate Program Costs/ Eligibility Determination, Discretionary Funds	$ 5,114,224	$ 5,355,334	$ (241,110)
FFY 2015 grant FFR for the quarter ended 12/31/15			
1(c) Infant and Toddler Targeted Funds, Discretionary Funds	$ 53,203	$ 0	$ 53,203
1(d) Quality Expansion Targeted Funds, Discretionary Funds	$ 0	$ 53,203	$ (53,203)
4 Federal Share of Unliquidated Obligations, Discretionary Funds	$ 427,037	$ 152,980	$ 274,057

*Amount includes actual expenditures at 6/30/16 of $6,109,319 plus additional expenditures moved from State funds to Federal funds in the journal entry completed on 9/28/16.

Cause: Per the Agency, reports were completed as directed through communications with the Federal grantor.

Effect: Inaccurate reporting and noncompliance with Federal regulations. When adjustments are not made in a timely manner, there is an increased risk for errors.

Recommendation: We recommend the Agency implement procedures to ensure reports are accurate, and adjustments are performed in a timely manner.

> **Management Response:** The Agency agrees with the FFY 2015 reporting errors noted in the finding. The Agency does not agree with the items noted in the audit that relate to the FFY2014 grant report. The items noted in the audit related to the FFY2014 report were already identified by the Agency and communicated to the Administration for Children and Families (ACF) for additional guidance.
>
> The Agency submitted proposals to ACF in order to maximize federal dollars and allow the agency to have the flexibility to spend administrative dollars from Discretionary funding. This would require ACF approval before any adjustments within the Agency Accounting system could be made. The Agency received approval for one of the proposals and once a final determination is made on the second proposal, final reports will be filed for QE 9/30/16 for the FFY14 grant and will resolve the issues noted in the audit report without having to correct any reports.

APA Response: The FFY 2014 Grant FFR for the quarter ended June 30, 2016, did not agree to the State accounting system and all necessary adjustments have not been made as of February 17, 2017.

Finding 2016-039

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Grant Number & Year: All open, including #G1501NECCDF, FFY 2015

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

Criteria: Per 45 CFR § 98.60(i) (October 1, 2015), "Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud." A good internal control plan requires procedures to be in place to ensure referred cases are reviewed, and appropriate dispositions are made in a timely manner.

Condition: We tested 23 cases referred to the Special Investigations Unit (SIU) and noted five reviews were not completed on a timely basis. We also noted three cases that did not have accounts receivables established. A similar finding was noted in the prior audit.

Repeat Finding: #2015-047

Questioned Costs: $3,479 known

CFDA	Grant	Questioned Costs
93.596	G1301NECCDF	$ 1,212
93.596	G1401NECCDF	$ 1,301
93.575	G1501NECCDF	$ 420
93.596	G1501NECCDF	$ 546

Statistical Sample: No

Context: The SIU had 230 open cases during the fiscal year. We noted the following during our testing of 23 cases:

Five cases were not investigated in a timely manner.

Month Case Referred	Period of No Documentation of Work Performed	Timeframe Case Not Worked
March 2015	May 2015 – June 2016	1 year, 1 month
January 2015	April 2015 – May 2016	1 year, 1 month
March 2015	July 2015 – December 2016	1 year, 5 months
June 2015	June 2015 – December 2016	1 year, 6 months
October 2015	October 2015 – December 2016	1 year, 2 months

We also noted three separate cases that had overpayments identified as a result of the investigation. However, the accounts receivable were not established.

- For two cases, overpayments were identified; however, no accounts receivable for child care were established.

Month Identified	Amount	Federal Share
April 2016	$ 1,260	$ 966
June 2016	$ 4,550	$ 2,513
Total	**$ 5,810**	**$ 3,479**

- A review of a case referred in March 2015 determined the client did not report all household income. With this unreported income, the family was eligible only for child care subsidy with a family fee amount that was not previously assessed. The potential overpayment amount was not calculated, and no accounts receivable had been established.

Cause: Per Agency staff, inadequate resources and insufficient staffing levels due to turnover have hindered not only the timely review and appropriate dispositions of all referred cases but also the ability to ensure the related accounts receivable are timely created and 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 loss of funds.

Recommendation: We recommend the Agency implement 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 timely created and adequately pursued, and established collection procedures are followed.

Management Response: The Agency agrees with the condition reported.

Finding 2016-040

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Grant Number & Year: #G01301NECCDF, FFY 2013

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

Criteria: Per 45 CFR § 98.60(a) (October 1, 2015), the "CCDF is available, subject to the availability of appropriations, in accordance with the apportionment of funds from the Office of Management and Budget . . . ."

45 CFR § 98.60(d) (October 1, 2015) states, in part, the following:

> *The following obligation and liquidation provisions apply to States and Territories:*
>
> > *(1) Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.*
> >
> > * * * *
> >
> > *(8) Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government.*

45 CFR § 75.511 (October 1, 2015) requires the auditee to prepare a summary schedule of prior audit findings. When audit findings were not corrected or were only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken.

Condition: The FFY 2013 allocation for Quality Expansion targeted funds for the State was $1,048,694; the Federal government required the State to spend at least that much on Quality Expansion. However, the total spent at June 30, 2016, was only $729,802. Therefore, $318,892 was not spent on Quality Expansion and should revert to the Federal government.

Repeat Finding: No

Questioned Costs: $229,113 known

Statistical Sample: No

Context: The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds known as Infant and Toddler, Quality Expansion, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of child care and to support the administration of these activities. The FFY 2013 Discretionary grant was required to be obligated by September 30, 2014, and liquidated by September 30, 2015.

The FFY 2013 allocation for Quality Expansion targeted funds for the State was $1,048,694; the total spent at June 30, 2016, was $729,802. Therefore, $318,892 was not spent on Quality Expansion within the period of performance and should revert to the Federal government. However, at June 30, 2016, the unexpended balance of the FFY 2013 discretionary grant was only $89,779.

Target allocation for Quality Expansion	$ 1,048,694
Less amount spent at 6/30/2016	729,802
Amount to revert to Federal government	318,892
Less unspent FFY 2013 discretionary grant	89,779
Questioned costs	$ 229,113

A similar finding was noted in the 2014 audit report. The Summary Schedule of Prior Audit Findings in 2015 stated for finding 2014-052, "Corrective Action is partially complete. Procedures have been revised, but additional procedures need to drafted and implemented." The current Summary Schedule of Prior Audit Findings for finding 2014-052 states, "Corrective action is complete." However, per Agency staff, the policies and procedures were started but not yet finished.

Cause: The majority of the amount underspent had been allocated to another State agency, which did not ensure the funds were expended timely. The Agency has indicated that it is now working more closely with that agency to ensure the funds are appropriately and timely expended.

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

Recommendation: We recommend the Agency implement procedures to ensure earmarking requirements are met.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-041</u>

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

Grant Number & Year: #0G1501NEFOST, FFY 2015; #0G1601NEFOST, FFY 2016

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

Criteria: Per 45 CFR § 75.302(b)(4) (October 1, 2015): "The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes."

Per 45 CFR § 75.403 costs must be necessary, reasonable and adequately documented.

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.*

Per 42 USC § 675(8)(A), the term "child" means an individual who has not attained 18 years of age. Per 42 USC § 675(8)(B), the State may also include individuals who have not attained 21 years of age when the youth meets prescribed conditions. A youth over age 18 must also be (1) completing secondary school, (2) enrolled in post-secondary or vocational school, (3) participating in a program that promotes or removes barriers to employment, (4) employed 80 hours a month, or (5) incapable of any of these activities due to a documented medical condition.

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 4-003.02, child care for six or more hours must be billed by the day.

A good internal control plan requires procedures to discontinue benefits when eligibility expires. Good internal control also requires procedures to ensure compliance with Federal and State requirements.

Condition: We noted 5 of 40 Foster Care payments tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit. We also noted a duplicate journal entry.

Repeat Finding: #2015-051

Questioned Costs: $1,731 known (#0G1501NEFOST, $505; #0G1601NEFOST, $1,226)

Statistical Sample: No

Context: We randomly selected 40 claims from a population of $8,299,613 Foster Care maintenance payments (Federal share $4,324,195) claimed during the fiscal year. We noted the following:

- For three payments tested, the amount paid for childcare was not proper based on the supporting records, resulting in questioned costs of $57. One provider was paid at the daily rate instead of the hourly rate, and another claimed 26 days but had support for only 25 days. In one instance, there was not a valid service authorization on file.

- One payment was for an individual over age 18. The individual was not in school or working, and assistance should have ceased after July 2015; however, it was not closed until December 2015, resulting in questioned costs for the payment tested of $400 and questioned costs for three additional months of $1,245.

- One payment was to a subrecipient that paid a child placing agency – which, in turn, paid the foster parent. The amount claimed did not agree to the amount paid to the foster parent, resulting in questioned costs of $29.

- We also noted the Agency charged Federal funds twice for service claims for October 2015 through December 2015. An entry was recorded on the accounting system on January 29, 2016, for $692,261 (Federal share), and a duplicate entry was recorded on April 20, 2016. After we discovered the error and discussed it with the Agency, a correcting entry was performed on September 8, 2016.

Federal questioned costs noted totaled $486 in the sample and $1,245 outside of the sample. The total Federal sample tested was $16,685. Total sample population was $4,324,195. Based on the sample tested, the case error rate was 12.5% (5/40). The dollar error rate for the sample tested was 2.91%, which estimates the potential dollars at risk for fiscal year 2016 to be $125,834 (dollar error rate multiplied by population).

Cause: Worker error and inadequate review.

Effect: Unallowable costs were charged to the grant.

Recommendation: We recommend the Agency implement procedures to ensure payments are proper and in accordance with State and Federal regulations. We further recommend the Agency improve procedures to ensure accounting entries are proper, and duplicate entries are detected and corrected in a timely manner.

Management Response: The Agency agrees with the condition reported.

Finding 2016-042

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

Grant Number & Year: #0G1501NEFOST, FFY 2015; #0G1601NEFOST, FFY 2016

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

Criteria: Per 45 CFR § 75.302(b)(4) (October 1, 2015): "The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes."

Per 45 CFR § 75.403 costs must be necessary, reasonable and adequately documented.

Per Nebraska Foster Care Waiver terms and conditions, the State may claim for the following:

[A]n expanded array of evidence-based services that promote family stability and preservation. This array may include, but is not limited to:

- *Parent Child Interaction Therapy (PCIT)*
- *Positive Parenting Program (Triple P)*
- *Wraparound*

Per Agency contracts with family support providers, mileage and travel time must be submitted for payment on a Travel Log. Those contracts require further that the Agency do the following:

[P]ay the Contractor per the following incremental pay schedule for travel time:

1 - 15 minutes = $4.50;
16 - 30 minutes = $9.00;
31 - 45 minutes = $13.50;
46 - 60 minutes = $18.00

Good internal control requires procedures to ensure charges to grants are in accordance with Federal and State requirements.

Condition: We noted 8 of 22 waiver expenditures for transportation services were not adequately documented.

Repeat Finding: No

Questioned Costs: $251 known (#0G1501NEFOST, $244; #0G1601NEFOST, $7)

Statistical Sample: No

Context: In 2013, the Federal grantor approved a waiver for the State to operate a child welfare demonstration project. The waiver allows for additional services to be provided that are not normally covered under Title IV-E Foster Care, but the demonstration project must remain cost neutral to the Federal government.

During the fiscal year, the Agency claimed $8,517,892 ($4,473,316 Federal share) waiver- based expenditures. These expenditures were travel time and mileage costs paid to contractors related to family support services. We selected 22 claims and noted the following:

- One claim did not have a travel log, as required by contract. Without such log, there was no support for the points of destination or miles traveled.
- Two claims were not mathematically correct. One claim paid 50 hours, but the travel log totaled only 49.5 hours. Another claim overbilled .25 hour.
- Two claims did not have adequate documentation, such as a family support record to substantiate that the service occurred.
- Two claims did not have adequate documentation to support that the mileage charged was reasonable. For one case, the mileage claimed was to the worker's home instead of the office. The office was closer and, per the contract, the provider was to charge the closest of home or office. The other claim was for family support services all within one city. Per its own website, the provider has an office in that city; however, several trips were noted to or from other cities.
- For one claim, the worker traveled 2 minutes each way and rounded to 15 minutes each way. The contract in effect for the billing period did not specify if rounding should be each way or round trip. The current contract specifies to round each one-way trip. Although not a contract violation, it does not appear reasonable to pay $9 for four minutes of travel. Federal regulations require costs to be reasonable.

The total Federal questioned costs noted were $251. The total Federal sample tested was $1,524. Total sample population was $3,829,561. Based on the sample tested, the case error rate was 36.36% (8/22). The dollar error rate for the sample tested was 16.47%, which estimates the potential dollars at risk for fiscal year 2016 to be $630,729 (dollar error rate multiplied by population).

Cause: Worker error and inadequate review.

Effect: Unallowable costs were charged to the grant.

Recommendation: We recommend the Agency implement procedures to ensure payments are proper and in accordance with Federal regulations.

> **Management Response:** The Agency partially agrees with the condition reported. The Agency agrees with three of the eight claims noted in the audit finding where a travel log was missing and claims with mathematical errors. The Agency disagrees with the remaining claims noted in the finding. It is the Agency's policy that Travel Logs should serve as the sole source documentation for payments made for Travel and Distance. Service Provider Authorizations for Family Support determine the need for an authorization for the associated travel. Travel Logs are viewed before issuing an authorization, and serve as the document used to generate an authorization for Travel and Distance. Failure to receive a Family Support record is a contract compliance issue, but is not a payment error issue.
>
> Management disagrees with the finding related to travel from the worker's home. The provider noted that this particular worker operated out of their home which therefore is considered to be the worker's office address. As such, travel can correctly begin from this point. Management also believes that it is more reasonable for a provider to bill for the total miles travelled in between clients within the same city than to bill for the total destination and return trip miles to and from the office for multiple clients. In the one case cited, Management calculates the travel distance being less by traveling from client to client instead of billing from office to client to office to client.
>
> Management disagrees that rounding each one way trip results in an unreasonable cost. Management has engaged multiple Family Support providers in negotiating new language to round up to the nearest quarter of an hour for each one-way trip in order to ensure that providers are willing to deliver Family Support services statewide, and to provide children and families access to this service in all areas of the state.

APA Response: Without a Family Support record, there is no documentation that the service was provided or that the travel promoted family stability and preservation, as required by the Waiver. The travel origination address for the worker noted was the contractor's office location, and no documentation was provided to support that the worker's office location was her home. The Agency believes it is more reasonable to bill for travel between clients within the same city; however, the claim in question was all within one city but had mileage claimed to and from other cities. In addition, there was no documentation that the mileage was between clients or that those clients were allowable under the waiver.

Finding 2016-043

Program: CFDA 93.658 – Foster Care Title IV-E – Subrecipient Monitoring

Grant Number & Year: #0G1501NEFOST, FFY 2015; #0G1601NEFOST, FFY 2016

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

Criteria: OMB Circular A-133 and 45 CFR § 75.352 (October 1, 2015) specify pass-through entity responsibilities, including ensuring subrecipients meet audit requirements. Per 45 CFR § 75.352(a)(1)(xi), "[T]he pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement[.]" Per 45 CFR § 75.352(f), the pass-through entity must do the following:

> *Verify that every subrecipient is audited as required by Subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §75.501.*

Condition: The Agency did not notify subrecipients of the dollar amount made available under each Federal award and the CFDA number at time of disbursement. The subrecipients' Schedule of Expenditures of Federal Awards (SEFA) did not agree to Federal dollars passed through to the subrecipient by the Agency.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: The Agency had 28 Foster Care subrecipients during the fiscal year that received a total of $2,949,005 Federal Foster Care funds. We tested three of the six Foster Care subrecipients that received over $100,000. We noted the following:

- The Agency did not notify the subrecipients of the dollar amount made available under each Federal award and the CFDA number at time of disbursement, as required by 45 CFR § 75.352(a)(1)(xi). Nor did the Agency notify the subrecipients of total Federal dollars paid during the fiscal year.

- All three subrecipients had fiscal year 2015 Single Audits, which were reviewed by the Agency. However, the SEFA Foster Care expenditures reported by the subrecipients did not agree to the Federal share of Foster Care payments by the Agency to the subrecipients.

  One subrecipient reported $95,976 passed through the Agency; however, that was the total (State and Federal share) for only the first quarter. The total Federal share paid during fiscal year 2015 was $277,254.

The second subrecipient did not report any Foster Care expenditures on the SEFA; however, the Federal Foster Care funds paid to the subrecipient was $317,757 for the fiscal year. If Foster Care expenditures had been reported on the SEFA, it appears the program would have been required to be tested as a major program.

A third subrecipient reported $2,493,724 for calendar year 2015; however, this appears to be both Federal and State dollars instead of only Federal expenditures.

Cause: Staff was not familiar with Uniform Guidance requirements.

Effect: When subrecipients are not provided all required notifications, there is an increased risk for noncompliance with Federal requirements. If subrecipients are not aware of the total Federal funds received, the subrecipient may fail to obtain a Single Audit or may not include all required major programs.

Recommendation: We recommend the Agency notify subrecipients of all information required by Federal regulations. We further recommend the Agency improve review procedures of subrecipient audit reports to ensure the SEFA is accurately presented.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2016-044</u>

Program: CFDA 93.659 – Adoption Assistance – Allowability & Eligibility

Grant Number & Year: #1601NEADPT, FFY2016; #1501NEADPT, FFY2015

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 regulatory compliance.

42 USC § 673(c) (2015) provides the following:

> *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 . . . .*

42 USC 671(a)(20)(A)(2015) states, in relevant part, the following:

> *In order for a State to be eligible for payments under this part, it shall have a plan approved by the Secretary which—*
>
> > *(A) provides procedures for criminal records checks, including fingerprint-based checks of national crime information databases (as defined in section 534(e)(3)(A) 1 of title 28), for any prospective foster or adoptive parent before the foster or adoptive parent may be finally approved for placement of a child regardless of whether foster care maintenance payments or adoption assistance payments are to be made on behalf of the child under the State plan under this part, including procedures requiring that—*
> >
> > > *(i) in any case involving a child on whose behalf such payments are to be so made in which a record check reveals a felony conviction for child abuse or neglect, for spousal abuse, for a crime against children (including child pornography), or for a crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery, if a State finds that a court of competent jurisdiction has determined that the felony was committed at any time, such final approval shall not be granted . . . .*

42 USC § 671(a)(20)(B)(i) (2015) requires the State to do the following:

> *(i) check any child abuse and neglect registry maintained by the State for information on any prospective foster or adoptive parent and on any other adult living in the home of such a prospective parent, and request any other State in which any such prospective parent or other adult has resided in the preceding 5 years, to enable the State to check any child abuse and neglect registry maintained by such other State for such information, before the prospective foster or adoptive parent may be finally approved for placement of a child, regardless of whether foster care maintenance payments or adoption assistance payments are to be made on behalf of the child under the State plan under this part . . . .*

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[.]"

45 CFR § 75.403 (October 1, 2015) requires costs to be reasonable, necessary, and adequately supported.

Condition: Adoption Assistance payments were not in accordance with Federal regulations for 6 of 40 payments tested.

Repeat Finding: #2015-054

Questioned Costs: $1,226 known (#1601NEADPT, $337; #1501NEADPT, $889)

Statistical Sample: No

Context: We tested 40 Adoption Assistance payments and noted the following:

- For one payment tested, the prospective adoptive parent failed a criminal background check due to a felony conviction on manslaughter charges, yet the Agency still approved the parent to receive Adoption Assistance payments. The parent was convicted of manslaughter in May 1985 and was sentenced to three years of probation. A criminal background check the Agency received in February 2015 revealed the conviction, yet the Agency entered into an adoption subsidy agreement with the parent in March 2015. A home visit narrative provided by the Agency indicated the incident occurred in self-defense during a domestic violence incident.

- For another payment tested, we noted several issues:
  - There was no documentation to support that the Agency made reasonable efforts to place the child for adoption without a subsidy.
  - There was no documentation to support the Agency determined the child had special needs.
  - Documentation provided indicated a child abuse and neglect registry check was completed in May 2009 (after the adoption date) for one of the parents, while no documentation was on file to support the registry check for the other adoptive parent.
- For another payment tested, we noted the following:
  - There was no documentation on file to support the Agency checked the child abuse and neglect registry for the adoptive parents.
  - While a narrative was provided indicating background checks were clear for the parents, no actual background check was on file.
- One payment tested was for child care services that were overbilled. Attendance records reflected 23 hours of child care services. However, the provider billed and was paid for 32 hours.
- For another payment tested, we found that there was no documentation to support that the Agency made reasonable efforts to place the child for adoption without a subsidy.
- For an additional payment tested, there was no documentation to support the Agency determined the child had special needs.

A similar finding was noted in the prior audit.

The total Federal share of errors noted was $1,226. The total Federal sample tested was $9,098, and the Federal share of expenditures for adoption subsidies for fiscal year 2016 was $14,259,480. The dollar error rate for the sample was 13.48% ($1,226/$9,098), which estimates the potential dollars at risk for fiscal year 2016 to be $1,922,178 (dollar error rate multiplied by population).

Cause: Clerical errors and inadequate review. Five of six cases tested with errors involved children adopted prior to our audit period.

Effect: Increased risk for loss or misuse of funds and risk of a child being placed in an unsafe home.

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.

Finding 2016-045

Program: CFDA 93.659 – Adoption Assistance – Reporting

Grant Number & Year: #1601NEADPT, FFY2016

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

Criteria: 45 CFR § 75.302(a) (October 1, 2015) provides the following:

Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non- Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

Additionally, subsection (b) of that same regulation states that the financial management system of each non-Federal entity must provide for the following:

(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. . . .

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program . . . .

A good internal control plan requires procedures to ensure reports are accurate and reconciled to the accounting system on a timely basis.

Condition: Aid expenditures reported for the quarter ended March 31, 2016, did not agree to the accounting system.

Repeat Finding: #2015-055

Questioned Costs: None

Statistical Sample: No

Context: To address a prior audit finding, the Agency included $2,064,114 in prior-quarter expenditure adjustments on its Federal report for the quarter ended March 31, 2016. However, the Agency did not record the adjustments on EnterpriseOne (E1), the State's accounting system. The Agency indicated the adjustment could not be completed until it received sufficient grant funding, which was received in July 2016. Even as of December 2016, the Agency had not recorded the adjustments in E1. After we brought this to the Agency's attention, the adjusting entry was posted in E1 in January 2017.

A similar finding was noted in the prior audit.

Cause: Employee turnover and staff training.

Effect: Increased risk for errors to occur.

Recommendation: We recommend the accounting system and financial reports be reconciled on a timely basis.

Management Response: The Agency agrees with the condition reported.

Finding 2016-046

Program: CFDA 93.778 – Medical Assistance Program, CFDA 93.767 – Children's Health Insurance Program (CHIP) – Matching & Reporting

Grant Number & Year: #051605NE5MAP, FFY 2016; #051505NE5MAP, FFY 2015; #051605NE5021, FFY 2016

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

Criteria: Title 45 CFR § 75.302 (October 1, 2015) requires financial management systems of the State sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish the use of these funds were in accordance with applicable regulations. Title 45 CFR § 75.302 also requires each state to expend and account for Federal awards in accordance with State laws and procedures. EnterpriseOne is the official accounting system for the State of Nebraska, and all expenditures are generated from EnterpriseOne.

Title 42 CFR § 433.10 (October 1, 2015) provides for payments to States, based on a Federal Medical Assistance Percentage (FMAP).

Neb. Rev. Stat. § 84-710 (Reissue 2014) requires any money belonging to the State to be deposited to the State Treasury within three business days of receipt when the amount is $500 or more and within seven days of receipt when the amount is less than $500.

A good internal control plan requires procedures to reconcile submitted reports to the accounting system. A good internal control plan also requires adjustments and reconciling items to be resolved in a timely manner. Furthermore, good internal control requires procedures to ensure that checks are restrictively endorsed immediately upon receipt, and all monies received are deposited to the State Treasury timely.

Condition: Reconciliation procedures need improvement to ensure reports are accurate, and adjustments are made in a timely manner. A similar finding was noted in prior audits.

Repeat Finding: #2015-059

Questioned Costs: Unknown

Statistical Sample: No

Context: We tested two of four quarterly reports and noted the following:

December 2015 report:

- Three general ledger subsidiary accounts were not charged at the proper matching rate. The report was correct, but the general ledger needed adjustment. The Agency noted the subsidiaries as reconciling items but did not make correcting entries to the general ledger in a timely manner. No correcting entries had been made as of June 30, 2016. The total Federal share of dollars overdrawn for these subsidiaries was $33,215.

- A reconciling item for the Quarterly Rebate Offset Amount reported at 100% FMAP, but on the general ledger at 51.16% FMAP, did not have a journal entry prepared in a timely manner. The Federal share of the variance was $715,752. CHIP rebates were correctly reported at 88.81% FMAP but on the general ledger at 65.81% FMAP; the Federal share of the variance was $434,513. Adjustments were not made as of June 30, 2016.

June 2016 report:

- Disproportionate Share for Hospital (DSH) payments related to 2015 were reported at 51.16% FMAP but were recorded on the general ledger at 53.27% FMAP. Federal share reported $8,107,201 but on the general ledger as $8,441,567, a variance of $334,366. The Agency is working with the Federal grantor to determine the proper disposition.

- Reductions on the general ledger from May 9, 2016, through June 30, 2016, totaling $5,239,157, and two batch transactions from April 2016, totaling $631,885, were not reported on the June quarterly report. The Federal share of credits not reported was $3,019,119. The Agency indicated the omission was due to employee medical leave.

- As noted in Finding #2016-009 included in Part II of this report, receipts were not deposited within three days, as required by § 84-710. Two drug rebate checks were reported as deposited on June 24, 2016; however, as of August 18, 2016, they had not been deposited. We performed a cash count on September 1, 2016, of drug rebate checks on hand at the Agency. We found 192 undeposited checks, totaling over $13 million, dated as far back as June 1, 2016. Of these, 57 checks, totaling approximately $6.8 million, were not restrictively endorsed. The majority of the checks were between 61-90 days old based on the check date and, therefore, likely should have been deposited and reported on the June 2016 quarterly report. The Agency indicated the issue was due to employee turnover.

- During testing of third-party liability (TPL) refunds, we noted $1,000,759 deposited to the holding account during May 2016 did not have a journal entry transferring the monies to Medicaid until July 7, 2016, and were, therefore, not included on the June 2016 report. The Federal share of the deposits was $525,022. We further noted the amounts were not yet reported on the September 2016 report.

- The June reconciliation had an unknown Federal variance of $5,358 with the general ledger less than reported. We questioned the Federal reconciling items noted below. After further review with the Agency, the reconciliation was adjusted with an unknown Federal variance of $43,189.

Initial variance noted by Agency	$	(5,358)
Drug rebates incorrectly included twice as reconciling items		386,222
DSH payment variance not included by Agency		(334,366)
Reconciling items did not agree to support		(89,687)
Adjusted variance after auditor review and inquiry	$	(43,189)

- We also noted a reconciling item that did not have an adjustment as of November 1, 2016. The Federal share of the reconciling item was $271,023.

The Agency reported a total of $1,089,017,937 Federal expenditures for the Medical Assistance Program in fiscal year 2016.

Cause: Employee leave and turnover.

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. We further recommend all reconciling items and adjustments be resolved in a timely manner.

Management Response: The Agency agrees with the condition reported.

Finding 2016-047

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051505NE5MAP, FFY 2015; #051605NE5MAP, FFY 2016

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

Criteria: Good internal control requires procedures to ensure payments are in accordance with State and Federal regulations.

Title 471 NAC 30-006 states, in relevant part, the following:

> *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.*

Per 45 CFR § 75.511(a) (October 1, 2015), "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings."

45 CFR § 75.511(b)(2) states, "When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken."

Condition: Health insurance premium payments (HIPP) were not in accordance with regulations. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states the corrective action plan is complete.

Repeat Finding: #2015-060

Questioned Costs: Unknown

Statistical Sample: No

Context: For all eight cases tested, the premium payments were made by the HIPP Program directly to the policyholders, rather than to the insurance companies or employers. The risk of errors could be minimized if the Agency complied with regulations and made the payments directly to the insurance providers or employers.

The total Federal sample tested was $79,358, and the Federal share of expenditures for HIPP for fiscal year 2016 was $724,316.

Cause: The Agency did not have adequate resources to make payments according to the regulations.

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 make payments to the insurance provider or employer, when possible, rather than reimbursing the employee or policyholder directly.

Management Response: The Agency agrees with the condition reported.

Finding 2016-048

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051605NE5MAP, FFY 2016

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 45 CFR § 75.403(g) (October 1, 2015), costs must be adequately documented.

Title 471 NAC 15-003.02(1) states that personal assistance services not documented in the service plan are non-allowable services.

Title 471 NAC 15-006 requires that the provider bill only for services actually provided and authorized, perform the personal assistance services noted on the service plan, and accurately document services provided on Form MC-37 "Service Provider Time Sheet."

Title 471 NAC 15-006.06C requires that, after receiving a provider's timesheet and billing document, the beneficiary's social service worker or designee must verify that "the hours worked and services provided fall within the parameters of those authorized" by the service needs assessment.

Title 471 NAC 2-001.03 indicates the provider must sign and have an approved Service Provider Agreement on file prior to payment.

Title 477 NAC 20-002.04 states, "The cost of medical insurance premiums is deducted if the client or responsible relative is responsible for payment."

Condition: During testing of personal assistance service (PAS) claims, we noted services provided per the timesheet did not agree to the service needs assessment.

Repeat Finding: #2015-061

Questioned Costs: $1,295 known

Statistical Sample: No

Context: The Agency offers personal assistance services (assistance with hygiene, mobility, housekeeping, 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 complete timesheets that are signed by the recipients to indicate services were actually provided.

During the two prior year audits, the Agency lacked adequate documentation on file to support that services paid were in accordance with the SNA due to the use of a less descriptive Provider Record of Service form or timesheet, form MC-39. In response to this audit finding and to meet State and Federal supporting documentation requirements, the Agency reverted back to the more descriptive timesheet, form MC-37, with an effective date of October 15, 2015. The more descriptive timesheet requires the provider to record specific services performed and in and out times each day.

We tested 10 PAS claims paid on or after January 1, 2016, and noted 9 claims with errors. Some claims had more than one type of error. All claims tested used the more descriptive timesheet, form MC-37. We noted the following:

- For eight claims, the services provided on the "Service Provider Time Sheet" did not agree to the authorized services on the service needs assessment, resulting in questioned costs of $633. Providers billed for services and time allotments that differed significantly from those authorized on the recipients' SNAs.

  For five of these eight claims, the provider also billed the maximum authorized weekly quarterly units even though the services recorded on the timesheet did not support the billing of the maximum units based on the frequency and time allotments for the services. For example, one provider who billed the maximum of 24 quarterly units for a week did not include on the timesheet that she shopped for groceries, which was authorized for one occurrence at 60 minutes or 4 quarterly units. Therefore, the timesheet only supported 20 quarterly units for that week. For another claim, the provider billed 280 quarterly units for cleaning services; however, cleaning was not authorized on the SNA.

- For one claim, the Agency could not provide the signed Service Provider Agreement covering the time period tested. The entire claim, totaling $257 Federal share, is questioned.

- For another claim, proper verification was not received for an insurance premium used as a medical disregard in determining income eligibility. Without this verification, the client was only eligible for Medicaid with a Share of Cost and was responsible for $608 in Medicaid claims per month, including PAS services. This resulted in $40 in questioned costs for the claim tested and an additional $271 in questioned costs outside of our sample.

- Two claims were not calculated correctly. For one claim, the provider overbilled by a half hour. For another claim, the provider billed double the service units for a week, resulting in 72 units overbilled and a Federal share of questioned costs totaling $94.

- For one claim, the PAS service authorization was not properly closed when Medicaid eligibility ended for the recipient.

Federal payment errors noted in the sample were $1,024. The total Federal sample tested was $2,050, and the total Federal share of PAS claims from July 1, 2015, through June 30, 2016, was $9,545,112. Based on the sample tested, the case error rate was 90% (9/10). The dollar error rate for the sample was 49.95% ($1,024/$2,050), which estimates the potential dollars at risk for fiscal year 2016 to be $4,767,783 (dollar error rate multiplied by population).

Cause: Inadequate review of claims.

Effect: When there is an inadequate review of PAS claims, there is an increased risk of services provided not being in accordance with the recipients' needs, and this increases the risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations.

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

Finding 2016-049

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051505NE5MAP, FFY 2015; #051605NE5MAP, FFY 2016

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

Criteria: Per OMB Circular A-87 and 45 CFR § 75.403 (October 1, 2015), allowable costs must be necessary, reasonable, and adequately documented.

Title 20 CFR § 416.415(a) (April 1, 2015) states, in part, "If you are a disabled child under age 18 and meet the conditions in § 416.1165(i) for waiver of deeming, you parents' income will not be deemed to you . . . ."

According to Title 20 CFR § 416.1165(i):

> *If you are a disabled child under the age of 18 living with your parents, we will not deem your parents' income to you if – . . . (2) You are eligible for medical assistance under a Medicaid State home care plan approved by the Secretary under the provisions of section 1915(c) or authorized under section 1902(e)(3) of the Act; and . . . .*

The Tax Equity and Fiscal Responsibility Act of 1982, Section 134 Medicaid Coverage of Home Care For Certain Disabled Children, amended Section 1902(e) of the Social Security Act by adding the following:

> *(3) At the option of the State, any individual who –*
>
> *(A) is 18 years of age or younger and qualifies as a disabled individual under section 1614(a);*
>
> *(B) with respect to whom there has been a determination by the State that –*
> *(i) the individual requires a level of care provided in a hospital, skilled nursing facility, or intermediate care facility,*
>
> *(ii) it is appropriate to provide such care for the individual outside such an institution, and*
>
> *(iii) the estimated amount which would be expended for medical assistance for the individual for such care outside an institution is not greater than the estimated amount which would otherwise be expended for medical assistance for the individual within an appropriate institution; and*
>
> *(C) if the individual were in a medical institution, would be eligible to have a supplemental security income (or State supplemental) payment made with respect to him under title XVI, shall be deemed, for purposes of this title only, to be an individual with respect to whom a supplemental security income payment, or State supplemental payment, respectively, is being paid under title XVI.*

42 USC § 1382c(a)(3)(C)(i) (2015) states the following:

> *An individual under the age of 18 shall be considered disabled for the purposes of this subchapter if that individual has a medically determinable physical or mental impairment, which results in marked and severe functional limitations, and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.*

Per Title 480 NAC 5-005(L)(3), non-medical transportation is covered by this waiver program.

According to Title 480 NAC 5-005(E)(1), chore services "include bill paying; errand service; essential shopping; food preparation; housekeeping activities; laundry service; personal care service; simple home repairs and maintenance; and supervision."

Per Title 480 NAC 5-002(1), to be eligible for waiver services, clients must be eligible for the Nebraska Medical Assistance Program (NMAP).

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. Waiver services may not be authorized until the client's Medicaid eligibility has been determined . . . ."

Per Title 480 NAC 5-006(1)(a), waiver providers may bill "only for services which are authorized and actually provided."

A good internal control plan requires review procedures to be in place to ensure services are only provided to eligible clients, services do not exceed authorized limits, and correct amounts are paid for services provided.

Condition: We tested 25 home-based service claims for the aged and disabled waiver and noted 8 payments did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Repeat Finding: #2015-062

Questioned Costs: $24,060 known

Grant #	Questioned Costs
#051505NE5MAP	$ 6,264
#051605NE5MAP	$ 17,796

Statistical Sample: No

Context: During testing, we noted the following:

- Three payments tested were not allowable, as services were provided when the three individuals were not eligible. The individuals were not eligible to receive Medicaid benefits due to their parents' excess income and the lack of disability determination by the State Review Team. The Federal share of the three payments totaled $653 and is considered questioned costs. Also included in these payments, we noted one provider was paid for seven hours outside the authorized times, and a second provider billed and was paid for the same day of service on two separate claims.

    - We also noted additional claims paid for the three individuals while ineligible. The Federal share of additional ineligible claims during State fiscal year 2016 totaled $23,084.

- For one payment tested, we noted there were five days, totaling 30.5 hours of service, on the Individual Provider Record of Services, which included items that are not allowable chore services, resulting in questioned costs of $150. Unallowable services included taking the individual out to eat, to a friend's funeral, and on a trip to Fort Collins, Colorado.

- For one payment tested, the provider was authorized for up to 10 hours of service per month; however, the provider was paid for 30 hours of service for the month of May 2016. Service was provided May 26-27, 2016, and May 30-31, 2016, so the 10 hours of service authorized were applied to the earliest dates first. For the line item tested on the claim, the provider was paid for 17 hours of service on May 30-31, which were all over authorization, resulting in questioned costs of $130.

   - The provider was paid for 13 hours of service for May 26-27, 2016, which was 3 hours over authorization, resulting in questioned costs outside of the sample of $23.

- For one payment tested, the Individual Provider Record of Services noted six quarter hours of escort were provided during transportation to a doctor's appointment. Only non-medical transportation is allowable for the waiver program. Also included in this claim payment, it was noted 10 quarter hours of escort should have been paid at the prior authorized rate. It appears service was provided on July 1, 2015, but the authorized rate for the time period tested was not effective until July 3, 2015. The date on the Individual Transportation Provider Record of Services was crossed out and changed from July 1, 2015, to July 3, 2015, without an indication as to who made the change and whether the client was aware of the change made. This resulted in questioned costs of $8.

- For two payments tested, the providers were paid for services in excess of hours authorized, resulting in questioned costs of $12. The number of hours over authorization ranged from one to two hours per week.

Federal payment errors noted in the sample were $953. The total Federal sample tested was $7,246, and the Federal share of home-based aged and disabled waiver payments for State fiscal year 2016 was $30,545,066. Based on the sample tested, the case error rate was 32% (8/25). The dollar error rate for the sample was 13.15% ($953/$7,246), which estimates the potential dollars at risk for fiscal year 2016 to be $4,016,676 (dollar error rate multiplied by population). In addition to the $953 Federal questioned costs noted on the sample items tested, we also noted $23,107 of Federal questioned costs on related claims for the payments reviewed.

Cause: Inadequate review procedures and worker error.

Effect: Without procedures to ensure payments are proper, 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 proper, adequately supported, and reviewed. This should include ensuring individuals are eligible and comparing billings to authorizations and support of time worked.

Management Response: The Agency agrees with the condition reported.

Finding 2016-050

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Grant Number & Year: All open, including #051605NE5MAP, FFY 2016

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

Criteria: According to 42 CFR § 447.253(g) (October, 1, 2015), "The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers."

The Nebraska Medicaid State Plan, Attachment 4.19-A, § 10-010.03B8a, provides the following:

> *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 reconciliation will be made within 6 months following receipt by the Department of the facility's 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 settled Medicare cost report, which will be used for purposes of calculating prospective rates."

A good internal control plan requires audit results to 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 final adjustment for inpatient rates for critical access hospitals was not done for 2008, 2009, and 2013 for some hospitals. We also noted 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 was not based on audited cost reports.

Repeat Finding: #2015-063

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency uses several methods to determine rates for hospital services. Inpatient rates are determined based on whether the hospital is designated as 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. The Agency has solicited the services of a consultant to rebase inpatient rates for non-critical access hospitals; however, the rates were not updated by the end of the fiscal year.

The Federal government contracts with independent auditors to perform cost report audits on all facilities that have Medicare beds. 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 the prior audit, we noted the Agency had not adjusted 2007, 2008, 2009, or 2012. In the current year, we noted the Agency adjusted 2007 and 2012, but still has not adjusted 2008 or 2009. Additionally, of eight critical access hospitals tested, three had not yet been adjusted for 2013.

The Federal share of inpatient hospital payments for the fiscal year totaled $42,235,216. A similar finding was noted in the seven prior audits.

Cause: The Agency has made progress since the prior audit but ultimately still did not devote adequate resources to this issue.

Effect: When inpatient rates for noncritical access hospitals are based on inappropriate source data and when rebasing and adjustments for critical access hospitals are not performed timely, there is an increased risk calculated rates will be in excess of actual costs.

Recommendation: We recommend the Agency implement procedures to ensure 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.

Management Response: The Agency agrees with the condition reported.

Finding 2016-051

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051605NE5MAP, FFY 2016

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

Criteria: Per 42 CFR § 431.53 (October 1, 2015), "A State plan must – (a) Specify that the Medicaid agency will ensure necessary transportation for beneficiaries to and from providers . . . ."

Per Title 471 NAC 27-001, Non-Emergency Transportation (NET) Services cover a ride, or mileage reimbursement for a ride, as well as escort/attendant services provided, so that a Medicaid-eligible client with no other transportation resources can receive Medicaid coverable services.

The Agency's contract with the NET broker contains the following:

> *The contractor shall develop and maintain a process to be approved by the Department for no less than 10 (10%) percent random audits monthly of NET provider supporting documentation per trip to validate a completed service and that submitted charges are correct in accordance to Department regulations.*
>
> *The contractor shall electronically provide the Department the following monthly reports . . .*
>
> *d. Summary of audit findings that verify the client received Medicaid coverable services.*
>
> *The contractor shall ensure client signatures, per transportation leg received, are provided by the NET Provider to support all claims submitted to the contractor . . . .*

The NET Transportation Provider Agreement states that the provider shall, "Ensure the rate submitted for payment shall not exceed the amount charged to private payers and in accordance to the Department of Medicaid & Long-Term Care Non-Emergency Transportation Fee Schedule."

Per 45 CFR § 75.303 (October 1, 2015), an Agency must establish and maintain effective internal control to ensure compliance with Federal requirements. A good internal control plan requires policies and procedures to ensure NET claims are reviewed to ensure medical services actually occurred, providers are paid correctly, and Federal and State requirements are followed.

Condition: The Agency did not adequately monitor the NET broker. We tested 10 NET claims. For 6 of 10 payments, there were no medical claims on the Medicaid Management Information System (MMIS) or in managed care records to support that the trip was proper. For 2 of 10 payments, the rates paid to the NET provider were incorrect based on provider type and start/stop points of travel. For one claim, the recipient did not sign the provider records indicating service was actually provided.

Repeat Finding: #2015-065

Questioned Costs: $128 known

Statistical Sample: No

Context: A transportation broker provides NET brokerage services for the Medicaid program. A Medicaid-eligible recipient who needs a ride to a Medicaid-eligible provider calls the broker, and the broker sets up a NET provider to provide the requested transportation. The broker is paid $3.94 per one-way trip for managing this service, and the NET providers are paid based on various rate schedules. NET providers must submit their claims to the broker, who then submits the claims to the Agency for payment.

The Agency's monitoring of the contract was not adequate during the fiscal year. The contract required the broker to audit randomly 10% of the NET providers' supporting documentation per trip to validate a completed service and to verify that submitted charges were correct; however, this was not done. There was not an after-the-fact review or audit of claims to ensure medical services were actually provided.

During our detail testing of 10 broker claims and the associated NET provider claims, we noted the following:

- For six payments, documentation did not support the trip was proper, resulting in Federal questioned costs of $22 to the broker and $91 to the provider. In all instances tested, the recipient signed off on the trip to indicate it actually occurred. However, in five instances, the medical provider they were transported to did not submit a claim for payment. Therefore, it is possible the recipient obtained a ride but did not actually receive medical treatment, which is not allowable. For one instance, the driver's log showed the recipient was transported directly from home to an appointment; however, the provider billed for an extra stop.

- For two payments, the amounts paid to providers were incorrect, resulting in $4 in Federal questioned costs. One provider was paid the incorrect amount based on the Public Service Commission (PSC) certified rates. The driver's logs for the trips noted the correct rates; however, the provider was paid based on the higher Medicaid rate. For the second payment, a PSC-exempt provider was paid at a rate higher than the provider's private rates.

- For one payment, there was no recipient signature indicating the service was actually provided, resulting in Federal questioned costs of $2 to the broker and $9 to the provider.

The broker was paid $646,662 in Federal Medicaid funds during the fiscal year. The Federal sample tested for the broker was $38, and errors noted were $24. The dollar error rate was 63.16% ($24/$38), which estimates the potential dollars at risk to be $408,432 (dollar error multiplied by population). We tested $623 paid to NET providers and noted $104 questioned costs. Per the Agency, the Federal share of payments to NET providers for the fiscal year was $3,539,205.

Cause: Inadequate monitoring by the Agency. The broker did not have to verify with the medical provider that a service was scheduled. The broker is only required to verify the Medicaid eligibility of the recipient and that the address to which travel was requested belonged to a Medicaid provider. The Agency developed and approved a NET Claims Audit Report, so the broker could perform monthly audits to ensure transportation was allowable; however, this report was not implemented during the fiscal year.

Effect: Failure to review claims and providers adequately increases the risk for loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure NET claims are reviewed to ensure medical services actually occurred, providers are paid correctly, and Federal and State requirements are followed.

Management Response: The Agency agrees with the condition reported.

Finding 2016-052

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: All open, including #051605NE5MAP, FFY 2016

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

Criteria: Per 45 CFR § 75.403 (October 1, 2015), allowable costs must be adequately documented and necessary and reasonable. Per Section II B(1) of the contract with the provider, the Agency "will provide reimbursement of actual approved costs . . . ."

Condition: The Agency had inadequate supporting documentation for the amounts paid for team behavioral consultations.

Repeat Finding: #2015-066

Questioned Costs: $29,401 known

Statistical Sample: No

Context: During testing, we noted the Agency pays one provider all of its costs for team behavioral consultations. The Federal share was calculated using the percentage of hours provided on behalf of Medicaid-eligible clients. Inadequate procedures were performed to ensure the total costs paid were correct. The Agency verified the totals on the provider's detailed listing recalculated to the invoice amount. If the totals did not agree, an inquiry was made. The Agency also performed several site visits during the year and documented the invoices reviewed. Additionally, the Agency requested supporting documentation for one line item each month. However, we noted the following deficiencies in the Agency's review:

- The provider billed a 22% surcharge for indirect charges. The Agency did not have documentation to support the reasonableness of this surcharge ($17,132 Federal share).

- Fidelity and Adherence was not adequately documented ($12,269 Federal share). The charges were primarily salary costs for upper-level management. However, detailed accounting records or timesheets were not provided to support the charges were appropriate. Specifically, it appears the grant was paying a significant portion of the President/CEO's salary, perhaps 100%. The contractor organization provides multiple Medicaid and other various services and the charges made to this grant did not seem allocable.

- The Agency obtained accounting records for salary costs but did not obtain supporting timesheets.

Total Federal share of payments to the provider during the fiscal year was $953,532. We tested one payment of $190,997. The Federal share of the payment tested totaled $94,993. The Federal share of questioned costs noted was $29,401, or 31%. A similar finding was noted in the prior three audits.

Cause: The Agency has continued to enhance its monitoring of the total costs, but it did not verify all cost categories 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.

Finding 2016-053

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Special Tests and Provisions

Grant Number & Year: All open, including #051505NE5MAP, FFY 2015

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

Criteria: Title 42 CFR § 455.1 (October 1, 2015) 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, adequately collected on, and appropriate dispositions are made in a timely manner.

Per 42 CFR 433.316(a) (October 1, 2015):

> *The date on which an overpayment is discovered is the beginning date of the 1-year period allowed for a State to recover or seek to recover an overpayment before a refund of the Federal share of an overpayment must be made to CMS.*

Condition: We noted 4 of 25 Program Integrity cases tested did not comply with Federal and/or State requirements. A similar finding was noted in the prior audit. The Agency did not have any written procedures regarding priority of cases or timely working of cases, other than cases "need to be worked in a timely manner." The Agency also had at least $1,327,764 (Federal and State share) in credits due to CMS where the Federal share had not been returned by June 30, 2016.

Repeat Finding: #2015-069

Questioned Costs: $280 known

Statistical Sample: No

Context: We noted the following:

- For one case, $1,869 was identified but only $1,344 was collected via NFOCUS recoupments. The entire balance could have been recouped, but some payments to the provider did not have recoupments applied. The balance could have been paid off in July 2015. In September 2015, the provider ceased submitting requests for payment. Federal share $280 questioned costs.

- One case with a $5,660 balance had $4,100 of the total inappropriately closed in September 2015, and no further follow up on the remaining $1,560, even though the Agency had a lead on the provider's new address. Different divisions of the Agency were not working together to ensure the balance was appropriately pursued.

- In November 2015, the Agency began investigating multiple personal assistance service agencies due to similar issues noted with similar providers. We tested two of these reviews, and the Agency did not document work on the cases until June and July 2016, which is not timely. Once the cases were worked, the Agency moved to terminate the providers' agreements. Issues noted included direct care staff that were ineligible to be PAS providers due to various infractions including assault, felony crack possession, and child abuse. The Agency paid these providers a combined amount of $36,012 Federal funds during the fiscal year, after the cases were opened.

A mandate of the Affordable Care Act is for all states to engage with Recovery Audit Contractors (RAC's) to identify and seek reimbursement for Medicaid improper payments from providers. Providers make payments to a holding account. The Agency adjusts the claims in their system and reconciles with the RAC before they transfer the funds into Medicaid business units and return the Federal share to the Federal government. The reconciliation process can be complex and lengthy; however, Federal regulations allow a full year to complete this process. However, as of June 30, 2016, at least $1,327,764 was overdue. This means $1,327,764 was received from providers before June 30, 2015, and still had not been reconciled and the Federal share returned to the Federal government by June 30, 2016.

Cause: Worker error and failing to devote adequate resources to working cases and performing RAC reconciliations in a timely manner.

Effect: Increased risk for loss or misuse of Federal funds. The Agency has delayed the return of Federal funds to the Federal government.

Recommendation: We recommend the Agency implement written procedures to ensure cases are worked timely. We recommend the Agency implement procedures to ensure refunds, including interest, are remitted to the Federal government on a timely basis. We further recommend the Agency deposit all monies timely.

Management Response: The Agency agrees with the finding related to the lack of documented procedures regarding the prioritization or timely working of cases.

The Agency partially agrees with the finding that there are outstanding refunds collected by the Recovery Audit Contractor that have not been returned to CMS. The Agency agrees with the condition but does not agree with the amount noted in the finding. The Agency will work with CMS to determine the actual amount due.

APA Response: The Agency was unable to provide adequate support to determine a precise amount, as the reconciliation was not complete. Based on the support provided, at least $1,327,764 was overdue.

Finding 2016-054

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: All open, including #051505NE5MAP, FFY 2015

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

Criteria: Per OMB Circular A-87, allowable costs must be necessary and reasonable. A good internal control plan requires procedures to ensure costs are not paid that are supposed to be the responsibility of another entity.

Condition: During testing of a random sample of 25 regular Medicaid claims, we noted one claim was paid by the Agency, but it should have been covered by managed care.

Repeat Finding: No

Questioned Costs: $238 known

Statistical Sample: No

Context: We tested a sample of regular claims, which excludes various categories, such as long-term care, waiver programs, and managed care. During detail testing, we noted the Agency contracts with several plans to provide Medicaid-managed care for physical health care. Rates are set through an actuarial analysis; the Agency pays the managed care plans a set monthly rate for each recipient, and managed care pays for any subsequent medical claims for specified service types. However, for one claim tested, the recipient was on managed care, but the claim was erroneously paid by the Agency. The recipient had just been approved for Medicaid and had not yet chosen a managed care plan. Recipients are allowed a 15-day period in which to sign up for a managed care plan. Within the 15-day choice period afforded to the recipient, the recipient obtained services from multiple Medicaid providers, and those providers billed and were paid by the Agency before the recipient was enrolled in a managed care plan. When the recipient was later enrolled, the enrollment was dated to include the dates for which the Agency paid for services. This resulted in questioned costs of $69 in our sample and an additional $169 outside of our sample (Federal share).

Federal payment errors noted in the sample were $69. The total Federal sample tested was $10,218 and total sample population of regular Medicaid payments made to providers for the fiscal year were $240,659,240. Based on the sample tested, the case error rate was 4% (1/25). The dollar error rate for the sample was 0.68% ($69/$10,218), which estimates the potential dollars at risk for the fiscal year to be $1,636,483 (dollar error rate multiplied by population).

Cause: The Agency did not implement internal controls to prevent physical health claims from being paid erroneously by the Agency instead of managed care during the 15-day choice period because it was determined this situation would not occur often.

Effect: Unallowable claims were paid, resulting in misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure claims are not paid when recipients are enrolled in managed care.

Management Response: The Agency agrees with the condition reported.

Finding 2016-055

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: All open, including #051605NE5MAP, FFY 2016

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

Criteria: Title 45 CFR § 75.403 (October 1, 2015) requires costs to be adequately documented.

According to the Agency's Home and Community-Based waiver for developmental disabilities services:

> *Day habilitation services are formalized training and staff supports that take place in a non-residential setting separate from the individual's private residence or other residential living arrangement. Day Habilitation services are scheduled activities, formalized training, and staff supports . . .*
>
> *All daily residential rates begin with the assumption of 168 hours in a 7-day week with 35 hours spent outside of the residence.*
>
> *When 4 or more hours of continuous day services are delivered in a typical workday within a usual forty-hour workweek, Monday – Friday, the provider of continuous day services may bill a daily rate. When less than 4 hours of continuous day service are delivered, reimbursement is at an hourly rate.*

A good internal control plan requires procedures to be in place to ensure services charged do not exceed maximum limits. A good internal control plan also requires the Agency to ensure day services provided are adequately supported and are allowable according to waiver definitions.

Condition: Developmental disabilities (DD) providers were overpaid for services based on the Federally-approved waiver, resulting in Federal questioned costs. Residential rates were based on 168 hours per week with 35 hours spent outside of the residence; therefore, any day service hours in excess of the 35 hours were already included in the residential rate and should not be charged.

Repeat Finding: No

Questioned Costs: $28,701 known

Statistical Sample: No

Context: During the process of renewing the Medicaid waiver, the Agency found a discrepancy between the method used to pay DD providers and the Federal billing guidelines. The Agency was paying continuous residential rates and adult day services in excess of 35 hours per week.

We tested the 10 recipients who received the highest value of adult day services in May 2016 and who also received continuous residential services. We reviewed May 2 through May 29, as this constituted four full weeks. For all 10 recipients, providers billed day service every day, including weekends. We noted the following:

May 2-29	Residential Services Paid		Day Services Paid		Amount
Recipient	# Days	Amount	# Days	Amount	Questioned
1	28	$ 22,061	28	$ 12,310	$ 11,587
2	28	$ 22,061	28	$ 12,310	$ 11,368
3	28	$ 18,210	28	$ 12,310	$ 3,391
4	28	$ 22,061	28	$ 12,310	$ 3,517
5	28	$ 13,025	28	$ 12,167	$ 4,128
6	28	$ 21,153	28	$ 11,802	$ 9,153
7	24	$ 18,910	24	$ 10,551	$ 5,150
8	28	$ 14,685	28	$ 10,107	$ 2,656
9	28	$ 9,183	28	$ 9,996	$ 2,856
10	28	$ 12,663	28	$ 7,697	$ 2,294
Totals		**$ 174,012**		**$ 111,560**	**$ 56,100**
Federal Share of Questioned Costs					**$ 28,701**

- Five of the recipients attended day service at a vocational site Monday through Friday. Generally, they received 35 hours of day service during the week, so the weekend days claimed were questioned costs.

- Four recipients tested did not attend traditional formalized training in a non-residential setting due to various medical and behavioral constraints. Instead, it was determined that any outings in the community would count as day service. However, the day services provided often did not reach the four hours of service necessary to bill for an entire day. Support provided was case notes narrating what went on during

DD worker shifts. Often the activities described were residential in nature (taking medication, attending to hygiene, watching television, consuming meals). If an outing was mentioned (for example, going to the library or the park) we assumed this activity lasted one hour if the duration was not specified. Of the $48,590 day services for these recipients, only $12,353 was adequately documented and allowable.

- One recipient tested sometimes attended a vocational site during the week. On weekends, he sometimes participated in activities outside the home. The recipient was hospitalized two days, but the provider billed day services on those days as well.

The total of adult day services in May 2016 for recipients who also received continuous residential services was $6,977,480, Federal share of $3,569,679. The total paid for adult day services during the fiscal year was $107,805,898, Federal share of $55,721,633.

Cause: The Agency billing instructions to providers were not clear and not in accordance with the waiver.

Effect: Unallowable claims were paid and this results in misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure services paid are in accordance with Federal requirements. We further recommend the Agency ensure day services provided are adequately supported and allowable.

Management Response: The Agency agrees with the condition reported.

Finding 2016-056

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Grant Number & Year: #051505NE5MAP, FFY 2015; #051605NE5MAP, FFY 2016

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

Summary: Audit finding #2016-008, included in Part II of this report, External MMIS User Access, relates to both the financial statements and the Federal Medical Assistance Program. In our review of access to MMIS, we noted that 402 of 919 external users tested at nine external entities were no longer current and active employees of the external entity or no longer needed access to MMIS. For one other external entity, we were not able to verify that the 47 users were current and active employees of the external entity and required access to MMIS. A good internal control plan requires terminated users' access to be removed timely to reduce the risk for unauthorized access to Federally-protected State data.

Management Response: See Finding #2016-008

COMMISSION FOR LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding 2016-057

Program: CFDA 16.575 – Crime Victim Assistance – Allowable Costs/Cost Principles

Grant Number & Year: 2014-VA-GX-0030, FFY 2014

Federal Grantor Agency: U.S. Department of Justice

Criteria: Per 28 CFR § 66.20(a) (July 1, 2014):

> *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 28 CFR § 66.22(b) (July 1, 2014):

> *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.*

Per OMB Circular A-122, Attachment B, Section 8(m)(1), the distribution of salaries and wages to awards must be supported by personnel activity reports. Per Section 8(m)(2), reports maintained by non-profit organizations to satisfy these requirements must reflect an after-the-fact determination of the actual activity of each employee, and they must account for the total activity for which employees are compensated. OMB Circular A-122, Attachment A, Section A, requires costs to be reasonable, necessary, and adequately documented. A good internal control plan requires procedures to ensure subrecipients comply with applicable cost principles.

Condition: Financial monitoring of aid payments was not adequate, and payments to Federal subrecipients were not in accordance with Federal cost principles.

Repeat Finding: No

Questioned Costs: $47,525 known

Statistical Sample: No

Context: During our calendar year 2015 attestation examination, we noted a payment to a subrecipient did not have adequate supporting documentation. Time records did not show the distribution between activities or the grant for which the work was performed. The payment was made on September 25, 2015, and totaled $47,525.

Cause: Monitoring was not adequate to ensure compliance with Federal requirements.

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

Recommendation: We recommend the Commission implement procedures to ensure grant recipients spend funds appropriately and in accordance with Federal requirements.

Management Response: Documentation in the form of timesheets and pay stubs were submitted however the allocation of time to this particular cost activity is the questioned cost. The Crime Commission worked with the WCA to improve their time record reporting so that actual hours will be reported to future reimbursements. Timesheets had to be exported from Paylocity into Excel (rather than as a PDF) due to the size of the reports. If any changes were made they were initially made by the employee in Paylocity. In order to get the reports submitted by the deadline given to the WCA by the Crime Commission, the WCA had to begin to go ahead and make the changes in Paylocity and then manual edits were made in Excel. These edits were all approved and signed off on by the employee before submitting to the Crime Commission.

The Crime Commission has strict procedures on the monitoring of all federal funds. All sub recipients have an annual financial monitor or desk review and programmatic monitor once every three years. The Commission went to a strictly reimbursement payment method for all federal grants on January 1, 2015. There are six levels of review for each federal grant cash report received. Four of these levels are conducted by management positions, the Federal Aid Administrator II, Business Manager and the Chief of Budget and Accounting.

LIBRARY COMMISSION

Finding 2016-058

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Grant Number & Year: #LS-00-14-0028-14, FFY 2014; #LS-00-15-0028-15, FFY 2015

Federal Grantor Agency: Institute of Museum and Library Services

Criteria: Title 236 Nebraska Administrative Code (NAC) 2-008.03 states the following:

> *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.*

Title 45 CFR § 1183.20(a) (October 1, 2014) and 2 CFR § 200.302(a) (January 1, 2016) require States to expend and account for Federal awards in accordance with State laws and procedures for expending and accounting for the State's own funds.

2 CFR § 200.303(a) (January 1, 2016) requires the Agency to establish and maintain effective internal control to ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

2 CFR § 200.511(a) (January 1, 2016) requires the auditee to prepare a summary schedule of prior audit findings. Per subsection (b)(2) of that same regulation, "When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken."

Condition: We noted the following:

- We noted the fiscal year 2016 allocation was not in accordance with Title 236 NAC regulations; furthermore, according to its May 2016 meeting minutes, the Nebraska Library Commission (NLC) approved, upon the recommendation of the Agency Director, the funding of the fiscal year ended June 30, 2017, Regional Library System Budget Allocations at the current year amount, as the funding for the current year and State appropriations are the same. However, this process is not in compliance with the Agency's own rules and regulations at Title 236 NAC 2-008.03, which requires funding support for regional library systems to be on a two-step formula basis.

We also noted the following:

- Subrecipient monitoring procedures were inadequate; and

- The summary schedule of prior audit findings prepared by the Agency stated that a corrective action plan was completed; however, all corrective action had not been taken.

A similar finding was noted in the prior audit.

Repeat Finding: 2015-071

Questioned Costs: Unknown

Statistical Sample: No

Context: The State of Nebraska is divided into four regional library systems (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 both State and Federal funds. We noted the fiscal year 2016 allocation was not in accordance with Title 236 NAC regulations. Furthermore, based on the May 2016 Board minutes and discussion with staff, the fiscal year ended June 30, 2017, allocation to the Systems was based on prior year distribution rather than following procedures required by the Agency's own rules and regulations at Title 236 NAC 2-008.03.

We also noted that subrecipient monitoring procedures could be improved. In order to monitor the funds received, the Agency required the Systems to submit a plan of service that detailed its goals and objectives. The Agency also received a compilation of the Systems' financial statements. Furthermore, the Agency indicated that one of its staff members attended all of the Systems' board meetings. At those 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 Systems' financial compilations to ensure that no expenditures had been excluded. 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 Systems as aid during the time period of July 1, 2015, to June 30, 2016:

Grant Number	Amount
LS-00-14-0028-14	$ 94,428
LS-00-15-0028-15	$207,415
Total	$301,843

Cause: Unknown

Effect: Noncompliance with the Agency rules and regulations, Federal requirements, as well as an increased risk of loss or misuse of Federal funds.

Recommendation: We again recommend the Agency follow established rules and regulations and ensure its Board approves the formula and guidelines used to calculate funding to the Systems, as required by Title 236 NAC 2-008.03. Additionally, we recommend the Agency strengthen its monitoring procedures by comparing the Systems' detailed expenditure listings to the compiled financial statements and by implementing procedures to review support for these expenditures to ensure they are allowable in accordance with Federal requirements. Finally, we recommend the Agency complete accurately the summary schedule of prior audit findings.

Management Response: Funding for Nebraska's four regional library systems was approved by the Library Commission at the Commission's May 2016 meeting. According to the requirements of Title 236 Nebraska Administrative Code (NAC) 2-008.03, "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." Although not noted in the May 2016 Commission minutes, funding for each of the regional systems includes a base amount to cover a full-time professional system director and part-time support staff. The base funding also provides for office space, travel, board expenses, utilities, insurance, communications, supplies, and other operating expenses. In addition, funding includes support for regional system programming and services – consultation, training, program related events, and more dependent on the regional system's annual service plan.

The Nebraska Library Commission does not have staffing resources available to conduct audits of the Systems that would include comparison of detailed expenditure listings to the compiled financial statements. Currently, the Systems engage a professional accounting firm (Riggs & Associates, CPAs, P.C.) to present annual compilation reports comprised of statements of financial position, statements of activities and cash flows, and related notes. The firm does not conduct audits or review of financial statements to verify accuracy or completeness of information provided by System management. The Commission will inform the Systems that they should have annual audits conducted by professional auditing services to ensure their practices are allowable in accordance with Federal requirements.

MILITARY DEPARTMENT

Finding 2016-059

Program: CFDA 12.401 – National Guard Military Operations and Maintenance (O&M) Projects – Cash Management

Grant Number & Year: Appendixes – W91243-14-2-1001, FFY 2014; W91243-16-2-1001, W91243-16-2-1002, W91243-16-2-1003, W91243-16-2-1005, W91243-16-2-1007, and W91243-16-2-1024, FFY 2016

Federal Grantor Agency: U.S. Department of Defense

Criteria: Master Cooperative Agreement, Article V – Payment, Section 503, Payment by Advance Method, states, "The advance payment method shall be according to procedures established in, NGR 5-1."

National Guard Regulation (NGR) 5-1, National Guard Grants and Cooperative Agreements, Section 11-5, Advance Payment Method, Subsection (5), states, "[T]he grantee agrees to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement by the State. (no more than 45 days)."

Title 2 CFR § 200.305a (January 1, 2016) states, in part, "For states, payments are governed by Treasury-State CMIA agreements and default procedures codified at 31 CFR Part 205 . . . ."

Title 31 CFR Part 205 (July 1, 2015) implements the Cash Management Improvement Act (CMIA) and requires State recipients to enter into agreements that document accepted funding techniques for Federal assistance programs. The CMIA Agreement between the State of Nebraska and the Secretary of the Treasury, U.S. Department of the Treasury, for the period July 1, 2015, through June 30, 2016, requires the program to request Federal funds in accordance with the pre-issuance funding technique by which funds are to be requested and deposited in a State account not more than three business days prior to the disbursement of funds.

A good internal control plan would include procedures to ensure the time between the drawdown of Federal funds and disbursements are minimized and in compliance with NGR 5-1 and the State of Nebraska CMIA Agreement.

Condition: The Agency was not in compliance with the Federal cash management requirements during the fiscal year.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: We noted the timing of 3 of 12 drawdowns tested were not in compliance with NGR 5-1. Funds were expended 51, 92, and 204 days after the drawdown of Federal funds, which exceeded the 45-day maximum per NGR 5-1. We also noted that 10 of 12 drawdowns tested were not in compliance with the applicable funding technique outlined in the CMIA Agreement. Funds were expended from 6 to 201 days after the three-business-day maximum, as outlined in the CMIA Agreement.

Cause: Funds were drawn down in order to have adequate money available at the end of the State and Federal fiscal years. The Agency's policy was to follow the NGR requirements of 45 days rather than the CMIA Agreement requirement of 3 days.

Effect: When the Agency is not in compliance with Federal compliance requirements, there is an increased risk of loss of Federal funding.

Recommendation: We recommend the Agency comply with Federal cash management requirements to ensure the amount of time between the Federal draw and the disbursement of funds is minimized for program purposes.

> **Management Response:** The Nebraska Military Department reaffirms the overall goal of efficient cash management. Federal program agencies and States should limit funds transfers to the minimum amounts necessary to meet program goals.

DEPARTMENT OF ROADS

Finding 2016-060

Program: CFDA 20.205 – Highway Planning and Construction – Reporting

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Transportation

Criteria: 2 CFR § 200.302(b)(1) (January 1, 2016) requires financial management systems to identify all Federal awards received and expended and the Federal programs under which they were received.

Title 2 CFR § 200.510(b) (January 1, 2016) states, in part, the following:

> *The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended . . . . At a minimum, the schedule must:*
>
> * * * *
>
> *(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.*

A good internal control plan requires adequate procedures to ensure the SEFA is properly presented.

Condition: The Agency did not have adequate procedures to ensure the SEFA was properly presented. Federal expenditures for the Highway Planning and Construction program were not accurate. The SEFA was subsequently adjusted.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: EnterpriseOne is the official accounting system for the State of Nebraska, and all expenditures are generated from it. The Agency does not enter CFDA information in EnterpriseOne. The Agency utilizes other systems to track construction projects and to identify Federal and non-Federal expenditures. The Agency's accounting systems are not presently set up to provide a full general ledger to be easily run by Federal program. In order to provide a detailed listing of expenditures by Federal program, the Agency would need to run a separate detailed listing of expenditures for each project's Control Number and manually identify the Federal expenditures, as the Control Number could include both Federal and non-Federal expenditures.

During fiscal year 2016, the Agency changed the process for marking projects as completed in the Project Finance System, which resulted in some projects with fiscal year 2016 Federal expenditures being excluded from the SEFA.

CDFA	Originally Reported	Revised	Variance
20.205	$ 320,058,333	$ 325,501,267	$ 5,442,934

Cause: The Agency's accounting systems are not presently set up to provide for a full general ledger to be easily run by Federal program, and the Agency does not enter CFDA information into EnterpriseOne.

In prior years, projects were marked as "Finalled" in the Project Finance System after one full fiscal year without Federal expenditures. In 2016, the process was changed to mark projects as "Finalled" once the final payment occurs. However, the report used to generate the SEFA amount was set up to exclude all "Finalled" projects. This resulted in the exclusion of some projects marked as "Finalled" that had Federal expenditures in fiscal year 2016.

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

Recommendation: We recommend the Agency implement procedures to ensure all CFDAs are accurately presented on the SEFA. Report criteria should be reviewed to ensure accurate information is identified.

Management Response: NDOR does not contest this finding.

<u>Finding 2016-061</u>

Program: CFDA 20.205 – Highway Planning and Construction – Allowability

Grant Number & Year: Federal Project #0304149

Federal Grantor Agency: U.S. Department of Transportation

Criteria: A good internal control plan includes procedures to ensure payments are adequately reviewed prior to payment.

2 CFR § 200.303(a) (January 1, 2016) requires non-Federal entities to "Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Per 2 CFR § 200.403 (January 1, 2016) costs must be reasonable, necessary, and adequately documented.

The Supplemental Agreement No. 82 with the Union Pacific Railroad Company (Union Pacific) states, in relevant part, the following:

> *5. The estimated cost of the railroad work covered by this supplemental Agreement is $344,162. Said estimate shall be prepared by the Company, attached hereto, identified in Exhibit 'A' and made a part hereof.*
>
> *6. The Company will be reimbursed for costs incurred by the Company in connection with work covered by this Supplemental Agreement in conformance with the terms of the Master Agreement on an actual cost basis . . . .*

Condition: The Agency did not have procedures to review adequately invoices from Union Pacific prior to payment.

Repeat Finding: No

Questioned Costs: $176,050 known

Statistical Sample: No

Context: During our testing of 25 expenditures for the Highway Planning and Construction program, we tested one payment to Union Pacific. The Agency contracts with Union Pacific for work required on projects impacting railroad right-of-ways. The expenditure tested was for two invoices totaling $176,050. The Agency did not have adequate documentation to support the invoices were for actual costs of the project. In addition, the invoices did not tie to Exhibit A of the agreement. Union Pacific invoices are approved by Agency staff, but a full review including review of detailed support and review of rates used is not performed until after the project is completed. Total payments to Union Pacific during the fiscal year were $621,520.

Cause: Construction contracts are awarded on the basis of the lowest responsible bid; however, for work related to railroad right-of-ways, the Agency contracts with the railroad based on actual costs. A review of detailed support and review of rates used is not performed until after the project is completed.

Effect: There is an increased risk of payments being made for unallowable costs or incorrect amounts.

Recommendation: We recommend the Agency improve procedures to review adequately railroad invoices prior to payment to ensure the amounts and rates included are correct.

> **Management Response:** In the audit it was pointed out that a review of detailed support and review of rates is not completed until after the project is completed. This current process could result in unallowable costs.

Finding 2016-062

Program: CFDA 20.509 – Formula Grants for Rural Areas – Allowability & Subrecipient Monitoring

Grant Number & Year: NE-18-X040-01, FFY 2011; NE-18-X045-00, FFY 2012; NE-18-X048-00, FFY 2013

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 requires pass-through entities to monitor subrecipients to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and grant agreements. OMB Circular A-133 also requires the Agency to notify subrecipients of the CFDA title. A good internal control plan requires procedures to ensure subrecipients use Federal awards in accordance with Federal requirements.

According to the Federal Transit Administration Circular FTA C 5010.1D Rev.1, August 27, 2012, "[S]ubgrantees must meet the following standards . . . Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contracts, and subgrant award documents."

2 CFR § 200.331(a) (January 1, 2016) requires the pass-through entity to do the following:

> *Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. . . . Required information includes: (1) Federal Award Identification. . . . (iv) Federal Award Date (see § 200.39 Federal award date) of award to the recipient by the Federal agency; . . . (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation; (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity; (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA); (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity; (xi) CFDA Number and Name; . . . (6) Appropriate terms and conditions concerning closeout of the subaward.*

Per OMB Circular A-133 § __.105 and 2 CFR § 200.40(a) (January 1, 2016), Federal financial assistance includes grants and non-cash contributions or donations of property.

A good internal control plan would include procedures to ensure monitoring documentation is maintained, and all required communications are included in subaward agreements.

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 and in accordance with allowable cost principles. Also, subrecipient agreements did not include all required communications. A similar finding was noted in the prior audit. Additionally, the Agency did not notify subrecipients that capital assets purchased by the Agency and transferred to the subrecipient were Federal financial assistance.

Repeat Finding: #2015-074

Questioned Costs: $438,118 known. (NE-18-X040-01 $110,736; NE-18-X045-00 $327,382)

Statistical Sample: No

Context: During the fiscal year, the Agency paid $5,405,828 to 60 subrecipients. We noted the following:

Payments to Subrecipients

Subrecipients receive assistance to provide transportation services to rural areas, based on their operating deficit and their non-operating costs. To receive reimbursement, the subrecipient provides a report of its operating revenue, operating costs, and non-operating costs. The subrecipient receives Federal reimbursement for 50% of its operating deficit (operating costs less operating revenues) and 80% of its non-operating costs.

Our prior audit noted the Agency did not have adequate subrecipient monitoring procedures. During our current review, we noted the Agency improved monitoring procedures during the fiscal year by increasing desk reviews; however, further improvement in monitoring procedures and documentation should be implemented to ensure subrecipient costs are in accordance with Federal requirements.

We tested 25 payments, 20 of which were payments to 18 subrecipients. Documentation on file for the payments tested included only worksheets prepared by the subrecipient. The Agency did perform financial desk reviews of expense reimbursement requests submitted by the subrecipients; however, many of the reviews were inadequate. Questioned costs of $138,534 were noted for the following reasons:

- For all 18 subrecipients tested, revenues were not reviewed at all – for example, by receiving supporting documentation or performing analytical review or any other procedures. We performed a limited review and, for 11 of the 20 payments submitted, noted that the fares reported, divided by the number of regular boardings reported, was lower than expected. For example, one subrecipient reported 261 regular boardings and only $60 in fares, which calculates to a fare of about 23 cents. However, the published fare was a minimum of $5. When subrecipients report lower fares, this increases their Federal reimbursement.

- For all 18 subrecipients tested, fuel expense was not reviewed. The Agency indicated to us that fuel is a higher-risk category of expenditures due to the risk of theft.

- For 13 subrecipients tested, the payroll reviewed for the year did not include detailed support, such as timesheets. For seven of these subrecipients, the support provided was an excel spreadsheet. For six others, the support provided was a report from the subrecipient's accounting system. There was not adequate documentation to support the time charged to the grant was correct and in accordance with Federal requirements.

- For five subrecipients tested, the Agency did not perform an adequate review of maintenance and administrative expenditures. For four of these subrecipients, the Agency indicated a desk review was performed; however, no invoices were reviewed. For one subrecipient, the Agency did not perform any desk review of maintenance and administrative expenditures.

For the 25 payments tested, we questioned $113,891 in personnel costs, $22,667 in fuel costs, and $1,976 in general administrative and maintenance costs, for a total of $138,534.

We also noted the Agency had two for-profit subrecipients who were reimbursed $299,584 in Federal funds during the fiscal year. In our review for these two entities, we noted the Agency did not perform any subrecipient monitoring, such as site visits or desk reviews. Therefore, the entire amount of $299,584 is considered questioned costs.

Federal payment errors noted in the sample were $138,534. The total Federal sample tested was $455,256, and the total Federal expenditures during the fiscal year were $6,768,580. Based on the sample tested, the dollar error rate was 30.43% ($138,534/$455,256), which estimates the potential dollars at risk for fiscal year 2016 to be $2,059,679 (dollar error rate multiplied by population).

Subaward Information

The Agency did not notify subrecipients of all required information. We noted all eight subaward agreements tested under OMB Circular A-133 requirements did not include the CFDA title. We further noted the Agency had four subawards subject to the new Uniform Guidance requirements. The Agency did not include all the communication requirements in those agreements, as required by 2 CFR § 200.331(a). The following requirements were not included: 1) Federal award date; 2) total amount of Federal funds obligated; 3) total amount of the Federal award; 4) Federal award project description; 5) contact information for awarding official; 6) CFDA name; and 7) terms and conditions concerning closeout of the subaward.

An allowable expenditure for the Formula Grants for Rural Areas is the purchase of buses for the use of public transportation in rural areas. The Agency has established a policy to use State procurement to purchase these buses and then deliver and transfer the title of the buses to the subrecipients. However, when the Agency accumulated the expenditures to be communicated to the subrecipients as Federal financial assistance, the Agency excluded the bus expenditures.

These bus purchases are Federal financial assistance to subrecipients, as the subrecipients receive an asset, and the buses clearly meet the definition of Federal financial assistance as defined by OMB Circular A-133 and 2 CFR § 200.40. As such, these expenditures should be communicated to the subrecipients as Federal financial assistance. The Auditor requested that the Agency seek clarification of this issue with the Federal Transportation Administration (FTA). The FTA representative agreed with our determination.

For the fiscal year ended June 30, 2016, the Agency purchased buses for 12 subrecipients for a total of $453,894.

Cause: Inadequate procedures, documentation, and oversight. The Agency improved monitoring procedures during the fiscal year by increasing desk reviews; however, the reviews were not adequate to ensure subrecipient costs were in accordance with Federal requirements. In addition, since the Agency made the expenditures for the buses, it believed these expenditures would not be considered Federal financial assistance to the subrecipients.

Effect: There is an increased risk of payments made for unallowable costs. When subrecipient monitoring documentation is not maintained and when all required communications are not included in the subaward agreements, there is greater risk of noncompliance with Federal laws and regulations. When all Federal financial assistance provided is not communicated to the subrecipient, there is a greater risk that a subrecipient could incorrectly conclude that a Single Audit is not required.

Recommendation: We recommend the Agency improve procedures to ensure subrecipient expenditures are allowable and in accordance with Federal regulations. We further recommend the Agency maintain all subrecipient monitoring documentation and communicate to its subrecipients all information required by Federal regulations.

> **Management Response:** NDOR Transit does not concur with any questioned costs with this finding. Both the statements of cause and effect do not address the processes already in place that have increasingly improved and controlled financial oversight. Regarding desktop audits of the operating assistance invoices, citing inadequacies in these processes along with concluding there are increased risks of noncompliance and unallowable costs presumes that sample auditing is not an effective tool for the nearly 700 invoices submitted annually. NDOR will continue to engage its staff for process improvements to the desktop audits, site visits and federal funds reporting. Regarding CFDA # disclosure, NDOR receives audit confirmations from auditors of the subrecipients who are required to obtain A-133 or uniform guidance audits. The audit confirmation response includes the CFDA # for the federal funds expended. Regarding the purchase of buses and the federal financial

assistance, these federal funds were reported on the NDOR audit in prior years. NDOR concurs these expenditures are to be reported by the subrecipients and processes are in place to comply with this concurrence.

<u>Payment to Subrecipients</u>

1. Revenues are not reviewed as fare rates are determined locally and vary substantially. For example, one system may set a fare of $5 per boarding but allow that passenger to board and re-board up to 5 times in one day. In addition, some fares are "sponsored" by Medicaid, local churches and other entities. This is not considered revenue but is reported as local match. Finally, care givers ride at no charge per federal regulation. Due to these circumstances, a review of revenue would not produce any beneficial information. The process of collecting fares is reviewed during on-site visits to ensure adequate separation of duties.
2. Fuel receipts and proof of payment are now requested during desktop audits.
3. Timesheets or other personnel documentation to support expenses is now requested during desktop audits.
4. Invoices to support maintenance and administrative expenses are now requesting during desktop audits.

<u>Subaward Information</u>

1. All agreement templates have been updated to include the information required by the Uniform Guidance.
2. The Controller Division has updated their processes and will include bus expenditures as Federal financial assistance to subrecipients.

APA Response: We acknowledge subrecipient monitoring did improve during the fiscal year. However, reviews were still inadequate. For example, payroll costs are typically the largest expenditure claimed by the subrecipients; but, the Agency failed to perform an adequate payroll review for most of the subrecipients tested. In some cases the only support provided was a one-page Excel spreadsheet. The documentation was not adequate to ensure time charged to the grants was correct or that Federal cost principles were adhered to. Fuel and revenues were not reviewed for any subrecipients for the entire year. Review of revenues is important to ensure subrecipients are not increasing their Federal reimbursement by reporting lower revenues than actual. For the other categories, the Agency's sampling methods were insufficient to ensure adequate coverage was obtained. Also as noted above, the Agency had two for-profit subrecipients who were reimbursed $299,584 in Federal funds during the fiscal year. In our review for these two entities we noted the Agency did not perform any subrecipient monitoring, such as site visits or desk reviews.

<u>Finding 2016-063</u>

Program: CFDA 20.509 **–** Formula Grants for Rural Areas **–** Reporting

Grant Number & Year: NE-18-X040-01, FFY 2011; NE-18-X045-00, FFY 2012

Federal Grantor Agency: U.S. Department of Transportation

Criteria: A good internal control plan includes procedures to ensure Federal reports are accurate and prepared and approved by a responsible individual. Per 2 CFR § 200.302 (January 1, 2016), fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports.

Condition: The Agency did not accurately report expenditures on the Federal Financial Reports (FFR). A similar finding was noted in the prior audit. Additionally, the Agency did not maintain a record of who prepared and approved the reports.

Repeat Finding: #2015-075

Questioned Costs: None

Statistical Sample: No

Context: The Recipient Share of Expenditures reported on the annual NE-18-X040-01 FFR totaled $3,008,931 and $547,776 on the NE-18-X045-00 FFR; however, these amounts were estimates and not the actual recipient share of expenditures. The actual recipient share could not be determined by the Agency. The Agency allowed subrecipients to use two match rates for operating assistance (50% match for operating costs and 20% match non-operating and capital). As all subrecipient assistance was coded the same, the Agency selected a sample of reimbursement requests to estimate the recipient share of expenditures.

Cause: The Agency did not have a system in place to account accurately for the Recipient Share of Expenditures. The Agency indicated that it has developed an adequate method going forward. The Federal reporting system changed and, when reports filed under the old system were accessed within the new system, there was no audit trail of who prepared and approved the reports.

Effect: Inaccurate reporting could result in Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure all reports are accurate and complete.

> **Management Response:** NDOR now reports the actual recipient share to FTA in its Federal Financial Reports.


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

AUDITEE SECTION

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NEBRASKA Administrative Services
Pete Ricketts, Governor

Byron L. Diamond
Director

Corrective Action Plan

The State of Nebraska Administrative Services respectfully submits the following corrective action plans for the fiscal year ended June 30, 2016. The corrective action plans were prepared by the State agency noted.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

If the U.S. Department of Health and Human Services has questions regarding the corrective action plans, please contact Jerry Broz at 402-471-0600 or jerry.broz@nebraska.gov.

Sincerely Yours,

Jerry Broz

Jerry Broz
State Accounting Administrator

State Accounting Division • Jerry Broz, Administrator
Administrative Services • 1526 K Street, Suite 240 • P.O. Box 94664 • Lincoln, Nebraska 68509-4664 • Phone: 402-471-2581 • Fax: 402-471-2583

II. Findings Relating to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2016-001

CAFR Preparation

Corrective Action Plan: State Accounting will continue to train, cross train and develop procedures internally. Additional agency level training will be developed to cover problem areas that arise during the CAFR process. State Accounting will continue the periodic meetings with APA during the CAFR process.

Contact: Sheryl Hesseltine

Anticipated Completion Date: ongoing

Finding 2016-002

EnterpriseOne Business Continuity Planning – Inadequate Set up and Testing of Redundant Environment

Corrective Action Plan: DAS will continue developing a business continuity plan for the JDE E1 application.

Contact: Karen Hall

Anticipated Completion Date: ongoing

DEPARTMENT OF EDUCATION

Finding 2016-003

Average Daily Membership Verification

Corrective Action Plan: The Department has worked with the Nebraska Society of CPA's to develop a new form which outlines the tests independent auditors performed on membership and attendance and notes if the information submitted to the Departments was accurate. The department now requires confirmation of membership and attendance testing to be submitted along with the audit before considering the audit submission complete.

Contact: Bryce Wilson

Anticipated Completion Date: Completed before the 15/16 AFR information was submitted during the fall of 2016.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2016-004

Material Adjustments

Corrective Action Plan: Since the issuance of the 2013 Single Audit, the Agency has implemented several improvements to the CAFR accrual reporting process that has resulted in fewer errors in recent Single Audits. Financial Services staff in cooperation with Internal Audit hosts an annual CAFR kick-off meeting with all staff involved in the reporting process and includes DAS Accounting in these meetings. This meeting outlines the internal reporting process, documentation expectations, prior year audit findings and deadlines. Documentation for each accrual item is then collected and compiled by Financial Services based on a pre-defined and communicated deadline for an initial review and then is subsequently reviewed by Internal Audit staff.

The IME/DME accrual calculation was new to the 2015 and 2016 CAFR and had no adjustments noted during the 2015 CAFR. The audit adjustment for 2016 was due to the fact that documented procedures, while adhered to, relied on using prior year long-term payable calculations as a basis for current year short-term payable calculations. Procedures will be modified to include an annual recalculation of estimates.

The adjustment for TPL was due to the fact that the Agency modified its procedures for calculating this particular receivable. The Agency proposed a change in reporting to improve accuracy which was agreed to by DAS. It was discovered during the audit that the Health portion of this receivable was overstated due to the fact that Health claims receivable turnover is much higher than the casualty and should have been limited to those only claims submitted within 45 days prior to the end of the fiscal year.

The majority of the MDR receivable overstatement was due to the rebate checks on hand but not yet processed. Currently all of these checks have now been processed and the Agency has revised internal procedures to ensure timely processing of these rebate checks.

The cash overstatement was due to a transfer of funds from an external bank account into the State's banking system while working with the State Treasurer's Office to address collateralization issues. This amount was not removed from the accrual response form to DAS.

Contact: Patrick Weber, Chief Financial Officer

Anticipated Completion Date: March 31, 2017

Finding 2016-005

Medicare Part D

Corrective Action Plan: As indicated during the review, Lincoln Regional Center (LRC) is actively working to resolve the contractual and software problems that have impeded billing responsible parties for Medicaid Part D claims since 2013. While software issues and contracts with intermediaries were being resolved, paper billings were not permissible by Medicare. Since April, 2016, Agency Legal and LRC staff have worked with the Center for Medicare Services (CMS) Intermediaries to reinstate the required contracts. At the same time, the vendor has worked to resolve software issues impeding the billing process. As of this response, ongoing billing is occurring with two intermediaries, a third intermediary contract has been signed by the Agency and is waiting the intermediary signature, and the remaining intermediary contracts are in process. Active billing for Medicare Part D claims is being conducted with the intermediaries as contracts are finalized and subsequently allowed. Recovery of prior billings is limited to sixty days.

Contact: Karen Harker, DBH Financial Officer

Anticipated Completion Date: March 31, 2017

Finding 2016-006

Overpayment Mailbox

Corrective Action Plan: The Agency created an overpayment team with primary responsibility for working overpayment referrals and secondary responsibility as backup for AccessNebraska. Access to the overpayment mailbox has been limited to only staff with a business requirement. Currently referrals are received at a rate of 150 per week and current procedures and resources allow for 50 referrals per week to be completed.

The Agency will begin a more in-depth review of the current referral process as well as the steps and procedures for reviewing and establishing an overpayment for operational efficiencies. Additionally, the Agency is reviewing the feasibility of utilizing an Access database to store referrals as a replacement of the Outlook Mailbox for enhanced controls.

The Agency will modify procedures and communicate to relevant staff of the federal timeline requirements for establishing overpayments.

Contact: Karen Heng, Deputy Director Economic Assistance

Anticipated Completion Date: June 30, 2017

Finding 2016-007

Overpayments

Corrective Action Plan: The Agency implemented new standard operating procedures and a new system using Microsoft SharePoint to ensure that all receivables for provider overpayments are set up timely, improve monitoring and reporting, and reduce the error risk. The new procedures include random quality verification to self-audit for accuracy as well as a weekly review of newly activated clients and providers who have an open account receivable.

A revised Collection Policy has been drafted and is currently in management review which includes several internal procedural changes to ensure adherence to policy requirements.

Contact: Chad Pinger

Anticipated Completion Date: March 31, 2017

Finding 2016-008

External MMIS User Access

Corrective Action Plan: Recently the EDI Help Desk has coordinated with MMIS to enhance several processes as well as identify and remove users that no longer require access. These enhancements decreased the amount of time to process enrollments for external users by moving the external user data from an Excel spreadsheet to an Access database as well as a system change implemented in October 2016 for the user account management process.

EDI has improved the timeframe for disenrollment of External MMIS Users without a need for access by streamlining the process for external user verification and implementing a process for provider outreach. Additionally the Agency implemented improved standards to enhance the process of monitoring provider response to verification outreach. These processes include requiring a detailed response regarding all enrolled individuals, and dis-enrolling non-responsive providers within a designated time period. When verification is requested, providers are reminded of the importance of notifying the Agency to remove access to External MMIS Users upon their termination. The notification highlights the requirement of External Users to notify the EDI Help Desk of any staffing changes or separations of individuals that have External MMIS User Access. These improvements have enabled the EDI Help Desk to successfully complete verification of 78% of all External Access Users over the course of 2016. The EDI Help Desk has also shortened the designated time period allotted to providers to reply to verification requests.

Contact: Nate Meyer

Anticipated Completion Date: June 30, 2017

Finding 2016-009

Checks Not Deposited Timely

Corrective Action Plan: The Agency has made significant progress toward rectifying the MDR check issue. First, MLTC organized an immediate effort to immediately deposit all checks on hand into a designated holding account for Drug Rebate checks that contained discrepancies requiring research that prevented immediate reconciliation in the MDR accounting system. Additionally, MLTC ensured that as checks were received daily, they were appropriately date stamped and restrictively endorsed and immediately reconciled in the MDR system and deposited, or deposited in the holding account. While utilizing the holding account for the Drug Rebate checks is a backup option, MLTC's first priority is to accurately reconcile all checks in the Drug Rebate system to be deposited prior to the 3 days allowed per state statute. MLTC has been meeting this goal and has not deposited any additional checks into the drug rebate holding account since November 16, 2016.

Second, MLTC focused on communicating with Drug Rebate Labelers to obtain the necessary outstanding reconciliation documentation to properly reconcile checks deposited in the Drug Rebate Holding account as expeditiously as possible. We are pleased to report that the entirety of the original backlog and all subsequent checks deposited in the holding account have been reconciled in the Drug Rebate system and Journal Entries were completed to move the funds to the appropriate accounts, clearing the holding account of Drug Rebate checks (including all 192 checks identified as of August 22, 2016), effective January 6th, 2017.

Additionally, during execution of the activities detailed above, MLTC organized a comprehensive and strategic review of the MDR processes and established an action plan to address the finding as well as address other potential risks associated with the Drug Rebate accounting processes. The Agency identified three steps to prevent future findings from Drug Rebate Check Processing.

1. MLTC is in the middle of updating and enhancing the Drug Rebate Manual used by the accountants responsible for processing Drug Rebate Checks. The expected completion date for the updated manual is March 31, 2017, which will include enhanced, more explicit processes for cash handing protocol and deposit record documentation. To be included in the new language regarding cash handling will be additional communication requirements for the accountants to escalate any concerns of the possibility of any check not being deposited within the statutory requirement of three days, by day two, to the Financial Administrator for the Division of Medicaid and Long-Term Care (MLTC).

2. Second, the agency has increased oversight of the Drug Rebate Deposits, which included a 100% audit of all deposits from July 1, 2016 – December 31, 2016, completed on January 3, 2017. MLTC will continue to perform monthly audits of Drug Rebate activities to include (but not limited to) timeliness of check reconciliation and deposits, proper deposit record keeping, proper separation of cash

handling duties, and audits of invoice adjustments in the drug rebate system for proper documentation. The first of these ongoing oversight activities was performed upon conclusion of the month of January 2017, with zero deficiencies.

3. Third, the Financial Administrator for MLTC will take the following additional steps: Provide regular monthly training to the Drug Rebate Accountants, run monthly reports to review deposits and balances to identify anomalies or risks in receivables, and perform impromptu desk audits of checks on hand to test timeliness of deposits and use of required restrictive endorsement stamp and date of receipt stamp as required.

Contact: Michael Michalski, Deputy Director Finance & Program Integrity

Anticipated Completion Date: March 31, 2017

DEPARTMENT OF LABOR

Finding 2016-010

Errors in Financial Information

Corrective Action Plan: The Controller and key accounting staff will be scheduling a meeting with the auditors and DAS personnel to discuss the entries that continue to be an issue between the 8-digit and 10-digit environments in Enterprise One. We want to document a clear understanding between all parties involved so that this does not continue to show up in the CAFR review. Additionally, we will review the receivables and have the necessary adjustments in place for doubtful accounts by the end of this fiscal year.

Contact: Kim A. Schreiner, Controller

Anticipated Completion Date: Meet with auditors and DAS by March 1, 2017

III. Findings Relating to Federal Awards:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2016-011

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

Corrective Action Plan: Many of the earlier recommendations were reviewed and addressed beginning in January of 2016 when the biennial rates for FY17-18, FY18-19 were developed.

DAS-OCIO completed a rate review during rate setting in early 2016 and has taken actions that reduced fund balances.

DAS will continue to review its various rate setting procedures and the documentation of how rates are set and credits, etc., are issued.

A finalized Cost Allocation Report from AON was used when developing Risk Management rates for the new biennium – FY17-19.

Contact: Ann Martinez, DAS Controller

Anticipated Completion Date: Various items that were noted in the prior review and this review were addressed beginning in January of 2016 as rates were developed for the new biennium FY17-19. Others will be reviewed and addressed beginning in January 2018 when the next biennial rates are developed and set.

Finding 2016-012

Program: Various, including CFDA 93.778 – Medical Assistance Program (Medicaid) – Reporting

Corrective Action Plan: DAS will develop procedures to ensure we are in compliance with the SWCAP documentation requirements on an annual basis.

Contact: Sheryl Hesseltine

Anticipated Completion Date: ongoing

Finding 2016-013

Program: Various, including CFDA 93.217 – Family Planning Services – Reporting

Corrective Action Plan: Grant number has been corrected in the system

Contact: Ron Carlson, State Accounting

Anticipated Completion Date: complete

Finding 2016-014

Program: Various, including CFDA 93.778 – Medical Assistance Program – Reporting

Corrective Action Plan: DAS will continue training of agencies on accurate reporting of their SEFA amounts.

Contact: Sheryl Hesseltine

Anticipated Completion Date: ongoing

DEPARTMENT OF AGRICULTURE

Finding 2016-015

Program: CFDA 93.103 - Food and Drug Administration Research; CFDA 93.448 - Food Safety and Security Monitoring Project – Allowable Costs/Cost Principles

Corrective Action Plan: Journal entries will be done to balance the personnel expenses of these on-going programs to previous ERS reports and to accurately reflect the cost of these federal programs. Quarterly reviews will be completed to compare the ERS reports and employee allocations for their respective programs. If discrepancies are found, correcting journal entries will be made and payroll allocations could be changed to avoid future corrections. NDA is also planning on an update/replacement to their activity reporting system that would be more flexible to monitoring and possibly revising allocations in real-time based on activity reports.

Contact: Chris Barber

Anticipated Completion Date: Corrective journal entries will be completed by March 10, 2017, and oversight will be ongoing.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2016-016

Program: Various, including CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: This finding was brought to our attention last year and the payment noted with errors was made before we were made aware of the finding. The second payment tested occurred after last year's corrective action plan was implemented and no errors were noted. The implemented corrective action plan included additional training for staff reviewing these expenses in the Accounting Unit. We have communicated with the contractor directly and clarified the documentation requirements with regard to the reimbursement of travel-related expenses. Additionally, travel policy guidelines have been reiterated to respective DHHS contacts related to this contract.

Contact: Don Swartz, Accounting Unit Manager

Anticipated Completion Date: Complete

Finding 2016-017

Program: Various, including CFDA 93.558, Temporary Assistance for Needy Families – Allowability

Corrective Action Plan: On an ongoing basis, the Agency will continue to provide RMTS eligible workers and supervisors training on accurate and timely submission of RMTS observations. In accordance with internal control procedures outlined in the PACAP, the RMTS Administrator will continue to review observations and send email notices to workers and supervisors regarding pending observations, ensuring to the extent possible all observation are completed properly and timely. Additionally, the Agency will submit a SFY 2017 PACAP Amendment to Appendix C-1 incorporating new language to read as follows, "To validate the sample results, 10% of the required amount of observations for each pool (SSW and CFSS) will be validated by the worker's supervisor in person, by telephone, or by e-mail." This amendment recognizes the oversampling that DHHS is currently performing and that a 10% validation is performed on the current DHHS Cost Allocation Services (CAS) approved number of observations per sample pool, which is 2000 per quarter. DHHS is currently oversampling by 706 observations per quarter per pool.

Contact: David Vann, RMTS Administrator

Anticipated Completion Date: December 1, 2016

Finding 2016-018

Program: Various, including CFDA 10.561, State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP); CFDA 93.778, Medical Assistance Program – Allowability

Corrective Action Plan: Regarding the Guardianship Assistance Non IV-E exclusion: Cost Allocation process has already been updated to reflect the inclusion of Guardianship Assistance Non IV-E into the quarterly RMTS statistics.

Regarding the labor hours component: vendor has been notified of their issue and DHHS Cost Allocation unit will continue to monitor the cost allocations performed by the contractor.

Contact: Patrick Werner, Fiscal Project Analyst

Anticipated Completion Date: Complete

Finding 2016-019

Program: Various, including CFDA 93.283 Centers for Disease Control & Prevention – Investigations and Technical Assistance; CFDA 93.778 Medical Assistance Program – Allowability

Corrective Action Plan: The Agency will implement a policy to ensure employees are paid only enough hours to cover their current FTE status (Full Time Equivalent). This policy will outline supervisory accountability of timecards, an action plan to ensure compliance.

Contact: Lisa Taylor-Jones, Human Resources Director

Anticipated Completion Date: January 13, 2017

Finding 2016-020

Program: CFDA 93.767 Children's Health Insurance Program (CHIP) – Cash Management

Corrective Action Plan: The Agency has been diligently working with the Centers for Medicare and Medicaid Services (CMS) to resolve and finalize this reconciliation. Although DHHS Grants Management had resolved and reconciled the grant referenced in this finding several months prior, CMS and the Agency were working together in order to review and approve the proposed resolution. During the November 2016 CMS on-site review, CMS has approved the proposed resolution to move the expenditures charged incorrectly to the FFY14 CHIP grant to the FFY15 CHIP grant. Thus, CMS has approved that there will not be a return of funds by moving the expenditures to the correct grant year.

Contact: Barbra Hike, Manager – Grants & Cost Accounting

Anticipated Completion Date: December 31, 2016

Finding 2016-021

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 & Subrecipient Monitoring

Corrective Action Plan: The SUA added detailed payroll testing to their reviews for FY17. In addition, the SUA will be adding language to all subrecipients' subawards to require they receive a Single Audit and that the aging cluster be tested as a major program every fiscal year beginning with FY17. The SUA will continue to conduct desk reviews for all subrecipients and will improve procedures to ensure adequate documentation is retained and that the monitoring activities document the allowability of expenditures tested.

Contact: Renee Savidge, Fiscal Program Manager

Anticipated Completion Date: June 30, 2017

Finding 2016-022

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

Corrective Action Plan: The Agency will continue the corrective action plan under finding #2015-027 and further strengthen oversight through the following four actions: First, the Agency will gather all documentation and information from the total sample tested. These line items will be reviewed for allowability, reasonableness, and allocability. Second, the Agency is refining policies and procedures for subrecipient monitoring. Third, the Agency is finalizing a contract for on-site financial reviews to be conducted by an outside provider. Fourth, the Agency has begun a more in-depth review of the quarterly reports submitted by the subrecipients to ensure that quarterly expenses are in line with the approved annual budget. When there are questionable costs, subawardee program managers are contacting subrecipients and resolving any issues prior to making further payments. All supporting documentation will be maintained per the official DHHS record retention policy.

Contact: Eric Sergeant, DHHS Administrator I

Anticipated Completion Date: April 1, 2017

Finding 2016-023

Program: CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Allowability

Corrective Action Plan: The Agency will request changes to the Unit timekeeping in Kronos to allow individual employees to enter daily hours by funding source. This will allow for direct time-keeping of personnel costs and keep those hours distinct for HPP and PHEP. Since October, 2016 personnel in the Unit have been keeping daily logs of hours worked by grant and this method will be continued until the Kronos changes are completed.

Contact: Eric Sergeant, DHHS Administrator I

Anticipated Completion Date: April 1, 2017

Finding 2016-024

Program: CFDA 93.217 – Family Planning Services – Allowability & Program Income & Subrecipient Monitoring

Corrective Action Plan: Corrective action plans were developed from the prior year audit finding, which included working with the subrecipients to develop enhancements to their internal processes, as well as desk auditing procedures performed by the Agency to ensure the effectiveness of these enhancements and testing source documentation of expenditures for allowability. The current audit finding included periods tested prior to the implementation of these corrective action plans which was June 30, 2016, as noted in the previous management response. Subrecipient monitoring procedures will be amended to include consideration of pathology bills that could potentially include unallowable expenditures. The payroll issue noted in the finding was already resolved as a result of the prior year corrective action plan but was found due to testing periods prior to the implementation.

Agency staff will follow up with the three Title X subrecipients that had onsite audits to determine the nature of the audited activities and allowability of the expenditures for those activities. The previously implemented corrective action plan will continue to be evaluated and modified as necessary to adequately monitor expenditures of the subrecipients.

The Agency will work with the financial review contractor to modify the financial review form document to better reflect the monitoring of Title X specific required expenditure compliance. Subrecipients with repeat findings will be subject to more frequent and comprehensive site-visits and desk reviews.

Contact: Sara Morgan, Administrator

Anticipated Completion Date: February 28, 2017

Finding 2016-025

Program: CFDA 93.217 – Family Planning Services – Period of Availability

Corrective Action Plan: The amount of unexpended funds available is not finalized and awarded until the end of the grand period. Therefore, the Agency will implement a policy stating that any funds not awarded and received by June 15th will not be allowed to be obligated.

Contact: Sara Morgan, Administrator

Anticipated Completion Date: February 28, 2017

Finding 2016-026

Program: CFDA 93.217 – Family Planning Services – Cash Management & Subrecipient Monitoring

Corrective Action Plan: The Agency will revise its current procedures to ensure that all cash advancements are limited to the minimum amount needed and for no more than 30 days in advance of expected disbursement.

Contact: Sara Morgan, Administrator

Anticipated Completion Date: April 30, 2017

Finding 2016-027

Program: CFDA 93.217 – Family Planning Services – Reporting

Corrective Action Plan: Corrections were already made during the last Statewide Single Audit. Testing on reports prior to last year's exit conference did not accurately reflect the current reports. Reports tested after last year's exit conference had no noted errors.

Contact: Barb Hike, Grants and Cost Accounting Manager

Anticipated Completion Date: Complete

Finding 2016-028

Program: CFDA 93.217 – Family Planning Services – Procurement

Corrective Action Plan: While the Agency does not agree with the auditor's interpretation of the statutory competitive bidding requirements, the Agency intends to issue a request for proposals for these contracted services moving forward.

Contact: Sara Morgan, Administrator

Anticipated Completion Date: April 1, 2017

Finding 2016-029

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

Corrective Action Plan: Program management will ensure that all program reimbursements for contract deliverables have sufficient documentation to ensure that they are reasonable and in accordance with Federal requirements. The Agency will issue new agreements as fixed-fee subawards subject to federal approval.

Additional procedures with cancer registry have been developed and implemented to ensure costs charged to Federal grants are necessary, reasonable, allowable and adequately documented in accordance with Federal requirements. A timesheet has been developed to support and monitor payment requests. This timesheet will be completed by contracted staff to ensure requested services or deliverables meet federal funding guidelines.

Contact: Melissa D. Leypoldt, Program Manager
Michelle Hood, Administrator

Anticipated Completion Date: June 30, 2017

Finding 2016-030

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

Corrective Action Plan: The prior year's corrective action plan was to assign certain TANF cases to workers dedicated to work that program which occurred in the Fall of 2015. Twelve of the forty cases sampled this year were assigned to dedicated TANF workers and resulted in no errors noted in the audit. The Agency will review the feasibility of additional assignment of TANF caseloads to dedicated workers.

With regard to overpayments, the Agency has reviewed the current referral process as well as the steps and procedures for reviewing and establishing an overpayment. The Agency identified several operational efficiencies to decrease the time required for establishing overpayments. Additionally, the Agency will move the overpayment referral process from Outlook to an Access database for data analysis capabilities to assist in identifying the underlying causes of overpayments in an effort to reduce the amount of overpayments on the front end.

Issues related to overdue eligibility reviews will be remedied after the planned NFOCUS August 2017 Major Release. NFOCUS changes scheduled for August 2017 will prevent the continued issuance of benefits to a client who fails to cooperate with an eligibility review. Until the NFOCUS change is implemented, the Agency will monitor ADC cases to ensure they are manually closed if the client fails to complete their review.

Lastly, the Agency will implement an Audit Resolution Process related to eligibility findings. This process will encompass: determining the scope of the error through targeted reviews, reviewing/communicating the analysis of the error, providing pertinent training to field staff, and additional targeted reviews to ensure the training was effective.

Contact: Samuel Malson, TANF Program Manager

Anticipated Completion Date: June 30, 2017

Finding 2016-031

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

Corrective Action Plan: Based on the research of Federal Regulations by TANF Program Staff, the Agency resolved a prior audit issue involving Family Support Services and determined that one of the questioned claims was allowable per federal regulation. The Agency will recoup the Family Support Services overpayments noted by the APA in this audit finding. Family Support Service Providers are not required to submit supporting documentation with their claims, but are required to maintain documentation and provide it to the Agency upon request. Since November 2015, the Agency has been testing a statistically valid random sample of payments that includes Family Support Services on a monthly basis which verifies supporting documentation. Overpayments identified during this testing are recouped.

The Agency worked together with our Federal partners from the Capacity Building Center to revise our Intensive Family Preservation service and develop a rate methodology. Beginning on October 1, 2016, the revised Intensive Family Preservation service was implemented. The revised case rate for IFP services varies based on the distance travelled to deliver six weeks of IFP services. The total case rate is paid upon the completion of six weeks (42 days) of service delivery. Hours of service delivered per family are entered by the provider into the Agency's Provider Performance Improvement (PPI) website, and monitored by the Agency. The IFP provider's performance is measured over the aggregate number of families served. Actions that may be taken against deficient service providers include recoupment of overpayments, an increase in the number of claims tested, a hold on future referrals, an on-site audit, and contract termination. The revised rate methodology for IFP services was provided to the Auditor during the 2016 Single Audit.

Contact: Nanette Simmons

Anticipated Completion Date: March 1, 2017

Finding 2016-032

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

Corrective Action Plan: The prior year audit finding noted a 45.6% error rate based on reviewed costs while the current year audit finding noted a 3.6% error rate. Some items noted in the prior year's audit finding are now being reviewed and approved by TANF Policy Staff as opposed to the contractors. These issues did not appear in the current audit.

Additionally, the Agency has changed the manner in which it completes reviews of Supportive Services that have been authorized. Previously, reviews were completed based on claims associated with the Supportive Service authorized three to six months prior to the review. Effective 9/1/2016, TANF Program Staff began reviewing cases where the Supportive Service was authorized the month prior to the review improving the timeliness of identifying errors and in some cases potential detection of errors prior to payment of the claim. This change allowed for identification of errors in a timelier manner as well as providing guidance and direction to the contractor that is much timelier. We continuously review our Supportive Services Guide to improve the quality of services and assure they are issued in accordance with State and Federal requirements.

Lastly, the TANF Program provides contractor staff with the results of the individual authorization reviews to enable contractor staff to train as they see fit. Contractor staff are also provided with monthly reports that delineate the accuracy of the reviews completed, allowing contractor staff to target specific areas where there is a need for improvement.

Contact: Samuel Malson, TANF Program Manager

Anticipated Completion Date: Complete

Finding 2016-033

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

Corrective Action Plan: The Agency has begun reviewing the monthly invoices [starting with invoices for services provided during July 2016] submitted by EF contractors. Key line items on these invoices are selected for additional review to ensure payments of federal funds are for actual and allowable expenditures made by the EF contractors in accordance with Federal requirements for subrecipient monitoring. The additional review consists of requesting detailed supporting documentation to support the key line items in the form of general ledgers, payroll documents, and actual invoices.

Contact: Samuel Malson, TANF Program Manager

Anticipated Completion Date: June 30, 2017

Finding 2016-034

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

Corrective Action Plan: The audit finding noted that reviews were completed on a quarterly basis, and therefore identified issues were not resolved timely. Also, cases omitted from the report were not investigated for appropriateness. Prior to November 2016, system technical staff had responsibility for review of the ACF-199 and ACF-209 reports and the results were not presented to TANF Program staff. After November 2016, this responsibility now resides with TANF Program staff. The new process includes a monthly review of key line items on these reports as identified by the Federal OMB Compliance Supplement. Any errors are now identified in a timelier manner by TANF Program staff that are better positioned to communicate issues and resolutions to system technical staff.

Contact: Samuel Malson, TANF Program Manager

Anticipated Completion Date: June 30, 2017

Finding 2016-035

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

Corrective Action Plan: The Agency has written procedures regarding the preparation and review of reports, which resulted in the Agency identifying the error noted, and correcting the error on its June 30, 2016 report. The Agency's procedures were updated when the Federal reporting requirements were modified.

Federal reporting requirements were amended beginning with the quarter end December 31, 2015 reports. Reporting errors were made on the quarter March 31, 2016 and June 30, 2016 reports. The Agency self-identified these errors in August 2016 and consulted with the Federal Awarding Agency. Since that time the Federal Agency has provided clarification on reporting instructions. Based on the clarification provided, the Agency modified the TANF reports and now creates cumulative reports within each Federal Fiscal Year rather than quarterly reports cumulative for the grant. This reporting method is unique and unlike any other report to this Federal Agency. At the time clarification was provided, the Federal Agency provided written instruction the Agency to ensure that each September 30 report is accurate, and indicated that the Agency would not be required to modify the prior quarter reports. However, the Agency took the extra step and initiative to ensure the report was correct for June 30 and September 30. Additionally, the Agency updated its procedures and reporting work papers in order to improve the procedures and reduce the risk of errors.

Contact: Barb Hike

Anticipated Completion Date: Already completed and implemented by the Agency prior to receiving the Audit Finding report

Finding 2016-036

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability & Eligibility

Corrective Action Plan: The Agency has made progress towards resolving the findings from the prior year's audit. The Agency resolved the similar prior audit finding issue of the payment chart conflict between NFOCUS and the State Plan. The Agency has therefore successfully resolved the three of the four prior audit findings including FFATA reporting issues, period of availability issues, and other reporting errors.

The Agency has proactively requested two NFOCUS changes related to continuous quality improvement to the LIHEAP program regarding crisis assistance. The first change will require worker validation that a client has a utility disconnect notice or past due notice and provided required documentation of the notice when determining eligibility for a LIHEAP crisis payment. The second change will allow a worker to process only one crisis payment per energy season (October 1st through September 30th). Only LIHEAP Central Office staff will be able to process a second crisis payment after a review determines extenuating circumstances exist.

In additional to the current quality reviews being completed on LIHEAP, the Agency will be implementing payment integrity reviews to ensure payment accuracy in accordance with State and Federal Requirements.

The Agency will provide updated policy documents, including a LIHEAP job aid, and webinars to staff on common error prone issues within LIHEAP.

Contact: Britton Gabel, LIHEAP Program Manager

Anticipated Completion Date: June 30, 2017

Finding 2016-037

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability & Eligibility

Corrective Action Plan: In May 2016 the Agency fully implemented the specialization of Resource Development (RD) workers only for CCDF so RD workers no longer managed providers for multiple programs. This specialization included the assigning of staff to the same Supervisor in order to standardize expectations and processes. Specific processes include an updated provider referral process and standard provider renewal process. The standard renewal was implemented in August 2016 and includes a standard renewal letter and specific direction on narration and scanning of provider agreements. This new process ensures all provider documents, such as the provider agreements, are electronically stored for permanent access.

In November 2016, updates were made to the monthly provider audit procedures. The update sets out the process a CCDF RD worker must take when a CCDF provider fails an audit of their submitted billing. The process includes contacting the provider via the phone to review the billing errors and educate the provider on correct processes. A follow-up letter is provided and the discussion is documented in the provider case file. These providers are tracked and a follow-up review is completed six months later. If a provider is found not in compliance, their agreement may be terminated. Overpayments are established for every incorrect billing that is identified. This process directly addresses provider billing errors such as a co-payment not being applied, attendance records not be signed by the parent/guardian and attendance records that do not match the authorization. By June 2017, Child Care subsidy provider packets will be modified to include a new provider/client agreement to educate CC subsidy clients of their responsibility to approve and sign calendars and accurately bill for child care hours. The new agreement will require the provider and client to discuss and sign agreements. This agreement will be returned to the Agency and stored in the provider's case file.

An internal website created specifically for the CCDF RD workers was launched in January 2017. This internal site provides one location where all important information and processes are stored. The site includes a video on how to navigate and use the website. Additional training for CCDF RD workers will occur in 2017 on provider interaction, training and monitoring.

The Agency has increased the monitoring of Child Care Subsidy eligibility cases through additional case reads of new and high-risk providers, which began in November 2016. Case reads focused on cases with family fees will begin in March 2017. These reads will review the entire client eligibility and provider payments. These reads will review for errors such as failure to pay the family fee and provider claims which do not match the authorization or attendance records. The reviews will also address the parent/guardian need for service and the age category to ensure the correct rate is being applied. Information from all CFS case reads will be used to enhance training of eligibility and CCDF RD staff. CCDF program staff will work with the Agency technical staff to pursue possible automation to deduct the family fee from provider billing to prevent the Agency from incorrectly paying the family fee.

The federal CCDF reauthorization in late 2014 requires states to make a number of changes to eligibility determinations. The Agency is in the process of implementing all the required changes, including the requirement to allow parents to go directly into job search after the loss of a job or education. The federal CCDF requirements now prohibit a state from considering resources of child care subsidy recipients and applicants. These federal changes will impact findings such as the situations where resources in excess of $1,500 were not verified and where a specific need for service has ended, such as Employment First. Additional federally required changes to be made in the next fiscal year(s) include: not responding to income changes within an eligibility period unless income exceeds a specific threshold, and the modification of reimbursement rates to be no less than day or half day rates (elimination of hourly rates). These changes will impact the audit findings related to the calculation of hour and day rates.

Contact: Nicole Vint

Anticipated Completion Date: June 30, 2017

Finding 2016-038

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Corrective Action Plan: The Agency has and will continue to work closely with the Administration for Children and Families (ACF) to resolve questions/concerns from the past and enhance processes and procedures to ensure accurate reporting as well as appropriate and accurate claiming of expenditures.

To ensure that obligations and unliquidated balances are accurate on future reports, the reporting process is being revised so that CCDF Program Staff will monitor obligations and expenditures for all agreements and will provide this data to the Grants Management Unit for a secondary review prior to reporting.

The previous Agency processes that contributed to the issue noted on line 1(h) have since been modified. This issue was based on spending procedures that occurred in 2014. Beginning July 1, 2016 the Agency has fully implemented a process where cost allocation statistics are updated and utilized on a consistent basis to ensure that administrative expenditures match earnings. Additionally, grants are reconciled to identify and correct any discrepancies.

Once a final determination is received from ACF on the remaining proposal, the Agency will act on it accordingly.

Lastly, the Agency will ensure that all grant reports are reviewed in accordance with Agency policy prior to reporting to prevent future reporting errors

Contact: Barb Hike

Anticipated Completion Date: June 30, 2017

Finding 2016-039

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Corrective Action Plan: As there are no federal or state regulations that define timeliness, the Agency's Special Investigation Unit (SIU) has drafted an internal policy that addresses the timeliness expectations for CCDF case investigations based on a risk assessment. The risk assessment tool was developed in cooperation with CCDF Program staff.

The creation of a CCDF client account receivable will be completed prior to the fraud referral to SIU to ensure timely setup.

Contact: Jana McDonough

Anticipated Completion Date: June 30, 2017

Finding 2016-040

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Corrective Action Plan: The Agency was aware that the required allocation for Quality Expansion was not fully liquidated. Funds of FFY13, were drawn directly by the mentioned State agency without review or preapproval from the CCDF Program. In January 2014, a change was made to the payment process, and funds were no longer able to be drawn without approval from DHHS. Finance and program staff thoroughly reviewed all actual and allowable claimed expenses prior to making payment for the remainder of FFY13 funds. DHHS proactively reached out to the Administration for Children and Families (ACF), regarding this matter. Starting August 2016, CCDF Program staff have increased the monitoring of the subaward with the mentioned State agency by holding monthly meetings in which staff review obligations and unliquidated obligations for each open grant year. This ensures funds are spent in compliance with the Federal payment schedule and will identify funds that may not be obligated or liquidated timely in order for DHHS to obligate these funds to another entity to meet earmarking requirements.

Contact: Nicole Vint

Anticipated Completion Date: Completed

Finding 2016-041

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

Corrective Action Plan: The Agency restructured the organization of Resource Development (RD) workers in 2016 where the RD workers became specialized in child care only. Child Care Program Specialist and Supervisor will continue to train and review with all RD staff billing and monitoring procedures.

The Agency's Billing and Payment team check a random sample from each Agency Supported Foster Care (ASFC) contractor claims for payment on a monthly basis and confirm that the foster parent received the agreed upon payment from the ASFC contractor based on the Nebraska Caregiver Responsibility (NCR) Assessment Tool. The team will notify the Division Financial Office of any instances where the foster parents did not receive accurate payment based on the NCR and the ASFC contractor who did not take action to correct the payment issue. The Billing and Payment team will track the findings and create a record of samples, any missed payments and actions taken by the division to correct the payment issue.

Contact: Nanette Simmons

Anticipated Completion Date: June 30, 2017

Finding 2016-042

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

Corrective Action Plan: Division of Children and Family Services (DCFS) Billing and Payment staff will receive training on how to properly store travel logs electronically so that they can be easily located and retrieved for auditing purposes. DCFS Billing and Payment staff will receive training on properly reviewing travel logs, with special emphasis on ensuring that calculations are correct and, on ensuring what constitutes proper source documentation.

Contact: Latifa Elbergame

Anticipated Completion Date: June 30, 2017

Finding 2016-043

Program: CFDA 93.658 – Foster Care Title IV-E – Subrecipient Monitoring

Corrective Action Plan: DCFS will institute proper and formal measures that ensure sub recipients are accurately and timely notified of the dollar amount made available under each federal award, and of the CFDA number at time of disbursement.

Contact: Doug Kreifels

Anticipated Completion Date: March 31, 2017

Finding 2016-044

Program: CFDA 93.659 – Adoption Assistance – Allowability & Eligibility

Corrective Action Plan: The Agency has implemented a process under which it will claim federal funds for an adoption only when an administrator has first reviewed all necessary documentation and has confirmed that all claiming requirements, including background checks, have been met. The Agency agrees that federal funds should not have been claimed for the adoption in the case referenced in the finding. The Agency would note that the conviction occurred 30 years prior to the adoption, and did not result in a jail sentence. The adoption of the child by the child's great grandmother was found by the court to be in the child's best interest.

With regards to the Agency's inability to produce proper Adoption documentation and proper evidence that background checks were completed prior to the adoption, it is worthy to note that five of the six findings involved adoptions which occurred prior to this audit period. In April 2015, the Agency revised forms regarding Determination of Child's Eligibility for a Subsidized Adoption, Application for an Adoption Subsidy, and the Adoption Subsidy Agreement Form. A checklist including reference to background checks, special needs and the need for subsidy payments was also developed to ensure that all requirements for claiming federal funds have been met. Training regarding the new forms, the approval process, and documentation requirements was provided to Agency staff in April, August, and December 2016. Two video-taped trainings specific to the adoption process and background checks are on the Agency's intranet and available for review by staff at any time.

The Agency will recoup all overpayments identified in this finding. Child Care providers are not required to submit supporting documentation with claims, but are required to maintain documentation and provide it to the Agency upon request. The Agency conducts post payment reviews of valid samples of paid claims, and recoups any overpayments that are identified.

Contact: Nanette Simmons

Anticipated Completion Date: March 31, 2017

Finding 2016-045

Program: CFDA 93.659 – Adoption Assistance – Reporting

Corrective Action Plan: The Agency reported the net neutral prior quarter adjustments in order to close prior audit findings on Quarter ending 3/31/16 report as per agreement with the Federal Agency. However, the Agency would be unable to record these prior quarter adjustments until the funding had been received without placing undue burden on State General Funds. Since these prior quarter adjustments are net neutral to the Agency (increasing Adoption Assistance and decreasing Foster Care) and the adjustments were for a prior state fiscal year, the agency processed the Journal entry as efficiently and accurately as possible with consideration to mission critical tasks remaining a priority.

Contact: Barb Hike

Anticipated Completion Date: Completed January 2017

Finding 2016-046

Program: CFDA 93.778 – Medical Assistance Program, CFDA 93.767 – Children's Health Insurance Program (CHIP) – Matching & Reporting

Corrective Action Plan: Effective as of the 9/30/2016 QE, CMS-64 report, FAPA has established a reconciliation follow-up process that ensures reconciling items are adjusted in Enterprise One in a timely manner. The new reconciliation process prohibits the submission of the Federal reconciliation to CMS until the reconciling items are adjusted in Enterprise One. This new process has been approved by CMS as it ensures a more accurate report. Timing will always be an issue when adjusting reconciling items. At the end of the State fiscal year, the 6/30 QE reconciling items will not be able to be adjusted in Enterprise One until after the CMS-64 is submitted, after 7/30. The lag time is due to the timing of the CMS-64 creation as well as the creation of the reconciliation.

Drug Rebate Check Finding:

The Agency has identified three steps to prevent future findings from Drug Rebate Check Processing. First we are in process of updating and enhancing the Drug Rebate Manual used by the accountants responsible for processing Drug Rebate Checks. The expected completion date for the updated manual is 3/31/2017, which will include enhanced, more explicit processes for cash handing protocol and deposit record documentation. To be included in the new language regarding cash handling will be additional communication requirements for the accountants to escalate any concerns of the possibility of any check not being deposited within the statutory requirement of three days, by day two, to the Financial Administrator for the Division of Medicaid and Long-Term Care (MLTC). Second, the agency has also increased oversight of the Drug Rebate Deposits to include a 100% audit of all deposits from July 1, 2016 – December 31, 2016, completed on January 3, 2017; and will continue to do monthly audits of all MDR audits to ensure proper documentation and State Treasury Deposit Receipts are on hand. Third, the Financial Administrator for MLTC will also take the following additional steps: Provide regular monthly training to the Drug Rebate Accountants; Run Monthly reports to review deposits and balances to identify any anomalies or risks; and perform impromptu audits of checks on hand to test timeliness of deposits and use required restrictive endorsement stamp as required. Additionally, the Agency can confirm that all of the 192 checks found un-deposited in the audit have been appropriately reconciled and deposited. Finally, the accounting team responsible for the Drug Rebate check processing is fully staffed as of January 9, 2017.

Contact: Kim Collins / Jeremy Brunssen

Anticipated Completion Date: March 31, 2017

Finding 2016-047

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: The Agency agrees with the condition reported. The Agency will pursue alternative methods of issuing payments to minimize the number of payments made directly to clients.

Contact: Ruth Vineyard

Anticipated Completion Date: June 30, 2017

Finding 2016-048

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Corrective Action Plan: Issues related to timesheets (MC-37-ES), authorized services and Service Needs Assessment (SNA) agreements, and overbilling issues will be addressed in a Provider Bulletin. Additionally the Agency is developing training webinars for providers to be posted on the Answers for Families website and developing a W.I.N.K. (what I need to know) refresher. Training will be provided for Agency staff determining eligibility, that verification is needed on insurance policies. The Agency is also exploring options of online claims payment for PAS claims and retasking of the Resource Development (RD) billing team to provide pre-auditing activities pending administrative approval.

The Agency does conduct post-payment reviews, when appropriate, to check for liable third party resources. When the Agency receives notice a client has been injured in an accident, the Agency would investigate for potentially liable third parties and seek recovery of reimbursement for PAS expenditures. For estates, annuities, trusts, or other third party resources which become available at the time of the client's death, the Estate Recovery unit would also seek recovery of PAS expenditures.

Contact: Debbie Flower, Alvin Zimmerman, Daniel Naber

Anticipated Completion Date: May 1, 2017

Finding 2016-049

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Corrective Action Plan: A summary of issues found in the Single Audit will be distributed to all AD (Aged and Disabled) Local Level Agency Supervisors. Individual Corrective Action Plans will be requested from each Local Level Agency with a finding. Training will be made available online, on an ongoing basis, with the ability to update as changes are made so services coordinators and supervisors have access to current best practices. Additionally, Local Level On-Site and HCBS Off-Site Section C (Claims) file reviews will continue on an on-going basis per the HCBS Waiver Local Level Supervisory On-Site Review Process and the HCBS Waiver HCBS Unit Off-Site Review Process. The State Review Team began reviewing individuals for disability determination on Sept 1, 2015 with new applicants reviewed prior to coming on the waiver and current participants reviewed at time of annual renewal.

Contact: Stephanie Crouch – Program Manager II

Anticipated Completion Date: April 30, 2017

Finding 2016-050

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Corrective Action Plan: FAPA continues to work through past audited settlements. We continue to request audited settlements from Wisconsin Physician Services (WPS). There is a current timeline to complete all mentioned settlements (assuming all documentation is available from WPS) by 6/30/2017.

The Department has procured the services of Navigant to rebase all inpatient rates for non-critical and critical access hospitals. Navigant calculated the rebased rates using the most current available cost reports. An analysis of the rebased rates indicates that our current rates are not in excess of actual costs.

Contact: Kim Collins / Flora Coan

Anticipated Completion Date: June 30, 2017

Finding 2016-051

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: A system change request (SCR) was written and approved by the Department to develop the claims file to allow IntelliRide the information to audit the 10% of trips as stated in the contract on a monthly basis. This will ensure trips scheduled were to a Medicaid approved provider. The SCR will be implemented as MMIS resources allow.

A manual auditing process has been implemented until the SCR is implemented. The process involves retrieving trip information from IntelliRide's portal and validated against MMIS data and verification from medical providers. The trips which do not have a verification from the medical provider are forwarded to the Program Integrity Department for further action.

IntelliRide has begun an audit of all enrolled non-emergency medical transportation providers. The audit is reviewing each providers file to ensure the following information is current for dates of service provided: client signatures for all completed trips; background checks on all drivers; vehicle insurance and maintenance records; and accurate established rates. The results will be provided to the Department on a quarterly basis.

Contact: Bill Wisell, Program Specialist – Contract Manager

Anticipated Completion Date: Ongoing

Finding 2016-052

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: As noted within the report, the Department has continued to enhance their monitoring efforts of this grant. The Department will continue to gather more detailed information from the provider in order to ensure billings have adequate and reasonable expenses associated with them. The Department will be ending this contract on or before June 30, 2017.

Contact: Tony Green

Anticipated Completion Date: June 30, 2017

Finding 2016-053

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Special Tests and Provisions

Corrective Action Plan: The finding states that a good internal control plan requires procedures to ensure cases are reviewed, adequately collected on, and appropriate dispositions are made in a timely manner. While the Program Integrity team has procedures to ensure that all cases are reviewed, collected on, and intervened on in an appropriate manner, these procedures are not all documented and the review of the cases is not always documented in the case files. Program Integrity will document procedures on case review, refund collections, and the intervention of cases.

Some of the collections activities are beyond the control of the Program Integrity team and procedures will reflect the other Agency units involved.

For the Recovery Audit Contractor related finding, The Agency will draft thorough processes to clearly document the movement of funds throughout the RAC process and work with CMS to determine the actual amount due.

Contact: Anne Harvey

Anticipated Completion Date: May 31, 2017

Finding 2016-054

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: Implement system changes to eliminate the 15 day choice period and subsequent Fee-For-Service (FFS) time period. Clients will be automatically enrolled in a health plan upon Medicaid eligibility and identification of mandatory to enroll in managed care status. There will no longer be a FFS time period where a service could be rendered, billed, and paid before managed care enrollment.

Contact: Heather Leschinsky

Anticipated Completion Date: January 1, 2017

Finding 2016-055

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: The Department initiated clarified billing guidelines and supporting documentation requirements for agency providers beginning October 1, 2016. The new guidelines clarify that services used under code 7090 must be provided outside the place of residence. A separate billing code was initiated at this same time to allow agency providers to bill the state general fund portion for days services on weekends, holidays etc… that do not conform with the approved HCBS Waivers. The Department has submitted new HCBS Waivers for persons with developmental disabilities that will eliminate this issue that are to take effect March 1, 2017 and be fully implemented by June 30, 2017. The Department will make an adjustment on its next Federal quarterly report to reflect the questioned costs.

Contact: Tony Green

Anticipated Completion Date: June 30, 2017

Finding 2016-056

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Corrective Action Plan: See Finding #2016-008

COMMISSION FOR LAW ENFORCEMENT AND CRIMINAL JUSTICE

Finding 2016-057

Program: CFDA 16.575 – Crime Victim Assistance – Allowable Costs/Cost Principles

Corrective Action Plan: The Crime Commission continues to work with WCA in relation to questioned costs. Most of the questioned costs deal with allocation of cost concerns and the Commission has been working with WCA to ensure that the basis of allocation is stated, is reasonable, and based on the relative benefit to the grant received. The Crime Commission requires all subrecipients to provide supporting documentation for all federal expenditures.

Contact: Lisa Stamm, Chief Grants Division

Anticipated Completion Date: January 11, 2017

LIBRARY COMMISSION

Finding 2016-058

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Corrective Action Plan: The Commission will advise the Library Systems to retain professional auditing services to ensure their practices are allowable in accordance with Federal requirements.

Contact: Rod Wagner, Director

Anticipated Completion Date: July 1, 2017

MILITARY DEPARTMENT

Finding 2016-059

Program: CFDA 12.401 – National Guard Military Operations and Maintenance (O&M) Projects – Cash Management

Corrective Action Plan: The Nebraska Military Department will continue to exercise all efforts to minimize the time between the drawdown of federal funds and their disbursement for program purposes. Due to the complexity of the funding structure and funding sites within the Department, the Nebraska Military Department plans to meet with DAS-Accounting to seek an exception to the CMIA, based on the nature of compliance requirements.

Contact: Ms. Shawn D. Fitzgerald, Agency Controller

Anticipated Completion Date: Ongoing

DEPARTMENT OF ROADS

Finding 2016-060

Program: CFDA 20.205 – Highway Planning and Construction – Reporting

Corrective Action Plan: The Dept. of Roads will review the process in which the SEFA information is identified and implement procedures to ensure the information is accurate.

Contact: Becky Fleming

Anticipated Completion Date: June 30, 2017

Finding 2016-061

Program: CFDA 20.205 – Highway Planning and Construction – Allowability

Corrective Action Plan: To address this finding, the Railroad Liaison Unit of the Intermodal Planning Division will work with the Department of Roads' Audit Staff to establish a process that will be used when we review all invoices prior to submitting them to Controller Division for payment. This will include documentation to the file that the review was completed as outlined in the approved process.

Contact: Beverly Vonasek

Anticipated Completion Date: June 30, 2017

Finding 2016-062

Program: CFDA 20.509 – Formula Grants for Rural Areas – Allowability & Subrecipient Monitoring

Corrective Action Plan: Include additional supporting documentation during desktop audits.

Contact: Kari Ruse

Anticipated Completion Date: Completed

Finding 2016-063

Program: CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Corrective Action Plan: NDOR now reports the actual recipient share to FTA in its Federal Financial Reports.

Contact: Frank Faughn

Anticipated Completion Date: September 30, 2016

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Finding #	State Agency/Finding	Status of Finding/Agency Comments
2015-001 Since 2007	Administrative Services CAFR Preparation	State Accounting prepares over 250 workpapers each year in support of the CAFR. The majority were submitted to APA on or before the due date. We will continue to identify the resources necessary to prepare, review, and submit workpapers and the CAFR on an accurate and timely basis.
2015-002	Correctional Services BCBS Payments	DCS hired a consultant to complete a review of the most significant BCBS payments and has addressed those issues with BCBS. A Utilization Review Nurse has been hired to monitor billings on an on-going basis. Off-site medical consultations are approved an maintained in an electronic file. A system has been developed to track Medicaid eligible cases; although due to recent changes inmates are less likely to be eligible for Medicaid. The SOC reports are being received on an annual basis and reviewed. Corrective action is complete.
2015-003	Education Special Education	Corrective Action Plan has been implemented and 21 school districts had onsite reviews performed in addition to all school districts having desk reviews performed during FY2016. Onsite reviews for 18 school districts have been identified to be performed in FY 2017 in addition to all school districts having desk reviews performed.
2015-004	Health & Human Services Loss of Federal Funding	Corrective action plan is complete.
2015-005 Since 2004	Health & Human Services Accrual Information	Corrective action plan is complete.
2015-006	Health & Human Services The Overpayment Mailbox	Corrective action plan is partially complete. Additional enhancements are in the process of being implemented and referrals continue to be reviewed on schedule. Security access to the mailbox has been addressed.
2015-007	Health & Human Services Receivables	Corrective action plan is partially complete. Collection Policy updates are in progress and the referral process continues to be enhanced.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #	State Agency/Finding	Status of Finding/Agency Comments
2015-008	Health & Human Services WIC Program	Corrective action plan is complete.
2015-009 Since 2014	Labor Errors in Financial Information	A/R and charges for services understated – This year we will use the July 31 numbers instead of the June 30 balance for taxes due from employers. The remaining errors are being corrected via new journal entry templates and a more careful review of the timing of entries at year-end. We are currently evaluating the entries for the 10-digit accounts.
2015-010	Roads Financial Information Errors	Corrective Action is complete.
2015-011	State Treasurer Bank Signature Cards Not Updated	Corrective action plan is complete.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDINGS RELATING TO FEDERAL AWARDS:

Nebraska Department of Administrative Services

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-012	93.575, 93.596 Cash Management	State Accounting is reviewing procedures to make sure the quarterly reconciliation and investigation of variances is done on a timely basis.
2015-013	Various, 93.778 Allowable Costs	Internal Service fund balances are being monitored and the Agency will continue to take the necessary steps (rate reductions, credits, no-bills, make expenditures related to program enhancements, etc) to decrease fund balances to meet the Federal requirements. The Agency will continue to review procedures and the methodologies used when calculating the various rates to ensure the amounts billed reflect the cost of providing those services.

Nebraska Department of Agriculture

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-014	10.435, 10.479, 66.605, 93.103, 93.448 Allowable Costs	The Department does not have a replacement system in place for the existing employee reporting system (ERS). We are currently looking at a Krono's application. To address the prior audit point, staff has been reminded to use the ERS codes for federal contract work and follow-up has and will continue to be made to reconcile costs allocated to a grant match up to the ERS time coded.

Nebraska Department of Economic Development

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-015 Since 2014	14.228 Allowability/ Subrecipient Monitoring	The corrective action has been completed and implementation is ongoing
2014-009	14.228 Reporting	The corrective action has been completed and implementation is ongoing

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Department of Education

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-016 Since 2012	10.558 Eligibility	Corrective Action Plan has been modified from completing a checklist on each sponsor during the application renewal process to highlighting pieces of information reviewed and adding reviewer's comments to the documents submitted as supporting documentation. Discussion was held at our April CACFP team meeting and concern was expressed regarding completion of a checklist for each of the 299 applications. Therefore, we modified the policy and procedure and created a checklist (see attachment) for the program specialist to utilize during the application review process. Training was provided to sponsors during our annual CACFP update training offered this spring (see attachment, slides 64 - 67). The application process began June 1st and financial viability documentation is being collected and follow up is completed to ensure financial viability of the organizations per the revised policy and procedure.
2015-017 Since 2014	84.126 Program Income	Corrective Action Plan is Complete

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Department of Health and Human Services

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-018	Various, 93.778 Allowable Costs	Corrective action plan is complete.
2015-019	Various, 93.778 Allowable Costs/ Procurement	Corrective action plan is complete.
2015-020	Various, 93.568, 10.561, 93.658 Allowable Costs	Corrective action plan is complete.
2015-021 Since 2013	Various, 93.568, 10.561, 93.658, 93.575, 93.596, 93.558, 93.778 Allowable Costs	Corrective action plan is complete.
2015-022 Since 2012	Various, 93.767, 93.778 Cash Management	Corrective action plan is partially complete. Reconciliation and allocation processes continue to be enhanced. Reconciliations have not been completed for all grants.
2015-023 Since 2013	Various, 93.778 Allowable Costs	Corrective action plan is complete.
2014-023	93.658, 93.556 Allowable Costs/ Matching	Corrective action plan is complete.
2015-024	10.551 Allowable Costs	Corrective action plan is partially complete. Regulations were updated and approved. Demand letter retention architecture is currently being evaluated.
2015-025 Since 2010	93.044, 93.045 Allowability/ Matching/ Subrecipient Monitoring	Corrective action plan is partially complete. Subrecipient monitoring desk review awaiting completion.
2015-026 Since 2010	93.044, 93.045 Reporting	Corrective action plan is complete.
2014-029	93.044, 93.045, 93.053 Reporting	Corrective action plan is complete.

Nebraska Department of Health and Human Services (Continued)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-027 Since 2014	93.069, 93.889 Allowability/ Cash Management/ Subrecipient Monitoring	Corrective action plan is complete.
2014-031	93.069, 93.889 Reporting/Matching	Corrective action plan is complete.
2015-028	93.217 Allowability/ Program Income/ Subrecipient Monitoring	Corrective action plan is partially complete. Desk audit procedures are awaiting implementation. The financial review form has been updated and corrective action plans developed for each of the noted subrecipients.
2015-029	93.217 Cash Management/ Subrecipient Monitoring	Corrective action plan is not complete. DHHS has requested clarification from the Federal Awarding Agency and is awaiting a response.
2015-030	93.217 Reporting	Corrective action plan is partially complete. Reports have been corrected. Procedures for report completion are currently being drafted.
2015-031	93.217 Procurement	Corrective action plan is complete.
2015-032 Since 2012	93.283 Allowability/ Matching/ Subrecipient Monitoring	Corrective action plan is complete.
2015-033	93.283 Reporting	Corrective action plan is complete.
2014-035 Since 2013	93.283, 93.270 Reporting	Corrective action plan is partially complete. DHHS is reviewing internal controls for Business Unit process which will include the Department of Administrative Services.

Nebraska Department of Health and Human Services (Continued)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-034 Since 2004	93.558 Allowable Costs/ Eligibility/ Special Tests	Corrective action plan is complete.
2015-035 Since 2011	93.558 Allowability	Corrective action plan is partially complete. Monthly reviews of claims has been implemented. Implementation of an independent rate study continues to be evaluated.
2015-036 Since 2013	93.558 Allowability	Corrective action plan is complete.
2015-037 Since 2011	93.558 Reporting	Corrective action plan is complete.
2015-038 Since 2012	93.558 Reporting	Corrective action plan is complete.
2015-039 Since 2012	93.558 Special Tests	Corrective action plan is partially complete. System changes have been requested related to CSE sanctions but have not yet been implemented.
2015-040 Since 2013	93.558 Allowability	Corrective action plan is complete.
2015-041 Since 2012	93.568 Allowability/ Eligibility	Corrective action plan is complete.
2015-042 Since 2013	93.568 Reporting	Corrective action plan is complete.
2015-043 Since 2013	93.568 Reporting	Corrective action plan is complete.
2015-044 Since 2014	93.568 Period of Availability	Corrective action plan is complete.
2014-045 Since 2012	93.568 Earmarking	Corrective action plan is complete.
2014-046	93.568 Reporting	Corrective action plan is complete.

Nebraska Department of Health and Human Services (Continued)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2014-049 Since 2012	93.568 Reporting	Corrective action plan is complete.
2015-045 Since 2007	93.575, 93.596 Allowability/ Eligibility	Corrective action plan is partially complete. DHHS is in the process of submitting regulation updates.
2015-046 Since 2013	93.575, 93.596 Reporting	Corrective action plan is complete.
2015-047 Since 2011	93.575, 93.596 Special Tests	Corrective action plan is not complete. DHHS is evaluating the referral and investigations process to enhance timeliness and accuracy.
2015-048 Since 2014	93.575, 93.596 Reporting	Corrective action plan is complete.
2015-049	93.575, 93.596 Reporting	Corrective action plan is complete.
2014-052 Since 2013	93.575 Earmarking	Corrective action plan is complete.
2014-055 Since 2011	93.575, 93.596 Special Tests	Corrective action plan is complete.
2015-050 Since 2014	93.658 Special Tests	Corrective action plan is not complete. State Plan amendments are in process. DHHS is awaiting response from Federal partners related to group home rate determination. Implementation of an independent rate study continues to be evaluated.
2015-051 Since 2003	93.658 Allowability/ Eligibility	Corrective action plan is not complete. Training documents are being developed. DHHS is continuing to evaluate the current day and hour rate schedule.
2015-052	93.658 Subrecipient Monitoring	Corrective action plan is complete.
2015-053	93.658 Reporting	Corrective action plan is partially complete. Grant reports are being adjusted and will be submitted timely.

Nebraska Department of Health and Human Services (Continued)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2014-060 Since 2013	93.658 Allowability/ Eligibility/Reporting	Corrective action plan is partially complete. Correcting journal entries are still in progress.
2015-054 Since 2011	93.659 Allowability/ Eligibility	Corrective action plan is partially complete. Training materials and quality assurance reviews have not yet been fully implemented.
2015-055	93.659 Reporting	Corrective action plan is partially complete. Not all open grant years have been reconciled.
2015-056 Since 2007	93.667 Allowability	Corrective action plan is complete.
2014-062	93.667 Period of Availability	Corrective action plan is complete.
2015-057	93.767 Allowability/ Eligibility	Corrective action plan is partially complete. Correcting journal entries cannot be completed until after the claiming deadline has passed which is December 31, 2016.
2015-058	93.767 Eligibility	Corrective action plan is complete.
2014-064 Since 2012	93.767 Reporting	Corrective action plan is complete.
2015-059 Since 2006	93.778 Matching/ Reporting	Corrective action plan is partially complete. Correcting journal entries have not yet been finalized. Reconciliation procedures are continuously updated.
2015-060 Since 2013	93.778 Allowability	Corrective action plan is complete.
2015-061 Since 2014	93.778 Allowability/ Eligibility	Corrective action plan is complete.
2015-062 Since 2009	93.778 Allowability	Corrective action plan is complete.

Nebraska Department of Health and Human Services (Concluded)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-063 Since 2009	93.778 Special Tests	Corrective action plan is not complete. Rate review process and cost settlements are in progress.
2015-064 Since 2011	93.778 Special Tests	Corrective action plan is partially complete. Field audits are progressing.
2015-065	93.778 Allowability	Corrective action plan is partially complete. System changes to MMIS have been requested but not yet implemented.
2015-066 Since 2013	93.778 Allowability	Corrective action plan is complete.
2015-067 Since 2008	93.778 Allowability/ Subrecipient Monitoring	Corrective action plan is complete.
2015-068 Since 2013	93.778 Eligibility	Corrective action plan is complete.
2015-069 Since 2012	93.778 Allowability/ Special Tests	Corrective action plan is partially complete. Cash handling procedures have been enhanced. Policies for timeliness of case reads have not been implemented.
2015-070	93.778 Allowability	Corrective action plan is partially complete. Journal entries have been entered and correcting entries will be made on the QE 6/30/16 CMS64.
2014-076	Various, 93.778 Allowability/Eligibility	Corrective action plan is partially complete. Processes to enhance monitoring of external MMIS users are currently being implemented.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Library Commission

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-071 Since 2014	45.310 Subrecipient Monitoring	The Nebraska Library Commission has completed corrective action on the findings
2015-072 Since 2014	45.310 Allowability	The Nebraska Library Commission has completed corrective action on the findings
2015-073 Since 2014	45.310 Allowability/ Earmarking/ Reporting	The Nebraska Library Commission has completed corrective action on the findings

Nebraska Department of Roads

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-074 Since 2013	20.509 Allowability/ Subrecipient Monitoring	NDOR doesn not concur with the questioned costs finding. NDOR implemented a financial desktop review procedure in response to the FYE 06/30/13 audit report. In NDOR's response during that exit interview, the corrective action plan indicated a review would be conducted of 25% of subrecipients per year. In fiscal year 2015, over 30 transit systems (from a total of 60 systems) received an indepth review of expenses with at total of 56 reviews conducted. The financial desktop review procedure was presented to auditors from the Federal Transit Administration (FTA) during the State Management Review in July 2015 and found to be acceptable. Furthermore, when presented during the FYE 06/20/13 exit interview, NDOR received no comments from the state auditors requesting that the corrective action plan be revised. In response to the FYE 06/30/15 state audit, the NDOR transit section has revised the review of invoices and supporting documentation to include personnel expenses.

Nebraska Department of Roads (Concluded)

Finding#	CFDA/Compliance	Status of Finding/Agency Comments
2015-075 Since 2013	20.509 Reporting	Federal Funds Accountability and Transparency Act (FFATA) reports are being submitted in a timely manner. Please note, this was also a finding during the FTA July State Management Review conducted by FTA in 2015. The procedure that we currently have in place to submit reports was acceptable to FTA and the finding was closed. During the reporting period that was reviewed, the National Transit Database (NTD) was in the process of being completely replaced by new software. Data entry was difficult, the new system was unpredictable and technical assistance was not always available. NDOR attributes the missing surbrecipient information to this circumstance. NTD analysts thoroughly review, question and close out any issues. NDOR responded adequately to all issues and the data was verified and accepted by FTA. Data for the NTD report report is now collected through an online invoice submittal system. The data is more accurate and accessible. NDOR anticipates that our improved data collection efforts will reduce the minimal errors identified during this review.
2015-076 Since 2013	20.509 Suspension and Debarment	The information reviewed was prior to NDOR having an adequate procedure in place to check the excluded parties list. Please note, this was also a finding during the July 2015 State Management Review conducted by FTA. The procedure that we currently have in place to submit reports was acceptable to FTA on the finding was closed.