STATE OF NEBRASKA

STATEWIDE SINGLE AUDIT

Year Ended June 30, 2017

Issued on March 21, 2018

STATE OF NEBRASKA

Basic Financial Statements and
Uniform Guidance Compliance Reports

Year Ended June 30, 2017

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Uniform Guidance Compliance Reports

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FINANCIAL SECTION

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NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2017, 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 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%, 45%, and 17%, 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 and Enable Savings Plan which represent 18%, 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 and Enable 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 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 qualified audit opinions.

Basis for Qualified Opinions

The State of Nebraska contracted with two service organizations, United Healthcare Services, Inc. and OptumRx, Inc. to process its self-funded health insurance and prescription drug claims paid on behalf of State employees. During the fiscal year ended June 30, 2017, the State of Nebraska paid or was liable for a total of $184,052,764 in claims. Neb. Rev. Stat. § 81-1125.01 requires in part, for the Director of Administrative Services to report "at least twenty days before the commencement of each regular session of the legislature: (2) The Comprehensive Annual Financial Report…" We were unable to obtain sufficient appropriate audit evidence, prior to the statutorily required reporting date, regarding the suitability of the design and operating effectiveness of the service organizations internal controls. The service organization control attestation reports had not yet been released by their auditors.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, 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, 2017, 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 Schedule on page 71, the Information About Infrastructure Assets Reported Using the Modified Approach on page 73, and the Information About Pension Plans on pages 74 through 89, 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 14, 2017, 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 solely 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 the effectiveness of the State of Nebraska's 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 14, 2017, except for our report on supplementary information for which the date is March 19, 2018.

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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, 2017. 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 2017 required by the Governmental Accounting Standards Board (GASB) that had an impact on the June 30, 2017 financial statements. Statement No. 77, *Tax Abatement Disclosures* establishes financial reporting standards for tax abatement agreements entered into by State and Local governments. Note disclosures have been developed according to these reporting standards and can be found under Note 15 Tax Abatements. The State also implemented the following three new standards in 2017 that had no impact on the June 30, 2017 financial statements. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* improves the usefulness of information about postemployment benefits other than pensions. Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* establishes accounting and financial reporting standards for benefit plans that meet specific criteria. The State does not have any pension plans at this time that meet those criteria. Statement No. 80, *Blending Requirements for Certain Component Units,* clarifies financial statement presentation requirements for component units that are organized as not-for-profit corporations in which the government is the sole corporate member. The State does not have any component units at this time that meet the criteria. Statement No. 82, *Pension Issues,* improves consistency in the application of pension accounting and financial reporting requirement by addressing certain issues that were raised with the implementation of Statements No. 67 *Financial Reporting for Pension Plans,* No. 68 *Accounting and Financial Reporting for Pensions* and 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 Provision of GASB Statement 67 and 68.* The State has reviewed and implemented the requirements of this statement that apply to the pension plans reported in the State's financial statements.

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, 2017 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, 2017 by $12.7 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 $0.6 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 2017 resulting in a decrease in net position of $143 million. This decrease in net position follows a decrease in 2016 of $13 million.

Fund Level:

General Fund revenues for 2017 were $301 million below the original budgeted amount and below the final budget by $34 million. Expenditures were $393 million less than the original budgeted amount and below the final budget by $253 million. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had $164 million deficiency in 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 $378 million, and thereby decreasing the fund balance on June 30, 2017 to $750 million. Other governmental funds revenues exceeded expenditures by $54 million, chiefly due to market changes. In addition to these operating changes, other governmental funds received $57 million in net other financing sources. This $111 million net increase resulted in raising such fund balances at June 30, 2017 to $2,810 million.

The $500 million of net position of the Unemployment Insurance Fund represents 85% of the enterprise funds. Such fund had a $12 million increase in net position for 2017 compared to a $24 million increase in 2016, a decrease in growth of $12 million. Business assessment fees collected from employers exceeded the unemployment insurance claims in 2017. Business assessment fees from employers, net of unemployment insurance claims was down 74.5% from 2016.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled $949 million at June 30, 2017, which is a $136 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 and retirement contributions held by the State for Omaha School Employees Retirement Systems.

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 a budgetary comparison schedule that reconciles the statutory fund balance used for budgetary purposes to the fund balance determined by GAAP used in the Fund Financial Statements. Other information included are 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 budgetary comparison schedules for Cash Funds, Construction Funds, Federal Funds and Revolving Funds. This section also includes 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 $15,241 million at June 30, 2017 as compared to $15,133 million at June 30, 2016, as restated. As total liabilities and deferred inflows of resources only totaled $2,504 million, net position amounted to $12,737 million as of June 30, 2017. As of June 30, 2016, these amounts were $2,253 million and $12,880 million, respectively, as restated. By far the largest portion of the State of Nebraska's net position (70 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, dams, etc.). The State uses these capital assets to provide services to citizens; thus, these assets are not available for future spending.

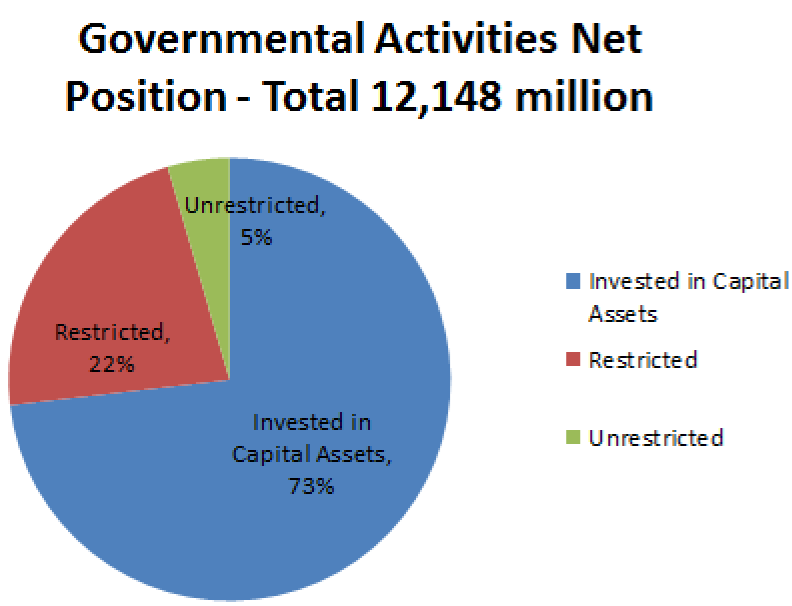
Restricted net position is subject to external restrictions, constitutional provisions, or enabling legislation on how it can be used. It is also not available for future general government spending.

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	
	2017	2016	2017	2016	2017	2016
Current and Other Non-current Assets	$ 5,326	$ 5,450	$ 679	$ 644	$ 6,005	$ 6,094
Capital Assets	8,918	8,807	8	7	8,926	8,814
Total Assets	14,244	14,257	687	651	14,931	14,908
Deferred Outflows of Resources	310	225	-	-	310	225
Non-current Liabilities	910	788	39	25	949	813
Other Liabilities	1,330	1,225	59	41	1,389	1,266
Total Liabilities	2,240	2,013	98	66	2,338	2,079
Deferred Inflows of Resources	166	174	-	-	166	174
Net position:						
Net Investment in Capital Assets	8,889	8,773	8	7	8,897	8,780
Restricted	2,708	2,553	503	490	3,211	3,043
Unrestricted	551	969	78	88	629	1,057
Total Net Position(as restated)	$ 12,148	$ 12,295	$ 589	$ 585	$ 12,737	$ 12,880



Approximately 72% of the State's non-capital assets consist of cash and investments. It should be noted that $40 million in 2017 and $95 million in 2016 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 21% 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 $844 million in 2017 ($684 million in 2016); tax refunds payable of $420 million ($399 million in 2016); 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 $949 million in 2017 ($813 million in 2016). Such liabilities include claims payable for workers' compensation, medical excess liability, capital lease obligations, unemployment insurance, and employee health insurance totaling $111 million in 2017 ($99 million in 2016), Medicaid claims for $227 million in 2017 ($209 million in 2016), the State's liability for pension funds of $450 million in 2017 ($337 million in 2016), and the calculated amount for vested sick leave due to employees when they retire and accrued vacation of $132 million in 2017 ($132 million for 2016). Another minor amount of long-term liabilities consists of capital lease obligations (See Note 8 to the Financial Statements), which totaled $29 million at June 30, 2017, compared to $35 million at June 30, 2016.

The $147 million decrease in net position of Governmental Activities for 2017, was due to a $116 million increase in the net investment in capital assets, a $155 million increase in restricted net position, and a $418 million decrease in unrestricted net position. Additionally, there was a $7 million decrease in taxes collected.

At the end of June 30, 2017, 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 2017, 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)

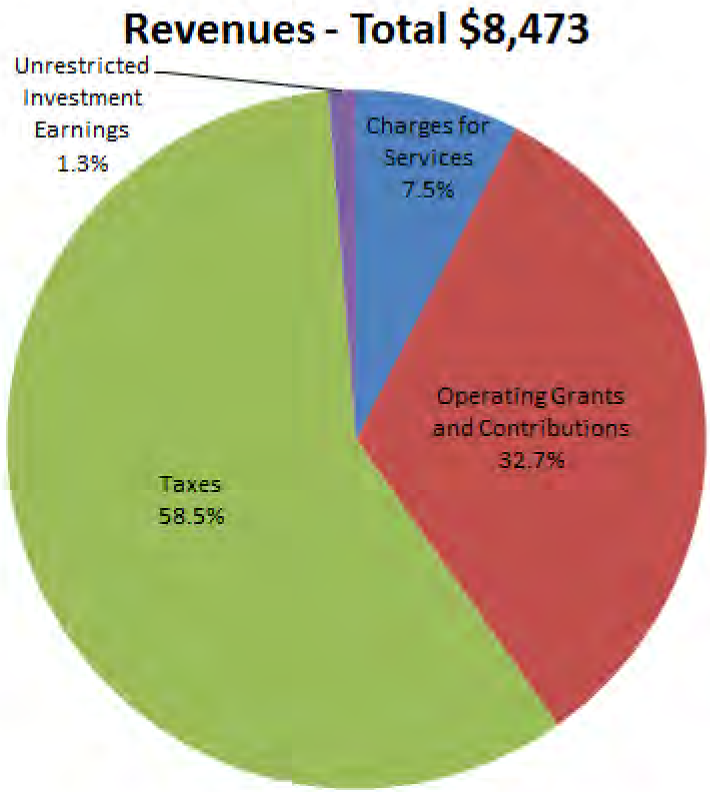
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
REVENUES						
Program Revenues						
Charges for Services	$ 639	$ 617	$ 282	$ 295	$ 921	$ 912
Operating Grants and Contributions	2,766	2,719	-	-	2,766	2,719
Capital Grants and Contributions	1	-	-	-	1	-
General Revenues						
Taxes	4,954	4,961	-	-	4,954	4,961
Unrestricted Investment Earnings	109	145	11	16	120	161
Miscellaneous	4	2	-	-	4	2
Total Revenues	8,473	8,444	293	311	8,766	8,755
EXPENSES						
General Government	650	630	-	-	650	630
Conservation of Natural Resources	146	144	-	-	146	144
Culture - Recreation	38	36	-	-	38	36
Economic Development and Assistance	102	100	-	-	102	100
Education	1,811	1,800	-	-	1,811	1,800
Higher Education - Colleges and Universities	664	676	-	-	664	676
Health and Social Services	3,616	3,476	-	-	3,616	3,476
Public Safety	396	399	-	-	396	399
Regulation of Business and Professions	116	118	-	-	116	118
Transportation	1,041	1,096	-	-	1,041	1,096
Interest on Long-term Debt	1	-	-	-	1	-
Net Pension Expense	82	80	-	-	82	80
Unemployment Insurance	-	-	76	79	76	79
Lottery	-	-	132	136	132	136
Excess Liability	-	-	21	9	21	9
Cornhusker State Industries	-	-	17	14	17	14
Total Expenses	8,663	8,555	246	238	8,909	8,793
Excess/(Deficiency) Before Transfers and Contributions: Permanent Fund Principal	(190)	(111)	47	73	(143)	(38)
Net Transfers In (Out)	44	49	(43)	(49)	1	-
Contributions: Permanent Fund Principal	(1)	25	-	-	(1)	25
Increase/(Decrease) in Net Position	(147)	(37)	4	24	(143)	(13)
Net Position - Beginning (as restated)	12,295	12,332	585	561	12,880	12,893
Net Position - Ending	$ 12,148	$ 12,295	$ 589	$ 585	$ 12,737	$ 12,880

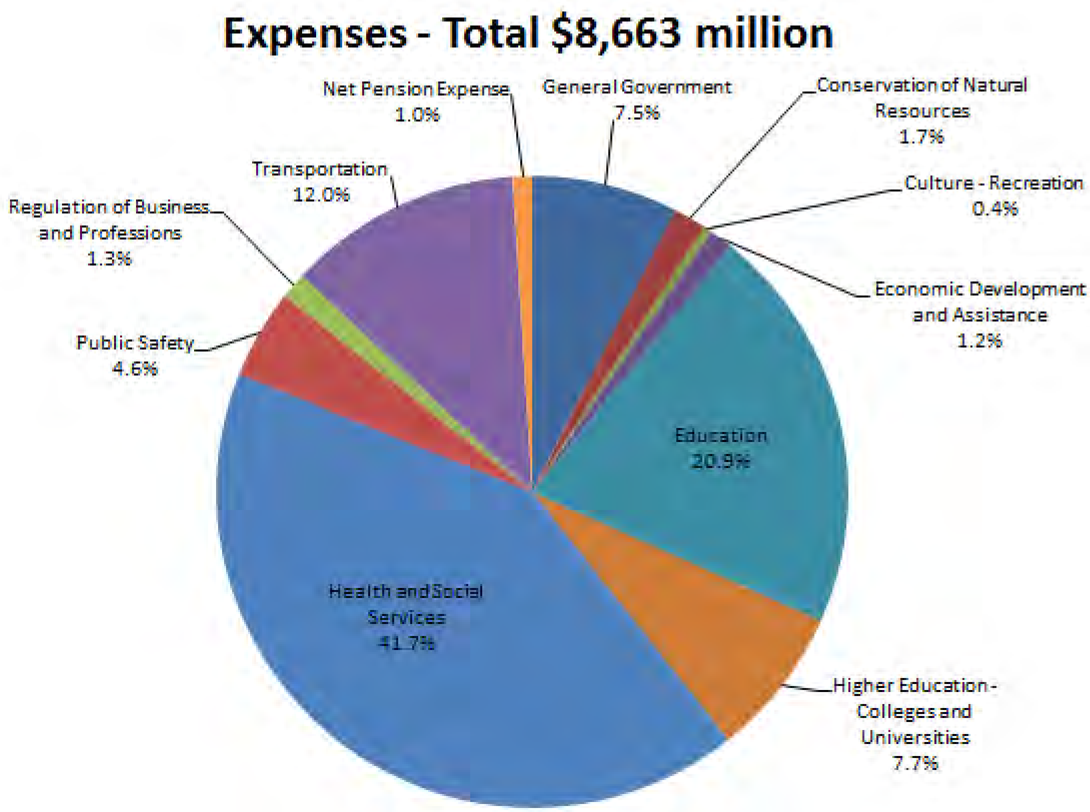
Governmental Activities

Governmental activities decreased the State's net position by $147 million in 2017 ($37 million decrease in 2016) and represent 97% of all primary government revenues. Program revenues from governmental activities were $3,406 million and were used to partially offset program expenses of $8,663 million, leaving net expenses of $5,257 million. Only 8% 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 $5,110 million, were $147 million less than the remaining costs of the governmental activities' programs as shown below.

Tax revenues were down $7 million, from 2016, compared to a decrease of $15 million in 2016 over 2015. Program revenues increased 2% from 2016, chiefly due to income from operating grants being up $47 million. Increases in general government, education and health and social services expenses contributed to the $108 million increase in program expenses. The change in Net Position decreased $110 million from 2016 to 2017 compared to the $348 million decrease from 2015 to 2016. Although the General Fund holds more investments than other programs and maintains safer investments, it showed a decrease in investment income in 2017 from 2016 of $72 million due to the changes in the market value of the underlying investments.

STATE OF NEBRASKA
Governmental Activities
As of June 30, 2017





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 $11 million, Health and Social Services was up $140 million, Higher Education was down $12 million, and Transportation expenses were down $55 million. All the other functional areas had small variances in net expenses.

Program expenses, net of revenue, increased by $38 million in 2017, over 2016, as shown below:

GOVERNMENTAL ACTIVITIES

(in millions of dollars)

	2017	2016
Program Expenses, Net of Revenue		
General Government	$ (547)	$ (517)
Conservation of Natural Resources	(47)	(46)
Culture - Recreation	(6)	(7)
Economic Development and Assistance	(50)	(48)
Education	(1,400)	(1,375)
Higher Education - Colleges and University	(664)	(677)
Health and Social Services	(1,597)	(1,579)
Public Safety	(299)	(291)
Regulation of Business and Professions	14	14
Transportation	(578)	(613)
Interest on Long-Term Debt	(1)	-
Net Pension Expense	(82)	(80)
Subtotal	(5,257)	(5,219)
General Revenues		
Taxes	4,954	4,961
Unrestricted Investment Earnings	109	145
Miscellaneous	4	2
Transfers	44	49
Contributions: Permanent Fund Principal	(1)	25
Increase(Decrease) in Net Position(as restated)	$ (147)	$ (37)

Business-type Activities

The business-type activities increased the State's net position by $3 million for 2017, which was net of a $44 million transfer to governmental activities. Most of the $282 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 $6 million in 2017. This gain, when combined with transfers and $9 million in investment income, produced a $12 million increase in net position for the Unemployment Insurance Fund. Lottery revenues of $174 million generated operating income of $41 million, which was offset by a $41 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, 2017, the State’s Governmental Funds reported combined ending fund balances of $3,560 million. Of this amount, $578 million is nonspendable, either due to its form or legal constraints, and $2,120 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 $752 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 $43 million of total fund balance has been assigned to specific purposes, as expressed by legislative intent. The remaining $67 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 $407 million. However, such refunds payable are $23 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 $767 million.

On June 30, 2016, the General Fund had a positive fund balance of $1,128 million. For 2017, expenditures increased $99 million from 2016 and revenues decreased by $89 million. The revenues were $366 million less than expenditures for 2017 while revenues were $178 million less than expenditures in 2016. The General Fund balance in 2017 decreased by $378 million, after adjusting for transfers in and out of the General Fund, ending with a fund balance of $750 million on June 30, 2017.

Revenues began decreasing during mid 2017 finishing $89 million down from 2016. This decrease was chiefly due to a decrease in income tax revenue of $12 million (a 0.46% decrease) from 2016, an increase in sales and use tax revenue of $4 million (a 0.27% increase) over 2016, and decreases in business and franchise taxes of $10 million (an 11% decrease) and investment income of $72 million (a 120% decrease) from 2016. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending. A net increase in expenditures was caused chiefly in four areas. Education expenditures increased $19 million due to increased aid and Higher Education – Colleges and University expenditures increased $11 million due to increased payroll costs. Health and Social Services expenditures increased $62 million due to increased aid; General Government expenditures increased $11 million mainly due to an increase in payments for property tax credits.

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 2017.

The Cash Reserve Fund balance was $728 million at the beginning of 2016. In 2016, there was a net statutory transfer to the Fund from the General Fund of $85 million and other net transfers out of $82 million, leaving a Cash Reserve Fund balance at June 30, 2016 of $731 million. In 2017, there were other transfers out of $50 million leaving a Fund balance of $681 million at June 30, 2017. 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 $2,810 million at June 30, 2017. Of this amount, $576 million is nonspendable, either due to its form or legal constraints, and $2,120 million is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $71 million of total fund balance has been committed to specific purposes. The remaining $43 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 $814 million. The non-major special revenue fund balances totaled $1,030 million.

Governmental funds other than the General Fund saw an increase in fund balances of $111 million. The fund balances of the following funds increased: the Permanent School Fund ($48 million), the Health and Social Service Fund ($32 million), the Highway Fund ($43 million) and Federal Fund ($1 million). The fund balance of other Nonmajor Funds decreased ($12 million).

The Highway Fund had a $12 million increase in Licenses, Fees and Permits, $23 million decrease in federal grants revenue and a $51 million decrease in operating expenses. These changes are mainly why the Highway Fund had a $43 million increase in its fund balance in 2017 as opposed to a $55 million decrease in 2016.

The activity in the Federal Fund represents federal funds received, and each year's spending should generally approximate grant funds received. In 2017, there was an increase in federal grants and contracts revenue of $106 million and investment income decreased $4 million. Expenditures in 2017 decreased by $15 million for Education, increased $6 million for Conservation of Natural Resources, increased $2 million for Economic Development and Assistance, increased $112 million for Health and Social Services, and decreased $21 million for Public Safety. Revenues exceeded expenditures by $17 million before transfers. Transfers out increased $4 million in 2017 compared to a decrease of $14 million in 2016. At the end of 2017 there was a slight increase in the fund, similar to the increase in 2016.

The Health and Social Services Fund consists of the Intergovernmental Trust Fund and the Tobacco Settlement Trust Fund, in addition to various cash funds. Such cash funds receive transfers from such trust funds, income from charges for services and some tax revenue, among other income. The funds had a $41 million increase in investment income in 2017 (chiefly due to changes in the market value of investments) compared to an $8 million decrease in 2016. There was a $32 million increase in fund balance in 2017, as opposed to an $8 million decrease in 2016.

The Permanent School Fund had a $17 million increase in revenue, chiefly due to a $45 million increase in investment income caused by changes in the market value of investments in 2017, compared to a $3 million investment income increase in 2016 (when compared to 2015). There was a $48 million increase in fund balance in 2017, as opposed to a $30 million increase in 2016, a change of $18 million.

The Nonmajor Funds revenues decreased $62 million compared to 2016. Expenditures decreased $5 million in Conservation of Natural Resources, $23 million in Higher Education, and $27 million in Transportation. Regulation of Business and Professions decreased $1 million. There were $26 million in net transfers in for the Nonmajor Funds in 2017 versus $111 million in net transfers in for 2016. As a result, the fund balances decreased $12 million in 2017 as opposed to a $95 million increase in 2016.

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 $500 million at the end of 2017. This fund's net position increased $12 million in 2017, because business assessment fees exceeded unemployment claims paid out by $4 million, investment earnings of $9 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 $33 million prior to a $41 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 $16 million and earned $2 million in investment earnings for a net position decrease of $14 million.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net position increased $1,435 million to $14,366 million in 2017 mainly due to an increase in the fair value of investments in 2017. Interest and dividend income in 2017 was $171 million versus $162 million in 2016. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by $191 million. In another trust fund recorded in the Private Purpose Trust Funds, contributions from State participants received by the College Savings Plan totaled $380 million. The total net position in the College Savings Plan now totals over four billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

Even though there is a relatively stable economy in the Midwest, in 2017 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 2017 by $266 million over 2016 net tax revenue of $4,182 million. Because revenues continued to show a decreasing trend during 2017, the State's Forecasting Board made two new forecasts throughout the year. At the end, the forecasted net tax revenues were $267 million below the original forecast. However, that decreased forecast was still more than actual tax revenues of $4,147 million by $34 million, leaving the State with actual tax revenues, net of refunds, of $301 million below the original budget on a budgetary basis. Agencies continued to watch their General Fund expenditures and spent $253 million less than the final appropriated amount. This reduction, when coupled with the decrease in tax revenues, caused the State to finish 2017 with General Fund revenues of $121 million less than expenditures on a budgetary basis, prior to net transfers out. There was a net $213 million transferred out for specific purposes. The fund balance on a budgetary basis decreased from $1,261 million at the beginning of the fiscal year to $927 million at June 30, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the State had invested $8.9 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 2017 totaled $54 million, compared to $50 million for 2016.

CAPITAL ASSETS AS OF JUNE 30

(net of depreciation in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Land	$ 595	$ 585	$ -	$ -	$ 595	$ 585
Buildings and Equipment	498	483	8	7	506	490
Infrastructure	7,561	7,458	-	-	7,561	7,458
Subtotal	8,654	8,526	8	7	8,662	8,533
Construction in Progress	264	266	-	-	264	266
Total	$ 8,918	$ 8,792	$ 8	$ 7	$ 8,926	$ 8,799

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 2016, indicated an overall system rating of 84, a rating that has been very consistent over the past seven years.

For 2017, it was estimated that the State needed to spend $317 million to preserve and maintain the roads at the above-mentioned level. The State actually spent $413 million on roads in 2017, compared to $441 million in 2016. For 2018, it is estimated that the State needs to spend $325 million, a decrease from actual 2017 and a decrease from the average of the previous five years.

The State also spent $107 million on capitalized infrastructure and land purchases relating to roads in 2017 ($133 million in 2016), most notably reconstructing (a) Highway 75, Plattsmouth to Bellevue, (b) Highway 77, South Interchange Lincoln, (c) I-80, NW 48th St, Bridges, and (d) I-80, NW 56th St, Bridge. Major land purchases included land purchased near six State highways. At June 30, 2017, 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.)

During 2017, the State added $61 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	
	2017	2016
Capitalized Leases:	$ 29	$ 35

There were no new bonds issued or outstanding in 2017 or 2016. One new capitalized lease was added in 2017 (three leases were added in 2016). 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, General Fund tax revenues for fiscal year 2017 decreased .45% from 2016 and fell short of projections. Improvement is forecasted for fiscal year 2018, with tax revenues projected to exceed actual 2017 revenues by $239 million, or 5.6%, on a nominal basis. The State has a low unemployment rate and its debt and pension burdens are among the lowest of all states.

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.

As previously explained, the State maintains a Cash Reserve Fund to help offset any future economic downturns. As of June 30, 2017, this Fund had a $681 million balance. By operation of law, any General Fund revenue at the end of a fiscal year which is in excess of the official certified forecast is used to build the Cash Reserve Fund. No such transfer will be made in July 2017. However, other transfers since the end of the last fiscal year have resulted in a Cash Reserve Fund balance of $544 million at November 30, 2017. Future significant statutory disbursements from this fund include transfers of $111 million to the General Fund and $63 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, 2017

(Dollars in Thousands)	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Cash and Cash Equivalents	$ 197,949	$ 477,366	$ 675,315	$ 694,355
Receivables, net of allowance				
Taxes	491,716	-	491,716	-
Due from Federal Government	334,492	-	334,492	-
Other	362,867	59,232	422,099	428,242
Internal Balances	(1,223)	1,223	-	-
Investments	3,472,160	133,809	3,605,969	2,263,207
Loans Receivable	353,881	-	353,881	35,231
Investment in Joint Venture	-	-	-	415,573
Net Pension Asset	45,632	-	45,632	-
Other Assets	26,985	3,492	30,477	30,803
Restricted Assets:				
Cash and Cash Equivalents	2,749	-	2,749	596,042
Other	-	2,411	2,411	14,508
Securities Lending Collateral	39,094	1,103	40,197	-
Capital assets:				
Land	595,186	315	595,501	140,004
Infrastructure	7,561,195	-	7,561,195	-
Construction in Progress	264,144	-	264,144	279,863
Land Improvements	-	-	-	296,647
Buildings and Equipment	1,236,018	15,184	1,251,202	3,568,985
Less Accumulated Depreciation	(738,388)	(7,817)	(746,205)	(1,244,085)
Total Capital Assets	8,918,155	7,682	8,925,837	3,041,414
Total Assets	$ 14,244,457	$ 686,318	$ 14,930,775	$ 7,519,375
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow related to pensions	$ 310,291	$ -	$ 310,291	$ -
Deferred loss on bond refunding	-	-	-	16,721
Total Deferred Outflows of Resources	$ 310,291	$ -	$ 310,291	$ 16,721
LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 790,216	$ 54,072	$ 844,288	$ 212,829
Tax Refunds Payable	419,953	-	419,953	-
Deposits	15,765	-	15,765	15,450
Unearned Revenue	65,314	3,172	68,486	142,747
Obligations under Securities Lending	39,093	1,103	40,196	-
Noncurrent Liabilities:				
Due within one year	274,385	12,065	286,450	162,862
Due in more than one year	185,949	27,393	213,342	972,119
Net Pension Liability	449,784	-	449,784	-
Total Liabilities	$ 2,240,459	$ 97,805	$ 2,338,264	$ 1,506,007
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow related to pensions	$ 166,305	$ -	$ 166,305	$ -
Deferred service concession arrangement receipts	-	-	-	19,520
Total Deferred Inflows of Resources	$ 166,305	$ -	$ 166,305	$ 19,520
NET POSITION				
Net Investment in Capital Assets	$ 8,888,705	$ 7,682	$ 8,896,387	$ 2,327,603
Restricted for:				
Education	23,266	-	23,266	2,186,305
Health and Social Services	575,007	-	575,007	-
Conservation of Natural Resources	651,397	-	651,397	-
Transportation	256,894	-	256,894	-
Licensing and Regulation	114,099	-	114,099	-
Other Purposes	195,467	2,411	197,878	338,950
Unemployment Insurance Benefits	-	500,235	500,235	-
Debt Service and Construction	-	-	-	364,223
Permanent Trusts:				
Nonexpendable	570,450	-	570,450	-
Expendable	322,175	-	322,175	-
Unrestricted	550,525	78,185	628,710	793,488
Total Net Position	$ 12,147,985	$ 588,513	$ 12,736,498	$ 6,010,569

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

State of Nebraska

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

(Dollars in Thousands)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	$ 650,253	$ 99,001	$ 4,256	$ -
Conservation of Natural Resources	145,919	39,880	58,409	1,018
Culture – Recreation	37,513	28,569	3,335	-
Economic Development and Assistance	102,348	1,234	51,163	-
Education	1,811,058	50,208	360,855	-
Higher Education - Colleges and University	663,979	-	-	-
Health and Social Services	3,616,020	127,310	1,890,658	-
Public Safety	395,782	38,369	58,535	49
Regulation of Business and Professions	116,590	128,818	2,070	-
Transportation	1,040,906	125,831	336,576	-
Interest on Long-term Debt	559	-	-	-
Net Pension Expense	81,603	-	-	-
Total governmental activities	8,662,530	639,220	2,765,857	1,067
Business-type activities:				
Unemployment Insurance	75,593	81,154	-	-
Lottery	132,417	173,819	-	-
Excess Liability	21,131	5,319	-	-
Cornhusker State Industries	17,018	21,633	-	-
Total business-type activities	246,159	281,925	-	-
Total Primary Government	$ 8,908,689	$ 921,145	$ 2,765,857	$ 1,067
COMPONENT UNITS:				
University of Nebraska	$ 2,058,282	$ 837,614	$ 436,264	$ (1,307)
State Colleges	126,057	49,460	14,547	2,094
Total Component Units	$ 2,184,339	$ 887,074	$ 450,811	$ 787

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
$ (546,996)	$ -	$ (546,996)	$ -
(46,612)	-	(46,612)	-
(5,609)	-	(5,609)	-
(49,951)	-	(49,951)	-
(1,399,995)	-	(1,399,995)	-
(663,979)	-	(663,979)	-
(1,598,052)	-	(1,598,052)	-
(298,829)	-	(298,829)	-
14,298	-	14,298	-
(578,499)	-	(578,499)	-
(559)	-	(559)	-
(81,603)	-	(81,603)	-
(5,256,386)	-	(5,256,386)	-
-	5,561	5,561	-
-	41,402	41,402	-
-	(15,812)	(15,812)	-
-	4,615	4,615	-
-	35,766	35,766	-
$ (5,256,386)	$ 35,766	$ (5,220,620)	$ -
$ -	$ -	$ -	$ (785,711)
-	-	-	(59,956)
$ -	$ -	$ -	$ (845,667)
2,507,059	-	2,507,059	-
1,834,043	-	1,834,043	-
371,744	-	371,744	-
132,308	-	132,308	-
100,595	-	100,595	-
8,271	-	8,271	-
108,912	11,254	120,166	80,945
3,733	44	3,777	430,945
-	-	-	663,979
(868)	-	(868)	-
43,590	(43,590)	-	-
5,109,387	(32,292)	5,077,095	1,175,869
(146,999)	3,474	(143,525)	330,202
12,294,984	585,039	12,880,023	5,680,367
$ 12,147,985	$ 588,513	$ 12,736,498	$ 6,010,569

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

State of Nebraska

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2017

(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	$ 37,391	$ 8,435	$ 1,769	$ 3,268	$ 1,461	$ 34,391	$ 86,715
Cash on Deposit with Fiscal Agents	-	-	-	-	-	2,749	2,749
Investments	932,402	244,098	52,141	547,358	872,658	823,503	3,472,160
Securities Lending Collateral	15,911	4,165	809	3,589	1,753	12,867	39,094
Receivables, net of allowance							
Taxes	430,673	60,212	-	-	-	831	491,716
Due from Federal Government	2	32,685	300,495	-	-	1,310	334,492
Loans	-	-	13,940	179	-	339,762	353,881
Other	43,878	11,163	46,031	33,955	194,115	30,910	360,052
Due from Other Funds	57,060	145	160	3,155	-	3,080	63,600
Inventories	1,655	3,076	315	115	-	1,541	6,702
Prepaid Items	584	-	4	-	-	86	674
Other	570	-	-	-	13,583	3,368	17,521
Total Assets	$ 1,520,126	$ 363,979	$ 415,664	$ 591,619	$ 1,083,570	$ 1,254,398	$ 5,229,356
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities:							
Accounts Payable and Accrued Liabilities	$ 138,350	$ 91,571	$ 181,429	$ 12,796	$ 240,893	$ 61,770	$ 726,809
Tax Refunds Payable	407,402	12,550	-	-	-	1	419,953
Deposits	571	1,591	9,497	165	223	3,718	15,765
Due to Other Funds	53,697	2,431	64,520	273	8	9,892	130,821
Obligations under Securities Lending	15,911	4,165	809	3,589	1,753	12,866	39,093
Claims Payable	111,668	-	102,323	-	-	-	213,991
Unearned Revenue	2,699	-	51,272	37	10,819	-	64,827
Total Liabilities	730,298	112,308	409,850	16,860	253,696	88,247	1,611,259
Deferred Inflows of Resources:							
Revenues not yet available	39,491	-	-	18,297	-	-	57,788
Fund Balances:							
Nonspendable:							
Inventories and Prepaid Items	2,239	3,076	319	115	-	1,627	7,376
Endowment Principal	-	-	-	-	550,935	19,515	570,450
Restricted	-	248,595	5,495	555,782	278,939	1,031,197	2,120,008
Committed	680,655	-	-	-	-	71,320	751,975
Assigned	-	-	-	565	-	42,492	43,057
Unassigned	67,443	-	-	-	-	-	67,443
Total Fund Balances	750,337	251,671	5,814	556,462	829,874	1,166,151	3,560,309
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,520,126	$ 363,979	$ 415,664	$ 591,619	$ 1,083,570	$ 1,254,398	$ 5,229,356

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, 2017

(Dollars in Thousands)

Total fund balances for governmental funds		$	3,560,309
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	595,186		
Infrastructure	7,561,195		
Construction in progress	264,144		
Other capital assets	1,130,622		
Accumulated depreciation	(665,430)		8,885,717
Certain tax revenues and charges are earned but not available and therefore are unearned in the funds.			57,788
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.			45,360
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	(166,305)		
Deferred Outflows related to Pension	310,291		143,986
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	(544)		
Compensated absences	(126,682)		
Net pension liability/asset	(404,152)		
Claims and judgments	(13,797)		(545,175)
Net position of governmental activities		$	12,147,985

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, 2017

(Dollars in Thousands)	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES							
Income Taxes	$ 2,501,760	$ -	$ -	$ 4,672	$ -	$ -	$ 2,506,432
Sales and Use Taxes	1,531,137	283,590	-	-	-	20,141	1,834,868
Petroleum Taxes	-	357,868	-	-	1,941	13,876	373,685
Excise Taxes	67,600	-	-	10,714	-	53,994	132,308
Business and Franchise Taxes	73,356	-	-	-	-	27,239	100,595
Other Taxes	409	2,648	-	-	-	5,214	8,271
Federal Grants and Contracts	22	320,119	2,437,833	125	-	8,824	2,766,923
Licenses, Fees and Permits	19,014	102,448	648	57,138	880	161,630	341,758
Charges for Services	3,473	20,979	5,090	25,438	-	62,285	117,265
Investment Income	(12,148)	(1,378)	(370)	51,007	69,294	(31)	106,374
Rental Income	-	474	3	319	45,721	26,155	72,672
Surcharge	-	-	-	-	-	38,115	38,115
Other	5,184	4,192	3,871	15,371	(1,218)	23,259	50,659
Total Revenues	4,189,807	1,090,940	2,447,075	164,784	116,618	440,701	8,449,925
EXPENDITURES							
Current:							
General Government	555,125	-	1,416	-	-	71,801	628,342
Conservation of Natural Resources	34,505	-	37,464	-	-	74,845	146,814
Culture – Recreation	6,593	-	3,620	-	-	32,400	42,613
Economic Development and Assistance	15,127	-	53,550	-	-	33,946	102,623
Education	1,400,800	-	358,219	-	69,051	25,513	1,853,583
Higher Education - Colleges and University	645,662	-	-	-	-	18,317	663,979
Health and Social Services	1,604,057	-	1,899,313	133,262	-	19,181	3,655,813
Public Safety	290,905	-	57,758	-	-	49,427	398,090
Regulation of Business and Professions	3,441	-	2,093	-	-	111,448	116,982
Transportation	-	1,093,226	16,456	-	-	4,437	1,114,119
Capital Projects	-	-	-	-	-	37,527	37,527
Debt Service:							
Principal	-	-	-	-	-	2,025	2,025
Interest	-	-	-	-	-	6	6
Total Expenditures	4,556,215	1,093,226	2,429,889	133,262	69,051	480,873	8,762,516
Excess (Deficiency) of Revenues Over (Under) Expenditures	(366,408)	(2,286)	17,186	31,522	47,567	(40,172)	(312,591)
OTHER FINANCING SOURCES (USES)							
Transfers In	56,427	55,811	650	1,088	-	91,201	205,177
Transfers Out	(67,938)	(10,767)	(16,949)	(1,000)	-	(64,933)	(161,587)
Proceeds from Other Financing Arrangements	-	-	-	-	-	2,025	2,025
Proceeds from Capital Leases	170	-	-	-	-	-	170
Total Other Financing Sources (Uses)	(11,341)	45,044	(16,299)	88	-	28,293	45,785
Net Change in Fund Balances	(377,749)	42,758	887	31,610	47,567	(11,879)	(266,806)
FUND BALANCES, JULY 1 (as restated)	1,128,086	208,913	4,927	524,852	782,307	1,178,030	3,827,115
FUND BALANCES, JUNE 30	$ 750,337	$ 251,671	$ 5,814	$ 556,462	$ 829,874	$ 1,166,151	$ 3,560,309

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, 2017

(Dollars in Thousands)

Net change in fund balances–total governmental funds		$ (266,806)
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	156,068	
Capital assets sold	(681)	
Depreciation expense	(40,382)	115,005
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	(2,025)	(2,025)
Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current year these amounts consisted of:		
Other financing arrangement payments	2,025	
Capital lease payments	(85)	1,940
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.		(15,912)
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 decreased by this amount this year.		(667)
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	248	
Decrease in net pension liability/asset	(72,894)	
Increase in deferred inflows related to pension	7,916	
Increase in deferred outflows related to pension	85,702	
Increase in claims and judgments	494	21,466
Change in net position of governmental activities		$ (146,999)

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

State of Nebraska

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2017

(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	$ 432,014	$ 45,352	$ 477,366	$ 111,903
Receivables, net of allowance	17,638	41,594	59,232	2,693
Due from Other Funds	-	1,298	1,298	16,609
Inventories	-	3,065	3,065	479
Prepaid Items	-	68	68	1,609
Other	-	359	359	-
Total Current Assets	449,652	91,736	541,388	133,293
Noncurrent Assets:				
Restricted Long-Term Deposits	-	2,411	2,411	-
Long-Term Investments	59,495	74,314	133,809	-
Securities Lending Collateral	1,015	88	1,103	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	223	14,961	15,184	105,396
Less Accumulated Depreciation	(223)	(7,594)	(7,817)	(72,958)
Total Capital Assets	-	7,682	7,682	32,438
Total Noncurrent Assets	60,510	84,495	145,005	32,438
Total Assets	$ 510,162	$ 176,231	$ 686,393	$ 165,731
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 2,636	$ 51,436	$ 54,072	$ 14,104
Due to Other Funds	-	75	75	461
Capital Lease Obligations	-	-	-	8,790
Claims, Judgments and Compensated Absences	6,276	5,789	12,065	40,078
Unearned Revenue	-	3,172	3,172	487
Total Current Liabilities	8,912	60,472	69,384	63,920
Noncurrent Liabilities:				
Capital Lease Obligations	-	-	-	20,115
Claims, Judgments and Compensated Absences	-	27,393	27,393	36,336
Obligations under Securities Lending	1,015	88	1,103	-
Total Noncurrent Liabilities	1,015	27,481	28,496	56,451
Total Liabilities	$ 9,927	$ 87,953	$ 97,880	$ 120,371
NET POSITION				
Net Investment in Capital Assets	-	7,682	7,682	3,533
Restricted for:				
Lottery Prizes	-	2,411	2,411	-
Unemployment Insurance Benefits	500,235	-	500,235	-
Unrestricted	-	78,185	78,185	41,827
Total Net Position	$ 500,235	$ 88,278	$ 588,513	$ 45,360

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, 2017

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	
OPERATING REVENUES				
Charges for Services	$ 79,963	$ 200,771	$ 280,734	$ 375,925
Federal	704	-	704	-
Other	487	-	487	1,559
Total Operating Revenues	81,154	200,771	281,925	377,484
OPERATING EXPENSES				
Personal Services	-	6,815	6,815	39,109
Services and Supplies	8	40,759	40,767	127,887
Lottery Prizes	-	101,902	101,902	-
Unemployment Claims	75,585	-	75,585	-
Insurance Claims	-	20,553	20,553	214,584
Depreciation	-	537	537	13,768
Total Operating Expenses	75,593	170,566	246,159	395,348
Operating Income (Loss)	5,561	30,205	35,766	(17,864)
NONOPERATING REVENUES (EXPENSES)				
Investment Income	8,928	2,326	11,254	2,538
Gain (Loss) on Sale of Capital Assets	-	44	44	(40)
Other	-	-	-	(546)
Total Nonoperating Revenues (Expenses)	8,928	2,370	11,298	1,952
Income (Loss) Before Transfers	14,489	32,575	47,064	(15,912)
Transfers Out	(2,312)	(41,278)	(43,590)	-
Change in Net Position	12,177	(8,703)	3,474	(15,912)
NET POSITION, JULY 1 (as restated)	488,058	96,981	585,039	61,272
NET POSITION, JUNE 30	$ 500,235	$ 88,278	$ 588,513	$ 45,360

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, 2017

(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	$ 83,971	$ 181,365	$ 265,336	$ 25,364
Cash Received from Interfund Charges	-	19,730	19,730	374,192
Cash Received from Federal Government	704	-	704	-
Cash Paid to Employees	-	(6,752)	(6,752)	(38,698)
Cash Paid to Suppliers	(32)	(60,429)	(60,461)	(118,092)
Cash Paid for Lottery Prizes	-	(101,921)	(101,921)	-
Cash Paid for Insurance Claims	(75,637)	(5,728)	(81,365)	(218,552)
Cash Paid for Interfund Services	-	(969)	(969)	(10,710)
Net Cash Flows from Operating Activities	9,006	25,296	34,302	13,504
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers Out	(2,312)	(41,278)	(43,590)	-
Net Cash Flows from Noncapital Financing Activities	(2,312)	(41,278)	(43,590)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	-	(1,349)	(1,349)	(9,139)
Proceeds from Sale of Capital Assets	-	44	44	2,986
Principal Paid on Capital Leases	-	-	-	(9,735)
Interest Paid on Capital Leases	-	-	-	(546)
Net Cash Flows from Capital and Related Financing Activities	-	(1,305)	(1,305)	(16,434)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	-	(171,532)	(171,532)	-
Proceeds from Sale of Investment Securities	(3,115)	193,982	190,867	-
Interest and Dividend Income	8,921	2,111	11,032	2,616
Net Cash Flows from Investing Activities	5,806	24,561	30,367	2,616
Net Increase (Decrease) in Cash and Cash Equivalents	12,500	7,274	19,774	(314)
CASH AND CASH EQUIVALENTS, JULY 1	419,514	38,078	457,592	112,217
CASH AND CASH EQUIVALENTS, JUNE 30	$ 432,014	$ 45,352	$ 477,366	$ 111,903

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, 2017

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 5,561	$ 30,205	$ 35,766	$ (17,864)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	-	537	537	13,768
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	3,862	547	4,409	(1,003)
(Increase) Decrease in Due from Other Funds	-	(285)	(285)	23,194
(Increase) Decrease in Inventories	-	2,154	2,154	(12)
(Increase) Decrease in Prepaid Items	-	(58)	(58)	(102)
(Increase) Decrease in Long-Term Deposits	-	(3)	(3)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(348)	(22,659)	(23,007)	141
Increase (Decrease) in Due to Other Funds	-	(29)	(29)	(469)
Increase (Decrease) in Claims Payable	(69)	14,825	14,756	(3,968)
Increase (Decrease) in Unearned Revenue	-	62	62	(181)
Total Adjustments	3,445	(4,909)	(1,464)	31,368
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 9,006	$ 25,296	$ 34,302	$ 13,504
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:				
Capital Assets acquired through Capital Leases	$ -	$ -	$ -	$ 4,320
Change in Fair Value of Investments	-	240	240	-
Total Noncash Transactions	$ -	$ 240	$ 240	$ 4,320

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

State of Nebraska

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2017

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	$ 5,812	$ 22,947	$ 118,210
Investments:			
U.S. Treasury Notes and Bonds	394,926	-	19,127
U.S. Treasury Bills	2,610	-	-
Government Agency Securities	30,182	-	1,638
Corporate Bonds	744,433	-	36,623
International Bonds	199,865	-	10,062
Equity Securities	1,650,207	-	80,630
Private Equity	566,110	-	504,322
Options	33	-	3
Mortgages	627,859	-	30,325
Private Real Estate	859,032	-	41,897
Adr's, GDRs & Trust	4,314	-	186
Asset Backed Securities	157,167	-	7,911
Bank Loans	286,480	-	14,157
Municipal Bonds	8,249	-	329
Commingled Funds	8,851,184	4,194,694	389,216
Short Term Investments	276,020	-	67,155
Total Investments	14,658,671	4,194,694	1,203,581
Securities Lending Collateral	195,874	-	8,757
Receivables:			
Contributions	29,491	-	-
Interest and Dividends	17,171	718	1,712
Other	917,938	-	50,445
Total Receivables	964,600	718	52,157
Due from Other Funds	48,589	-	1,383
Capital Assets:			
Buildings and Equipment	6,592	-	-
Less Accumulated Depreciation	(6,590)	-	-
Total Capital Assets	2	-	-
Other Assets	-	18,423	-
Total Assets	$ 15,873,548	$ 4,236,782	$ 1,384,088
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 1,304,175	$ 7,742	$ 90,455
Due to Other Governments	6,897	-	70,482
Deposits	-	1,045	-
Due to Other Funds	112	10	-
Obligations under Securities Lending	195,874	-	8,757
Accrued Compensated Absences	430	-	-
Other Liabilities	-	-	1,214,394
Total Liabilities	$ 1,507,488	$ 8,797	$ 1,384,088
NET POSITION			
Restricted for:			
Pensions	$ 14,366,060	$ -	$ -
College Savings Plan	-	4,197,707	-
Other Purposes	-	30,278	-
Total Net Position	$ 14,366,060	$ 4,227,985	$ -

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, 2017

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS		
Contributions:		
Participant Contributions	$ 254,066	$ 379,941
Client Contributions	-	1
State Contributions	128,951	-
Political Subdivision Contributions	184,903	-
Court Fees	3,579	-
Total Contributions	571,499	379,942
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,507,977	278,885
Interest and Dividend Income	170,611	5,287
Securities Lending Income	3,462	-
Total Investment Income	1,682,050	284,172
Investment Expenses	45,711	18,936
Securities Lending Expenses	1,554	-
Total Investment Expense	47,265	18,936
Net Investment Income	1,634,785	265,236
Escheat Revenue	-	29,436
Other Additions	201	873
Total Additions	2,206,485	675,487
DEDUCTIONS		
Benefits	737,360	297,048
Refunds	18,979	-
Amounts Distributed to Outside Parties	-	15,657
Administrative Expenses	6,038	1,132
Other Deductions	8,644	-
Total Deductions	771,021	313,837
Change in Net Position Restricted for:		
Pensions	1,435,464	-
College Savings Plan	-	347,736
Other Purposes	-	13,914
NET POSITION-BEGINNING OF YEAR	12,930,596	3,866,335
NET POSITION-END OF YEAR	$ 14,366,060	$ 4,227,985

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

State of Nebraska

STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2017

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	$ 611,704	$ 82,651	$ 694,355
Receivables, net of allowance			
Loans	34,110	1,121	35,231
Other	424,484	3,758	428,242
Investments	2,224,466	38,741	2,263,207
Investment in Joint Venture	415,573	-	415,573
Other Assets	29,207	1,596	30,803
Restricted Assets:			
Cash and Cash Equivalents	568,269	27,773	596,042
Investments Held by Trustee	14,508	-	14,508
Capital assets:			
Land	138,737	1,267	140,004
Land Improvements	262,532	34,115	296,647
Construction in Progress	252,972	26,891	279,863
Buildings and Equipment	3,301,749	267,236	3,568,985
Less Accumulated Depreciation	(1,135,763)	(108,322)	(1,244,085)
Total Capital Assets	2,820,227	221,187	3,041,414
Total Assets	$ 7,142,548	$ 376,827	$ 7,519,375
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding	$ 16,681	$ 40	$ 16,721
Total Deferred Outflows of Resources	$ 16,681	$ 40	$ 16,721
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 200,636	$ 12,193	$ 212,829
Deposits	15,124	326	15,450
Unearned Revenue	141,664	1,083	142,747
Noncurrent Liabilities:			
Due within one year	157,764	5,098	162,862
Due in more than one year	889,278	82,841	972,119
Total Liabilities	$ 1,404,466	$ 101,541	$ 1,506,007
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement receipts	$ 19,486	$ 34	$ 19,520
Total Deferred Inflows of Resources	$ 19,486	$ 34	$ 19,520
NET POSITION			
Net Investment in Capital Assets	$ 2,165,096	$ 162,507	$ 2,327,603
Restricted for:			
Education	2,186,305	-	2,186,305
Other Purposes	268,773	70,177	338,950
Construction and Debt Service	357,066	7,157	364,223
Unrestricted	758,037	35,451	793,488
Total Net Position	$ 5,735,277	$ 275,292	$ 6,010,569

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, 2017

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Expenses:			
Compensation and benefits	$ 1,282,841	$ 70,066	$ 1,352,907
Supplies and materials	318,251	14,443	332,694
Contractual services	148,057	5,726	153,783
Repairs and maintenance	67,810	5,396	73,206
Utilities	33,306	3,882	37,188
Communications	11,625	455	12,080
Depreciation	121,817	8,277	130,094
Scholarships and fellowships	68,639	4,450	73,089
Other	5,936	13,362	19,298
Total Operating Expenses	2,058,282	126,057	2,184,339
Program Revenues:			
Charges for Services	837,614	49,460	887,074
Operating Grants and Contributions	436,264	14,547	450,811
Capital Grants and Contributions	(1,307)	2,094	787
Total Program Revenues	1,272,571	66,101	1,338,672
Net (Expense) Revenue	(785,711)	(59,956)	(845,667)
General Revenues:			
Interest and investment earnings	78,502	2,443	80,945
Miscellaneous	418,241	12,704	430,945
Payments from the State of Nebraska	609,056	54,923	663,979
Total General Revenues	1,105,799	70,070	1,175,869
Change in Net Position	320,088	10,114	330,202
Net Position - Beginning (as restated)	5,415,189	265,178	5,680,367
Net Position - Ending	$ 5,735,277	$ 275,292	$ 6,010,569

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 Science Research Fund, organized to solely support the research mission of the University of Nebraska Medical Center; 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 $3,211,401 of restricted net position, of which $1,795,046 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, 2017, 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 market 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, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

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 and 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. 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, 2017 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, 2017, the carrying amounts of the State's deposits were $19,748 and the bank balances were $110,497. 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 $21,955 at June 30, 2017.

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, 2017. 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, 2016. The underlying investments for these funds as of June 30, 2017 are included in the fair value measurement calculations and investment risk disclosures presented below for fiduciary funds.

PRIMARY GOVERNMENT INVESTMENTS AT JUNE 30, 2017 AT FAIR VALUE MEASUREMENTS USING:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Notes and Bonds	$ 1,142,269	$ -	$ 1,142,269	$ -
Government Agency Securities	946,989	-	946,989	-
Corporate Bonds	2,408,286	-	2,407,303	983
International Bonds	218,555	-	218,555	-
Mortgages	733,690	258	733,361	71
Asset Backed Securities	185,084	-	182,714	2,370
Bank Loans	300,377	-	300,377	-
Commingled Funds	1,087,663	1,087,663	-	-
Municipal Bonds	7,868	-	7,868	-
Short Term Investments	516,133	61,024	455,109	-
	7,546,914	1,148,945	6,394,545	3,424
Other Investments				
Adr's, GDRs & Trust	3,980	3,980	-	-
Equity Securities	1,761,477	1,761,466	11	-
Private Equity	310	310	-	-
Commingled Funds	9,156,591	4,277,785	4,878,806	-
Options	74	17	57	-
U.S. Treasury Investment Pool	429,229	-	429,229	-
Total Investments	$ 18,898,575	$ 7,192,503	$ 11,702,648	$ 3,424

Investments measured at the net asset value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice period
Real Estate Funds:				
Core	$ 652,735	$ 60,000	Quarterly	90 Days
Non-Core	435,908	185,520		
Private Equity Funds	819,358	571,393		
Short Term Investment Funds	242,576	-		
Opportunistic Credit Funds	136,234	83,739		
Other - Distressed Securities	149	-		
Hedge Funds	69,222			
Total investments measured at net asset value	$ 2,356,182	$ 900,652		
Total	21,254,757			
Other Investments not classified	281,758			
Component unit investment in State investment pool	(867,836)			
Other fair value measurements	4,044,349			
Total Investments at fair value	$ 24,713,028			

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, 2017 were not classified for fair value measurement purposes: Securities Lending Short-term Collateral Investment Pool Investments in the amount of $244,828 loaned to broker-dealers and banks under the securities lending program; Other Investments in the amount of $34,186 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 $2,744 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, 2016. These investments were not re-valued on June 30, 2017. Following is a summary of the fair value measurement and related input level as presented in the Trust’s December 31, 2016 audited financial statements: Fair Value $4,194,694; Input Levels: 1 - $2,674,698; 2 - $1,519,996; 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, 2016. The investment balances on June 30, 2017 were re-valued for fair value measurement purposes, resulting in a decrease in fair value of $150,346.

State of Nebraska (dollars expressed in thousands)

The primary government's investments at June 30, 2017 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, 2017 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	$ 733,463	3.72	$ 414,053	7.57
U.S. Treasury Bills	-	-	2,610	-
Government Agency Securities	911,971	4.19	31,820	6.21
Corporate Bonds	1,625,533	3.63	781,056	5.35
International Bonds	3,490	1.92	209,927	6.45
Mortgages	85,278	3.41	658,184	3.71
Asset Backed Securities	15,989	0.56	165,078	0.88
Bank Loans	-	-	300,637	-
Commingled Funds	3,348	-	1,031,072	5.65
Municipal Bonds	829	9.29	8,578	7.80
Short Term Investments	181,133	0.11	343,175	-
	3,561,034		3,946,190	
Other Investments				
Adr's, GDRs & Trust	-		4,500	
Equity Securities	38,127		1,730,837	
Private Equity	125,155		1,070,432	
Commingled Funds	1,098,166		12,404,022	
Options	11		36	
Private Real Estate	27,368		900,929	
U.S. Treasury Investment Pool	429,229		-	
Less: Component Unit Investment in State Investment Pool	(867,836)		-	
Total Investments	4,411,254		20,056,946	
Securities Lending Short-term Collateral Investment Pool	40,197		204,631	
Total	$ 4,451,451		$ 20,261,577	

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, 2017 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, 2017

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 911,971	$ -	$ 907,588	$ -	$ -	$ -	$ -	$ 4,383
Corporate Bonds	1,625,533	172,572	379,069	907,670	117,403	25,671	1,168	21,980
International Bonds	3,490	-	-	199	-	1,646	369	1,276
Mortgages	85,278	3,049	555	11	227	-	466	80,970
Asset Backed Securities	15,989	8,570	890	219	446	889	2,668	2,307
Commingled Funds	3,348	-	-	-	-	-	-	3,348
Short Term Investments	181,133	-	-	3,068	-	-	-	178,065
Municipal Bonds	829	-	519	-	310	-	-	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2017

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	$ 35,018	$ -	$ 30,898	$ 3,106	$ 311	$ -	$ -	$ 703
Bank Loans	300,377	-	-	-	-	4,673	-	295,704
Corporate Bonds	782,753	35,659	39,243	156,535	410,130	89,685	35,285	16,216
International Bonds	215,065	18,197	44,135	66,868	28,561	13,544	6,203	37,557
Mortgages	648,412	48,697	5,259	5,300	2,898	2,023	3,640	580,595
Asset Backed Securities	169,095	98,425	3,083	13,791	7,730	5,298	15,203	25,565
Commingled Funds	1,084,314	-	-	-	-	-	-	1,084,314
Short Term Investments	337,745	-	-	-	-	-	-	337,745
Municipal Bonds	7,039	479	5,263	463	574	260	-	-

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, 2017, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent of total investments in Federal Farm Credit Bank (8 percent) and Federal Home Loan Bank (8 percent). At June 30, 2017, 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 8 to 29 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, 2017

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Brazilian Real	6	194	1,646
Canadian Dollar	46	1	-
Czech Koruna	-	39	-
Danish Krone	1	310	13,978
Euro Currency	119	7,099	777
Hong Kong Dollar	-	75	-
Japanese Yen	87	530	369
Mexican Peso	5	134	1,276
Polish Zloty	20	-	-
Pound Sterling	103	3,371	1,666
South Korean Won	-	347	-
Swedish Krona	-	722	1,253
Swiss Franc	-	3,382	-
Thailand Baht	-	86	-
Total	$ 387	$ 16,290	$ 20,965

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2017

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Agrentine Peso	$ -	$ -	$ 1,664
Australian Dollar	(18)	8,158	1,028
Brazilian Real	8	14,722	8,620
Canadian Dollar	339	10,277	5,182
Columbian Peso	-	-	1,733
Czech Koruna	-	474	281
Danish Krone	29	15,142	14,225
Euro Currency	10,712	389,222	70,547
Hong Kong Dollar	47	55,641	-
Indian Rupee	-	-	1,791
Indonesian Rupiah	23	2,217	-
Japanese Yen	1,502	228,085	72,850
Malaysian Ringgit	-	-	884
Mexican Peso	60	6,441	15,746
New Israeli Sheqel	16	2,123	287
New Zealand Dollar	15	6,437	12,601
Norwegian Krone	-	3,538	1,947
Philippine Peso	-	1,231	-
Polish Zloty	-	-	884
Pound Sterling	584	115,861	18,878
Singapore Dollar	-	9,766	1,281
South African Rand	108	-	228
South Korean Won	-	4,267	3,193
Swedish Krona	82	30,917	2,984
Swiss Franc	3	72,607	2,495
Thailand Baht	-	968	-
Turkish Lira	-	3,291	1,956
Total	$ 13,510	$ 981,385	$ 241,285

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, 2017 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2017, 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, 2017
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 496	$ 316	$ 20,535
Fixed Income Futures	-	(1,276)	62,300
Fixed Income Options	9	65	(3,700)
Foreign Currency Options	(18)	198	(2,149)
Futures Options	2	47	-
FX Forwards	(912)	(1,193)	47,170
Interest Rate Swap	286	3,720	109,533

DERIVATIVE INVESTMENTS AT JUNE 30, 2017
FIDUCIARY FUND

Derivative	Fair Value	Change in Fair Value	Notional
Credit Default Swap	$ 2,477	$ 1,885	$ 108,121
Fixed Income Futures	-	(9,992)	103
Fixed Income Options	49	391	(23,800)
Foreign Currency Options	(118)	1,155	(13,267)
Futures Options	14	260	-
FX Forwards	(456)	(2,148)	496,812
Index Futures Long	-	(4)	-
Interest Rate Swap	359	21,335	463,956
Rights	18	5	23
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, 2017, 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, 2017, was $1,326 for Governmental and Business-Type Activities and $7,725 for the Fiduciary Fund. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $9,051. Although the State executes derivative instruments with various counterparties, there is net exposure to credit risk of approximately 77 percent for the Governmental and Business-Type Activities and 70 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, 2017 are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2017
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Currency	Swaps	Forward Contracts	Fixed Income Options
Brazilian Real	-	14	-
Canadian Dollar	(18)	-	-
Swiss Franc	-	11	-
Danish Krone	-	(673)	-
Euro Currency	(9)	(6)	-
Pound Sterling	(32)	3	-
Japanese Yen	(22)	(41)	-
South Korean Won	-	17	-
Mexican Peso	-	(205)	-
Swedish Krona	-	(33)	-
New Taiwan Dollar	-	1	-
Total	$ (81)	$ (912)	$ -

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2017
FIDUCIARY FUND

Currency	Swaps	Forward Contracts	Fixed Income Options
Australian Dollar	$ -	$ 49	$ -
Brazilian Real	-	129	-
Canadian Dollar	(129)	196	-
Swiss Franc	-	100	-
Danish Krone	-	(207)	-
Euro Currency	1	28	18
Pound Sterling	(173)	221	-
Hungarian Forint	-	4	-
New Israeli Sheqel	-	2	-
Japanese Yen	(121)	(76)	-
South Korean Won	-	286	-
Mexican Peso	-	(1,134)	-
Norwegian Krone	-	35	-
New Zealand Dollar	-	(424)	-
Polish Zloty	-	4	-
New Russian Ruble	-	(3)	-
Swedish Krona	-	332	-
Singapore Dollar	-	(3)	-
Thailand Baht	-	2	-
Turkish Lira	-	(5)	-
New Taiwan Dollar	-	3	-
South African Rand	-	5	-
Total	$ (422)	$ (456)	$ 18

State of Nebraska (dollars expressed in thousands)

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2017 is as follows:

Disclosure Regarding Deposits and Investments:		
Total Investments	$	24,713,028
Carrying amount of Deposits		19,748
Total	$	24,732,776
Statement of Net Position:		
Cash and Cash Equivalents	$	675,315
Investments		3,605,969
Restricted Cash and Cash Equivalents		2,749
Securities Lending Collateral		40,197
Statement of Fiduciary Net Position:		
Cash and Cash Equivalents		146,969
Investments		20,056,946
Securities Lending Collateral		204,631
Total	$	24,732,776

3. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2017:

Governmental Activities:		
General Fund	$	108,148
Highway Fund		191
Economic Development Fund		815
Federal Fund		16,150
Health and Social Services Fund		13,051
Other Special Revenue		1,074
Total Governmental Activities	$	139,429
Business-type Activities:		
Unemployment Insurance	$	3,880
Total Business-type Activities	$	3,880

Of the taxes and other receivables, $39,491 and $18,297, 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, 2017 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land (as restated)	$ 588,708	$ 6,478	$ -	$ 595,186
Infrastructure	7,458,524	102,671	-	7,561,195
Construction in progress	265,771	125,368	126,995	264,144
Total capital assets, not being depreciated	8,313,003	234,517	126,995	8,420,525
Capital assets, being depreciated:				
Buildings and improvements (as restated)	677,987	20,802	1,133	697,656
Equipment (as restated)	534,071	39,234	34,943	538,362
Total capital assets, being depreciated	1,212,058	60,036	36,076	1,236,018
Less accumulated depreciation for:				
Buildings and improvements	311,558	16,700	1,042	327,216
Equipment	407,017	37,448	33,293	411,172
Total accumulated depreciation	718,575	54,148	34,335	738,388
Total capital assets, being depreciated, net	493,483	5,888	1,741	497,630
Governmental activities capital assets, net	$ 8,806,486	$ 240,405	$ 128,736	$ 8,918,155
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	$ 246	$ -	$ 23	$ 223
Less accumulated depreciation	246	-	23	223
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	584	-	9,026
Equipment	5,727	765	557	5,935
Total capital assets, being depreciated	14,169	1,349	557	14,961
Less accumulated depreciation for:				
Buildings and improvements	2,900	211	-	3,111
Equipment	4,714	326	557	4,483
Total accumulated depreciation	7,614	537	557	7,594
Total capital assets, being depreciated, net	6,555	812	-	7,367
Total Nonmajor Enterprise, net	6,870	812	-	7,682
Business-type activities capital assets, net	$ 6,870	$ 812	$ -	$ 7,682

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

Governmental activities:	
General Government	$ 19,555
Conservation of Natural Resources	1,737
Culture – Recreation	2,344
Economic Development and Assistance	168
Education	1,457
Health and Social Services	1,299
Public Safety	12,896
Regulation of Business and Professions	566
Transportation	14,126
Total depreciation expense - Governmental activities	$ 54,148

State of Nebraska (dollars expressed in thousands)

Construction Commitments. At June 30, 2017, the State had contractual commitments of approximately $761,228 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	$ 286,305
State funds	459,880
Local funds	15,043
	$ 761,228

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, 2017 consists of the following:

	DUE TO									
DUE FROM	General Fund	Highway Fund	Federal Fund	Health and Social Services	Agency Funds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Pension Trust	TOTALS
General Fund	$ -	$ 59	$ 81	$ 79	$ -	$ 112	$ 388	$ 4,389	$ 48,589	$ 53,697
Highway Fund	-	-	74	3	590	384	721	659	-	2,431
Federal Fund	56,667	4	-	3,010	-	1,392	48	3,399	-	64,520
Health and Social Services	-	2	-	-	-	1	19	251	-	273
Permanent School Fund	-	-	-	-	-	-	-	8	-	8
Nonmajor Governmental Funds	393	31	5	63	793	1,086	81	7,440	-	9,892
Nonmajor Enterprise Funds	-	8	-	-	-	1	-	66	-	75
Internal Service Funds	-	41	-	-	-	104	41	275	-	461
Pension Trust	-	-	-	-	-	-	-	112	-	112
Private Purpose Trust	-	-	-	-	-	-	-	10	-	10
TOTALS	$ 57,060	$ 145	$ 160	$ 3,155	$ 1,383	$ 3,080	$ 1,298	$ 16,609	$ 48,589	$ 131,479

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, 2017 consist of the following:

	TRANSFERRED TO:					
TRANSFERRED FROM:	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	TOTALS
General Fund	$ -	$ 50,000	$ -	$ -	$ 17,938	$ 67,938
Highway Fund	16	-	-	-	10,751	10,767
Federal Fund	-	473	-	-	16,476	16,949
Health & Social Services Fund	1,000	-	-	-	-	1,000
Nonmajor Governmental Funds	55,411	5,338	108	180	3,896	64,933
Unemployment Fund	-	-	542	-	1,770	2,312
Nonmajor Enterprise Funds	-	-	-	908	40,370	41,278
TOTALS	$ 56,427	$ 55,811	$ 650	$ 1,088	$ 91,201	$ 205,177

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, 2017 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	$ 20,833	$ 6,776	$ 7,725	$ 629	$ -	$ 4,755	$ 1,964	$ -	$ 326	$ 43,008
Payables to Vendors	73,763	75,313	29,850	11,822	232,050	53,524	11,191	2,606	45,003	535,122
Payables to Governments	43,754	9,483	143,844	345	8,843	3,580	268	-	25	210,142
Due to Fiduciary Funds *	-	-	-	-	-	-	49,972	-	-	49,972
Miscellaneous	-	-	10	-	-	(90)	12	30	6,082	6,044
TOTALS	$ 138,350	$ 91,572	$ 181,429	$ 12,796	$ 240,893	$ 61,769	$ 63,407	$ 2,636	$ 51,436	$ 844,288

* 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, 2017 are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	$ 284,659	$ 2,133,176	$ 2,118,667	$ 299,168	$ 253,616
Capital Lease Obligations	34,780	4,490	9,820	29,450	8,915
Obligations Under Other Financing Arrangements	-	2,025	2,025	-	-
Compensated Absences	131,590	18,345	18,219	131,716	11,854
Net Pension Liability	337,411	112,373	-	449,784	-
Totals	$ 788,440	$ 2,270,409	$ 2,148,731	$ 910,118	$ 274,385
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	$ 6,345	$ 75,568	$ 75,637	$ 6,276	$ 6,276
Compensated Absences	-	7	7	-	-
Totals for Unemployment Insurance	6,345	75,575	75,644	6,276	6,276
Nonmajor Enterprise Funds:					
Claims Payable	17,415	20,553	5,728	32,240	5,705
Compensated Absences	906	117	81	942	84
Totals for Nonmajor Enterprise Funds	18,321	20,670	5,809	33,182	5,789
Totals for Business-type Activities	$ 24,666	$ 96,245	$ 81,453	$ 39,458	$ 12,065

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, 2017 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2018	$ 9,385
2019	7,675
2020	6,903
2021	4,255
2022	1,717
2023-2027	775
Total Minimum Payments	30,710
Less: Interest and executory costs	1,260
Present value of net minimum payments	$ 29,450

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, 2017:

	GOVERNMENTAL ACTIVITIES
Equipment	$ 45,699
Less: accumulated depreciation	(21,140)
Carrying value	$ 24,559

The minimum annual lease payments for operating leases as of June 30, 2017 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2018	$ 7,869
2019	4,360
2020	3,875
2021	1,671
2022	1,471
2023-2027	5,918
2028-2032	4,787
2033-2037	2,779
Total	$ 32,730

Primary Government operating lease payments for the year ended June 30, 2017 totaled $14,843.

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, 2017, the State owned approximately 1.3 million acres of land that was under lease. Under the terms of the leases, the annual payments are subject to change based on annual market analysis. Total rents of $50,577 were received under these and other lease agreements for the year ended June 30, 2017.

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, 2017, bonds totaling $2,153 are considered defeased.

As of June 30, 2017 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, 2017, follows:

	Governmental Fund Balances					
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Permanent School Fund	Nonmajor Funds
Restricted for:						
Education	$ -	$ -	$ -	$ -	$ 278,939	$ 26,919
Health and Social Services	-	-	-	555,782	-	40,114
Conservation of Natural Resources	-	-	-	-	-	651,397
Transportation	-	248,595	-	-	-	8,674
Licensing and Regulation	-	-	-	-	-	114,099
Economic Development	-	-	-	-	-	66,898
Public Safety	-	-	-	-	-	24,682
Culture – Recreation	-	-	-	-	-	54,168
Other Purposes	-	-	5,495	-	-	44,246
Total Restricted	$ -	$ 248,595	$ 5,495	$ 555,782	$ 278,939	$ 1,031,197
Committed to:						
Economic Stabilization	$ 680,655	$ -	$ -	$ -	$ -	$ -
Other Purposes	-	-	-	-	-	71,320
Total Committed	$ 680,655	$ -	$ -	$ -	$ -	$ 71,320
Assigned to:						
Education	$ -	$ -	$ -	$ -	$ -	$ 194
Health and Social Services	-	-	-	565	-	1,579
Licensing and Regulation	-	-	-	-	-	35,718
Economic Development	-	-	-	-	-	104
Public Safety	-	-	-	-	-	1,524
Culture – Recreation	-	-	-	-	-	95
Other Purposes	-	-	-	-	-	3,278
Total Assigned	$ -	$ -	$ -	$ 565	$ -	$ 42,492

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: the State disclosed having received, on or before June 30, 2017, 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 $47 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.

The State is named as a party in a tort lawsuit relating to $1,975 in damages. It is not possible at the present time to determine the outcome of this lawsuit or its implications.

The State is also named as a party in a tort lawsuit relating to $2,000 in damages. The case is in active settlement negotiations and a $1,050 liability is recorded in the government-wide financial statements.

State of Nebraska (dollars expressed in thousands)

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 $401,000 limit and a $200 retention per occurrence for liability (bodily injury and property damage to personal or real property) caused by a State vehicle. There is also auto liability with hot pursuit coverage for a maximum of $5,000 with a $300 retention and 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 $401,000 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 $45,899 at a discounted rate of 2.0 percent ($8,817).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2017, and 2016, were as follows:

	Fiscal Year	
	2017	2016
Beginning Balance	$ 75,348	$ 78,146
Current Year Claims and Changes in Estimates	(222,520)	(222,553)
Claim Payments	218,552	219,755
Ending Balance	$ 71,380	$ 75,348

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, 2016.

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 (Cum. Supp. 2016, 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, 2016, there were 25,499 members in the plan. Of these members, 15,948 were active, 7,936 were inactive, and 1,615 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $35,530 and State contributions of $55,431 for the plan year ended December 31, 2016.

School Employees' Retirement. The State is the plan sponsor for the School Retirement System, a cost-sharing multiple-employer defined benefit pension plan, with 265 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 $184,432, employer contributions of $184,903, and State contributions of $45,928 for the plan year ended June 30, 2017.

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 January 1, 2017, there were 8,501 members in the plan. Of these members, 7,466 were active and 1,035 were inactive. For the fiscal year ending June 30, 2017, the Service Annuity received $992 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 $6,897 for the plan year ended June 30, 2017.

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, 2017, there were 337 members in the plan. Of these members, 147 were active, 4 were inactive, 4 were disabled and 182 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $1,743, court fees of $3,579 and State contributions of $119 for the plan year ended June 30, 2017.

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. Each member hired prior to July 1, 2016 contributes sixteen percent of their monthly salary and the State Patrol contributes sixteen percent. Members hired on or after July 1, 2016 contribute seventeen percent of their monthly salary and the State Patrol contributes seventeen 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 are 20 percent vested at six years of service. This vesting percentage increases 20 percent for each additional year of service thereafter until reaching 100 percent at ten 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, 2017, there were 901 members in the plan. Of these members, 391 were active, 32 were inactive, 15 were disabled, 42 were participating in the DROP program, and 421 were retirees or beneficiaries receiving benefits. The accompanying financial statements include member contributions of $4,506, and State contributions of $7,048 for the plan year ended June 30, 2017.

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, 2016, there were 11,596 members in the plan. Of these members, 7,867 were active, 3,160 were inactive, and 569 were retirees or beneficiaries receiving benefits. Members contributed $13,723 and counties contributed $20,425 during the year ended December 31, 2016, 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, 2016. 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, 2016 were determined based on the annual actuarial funding valuation report prepared as of July 1, 2016.

The net pension asset calculation for the State Employees' Retirement plan was performed with a measurement date of December 31, 2016. The total pension asset as of December 31, 2016 was determined based on the annual actuarial funding valuation report prepared as of January 1, 2017.

The net pension liability calculation for the Omaha School Employees' Retirement System was performed with a measurement date of August 31, 2016. The total pension liability as of August 31, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 1, 2015.

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 $380,152 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 $262,124 from the Nebraska Public Employees Retirement System's School plan, $3,872 from the Service Annuity plan, and $114,156 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 17.42 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	12/31/2016	6/30/2016	6/30/2016	6/30/2016	8/31/2016
Actuarial Valuation Date	1/1/2017	7/1/2016	7/1/2016	7/1/2016	9/1/2015
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	21 years	19 years	20 years	28 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, 2017 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, 2016, 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, 2015 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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
US Equity	29.00%	4.3%
Non-US Equity	13.50%	5.4%
Global Equity	15.00%	5.1%
Fixed Income	30.00%	1.4%
Real Estate	7.50%	3.6%
Private Equity	5.00%	6.4%
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 6/30/2015	$ 162,095	$ 160,800	$ 1,295
Changes for the year:			
Service Cost	4,721	-	4,721
Interest on Total Pension Liability	12,643	-	12,643
Differences between expected and actual experience	(2,303)	-	(2,303)
Court fees	-	3,459	(3,459)
Benefit payments, including member refunds	(9,052)	(9,052)	-
Employee contributions	-	1,651	(1,651)
Net investment income	-	2,454	(2,454)
Administrative expenses	-	(71)	71
Net changes	6,009	(1,559)	7,568
Balance at 6/30/2016	$ 168,104	$ 159,241	$ 8,863

State Retirement Plan

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance at 12/31/2015	$ 1,304,298	$ 1,310,451	$ (6,153)
Changes for the year:			
Service Cost	61,768	-	61,768
Interest on Total Pension Liability	98,054	-	98,054
Differences between expected and actual experience	(14,007)	-	(14,007)
Benefit payments, including member refunds	(84,773)	(84,773)	-
Employer contributions	-	44,895	(44,895)
Employee contributions	-	28,775	(28,775)
Net investment income	-	112,758	(112,758)
Administrative expenses	-	(1,134)	1,134
Transfers	5,115	5,115	-
Net changes	66,157	105,636	(39,479)
Balance at 12/31/2016	$ 1,370,455	$ 1,416,087	$ (45,632)

State Patrol Retirement Plan

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance at 6/30/2015	$ 410,211	$ 363,923	$ 46,288
Changes for the year:			
Service Cost	8,152	-	8,152
Interest on Total Pension Liability	32,114	-	32,114
Differences between expected and actual experience	(8,977)	-	(8,977)
Benefit payments, including member refunds	(19,577)	(19,577)	-
Employer contributions	-	7,053	(7,053)
Employee contributions	-	4,366	(4,366)
Net investment income	-	5,491	(5,491)
Administrative expenses	-	(128)	128
Other changes	-	27	(27)
Net changes	11,712	(2,768)	14,480
Balance at 6/30/2016	$ 421,923	$ 361,155	$ 60,768

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	$ 670,106	$ 380,152	$ 138,888
Judges	25,784	8,863	(5,729)
Patrol	116,271	60,768	15,274
	1% Decrease (6.75%)	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
State	$ 69,620	$ (45,632)	$ (144,404)

Changes to Actuarial Assumptions Subsequent Event to June 30, 2017. 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 $81,603 for the year ended June 30, 2017. Of this amount, $15,682 pension expense was recognized for the Nebraska Public Employees Retirement System's School plan, $44,196 expense was recognized for the State plan, $14,390 pension expense was recognized for the Omaha School Plan, $3,755 pension expense was recognized for the State Patrol Plan, $2,577 pension expense was recognized for the Judges Plan, and $1,003 in pension expense was recognized for the Service Annuity. In the accompanying financial statements, presented as of June 30, 2017, 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	$ 12	$ 3,184
Net difference between projected and actual earnings on pension plan investments	12,156	5,476
Patrol Retirement		
Differences between expected and actual experience	-	14,442
Net difference between projected and actual earnings on pension plan investments	27,631	12,187
School Retirement		
Differences between expected and actual experience	1,117	40,679
Net difference between projected and actual earnings on pension plan investments	154,755	60,964
Changes in proportion	1,356	2,364
State Retirement		
Differences between expected and actual experience	498	17,834
Net difference between projected and actual earnings on pension plan investments	56,092	9,175
Total Actuarial Calculations	253,617	166,305
Employer Contributions Paid Subsequent to Actuarial Measurement Date:		
Judges Retirement	3,698	-
Patrol Retirement	7,048	-
School Retirement	45,928	-
TOTAL	$ 310,291	$ 166,305

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
2018	$ 3,378	$ 3,878	$ 7,657	$ 11,115	$ 43,656	$ 42,419	$ 19,557	$ 6,254
2019	3,372	3,878	7,657	11,030	43,656	42,419	19,557	6,254
2020	3,369	790	7,657	2,849	43,656	10,297	17,312	6,254
2021	2,051	115	4,660	1,634	24,631	5,392	112	5,465
2022	-	-	-	-	211	1,036	51	2,245
Thereafter	-	-	-	-	63	78	-	539
Total	$ 12,170	$ 8,661	$ 27,631	$ 26,628	$ 155,873	$ 101,641	$ 56,589	$ 27,011

Payable to the Pension Plans

At June 30, 2017, the State reported a payable of $48,589 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

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, 2017, 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, 2017
COMPONENT UNITS		
University of Nebraska	0.90%-6.00%	$ 851,640
Nebraska State Colleges	0.30%-5.05%	80,108
Component Units Total		$ 931,748

COMPONENT UNITS
DEBT SERVICE REQUIREMENTS TO MATURITY

YEAR	PRINCIPAL	INTEREST	TOTAL
2018	$ 89,160	$ 36,846	$ 126,006
2019	79,171	33,635	112,806
2020	67,782	30,769	98,551
2021	87,495	28,182	115,677
2022	50,030	24,837	74,867
2023 - 2027	201,855	94,217	296,072
2028 - 2032	161,735	55,529	217,264
2033 - 2037	104,515	29,323	133,838
2038 - 2042	62,335	11,580	73,915
2043 - 2047	27,670	2,169	29,839
Total	$ 931,748	$ 347,087	$ 1,278,835

State of Nebraska (dollars expressed in thousands)

15. Tax Abatements

Statement No. 77 of the Governmental Accounting Standards Board (GASB 77) requires the State to disclose specific information about tax abatement agreements to which it is a party. Tax abatement is defined as:

> [a] reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

As of June 30, 2017 the State administered eleven separate tax abatement programs—the Nebraska Advantage Act, the Nebraska Advantage Rural Development Act, the Nebraska Advantage Microenterprise Tax Credit Act, the Employee and Investment Growth Act, the Invest Nebraska Act, the Quality Jobs Act, the New Market Job Growth Investment Tax Credit, the Angel Investment Tax Credit, the Nebraska Job Creation and Mainstreet Revitalization Act, the Beginning Farmer Tax Credit, and the Community Development Assistance Act.

Description of Tax Abatement Programs

A. The Nebraska Advantage Act, Neb. Rev. Stat. §§ 77-5701 through 77-5735, allows taxpayers involved in a qualified business to earn and use tax benefits based on investment and employment growth. The Nebraska Advantage Act has six tiers that have varying requirements for investment and employment growth. The required levels of employment and investment must be met within 5 to 7 years, depending on the applicable tier. The maximum life of each project is 10 to 15 years.

Applicants are required to meet different levels of employment and investment based on the tier they choose and the year in which they apply. The required employment and investment levels which calendar year 2016 applicants must meet to qualify for benefits are as follows:

Investment and Employment Growth

	Tier 1	Tier 2, WP[1]/DC[2]	Tier 2 LDC[3]	Tier 3	Tier 4	Tier 5, WP[1]/DC[2], RE[4], LDC[3]	Tier 6
Investment	$1,000	$3,000	$200,000	N/A	$12,000	$36,000 [1,2,3]/ $20,000 [4]	$10,000 / $106,000
FTE[5] Growth	10	30	30	30	100	N/A	75/50
Annual Wage	$25	$25	$25	$25	$25	N/A	$62 [6]

[1] Web Portal
[2] Data Center
[3] Large Data Center
[4] Renewable Energy
[5] Stated as Full-time Equivalent Employee
[6] Varies by county. Greater of 200% of county average weekly wage for the county in which the project is located or 150% of state average weekly wage.

Once the taxpayer meets the employment and investment levels they may receive tax benefits including: 1) a direct refund of sales and use tax paid on qualified property, 2) an investment credit equal to 3% to 15%, depending on the applicable tier, of the investment made in qualified property, 3) a compensation credit equal to 3% to 10% of the compensation paid to new employees, depending on the applicable tier, and 4) a personal property tax exemption on certain types of property for some tiers. Investment and compensation credits may be used to: 1) obtain a sales or use tax refund paid on otherwise not-refundable purchases, 2) to reduce income tax liability, and 3) to obtain a reimbursement for real property tax for certain tiers. Compensation credits may also be used to obtain a refund of, or to reduce, the taxpayer's income tax withholding liability attributable to the increase in employment. The Act has provisions through which the State may recapture benefits paid if the taxpayer fails to meet or maintain the required employment and investment levels. Benefits will be recaptured if the minimum levels of investment or employment are not maintained for all years during the entitlement period. Under recapture, for each year the levels are not maintained, the taxpayer cannot earn new tax credits or claim direct refunds of sales and use tax for investments made during the year. The State will also assess a portion of benefits already received and retain a portion of subsequent tax offsets or refunds to recover the portion of benefits subject to recapture.

B. The Nebraska Advantage Rural Development Act, Neb. Rev. Stat. §§ 77-27,187 through 77-27,196.01, provides tax abatements to encourage business to locate in rural areas and impoverished metropolitan areas. Taxpayers can earn investment and or employment credits if they operate a qualified business and meet the required employment and or investment levels for a project located in an eligible area. The required employment and investment levels which calendar year 2016 applicants must meet to qualify for benefits are as follows:

Investment and Employment Levels

	Level 1	Level 2	Livestock Modernization
Investment	$125	$250	$50
FTE[7] Growth	2	5	N/A
Wage Rate[8]	$12.86	$12.86	N/A
Eligible Location	County with Population less than 15,000; Village; or certain census tracts	County with population less than 25,000 but greater than 15,000; or city of second class	Any County

[7] Stated as Full-time Equivalent Employee
[8] Hourly Wage Rate is not expressed in thousands

Level 1 and Level 2 projects that meet both the employment and investment levels will earn a $3 compensation credit for each new full-time equivalent employee, and a $3 investment credit for each $50 net gain in qualified investment. Taxpayers can use these credits: to obtain a refund of state sales and use taxes paid; against the income tax liability of the taxpayer; or as a refundable credit claimed on the income tax return of the taxpayer. Livestock modernization projects that have a net new investment of at least $50 in any county in Nebraska can earn credits equal to 10% of investment. Livestock modernization projects are limited to a maximum of $150 in credits. These credits may be used: to obtain a refund of state sales and use taxes paid; against the income tax liability of the taxpayer; or as a refundable credit claimed on the income tax return of the taxpayer. The approval limit for this program for the 2016 calendar year is $1,000 for Level 1 and Level 2 projects and $500 for livestock modernization projects. If a taxpayer with a Level 1 or Level 2 project fails to attain 75% of investment or employment estimates or to maintain required employment and investment levels for three years after the year of qualification, all benefits will be recaptured. If a taxpayer with a livestock modernization project fails to attain 75% of investment estimates, all benefits will be recaptured.

C. The Nebraska Advantage Microenterprise Tax Credit Act, Neb. Rev. Stat. §§ 77-5901 through 77-5908, provides tax abatements to applicants who are actively engaged in the operation of a business that operates in a distressed area[1] and employs five or fewer full-time equivalent employees. The applicant earns a refundable income tax credit equal to 20% of new investment and employment. There is a $10 lifetime limit in credits that may be granted to each applicant and related parties. The approval limit for this program is $2,000 plus the dollars that were not approved by the end of the preceding year. There are no recapture provisions under this Act.

D. The Employment and Investment Growth Act, Neb. Rev. Stat. §§ 77-4101 through 77-4113, allows taxpayers involved in a qualified business to earn and use tax benefits based on investment and employment growth. This program is no longer accepting new applications but continues to provide tax abatements to taxpayers for projects already in progress. The Act has three application options with different required levels of employment and or investment. Taxpayers must meet the required levels within seven years of application and can use earned tax benefits for up to 14 additional years. A business that participates in this Act elected one of the following application options: 1) $20,000 in investment; 2) $3,000 in investment and 30 full-time equivalent employees; or 3) $10,000 in investment and 100 full-time equivalent employees. Once the taxpayer met the employment and investment levels they received tax benefits including: 1) a direct refund of sales and use tax paid on qualified property, 2) an investment credit equal to 10% of the of the investment made in qualified property, 3) a compensation credit equal to 5% of the increase in compensation at the project, and 4) a personal property tax exemption on certain types of property. Investment and compensation credits may be used to: 1) obtain a sales or use tax refund paid on otherwise not-refundable purchases, or 2) reduce income tax liability. Each application option offers a different combination of these tax benefits. Benefits will be recaptured if the minimum levels of investment or employment are not maintained for all years during the entitlement period. Under recapture, for each year the levels are not maintained, the taxpayer cannot earn new tax credits or claim direct refunds of sales and use tax for investments made during the year. The State will also assess a

[1] The Act defines distressed area as "a municipality, county, unincorporated area within a county, or census tract in Nebraska that has (a) an unemployment rate which exceeds the statewide average unemployment rate, (b) a per capita income below the statewide average per capita income, or (c) had a population decrease between the two most recent federal decennial censuses." Neb. Rev. Stat. § 77-5903(2).

portion of benefits already received and retain a portion of subsequent tax offsets or refunds to recover the portion of benefits subject to recapture.

E. **The Invest Nebraska Act**, Neb. Rev. Stat. §§ 77-5501 through 77-5544, allows a qualified business to receive either a wage benefit credit or an alternative investment credit. This program is no longer accepting new applications but continues to provide tax abatements to taxpayers for projects already in progress. Each application was subject to the approval by a board comprised of the Governor, the State Treasurer, and the chairperson of the Nebraska Investment Council. The Act has three application levels: 1) $10,000 investment and 25 full-time equivalent employees; 2) $50,000 in investment and 500 full-time equivalent employees, or $100,000 in investment and 250 full-time equivalent employees; and 3) $200,000 in investment and 500 full-time equivalent employees. A company that reaches the employment and investment levels for the relevant application level is eligible for benefits. An eligible company may earn a wage benefit credit up to 5% of the taxable wages paid to new employees earning more than the required wage level. A company that selected the $200,000 and 500 full-time equivalent employee application level may choose to receive, in lieu of a wage benefit credit, an alternative investment tax credit equal to 15% of the company's investment in qualified property. The credits may be used to: 1) offset up to 100% of income tax liability, and 2) obtain a refund of, or to reduce, the taxpayer's income tax withholding liability attributable to employees other than base-year employees. Each company is required to expend at least the value of the wage benefit credit or alternative investment tax credit for company training programs, employee benefit programs, educational institutional training programs, or workplace safety programs. The Act includes provisions to recapture benefits if the taxpayer fails to maintain required employment or investment levels for ten years.

F. **The Quality Jobs Act**, Neb. Rev. Stat. §§ 77-4901 through 77-4935, allows a qualified business to receive a wage benefit credit or to retain payroll withholding tax. This program is no longer accepting new applications but continues to provide tax abatements to taxpayers for projects already in progress. Each application was subject to the approval by a board comprised of the Governor, the State Treasurer, and the chairperson of the Nebraska Investment Council. The program has two application levels: 1) $50,000 in investment and 500 full-time equivalent employees, and 2) $100,000 and 250 full-time equivalent employees. A company that reached and maintained the required employment and investment levels is eligible to receive a wage benefit credit of up to 5% of the total compensation paid to all employees, other than base year employees. The company is required to expend at least the value of the wage benefit credit for company training programs, employee benefit programs, educational institution training programs, or workplace safety programs. The credit may be used either against the company's income tax liability, or to retain a portion of the income tax withholding which was withheld from the company's employees. The Act includes provisions to recapture benefits if the taxpayer fails to meet required employment or investment levels within seven years of application or to maintain those levels for ten years.

G. **The New Market Job Growth Investment Tax Credit**, Neb. Rev. Stat. §§ 77-1101 through 77-1119, allows individuals, corporations, estates, trusts, financial institutions, and insurance companies to claim nonrefundable, nontransferable income tax credits for investment in a qualified community development entity (CDE). The credits may be used against income tax, the premium tax imposed on insurance companies, or the franchise tax imposed on financial institutions. The Act requires the CDE to file an application for certification with the State. Upon approval of its application, the CDE may accept cash investments that qualify for the tax credit. Flow-through entities that make a qualified investment may allocate the tax credit to their partners, members, or shareholders in accordance with any agreement made between the partners, members, or shareholders.

A CDE is a corporation or partnership with the primary mission of providing investment capital for low-income communities or low-income persons, meets the definition of 26 U.S.C. 45D(c), and has entered into an agreement with the Community Development Financial Institutions Fund of the United States Treasury. The CDE must include Nebraska in its service area.

Credits are issued for equity investments in CDEs or long-term debt securities issued by a CDE that: (1) have at least 85% of its cash price used by the CDE to make qualified low-income community investments in qualified active low-income community businesses located in Nebraska by the first anniversary of the initial credit allowance date, (2) are designated by the CDE as a qualified equity investment, and (3) are certified by the Tax Commissioner as not exceeding the total fiscal year credit limitation for the program of $15,000.

The tax credit is computed by multiplying the cash purchase price of the investment by the allocable percentage at each credit allowance date. The credit allowance dates and percentages are: 0% on the first and second credit allowance dates; 7% on the third credit allowance date; and 8% on the fourth through seventh credit allowance dates.

The Act provides that credits may be recaptured in several situations. First, credits may be recaptured if any amount of the federal qualified equity investment credit is recaptured. Second, credits may be recaptured if the CDE redeems or repays some or all of the principle of the investment prior to the last credit allowance date. Finally, credits may be recaptured if the CDE fails to invest and satisfy the requirements of the program and maintain its investment in a qualified low-income community investment in Nebraska until the last credit allowance date.

H. **The Angel Investment Tax Credit**, Neb. Rev. Stat. § 77-6301 to § 77-6310, provides refundable income tax credits to encourage entrepreneurship and to increase high-technology industries in underserved areas of Nebraska. Individuals, trusts, or pass-through entities can apply to be certified as a qualified investor by the State. To receive credits, individual investors must invest a minimum of $25, and investment funds must invest $50, in a calendar year in a qualified small business. A qualified small business is a business based in Nebraska with more than 51% of their employees in Nebraska and have fewer than 25 employees. Qualified investors are eligible to earn a credit equal to 40% of their qualified investment in a qualified small business. Credits are capped at $350 for married couples filing a joint return and at $300 for single filers. No more than $1,000 in credits is to be allocated for investment in any one small business and no more than $4,000 in credits shall be allocated in any calendar year. These credits are subject to recapture if the investment is not held in the small business for at least three years.

I. **The Nebraska Job Creation and Mainstreet Revitalization Act**, Neb. Rev. Stat. §§ 77-2901 to 77-2912, is jointly administered by the Nebraska State Historical Society (NSHS) and the State. The Act provides credits to applicants who incur eligible expenditures to rehabilitate historically significant real properties. Applicants may receive a credit equal to 20% of eligible expenditures up to $1,000 per project. The credit may be used against income tax, premium tax imposed on insurance companies, or franchise tax imposed on financial institutions. This credit is transferable and distributable, subject to certain limitations. Transferable credits may be claimed beginning with the year the improvement is placed in service. Distributable credits may be claimed beginning with the year the improvement is placed in service or the year the recipient became a member, partner, or shareholder of a flow-through entity in which they obtained an ownership interest in the entity, whichever is later. Credits may be carried forward until fully utilized, or until December 31, 2027. If at any time during the five years after the improvement to the property is placed in service, the NSHS determines that the property is the subject of work not in substantial conformance with the approved application or the documents from which the tax credit was calculated, the tax credits may be recaptured from the property owner.

J. **The Beginning Farmer Tax Credit Act**, Neb. Rev. Stat. §§ 77-5201 through 77-5215 and 77-2715.07, is a program that provides tax abatements to eligible beginning farmers and livestock producers and owners who rent assets to those beginning farmers and livestock producers. Applicants must be certified by the Beginning Farmer Board (Board). To be certified as a qualified beginning farmer or livestock producer, an applicant must: 1) be a Nebraska resident who is farming or seeks to farm or raise crops or livestock in the state, 2) have a net worth of not more than $200, 3) provide the majority of the day-to-day physical labor and management for the operation, 4) demonstrate profit potential to the Board, 5) demonstrate a need for assistance, 6) participate in financial management program, 7) submit a nutrient management plan and soil conservation plan to the Board, and 8) have other qualifications as specified by the Board.

Certified beginning farmers and livestock producers are eligible for a personal property tax exemption for tangible personal property that is used in a qualifying beginning farmer or livestock producer operation. This portion of the tax abatement affects only county revenue and is, therefore, not included in this footnote.

The Act also provides two refundable income tax credits. These two credits affect state revenue and, therefore, are included in this footnote. First, a beginning farmer or livestock producer is allowed a one-time income tax credit equal to the actual cost of participation in the financial management program required for eligibility under the Act. Each beginning farmer may claim a one-time credit up to $0.5. Second, the owner of agricultural assets that are rented, pursuant to a three-year rental agreement, to a beginning farmer is allowed a credit equal to 10% of the gross rental income on cash rentals or 15% of the cash equivalent of a share-rental agreement. This credit is subject to recapture if the three-year lease agreement is terminated with fault on the part of the owner of the agricultural assets.

K. **The Community Development Assistance Act**, Neb. Rev. Stat. §§ 13-201 through 13-208, is a program that encourages investment in community betterment organizations by providing tax credits to investors. The Act permits the State to distribute tax credits to businesses and individuals that make eligible contributions of cash, services or materials to approved community betterment projects. Tax credits may be used against income tax, premium tax, and franchise tax liabilities. Under the Act, a non-profit community betterment organization may apply to have a project approved to receive eligible contributions. Applicants must be a village, city, or county government or a nonprofit 501(c)(3) organization that will service an economically distressed area. Eligible projects include those that provide employment training, human and medical services, physical facility and neighborhood development services, recreational and education activities, or crime prevention. Income tax credits may be awarded by the State to individuals or entities that make eligible contributions. The credit awarded may be up to 40 percent of the value of the contribution. No more than $50 in tax credits may be approved per project per year. A total of $275 in credits is permitted to be certified by State in the fiscal year 2016-2017. This Act has no provisions for recapture.

State of Nebraska (dollars expressed in thousands)

Amount of State Taxes Abated

The following table reports the gross dollar amount, on an accrual basis, by which the State's tax revenues were reduced during the fiscal year ending June 30, 2017 as a result of tax abatement agreements for each of the eleven programs.

No.	Program	Taxes Abated
A	Nebraska Advantage Act	$160,958
B	Nebraska Advantage Rural Development Act	881
C	Nebraska Advantage Microenterprise Tax Credit Act	1,231
D	Employment and Investment Growth Act	133,846
E	Invest Nebraska Act	42,691
F	Quality Jobs Act	*
G	New Market Job Growth Investment Tax Credit	12,838
H	Angel Investment Tax Credit	5,650
I	Job Creation and Mainstreet Revitalization Act	3,100
J	Beginning Farmer Tax Credit Act	1,198
K	Community Development Assistance Act	228
	Total	**$362,621** **

* To maintain confidentiality, no information is disclosed due to the low number companies reporting activity.
** This total excludes amounts for programs that were not individually reported.

1. Confidentiality
   Unless a specific statutory exception exists, all information relating to a particular taxpayer, which has been obtained by the State from any source is confidential.

   Tabulations which would tend to identify a particular taxpayer either directly or indirectly are also confidential. The State follows the guidance of the IRS with reference to the disclosure of statistical information. To protect confidential information, the State will not release a statistical tabulation that contains information from fewer than three taxpayers. A statistical tabulation prepared for a geographic area less than the entire state will not be released if it contains information from fewer than ten taxpayers.

2. Additional Information
   The Department of Revenue issues an Annual Report to the Nebraska Legislature on July 15 of each year. The report contains additional information on the Nebraska Advantage Act, the Nebraska Advantage Rural Development Act, the Nebraska Advantage Microenterprise Tax Credit Act, the Nebraska Advantage Research and Development Act, the Employment and Investment Growth Act, the Invest Nebraska Act, and the Quality Jobs Act. The report also includes information regarding tax abatements granted to individual taxpayers under the Nebraska Advantage Act and the Nebraska Advantage Rural Development Act. The report can be found on the Department's website here: http://www.revenue.nebraska.gov/incentiv/annrep/16an_rep/16_annrp.html.

Amounts Received or Receivable from Other Governments

The State collects the local sales and use tax imposed by any city or county and remits the amounts back to the municipality on a monthly basis, less any refunds made. Deductions for refunds are delayed for cities of the first class, cities of the second class, and villages. Pursuant to Neb. Rev. Stat. § 77-27,144, when a refund of local sales and use tax is made under the Nebraska Advantage Act, Neb. Rev. Stat. §§ 77-5725 and 77-5726, or the Employment and Investment Growth Act, Neb. Rev. Stat. §§ 77-4105 and 77-4106, deductions for the refund are delayed for one year after the refund has been made to the taxpayer. If a refund claimed under the Nebraska Advantage Act or the Employment and Investment Growth Act exceeds twenty-five percent of a municipality's total sales and use tax receipts, net of any refunds or sales tax collection fees, for the municipality's prior fiscal year, the State will deduct the refund over the period of one year in equal monthly amounts beginning one year after the refund is made to the taxpayer.

As of June 30, 2017, the total amounts of refunds that are receivable are $4,502 pursuant to Neb. Rev. Stat. § 77-27,144 from the following municipalities: Ainsworth, Albion, Alliance, Alma, Arapahoe, Arcadia, Arnold, Ashland, Atkinson, Auburn, Bassett, Bayard, Beatrice, Bellevue, Benkelman, Bennington, Bertrand, Big Springs, Blair, Bloomfield, Blue Hill, Brainard, Brownville, Burwell, Cambridge, Cedar Rapids, Central City, Ceresco, Chadron, Chappell, Clarks, Clay Center, Columbus, Cortland, Cozad, Crawford, Creighton, Crete, Curtis, David City, Doniphan, Eagle, Edgar, Elm Creek, Eustis, Fairbury, Falls City, Fremont, Friend, Fullerton, Geneva, Genoa, Gering, Gordon, Gothenburg, Grand Island, Grant, Gretna, Hartington, Hastings, Hay Springs, Hebron, Henderson, Holdrege, Hooper, Howells, Hyannis, Imperial, Jackson, Kearney, Kimball, La Vista, Lexington, Linwood, Louisville, Madison, Maywood, McCook, Milford, Minden, Morrill, Mullen, Murray, Nebraska City, Neligh, Nelson, Norfolk, North Bend, North Platte, Oakland, Ogallala, O'Neill, Ord, Oxford, Palmyra, Papillion, Pawnee City, Pender, Plattsmouth, Ponca, Ralston, Ravenna, Red Cloud, Saint Paul, Sargent, Schuyler, Scottsbluff, Seward, Shelton, Sidney, South Sioux City, Spencer, Springfield, Stromsburg, Stuart, Superior, Sutton, Syracuse, Tecumseh, Tekamah, Valentine, Valley, Wahoo, Wakefield, Waterloo, Waverly, Wayne, Weeping Water, West Point, Wilber, Wisner, Wymore, and York.

16. Restatements

Component Units Net Position – The Nebraska State College System restated prior year net position due to overstatement of some assets and understatement of prepaid expenses. These errors caused the fiscal year 2016 ending net position to be overstated. As a result, the beginning Net Position for Component Units on the Statement of Activities decreased by $220.

The net position for fiscal year 2016 for Governmental Activities on the Government Wide Statement of Activities increased by $12,204 due to restatement of capital assets beginning balance not reported in prior year.

The General Fund beginning Fund Balance for fiscal year 2016 was decreased by $325 due to an overstatement of accounts receivable, an overstatement of liabilities, and an expense adjustment for prior year.

The Highway Fund beginning Fund Balance for fiscal year 2016 was increased by $1,048 due to an understatement of accounts receivable that had not been reported in the prior year.

The Economic Development Fund beginning Fund Balance for fiscal year 2016 was increased by $3,369 due to an understatement of loans receivable in the prior year.

The Federal Fund beginning Fund Balance for fiscal year 2016 was decreased by $3,381 due to an overstatement of accounts receivable and loans receivable in the prior year. The Veteran's Affairs Construction Reimbursement Fund was reclassified from the Capital Project Fund to the Federal Fund to better reflect its function.

The Health and Social Services Fund beginning Fund Balance for fiscal year 2016 was decreased by $3,127 due to an overstatement of expenses in the prior year.

The Other Special Revenue Fund beginning Fund Balance for fiscal year 2016 was increased by $1,822 due to an understatement of accounts receivable and an overstatement of liabilities in the prior year.

The Capital Projects Fund beginning Fund Balance for fiscal year 2016 was decreased by $402 due to the reclassification of the Veteran's Affairs Construction Reimbursement Fund from the Capital Project Fund to the Federal Fund to better reflect its function.

The Permanent School Fund beginning Fund Balance for fiscal year 2016 was increased by $1,311 due to an overstatement of liabilities in the prior year.

The restatements of the General Fund, Highway Fund, Economic Development Fund, Federal Fund, Health and Social Services Fund, Other Special Revenue Fund, Capital Projects Fund, and the Permanent School Fund resulted in an increase in the Governmental Activities Net Position – Beginning on the Statement of Activities of $315 that had not been reported in the prior year.

The General Services Fund beginning Fund Balance for fiscal year 2016 was increased by $14 due to an understatement of capital assets in the prior year.

The Office of the CIO Fund beginning Fund Balance for fiscal year 2016 was increased by $1,669 due to an understatement of capital assets in the prior year.

The Transportation Services Fund beginning Fund Balance for fiscal year 2016 was increased by $286 due to an understatement of capital assets in the prior year.

The restatements for the General Services Fund, Office of the CIO Fund, and Transportation Services Fund resulted in an increase in the Governmental Activities Net Position – Beginning on the Statement of Activities of $1,969 that had not been reported in the prior year.

State of Nebraska

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2017

(Dollars in Thousands)	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	$ 4,448,684	$ 4,181,446	$ 4,147,218	$ (34,228)
Federal Grants and Contracts	861	861	861	-
Sales and Charges	21,572	21,572	21,572	-
Other	38,998	38,998	38,998	-
Total Revenues	4,510,115	4,242,877	4,208,649	(34,228)
EXPENDITURES				
Current:				
General Government	418,892	399,765	380,297	19,468
Conservation of Natural Resources	48,178	44,356	34,198	10,158
Culture – Recreation	9,264	7,722	6,610	1,112
Economic Development and Assistance	26,968	19,323	14,733	4,590
Education	2,053,788	2,026,933	1,998,018	28,915
Health and Social Services	1,815,418	1,751,188	1,603,745	147,443
Public Safety	336,959	321,820	288,294	33,526
Regulation of Business and Professions	4,394	4,063	3,536	527
Transportation	-	-	-	-
Capital Projects	8,433	7,712	-	7,712
Total Expenditures	4,722,294	4,582,882	4,329,431	253,451
Excess (Deficiency) of Revenues Over (Under) Expenditures	(212,179)	(340,005)	(120,782)	219,223
OTHER FINANCING SOURCES (USES)				
Transfers In	56,905	56,905	56,905	-
Transfers Out	(270,128)	(270,128)	(270,128)	-
Other	219	219	219	-
Total Other Financing Sources (Uses)	(213,004)	(213,004)	(213,004)	-
Net Change in Fund Balance	(425,183)	(553,009)	(333,786)	219,223
FUND BALANCES, JULY 1	1,260,719	1,260,719	1,260,719	-
FUND BALANCES, JUNE 30	$ 835,536	$ 707,710	$ 926,933	$ 219,223

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2017, follows:

Actual Fund Balances, budgetary basis, June 30, 2017	
General	$ 246,278
Cash Reserve	680,655
Budgetary fund balances	926,933
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record State contributions due pension funds	(48,589)
Record claims payable	(111,668)
Record other net accrued receivables and liabilities	(16,339)
GAAP fund balance, June 30, 2017	$ 750,337

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Budgetary Process

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

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

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

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

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

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

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

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

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

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

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

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

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

All State budgetary expenditures for the general, cash, construction, federal and revolving fund types are made pursuant to appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate appropriations between object of expenditure accounts, except that personal service expenditures that exceed limitations contained in the appropriations bill require Legislative amendment. Any changes in appropriations are made through an annual deficit bill or other legislation. Appropriations from the federal fund type are considered to be estimated and the Legislature has approved an administrative procedure for changing them. During fiscal year 2017, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2017, there were no budgetary programs in which expenditures exceeded appropriations. Revenues are not budgeted for any funds except for General Fund tax revenues.

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

For the Year Ended June 30, 2017

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	2016	2015	2014	2013	2012	2011
Very Good	46%	37%	38%	39%	36%	33%
Good	38%	45%	37%	35%	38%	41%
Fair	14%	16%	22%	23%	23%	23%
Poor	2%	2%	3%	3%	3%	3%
Overall System Rating	84	84	81	81	81	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	2018	2017	2016	2015	2014	2013
Estimated	$ 325	$ 317	$ 306	$ 327	$ 302	$ 313
Actual		413	441	348	300	335
Difference		96	135	21	(2)	22

See independent auditors' report

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

Last 10 Fiscal Years

(Dollar amounts in thousands)

	June 30, 2016*	June 30, 2015*	June 30, 2014*
State's proportion of the School plan collective net pension liability	17.42%	17.32%	17.44%
State's net pension liability for the Service Annuity plan	100.00%	100.00%	100.00%
State's proportion of the Omaha School Employees Retirement System collective net pension liability	16.84%	16.84%	16.84%
State's total proportionate share of the School plan collective net pension liability	$ 262,124	188,604	169,592
Employer's proportionate share of the School plan collective net pension liability	$ 1,242,717	900,492	802,660
Total collective net pension liability for the School plan	$ 1,504,841	1,089,096	972,252
State's net pension liability for the Service Annuity plan	$ 3,872	3,392	2,879
State's proportionate share of the Omaha School Employees Retirement System collective net pension liability	$ 114,156	97,833	72,739
Employer's proportionate share of the Omaha School Employees Retirement System collective net pension liability	$ 563,804	483,189	359,251
Total collective net pension liability for the Omaha School Employees Retirement System	$ 677,960	581,022	431,990
State's proportionate share, as an employer, of the School plan collective net pension liability (a)	4,352	3,149	2,996
School plan employer's covered-employee payroll (b)	$ 6,307	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)	69.00%	51.61%	47.41%
School plan Fiduciary net position as a percentage of the total pension liability	86.56%	89.88%	90.66%
Service Annuity plan Fiduciary net position as a percentage of the total pension liability	73.03%	76.90%	80.33%
Omaha School Employees Retirement System Fiduciary net position as a percentage of the total pension liability	63.68%	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.

See independent auditors' report

SCHEDULE OF STATE CONTRIBUTIONS

School Employees Retirement Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

		2017	2016	2015
School plan statutorily required contribution	$	38,039	36,920	35,494
Service Annuity plan statutorily required contribution	$	992	997	998
Omaha School Employees Retirement System statutorily required contribution	$	6,897	6,661	6,453
School plan contributions in relation to the statutorily required contribution	$	38,039	36,920	35,494
Service Annuity plan contributions in relation to the statutorily required contribution	$	992	997	998
Omaha School Employees Retirement System contributions in relation to the statutorily required contribution	$	6,897	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)	$	618	623	603
School plan employer's covered-employee payroll (b)	$	6,258	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%	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)

	2016	2015	2014
Total Pension Liability			
Service Cost	$8,152	$7,563	$8,174
Interest	32,114	31,350	30,165
Differences between expected and actual experience	(8,977)	(10,659)	(3,788)
Benefit payments, including member refunds	(19,577)	(19,459)	(20,010)
Net change in Total Pension Liability	$11,712	$8,795	$14,541
Total Pension Liability - beginning	$410,211	$401,416	$386,875
Total Pension Liability - ending (a)	$421,923	$410,211	$401,416
Plan Fiduciary Net Position			
Employer contributions	$7,053	$8,647	$8,753
Employee contributions	4,366	4,180	4,134
Net investment income	5,491	13,333	54,950
Benefit payments, including member refunds	(19,577)	(19,459)	(20,010)
Administrative expenses	(128)	(117)	(121)
Other	27	22	21
Net change in Plan Fiduciary Net Position	($2,768)	$6,606	$47,727
Plan Fiduciary Net Position - beginning	$363,923	$357,317	$309,590
Plan Fiduciary Net Position - ending (b)	$361,155	$363,923	$357,317
Net Pension Liability - ending (a) - (b)	$60,768	$46,288	$44,099
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	85.60%	88.72%	89.01%
Covered payroll	$27,048	$26,294	$25,624
Employers' Net Pension Liability as a percentage of covered payroll	224.67%	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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	$7,053	$7,053	$8,074	$8,753	$9,769	$7,775	$7,563	$6,260	$5,385	$4,856
Actual employer contributions*	$7,053	$7,053	$8,074	$8,753	$7,516	$7,775	$5,957	$6,260	$5,385	$4,856
Annual contribution deficiency (excess)	-	-	-	-	$2,253	-	$1,606	-	-	-
Covered-employee payroll	$28,092	$27,048	$26,294	$25,624	$26,902	$27,391	$27,988	$27,625	$28,386	$27,839
Actual contributions as a percentage of covered-employee payroll	25.11%	26.08%	30.71%	34.16%	27.94%	28.39%	21.28%	22.66%	18.97%	17.44%

*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)

	2016	2015	2014
Total Pension Liability			
Service Cost	$4,721	$4,759	$4,257
Interest	12,643	12,171	11,568
Differences between expected and actual experience	(2,303)	(2,614)	42
Benefit payments, including member refunds	(9,052)	(8,548)	(8,122)
Net change in Total Pension Liability	$6,009	$5,768	$7,745
Total Pension Liability - beginning	$162,095	$156,327	$148,582
Total Pension Liability - ending (a)	$168,104	$162,095	$156,327
Plan Fiduciary Net Position			
Employer contributions*	$3,459	$3,071	$3,906
Employee contributions	1,651	1,611	1,519
Net investment income	2,454	5,959	24,543
Benefit payments, including member refunds	(9,052)	(8,548)	(8,122)
Administrative expenses	(71)	(83)	(78)
Net change in Plan Fiduciary Net Position	($1,559)	$2,010	$21,768
Plan Fiduciary Net Position - beginning	$160,800	$158,790	$137,022
Plan Fiduciary Net Position - ending (b)	$159,241	$160,800	$158,790
Net Pension (Asset) Liability - ending (a) - (b)	$8,863	$1,295	($2,463)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	94.73%	99.20%	101.58%
Covered payroll	$22,178	$21,587	$20,100
Employers' Net Pension Liability as a percentage of covered payroll	39.96%	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 2016 consist of $3,459 in Court Fees and $0 in State Appropriations.

JUDGES' RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	$3,698	$3,459	$3,727	$3,906	$3,180	$3,484	$3,580	$3,615	$3,491	$3,353
Actual employer contributions	$3,698	$3,459	$3,071	$3,906	$3,180	$3,484	$3,580	$3,615	$3,491	$3,353
Annual contribution deficiency (excess)	-	-	$656	-	-	-	-	-	-	-
Covered-employee payroll	$22,802	$22,178	$21,587	$20,100	$19,005	$18,182	$18,773	$18,373	$17,990	$17,004
Actual contributions as a percentage of covered-employee payroll	16.22%	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%	19.72%

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary. For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

See independent auditors' report

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

(Dollars in thousands)

	2016	2015	2014
Total Pension Liability			
Service Cost	$61,768	$57,305	$54,921
Interest	98,054	89,967	85,696
Benefit term changes	-	35,893	-
Differences between expected and actual experience	(14,007)	721	(11,217)
Transfers	5,115	5,849	4,195
Benefit payments, including member refunds	(84,773)	(85,278)	(73,527)
Net change in Total Pension Liability	$66,157	$104,457	$60,068
Total Pension Liability - beginning	$1,304,298	$1,199,841	$1,139,773
Total Pension Liability - ending (a)	$1,370,455	$1,304,298	$1,199,841
Plan Fiduciary Net Position			
Employer contributions	$44,894	$43,340	$41,456
Employee contributions	28,776	27,799	26,603
Net investment income	112,758	14,784	83,524
Benefit payments, including member refunds	(84,773)	(85,278)	(73,527)
Administrative expenses	(1,134)	(1,079)	(910)
Transfers	5,115	5,849	4,195
Net change in Plan Fiduciary Net Position	$105,636	$5,415	$81,341
Plan Fiduciary Net Position - beginning	$1,310,451	$1,305,036	$1,223,695
Plan Fiduciary Net Position - ending (b)	$1,416,087	$1,310,451	$1,305,036
Net Pension Liability/(Asset) - ending (a) - (b)	($45,632)	($6,153)	($105,195)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	103.33%	100.47%	108.77%
Covered payroll	$599,550	$578,789	$553,631
Employers' Net Pension Liability as a percentage of covered payroll	(7.61%)	(1.06%)	(19.00%)

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

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	$33,205	$29,117	$31,986	$35,129	$32,983	$27,256	$26,361	$24,632	$19,975	$19,145
Actual employer contributions*	$45,208	$44,314	$42,392	$40,345	$35,794	$31,496	$30,987	$30,895	$29,213	$25,599
Annual contribution deficiency (excess)	($12,002)	($15,197)	($10,406)	($5,216)	($2,811)	($4,240)	($4,626)	($6,263)	($9,238)	($6,454)
Covered-employee payroll	$603,735	$591,799	$566,127	$538,790	$478,020	$420,619	$413,827	$412,596	$390,129	$341,870
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%	7.49%

*Provided by Nebraska Public Employees Retirement System

Notes to Required Supplementary Information for Pension Plans

For the Year Ended June 30, 2017

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.

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, 2016 (based on the July 1, 2015 actuarial valuation):

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 21 to 30 years (Single Equivalent Amortization Period is 21 years)
Asset valuation method	5-year smoothed market
Price Inflation	3.25 percent

Wage Inflation	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, the COLA is 2.50% 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, the COLA is 1.00% 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%.

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, 2016 (based on the July 1, 2015 actuarial valuation).

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 21 to 30 years (Single Equivalent Amortization Period is 21 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 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:

2016: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of service, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

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.

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.

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. If the statutory contribution rate is less than the Actuarially Determined Contribution, the School District will contribute the difference. 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, August 31, 2016 (based on the September 1, 2015 actuarial valuation).

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 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), if hired before July 1, 2016

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.

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 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%.

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 fiscal year, June 30, 2017 (based on the July 1, 2016 actuarial valuation).

Actuarial cost method	Entry Age
Amortized method	Level percentage of payroll, closed
Remaining amortization period	Range from 20 to 30 years (Single Equivalent Amortization Period is 21 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 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

See independent auditors' report

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.

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.

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 fiscal year, June 30, 2017 (based on the July 1, 2016 actuarial valuation).

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 25 to 30 years (Single Equivalent Amortization Period is 19 years)
Asset valuation method	5-year smoothed market
Price Inflation	3.25 percent
Wage Inflation	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. Member hired after July 1, 2015 received a 1.00% COLA.

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% in 2015 that was first reflected in the January 1, 2016 valuation.

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% in 2008 that was first reflected in the January 1, 2009 valuation.

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% in 2007 that was first reflected in the January 1, 2008 valuation.

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% in 2006 that was first reflected in the January 1, 2007 valuation.

See independent auditors' report

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 both 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, 2016 actuarial valuation applies for contributions reported for July 1, 2016 to June 30, 2017).

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent fiscal year, June 30, 2017 (based on the January 1, 2016 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

See independent auditors' report

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, 2017

Federal Agency/Program Title	State Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Agriculture, U.S. Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	$ 783,725	$
Wetlands Reserve Program	Game and Parks Commission	10.072	11,203	
Voluntary Public Access and Habitat Incentive Program	Game and Parks Commission	10.093	774,534	
Biofuel Infrastructure Partnership	Energy Office	10.117	1,146,646	
Specialty Crop Block Grant Program - Farm Bill	Agriculture, Department of	10.170	349,767	
Organic Certification Cost Share Programs	Agriculture, Department of	10.171	118,296	
State Mediation Grants	Agriculture, Department of	10.435	123,018	
Food Safety Cooperative Agreements	Agriculture, Department of	10.479	96,223	
Professional Standards for School Nutrition Employees	Education, Department of	10.547	17,370	
SNAP Cluster:				
Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.551	242,443,486	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Health and Human Services, Department of	10.561	17,606,820 ^	2,022,821
Total SNAP Cluster			260,050,306	2,022,821
Child Nutrition Cluster:				
School Breakfast Program	Education, Department of	10.553	17,306,543	17,306,543
National School Lunch Program	Education, Department of	10.555	69,538,359	69,538,359
National School Lunch Program	Health and Human Services, Department of	10.555	12,537,413	
Total National School Lunch Program			82,075,772	69,538,359
Special Milk Program for Children	Education, Department of	10.556	68,857	68,857
Summer Food Service Program for Children	Education, Department of	10.559	2,718,276	2,622,934
Summer Food Service Program for Children	Health and Human Services, Department of	10.559	11,139	
Total Summer Food Service Program for Children			2,729,415	2,622,934
Total Child Nutrition Cluster			102,180,587	89,536,693
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557	27,439,470	8,677,349
Child and Adult Care Food Program	Education, Department of	10.558	32,517,730	32,233,392
Child and Adult Care Food Program	Health and Human Services, Department of	10.558	173,158	
Total Child and Adult Care Food Program			32,690,888	32,233,392
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,997,212	(1,032)
State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560	462,462	
Total State Administrative Expenses for Child Nutrition			2,459,674	(1,032)
Food Distribution Cluster:				
Commodity Supplemental Food Program	Health and Human Services, Department of	10.565	2,484,758	621,519
Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568	293,519	154,490
Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569	2,619,505	
Total Food Distribution Cluster			5,397,782	776,009

^ - 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, 2017

Federal Agency/Program Title	State Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Agriculture, U.S. Department of (Continued)					
WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, Department of	10.572		45,531	
Team Nutrition Grants	Education, Department of	10.574		292,256	7,854
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576		209,731	
WIC Grants To States (WGS)	Health and Human Services, Department of	10.578		309,936	
Child Nutrition Discretionary Grants Limited Availability	Education, Department of	10.579		232,963	92,854
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Health and Human Services, Department of	10.580		39,890	
Fresh Fruit and Vegetable Program	Education, Department of	10.582		1,952,740	1,951,643
Child Nutrition Direct Certification Performance Awards	Education, Department of	10.589		2,271	2,000
Cooperative Forestry Assistance	Game and Parks Commission	10.664		22,190	
Forest Service Schools and Roads Cluster:					
Schools and Roads - Grants to Counties	Education, Department of	10.666		97,338	97,338
AG Conservation Easement PGM	Game and Parks Commission	10.931		25,492	
Regional Conservation Partnership Program	Game and Parks Commission	10.932		10,103	
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A		193,038	
Emerging Markets Program	Agriculture, Department of	10.603		22,675	
Total U.S. Department of Agriculture			$	437,095,643	135,396,921
Commerce, U.S. Department of					
State and Local Implementation Grant Program	Administrative Services	11.549	$	148,963	
Manufacturing Extension Partnership	Economic Development, Department of	11.611		472,308	
Total U.S. Department of Commerce			$	621,271	-
Corporation for National and Community Service					
State Commissions	Health and Human Services, Department of	94.003	$	173,029	
AmeriCorps	Health and Human Services, Department of	94.006		1,088,452	1,088,452
Training and Technical Assistance	Health and Human Services, Department of	94.009		96,410	
Total Corporation for National and Community Service			$	1,357,891	1,088,452
Defense, U.S. Department of					
Payments to States in Lieu of Real Estate Taxes	Education, Department of	12.112	$	266,324	266,324
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113		90,135	
Military Construction, National Guard	Military Department	12.400		49,018	
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401		22,134,174	
Total U.S. Department of Defense			$	22,539,651	266,324

^ - 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, 2017

Federal Agency/Program Title	State Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Education, U.S. Department of					
Adult Education - Basic Grants to States	Education, Department of	84.002	$	2,573,733	2,193,454
Title I Grants to Local Educational Agencies	Education, Department of	84.010		66,967,725	66,158,699
Migrant Education_State Grant Program	Education, Department of	84.011		4,643,338	4,395,594
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, Department of	84.013		301,775	298,606
Special Education Cluster (IDEA):					
Special Education_Grants to States	Education, Department of	84.027		76,948,813	74,417,760
Special Education_Preschool Grants	Education, Department of	84.173		2,660,416	2,165,447
Total Special Education Cluster (IDEA)				79,609,229	76,583,207
Career and Technical Education -- Basic Grants to States	Education, Department of	84.048		6,433,727	5,333,922
Rehabilitation Services_Vocational Rehabilitation Grants to States	Commission for the Blind and Visually Impaired	84.126		3,801,169	
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, Department of	84.126		17,938,475	
Total Rehabilitation Services_Vocational Rehabilitation Grants to States				21,739,644	-
Migrant Education_Coordination Program	Education, Department of	84.144		144,596	119,440
Rehabilitation Services_Client Assistance Program	Education, Department of	84.161		61,927	
Independent Living_State Grants	Education, Department of	84.169		348	348
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Commission for the Blind and Visually Impaired	84.177		325,998	
Special Education-Grants for Infants and Families	Education, Department of	84.181		2,291,987	1,716,261
Supported Employment Services for Individuals with the Most Significant Disabilities	Commission for the Blind and Visually Impaired	84.187		33,380	
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, Department of	84.187		235,991	235,991
Total Supported Employment Services for Individuals with the Most Significant Disabilities				269,371	235,991
Education for Homeless Children and Youth	Education, Department of	84.196		333,583	266,234
Star Schools	Education, Department of	84.203		345	
Rehabilitation Services Demonstration and Training Programs	Education, Department of	84.235		428,718	67,823
Twenty-First Century Community Learning Centers	Education, Department of	84.287		5,259,511	4,869,435
Special Education - State Personnel Development	Education, Department of	84.323		909,145	280,470
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326		77,197	50,455
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330		22,226	22,226
Rural Education	Education, Department of	84.358		102,093	94,068
English Language Acquisition State Grants	Education, Department of	84.365		2,922,144	2,754,911
Mathematics and Science Partnerships	Education, Department of	84.366		568,900	542,621
Supporting Effective Instruction State Grant	Education, Department of	84.367		10,436,213	10,077,015
Supporting Effective Instruction State Grant	Postsecondary Education, Coordinating Commission for	84.367		253,663	220,350
Total Supporting Effective Instruction State Grant				10,689,876	10,297,365

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Education, U.S. Department of (Continued)					
Competitive Grants for State Assessments	Education, Department of	84.368		204,910	
Grants for State Assessments and Related Activities	Education, Department of	84.369		4,002,372	
Statewide Longitudinal Data Systems	Education, Department of	84.372		230,219	
School Improvement Grants	Education, Department of	84.377		2,743,424	2,558,312
Total U.S. Department of Education			$	213,858,061	178,839,442
U.S. Election Assistance Commission					
Help America Vote Act Requirements Payments	Secretary of State	90.401	$	88,160	
Total U.S. Election Assistance Commission			$	88,160	-
Energy, U.S. Department of					
State Energy Program	Energy Office	81.041	$	357,868	
Weatherization Assistance for Low-Income Persons	Energy Office	81.042		2,609,305	2,173,378
State Energy Program Special Projects	Energy Office	81.119		49,357	
State Heating Oil and Propane Program	Energy Office	81.138		6,000	
Total U.S. Department of Energy			$	3,022,530	2,173,378
Environmental Protection Agency, U.S.					
State Indoor Radon Grants	Health and Human Services, Department of	66.032	$	218,607	47,539
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034		295,164	
State Clean Diesel Grant Program	Environmental Quality, Department of	66.040		185,027	
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419		199,751	
Water Pollution Control State, Interstate, and Tribal Program Support	Game and Parks Commission	66.419		27,130	
Total Water Pollution Control State, Interstate, and Tribal Program Support				226,881	-
State Public Water System Supervision	Health and Human Services, Department of	66.432		856,040	
State Underground Water Source Protection	Oil and Gas Commission	66.433		80,750	
Water Quality Management Planning	Environmental Quality, Department of	66.454		123,940	
Clean Water State Revolving Fund Cluster:					
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458		6,771,276	6,571,276
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460		2,450,848	
Regional Wetland Program Development Grants	Game and Parks Commission	66.461		144,694	
Drinking Water State Revolving Fund Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468		13,754,651	12,006,976
Underground Storage Tank Prevention, Detection and Compliance Program	Fire Marshal	66.804		330,750	

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Environmental Protection Agency, U.S. (Continued)					
Performance Partnership Grants	Agriculture, Department of	66.605		646,151	
Performance Partnership Grants	Environmental Quality, Department of	66.605		3,383,604	
Total Performance Partnership Grants				4,029,755	-
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608		1,912	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Health and Human Services, Department of	66.707		147,761	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802		591,830	
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Quality, Department of	66.805		752,857	
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817		438,749	
Total U.S. Environmental Protection Agency			$	31,401,492	18,625,791
Equal Employment Opportunity Commission, U.S.					
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	$	568,746	
Total U.S. Equal Employment Opportunity Commission			$	568,746	-
Food and Drug Administration, U.S.					
Retail Standards Grant Program	Agriculture, Department of	N/A	$	1,260	
Total Food and Drug Administration, U.S.			$	1,260	-
General Services Administration					
Donation of Federal Surplus Personal Property	Correctional Services, Department of	39.003	$	1,102,167	
Total General Services Administration			$	1,102,167	-
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	$	27,876	7,666
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		65,114	65,114
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043		95,132	95,132
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		2,440,448	2,130,176
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, Department of	93.045		4,083,647	4,017,842
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053		1,116,083	1,116,083
Total Aging Cluster				7,640,178	7,264,101

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Health and Human Services, U.S. Department of (Continued)					
Medicare Enrollment Assistance Program	Insurance, Department of	93.071	150,556		59,799
Lifespan Respite Care Program	Health and Human Services, Department of	93.072	113,219		
Birth Defects and Developmental Disabilities-Prevention & Surveillance	Health and Human Services, Department of	93.073	17,039		
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, Department of	93.048	60,481		28,454
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Insurance, Department of	93.048	227,682		137,923
Total Special Programs for the Aging_Title IV_and Title II_Discretionary Projects			288,163		166,377
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052	948,641		835,162
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	4,844,746		4,044,630
National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889	956,013		768,299
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster:			5,800,759		4,812,929
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	Education, Department of	93.079	71,289		24,999
Guardianship Assistance Recovery	Health and Human Services, Department of	93.090	186,680	^	
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, Department of	93.092	240,015		193,654
Well-Integrated Screening & Evaluation for Women Across the Nation	Health and Human Services, Department of	93.094	803,590		
Food and Drug Administration_Research	Agriculture, Department of	93.103	870,392		
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services, Department of	93.104	163,324		123,847
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110	124,419		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116	263,808		20,220
Emergency Medical Services for Children	Health and Human Services, Department of	93.127	113,320		
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130	202,419		
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136	885,496		288,188
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150	317,312		305,116
Grants to State for Loan Repayment Program	Health and Human Services, Department of	93.165	250,000		
Family Planning_Services	Health and Human Services, Department of	93.217	2,157,701		1,873,380
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	226,744		95,358
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, Department of	93.235	211,033		113,998
Grants to States to Support Oral Health Workforce Activities	Health and Human Services, Department of	93.236	48,324		11,633
State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241	716,381		264,100

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Health and Human Services, U.S. Department of (Continued)				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, Department of	93.243	2,294,083	1,738,965
Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251	248,036	
Occupational Safety and Health Program	Health and Human Services, Department of	93.262	176,177	855
Immunization Cooperative Agreements	Health and Human Services, Department of	93.268	22,353,366	377,820
Adult Viral Hepatitis Prevention and Control	Health and Human Services, Department of	93.270	108,803	
Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279	289,898	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, Department of	93.283	4,098,857	5,941
State Partnership Grant Program to Improve Minority Health	Health and Human Services, Department of	93.296	191,347	67,091
Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301	590,276	
National State Based Tobacco Control Programs	Health and Human Services, Department of	93.305	918,672	148,869
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	Health and Human Services, Department of	93.314	123,586	
Epidemiology & Laboratory Capacity for Infectious Diseases	Health and Human Services, Department of	93.323	967,972	185,860
State Health Ins Asst Program	Insurance, Department of	93.324	453,942	150,776
Behavioral Risk Factor Surveillance System	Health and Human Services, Department of	93.336	303,423	
ACL Independent Living State Grants	Commission for the Blind and Visually Impaired	93.369	7,049	
ACL Independent Living State Grants	Education, Department of	93.369	133,576	125,197
Total ACL Independent Living State Grants			140,625	125,197
Food Safety and Security Monitoring Project	Agriculture, Department of	93.448	372,527	
State-ACL Assistive Technology	Education, Department of	93.464	487,558	
Maternal, Infant, and Early Childhood Home Visiting Cluster:				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, Department of	93.505	1,004,128	751,526
Maternal, Infant, & Early Childhood Home Visiting Grant Program	Health and Human Services, Department of	93.870	448,947	426,532
Total Maternal, Infant, and Early Childhood Home Visiting Cluster			1,453,075	1,178,058
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Insurance, Department of	93.511	385,536	
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	834,888	
Building Capacity of the Public Health System to Improve Population Health through National, Nonprofit Organizations-financed in part by Prevention and Public Health Funds (PPHF)	Health and Human Services, Department of	93.524	27,977	
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	Health and Human Services, Department of	93.539	1,206,268	415,333
Promoting Safe and Stable Families	Health and Human Services, Department of	93.556	1,057,996	1,057,996

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Health and Human Services, U.S. Department of (Continued)					
TANF Cluster:					
Temporary Assistance for Needy Families (TANF) State Programs	Health and Human Services, Department of	93.558	38,463,053	^	
Child Support Enforcement	Health and Human Services, Department of	93.563	19,401,196	^	10,342,477
Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, Department of	93.566	3,970,286	^	1,004,976
Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568	26,814,942		
Low-Income Home Energy Assistance	Energy Office	93.568	1,633,229		1,504,498
Total Low-Income Home Energy Assistance			28,448,171		1,504,498
Community Services Block Grant	Health and Human Services, Department of	93.569	4,497,998		4,357,019
CCDF Cluster:					
Child Care and Development Block Grant	Health and Human Services, Department of	93.575	30,799,373		2,066,585
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596	25,519,022		
Total CCDF Cluster			56,318,395		2,066,585
Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, Department of	93.576	466,756		466,756
Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, Department of	93.584	474,897		474,897
State Court Improvement Program	Supreme Court, Nebraska	93.586	207,426		
Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597	105,847		104,713
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599	334,665		334,175
Head Start	Education, Department of	93.600	129,695		9,000
Adoption and Legal Guardianship Incentive Payments	Health and Human Services, Department of	93.603	1,143,677		247,588
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630	341,840		106,077
Children's Justice Grants to States	Health and Human Services, Department of	93.643	148,348		147,265
Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, Department of	93.645	1,403,455		
Foster Care_Title IV-E	Health and Human Services, Department of	93.658	15,771,106	^	2,219,003
Adoption Assistance	Health and Human Services, Department of	93.659	17,608,544	^	
Social Services Block Grant	Health and Human Services, Department of	93.667	8,111,211		
Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669	354,960		302,147
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, Department of	93.671	1,016,409		994,309
Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674	1,478,747		991,438
ARRA Advance Interoperable Health Information Technology Services to Support Health Information Exchange	Administrative Services	93.719	980,480		980,409
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	1,026,066		
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	77,507		

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Health and Human Services, U.S. Department of (Continued)					
PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention & Public Health Fund	Health and Human Services, Department of	93.745	16,054		
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	3,742,750		2,127,382
Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PPHF)	Health and Human Services, Department of	93.758	2,422,384		821,323
Children's Health Insurance Program	Health and Human Services, Department of	93.767	72,450,398	^	
Medicaid Cluster:					
State Medicaid Fraud Control Units	Attorney General	93.775	750,281		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	Health and Human Services, Department of	93.777	4,104,462	^	
Medical Assistance Program	Health and Human Services, Department of	93.778	1,128,649,916	^	9,041,140
Total Medicaid Cluster			1,133,504,659		9,041,140
Money Follows the Person Rebalancing Demonstration	Health and Human Services, Department of	93.791	1,246,002		34,182
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Health and Human Services, Department of	93.815	977,691		
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Health and Human Services, Department of	93.817	2,446,883		2,251,967
Grants to States for Operation of State Offices of Rural Health	Health and Human Services, Department of	93.913	176,290		5,000
HIV Care Formula Grants	Health and Human Services, Department of	93.917	3,978,379		3,654,482
HIV Prevention Activities_Health Department Based	Health and Human Services, Department of	93.940	745,385		244,938
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944	179,002		20,073
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, Department of	93.945	662,509		225,557
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946	167,483		
Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958	2,055,075		1,909,274
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959	7,055,323		6,611,566
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977	406,729		97,942
Maternal and Child Health Services Block Grant to the States	Health and Human Services, Department of	93.994	3,580,086		1,055,971
Medicated Feed Inspection Contract	Agriculture, Department of	HHSF223201310061C	73,265		
Food Inspection Contract	Agriculture, Department of	HHSF223201310051C	24,976		
Total U.S. Department of Health and Human Services		$	1,500,275,870		76,827,663

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Homeland Security, U.S. Department of					
Homeland Security Grant Program	Military Department	97.067	$	3,261,110	1,975,520
Boating Safety Financial Assistance	Game and Parks Commission	97.012		625,054	
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023		27,147	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036		5,549,048	5,549,048
Hazard Mitigation Grant	Military Department	97.039		3,893,619	3,833,870
National Dam Safety Program	Natural Resources, Department of	97.041		255,383	
Emergency Management Performance Grants	Military Department	97.042		3,473,469	2,343,883
State Fire Training Systems Grants	Fire Marshal	97.043		20,255	
Cooperating Technical Partners	Natural Resources, Department of	97.045		587,319	
Pre-Disaster Mitigation	Military Department	97.047		485,004	485,004
Total U.S. Department of Homeland Security			$	18,177,408	14,187,325
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	$	9,791,688	9,105,565
Emergency Solutions Grant Program	Health and Human Services, Department of	14.231		1,012,357	955,184
Home Investment Partnerships Program	Economic Development, Department of	14.239		4,303,382	4,106,182
Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241		321,753	259,197
Continuum of Care Program	Health and Human Services, Department of	14.267		19,909	
Housing Trust Fund	Economic Development, Department of	14.275		35,511	
Fair Housing Assistance Program_State and Local	Equal Opportunity Commission	14.401		241,369	
Total U.S. Department of Housing & Urban Development			$	15,725,969	14,426,128
Institute of Museum and Library Services					
Museums for America	Historical Society	45.301	$	68,523	
Grants to States	Library Commission	45.310		1,404,148	433,284
National Leadership Grants	Historical Society	45.312		47,760	
Total Institute of Museum and Library Services			$	1,520,431	433,284
Interior, U.S. Department of					
Fish, Wildlife and Plant Conservation Resource Management	Game and Parks Commission	15.231	$	3,696	
Cultural and Paleontological Resource Management	Education, Department of	15.224		1,077	1,077
Recreation Resources Management	Game and Parks Commission	15.524		228,600	
Fish and Wildlife Cluster:					
Sport Fish Restoration Program	Game and Parks Commission	15.605		3,758,308	
Wildlife Restoration and Basic Hunter Education	Game and Parks Commission	15.611		9,778,963	
Total Fish and Wildlife Cluster				13,537,271	-

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Interior, U.S. Department of (Continued)					
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615		95,539	
Enhanced Hunter Education and Safety Program	Game and Parks Commission	15.626		87,223	
State Wildlife Grants	Game and Parks Commission	15.634		1,108,236	
Migratory Bird Joint Ventures	Game and Parks Commission	15.637		60,472	
Endangered Species Conservation – Recovery Implementation Funds	Game and Parks Commission	15.657		7,885	
Adaptive Science	Game and Parks Commission	15.670		26,779	
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904		744,328	103,000
Outdoor Recreation_Acquisition, Development and Planning	Game and Parks Commission	15.916		1,000,150	400,150
Total U.S. Department of Interior			$	16,901,256	504,227
Justice, U.S. Department of					
Sexual Assault Services Formula Program	Law Enforcement and Criminal Justice, Commission for	16.017	$	293,839	284,155
Services for Trafficking Victims	Attorney General	16.320		143,253	
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523		6,058	6,058
Juvenile Justice and Delinquency Prevention_Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540		210,250	179,886
Missing Children's Assistance	State Patrol	16.543		281,210	10,972
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550		47,852	
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554		372,038	
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575		6,313,206	6,000,764
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576		1,048	
Crime Victim Assistance/Discretionary Grants	Law Enforcement and Criminal Justice, Commission for	16.582		54,751	54,751
Drug Court Discretionary Grant Program	Supreme Court, Nebraska	16.585		114,892	
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588		1,055,706	898,325
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593		52,494	52,494
State Criminal Alien Assistance Program	Correctional Services, Department of	16.606		241,861	
Special Data Collections and Statistical Studies	Law Enforcement and Criminal Justice, Commission for	16.734		4,165	
Edward Byrne Memorial Justice Assistance Grant Program	Law Enforcement and Criminal Justice, Commission for	16.738		952,752	714,351
DNA Backlog Reduction Program	State Patrol	16.741		243,608	
Paul Coverdell Forensic Sciences Improvement Grant Program	State Patrol	16.742		108,851	
Support for Adam Walsh Act Implementation Grant Program	State Patrol	16.750		70,670	
Edward Byrne Memorial Competitive Grant Program	Law Enforcement and Criminal Justice, Commission for	16.751		32,475	32,475
Harold Rogers Prescription Drug Monitoring Program	Department of Heath & Human Services	16.754		242,024	242,024
NICS Act Record Improvement Program	State Patrol	16.813		457,696	77,730
John R. Justice Prosecutors and Defenders Incentive Act	Law Enforcement and Criminal Justice, Commission for	16.816		31,612	
Equitable Sharing Program	State Patrol	16.922		1,928,910	
Total U.S. Department of Justice			$	13,261,221	8,553,985

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Federal Agency/Program Title	State Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Labor, U.S. Department of					
Labor Force Statistics	Labor, Department of	17.002	$	738,134	
Compensation and Working Conditions	Worker's Compensation Court	17.005		47,443	
Employment Service Cluster:					
Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207		5,320,734	
Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801		605,378	
Local Veterans' Employment Representative Program	Labor, Department of	17.804		163,252	
Total Employment Service Cluster				6,089,364	-
Unemployment Insurance - Federal	Labor, Department of	17.225		799,399	
Unemployment Insurance - State	Labor, Department of	17.225		72,201,642	
Unemployment Insurance - Admin	Labor, Department of	17.225		17,164,499	
Total Unemployment Insurance				90,165,540	-
Senior Community Service Employment Program	Health and Human Services, Department of	17.235		524,964	220,230
Trade Adjustment Assistance	Labor, Department of	17.245		295,467	
WIOA Cluster:					
WIA/WIOA Adult Program	Labor, Department of	17.258		1,885,941	1,149,663
WIA/WIOA Youth Activities	Labor, Department of	17.259		2,159,080	1,372,033
WIA/WIOA Dislocated Worker Formula Grants	Labor, Department of	17.278		1,841,754	772,763
Total WIOA Cluster				5,886,775	3,294,459
WIA Pilots, Demonstrations, and Research Projects	Labor, Department of	17.261		386,038	
H-1B Job Training Grants	Labor, Department of	17.268		2,265,250	
Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271		157,068	
Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273		102,117	
WIOA National Dislocated Worker Grant/WIA National Emergency Grants	Labor, Department of	17.277		1,030,600	
WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	Labor, Department of	17.281		93,808	
Apprenticeship USA Grants	Labor, Department of	17.285		65,540	
Consultation Agreements	Labor, Department of	17.504		525,007	
Total U.S. Department of Labor			$	108,373,115	3,514,689
National Endowment for the Arts					
Promotion of the Arts_Partnership Agreements	Arts Council	45.025	$	770,117	588,181
Total National Endowment for the Arts			$	770,117	588,181

^ - Amounts taken from financial status reports
ARRA - American Recovery and Reinvestment Act
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Federal Agency/Program Title	State Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
President, Executive Office of					
High Intensity Drug Trafficking Areas Program	State Patrol	95.001	$	956,749	743,241
Total President, Executive Office of			$	956,749	743,241
Small Business Administration					
State Trade Expansion	Economic Development, Department of	59.061	$	248,503	248,503
Total Small Business Administration			$	248,503	248,503
Social Security Administration					
Disability Insurance/SSI Cluster:					
Social Security_Disability Insurance	Education, Department of	96.001	$	10,501,567	
Supplemental Security Income	Education, Department of	96.006		751,027	
Supplemental Security Income	Commission for the Blind and Visually Impaired	96.006		995,968	
Total Supplemental Security Income				1,746,995	-
Total Disability Insurance/SSI Cluster				12,248,562	-
Total Social Security Administration			$	12,248,562	-
Transportation, U.S. Department of					
Airport Improvement Program	Aeronautics, Department of	20.106	$	16,937,334	16,937,334
Highway Research and Development Program	Roads, Department of	20.200		5,215	
Highway Planning and Construction Cluster:					
Highway Planning and Construction	Roads, Department of	20.205		299,767,488	3,256,077
Recreational Trails Program	Game and Parks Commission	20.219		2,088,848	2,002,555
Total Highway Planning and Construction Cluster				301,856,336	5,258,632
National Motor Carrier Safety	State Patrol	20.218		2,665,894	
Commercial Driver's License Program Improvement Grant	Motor Vehicles, Department of	20.232		1,058,052	
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	State Patrol	20.237		63,600	48,600
Federal Transit Cluster:					
Federal Transit_Capital Investment Grants	Roads, Department of	20.500		74,006	
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Roads, Department of	20.505		7,296,243	2,781,259
Formula Grants for Rural Areas	Roads, Department of	20.509		7,572,570	6,164,758
Transit Services Programs Cluster:					
Enhanced Mobility for Seniors and Individuals with Disabilities	Roads, Department of	20.513		806,316	

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Federal Agency/Program Title	State Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Transportation, U.S. Department of (Continued)				
Highway Safety Cluster:				
State and Community Highway Safety	Roads, Department of	20.600	2,709,730	1,476,045
National Priority Safety Programs	Roads, Department of	20.616	2,955,975	1,963,808
Total Highway Safety Cluster			5,665,705	3,439,853
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Roads, Department of	20.614	61,623	
Pipeline Safety Program State Base Grant	Fire Marshal	20.700	357,842	72,103
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	163,951	26,721
Defense Access Roads	Roads, Department of	20.999	302,352	
Total U.S. Department of Transportation			$ 344,887,039	34,729,260
Veterans Affairs, U.S. Department of				
Grants to States for Construction of State Home Facilities	Health and Human Services, Department of	64.005	$ 30,091,031 ^	
Veterans State Domiciliary Care	Health and Human Services, Department of	64.014	1,429,202 ^	
Veterans State Nursing Home Care	Health and Human Services, Department of	64.015	15,628,656 ^	
Total U.S. Department of Veterans Affairs			$ 47,148,889	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,792,152,001	$ 491,146,794

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Administrative Services				
State and Local Implementation Grant Program	Commerce, U.S. Department of	11.549	$ 148,963	$
ARRA Advance Interoperable Health Information Technology Services to Support Health Information Exchange	Health and Human Services, U.S. Department of	93.719	980,480	980,409
Total Administrative Services			$ 1,129,443	980,409
Aeronautics, Department of				
Airport Improvement Program	Transportation, U.S. Department of	20.106	$ 16,937,334	16,937,334
Total Department of Aeronautics			$ 16,937,334	16,937,334
Agriculture, Department of				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	$ 783,725	
Specialty Crop Block Grant Program - Farm Bill	Agriculture, U.S. Department of	10.170	349,767	
Organic Certification Cost Share Programs	Agriculture, U.S. Department of	10.171	118,296	
State Mediation Grants	Agriculture, U.S. Department of	10.435	123,018	
Food Safety Cooperative Agreements	Agriculture, U.S. Department of	10.479	96,223	
WIC Farmers' Market Nutrition Program (FMNP)	Agriculture, U.S. Department of	10.572	45,531	
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	209,731	
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	646,151	
Food and Drug Administration_Research	Health and Human Services, U.S. Department of	93.103	870,392	
Food Safety and Security Monitoring Project	Health and Human Services, U.S. Department of	93.448	372,527	
Medicated Feed Inspection Contract	Health and Human Services, U.S. Department of	HHSF223201310061C	73,265	
Food Inspection Contract	Health and Human Services, U.S. Department of	HHSF223201310051C	24,976	
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	193,038	
Emerging Markets Program	Agriculture, U.S. Department of	10.603	22,675	
Retail Standards Grant Program	Food & Drug Administration, U.S. Department of	N/A	1,260	
Total Department of Agriculture			$ 3,930,575	-
Arts Council				
Promotion of the Arts_Partnership Agreements	National Endowment for the Arts	45.025	$ 770,117	588,181
Total Arts Council			$ 770,117	588,181

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Attorney General					
Services for Trafficking Victims	Justice, U.S. Department of	16.320	$	143,253	
Medicaid Cluster:					
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775		750,281	
Total Attorney General			$	893,534	-
Blind and Visually Impaired, Commission for the					
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	$	3,801,169	
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177		325,998	
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187		33,380	
ACL Independ LVG ST Grants	Health and Human Services, U.S. Department of	93.369		7,049	
Disability Insurance/SSI Cluster:					
Supplemental Security Income	Social Security Administration	96.006		995,968	
Total Commission for the Blind and Visually Impaired			$	5,163,564	-
Correctional Services, Department of					
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	$	241,861	
Donation of Federal Surplus Personal Property	General Services Administration	39.003		1,102,167	
Total Department of Correctional Services			$	1,344,028	-
Economic Development, Department of					
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	$	472,308	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Housing & Urban Development, U.S. Department of	14.228		9,791,688	9,105,565
Home Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239		4,303,382	4,106,182
Housing Trust Fund	Housing & Urban Development, U.S. Department of	14.275		35,511	
State Trade Expansion	Small Business Administration	59.061		248,503	248,503
Total Department of Economic Development			$	14,851,392	13,460,250

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Education, Department of					
Professional Standards for School Nutrition Employees	Agriculture, U.S. Department of	10.547	$	17,370	
Child Nutrition Cluster:					
School Breakfast Program	Agriculture, U.S. Department of	10.553		17,306,543	17,306,543
National School Lunch Program	Agriculture, U.S. Department of	10.555		69,538,359	69,538,359
Special Milk Program for Children	Agriculture, U.S. Department of	10.556		68,857	68,857
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559		2,718,276	2,622,934
Total Child Nutrition Cluster				89,632,035	89,536,693
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558		32,517,730	32,233,392
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560		1,997,212	(1,032)
Team Nutrition Grants	Agriculture, U.S. Department of	10.574		292,256	7,854
Child Nutrition Discretionary Grants Limited Availability	Agriculture, U.S. Department of	10.579		232,963	92,854
Fresh Fruit and Vegetable Program	Agriculture, U.S. Department of	10.582		1,952,740	1,951,643
Child Nutrition Direct Certification Performance Awards	Agriculture, U.S. Department of	10.589		2,271	2,000
Forest Service Schools and Roads Cluster:					
Schools and Roads - Grants to Counties	Agriculture, U.S. Department of	10.666		97,338	97,338
Payments to States in Lieu of Real Estate Taxes	Defense, U.S. Department of	12.112		266,324	266,324
Cultural and Paleontological Resource Management	Interior, U.S. Department of	15.224		1,077	1,077
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002		2,573,733	2,193,454
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010		66,967,725	66,158,699
Migrant Education_State Grant Program	Education, U.S. Department of	84.011		4,643,338	4,395,594
Title I State Agency Program for Neglected and Delinquent Children and Youth	Education, U.S. Department of	84.013		301,775	298,606
Special Education Cluster (IDEA):					
Special Education_Grants to States	Education, U.S. Department of	84.027		76,948,813	74,417,760
Special Education_Preschool Grants	Education, U.S. Department of	84.173		2,660,416	2,165,447
Total Special Education Cluster (IDEA)				79,609,229	76,583,207
Career and Technical Education -- Basic Grants to States	Education, U.S. Department of	84.048		6,433,727	5,333,922
Rehabilitation Services_Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126		17,938,475	
Migrant Education_Coordination Program	Education, U.S. Department of	84.144		144,596	119,440
Rehabilitation Services_Client Assistance Program	Education, U.S. Department of	84.161		61,927	
Independent Living_State Grants	Education, U.S. Department of	84.169		348	348

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Education, Department of (Continued)				
Special Education-Grants for Infants and Families	Education, U.S. Department of	84.181	2,291,987	1,716,261
Supported Employment Services for Individuals with the Most Significant Disabilities	Education, U.S. Department of	84.187	235,991	235,991
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	333,583	266,234
Star Schools	Education, U.S. Department of	84.203	345	
Rehabilitation Services Demonstration and Training Programs	Education, U.S. Department of	84.235	428,718	67,823
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	5,259,511	4,869,435
Special Education - State Personnel Development	Education, U.S. Department of	84.323	909,145	280,470
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	77,197	50,455
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	22,226	22,226
Rural Education	Education, U.S. Department of	84.358	102,093	94,068
English Language Acquisition State Grants	Education, U.S. Department of	84.365	2,922,144	2,754,911
Mathematics and Science Partnerships	Education, U.S. Department of	84.366	568,900	542,621
Supporting Effective Instruction State Grant	Education, U.S. Department of	84.367	10,436,213	10,077,015
Competitive Grants for State Assessments	Education, U.S. Department of	84.368	204,910	
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	4,002,372	
Statewide Longitudinal Data Systems	Education, U.S. Department of	84.372	230,219	
School Improvement Grants	Education, U.S. Department of	84.377	2,743,424	2,558,312
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	71,289	24,999
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	226,744	95,358
ACL Independent Living State Grants	Health and Human Services, U.S. Department of	93.369	133,576	125,197
State-ACL Assistive Technology	Health and Human Services, U.S. Department of	93.464	487,558	
Head Start	Health and Human Services, U.S. Department of	93.600	129,695	9,000
Disability Insurance/SSI Cluster:				
Social Security_Disability Insurance	Social Security Administration	96.001	10,501,567	
Supplemental Security Income	Social Security Administration	96.006	751,027	
Total Disability Insurance/SSI Cluster			11,252,594	-
Total Department of Education			$ 348,754,623	303,061,789

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Energy Office					
Biofuel Infrastructure Partnership	Agriculture, U.S. Department of	10.117	$	1,146,646	
State Energy Program	Energy, U.S. Department of	81.041		357,868	
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042		2,609,305	2,173,378
State Energy Program Special Projects	Energy, U.S. Department of	81.119		49,357	
State Heating Oil and Propane Program	Energy, U.S. Department of	81.138		6,000	
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568		1,633,229	1,504,498
Total Energy Office			$	5,802,405	3,677,876
Environmental Quality, Department of					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	$	90,135	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034		295,164	
State Clean Diesel Grant Program	Environmental Protection Agency, U.S.	66.040		185,027	
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		199,751	
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454		123,940	
Clean Water State Revolving Fund Cluster:					
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458		6,771,276	6,571,276
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460		2,450,848	
Drinking Water State Revolving Fund Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468		13,754,651	12,006,976
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605		3,383,604	
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608		1,912	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802		591,830	
Leaking Underground Storage Tank Trust Fund Corrective Action Program Recovery	Environmental Protection Agency, U.S.	66.805		752,857	
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817		438,749	
Total Department of Environmental Quality			$	29,039,744	18,578,252
Equal Opportunity Commission					
Fair Housing Assistance Program_State and Local	Housing & Urban Development, U.S. Department of	14.401	$	241,369	
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002		568,746	
Total Equal Opportunity Commission			$	810,115	-

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Fire Marshal					
Pipeline Safety Program State Base Grant	Transportation, U.S. Department of	20.700	$	357,842	72,103
Underground Storage Tank Prevention, Detection and Compliance Program	Environmental Protection Agency, U.S.	66.804		330,750	
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043		20,255	
Total Fire Marshal			$	708,847	72,103
Game and Parks Commission					
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	$	11,203	
Voluntary Public Access and Habitat Incentive Program	Agriculture, U.S. Department of	10.093		774,534	
Cooperative Forestry Assistance	Agriculture, U.S. Department of	10.664		22,190	
AG Conservation Easement PGM	Agriculture, U.S. Department of	10.931		25,492	
Regional Conservation Partnership Program	Agriculture, U.S. Department of	10.932		10,103	
Fish, Wildlife and Plant Conservation Resource Management	Interior, U.S. Department of	15.231		3,696	
Recreation Resources Management	Interior, U.S. Department of	15.524		228,600	
Fish and Wildlife Cluster:					
Sport Fish Restoration Program	Interior, U.S. Department of	15.605		3,758,308	
Wildlife Restoration and Basic Hunter Education	Interior, U.S. Department of	15.611		9,778,963	
Total Fish and Wildlife Cluster				13,537,271	-
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615		95,539	
Enhanced Hunter Education and Safety Program	Interior, U.S. Department of	15.626		87,223	
State Wildlife Grants	Interior, U.S. Department of	15.634		1,108,236	
Migratory Bird Joint Ventures	Interior, U.S. Department of	15.637		60,472	
Endangered Species Conservation – Recovery Implementation Funds	Interior, U.S. Department of	15.657		7,885	
Adaptive Science	Interior, U.S. Department of	15.670		26,779	
Outdoor Recreation_Acquisition, Development and Planning	Interior, U.S. Department of	15.916		1,000,150	400,150
Highway Planning and Construction Cluster:					
Recreational Trails Program	Transportation, U.S. Department of	20.219		2,088,848	2,002,555
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419		27,130	
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461		144,694	
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012		625,054	
Total Game and Parks Commission			$	19,885,099	2,402,705

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Health and Human Services, Department of					
Child Nutrition Cluster:					
National School Lunch Program	Agriculture, U.S. Department of	10.555	$ 12,537,413		
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	11,139		
Total Child Nutrition Cluster			12,548,552		-
SNAP Cluster:					
Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.551	242,443,486		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Agriculture, U.S. Department of	10.561	17,606,820	^	2,022,821
Total SNAP Cluster			260,050,306		2,022,821
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557	27,439,470		8,677,349
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558	173,158		
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	462,462		
Food Distribution Cluster:					
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565	2,484,758		621,519
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	293,519		154,490
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569	2,619,505		
Total Food Distribution Cluster			5,397,782		776,009
WIC Grants To States (WGS)	Agriculture, U.S. Department of	10.578	309,936		
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	Agriculture, U.S. Department of	10.580	39,890		
Emergency Solutions Grant Program	Housing & Urban Development, U.S. Department of	14.231	1,012,357		955,184
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	321,753		259,197
Continuum of Care Program	Housing & Urban Development, U.S. Department of	14.267	19,909		
Harold Rogers Prescription Drug Monitoring Program	Justice, U.S. Department of	16.754	242,024		242,024
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	524,964		220,230
Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005	30,091,031	^	
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014	1,429,202	^	
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015	15,628,656	^	
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	218,607		47,539
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	856,040		
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	147,761		
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	27,876		7,666

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ARRA - American Recovery and Reinvestment Act
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State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Health and Human Services, Department of (Continued)				
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	65,114	65,114
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	95,132	95,132
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	2,440,448	2,130,176
Special Programs for the Aging_Title III, Part C_Nutrition Services	Health and Human Services, U.S. Department of	93.045	4,083,647	4,017,842
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053	1,116,083	1,116,083
Total Aging Cluster			7,640,178	7,264,101
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Health and Human Services, U.S. Department of	93.048	60,481	28,454
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052	948,641	835,162
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	4,844,746	4,044,630
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	956,013	768,299
Total Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster:			5,800,759	4,812,929
Lifespan Respite Care Program	Health and Human Services, U.S. Department of	93.072	113,219	
Birth Defects and Developmental Disabilities-Prevention & Surveillance	Health and Human Services, U.S. Department of	93.073	17,039	
Guardianship Assistance Recovery	Health and Human Services, U.S. Department of	93.090	186,680 ^	
Affordable Care Act (ACA) Personal Responsibility Education Program	Health and Human Services, U.S. Department of	93.092	240,015	193,654
Well-Integrated Screening & Evaluation for Women Across the Nation	Health and Human Services, U.S. Department of	93.094	803,590	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Health and Human Services, U.S. Department of	93.104	163,324	123,847
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	124,419	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	263,808	20,220
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	113,320	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130	202,419	
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136	885,496	288,188
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	317,312	305,116
Grants to State for Loan Repayment Program	Health and Human Services, U.S. Department of	93.165	250,000	

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STATE OF NEBRASKA
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For the Fiscal Year Ended June 30, 2017

State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Health and Human Services, Department of (Continued)				
Family Planning_Services	Health and Human Services, U.S. Department of	93.217	2,157,701	1,873,380
Affordable Care Act (ACA) Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	211,033	113,998
Grants to States to Support Oral Health Workforce Activities	Health and Human Services, U.S. Department of	93.236	48,324	11,633
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	716,381	264,100
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	2,294,083	1,738,965
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	248,036	
Occupational Safety and Health Program	Health and Human Services, U.S. Department of	93.262	176,177	855
Immunization Cooperative Agreements	Health and Human Services, U.S. Department of	93.268	22,353,366	377,820
Adult Viral Hepatitis Prevention and Control	Health and Human Services, U.S. Department of	93.270	108,803	
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	289,898	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283	4,098,857	5,941
State Partnership Grant Program to Improve Minority Health	Health and Human Services, U.S. Department of	93.296	191,347	67,091
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	590,276	
National State Based Tobacco Control Programs	Health and Human Services, U.S. Department of	93.305	918,672	148,869
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	Health and Human Services, U.S. Department of	93.314	123,586	
Epidemiology & Laboratory Capacity for Infectious Diseases	Health and Human Services, U.S. Department of	93.323	967,972	185,860
Behavioral Risk Factor Surveillance System	Health and Human Services, U.S. Department of	93.336	303,423	
Maternal, Infant, and Early Childhood Home Visiting Cluster:				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Health and Human Services, U.S. Department of	93.505	1,004,128	751,526
Maternal, Infant, & Early Childhood Home Visiting Grant Program	Health and Human Services, U.S. Department of	93.870	448,947	426,532
Total Maternal, Infant, and Early Childhood Home Visiting Cluster			1,453,075	1,178,058
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	834,888	
Building Capacity of the Public Health System to Improve Population Health through National, Nonprofit Organizations-financed in part by Prevention and Public Health Funds (PPHF)	Health and Human Services, U.S. Department of	93.524	27,977	
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	Health and Human Services, U.S. Department of	93.539	1,206,268	415,333

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State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures		2017 Subrecipients
Health and Human Services, Department of (Continued)					
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,057,996		1,057,996
TANF Cluster:					
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558	38,463,053	^	
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563	19,401,196	^	10,342,477
Refugee and Entrant Assistance_State Administered Programs	Health and Human Services, U.S. Department of	93.566	3,970,286	^	1,004,976
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568	26,814,942		
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	4,497,998		4,357,019
CCDF Cluster:					
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575	30,799,373		2,066,585
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596	25,519,022		
Total CCDF Cluster			56,318,395		2,066,585
Refugee and Entrant Assistance_Discretionary Grants	Health and Human Services, U.S. Department of	93.576	466,756		466,756
Refugee and Entrant Assistance_Targeted Assistance Grants	Health and Human Services, U.S. Department of	93.584	474,897		474,897
Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	105,847		104,713
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599	334,665		334,175
Adoption and Legal Guardianship Incentive Payments	Health and Human Services, U.S. Department of	93.603	1,143,677		247,588
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630	341,840		106,077
Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	148,348		147,265
Stephanie Tubbs Jones Child Welfare Services Program	Health and Human Services, U.S. Department of	93.645	1,403,455		
Foster Care_Title IV-E	Health and Human Services, U.S. Department of	93.658	15,771,106	^	2,219,003
Adoption Assistance	Health and Human Services, U.S. Department of	93.659	17,608,544	^	
Social Services Block Grant	Health and Human Services, U.S. Department of	93.667	8,111,211		
Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	354,960		302,147
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	Health and Human Services, U.S. Department of	93.671	1,016,409		994,309
Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674	1,478,747		991,438
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	1,026,066		
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	77,507		

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures		2017 Subrecipients
Health and Human Services, Department of (Continued)						
PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention & Public Health Fund	Health and Human Services, U.S. Department of	93.745		16,054		
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		3,742,750		2,127,382
Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PPHF)	Health and Human Services, U.S. Department of	93.758		2,422,384		821,323
Children's Health Insurance Program	Health and Human Services, U.S. Department of	93.767		72,450,398	^	
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		4,104,462	^	
Medical Assistance Program	Health and Human Services, U.S. Department of	93.778		1,128,649,916	^	9,041,140
Total Medicaid Cluster				1,132,754,378		9,041,140
Money Follows the Person Rebalancing Demonstration	Health and Human Services, U.S. Department of	93.791		1,246,002		34,182
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Health and Human Services, U.S. Department of	93.815		977,691		
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Health and Human Services, U.S. Department of	93.817		2,446,883		2,251,967
Grants to States for Operation of State Offices of Rural Health	Health and Human Services, U.S. Department of	93.913		176,290		5,000
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917		3,978,379		3,654,482
HIV Prevention Activities_Health Department Based	Health and Human Services, U.S. Department of	93.940		745,385		244,938
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944		179,002		20,073
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945		662,509		225,557
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946		167,483		
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958		2,055,075		1,909,274
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959		7,055,323		6,611,566
Preventive Health Services_Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977		406,729		97,942
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994		3,580,086		1,055,971
State Commissions	Corporation For National and Community Service	94.003		173,029		
AmeriCorps	Corporation For National and Community Service	94.006		1,088,452		1,088,452
Training and Technical Assistance	Corporation For National and Community Service	94.009		96,410		
Total Department of Health and Human Services			$	1,851,361,418		88,028,509

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STATE OF NEBRASKA
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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Historical Society					
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	$	744,328	103,000
Museums for America	Institute of Museum and Library Services	45.301		68,523	
National Leadership Grants	Institute of Museum and Library Services	45.312		47,760	
Total Historical Society			$	860,611	103,000
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	$	227,682	137,923
Medicare Enrollment Assistance Program	Health and Human Services, U.S. Department of	93.071		150,556	59,799
State Health Ins Asst Program	Health and Human Services, U.S. Department of	93.324		453,942	150,776
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	Health and Human Services, U.S. Department of	93.511		385,536	
Total Department of Insurance			$	1,217,716	348,498
Labor, Department of					
Labor Force Statistics	Labor, U.S. Department of	17.002	$	738,134	
Employment Service Cluster:					
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207		5,320,734	
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801		605,378	
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804		163,252	
Total Employment Service Cluster				6,089,364	-
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225		799,399	
Unemployment Insurance - State	Labor, U.S. Department of	17.225		72,201,642	
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225		17,164,499	
Total Unemployment Insurance				90,165,540	-
Trade Adjustment Assistance	Labor, U.S. Department of	17.245		295,467	
WIOA Cluster:					
WIA/WIOA Adult Program	Labor, U.S. Department of	17.258		1,885,941	1,149,663
WIA/WIOA Youth Activities	Labor, U.S. Department of	17.259		2,159,080	1,372,033
WIA/WIOA Dislocated Worker Formula Grants	Labor, U.S. Department of	17.278		1,841,754	772,763
Total WIOA Cluster				5,886,775	3,294,459
WIA Pilots, Demonstrations, and Research Projects	Labor, U.S. Department of	17.261		386,038	
H-1B Job Training Grants	Labor, U.S. Department of	17.268		2,265,250	
Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271		157,068	

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Labor, Department of (Continued)					
Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273		102,117	
WIOA National Dislocated Worker Grant/WIA National Emergency Grants	Labor, U.S. Department of	17.277		1,030,600	
WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	Labor, U.S. Department of	17.281		93,808	
Apprenticeship USA Grants	Labor, U.S. Department of	17.285		65,540	
Consultation Agreements	Labor, U.S. Department of	17.504		525,007	
Total Department of Labor			$	107,800,708	3,294,459
Law Enforcement and Criminal Justice, Commission for					
Sexual Assault Services Formula Program	Justice, U.S. Department of	16.017	$	293,839	284,155
Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523		6,058	6,058
Juvenile Justice and Delinquency Prevention_Allocation to States	Justice, U.S. Department of	16.540		210,250	179,886
State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550		47,852	
Crime Victim Assistance	Justice, U.S. Department of	16.575		6,313,206	6,000,764
Crime Victim Compensation	Justice, U.S. Department of	16.576		1,048	
Crime Victim Assistance/Discretionary Grants	Justice, U.S. Department of	16.582		54,751	54,751
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588		1,055,706	898,325
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593		52,494	52,494
Special Data Collections and Statistical Studies	Justice, U.S. Department of	16.734		4,165	
Edward Byrne Memorial Justice Assistance Grant Program	Justice, U.S. Department of	16.738		952,752	714,351
Edward Byrne Memorial Competitive Grant Program	Justice, U.S. Department of	16.751		32,475	32,475
Highway Safety Cluster:					
John R. Justice Prosecutors and Defenders Incentive Act	Justice, U.S. Department of	16.816		31,612	
Total Commission for Law Enforcement and Criminal Justice			$	9,056,208	8,223,259
Library Commission					
Grants to States	Institute of Museum and Library Services	45.310	$	1,404,148	433,284
Total Library Commission			$	1,404,148	433,284

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For the Fiscal Year Ended June 30, 2017

State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Military Department					
Military Construction, National Guard	Defense, U.S. Department of	12.400	$	49,018	
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401		22,134,174	
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703		163,951	26,721
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067		3,261,110	1,975,520
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036		5,549,048	5,549,048
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039		3,893,619	3,833,870
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042		3,473,469	2,343,883
Pre-Disaster Mitigation	Homeland Security, U.S. Department of	97.047		485,004	485,004
Total Military Department			$	39,009,393	14,214,046
Motor Vehicles, Department of					
Commercial Driver's License Program Improvement Grant	Transportation, U.S. Department of	20.232	$	1,058,052	
Total Department of Motor Vehicles			$	1,058,052	-
Natural Resources, Department of					
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	$	27,147	
National Dam Safety Program	Homeland Security, U.S. Department of	97.041		255,383	
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045		587,319	
Total Department of Natural Resources			$	869,849	-
Oil and Gas Commission					
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	$	80,750	
Total Oil and Gas Commission			$	80,750	-
Postsecondary Education, Coordinating Commission for					
Supporting Effective Instruction State Grant	Education, U.S. Department of	84.367	$	253,663	220,350
Total Coordinating Commission for Postsecondary Education			$	253,663	220,350
Roads, Department of					
Highway Research and Development Program	Transportation, U.S. Department of	20.200	$	5,215	
Highway Planning and Construction Cluster:					
Highway Planning and Construction	Transportation, U.S. Department of	20.205		299,767,488	3,256,077
Federal Transit Cluster:					
Federal Transit_Capital Investment Grants	Transportation, U.S. Department of	20.500		74,006	

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State Agency/Program Title	Federal Agency	CFDA or Grant #		2017 Expenditures	2017 Subrecipients
Roads, Department of (Continued)					
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	Transportation, U.S. Department of	20.505		7,296,243	2,781,259
Formula Grants for Rural Areas	Transportation, U.S. Department of	20.509		7,572,570	6,164,758
Transit Services Programs Cluster:					
Enhanced Mobility of Seniors and Individuals with Disabilities	Transportation, U.S. Department of	20.513		806,316	
Highway Safety Cluster:					
State and Community Highway Safety	Transportation, U.S. Department of	20.600		2,709,730	1,476,045
National Priority Safety Programs	Transportation, U.S. Department of	20.616		2,955,975	1,963,808
Total Highway Safety Cluster				5,665,705	3,439,853
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	Transportation, U.S. Department of	20.614		61,623	
Defense Access Roads	Transportation, U.S. Department of	20.999		302,352	
Total Department of Roads			$	321,551,518	15,641,947
Secretary of State					
Help America Vote Act Requirements Payments	U.S. Election Assistance Commission	90.401	$	88,160	
Total Secretary of State			$	88,160	-
State Patrol					
Missing Children's Assistance	Justice, U.S. Department of	16.543	$	281,210	10,972
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554		372,038	
DNA Backlog Reduction Program	Justice, U.S. Department of	16.741		243,608	
Paul Coverdell Forensic Sciences Improvement Grant Program	Justice, U.S. Department of	16.742		108,851	
Support for Adam Walsh Act Implementation Grant Program	Justice, U.S. Department of	16.750		70,670	
NICS Act Record Improvement Program	Justice, U.S. Department of	16.813		457,696	77,730
Equitable Sharing Program	Justice, U.S. Department of	16.922		1,928,910	
National Motor Carrier Safety	Transportation, U.S. Department of	20.218		2,665,894	
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	Transportation, U.S. Department of	20.237		63,600	48,600
High Intensity Drug Trafficking Areas Program	Executive Office of the President	95.001		956,749	743,241
Total State Patrol			$	7,149,226	880,543

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Schedule of Expenditures of Federal Awards - By State Agency
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State Agency/Program Title	Federal Agency	CFDA or Grant #	2017 Expenditures	2017 Subrecipients
Supreme Court, Nebraska				
Drug Court Discretionary Grant Program	Justice, U.S. Department of	16.585	$ 114,892	
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	207,426	
Total Nebraska Supreme Court			$ 322,318	-
Worker's Compensation Court				
Compensation and Working Conditions	Labor, U.S. Department of	17.005	$ 47,443	
Total Worker's Compensation Court			$ 47,443	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,792,152,001	$ 491,146,794

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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, 2017.

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, 2017, 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	$12,537,413
10.558	Child and Adult Care Food Program	173,158
10.559	Summer Food Service Program for Children	11,139
10.565	Commodity Supplemental Food Program	1,809,437
10.569	Emergency Food Assistance Program	2,619,505

The U.S. Department of Agriculture, upon direction from the Nebraska Department of Health and Human Services, delivers a portion of the food commodities directly to the subrecipients for distribution. During the fiscal year, a total of $7,840,066 was delivered directly to subrecipients.

The Immunization Cooperative Agreements (CFDA 93.268) included expenditures of $21,489,418 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 2017 was valued at the historical cost of $7,347,779 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, 2017
66.458	Capitalization Grants for Clean Water State Revolving Funds	$226,185,171
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$83,470,606

New loans provided from these programs totaling $16,473,676 are included as current year expenditures on the Schedule.

(7) Airport Improvement Program

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

(8) Subsequent Event

Effective July 1, 2017, pursuant to LB 339 (2017), the Department of Roads merged with the Department of Aeronautics to become the Department of Transportation.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of and for the year ended June 30, 2017, 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 14, 2017. Our report on such financial statements was qualified because we were unable to obtain sufficient appropriate audit evidence regarding the suitability of the design and operating effectiveness of service organizations internal controls.

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 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, the College Savings Plan, and Enable 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 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 2017-001, 2017-002, 2017-003, 2017-004, 2017-005 and 2017-006.

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	Philip J. Olsen, CPA, CISA
December 14, 2017	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, 2017. 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, 2017. 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 adverse, qualified, and unmodified opinions 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, Formula Grants for Rural Areas

As described in Findings 2017-029, 2017-031 and 2017-071 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
2017-029	93.044, 93.045	Aging Cluster	Allowability & Subrecipient Monitoring
2017-031	93.217	Family Planning Services	Allowability & Subrecipient Monitoring
2017-071	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, 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 and Formula Grants for Rural Areas for the year ended June 30, 2017.

Basis for Adverse Opinion on Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Cluster, Centers for Disease Control and Prevention Investigations and Technical Assistance, CCDF Cluster

As described in Findings 2017-030, 2017-035, 2017-041 and 2017-043 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
2017-030	93.069, 93.889	HPP and PHEP Cluster	Allowability & Subrecipient Monitoring
2017-035	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Allowability & Subrecipient Monitoring
2017-041	93.575, 93.596	CCDF Cluster	Allowability & Eligibility
2017-043	93.575, 93.596	CCDF Cluster	Reporting

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, Centers for Disease Control and Prevention Investigations and Technical Assistance, 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, Centers for Disease Control and Prevention Investigations and Technical Assistance, and CCDF Cluster for the year ended June 30, 2017.

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, 2017.

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
2017-007	Various, 93.778	Various, Medical Assistance Program	Allowable Costs
2017-008	Various, 93.778	Various, Medical Assistance Program	Cash Management
2017-009	Various, 93.069, 93.889	Various, HPP and PHEP Aligned Cooperative Agreements Cluster	Reporting
2017-010	Various, 93.575	Various, Child Care and Development Block Grant	Reporting
2017-011	93.103, 93.448	Food and Drug Administration Research, Food Safety and Security Monitoring Project	Allowable Costs
2017-012	14.228	Community Development Block Grants/State's Program	Cash Management & Period of Performance
2017-013	14.228	Community Development Block Grants/State's Program	Allowability, Reporting & Subrecipient Monitoring
2017-014	14.228	Community Development Block Grants/State's Program	Program Income & Subrecipient Monitoring
2017-015	14.228	Community Development Block Grants/State's Program	Reporting

Finding #	CFDA #	Federal Program	Compliance Requirement
2017-016	10.558	Child and Adult Care Food Program	Eligibility & Subrecipient Monitoring
2017-017	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Allowability
2017-018	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Reporting
2017-019	84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	Eligibility
2017-020	84.367	Supporting Effective Instruction State Grant	Allowability & Subrecipient Monitoring
2017-021	96.001, 96.006	Disability Insurance/SSI Cluster	Suspension and Debarment & Special Tests
2017-022	15.605, 15.611	Fish and Wildlife Cluster	Allowability
2017-023	15.605, 15.611	Fish and Wildlife Cluster	Suspension & Debarment
2017-024	93.658	Foster Care Title IV-E	Allowable Costs
2017-025	Various, 10.561, 93.558	Various, State Administrative Grants for the SNAP, TANF	Allowable Costs
2017-026	Various, 93.658, 93.667	Various, Foster Care Title IV-E, Social Services Block Grant	Allowable Costs
2017-027	Various, 93.777	Various, State Survey and Certification of Health Care Providers and Suppliers	Allowable Costs
2017-028	93.778	Medical Assistance Program	Cash Management
2017-032	93.217	Family Planning Services	Cash Management & Subrecipient Monitoring
2017-033	93.217	Family Planning Services	Reporting
2017-034	93.268	Immunization Cooperative Agreements	Allowability
2017-036	93.558	Temporary Assistance for Needy Families	Allowability
2017-037	93.558	Temporary Assistance for Needy Families	Allowability
2017-038	93.558	Temporary Assistance for Needy Families	Allowability & Subrecipient Monitoring

Finding #	CFDA #	Federal Program	Compliance Requirement
2017-039	93.563	Child Support Enforcement	Allowability & Subrecipient Monitoring
2017-040	93.568	Low-Income Home Energy Assistance	Allowability
2017-042	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Cash Management & Matching
2017-044	93.575, 93.596	CCDF Cluster	Special Tests
2017-045	93.575, 93.596	CCDF Cluster	Special Tests
2017-046	93.575	Child Care and Development Block Grant	Allowability
2017-047	93.575	Child Care and Development Block Grant	Period of Performance
2017-048	93.575	Child Care and Development Block Grant	Earmarking
2017-049	93.658	Foster Care Title IV-E	Allowability
2017-050	93.658	Foster Care Title IV-E	Allowability
2017-051	93.658	Foster Care Title IV-E	Subrecipient Monitoring
2017-052	93.659	Adoption Assistance	Allowability
2017-053	93.659	Adoption Assistance	Reporting
2017-054	93.758	Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds	Allowability & Subrecipient Monitoring
2017-055	93.778	Medical Assistance Program	Reporting
2017-056	93.778	Medical Assistance Program	Allowability
2017-057	93.778	Medical Assistance Program	Allowability
2017-058	93.778	Medical Assistance Program	Allowability & Eligibility
2017-059	93.778	Medical Assistance Program	Special Tests
2017-060	93.778	Medical Assistance Program	Allowability
2017-061	93.778	Medical Assistance Program	Allowability

Finding #	CFDA #	Federal Program	Compliance Requirement
2017-062	93.778	Medical Assistance Program	Allowability & Special Tests
2017-063	93.778	Medical Assistance Program	Allowability
2017-064	93.778	Medical Assistance Program	Allowability & Eligibility
2017-065	93.778	Medical Assistance Program	Special Tests
2017-066	93.778	Medical Assistance Program	Allowability
2017-067	93.917	HIV Care Formula Grants	Allowable Costs & Subrecipient Monitoring
2017-068	93.945	Assistance Programs for Chronic Disease Prevention and Control	Allowable Costs & Subrecipient Monitoring
2017-069	93.994	Maternal and Child Health Services Block Grant to the States	Allowable Costs & Subrecipient Monitoring
2017-070	45.310	Grants to States	Subrecipient Monitoring
2017-072	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 2017-029, 2017-030, 2017-031, 2017-035, 2017-041, 2017-043 and 2017-071 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 2017-008, 2017-010, 2017-012, 2017-013, 2017-014, 2017-015, 2017-016, 2017-017, 2017-020, 2017-021, 2017-024, 2017-025, 2017-026, 2017-028, 2017-033, 2017-044, 2017-053, 2017-054, 2017-055, 2017-057, 2017-059, 2017-063, and 2017-064 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 19, 2018

Pat Reding, CPA, CFE
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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: Qualified 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 2017-001, 2017-002, 2017-003, 2017-004, 2017-005 and 2017-006. 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 2017-008, 2017-010, 2017-012, 2017-013, 2017-014, 2017-015, 2017-016, 2017-017, 2017-020, 2017-021, 2017-024, 2017-025, 2017-026, 2017-028, 2017-033, 2017-044, 2017-053, 2017-054, 2017-055, 2017-057, 2017-059, 2017-063, and 2017-064.

   We consider items 2017-029, 2017-030, 2017-031, 2017-035, 2017-041, 2017-043 and 2017-071 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 and Formula Grants for Rural Areas, which were qualified and Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements Cluster, Centers for Disease Control and Prevention Investigations and Technical Assistance, 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	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
CFDA	10.558	Child and Adult Care Food Program
CFDA	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA	15.605, 15.611	Fish and Wildlife Cluster
CFDA	17.225	Unemployment Insurance
CFDA	20.509	Formula Grants for Rural Areas
CFDA	64.005	Grants to States for Construction of State Home Facilities

CFDA	64.015	Veterans State Nursing Home Care
CFDA	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States
CFDA	84.367	Supporting Effective Instruction State Grant
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	93.268	Immunization Cooperative Agreements
CFDA	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
CFDA	93.563	Child Support Enforcement
CFDA	93.575 and 93.596	CCDF Cluster
CFDA	93.659	Adoption Assistance
CFDA	93.758	Preventive Health and Health Services Block Grant Funded Solely With Prevention and Public Health Funds (PPHF)
CFDA	93.775, 93.777 and 93.778	Medicaid Cluster
CFDA	96.001, 96.006	Disability Insurance/SSI Cluster

h) Dollar threshold used to distinguish between Type A and Type B programs: $8,376,456

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

II. Findings Related to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2017-001

CAFR Presentation

The Department of Administrative Services (DAS), State Accounting Division (DAS – State Accounting), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR). 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, 2017, CAFR, this date was determined to be December 14, 2017. 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. Nevertheless, 46 items were submitted more than seven days after the dates specified on the list.

Additionally, a rough draft of the report was received on the evening of December 4, 2017; however, the APA had requested that a completed first draft be submitted by November 27, 2017, in order to allow for the successful completion of our audit of the report under normal working conditions. Given the late submission of the 46 items, including the 162-page CAFR, extraordinary effort and resources had to be utilized by the APA in order to meet the required deadline.

Furthermore, the draft report submitted by DAS – State Accounting was incomplete and inaccurate. DAS – State Accounting first provided a rough draft on December 4, 2017, in order for the APA to begin work on the report. The deficient draft required several revisions to correct formatting problems and incorrect or missing information. Among other things, the draft's Management Discussion and Analysis (MD&A) and footnotes were incomplete.

During testing of the CAFR, we noted the following:

- We proposed 47 adjustments during the audit, 20 of which were not made by DAS – State Accounting. At the fund level, the accumulated uncorrected errors ranged from an overstatement of $11,745,127 to an understatement of $9,785,234. At the government-wide level, the accumulated uncorrected errors ranged from an overstatement of $20,092,529 to an understatement of $29,139,102.

- The State of Nebraska contracted with OptumRx and United Health Care to process the State's employee pharmacy and health insurance claims. DAS was unable to provide the Service Organization Control (SOC) Reports as audit evidence for the suitability of the design and operating effectiveness of OptumRx and United Health Care's internal controls. Claims expenditures for the fiscal year ended June 30, 2017, totaled $184,052,764. The opinion on the CAFR financial statements was modified as a result of this issue.

- DAS – State Accounting made several errors in the capital asset supporting documentation. Those errors ranged from an understatement of $11,077,046 in construction in progress (CIP) to an overstatement of $600,100 in land. The majority of the understatement of CIP was due to DAS lacking a policy on capitalizing infrastructure costs; therefore, some agencies were expensing all costs rather than capitalizing them. 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 recorded the transactions as a miscellaneous adjustment during the current fiscal year. On the financial statements, this activity was reflected as other revenue unless DAS – State Accounting performed adjusting entries to reflect properly the activity. DAS – State Accounting did not perform an adequate review of this prior period activity, as only line items equal to or over $500,000 were reviewed. We reviewed this activity and noted several additional adjustments, ranging from $78,789 to $5,696,387, that were needed to ensure the financial statements reflected proper activity. Additionally, the entry that DAS – State Accounting did post for the miscellaneous adjustment activity was deleted from the State's accounting system (E1). DAS – State Accounting reentered this into E1 once we pointed out the omission.

- Several adjustments were necessary for inaccurate State agency accrual information. For instance, the Department of Health and Human Services (DHHS) payable for State Ward Education was overstated by $4,345,320. Additionally, the DHHS payable for the Children and Family Services was incorrectly recorded in the Federal Fund, when it should have been reflected in the General Fund, causing an understatement in the General Fund of $1,269,560. Furthermore, the Nebraska Department of Education payables were doubled up by a separate entry performed by DAS – State Accounting, resulting in an error of $29,787,124.

- DAS – State Accounting performed an analysis on transfers in and out to determine what activity needed to be eliminated for the CAFR financial statements. During this analysis, DAS – State Accounting failed to eliminate interfund transfers of $413,456,866 in the Highway Fund and $64,302,487 in an Agency fund.

- Several errors were identified in the support and adjusting entries prepared by DAS – State Accounting. For instance, one entry performed by DAS – State Accounting to reclassify loan activity included duplicate line items, causing an error in the entry of $57,425,625. Another entry performed by DAS – State Accounting to reclassify investment manager fees from gains/losses on investments to investment expenses for $18,478,470 was incorrectly recorded as administrative expenses rather than investments expenses.

- The Investment Footnote contained several errors. A total of $27,302,427 in investments were misclassified. Additionally, DAS – State Accounting did not perform procedures to determine fair value reporting levels for $34,186,101 of investment holdings.

- DAS – State Accounting lacked adequate procedures related to the following:
  - To ensure all Federal activity was being properly shown in the Federal Fund.
    - The Nebraska Game and Parks Commission recorded $9,625,547 and $8,671 in Federal activity to the Game and Parks Cash Fund and the General Fund, respectively. We proposed an adjustment to move this activity to the Federal Fund.
    - The Department of Transportation recorded $16,456,169 in Federal activity to the Airport Development Fund. We proposed an adjustment to move this activity to the Federal Fund.
  - To perform a reconciliation of the State of Nebraska's Schedule of Federal Expenditures (SEFA) to the expenditures reported in the Federal Fund for the CAFR to ensure all activity was included.
  - To review activity recorded as receipts of operating grants from State agencies. Since this account is recording receipts from other State agencies, it is possible that activity would be doubled up within the CAFR financial statements that should be eliminated.
  - To review balances classified as a due to fund. For the CAFR, all due to fund payable balances should have a corresponding due from fund receivable indicating both the fund from which the balance is owed and the fund to which the balance is due. Instead DAS – State Accounting eliminated all due to fund balances in E1 at June 30, rather than determining where the corresponding due from fund should be classified. DAS – State Accounting then reestablished any due to fund balances in which it knew where the corresponding due from fund should be classified. We identified $1,983,155 that should have remained as a due to fund on the financial statements but was not reestablished.
  - To review manual journal entries posted in E1 after June 30, 2017, to determine if the activity was related to the fiscal year ended June 30, 2017. DAS – State Accounting did not perform this review until we requested one. After it was brought to the attention of DAS – State Accounting, a review was performed on line items larger than $500,000. This threshold did not appear reasonable for all funds.
  - To ensure there was an adequate segregation of duties over CAFR entries recorded in E1, we reviewed accrual entries in E1. During testing we found two journal entries that were prepared, approved, and posted in E1 by the same individual. This increases the risk that an error could occur and remain undetected.

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 in a timely manner 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. Additionally, we recommend that SOCs be received and reviewed timely to ensure service organization and user entity controls are in place and adequate. We also recommend DAS continue to work with State agency personnel to ensure accrual information is supported and has a sound accounting base.

DAS Response: State Accounting agrees that additional staffing is necessary, and has attempted to secure internal resources to increase the number of staff dedicated to preparation of the CAFR. Until such time that approval is given to add additional staff, State Accounting will continue implementing new processes and training for existing staff with the intent to increase efficiency and accuracy. It is critical that current staff be retained to capitalize on their continuity of growth in experience and knowledge.

State Accounting agrees with the importance of receiving and reviewing the SOCs within a time frame that supports the completion of the CAFR on or before the due date. State Accounting is working with the service providers on an action plan to assure timely completion and delivery of the SOC1 reports.

State Accounting agrees with the importance of training and communication with State agencies on the accrual reporting process. State Accounting will continue to work with individual agencies on specific accrual reporting issues, as well as developing additional enterprise-wide training on these reporting issues.

Finding 2017-002

EnterpriseOne Business Continuity Planning

In the prior year, we noted that DAS had hardware in place, an IBM Power Systems Capacity BackUp (CBU), in case there should be a failure of EnterpriseOne (E1), the State's accounting system. However, that hardware had not been completely set up or thoroughly tested. According to DAS, the CBU was 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 stated that, even in a best case scenario, it would take days to get the E1 application up and running using the CBU. Additionally, DAS explained that the E1 application could run off the CBU for only a short time (approximately 30 days), and other hardware would need to be set up to take over for the CBU. Accordingly, the DAS E1 business continuity plan lacked procedures that would enable a timely resumption of business processing in the event of E1 disruption or failure.

During the fiscal year, E1 hardware for all environments and the CBU were replaced. Additionally, the disaster recovery site was moved from a University of Nebraska datacenter to a new location operated under an interlocal agreement between the City of Omaha and Douglas County. Attempts to bring the E1 environments onto the same network as the CBU have failed. As a result, replication of E1 data to the disaster recovery site has not been occurring since December 2016. Extensive effort to diagnose the cause of network errors preventing replication on the new network has not been successful.

It was noted that a full tape backup of E1 is completed weekly, and incremental backups are completed daily. Those tape backups are picked up for offsite storage daily. As the disaster recovery site is not currently capable of hosting E1 in the event of a significant disruption or disaster, an even more significant amount of downtime would likely ensue as a new site and hardware were obtained, hardware and network configured, software installed, data loaded from tape, interfaces configured, etc.

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.*

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, 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.*

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 real-time data replication is not performed, and the disaster recovery site is not capable of hosting the accounting system, there is a significant risk of prolonged discontinuation of government processes in the event of application disruption or failure. Additionally, when hardware intended to be used in the event of critical application failure or disaster has not been completely set up and thoroughly tested, there is an increased risk of prolonged discontinuation of government processes in the event of application disruption or failure.

> We recommend DAS resolve network issues at the disaster recovery site and 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 disaster.

Department Response: DAS leadership concurs that the EnterpriseOne system still does not have adequate disaster recovery hardware, software, processes, and procedures in place to ensure a real time cutover from the current production environment to a recovery environment. We are continuing to work with the OCIO to establish and expand these capabilities to first, be able to conduct real time replication of the core mainframe data and infrastructure of the state's financial system of record between the 501 building data center and the DOT.COM data center located in Omaha, NE. Once this capability is reached later this year, we will then work on building out the web server infrastructure to eventually create a dual recovery environment in Omaha.

The long-term solution will be in place within the next two to three years when the state completes its migration to the, yet to be selected; cloud-based environment where our data of record will be replicated and maintained in four geographically dispersed data centers across the United States. This disaster recovery capability will be provided as part of our cloud subscription services with our future vendor.

GAME AND PARKS COMMISSION

Finding 2017-003

Federal Activity Adjustment

The Commission did not account for all of its Federal activity in Federal funds. The Commission recorded $9,625,547 in revenues and expenditures in its Cash funds, and $8,671 in revenues and expenditures in the General fund. The inaccurate activity was adjusted on the State's financial statements for the fiscal year ending June 30, 2017, to reflect accurately the Federal activity in accordance with the Department of Administrative Services (DAS) policies.

According to the DAS State Accounting Manual, Application of Principles – Section AM-003, the fund types used in the State accounting system include the following:

- *40000 - Federal Funds - accounts for all federal grants and contracts received by the State.*
- *20000 - Cash Funds - accounts for revenues generated by specific activities from sources outside of state government and the expenditures directly related to the generation of the revenues.*
- *10000 - General Fund - accounts for all financial resources not required to be accounted for in another fund. Revenue generally comes from state taxes.*

A good internal control plan requires the Commission to record Federal financial activity in a Federal fund type, as prescribed in the State Accounting Manual.

Additionally, sound accounting practices require procedures to ensure that activity on the financial statements is properly reflected.

Without such procedures, the financial statements can be misleading to those who rely upon them for an accurate reflection of the Commission's financial activity.

> We recommend the Commission work with the DAS Accounting Administrator to develop a plan for recording all Federal activity in the Federal funds, as prescribed by the State Accounting Manual.

Commission Response: State Accounting Division has approved our current accounting methodology as the most efficient manner in which to record and track these monies given the mechanics of the accounting system and the process of budgeting. We will continue to work with State Accounting on the interpretation and intent of the State Accounting Manual as there may be other agencies affected on a state-wide basis. As we move to a new Accounting System, we will consider more efficient practices should they surface.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2017-004

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 Department indicated in its response to the Summary Schedule of Prior Audit Finding 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 Department overstated the Medicaid estate recovery receivable by $5,394,119 due to an error made during the calculation. The receivable was based upon claims filed against the estates of deceased persons who received Medicaid assistance. A similar error was identified as having occurred in the prior fiscal year in which the receivable was overstated by $3,452,876. The Auditor of Public Account's (APA's) proposed adjustment was made by DAS to correct the errors.
- Revenues and expenditures were overstated by $3,611,420 within the Health and Social Services fund due to incorrect coding of two transactions to transfer funds. The APA's proposed adjustment was made by DAS to correct the error.
- The Medicaid refund receivable was overstated by $8,708,028, as an amount related to a fraud case was also recorded as a Program Integrity receivable. The APA's proposed adjustment was made by DAS to correct the error.
- The Program Integrity receivable was overstated by $14,825,383, as an allowance was not calculated for doubtful accounts. The Program Integrity receivable was based on fraudulent claims paid. In one case noted, the Department estimated that one individual would repay $11,650,665. The individual was incarcerated, and the individual's assets had already been liquidated; it did not appear reasonable that the Department would collect on the entire balance. The APA's proposed adjustment was made by DAS to correct the error. Additionally, the State paid back all Federal funds initially used for fraudulent claims associated with the above case. However, when the individual's assets were liquidated and the State recovered some of those funds, the amount received was applied to both General and Federal funds, essentially paying the Federal funds back twice. The amount paid back to the Federal government in error totaled $1,418,175.
- Two journal entries for $7,750,721 and $1,203,894 were made in fiscal year 2017 to correct expenditures recorded in previous fiscal years to the Federal fund, which should have been originally recorded in the General fund. These entries were not properly recorded as prior period adjustments, resulting in an overstatement of current year General fund expenditures and an understatement of current year Federal fund expenditures. The APA's proposed adjustment was made by DAS to correct the error.

- The Intergovernmental receivable amount due from the Federal government was overstated by $2,758,274, as several incorrect figures from Federal reports were used when calculating the balance, an allowance for doubtful accounts was not considered, and an error within the Department's cost allocation plan overcharged expenditures to several Federal grants.

- The patient and county billings receivable was overstated by $123,102 due to various errors. The patient and county billings are receivables based on services provided by the Beatrice State Development Center as well as the Department's three operated Regional Centers in Lincoln, Hastings, and Norfolk. For 3 of 25 account balances tested, the balances were inaccurately reported as receivable on June 30, 2017. In addition, it was noted that outstanding accounts were not being actively followed up on in a timely manner. No adjustments were proposed or made for these immaterial amounts.

- The Nebraska Family Online Client User System (NFOCUS) receivable was overstated by $11,647, due to the incorrect reports being used when calculating the receivable balance. The receivable was based upon service providers that were overpaid for providing various support services to eligible Nebraskans. No adjustments were proposed or made for these immaterial amounts.

A similar finding was noted during the previous audit.

Title 2 CFR part 200.511(a) (January 1, 2017), 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 such procedures, there is a greater risk that material misstatements may occur and remain undetected.

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

Department Response: DHHS Financial Services will continue to develop, assess, and improve upon internal procedures. 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.*

Finding 2017-005

Overpayment Mailbox

On November 30, 2011, the Department set up the Overpayment Mailbox for eligibility overpayments. Previously, Social Service Workers (SSWs) would set up overpayments and underpayments in NFOCUS as they discovered them. Eligibility overpayments were referred via email to the Mailbox to be worked by an Overpayment (OP) Unit team. In April of 2017, the Department converted the Mailbox to a database with an online submission form. Referrals from the Mailbox were transitioned to the new database.

In our review of the new database, we noted 10,614 Supplemental Nutrition Assistance Program (SNAP) overpayment referrals were closed without the OP team working them. The Department indicated the referrals were not pursuable because they were over 12 months old.

A similar finding was noted during the previous two audits.

Per Title 475 Nebraska Administrative Code (NAC) Chapter 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 appears to conflict with Title 7 Code of Federal Regulations (CFR) § 273.18(c)(1), which requires the Department to "calculate a claim back to at least twelve months prior to when you became aware of the overpayment." (Emphasis added.) Currently, the Department's definition of the date of discovery is the date the Department confirms an overpayment occurred. This definition allows referrals to be unworked for an extended period of time and allows the Department to create an overpayment at any point in time, effectively circumventing regulations requiring referrals to be established as receivables within specific time frames.

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

We also performed testing of nine overpayment receivables and noted that two of the referrals were not timely established as receivables within State and Federal requirements. In addition, we noted one individual with an outstanding receivable balance was currently receiving benefits through other programs, and the Department was not recouping funds from those payments. Finally, documentation related to the Department's collection efforts for one receivable was not included in NFOCUS.

SNAP regulation Title 7 CFR § 273.18(d)(1) (January 1, 2017) requires the State to "establish a claim before last day of the quarter following the quarter in which the overpayment or trafficking incident was discovered." The Department 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.

Per the Department's regulations at Title 392 NAC Chapter 5-005, "The Department must take all reasonable steps necessary to promptly correct overpayments."

Per the Department's regulations at Title 475 NAC Chapter 4-007.02A, "Collection on Accounts receivable will be done through recoupment from the household's benefit or by other collection actions. "

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 Department 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 Department should actively pursue those receivables. Considering the number of referrals not worked, there are potentially millions of dollars in overpayments that the Department has not attempted to recover.

> We recommend the Department implement procedures and devote adequate resources to investigating and establishing NFOCUS receivables. We recommend the Department define the date of discovery as the date the regular SSW first becomes aware of a potential overpayment. The Department should comply with Federal regulations. We also recommend the Department implement procedures to reduce the number of SNAP AE overpayments.

Department Response: The Agency is processing all new overpayment referrals timely. New referrals are worked within 30 days of receipt. We have timely processed new potential overpayment referrals since October 2016. The Agency does not dispute that the best course of action is to process potential overpayment referrals quickly and timely. As of June 30, 10,743 Economic Assistance potential Overpayment Backlog referrals remained to be processed, the team was working on referrals received in December 2015. As the agency, focused on referrals from 2015 and prior, we began to have issues in determining if an overpayment exists. The issues include: ability to locate household, clients did not have income and expense information from the time period, employers also did not have easy access to wage information, and appeals were being lost due to state statute regarding the time limit in pursuing overpayments that are caused by the agency. These factors make the cost to process this backlog to be not efficient in terms of amount of overpayments that would be determined and collectible. A decision was made to suspend processing 10,614 SNAP referrals, and contact USDA Food and Nutrition Service for advice. We are looking for a cost efficient method to process referrals, calculate the *overpayment if it is determined we have one and the ability to close agency caused overpayments that are over 3 years old. The Regional FNS office is consulting with the National office regarding the Nebraska situation. The state has continued to process the other Economic Assistance Programs such as ADC, AABD, LIHEAP, Child Care because these programs do not have the issue with the agency caused overpayments which exist in SNAP Program. The projected date is February 28, 2018 to complete processing of the Economic Assistance potential Overpayment Referral Backlog, which on February 1, 2017 had 18,432 referrals.*

The monthly new referrals range from 300 – 500 referrals which are processed within 30 days of referral. In the past year staff has received information and training regarding the Agency Caused Overpayments. ACCESSNebraska is also efficient at case processing and staying current with workload. Together these things have helped reduce the number of Agency Caused Overpayments.

DEPARTMENT OF TRANSPORTATION

Finding 2017-006

Federal Activity Adjustment

Prior to July 2017, the Department was two separate agencies, the Department of Roads and the Department of Aeronautics (Aeronautics). Aeronautics did not account for all of its Federal activity in Federal funds. Aeronautics recorded $16,456,169 in revenues and expenditures in its Airport Development Fund, which is a Cash fund on the State's accounting system. The inaccurate activity was adjusted on the State's financial statements for the fiscal year ending June 30, 2017, to reflect accurately the Federal activity in accordance with the Department of Administrative Services (DAS) policies.

According to the DAS "State Accounting Manual," Application of Principles – Section AM-003, the fund types used in the State accounting system include the following:

- *40000 - Federal Funds - accounts for all federal grants and contracts received by the State.*
- *20000 - Cash Funds - accounts for revenues generated by specific activities from sources outside of state government and the expenditures directly related to the generation of the revenues.*
- *10000 - General Fund - accounts for all financial resources not required to be accounted for in another fund. Revenue generally comes from state taxes.*

A good internal control plan requires the Department to record Federal financial activity related to Aeronautics in a Federal fund type, as prescribed in the "State Accounting Manual."

Additionally, sound accounting practices require procedures to ensure activity on the financial statements is properly reflected.

When Federal financial activity is not recorded as prescribed in the "State Accounting Manual," the financial activity of those funds can be misleading to the users of the financial information.

> We recommend the Department work with the DAS Accounting Administrator to develop a plan for recording all Aeronautics Federal activity in the Federal funds, as prescribed by the "State Accounting Manual."

Department Response: The Division of Aeronautics does record the receipt of these Federal funds as a federal receipt. However, this is a reimbursable federal program, there are no federal funds expended. Aeronautics must first expend the funds out of its Cash Fund. Then a request is made for a reimbursement of those cash expenditures. Aeronautics has been accounting for these federal grant funds in its Cash Fund for decades as directed by the Nebraska Department of Administrative Services Accounting Division in compliance with that Accounting Division's interpretation of its own accounting manual.

APA Response: The majority of Federal funds expended by the State are on a reimbursement basis. The APA proposed an adjustment to the Department of Administrative Services (DAS), the State agency responsible for preparing the CAFR financial statements. DAS agreed the funds would be more accurately reported in the Federal Fund, and posted an adjusting entry.

III. Findings and Questioned Costs Relating to Federal Awards:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2017-007

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

Grant Number & Year: Various, including #1705NE5ADM, FFY 2017

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.

2 CFR § 200.403 (January 1, 2017) 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.
- The maintenance of adequate documentation to support both rates charged and the approval of those rates.

Condition: We reviewed Section II of the Statewide Cost Allocation Plans (SWCAP) regarding services billed to other State agencies for rates and charges for the year ended June 30, 2017. We noted the following instances of the Department of Administrative Services' (Agency) rates and fund balances not being in compliance with State and Federal regulations:

- *OCIO Rates* – The Agency did not have adequate documentation to support that rates charged for the Office of the Chief Information Officer (OCIO) operations were reasonable, equitable, and reflected actual costs incurred.

- *Print Shop and Copy Service Rates* – The Print Shop had not reviewed and updated its rates since the fiscal year ended June 30, 2010. We also noted a special discount provided to the Department of Motor Vehicles.

- *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 building tested did not appear reasonable.

Similar findings were noted in the 2016 and 2015 audits.

Repeat Finding: 2016-011

Questioned Costs: Unknown

Statistical Sample: No

Context:

OCIO Rates

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 $11,330,018 during the fiscal year ended June 30, 2017, of which $5,866,568 was paid with Federal Medicaid dollars.

During the prior audit, we noted that services were undercharged for fiscal year 2016. We reviewed the general ledger for these same services for fiscal year 2017 and noted that the multiple virtual storage (MVS) business unit was still undercharging for services. MVS business unit 65070032 had revenues of $15,210,738 and expenses of $16,327,808 during the fiscal year, a difference of $1,117,070. The MVS business unit appears undercharged for the fiscal year; therefore, business units for other services were likely overcharged. The OCIO rates were 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, 2017. Five of the rates tested did not have adequate documentation to support that the rates billed to agencies were reasonable and equitable. Per the OCIO controller, there was no specific review of these rates or the rate calculation. The controller indicated that monthly financial meetings were held to ensure rates were not significantly over or under-recovering costs; however, there was not adequate documentation to support that specific rates were reasonable and equitable.

Print Shop and Copy Service Rates

Our review of Print Shop and Copy Service 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.

- The Print Shop provided special discounts to the Department of Motor Vehicles. This was also noted during the prior audits. Since the rates are not based on actual costs, it is likely that some agencies will be overcharged and other agencies undercharged.

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. To determine the assessment charged to State agencies, the Agency obtains an actuarial rate – which, for the fiscal year ended June 30, 2017, was $.07 per $100 of replacement value – and calculates the insurance premium. For the fiscal year ended June 30, 2017, the Agency calculated billable insurance premiums to State agencies of approximately $1.5 million on building replacement values of approximately $1.9 billion.

  In our prior audit, we noted the Agency did not have adequate documentation to support the replacement cost. 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 were not supported by any documentation that an actual valuation or assessment of the building replacement values was performed. During the fiscal year, the Agency obtained appraisals for 2 of 30 locations, the Omaha State Office Building and the Beatrice State Developmental Center. The Agency indicated those appraisals would be used to calculate the 2018 insurance premiums.

- 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 2017 indirect allocations for grounds keeping and security were $354,513 and $610,230, respectively.

- We selected 1 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 five 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
2017	$ 1,106,206	$ 832,490	$ 273,716

The Agency stated that, "[d]ue to uncertainty regarding the future use of the Hastings Regional Center (HRC) no rental rate changes were made."

Cause: The Agency lacked supporting documentation for the rates charged for services, as well as no documented review of those rates. The Agency had no adequate procedures to ensure rates were equitable.

Effect: 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 review fees charged and reduce rates where appropriate. We further recommend the Agency maintain adequate documentation to support that rates charged are equitable and reflect the actual costs incurred for services provided.

Management Response: DAS will continue to regularly monitor its various revolving fund balances and when necessary take steps to reduce a particular fund's balance. The rates developed during the period January-June 2016 for the current biennium - FY17-19 will continue to be reviewed as a part of the fund balance analysis.

Finding 2017-008

Program: Various, including CFDA 93.778, Medical Assistance Program; CFDA 93.563, Child Support Enforcement; CFDA 93.575 & 93.596, Child Care Cluster; CFDA 10.558, Child and Adult Care Food Program; CFDA 84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States – Cash Management

Grant Number & Year: Various, including #1705NE5MAP, FFY 2017; #G1704NECSES, FFY 2017; #G1601NECCDF, FFY 2016; #201717N105043, FFY 2017; #H126A1700390, FFY 2017

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

Criteria: 31 CFR § 205.12 (July 1, 2016) states, in relevant part, the following:

> *(a) We and a State may negotiate the use of mutually agreed upon funding techniques . . . . Funding techniques should be efficient and minimize the exchange of interest between States and Federal agencies.*
>
> *(b) We and a State may base our agreement on the sample funding techniques listed in paragraphs (b)(1) through (b)(5) of this section . . . .*
>
> * * * *
>
> *(3) Average clearance means that a Federal Program Agency, on the dollar-weighted average day of clearance of a disbursement, transfers to a State a lump sum equal to the actual amount of funds that the State is paying out. The dollar-weighted average day of clearance is the day when, on a cumulative basis, 50 percent of the funds have been paid out. The dollar-weighted average day of clearance is calculated from a clearance pattern, consistent with §205.20.*

31 CFR § 205.22(b) (July 1, 2016) states the following:

> *An authorized State official must certify that a clearance pattern corresponds to the clearance activity of the Federal assistance program to which it is applied. An authorized State official must re-certify the accuracy of a clearance pattern at least every five years . . . . A State can begin to use a new clearance pattern on the date the new clearance pattern is certified.*

Good internal control requires procedures to ensure: 1) clearance patterns are updated timely in the Delay of Draw system upon certification and in accordance with the Treasury State Agreement (TSA); and 2) complete and accurate underlying expenditure data is used in the calculation of clearance patterns.

Condition: During testing of certified clearance patterns and cash draws, we noted the following:

- The Agency performed clearance pattern calculations for 15 programs for the fiscal year 2017 recertification. For all four clearance pattern calculations tested, the amounts used in developing the clearance pattern did not agree to the accounting system.

- The Agency did not update the system for any of the 15 programs with the certified clearance patterns in accordance with the TSA effective July 1, 2016, through June 30, 2017.

- For 6 of 31 cash draws tested, the timing of the draw was not in compliance with the applicable funding techniques in the TSA. For one of these six cash draws, there was no documentation on file to support when the expenditures occurred in the accounting system.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: Each year the State enters into an agreement with the U.S. Department of Treasury that details the funding techniques for the State's major Federal assistance programs. For example, some programs use "Pre-issuance," where the State requests funds such that they are deposited not more than three days prior to the day the State makes a disbursement. Programs using "Actual Clearance" request funds based on a schedule set by the Federal agency.

There are 15 programs for the State using "Average Clearance" to request Federal funds. For Average Clearance, the funds are requested so that they are deposited on the dollar-weighted average day of clearance for the disbursement. Clearance patterns are recalculated every five years. The Agency uses historical data to determine the number of days each check was outstanding (clearance time), the clearance time is multiplied by the percentage of total disbursements for those checks, and a dollar-weighted average day of clearance is determined by summing the clearance factor for each day. A clearance pattern of 3.90 days would have 10% of funds deposited on day 3 and 90% deposited on day 4.

When reviewing four clearance pattern calculations, we noted amounts used in the calculations did not agree to expenditures for the applicable programs. State fiscal year 2015 expenditure data was used to calculate the clearance patterns that were recertified for fiscal year 2017. Several errors were noted for multiple quarters with variances ranging from ($801,652) to $2,496,171. For one program, the errors did not change the clearance pattern; however, three of the programs tested, CFDA 84.126, CFDA 10.558, and CFDA 93.563, were miscalculated, as noted below, which would result in draws deposited early.

Clearance patterns are set up in the draw system. Expenditure data from EnterpriseOne, the State's official accounting system, is uploaded to the draw system daily, and the system draws the funds based on the clearance pattern.

We also noted the Agency did not update the draw system with the fiscal year 2017 certified clearance patterns. Therefore, all draws for the fiscal year would have been drawn using the prior clearance patterns. For the draws tested, we noted five drawn early, as follows:

CFDA	Draw Amount Tested	Clearance Pattern Days			% Deposited Early	Total FY 2017 Draws
		Used	Per Agency FY 2017	Per APA FY 2017		
93.778	$ 44,835,744	3.27	3.49	3.49	22%	$ 1,137,336,619
93.563	$ 851,811	3.00	3.08	3.13	13%	$ 21,819,800
	$ 474,295					
10.558	$ 276,000	3.00	3.67	3.68	68%	$ 32,547,096
84.126	$ 112,191	3.00	3.76	3.84	84%	$ 21,739,644

Additionally, we noted there was no documentation on file to support when the expenditures were posted in the accounting system for one draw tested for the CCDF cluster (CFDAs 93.575 & 93.596) in the amount of $300,452.

Cause: Agency staff did not update the draw system with certified clearance patterns. The expenditure data for clearance patterns was incorrectly filtered for the programs tested, and there was inadequate review by the manager.

Effect: Federal funds were drawn and deposited early, which could lead to interest penalties and sanctions.

Recommendation: We recommend the Agency implement procedures to ensure accurate expenditure data is used in the calculation of clearance patterns. We further recommend procedures be implemented to ensure the proper certified clearance patterns are used to draw Federal funds.

> **Management Response:** State Accounting will examine and adjust procedures to ensure the accurate calculation of clearance patterns and the timely implementation of new calculations.

Finding 2017-009

Program: Various, including CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Reporting

Grant Number & Year: #6NU90TP000533-05, FFY 2017

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

Criteria: Title 45 CFR § 75.302(a) (October 1, 2016) 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 Public Health Emergency Preparedness (PHEP) and National Bioterrorism Hospital Preparedness Program (HPP) 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. A similar finding was noted in the prior audit.

Repeat Finding: 2016-013

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 FFR for all cash transactions completed through PMS for specified accounts.

We tested two quarterly FFRs and a total of 25 grants from 9 U.S. Department of Health and Human Services programs. For the quarter ended March 31, 2017, FFR, we tested cash disbursements reported totaling $79,846,766.

We noted cumulative expenditures at March 31, 2017, for PHEP and HPP were under-reported by $1,425,824. We notified the Agency of this error, and it was subsequently corrected for the June 30, 2017, FFR.

	Cumulative Expenditures March 31, 2017		
Grant #	Per Accounting System	Reported	Variance
#000533TP16	$ 1,601,877	$ 176,053	$ 1,425,824

Cause: The Agency did not perform procedures to ensure all Federal grant expenditures on the accounting system were reported on the FFR. In the accounting system, the grant is split into three separate grants numbers, which should be accumulated for reporting on the FFR. It appears Agency personnel missed two of the three grant numbers from the accounting system when determining expenditures to be reported.

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:** This was an unusually structured grant. State Accounting will examine ways to adjust our tracking to better provide for accurate reporting of grant expenditures.

Finding 2017-010

Program: Various, including CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.268 – Immunization Cooperative Agreements; CFDA 17.225 – Unemployment Insurance; CFDA 64.005 – Grants to States for Construction of State Home Facilities – Reporting

Grant Number & Year: Various, including UI-27990-16-55-A-31, PY 2016; 5NH23IP000756-04-00, FFY 2016; FAI 31-015

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

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, 2017) 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.*

EnterpriseOne is the official accounting system of the State.

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. A similar finding was noted in the prior audit.

Repeat Finding: 2016-014

Questioned Costs: None

Statistical Sample: No

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

- The Nebraska Department of Labor (NDOL) did not accurately report expenditures for CFDA 17.225 Unemployment Insurance. The NDOL does not report directly from the accounting system for the Federal and State benefit expenditures. Instead, the Federal 2112 reports are used to compile the SEFA amounts.

	Original SEFA	Revised	Adjustment
Unemployment Insurance – Federal	$ 17,370,441	$ 799,399	$ (16,571,042)
Unemployment Insurance – State	$ -	$ 72,201,642	$ 72,201,642
Unemployment Insurance – Admin	$ -	$ 17,164,499	$ 17,164,499
Total	**$ 17,370,441**	**$ 90,165,540**	**$ 72,795,099**

- The Department of Health and Human Services (DHHS) did not include expenditures for CFDA 64.005 Grants to States for Construction of State Home Facilities. This was the first year of Federal funding for the grant, which was not set up to be included on the EnterpriseOne SEFA report. DHHS did not accurately report expenditures for CFDA 93.575 Child Care and Development Block Grant, as transfers from CFDA 93.558 were not included. Also, DHHS did not accurately report expenditures for CFDA 93.268 Immunization Cooperative Agreements; the amount for Flu vaccines was not included.

	Original SEFA	Revised	Adjustment
CFDA 64.005	$ -	$ 30,091,031	$ 30,091,031
CFDA 93.575	$ 13,799,373	$ 30,799,373	$ 17,000,000
CFDA 93.268	$ 21,134,646	$ 22,353,366	$ 1,218,720

- The Nebraska Department of Education (NDE) did not accurately report amounts provided to subrecipients for three programs tested. NDE did not exclusively use the specific account code established by DAS for aid to subrecipients.

CFDA	Subrecipient $ Original SEFA	Subrecipient $ Revised
84.126	$ 5,480,086	$ -
96.001	$ 3,117,150	$ -
96.006	$ 399,800	$ -

An additional 15 programs for various State agencies needed correction, with a net adjustment of ($4,677,161). The total expenditures and amounts provided to subrecipients originally reported and per the final SEFA were as follows:

Original SEFA		Final SEFA	
Expenditures	Subrecipients	Expenditures	Subrecipients
$ 2,675,724,309	$ 500,470,849	$ 2,792,152,001	$ 491,146,794

Cause: Administrative Services did not have adequate procedures to ensure amounts that were not directly from the accounting system were accurate. Administrative Services established a specific account code for aid to subrecipients, but not all agencies utilized this account code.

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 and training to ensure the SEFA is complete and accurate.

DEPARTMENT OF AGRICULTURE

Finding 2017-011

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: #4U18FD004431-05, ending 7/31/2017; #1U18FD005573-02, ending 8/31/2017; and #1U18FD005520-02, ending 8/31/2017

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

Criteria: Per 45 CFR § 75.403(g) (October 1, 2016), allowable costs must be adequately documented. Per 45 CFR § 75.405(a) (October 1, 2016), "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) (October 1, 2016), personnel expenses must meet the following requirements:

> *(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 properly adjust estimated personnel costs to actual personnel costs to support Federal charges for employees. A similar finding was noted in the prior audit.

Repeat Finding: 2016-015

Questioned Costs: $67,810 known

CFDA	Grant #	Questioned Costs
93.103	4U18FD004431-05	$ 11,097
93.103	1U18FD005573-02	$ 20,615
93.448	1U18FD005520-02	$ 36,098

Statistical Sample: No

Context: In our prior audit, we noted the Agency did not reconcile hours worked per the timesheets to the amounts charged to the grants under CFDA numbers 93.103 and 93.448. During our current review, we noted the Agency had the data and performed a reconciliation of hours worked per timesheets to the amount charged to the grants, but the methodology used did not result in an accurate reconciliation. In addition, we noted the Agency did not include related employee benefits, including health insurance and retirement. These amounts should be considered and included in the reconciliation.

We noted questioned costs of $67,810. The total payroll charged to CFDA 93.103 and 93.448 for the fiscal year was $305,272 and $168,065, respectively. Questioned costs noted were for salaries only; we did not determine questioned costs for related employee benefits.

Cause: The methodology used by the Agency to reconcile costs was not accurate.

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 concurs that our procedures for documenting employee costs are inadequate, and will continue to increase our oversight of employee activity reports to ensure this doesn’t does not reoccur.

DEPARTMENT OF ECONOMIC DEVELOPMENT

Finding 2017-012

Program: CFDA 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Cash Management & Period of Performance

Grant Number & Year: All open grants, including #B-16-DC-31-0001, FFY 2016

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

Criteria: Per 2 CFR § 2400.101 (January 1, 2017):

Unless excepted under 24 CFR chapters I through IX, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, set forth in 2 CFR part 200, shall apply to Federal Awards made by the Department of Housing and Urban Development to non-Federal entities.

Per 2 CFR § 200.302 (January 1, 2017):

(a) 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.

(b) 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. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

* * * *

(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.

U.S. Department of Housing and Urban Development Memorandum "System and Regulatory Changes to Eliminate First-In-First-Out Accounting in IDIS," published May 2014, states the following:

This memorandum is to notify HUD Office of Community Planning and Development (CPD) formula grant recipients of pending system changes that will affect the administration of the following block grant programs: Community Development Block Grants (CDBG) . . . . The HUD Office of the Inspector General (OIG) and the Office of Management and Budget (OMB) have

> *determined that the First-In-First-Out (FIFO) accounting methodology used by CPD's Integrated Disbursement and Information System (IDIS) does not comply with federal financial standards. This determination has resulted in OIG material weakness findings against the Department's Financial Statement. In order to clear these findings, CPD must re-engineer IDIS to eliminate the FIFO accounting methodology.*
>
> *This IDIS re-engineering will ensure that both commitments and disbursements of grant funds will be done on a grant-specific basis, instead of the FIFO (oldest money disbursed first) method that has been used for the CDBG program since 1974. The first phase of IDIS reengineering will implement grant-specific accounting beginning with FY 2015 formula allocations. With these changes, IDIS will specifically tie activity funding/commitment and draws to the origin year of a grant. The final re-engineering of IDIS for all future grants is expected to be complete by late 2015, including edits to related reports and other required functionalities.*

24 CFR § 570.506(h) (April 1, 2017) states, in part, the following:

> *Grantee records pertaining to obligations, expenditures, and drawdowns must be able to relate financial transactions to either a specific origin year grant or to program income received during a specific program year.*

31 USC § 1552(a) (2016) states the following:

> *On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose.*

EnterpriseOne is the official accounting system for the State of Nebraska. Good internal control requires procedures to ensure transactions are properly recorded in the accounting system, and the source and application of Federal funds are identified by grant award.

Condition: The Agency did not separately identify drawdowns by grant year. Expenditure transactions were not recorded in the accounting system to the correct grant year from which the Federal funds were drawn. Expenditures were recorded to grants after the period of availability had ended.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: Federal grants are awarded by year, and each grant year has specific requirements regarding earmarking, period of availability, and applicable cost principles. We noted that the Agency does not identify Federal funds drawn by individual grant year in the accounting system. We further noted that, for 8 of 10 draws tested, the grant year the funds were drawn from did not agree to the grant year to which the related expenditures were charged.

These variances related primarily to grant years 2014 and older, for which the Federal grantor uses the FIFO method to draw funds. Although the OIG noted the FIFO methodology does not comply with Federal financial standards, the change to tie draws to a specific grant did not occur until the 2015 grant award. We did note two draws related to the 2015 and 2016 grant years that did not agree. The following table summarizes the variances noted for the 8 draws:

Grant Year Funds Drawn From	Grant Year Expenditures Charged To	Amount
2013	2010	$ 89,596
	2011	$ 77,776
	2012	$ 10,674
	2014	$ 390,742
2014	2009	$ 1,500
	2011	$ 16,550
	2012	$ 30,297
2015	2014	$ 4,685
2016	2012	$ 93
Total		$ 621,913

The total amount of draws tested was $1,014,962, and the total amount of Federal receipts drawn for the fiscal year was $9,360,053. During our testing of expenditures, we also noted that, for 11 of 25 payments tested, the grant year charged did not agree to the grant year of funds that were drawn.

During review of CDBG expenditures, it was noted that several transactions were coded to grants that had expired. See the table below:

Grant Year	**Period of Availability End Date**	**Amount Charged During FY17**
2006	9/30/2013	$ 4
2007	9/30/2014	$ 6,738
2008	9/30/2015	$ 36,524
2009	9/30/2016	*$ 54,528
Total		**$ 97,794**

*Total charged after September 30, 2016.

We tested three amounts charged to the FFY 2008 and FFY 2009 grants, totaling $79,935, and determined that the funds were drawn from the FFY 2013 grant, not from the FFY 2008 and FFY 2009 grants.

Cause: Errors for grant years 2014 and older are partly due to the Federal grantor using the FIFO method for draws. In addition, the Agency did not have adequate procedures.

Effect: When the accounting system does not accurately reflect the grant year for expenditure and receipt transactions, there is an increased risk for reporting errors, misuse of funds, and non-compliance with regulations.

Recommendation: We recommend the Agency implement procedures to ensure all expenditure and draw receipt transactions are properly accounted for by specific grant year for grant years beginning with FFY 2015. We also recommend the Agency periodically reconcile activity for grant years prior to FFY 2015 to ensure expenditures and draws are properly matched. We further recommend the Agency implement procedures to ensure no expenditures are charged to Federal grants after the period of availability has ended.

Management Response: While the department adds a remark for the grant year in E1, the federal system (IDIS) draws from the oldest grant year that has remaining grant funding using the FIFO (first in first out) method. HUD recently updated its system to correct this HUD IDIS problem and consequently no longer uses the FIFO method for grant years 2015 and forward. However, this method continues to exist for awards made for grant years prior to 2015 and the federal system prevents E1 from matching the correct grant year award. The department is initiating procedures to review and reconcile drawdowns in E1 from the 2015 grant year and forward to ensure that the systems match. Additionally, the department is implementing procedures to ensure that older grant years are not used for funding and are closed appropriately.

<u>Finding 2017-013</u>

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

Grant Number & Year: All open, including B-15-DC-31-0001, FFY 2015; B-14-DC-31-0001, FFY 2014; and B-12-DC-31-0001, FFY 2012

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

Criteria: OMB Circular A-87, Attachment A, § C, and 2 CFR § 200.403 (January 1, 2017) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

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

A pass-through entity shall perform the following for the Federal awards it makes:

* * * *

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

2 CFR § 200.331 (January 1, 2017) states the following:

All pass-through entities must:

* * * *

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and performance reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision.

Title 2 CFR § 200.501(a) (January 1, 2017) states the following:

A non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

24 CFR § 570.492(a) (April 1, 2017) states the following:

The state shall make reviews and audits including on-site reviews, of units of general local government as may be necessary or appropriate to meet the requirements of section 104(e)(2) of the Act.

24 CFR § 570.501(b) (April 1, 2017) states, in relevant part, the following:

The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility.

Per the Agency's own CDBG Policy Guidance #15-01 (July 1, 2015):

Each grantee requesting CDBG resources in 2015 (and any subsequent year after that) will be required to submit source documentation with draw down requests that include:

1) *Any requests for Economic Development (ED) projects;*
2) *Any requests that are for $100,000 or greater; and*
3) *Any requests that are equal to 25% or greater of the total amount of the CDBG award for a project.*

Source documentation for draw down requests should include invoices, records of staff time and activities, etc. that are relevant to substantiating the expenses that are being requested for reimbursement.

24 CFR § 135.32 (April 1, 2017) states the following:

> *Each recipient has the responsibility to comply with section 3 in its own operations, and ensure compliance in the operations of its contractors and subcontractors. This responsibility includes but may not be necessarily limited to:*
>
> * * * *
>
> *(f) A State or county which distributes funds for section 3 covered assistance to units of local governments . . . must . . . monitor the performance of local governments with respect to the objectives and requirements of this part.*

A good internal control plan requires procedures to ensure: 1) adequate documentation is maintained to support amounts paid to subrecipients; 2) subrecipients are utilizing Federal funds for authorized purposes and in compliance with all applicable regulations; and 3) subrecipient audits are properly tracked and reviewed.

Condition: The Agency did not obtain supporting documentation for 3 of 25 subrecipient payments tested, and adequate monitoring procedures were not performed.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: During the fiscal year, the Agency paid $9,105,565 to 75 subrecipients. We tested 25 payments to these subrecipients and noted the following issues:

- For three payments tested, the Agency had not performed any fiscal monitoring, or monitoring performed was not adequately documented:

#	Subaward Amount	Amount Disbursed as of Fieldwork	Amount Tested
1	$ 300,000	$ 300,000	$ 34,377
2	$ 30,000	$ 28,690	$ 10,720
3	$ 186,000	$ 20,367	$ 9,729

For #1 above, the Agency performed some on-site monitoring in August 2016; however, adequate documentation was not on file to support what the Agency reviewed and how it was determined that reimbursements to the subrecipient were allowable.

For #2 above, the draw was greater than 25% of the amount awarded, yet supporting documentation was not obtained in accordance with the Agency's policy. Also, the subrecipient's last reimbursement request was in October 2016, and no fiscal monitoring had been performed as of January 2018.

For #3, no fiscal monitoring had been performed as of audit fieldwork.

After we requested the information, the Agency was able to obtain support from the subrecipients for the three payments in question.

Payments to subrecipients that were not adequately monitored totaled $54,826. The total sample tested was $571,998.

- For two payments tested, there was no documentation that the Agency monitored the subrecipients' verification that its subcontractors were not suspended or debarred by the Federal government.

- For one payment tested, we noted the project's last reimbursement occurred in April 2017. However, on-site monitoring needed to close the project was not performed as of January 2018. The total paid to the subrecipient was $250,000 for the contract period.

The Agency has subrecipients complete an annual audit form indicating whether the subrecipient will require a Single audit. Then, the Agency obtains and reviews the Single audits for the subrecipients who have replied that a Single audit is required. We tested eight subrecipients and noted two did not submit the form. Both subrecipients had a Single audit performed with the CDBG program audited as major program. Due to its failure to follow up and obtain those missing forms, however, the Agency was unaware of the Single audits and did not perform the required review of them.

The Agency is required to submit a Section 3 report on an annual basis to show the amount of Federal funds that was used to provide job training, employment, and contract opportunities for low or very low income residents in connection with CBDG projects. The Agency used reports created and submitted by the subrecipients, which contained the contract amount, if the contract was for construction or non-construction, if the business receiving the contract met Section 3 requirements, and if there were any new hires. The Agency did not perform monitoring procedures to ensure subrecipient amounts reported were accurate.

Cause: Staff turnover and inadequate procedures.

Effect: When adequate and timely monitoring is not performed, the risk for misuse of Federal funds and noncompliance with Federal regulations increases.

Recommendation: We recommend the Agency implement procedures to ensure adequate documentation is obtained to support payments to subrecipients; ensure subrecipients utilize Federal funds for authorized purposes and in compliance with all applicable regulations; improve procedures to ensure subrecipient audits are properly reviewed; and ensure information used for Section 3 reporting is accurate.

Management Response: The department will initiate procedures to ensure monitoring activities and reporting functions are completed in an accurate and timely manner.

Finding 2017-014

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

Grant Number & Year: All open, including B-16-DC-31-0001, FFY 2016

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

Criteria: 2 CFR § 200.303(a) (January 1, 2017) states, in part, the following:

> *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.*
>
> ** * * **
>
> *(c) Evaluate and monitor the non- Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.*

2 CFR § 200.331 (January 1, 2017) states, in part, the following:

> *All pass-through entities must:*
>
> ** * * **
>
> *(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.*

24 CFR § 570.492(a) (April 1, 2017) provides the following:

> *The state shall make reviews and audits including on-site reviews, or units of general local government as may be necessary or appropriate to meet the requirements of section 104(e)(2) of the Act.*

OMB Circular A-87, Attachment A, § C, and 2 CFR § 200.403 (January 1, 2017) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

A good internal control plan requires procedures sufficient to ensure that monitoring of subrecipient revolving loan funds is performed both adequately and timely.

Condition: Revolving loan funds administered by subrecipients were not adequately monitored by the Agency.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: Program income is derived mainly from repayments of principal and interest on loans made with CDBG Federal grants that were originally awarded to an Agency subrecipient (local government) and then loaned out to a business. This would include interest earned on balances repaid that are held by subrecipients that have not yet been loaned out again. According to Title 24 CFR § 570.489(e)(2)(i) (April 1, 2017), if interest and loan repayments during the year are greater than $35,000 then the amounts are considered program income.

When loans are repaid, the subrecipient deposits the monies into a revolving loan fund, which can then be reused for future loans. Those subrecipients that maintain revolving loan funds submit semiannual reports to the Agency documenting the activity in the funds, including program income received, administrative expenses paid, interest earned, and new loans made. The revolving loan funds are managed by the subrecipients unless the subrecipient decides to discontinue its loan program – at which time, all money received by the subrecipient will be remitted to the Agency.

During the fiscal year, nine subrecipients had program income greater than $35,000, totaling $614,279. We tested two of these subrecipients and noted the following issues with the Agency's monitoring of the subrecipients' revolving funds:

- As of January 2018, one subrecipient's revolving loan fund had not been formally monitored to ensure funds were properly accounted for, and Federal requirements were met. Total program income reported by the subrecipient during the fiscal year was $107,602, which was from repayments on four loans dating back to 2009. The Agency had on file loan agreements for two of the four loans; however, no documentation was on file to support whether the national objective was met or adherence to the environment review requirements.

- For the other subrecipient tested, the formal monitoring performed covered a time period that was over three years ago. The last formal review was performed February 2016 for the time period July 2011 through June 2014. The subrecipient reported that $141,020 had been received in program income during the fiscal year. We also noted the following issues with the February 2016 review:

    - Although the review was for a three-year time period, only one monthly bank statement was examined. Review of one month's activity and balance does not appear adequate to ensure the funds are being collected, used, and reported to the Agency appropriately.

    - The Agency discovered the subrecipient spent more than 5% of its program income on administrative expenditures. However, the Agency did not require any corrective action in the formal monitoring report. Additionally, the Agency does not have this requirement documented in a written policy.

- The Agency has a revolving loan fund monitoring checklist, but it was not utilized for the review in February 2016.

- The Agency's internal policy requires subrecipient reuse plans to be approved by the Agency. However, the Agency did not approve the reuse plan for either of the subrecipients tested.

Due to the numerous issues noted with the monitoring of the two subrecipients tested, we reviewed the other seven subrecipients to determine whether monitoring had been performed as of January 2018. Although some monitoring had been performed, a formal monitoring report had not been completed for four of the seven subrecipients. For the three that did have formal monitoring, a monitoring checklist was not on file and, for two of three, the last review covered a time period that was several years ago.

The table below details the seven subrecipients:

#	Program Income Collected During the Fiscal Year	Date Of Last Formal Monitoring	Time Period of Last Formal Monitoring
1	$ 65,950	November 2016	July 2011 through June 2016
2	$ 64,403	February 2015	July 2011 through June 2013
3	$ 49,782	November 2015	July 2011 through June 2014
4	$ 61,205	No formal monitoring had been performed. The subrecipient collected repayments during the fiscal year on loans originally made as far back as 2008.	
5	$ 48,161	No formal monitoring had been performed. The subrecipient collected repayments during the fiscal year on loans originally made as far back as 2012.	
6	$ 38,274	No formal monitoring had been performed. The subrecipient collected repayments during the fiscal year on loans originally made as far back as 2005.	
7	$ 37,882	No formal monitoring had been performed. The subrecipient collected repayments during the fiscal year on loans originally made as far back as 2007.	

For #2 above, we noted the ending balance in the semiannual report at December 31, 2016, did not agree to the beginning balance in the next report as of January 1, 2017. That report, which was through June 30, 2017, had not been reviewed as of January 2018.

Cause: The Agency did not devote adequate resources to monitoring the subrecipient revolving loan funds.

Effect: Without adequate monitoring and policies, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure that timely and adequate monitoring of subrecipient revolving loan funds is performed.

> **Management Response:** The agency has reorganized programmatic and operations staff members and procedures are being implemented by the department to correct the deficiencies.

<u>Finding 2017-015</u>

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

Grant Number & Year: #B-14-DC-31-0001, FFY 2014 and #B-13-DC-31-0001, FFY 2013

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

Criteria: 24 CFR § 570.489(e)(1)(viii) (April 1, 2017) states that program income includes "[i]nterest earned on funds held in a revolving fund account[.]"

Per 2 CFR § 200.302(a) (January 1, 2017):

> *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.*

Good internal control requires procedures to ensure reports are complete, accurate, and agree to the accounting system.

Condition: The Agency did not accurately report program income in the Federal Performance and Evaluation Report (PER).

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: The PER is due from each State within 90 days after the close of its program year. We tested the 2015 PER, which was submitted in October 2016, with an extension from the Federal agency, and reviewed financial information reported for the FFY 2013, FFY 2014, and FFY 2015 grant years.

The Agency reported FFY 2014 program income of $1,307,437; however, $180,853 in interest from the revolving fund was erroneously excluded. For the FFY 2013 grant, program income of $2,146,658 was reported; however, $2,298,021 should have been reported. Interest of $144,559 was excluded, leaving a remaining unknown variance of $6,804.

Cause: The Agency did not have adequate reporting procedures.

Effect: When program income is not accurately supported and reported, there is an increased risk for reporting errors and non-compliance with regulations.

Recommendation: We recommend the Agency implement procedures to ensure reports are complete, accurate, and agree to accounting records.

> **Management Response:** The agency has reorganized programmatic and operations staff members and procedures are being implemented by the department to correct the deficiencies.

DEPARTMENT OF EDUCATION

Finding 2017-016

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

Grant Number & Year: #201616N202043, #201616N109943, #201616N105043, FFY 2016; #201717N202043, 201717N109943, and #201717N105043, FFY 2017

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Per 7 CFR § 226.6(b) (January 1, 2017):

Each State agency must establish application review procedures, in accordance with paragraphs (b)(1) through (b)(3) of this section, to determine the eligibility of new institutions, renewing institutions, and facilities for which applications are submitted by sponsoring organizations.

In order to demonstrate financial viability, a new or renewing institution is required by 7 CFR § 226.6(b)(1)(xviii)(A)(2) and 7 CFR § 226.6(b)(2)(vii)(A)(2), respectively, to do the following:

[D]emonstrate that it has adequate financial resources to operate the CACFP on a daily basis, has adequate sources of funds to continue to pay employees and suppliers during periods of temporary interruptions in Program payments and/or to pay debts when fiscal claims have been assessed against the institution, and can document financial viability (for example, through audits, financial statements, etc.)[.]

State agencies may disburse CACFP funds only to organizations that meet eligibility requirements.

7 CFR § 226.11(c)(4), (January 1, 2017), states, in relevant part, the following:

For-profit child care centers, including for-profit at-risk and outside-school-hours care centers, must be reimbursed only for the calendar months during which at least 25 percent of the children in care (enrolled or licensed capacity, whichever is less) were eligible for free or reduced-price meals or were title XX beneficiaries.

7 CFR § 226.6(m)(6) states, in relevant part, the following:

The State agency must review institutions according to the following schedule: (i) Independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years.

2 CFR § 200.331 (January 1, 2017) states, in relevant part, the following:

All pass-through entities must:

* * * *

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

A good internal control plan requires policies and procedures to ensure applicant information is accurate and verified, subrecipient monitoring is performed timely in accordance with Federal regulations, and documentation of monitoring requirements is maintained.

Condition: The Agency did not have adequate documentation or procedures to ensure that subrecipients met eligibility requirements. We also noted one subrecipient tested did not have a review performed within the last three years.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency paid $32,261,793 to 305 subrecipients during the fiscal year. The subrecipients provide meals and snacks to eligible children and adults who receive care at participating child care centers, adult day care centers, outside-school-hours care centers, at-risk afterschool programs, family and group day care homes, and emergency shelters. We noted the following:

- For 11 of 26 subrecipients tested, there was not adequate documentation that the subrecipient was financially viable. One of the 11 was a new institution, and the remaining 10 were renewing institutions. The subrecipients submitted financial information, such as profit and loss statements, balance sheets, and loan agreements; however, the information was not audited, and the Agency did not obtain support, such as bank statements, etc., to verify the accuracy of the financial information submitted. Without such support, there is an increased risk for inaccurate or false information.

- For 2 of 11 for-profit subrecipients tested, there was not adequate documentation that 25% of the subrecipients' participants met income eligibility requirements. The Agency's administrative review checklist included a review of the 25% requirement. However, one of the reviewers used an outdated checklist that did not include the requirement. The Agency could not provide supporting documentation that the verification had been performed.

- For 1 of 40 subrecipients tested, the Agency did not complete review procedures within the last three years, as required by Federal regulations. Because the review was not completed, the Agency had not ensured payments to the subrecipient were used solely for the conduct of the food service operation or to improve such food service operations, that income eligibility documentation for each participant was on file, and that the sponsoring organization reimbursed its day care homes or centers within five working days of receiving the reimbursement from the Agency, as required by Federal regulations.

Cause: The Agency's procedures did not require audited financial statements or other outside verification, such as bank statements. Procedures were not adequate to ensure the review checklist was current and complete. Per discussion with the Agency, the subrecipient without a review was inadvertently dropped from the monitoring schedule when a new computer system was implemented.

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

Recommendation: We recommend the Agency obtain adequate documentation to ensure subrecipients meet eligibility requirements. We also recommend the Agency improve procedures to ensure that all subrecipients have monitoring performed within the required timeframe.

Management Response: <u>Ensuring sub-recipients meet eligibility requirements</u>: Over the last few years, the Agency has increased the number and types of documents that new and renewing institutions submit to substantiate financial viability for participation in the Child and Adult Care Food Program (CACFP). The Agency will contact USDA Regional Office and other State agencies to determine how to modify our current policy and procedure.

<u>Documentation that 25% of the sub-recipients' participants met income eligibility guidelines for free or reduced meal benefits</u>: The Agency's program specialists utilize the CACFP Review form to conduct the required monitoring of sub-recipients. When there is a section of the form that does not pertain to the review, the program specialist deletes that section. For the sub-recipients tested a form from a previous review was used and did not review the form to ensure all of the sections (for profit and non-profit) were included.

<u>Failure to complete one subrecipient's compliance review within the required three-year period:</u> Agency utilizes the Child Nutrition Program (CNP) system to generate a list of sub-recipients up for review based on the date of the last compliance review. In 2014, the Agency implemented a new CNP system and the sub-recipient was not included on the review schedule during implementation of the new system. The sub-recipient enrolled to participate in the CACFP for fiscal year 2018 but has not filed a CACFP claim since May 2017.

APA Response: The last compliance review was for the 2013-2014 year; therefore, a compliance review should have been performed for the 2016-2017 year. The subrecipient received $113,827 for fiscal year ended June 30, 2017.

<u>Finding 2017-017</u>

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

Grant Number & Year: H126A1600390, FFY 2016; H126A1700390, FFY 2017

Federal Grantor Agency: U.S. Department of Education

Criteria: In addition to being adequately documented, allowable costs are required by 2 CFR § 200.403 (January 1, 2017) to be necessary and reasonable.

2 CFR § 200.404 provides, in relevant part, the following:

> *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:*
>
> * * * *
>
> *(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.*

Per Title 92 NAC 72-004.07, a cash advance is an allowable method of procurement; however, if a cash advance is used, Title 92 NAC 72-004.07A3 states, "The recipient is responsible for providing to program staff itemized receipts or other agreed on evidence to verify appropriate use of the cash advance."

Per Title 92 NAC 72-005.01, "The program shall retain a vested interest in any items of equipment in which its share of the current market value is $5,000 or more."

Title 92 NAC 72, Appendix B, includes a fee schedule for services, goods, and supports for the purpose of containing costs "and to assure the availability of program services to the largest number of individuals with significant disabilities." That fee schedule allows for private vehicle travel at a "Cost equal to 30¢ per mile."

According to the Agency's Vocational Rehabilitation (VR) Program Manual regarding Client Contribution, "All individuals will be asked if they are willing and able to participate prior to authorizing VR funds for any other service."

A good internal control plan requires procedures to ensure that the Agency authorizes only reasonable, necessary, and adequately supported expenditures.

Condition: The Agency's procedures were inadequate to ensure that expenditures were necessary and reasonable, had adequate support on file, or were within fee schedule guidelines.

Repeat Finding: No

Questioned Costs: $33,821 known (H126A1600390, $30,400; H126A1700390, $3,421)

Statistical Sample: No

Context: The Vocational Rehabilitation (VR) program is designed to provide a wide array of services and support to individuals with disabilities to assist those individuals in obtaining gainful employment. The services provided are varied and can include anything from personalized, on-the-job training to cash advances for clothing, gas, or food.

We tested a random sample of 18 non-payroll Federal VR expenditures. We also selected nine payments specific to the Grand Island VR office due to complaints we received expressing concerns of fraud, waste, or abuse of public funds at this location. The following table outlines the details of each test.

Test	Random Sample	Grand Island	Total
# of Payments tested	18	9	27
# of Errors	4	5	9
$ Amount tested	$16,659	$44,358	$61,017
$ Amount of Errors	$1,346	$30,570	$31,916
Other Errors noted	$0	$1,905	$1,905
Known Questioned Costs	**$1,346**	**$32,475**	**$33,821**

Total VR expenditures (excluding payroll) totaled $8,087,366 for the fiscal year, of which $1,587,959 related to the Grand Island office. The dollar error rate for the random sample was 8.08% ($1,346/$16,659) which estimates the potential dollars at risk for fiscal year 2017 to be $653,459 (dollar error rate multiplied by population).

Additional information on each of the errors is provided below.

<ins>Unreasonable Payments</ins>

Six payments, totaling $32,475 in Federal expenditures, were identified that were not considered reasonable and necessary for proper administration of the program. The six payments are summarized in the following table, and additional information related to each client is detailed below.

Client	Amount	Description
Client 1	$ 16,300	Heavy Duty Cattle Chute
Client 1	$ 11,000	Utility Terrain Vehicle
Client 2	$ 1,800	Cash Advance for Tools
Client 2	$ 1,621	Cash Advance for Toolbox
Client 3	$ 1,470	Tools
Client 3	$ 284	Tools
Total	**$ 32,475**	

- Client 1 received a customized heavy-duty cattle chute costing $16,300 and a utility terrain vehicle costing $11,000 to assist him with his farming and ranching business. At the time the payments were made, the client had neuromuscular complications, diabetes, and joint pain that resulted in very low mobility and work tolerance. We did not believe these purchases were necessary or reasonable for the reasons outlined below. We considered these costs to be questioned.

- The client reported monthly income of nearly $7,000 from Social Security and farm income; however, there was no indication that he was asked to share in the cost of the purchases.

- Both pieces of equipment cost more than $5,000; however, the Agency did not have an equipment agreement to establish formally the Agency's vested interest in those items. Given all the circumstances of the case, it did not appear that such equipment would be fully utilized in prolonged employment. In fact, only one month after receiving the equipment, the client was no longer medically able to work, and the Agency did not recover the equipment.

- The Agency should have performed a financial viability review before approving these high-dollar purchases.

- The Agency closed the VR case, designating it "successful." This appears questionable given that the client was no longer able to work.

- Client 2 received cash advances totaling $3,421 ($1,800 in our sample and $1,621 in another transaction) to purchase several auto mechanic tools. The client had been diagnosed with post-traumatic headaches due to a 2008 motor vehicle accident, and he also reported neck pain, anxiety, and depression, which resulted in very low self-direction, interpersonal skills, and work tolerance. He had recently retired from a public utility but was not ready to stop working, so he wanted to pursue auto mechanic employment as he was previously certified to perform this work and had some prior experience. He needed the tools to begin employment at a car lot. After obtaining the tools, the client began expressing some concerns regarding his ability to deal physically with the work, and he began pursuing other jobs. In October 2017, the client obtained alternate employment, which no longer required use of the tools. It appears that Agency staff initially expressed a desire to retrieve the tools; however, the client was later permitted to keep them, although no basis for this change was documented in the case notes. As such, we considered these costs to be questioned.

- Client 3 had drug and alcohol abuse/dependence issues, resulting in very low interpersonal skills and work tolerance. He received plumbing tools costing $1,754 ($1,470 in our sample and $284 in another transaction) to pursue temporary employment. When the tools purchase was authorized, however, the Agency knew already that he was planning to move to another city. He relapsed several months later, and his case was eventually closed due to a lack of contact. As such, we considered these costs to be questioned.

- We also noted a fourth client who received a hydraulic calf table costing $5,650 and a cattle chute costing $15,088 ($5,088 was in our sample; the remaining $10,000 was a separate line item) to assist him with his farming and ranching business. The equipment cost more than $5,000, yet the Agency did not have an equipment agreement to establish formally the Agency's vested interest in those items. However, we did not consider these costs to be questioned, as it appeared the equipment was still in use.

Unsupported Cash Advances

We noted two cash advances of Federal funds, totaling $1,328, which were provided to the clients prior to the purchase of authorized items, with no subsequent itemized receipt obtained to ensure the clients had purchased those items.

- One client received a cash advance of $1,178 for meals while he attended driving school out of state. The client was advised to save his receipts, but he did not.

- One client was given a cash advance of $150 to purchase special shoes for work, which were recommended by his physical therapist. Receipts are required for cash advances, but all that was in the file was a VR Proof of Purchase form.

Fee Schedule Noncompliance

We noted one payment that was not made within the Agency's rules and regulations. Agency staff miscalculated one client's fuel authorization. The client received $26 but was actually authorized for 26 miles and, therefore, 26 miles should have been multiplied by the $0.30 state mileage rate. As such, the client should have only received $8, resulting in questioned costs of $18.

Cause: Employee error and lack of oversight. Lack of adequate policies and procedures. Staff did not conduct financial viability reviews before approving payments for farmers and ranchers, as this was a new procedure that did not begin until June 2017. The Agency does not have a policy for tool/equipment purchases that consider the client's continued pursuit of his/her employment goals.

Effect: When the Agency makes unnecessary and unreasonable payments, this results in a misuse of Federal funds and noncompliance with Federal regulations. When receipts are not obtained for cash advances to VR clients, there is no way to ensure the cash advances are being used only for their intended purpose. When aid payments are not calculated according to Agency rules and regulations, the funds can be misused.

Recommendation: We recommend the Agency implement procedures to ensure that only necessary and reasonable expenditures are authorized. The Agency should perform financial viability reviews whenever necessary and create a policy for tool/equipment purchases that consider the client's continued pursuit of his/her employment goals. Additionally, the Agency should require receipts for all cash advances and issue them only when the Agency is unable to pay the provider directly. Finally, all VR staff should follow Agency rules and regulations when authorizing aid payments to VR clients.

Management Response:

1. Agency implement procedures to ensure only necessary and reasonable expenditures are authorized – Eligibility determinations begin with a presumption of benefit (§361.42 (a)(2)). While there is no entitlement to any vocational rehabilitation service, individuals must intend to achieve an employment outcome

that is consistent with the applicant's unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. An individual's disability becomes relevant in the determination of eligibility by examining the resulting impediment(s) to employment. The entirety of this criteria is to be considered in the development of the IPE. In the particular case mentioned, the individual was assessed by a specialized provider (Easter Seals) to determine the appropriate equipment/solutions to accommodate the functional limitations of the individual in order to continue farming (the goal of the IPE). The Counselor concurred. Given the costs of the equipment, an additional review of the case was completed by the Program Director managing VR's high cost fund. At that point in time, prior to the authorization of purchases, given all information available to three different individuals, the same decision to move forward was made. Around the time of the delivery of the equipment, the individual experienced changes in their physical condition resulting in a lengthy stay in the hospital. Subsequent task notes indicate the individual is back home, is still helping on the farm, and has no further need of VR services. There are no federal requirements for a minimum number of hours an individual must work to receive VR services or to be considered successful. Depending on the individual's goal, work may be part time or full time. The nature of the work completed by VR revolves around decisions regarding functional limitations and their impact on the ability of an individual to work. This is not a static process as much may change over the duration of services as was the situation for this particular case.

VR policies must ensure that the provision of services is based on the rehabilitation needs of each individual as identified in the IPE consistent with the individual's informed choice and we cannot establish any arbitrary limits on the nature and scope of VR services to be provided to achieve an employment outcome (§361.50 (a)). While we accept the other findings of the audit, we believe that, given our responsibilities and obligations under federal law, determinations of eligibility and subsequent services were and are made with prudence.

2. The Agency should perform financial viability reviews whenever necessary – A Vocational Rehabilitiation Information System Update was completed on July 5, 2017 that made changes to the policy to now require a financial viability study.

3. The Agency should create a policy for tool/equipment purchases – VR intends to review their current policy to determine if changes need to be made.

4. The Agency should require receipts for all cash advances and only issue them when the Agency is unable to pay the provider directly – The current Case Service Procurement policy requires proof of purchase documentation for all cash receipts, and the Consumer Accountability Policy is in place to hold consumers accountable in the use of cash advances. Cash advances are also one component of the Team Compliance review done yearly for each team.

Regarding the recommendation to pay the provider directly when possible, 34 CFR 361.52(b)(3) – Informed Choice requires the designated State unit have policies and procedures that provide for "flexible procurement policies and methods that facilitate the provision of vocational rehabilitation services and that afford recipients of service meaningful choices among the methods used to procure vocational rehabilitation services". Nebraska VR also needs to consider the confidentiality of consumers, especially in rural communities, and cash advances allow for that confidentiality to be maintained if the consumer chooses.

APA Response: We disagree with the Agency. Federal regulations allow the State to consider participation of individuals in the cost of services based on financial need. There was no indication the individual was asked to share in the costs of services or that financial need was considered. In addition, the Agency did not have an equipment agreement to establish the Agency's vested interest. Furthermore, the Agency did not perform a financial viability review. Regarding the cash advances, the instances noted above were not supported, and the required receipts were not on file.

Finding 2017-018

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

Grant Number & Year: H126A1500390, FFY 2015; H126A1600390, FFY 2016; H187A1600400, FFY 2016; H126A1700390, FFY 2017

Federal Grantor Agency: U.S. Department of Education

Criteria: A good internal control plan requires procedures to be in place to ensure expenditures are properly reported and agree to accounting records.

Per 2 CFR § 200.302(a) (January 1, 2017):

> *[T]he 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.*

According to RSA-2 report instructions (October 25, 2013):

> *For the purpose of this report, expenditures include non-federal and federal funds, including program income, used in the VR and SE programs. Expenditures do not include unliquidated obligations. The RSA-2 requires reporting expenditures that have been disbursed, or accrued in accordance with 34 CFR 80.3.*

Condition: The Agency did not accurately report expenditures on the annual RSA-2 report or on SRF-425 reports.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: The Agency submitted the annual RSA-2 report on December 22, 2016. When we requested the report during our fieldwork in December 2017, the Agency stated the original report was incorrect and provided us with a revised report. However, the revised report was never submitted to the Federal government, and both the original and the revised reports were inaccurate. Variances between the original, submitted report and the correct amounts are summarized below:

Line	Reported	Actual	Variance
1A Direct Administration Costs	$ 3,308,962	$ 2,182,168	$ (1,126,794)
1B Indirect Costs	$ 1,136,003	$ 1,341,092	$ 205,089
2A1a Assessment, Counseling, Guidance, and Placement Costs	$ 12,565,959	$ 12,594,730	$ 28,771
2B5 Services Purchased by Agency Subtotal	$ 6,913,575	$ 8,274,368	$ 1,360,793
4A Total SE Program Expenditures included in Sections 1, 2 and 3 above	$ 268,299	$ 283,299	$ 15,000

We tested two of four SRF-425 reports submitted by the Agency during the fiscal year and noted errors with both of them:

Grant	Quarter End	Line	Reported	Actual	Variance
FFY 2016	September 30, 2016	Indirect Cost Base	$ 11,183,330	$ 11,833,360	$ 650,030
FFY 2017	March 31, 2017	Federal Share Indirect Costs	$ 442,091	$ 347,926	$ (94,165)

Cause: Federal RSA-2 report instructions changed in 2014, and the Agency did not properly update its procedures. The Agency's primary error was excluding expenditures obligated in FFY 2015 but liquidated in FFY 2016. Other errors with the RSA-2 and errors with the SRF-425 were due to employee error and inadequate review.

Effect: Inaccurate information was reported to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are properly reported and agree to accounting records.

> **Management Response:** Nebraska VR hired an Assistant Fiscal Director in October, 2017 who will be verifying federal reports and checking data entry to ensure expenditures are properly recorded. Reorganization currently being implemented in NDE will provide additional oversight in this area.

Finding 2017-019

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

Grant Number & Year: Various, including H126A1700390, FFY 2017

Federal Grantor Agency: U.S. Department of Education

Criteria: According to 29 USC § 722(b)(3)(F) (2016):

The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility described in paragraph (1), unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed.

Per the Vocational Rehabilitation Program Manual:

The IPE [Individual Plan for Employment] is to be completed within 90 days of the date the client was determined eligible for VR [Vocational Rehabilitation]. If the IPE is approved 91 days or more after the Eligibility Decision an explanation as to why the time required for IPE Approval has exceeded 90 days must be documented. This explanation is documented by answering the first question of the IPE Approval Determination.

A good internal control plan requires procedures to ensure IPEs are developed within 90 days of eligibility determination. Such procedures could include on-site reviews of compliance with this requirement, if performed regularly and timely.

Condition: One on-site review was not performed timely. Additionally, for 4 of 22 clients tested, the IPE was not developed within 90 days of eligibility determination.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: Central office staff perform annual reviews of each separate office location, which include verification that IPEs were developed within the 90-day timeframe. Of the nine separate office locations, one did not have an annual review performed since January 2016.

During our review of compliance with 90-day IPE requirement, the following errors were noted:

#	Date Eligible	Date IPE Completed	Days Late
1	February 11, 2016	October 26, 2016	168
2	December 1, 2015	August 11, 2016	164
3	July 13, 2015	March 10, 2016	151
4	September 16, 2016	February 1, 2017	48

There was no documentation of an agreement allowing for the extensions of the deadline to a specific date.

Cause: Employee oversight and staff turnover.

Effect: There is an increased risk of noncompliance with requirements, such as the 90-day IPE requirement, when on-site reviews are not performed regularly and timely. The IPE's purpose is to document the VR client's goal for employment, the services they need, and the jobs they are pursuing. When the IPE is not completed timely, the client's success in the program is jeopardized without a formal plan for success.

Recommendation: We recommend the Agency implement procedures to ensure annual on-site reviews are performed timely, and IPEs are developed within 90 days of eligibility determination.

> **Management Response:** Nebraska VR currently completes a Compliance Review, which includes IPE and eligibility determinations, each year for each team and the results are shared with the Office Director. The staff member who completed those reviews left in May, 2017 and the next 6 months were spent automating the process to provide more transparency. The reviews of each team have begun using the new automated process, which will allow management easier access to the information and the ability to determine issues of non-compliance.

<u>Finding 2017-020</u>

Program: CFDA 84.367 – Supporting Effective Instruction State Grant – Allowability & Subrecipient Monitoring

Grant Number & Year: #S367A140026, grant period 7/1/2014 to 9/30/2016; #S367A150026, grant period 7/1/2015 to 9/30/2017; #S367A160026, grant period 7/1/2016 to 9/30/2018

Federal Grantor Agency: U.S. Department of Education

Criteria: Per OMB Circular A-87, Attachment B, § 8(h)(3):

> *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

Per OMB Circular A-87, Attachment B, § 8(h)(4):

> *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.*

2 CFR § 200.430(h)(8)(i)(1) (January 1, 2017) states, in relevant part, the following:

> *Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:*
>
> * * * *
>
> *(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.*

OMB Circular A-87 and 2 CFR § 200.403 (January 1, 2017) require costs charged to Federal programs to be reasonable, necessary, and adequately documented.

2 CFR § 200.331 (January 1, 2017) states, in relevant part, the following:

> *All pass-through entities must:*
>
> * * * *
>
> *(d) Monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward[.]*

A good internal control plan requires that adequate documentation be maintained to support amounts claimed by and paid to subrecipients. Good internal control also requires procedures to ensure subrecipients are utilizing Federal funds passed through for authorized purposes and in compliance with all applicable regulations.

Condition: The Agency did not have adequate subrecipient monitoring procedures. For 23 of 25 subrecipient payments tested, documentation was inadequate to support that the amounts paid were in accordance with Federal requirements. In addition, for 1 of 25 subrecipients, an on-site review was not performed during the last three years.

Repeat Finding: No

Questioned Costs: $115,824 known

CFDA #	Grant #	Questioned Costs
84.367	S367A140026	$ 58
84.367	S367A150026	$ 53,206
84.367	S367A160026	$ 62,560

Statistical Sample: No

Context: The Agency awards subgrants to schools for the Supporting Effective Instruction State Grant (Title IIA), and these subrecipients request reimbursement periodically during the fiscal year. The Agency requires supporting documentation to be provided with the reimbursement request. However, for payroll expenditures, the Agency requires only a report from the subrecipients' accounting system that shows the amount paid with Title IIA funds to each employee. The Agency does not require time-and-effort logs, time certifications, or other payroll documentation. We tested 25 subrecipient payments and reviewed the monitoring for each subrecipient. For 23 of the 25 payments tested, the documentation on file was inadequate to support that the costs were allowable and in accordance with Federal cost principles.

The Agency performs on-site reviews for each subrecipient on a three-year rotating basis. During the on-site reviews, the Agency selects a sample of employees to test from all employees paid with Federal funds passed through from the Agency. However, the Agency does not select a sample from each individual Federal program. The reviews for 18 of 25 schools that we tested did not include testing of Title IIA time records. In addition, for 1 of 25 subrecipients, an on-site review was not performed during the last three years.

The lack of supporting documentation totaled $2,099,723; however, after we questioned those payments, the Agency was able to obtain further supporting documentation for 11 of the 23 payments tested, which reduced questioned costs to $115,824.

The Agency disbursed $10,316,169 to subrecipients during State fiscal year 2017. The sample tested totaled $2,370,601, of which $115,824 lacked adequate supporting documentation. Based on the sample tested, the dollar error rate was 4.89% ($115,824/$2,370,601), which estimates potential dollars at risk for fiscal year 2017 to be $504,461 (dollar error rate multiplied by population).

Cause: The Agency does not require time-and-effort logs or time certifications to be submitted with the subrecipients' reimbursement requests. In addition, the Agency did not ensure payroll documentation was reviewed for Title IIA during on-site visits.

Effect: Without adequate supporting documentation and adequate monitoring procedures, there is an increased risk that Federal awards could be used for improper/unallowable costs.

Recommendation: We recommend the Agency improve procedures to monitor subrecipients, including a review of payroll documentation from each subrecipient at least once annually. We further recommend adequate documentation be maintained to support that expenditures are allowable and in accordance with Federal cost principles.

> **Management Response:** The Nebraska Department of Education (Department) will continue to work with subrecipients on adequately documenting time-and-effort on federal grants passed through the Department. The Department will also review and improve monitoring processes to ensure that subrecipients are adequately documenting time-and-effort on federal grants passed through the Department.

Finding 2017-021

Program: CFDA 96.001 and 96.006 – Disability Insurance/SSI Cluster – Suspension and Debarment & Special Tests and Provisions

Grant Number & Year: Various including #04-1604NEDI00, FFY 2016; #04-1704NEDI00, FFY 2017

Federal Grantor Agency: U.S. Social Security Administration

Criteria: The Social Security Administration Program Operations Manual System (POMS) Disability Insurance – DI Chapter and Subchapter 39569.300 – Disability Determination Services Requirements for Ensuring Proper Licensures, Credentials, and Exclusions of Consultative Examination (CE) Providers, CE Provider's Employees, Medical and Psychological Consultants (MC/PC), Section C. 1. b., requires the State Disability Determination Services (DDS) to perform the following for existing CE providers:

> 3. *Review the SAM for each CE provider at least annually . . . .*
>
> 5. *Annotate the provider file with the:*
>   - *date and name of the DDS employee verifying the license and the source of verification (e.g., state licensing agency webpage, SAM database); or*
>   - *date and name of the individual who provided the credential verification.*

2 CFR § 180.300 (January 1, 2017) provides, in relevant part, the following:

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

A good internal control plan requires adequate procedures to ensure the Agency does not utilize CE providers who are barred from participation in Federal programs due to improprieties. Good internal control also requires that procedures performed be adequately documented.

Condition: For none of the 25 CE providers tested did the Agency have documentation on file to support that it reviewed the System for Award Management (SAM) database during the fiscal year ended June 30, 2017, to verify that the providers were not excluded, suspended, or otherwise barred from participation in Federal programs.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: The Agency stated that it reviews the SAM website to ensure its CE providers are not barred from participation in the program. However, the Agency did not have documentation on file to support this review occurred. We reviewed the SAM for the providers tested, and none were excluded by the Federal government.

Cause: Unknown

Effect: Increased risk for loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure it completes documented annual reviews of the SAM database for all of its CE providers.

> **Management Response:** The Agency possesses documentation that a review of the SAM website did occur during the fiscal year ending June 30, 2017. However, we acknowledge that each individual provider file was not annotated as is required. Corrective action has already been completed.

APA Response: When the APA requested documentation to support SAM reviews completed during the fiscal year ended June 30, 2017, the Agency provided copies of reviews completed in 2018 (dated after the APA requested the reviews) and screen prints showing an example of how the Agency completes the review on the SAM website. This documentation did not support completion of the SAM reviews during the fiscal year ended June 30, 2017, for the providers tested.

GAME AND PARKS COMMISSION

Finding 2017-022

Program: CFDA 15.605 and 15.611 – Fish & Wildlife Cluster – Allowability

Grant Number & Year: All open, including #W-15-R-73, period ending June 30, 2017; #FW-21-D-18, period ending June 30, 2017

Federal Grantor Agency: U.S. Department of the Interior

Criteria: According to 2 CFR § 200.405(a) (January 1, 2016), "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."

A good internal control plan requires procedures to be in place to ensure overtime costs are charged to the appropriate funding source.

Condition: Overtime costs for temporary employees were not charged to grants in accordance with relative benefits received.

Repeat Finding: No

Questioned Costs: $417 known ($164 #W-15-R-73; $253 #FW-21-D-18)

Statistical Sample: No

Context: We tested 10 employee paychecks with payroll costs charged to the Fish & Wildlife Cluster. Four of the employees were temporary; of those, three worked overtime. For two of the employees with overtime, the overtime was charged to the incorrect funding source. The funding source should have been State funds, resulting in questioned costs of $82. For a third employee, one grant was overcharged, and another was undercharged by $53; however, both grants were within CFDA 15.611, so there were no questioned costs.

We tested five additional temporary employee paychecks with overtime and noted similar errors with four of these, resulting in additional questioned costs of $335. For the other employee, one grant was overcharged, and another was undercharged; however, both grants were within CFDA 15.611.

Federal payment errors noted within the sample were $82. The total sample tested was $10,532, and total payroll expenditures for the fiscal year were $7,061,718. Based on the sample tested, the case error rate was 30% (3/10). The dollar error rate for the sample was 0.78% ($82/$10,532), which estimates the potential dollars at risk for fiscal year 2017 to be $55,081 (dollar errors rate multiplied by population).

Cause: The Agency's timesheet system automatically charges temporary employee overtime to the first cost objective with hours worked listed on the timesheet, regardless of which cost objective actually incurred the overtime. Agency staff stated that they are implementing a process going forward to check manually the allocations for temporary employees with overtime to ensure they are coded correctly.

Effect: Misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure overtime costs are charged properly.

> **Management Response:** There had been a number of turnovers of key staff in the Human Resource Division contributing to a delay in template review and related corrections. Interim manual procedures were provided to divisions. We reviewed 100% of the temporary employees with overtime that worked on this cluster of federal grants and we identified fourteen employees for the fiscal period that had calculation errors that were not initially corrected with the manual compensating control. Due to project spending, the net effect to the federal grants was under $500.00. We are working with the Federal Agency to determine resolution of questioned costs. We have corrected the timesheet template that was being utilized.

Finding 2017-023

Program: CFDA 15.605 and 15.611 – Fish & Wildlife Cluster – Suspension and Debarment

Grant Number & Year: #W-119-HM-1, period ending December 31, 2017; #FW-21-D-18, period ending June 30, 2017

Federal Grantor Agency: U.S. Department of the Interior

Criteria: Per 2 CFR § 180.300 (January 1, 2016):

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

A good internal control plan requires procedures to ensure suspension and debarment is both verified and adequately documented.

Condition: The Agency did not have adequate procedures in place to review the excluded parties list prior to awarding funds.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: Two of eight covered transactions tested did not have documentation that the excluded parties list system was reviewed, nor was there a certification or clause added to the covered transactions to show that the vendors were not suspended or debarred. We noted the two parties in question were not excluded by the Federal government.

Cause: According to the Agency, the cause was staff oversight.

Effect: Increased risk for the Agency to conduct business with suspended or debarred entities.

Recommendation: We recommend the Agency implement procedures to ensure suspension and debarment requirements are followed and documented.

> **Management Response:** In 2011, the Commission implemented a policy to ensure that cooperative agreements and contracts contain a clause to include the suspension and debarment requirement. As noted, neither of the transactions included parties which were excluded by the Federal Government and given the complexity of the identified federal guidance, we believe that our procedures are in compliance with the intent of the guidance. We will review our current procedures to ensure adequate documentation of transactions required by federal guidance is in place.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2017-024

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

Grant Number & Year: #G1701NEFOST, FFY 2017

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

Criteria: Per 45 CFR § 75.405(a) (October 1, 2016):

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 § 75.303 (October 1, 2016):

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 the Cost Allocation Plan:

To validate the sample results, 10% of the required amount of surveys for each pool (SSW and CFSS) 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 selection will not be evident to the worker or the supervisor until after the worker completes his or her observation. As soon as the worker submits the observation, two notifications will be sent, one to the worker and one to the worker's supervisor.

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; therefore, the need for the supervisor's validation is imperative. A good internal control plan also requires procedures to ensure observations selected by workers are correct.

Condition: We tested 40 RMTS observation forms, of which four were charged directly to Foster Care Title IV-E; however, three of those four should have been charged to Child Welfare funds. Foster Care is charged 50% to Federal funds and 50% to State matching funds, while Child Welfare is a State-funded program. One of these incorrect forms should have been validated by a supervisor but was not. Additionally, for the two months tested, we noted that 360 reviews were required to have a supervisory review, but the Agency was able to provide only 353 reviews. Agency personnel stated the other seven reviews were not completed.

Repeat Finding: 2016-017

Questioned Costs: $8,959 known

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 method is based upon the laws of probability and statistical sampling techniques. The Agency utilizes two separate time studies that are applied to related cost centers, using a common observation form.

Children being served by Children and Family Services are identified as either Title IV-E Foster Care (Federal and State-funded) or Child Welfare (State-funded). To be eligible for Federal funding, cases must meet strict Federal criteria. During our testing of 40 individual observations, we noted three Child and Family Services workers selected an observation for “Foster Care Candidate” when they should have selected an observation for “Not Foster Care Candidate.” This resulted in an overcharge to Federal Foster Care funds. Looking at the total charged to Foster Care based on the RMTS each quarter, we observed that Foster Care appeared to bear an excessive portion of costs. Although Foster Care children made up only about 7% of the total children in the system, the Foster Care grant was charged approximately 40% of the RMTS allocation. We calculated the Foster Care dollars at risk for the fiscal year to be $9,243,402 with a Federal share of $4,621,701. (Foster Care administration costs are split 50% Federal, 50% State.)

	Foster Care		**Child Welfare**	
Average # Children	726	7.19%	9,370	92.81%
$ Allocated per RMTS	$ 11,266,440	40.04%	$ 16,870,383	59.96%
$ Based on Average # Children	$ 2,023,038	7.19%	$ 26,113,785	92.81%
Variance	$ 9,243,402		$ (9,243,402)	
Federal $ At Risk (50% Federal)	**$ 4,621,701**			

According to the Cost Allocation Plan (CAP), “10% of the required amount of surveys for each pool (SSW and CFSS) will be validated by the worker’s supervisor.” The Agency was required to complete 1,804 surveys each month and select 360 observations for review for the two months we selected for testing – August 2016 and March 2017. However, only 353 reviews were conducted. Additionally, all 40 observations we selected for testing should have been reviewed by a supervisor. However, we noted one observation was not reviewed by the supervisor. The RMTS administrator stated he reviewed the observation instead of the supervisor because the “supervisor was either on leave, out of the office for a training/convention, transitioning duties, or otherwise inaccessible and therefore non-responsive at the time.” However, there was no documentation to support the supervisor was inaccessible. The RMTS administrator does not have program knowledge and did not review to ensure the program selected by the employee was correct. In fact, the selection was not correct. It is not appropriate to exclude observations for validation solely because supervisors did not complete them. Observations not appropriately validated should be followed up on with the responsible supervisors to ensure they are completed.

Cause: The Agency stated the observation form is "confusing for the workers," and it is working to revise the form. Two of the errors noted were reviewed by supervisors, so the supervisors also may not understand the form.

Effect: Random moment sampling is based on the laws of probability, which state, in essence, 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. We found three similar errors that all resulted in an overcharge to Federal Foster Care funds, a 75% error for observations tested for Foster Care. As a result, the Foster Care program was likely significantly overcharged.

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 2017-025

Program: Various, including CFDA 10.561 – State Administrative Grants for the Supplemental Nutrition Assistance Program (SNAP); CFDA 93.558 – Temporary Assistance for Needy Families (TANF); CFDA 93.568 – Low-Income Home Energy Assistance (LIHEAP); CFDA 93.575 & 93.596 – CCDF Cluster – Allowable Costs/Cost Principles

Grant Number & Year: Various, including #16163NE406S2514, FFY 2016; #1601NETANF, FFY 2016; #G16B1NELIEA, FFY 2016; #G1601NECCDF, FFY 2016

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

Criteria: Per 45 CFR § 75.303 (October 1, 2016):

> *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, 2016), "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, cost center Central Services and Supplies:

> *These cost centers will be allocated to all benefiting cost centers based on the labor hours, LH[2], related to each cost center. The costs identified for central services and supplies associated with the 24 hour facilities will be charged directly to the benefiting facility based on the codes established that identify each of the ten 24 hour facilities.*

Per the Cost Allocation Plan, cost center Termination Benefits:

> *The cost center will be allocated to all benefiting cost centers based on the labor hours, LH^3, in each cost center.*

Per the Cost Allocation Plan, the definitions of labor hours are as follows:

> *LH^2 – Includes only DHHS FTEs not assigned to a 24 hour facility or a Field Office. This statistic is used to allocate costs that do not benefit the 24 hour facilities or the Field Offices.*
>
> *LH^3 – Includes only DHHS FTEs not assigned to a 24 hour facility. This statistic is used to allocate costs that do not benefit the 24 hour facilities.*

Per the Cost Allocation Plan, cost center Resource Development:

> *There are approximately 89 FTE's in the cost center . . . . The cost center will be allocated to the benefiting programs based on time and effort reports prepared by the DHHS Resource Developers in the cost center.*

Per the Cost Allocation Plan, cost center FO [Field Office] Social Services Casework:

> *There are approximately 388 FTE's in the cost center . . . . The cost center will be allocated to the benefiting programs based on the SSW [Social Service Worker] Random Moment Time Study results.*

Per the Cost Allocation Plan, cost center FO Child Protection & Safety Services Casework:

> *There are approximately 334 FTE's in the cost center . . . . The cost center will be allocated to the benefiting programs based on the CFSS [Child & Family Services Specialist] Random Moment Time Study results.*

Per the Cost Allocation Plan, cost center Omaha/Lincoln ANDI [Access Nebraska Document Imaging] Centers:

> *ANDI centers perform document imaging and document management . . . . ANDI Center costs are allocated between Medicaid/CHIP (E&E APD) and Economic Assistance based on client count by program as contained in the NFOCUS Monthly Benefit Clients Summary Report . . . .*

According to 45 CFR § 75.511(a) (October 1, 2016), "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 Cost Allocation Plan (CAP).

Condition: The Agency did not properly allocate costs in accordance with relative benefits received for all four CAP allocation methodologies tested: labor hours, time and effort, the Random Moment Time Study (RMTS), and recipient allocations. A similar finding has been noted since 2013. The summary schedule of prior audit findings states corrective action has been taken.

Repeat Finding: 2016-018

Questioned Costs: $264,044 known

CFDA	Grant #	Known Questioned Costs
93.778	051605NE5ADM	$ 9,407
10.561	16163NE406S2514	$ 89,455
93.575, 93.596	G1601NECCDF	$ 43,661
93.575, 93.596	G1701NECCDF	$ 16
93.568	G16B1NELIEA	$ 42,353
93.558	1601NETANF	$ 64,928
93.658	1701NEFOST	$ 7,981
93.659	1701NEADPT	$ 935
93.667	G1701NESOSR	$ 5,308

Statistical Sample: No

Context: The following errors were noted:

<u>Labor Hours</u>

We tested the Central Services and Supplies cost center allocation for the quarter ended September 30, 2016, which totaled $3,674,349. We noted a total of 698,709 hours were used in the allocation for this cost center. An additional 118,669 hours were not used due to contractor error.

We also tested the Termination Benefits cost center allocation for the quarter ended March 31, 2017, which totaled $676,720 and used 1,712,852 hours in the allocation. 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. However, the contractor erroneously allocated 18,914 hours and $7,483 to those facilities. Additionally, 44,085 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.

A total of 62 cost centers are allocated based on labor hours; we tested three of these and had issues with two: a 67% error rate. Total costs allocated via labor hours were $17,809,575 for the quarter ended September 30, 2016, and $16,591,564 for the quarter ended March 31, 2017. A similar finding has been noted since State fiscal year 2013.

Time and Effort

During the quarter ended September 30, 2016, the resource development cost center allocated costs for 82 resource developers. It also included costs for 12 support staff. We noted the cost center included hours or costs for three employees who should not have been included:

- One employee's job title remained resource developer, but in January 2016 she started working specifically for TANF under a new initiative. However, her payroll costs were not coded to TANF until June 2016, five months later, which is not timely. Then, for the quarter tested, her payroll was charged to TANF, but her hours were still being incorrectly allocated through the resource development cost center, resulting in an overcharge to TANF of $25,518.

- One resource developer has always been coded to a Medicaid 75% cost center; however, her hours were allocated to the resource development cost center, resulting in an overcharge to Medicaid of $9,407.

- One employee was a social services supervisor until July 31, 2016, when she became a resource developer. Her hours after her job change were correctly included in the resource development cost center, but her payroll costs were not charged to resource development until October 2016, which is not timely. This resulted in an under-allocation of costs in the resource development cost center and an over-allocation of costs in the social services casework cost center. The employee's direct payroll costs for the quarter that were charged incorrectly were $5,310.

A total of nine cost centers are allocated based on time and effort; we tested two of these and had issues with one. Total costs allocated via time and effort were $4,280,200 for the quarter ended September 30, 2016, and $3,644,270 for the quarter ended March 31, 2017. Total costs allocated from the Resource Development cost center for the quarter tested was $1,586,276, and total hours allocated were 29,341.

RMTS

Both RMTS allocations tested, totaling $18,253,563, were allocated incorrectly. The Agency excluded certain observations if the worker selecting them did not normally work on that program. However, the observations selected by the workers were valid and should be included in the allocation. The Agency started allocating this way effective July 1, 2016, in partial response to Federal questions about why both populations of workers select activities on a common observation form. The Agency communicated this change to the Federal government; however, it did not receive express approval from the Federal government to change its methods, and it did not amend the Cost Allocation Plan.

The errors resulted in the following questioned costs:

CFDA	Program	Questioned Costs
10.561	State Administrative Matching Grants for the SNAP	$ 89,455
93.575, 93.596	CCDF Cluster	$ 43,677
93.568	Low Income Home Energy Assistance	$ 42,353
93.558	Temporary Assistance for Needy Families	$ 39,410
93.658	Foster Care Title IV-E	$ 7,981
93.659	Adoption Assistance	$ 935
93.667	Social Services Block Grant	$ 5,308
	Total Known Questioned Costs	**$ 229,119**

The questioned costs noted are for the cost centers tested; similar errors would likely occur in other cost centers and quarters. A total of six cost centers are allocated based on the RMTS; we tested two of these and had issues with both. Total costs allocated via the RMTS were $20,314,393 for the quarter ended September 30, 2016, and $19,294,344 for the quarter ended March 31, 2017.

Recipient Allocations

We tested the Omaha/Lincoln ANDI Center's cost center allocation for the quarter ended March 31, 2017, which was allocated to various programs based on recipient counts. We requested the supporting documentation for the recipient case counts; the Agency could provide the detail for most of the programs, but not Medicaid or CHIP. A total of $506,554 was allocated from this cost center based on these recipient case counts for the quarter, of which $249,984 was for Medicaid and CHIP. The Agency was able to provide a report after the fact. It included retroactively eligible recipients, so the totals were higher. The variance was 3.52% for Medicaid and 2.98% for CHIP.

Total costs allocated via the count of recipients were $4,499,342 for the quarter ended September 30, 2016, and $4,086,600 for the quarter ended March 31, 2017.

Cause: Inadequate/untimely review. The contractor made the labor hour errors that were not detected by the Agency. Many errors were similar to those noted in our prior audit; however, the contractor did not correct for subsequent quarters, and the Agency did not notice the contractor was continuing to make the same errors.

Effect: When costs are not correctly allocated, programs are not charged in accordance with relative benefits received. If employee pay codes and business units are not adequately reviewed, there is an increased risk costs will be allocated to incorrect programs.

Recommendation: We recommend the Agency implement procedures to ensure programs are charged costs in accordance with relative benefits received. The Agency should adequately review its quarterly allocations to ensure employees are included in the correct cost centers.

Management Response: The Agency agrees with the condition reported.

Finding 2017-026

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

Grant Number & Year: Various, including #1701NEFOST, FFY 2017; #G1701NESOSR, FFY 2017

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

Criteria: Per 45 CFR § 75.303 (October 1, 2016):

> *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, 2016), "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, cost center Protection and Safety Deputy Director:

> *The Protection and Safely Deputy Director is responsible for the overall direction and management of the Protection & Safety unit. There is approximately 3 FTE's in the cost center . . . . The cost center will be allocated to the other cost centers in the unit based on the Labor Hours, LH[1], in each cost center.*

A good internal control plan requires procedures to be in place to ensure programs are charged costs in accordance with relative benefits received. A good internal control plan also requires procedures to be in place to ensure adjustments are adequately reviewed to ensure unintended effects on cost allocation do not occur.

Condition: The Agency performed a journal entry to transfer $3,139,350 paid to a foster care contractor from aid costs to administrative costs. By changing the coding to administrative costs, the costs were allocated through the Agency's Cost Allocation Plan to various Federal and State funding sources. Since the costs should all have been charged to State funds, this resulted in an overcharge to Federal programs of $977,221.

Repeat Finding: No

Questioned Costs: $977,221 known

Statistical Sample: No

Context: The Agency makes semimonthly payments to a contractor to provide child welfare services. Payments are usually made out of State general funds and an aid object account. Aid object accounts do not go through the cost allocation plan; they are directly charged to final cost objectives.

The Agency transferred $3,139,350, representing three semimonthly payments for April 2017 and the first half of May 2017, to an administrative object account. Staff said they did this because the payments to the contractor were for both aid and administrative costs, so they "decided to make a one-time payment" this way. However, administrative costs run through the Agency's cost allocation process. The cost center charged, Protection and Safety Director, is ultimately charged to multiple Federal and State programs. All the resulting charges to Federal programs are considered questioned costs.

The following Federal errors were associated with this issue:

CFDA	FAIN	Program	Questioned Costs or (Undercharge)
93.658	1701NEFOST	Foster Care Title IV-E	$ 596,478
93.667	G1701NESOSR	Social Services Block Grant	$ 320,839
93.659	1701NEADPT	Adoption Assistance	$ 48,735
93.575 & 93.596	G1701NECCDF	CCDF Cluster	$ 6,092
93.090	1701NEGARD	Guardianship Assistance	$ 5,077
		State Funds	$ (977,221)

Cause: Staff stated they did not intend for an effect on cost allocation. However, they did not ensure the business unit selected for the transfer would allocate to State general funds only.

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. The Agency should ensure adjustments are adequately reviewed to prevent unintended effects on cost allocation.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-027</u>

Program: Various, including 93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare – Allowable Costs/Cost Principles

Grant Number & Year: Various, including #051605NE5001, FFY 2016

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

Criteria: Per 45 CFR § 75.303 (October 1, 2016):

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 § 75.403(a) (October 1, 2016), 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."

According to the relevant labor contract, Section 7.7:

> *Bargaining unit members on duty and working fifty percent or more of a shift between the hours of 6:00 p.m. and 6:00 a.m. shall receive sixty cents per hour shift differential for all hours worked on that shift.*

A good internal control plan requires procedures to be in place to ensure employees are not overpaid. A good internal control plan also requires procedures be in place to ensure payroll costs are charged in accordance with 45 CFR § 75.

Condition: The Agency did not have adequate controls to ensure employees were properly paid. One of 25 employees tested was paid a shift differential to which she was not entitled. Another employee's pay was split between Federal and State funds based on percentages that were not adequately documented.

Repeat Finding: 2016-019

Questioned Costs: $666 known

Statistical Sample: No

Context: We tested 25 employees paid from various State and Federal programs. One employee tested coded her time to several activities that are charged in varying percentages to CFDA 93.777, State General funds and cash funds. One code was based on a calculation made by former employees of the Agency. Current employees were unable to support the calculation. The other code was based on verbal agreements between a former employee and the Federal government almost 20 years ago. The allocations were not adequately supported, and the Federal share of her pay for the period, $666, was questioned. Total payroll costs for CFDA 93.777 for the fiscal year were $2,971,013.

One of two Veterans Homes employees tested received a 60-cent shift differential for each hour worked, totaling $27 for the pay period reviewed. The employee had previously worked a shift that qualified for the shift differential but, as of August 2015, her schedule changed to 11:00 a.m. to 7:30 p.m. The employee also received an additional $2 in State retirement contributions for the pay period based on the extra pay from the shift differential, which was also unallowable. No Federal questioned costs were noted; however, the Agency did not have adequate procedures to ensure the shift differential was proper.

The Agency's procedure was to compare 5% of the employee timesheets to actual pay in order to identify and correct errors. During the year, the Agency increased this to 30%, then later to 100%. However, when we requested 25 of these reviews, the Agency was unable to locate the 5% or 30% reviews due to employee turnover. The Agency did not document the 100% reviews.

Total personnel costs paid by the Agency during the fiscal year, from all funding sources, were $296,109,171.

Cause: Employee turnover and inadequate review. The Agency had designed controls to ensure employees were properly paid; however, these controls were not consistently implemented or documented 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 ensure payroll costs are charged in accordance with 45 CFR § 75.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-028</u>

Program: CFDA 93.778 – Medical Assistance Program – Cash Management

Grant Number & Year: #051605NE5ADM, FFY 2016

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

Criteria: Per 31 CFR § 205.33(a) (July 1, 2016), "A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes."

Neb. Rev. Stat. § 84-305(2) (2017 Neb. Laws, LB 151, § 9) requires information to be provided to the Auditor of Public Accounts not more than three days after the request. The statute states further, "No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity."

Good internal control requires procedures to ensure adherence to Federal regulations and State statutes.

Condition: The Agency did not adequately monitor cash management compliance for grants during the fiscal year. We noted administrative expenditures exceeded allowable cost allocation distributions for Medicaid. A similar finding has been noted since State fiscal year 2012.

Repeat Finding: 2016-020

Questioned Costs: $439,505 known

Statistical Sample: No

Context: When paid, administrative costs are charged to various Federal and State programs based on estimates of what each program will be allocated. When costs are recorded to the general ledger to a particular grant, the Agency draws the funds from the Federal government. At the end of each quarter, the Cost Allocation Plan (CAP) is run. The CAP redistributes costs and reflects allowable expenditures for each program. The Agency then performs quarterly reconciliations to true up the CAP distributions to the general ledger via journal entries. The Agency's reconciliation process was complete for the Medicaid FFY 2016 grant, yet this did not prevent the grant from being overdrawn.

We brought the overdraw issue to the Agency's attention on August 3, 2017. On September 5, 2017, we contacted the Agency again and stated that we would need support to reduce the overdraw calculated to be $1,146,317. The Agency did not research and provide us with the requested information until October 25, 2017, seven weeks later, which is not timely. The additional information provided reduced the questioned costs to $439,505.

Cause: The Agency's reconciliation process is complex, and Agency staff admitted errors likely occurred.

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. We further recommend the Agency provide timely audit responses, as required by State statute.

Management Response: The Agency agrees with the condition reported.

Finding 2017-029

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 #17AANET3SS, FFY 2017; #17AANET3CM, FFY 2017; and #17AANET3HD, FFY 2017

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

Criteria: 45 CFR 75.303 (October 1, 2016) 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.

45 CFR 75.403 (October 1, 2016) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

45 CFR 75.352(d) (October 1, 2016) requires a pass through entity to: "Monitor the activities of the subrecipient as necessary 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 § 96.30(a) (October 1, 2016) requires 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."

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: 2016-021

Questioned Costs: $291,359 known

CFDA #	Grant #	Questioned Costs
93.044	16AANET3SS	$ 105,454
93.045	16AANET3CM	$ 74,033
93.045	16AANET3HD	$ 67,691
93.044	17AANET3SS	$ 16,490
93.045	17AANET3CM	$ 17,551
93.045	17AANET3HD	$ 10,140

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 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 one Title III payment made to each of the eight AAAs. For payments to four of those eight subrecipients, supporting documentation was not adequate, monitoring documentation was not adequate, and the fiscal year 2017 Single Audits were not yet due. The monitoring performed did not include documented detailed testing of expenditures sufficient for the APA to determine what procedures were performed and the conclusions drawn. We noted payroll records were not always verified to time records, allocations were not supported, and there was no documentation that expenses were verified to client records. There was also no 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.

The total Federal questioned costs noted were $291,359. Total AAA aid tested was $734,346. The Agency disbursed $7,261,772 in aid to the eight AAAs during fiscal year 2017. The dollar error rate for the sample tested was 39.68% ($291,359/$734,346), which estimates the potential dollars at risk for fiscal year 2017 to be $2,881,471 (dollar error rate multiplied by population).

Cause: Inadequate monitoring procedures.

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 partially agrees with the condition reported. The State Unit on Aging increased monitoring of the Area Agencies on Aging, and required additional documentation from the agencies. It is not a federal requirement to perform a CPA level audit of Older Americans Act programs. The Agency does not agree that the questioned costs are reflective of the risk. However, in response to previous similar findings, the Division of Medicaid and Long-Term Care entered into a contract with the Auditor of Public Accounts, Special Audit and Evaluations, to perform subrecipient monitoring of programs administered by the State Unit on Aging and Medicaid Waiver.

APA Response: We did not say that a CPA audit was required. The point of our finding is that the Agency lacked adequate monitoring procedures. The Agency's monitoring files did not have sufficient detail for the APA to ascertain the testing performed by the Agency.

Finding 2017-030

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

Grant Number & Year: #3U90TP000533-03S2, FFY 2015; #5U90TP000533-04, FFY 2016; #6 NU90TP000533-05, FFY 2017

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

Criteria: 45 CFR § 75.352(d) (October 1, 2016) requires 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 § 75-302(a) (October 1, 2016) requires 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 procedures to ensure financial activity is properly recorded in the accounting system.

45 CFR § 75.403 (October 1, 2016) 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(i)(1) (October 1, 2016) 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, 2016) 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, 2016) states, in relevant part, the following:

> *(c)The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in § 75.447); pension plan costs (see paragraph (i) of this section); and other similar benefits are allowable, provided such 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 § 200.331 (January 1, 2016), states that pass-through entities must do the following:

> *(a) 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:*
>
> * * * *
>
> *(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)[.]*

Condition: Subrecipient monitoring procedures were inadequate. The Agency lacked procedures to ensure payments to subrecipients were for allowable expenditures. A similar finding was noted in the prior audit.

Repeat Finding: 2016-022

Questioned Costs: $537,623 known

CFDA #	Grant #	Amount
93.069	5U90TP000533-04	$ 175,821
93.889	5U90TP000533-04	$ 16,931
93.069	6 NU90TP000533-05	$ 96,584
93.889	6 NU90TP000533-05	$ 18,862
93.069	3U90TP000533-03S2	$ 229,425

Statistical Sample: No

Context: The Agency made payments to 35 subrecipients during the fiscal year. There was insufficient documentation obtained, such as vendor invoices, cancelled checks, bank statements, timesheets, paystubs, or other detailed documentation to support that the payments were for actual, allowable costs of the grant.

We tested 25 payments to subrecipients, totaling $620,666. We noted the Agency did not have adequate support for 23 of the 25 payments, or $537,623 of the $620,666 tested. During testing, we noted the following:

- One payment had an on-site review; however, the supporting documentation was misplaced. Per discussion with the Agency, the individual who conducted the on-site visit attached the supporting documentation to an email but subsequently was unable to access the email that contained the documentation.

- One payment did not have either a desk or on-site review. The Agency obtained no documentation from the subrecipient to support the payment.

- Nineteen payments were to subrecipients who had on-site or desk reviews during the fiscal year. Invoices or similar documentation was on file to support some of the expenses for non-personal services. However, payments were primarily for the reimbursement of personal services that did not have sufficient documentation to support compliance with 45 CFR § 75.430. We noted the following:

  - For five payments, the Agency obtained summarized general ledger information. However, no documentation, such as timesheets or paystubs, was obtained to support the employee's rate of pay, the total activity for which the employee was compensated, or the distribution of the employee's wages among different activities.

  - For five payments, no documentation, such as paystubs or personnel records, was obtained to support the employee's rate of pay.

  - For two payments, no documentation, such as timesheets, was obtained to support the total activity for which the employee was compensated or the distribution of the employee's wages among different activities.

  - For five payments, the timesheets and calendars obtained listed only the total hours worked by the employee and, therefore, did not adequately support the distribution of the employee's wages among different activities.

  - For two payments, no documentation, such as paystubs, was obtained to support the employee's rate of pay. Additionally, the time certifications obtained were for different reporting periods than the expenditures paid, and the actual percentage of time worked per the certifications did not agree to the amount claimed. For one of those payments, the timesheets were obtained for only 1 of 10 employees.

- One payment tested was charged to CFDA 93.069; however, the subaward agreement lists the subaward 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 payment tested was charged to CFDA 93.069; however, the subaward agreement lists the subaward as the Epidemiology and Laboratory Capacity for Infectious Diseases under CFDA 93.323. Based on discussion with the Agency, it was determined that another section of the Public Health Division of the Agency incorrectly billed the payment to CFDA 93.069.

Further, for two of five subrecipients tested, the Agency did not have adequate support for the indirect cost rate listed in the subaward. For one of these, the indirect cost rate was approved by the Agency; however, no documentation was on file to support that the rate was accurate and in accordance with Federal requirements. For the other, there was no documentation to support the indirect cost rate listed in the subaward.

Subrecipient payments for the fiscal year ended June 30, 2017, totaled $5,250,558. Federal payment errors noted were $537,623. The total sample tested was $620,666. The error rate for the sample was 86.62% ($537,623/$620,666). This estimates the potential dollars at risk for the fiscal year to be $4,548,033 (dollar error rate multiplied by the population).

Cause: The Agency conducted desk or on-site reviews; however, documentation to support the reimbursements to the subrecipients was insufficient to ensure payments 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. We also recommend the Agency improve procedures to ensure Federal expenditures are charged to the proper grant.

> **Management Response:** The Agency partially agrees with the condition reported. The finding noted several items that were from 2015-2016, pre-dating the prior audit findings and therefore prior to full implementation of the most recent subrecipient monitoring procedures. As such, we agree that procedures for those payments were not complete and that these payments did not include audit corrections that occurred after the payments were made.
>
> The PHEP/HPP program has an established procedure for conducting subrecipient monitoring which includes an annual desk review and/or site visit for each subrecipient. Desk reviews and site visits include requesting source documentation for all expenses, a thorough review, and approval prior to payment. Site visits include a significant review of procedures, documentation, reports, purchases, etc. These in-depth measures are taken to ensure that all payments to subrecipients are for actual and allowable costs. Quarterly payment requests are reviewed by reconciling each line item against the approved budget and work plan, as well as independently calculating salaries and benefits for accuracy.
>
> Expenses covered by this review were actual, allowable, and reasonable as outlined within the subrecipients' submitted and approved budget. The APA review found no unallowable expenses in the reviewed payments.

APA Response: To be allowable, costs must be adequately documented and in accordance with Federal cost principles. As detailed in the comment, the payments tested did not have sufficient documentation to support that the costs were for actual and allowable costs in accordance with Federal cost principles.

Finding 2017-031

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

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 § 75.303 (October 1, 2016) directs an Agency 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.

45 CFR § 75.352(d) (October 1, 2016) requires 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 § 96.30(a) (October 1, 2016) requires 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.

45 CFR § 75.403 (October 1, 2016) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

45 CFR § 75.430(i)(1) (October 1, 2016) 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, 2016) provides the following, in relevant part:

(a) Each project supported under this part must:

* * * *

(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.

Condition: The Agency did not have adequate monitoring procedures to ensure payments to subrecipients were for allowable activities and costs. A similar finding was noted in the prior audit.

Repeat Finding: 2016-024

Questioned Costs: $247,233 known

Statistical Sample: No

Context: The Agency disbursed a total of $1,873,380 to 13 subrecipients during fiscal year 2017.

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

The Agency performed desk reviews for the subrecipients, which included procedures to tie the monthly reports to accounting ledgers. The procedures did not include testing of expenditures or program income to source documents. The limited procedures performed were not adequate to determine whether subrecipients were in compliance with Federal regulations.

We tested 13 payments, totaling $247,233, to 12 subrecipients. Detailed documentation was not on file to support that the payments were allowable and, as noted, the desk reviews were inadequate. The error rate for the sample was 100%, which estimates the potential dollars at risk for the fiscal year to be $1,873,380 (dollar error rate multiplied by the population).

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

<u>Expenditures not in Accordance with Federal Requirements</u>

- Two of three subrecipients' payroll expenditures were not in accordance with Federal regulations. We tested a total of 16 employees and noted the following:

    - One subrecipient used scheduled hours as the basis for one employee's allocation of payroll charges instead of actual hours worked on the program. Two additional employees' payroll charges were based upon estimated hours worked.

    - One subrecipient did not have adequate support for payroll charges allocated to various activities. Estimated allocations from budgeted figures were used, and there was no support for the budgeted amounts. Furthermore, the subrecipient performed time studies for both individuals tested, but the time studies were not used. Per the time study, 25% of one employee's time should have been charged to the program, but instead 40% was charged. Another employee's time should have been charged 44% to the program, but 70% was charged instead.

- For one subrecipient, 3 of 10 expenditures tested lacked adequate support, as follows:

    - One reimbursement to an employee for mileage was not based on the most direct route of travel, causing an excessive reimbursement of $49.

    - Charges for preventative building maintenance and janitorial services were allocated to various activities. The allocations used lacked adequate support. The support provided did not agree to the figures used in the allocation calculation, causing excessive charges to the program of $43 and $34, respectively.

- For another subrecipient, three of five expenditures tested lacked adequate support, as follows:

    - The rent expense allocation was based upon encounters for each program. For 10 rooms, the encounters used were not supported, causing unsupported charges of $519.

    - The subrecipient did not have an updated agreement with its vendor for the claims billing system and software services. Furthermore, the subrecipient allocated 16% of the expense to the Family Planning program. The allocation had not been updated since 2010. When current support was used, the allocation calculated was 9%, for excessive charges totaling $244.

    - The indirect cost rate approved in the subaward was 21.58%; however, the subrecipient used an updated indirect cost rate of 21.93%. The increased rate was not communicated to the Agency for approval, causing excessive charges of $53.

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 should be set to recover the reasonable cost of providing the services.

All three subrecipients were not in compliance with Federal regulations, as follows:

- We tested 15 client visits for one subrecipient and noted the following:
    - Services costing $70, according to the fee schedule, were not charged to the client. The subrecipient had no support for why they were not charged.
    - One client was charged $24 for Medroxyprogest. The procedure code on the billing was not on the fee schedule. According to the subrecipient, it was a 340B drug; therefore, actual costs were charged. However, the subrecipient was unable to provide support for the $24 charged.
    - The subrecipient's income determination form had a designated area for the client to sign asserting that the information provided was accurate and complete. For three clients the form was not signed.
- For the second subrecipient, we tested five client visits and noted the following:
    - For one client tested, the fee paid did not agree to the fee schedule. One procedure code for a pregnancy urine test was charged at $22.55; however, according to the fee schedule, it should have been $23.16. According to the subrecipient, its system had not been updated for the increased rate.
    - The subrecipient provided nursing services, free of charge, to a drug treatment facility and the county jail. Individuals receiving services in the facilities were assumed to have no income. The agreements with the facilities were outdated, having ended in 2004 and 2007, respectively. The original agreements had rates ranging from $22 to $42 per hour; however, the agreements were not updated, and the subrecipient no longer charged for the services. The subrecipient did not perform income verifications for the individuals even though they could still be receiving income, such as employment payments, disability, social security, etc. It appears that there was no consideration for this or the length of stay for the individuals in the facilities. For instance, one individual tested had income verified in December 2016, prior to being housed in the facility, and received services in March 2017 at the drug treatment facility, less than three months later. The income provided in December would have required payment of $39 for the services provided.

- For the third subrecipient, we tested five client visits and noted the following:
  - One patient was not charged for a $71 office visit but should have paid the full amount.
  - One patient reported household sizes of two and three on her income verification form. The correct household size was not clarified with the client; instead, the subrecipient used the lesser of the two for the sliding fee scale, charging $137 for services provided. If the higher fee schedule were appropriate, the individual would have been charged $191. It is unknown which was proper.

<u>Cost Analysis</u>

We tested the support for the cost analysis performed by the three subrecipients and noted the following:

- One subrecipient had no written procedures for how the cost analysis was compiled, and we were unable to replicate the final rates charged. The subrecipient also lacked adequate supporting documentation for certain values used within the calculated cost of the service.

- One subrecipient used an online fee calculator and was unable to provide backdated information from the system to verify the rates charged during the period tested agreed to the rates calculated. Furthermore, the entity was unable to provide the contract with the online vendor for the period tested.

- One subrecipient did not have supporting documentation for its cost analysis. The subrecipient increased the previous rates by 2% for the new fiscal year, but it did not have documentation of the analysis to ensure the rates reasonably met their costs in accordance with Federal regulations.

- All three subrecipients did not update the sliding fee scale timely. The Federal poverty guidelines were updated on January 26, 2017; however, the subrecipients did not update their fee scales until April 2017, July 2017, and October 2017, respectively. For the clients tested, the untimely update did not cause errors in the testing.

Cause: The desk reviews performed were inadequate to determine whether expenditures were allowable or program income adhered to requirements.

Effect: Increased risk of 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 source documents for expenditures and program income.

Management Response: The Agency agrees with the condition reported.

Finding 2017-032

Program: CFDA 93.217 – Family Planning Services – Cash Management & Subrecipient Monitoring

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: 31 CFR § 205.33(a) (July 1, 2016) 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 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."

45 CFR § 98.60(f) (October 1, 2016), 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, 2016) 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: 2016-026

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency provided subrecipients bimonthly payments through February 2017 and began providing monthly payments starting in March 2017. The payments are based on the amount awarded to the subrecipient divided into 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.

We tested 13 payments to subrecipients during the year. Four payments were for the period prior to March 2017, and it is unknown if the payments were used within the one month requirement since reporting was for a bimonthly period. The four payments totaled $156,145. Nine payments tested were for the period March 2017 and thereafter. Two of the nine payments were not used by the end of the month. The two subrecipients had $10,397 and $48 remaining at the end of the month.

Cause: The Agency did 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 2017-033</u>

Program: CFDA 93.217 – Family Planning Services – Reporting

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 § 75.302(b) (October 1, 2016) 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 for line 10f, unliquidated obligations on an accrual basis are obligations of Federally authorized funds which have been incurred, but for which an expenditure has not yet been recorded, as of the end of the reporting period. Those obligations include direct and indirect expenses incurred but not yet paid or charged to the award, including amounts due to subrecipients and contractors.

Per the 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.

According to 45 CFR § 75.511(a) (October 1, 2016), "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."

Good internal controls require adequate policies and procedures to ensure Federal reporting is accurate and complete.

Condition: The Agency did not accurately report the Federal share of unliquidated obligations and program income on the SF-425 FFRs. A similar finding was noted in the prior audit. The summary schedule of prior audit findings states corrective action has been taken.

Repeat Finding: 2016-027

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, 2017. We tested two SF-425 reports for September 30, 2016, and March 31, 2017, and noted the following:

- For the quarter ended September 30, 2016, FFR, the Federal share of unliquidated obligations was understated by $35,681 due to the fiscal year 2016 carryover amount not being reported.

- Both reports lacked adequate supporting documentation for program income. There was no support for the September 30, 2016, program income reported totaling $3,656,174. The amount reported for the March 31, 2017, report did not have adequate support for the beginning balance used in the calculation. Instead of using actual program income from the monthly reports submitted by subrecipients, the Agency used the annual report for the calendar year and divided the program income in half. This would not accurately reflect actual program income. Furthermore, the calculation for program income during the period had clerical errors throughout. Because the reports were not adequately supported, actual program income is unknown.

- For both reports, the recipient match, totaling $410,200, was not properly reduced from program income, causing an overstatement.

- For both reports, program income should have been reported on line 10n (program income expended in accordance with the addition alternative) on the FFR; however, the agency reported the amount on line 10m (program income expended in accordance with the deduction alternative).

Cause: Inadequate control procedures.

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 agrees with the condition reported.

Finding 2017-034

Program: CFDA 93.268 – Immunization Cooperative Agreements – Allowability

Grant Number & Year: 5NH23IP000756-04-00, FFY16

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

Criteria: Title 42 CFR § 51b.206 (October 1, 2016) states that the grant funds for childhood immunization programs "may be used to pay for salaries or wages and related expenses for personnel directly involved in the planning, organization, promotion, epidemiology, surveillance, and other program activities."

Title 45 CFR § 75.403 (October 1, 2016) requires costs to be reasonable, necessary, and adequately documented.

45 CFR § 75.430(i)(1) (October 1, 2016) states, in relevant part, 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;*

A good internal control plan requires procedures to ensure subrecipients comply with applicable cost principles.

Condition: The Agency did not have adequate procedures to ensure payments to subrecipients were adequately supported or complied with Federal cost principles.

Repeat Finding: No

Questioned Costs: $19,310 known

Statistical Sample: No

Context: The Agency receives quarterly expense reports from subrecipients. These reports include a breakdown by cost categories of the current quarter's expenses, cumulative expenditures to date, and the approved amount for the grant year. The quarterly reports are reviewed by Agency staff; however, no invoices or detailed supporting documentation are required at the time of payment. The Agency also performed desk reviews for the subrecipients.

We tested one payment to the largest subrecipient and noted the documentation obtained during the desk review was not adequate to determine if the amount reimbursed was for actual and allowable costs. The payment was primarily for the reimbursement of personal services, but the support obtained was only summarized payroll records from the subrecipient's accounting system. The Agency did not obtain or request additional documentation, such as timesheets, to support the amounts reported on the payroll records. As a result, we question $19,310 of payment tested.

The Agency paid $377,820 to subrecipients during fiscal year 2017.

Cause: The Program Manager felt the monitoring procedures were adequate and did not believe obtaining and reviewing additional support would be cost effective.

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

Recommendation: We recommend the Agency improve procedures to ensure subrecipient payments are for actual and allowable costs, in accordance with Federal requirements.

Management Response: The Agency does not agree with the condition reported.

The Immunization program has an established procedure for conducting subrecipient monitoring which includes an annual desk review for each subrecipient. The desk review includes requesting source documentation for all expenses, a thorough review, and approval prior to payment. These in-depth measures are taken to ensure that all payments to subrecipients are for actual and allowable costs.

When subrecipients have not been selected for a thorough desk review, quarterly payment requests are reviewed by reconciling each line item against the approved budget and work plan, as well as independently calculating salaries and benefits for accuracy. For the review noted, payroll reports were received as source documentation, and DHHS staff independently checked salary and benefit calculations to verify accuracy.

APA Response: As noted above, the Agency did not obtain timesheets or documentation to support payroll charges were in accordance with Federal cost principles and grant requirements. Documentation was not adequate to support charges were for personnel directly involved in program activities, or the distribution of wages was accurate.

Finding 2017-035

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

Grant Number & Year: #NU58DP003928 project period end 6/29/17

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

Criteria: 45 CFR § 75.303(a) (October 1, 2016) requires the Agency to "[e]stablish 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 (October 1, 2016), costs must be reasonable, necessary, and adequately documented. Per 45 CFR § 75.404 (October 1, 2016), "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."

45 CFR § 75.351 (October 1, 2016) 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[.]*

45 CFR § 75.353 (October 1, 2016) states the following:

> *With prior written approval from the HHS awarding agency, a pass-through entity may provide subawards based on fixed amounts up to the Simplified Acquisition Threshold, provided that the subawards meet the requirements for fixed amount awards in §75.201.*

45 CFR § 75.407(a) (October 1, 2016) states, in part, the following:

> *The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:*
>
> * * * *
>
> *(8) §75.353 Fixed amount subawards[.]*

45 CFR § 75.352 (October 1, 2016) details requirements for pass-through entities, including subaward information that must be communicated to subrecipients.

Condition: Eighteen of 25 payments tested were not in accordance with Federal cost principles. The transactions were paid as contractual services but should have been paid as a subrecipient.

Repeat Finding: 2016-029

Questioned Costs: $43,500 known

Statistical Sample: No

Context: We noted the Agency paid health departments and Federally Qualified Health Centers (FQHCs) as contractors rather than subrecipients. The purpose of the agreements was to implement evidence-based strategies based on assessment of needs to increase the adoption of healthy lifestyles and to increase the number of preventive screenings. 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 notifications and monitoring for these entities.

We also noted documentation was inadequate to allow for a determination as to the reasonableness of amounts paid. Seven payments tested were for administrative costs paid to the contractor for 20% or 25% of the contract amount. The justifications provided by the Agency generally did not have a separate rate for overhead. The few that did were not based on actual costs but instead were estimates used in research articles. Also, those estimates were for physicians or medical centers engaged in research and, therefore, were not comparable to local health departments. We also noted payments of $2,000 for a planning document, $1,000 for site deliverables model, and $10,000 for completion of a data pull. Documentation was inadequate to support the reasonableness of the hours and rates used to determine the amounts paid for those deliverables. In addition, as these are subrecipients, reimbursements should be based on actual costs; fixed-amount payments are allowable only with prior Federal approval, and no such approval was obtained for fiscal year 2017.

Total Federal questioned costs noted were $43,500. Contractual payments tested totaled $52,003. The Federal share of contractual payments for the fiscal year totaled $2,040,724. The dollar error rate for the sample tested was 83.65% ($43,500/$52,003), which estimates the potential dollars at risk for fiscal year 2017 to be $1,707,066 (dollar error rate multiplied by population).

Cause: Before the 2016 audit and prior finding and recommendation, the Agency considered the local health departments and health centers to be contractors. The justifications for costs provided by the Agency were insufficient to permit the auditor to determine whether 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 follow all applicable requirements for subrecipients.

> **Management Response:** The Agency agrees with the condition reported. The Agency agrees with the condition reported that relationships with local health departments and federally qualified health centers should be a considered a subrecipient relationship, and that the documentation used to determine the amount paid for deliverables needs additional information to support reasonableness.

Finding 2017-036

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

Grant Number & Year: #1502NETANF, FFY 2015

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

Criteria: Per 45 CFR § 260.20(a) (October 1, 2016), one of the purposes of TANF is to provide "assistance to needy families so that children may be cared for in their own homes or in the homes of relatives[.]" Per 42 USC § 608(a)(10)(A) (2016), a State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days. The Nebraska State Plan limits absences to three months.

Per 45 CFR § 75.403 (October 1, 2016) costs must be necessary, reasonable, and adequately documented. A good internal control plan requires procedures to be in place to ensure compliance with Federal and State regulations.

Condition: One of five child welfare claims tested did not comply with Federal and State requirements.

Repeat Finding: 2016-031

Questioned Costs: $1,363 known

Statistical Sample: No

Context: The State Plan allows for the payment of certain child welfare costs from Federal TANF funds. To identify 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 $2,752,087 from State general funds to Federal TANF funds.

We tested five claims from these entries. For one claim tested, the family support service dates were from January 1, 2017, though January 31, 2017. However, the children were removed from the home on January 9th. Beginning January 10th, the family support provided was to the parents only. A total of 29 hours were provided after the children were removed, resulting in questioned costs of $1,363. The children had been out of the home for more than three months when the journal entry was performed on May 10, 2017; therefore, the Agency had all the information available to know the claim was not allowable for TANF.

The total Federal questioned costs noted were $1,363. The total child welfare claims tested were $16,900. The total child welfare claims paid from TANF were $2,752,087. The dollar error rate for the sample was 8.07% ($1,363/$16,900), which estimates the potential dollars at risk for fiscal year 2017 to be $222,093 (dollar error rate multiplied by population).

Cause: The NFOCUS query picked up an inappropriate case where the children were residing with the parents receiving child welfare services for only a portion of the service dates.

Effect: Without adequate controls to ensure claims are paid per Federal requirements, there is an increased risk of noncompliance with those requirements and a loss or misuse of Federal funds.

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

> **Management Response:** The Agency agrees with the condition reported. The case history does show that the children were removed from the home on 1-9-17. They did not return to the parental home until 10 months later.

Finding 2017-037

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

Grant Number & Year: #1502NETANF, FFY 2015

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

Criteria: Title 45 CFR § 75.403 (October 1, 2016) requires costs to be necessary, reasonable, and adequately documented. Title 468 NAC Appendix 468-000-309 states, "Specific guidance for issuance of supportive services can be found in the Supportive Services Handbook in the TANF Policy Log."

The Supportive Services Handbook states, "Allowable repairs are those that are necessary for the vehicle to be in safe and reliable operating condition. Cosmetic repairs cannot be authorized unless they directly affect the safe and reliable operation of the vehicle."

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 has been noted in prior audits since 2013.

Repeat Finding: 2016-032

Questioned Costs: $1,403 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 25 EF supportive service payments made during the fiscal year to eight TANF recipients. We noted the following:

- One claim tested was $259 for a windshield repair. There was no documentation to support that the repair was not cosmetic but was needed instead for safety reasons.

- One claim for cab rides was for two individuals in the same household. The cab rides were charged for each individual separately, but it appears that the individuals either rode together or could have ridden together. There was no documentation to support the necessity to travel separately. For 31 trips, at 41 miles each, the date, departure, destination, and cab driver were the same. In addition, all trips were noted only as "AM," without the specific time being indicated. The rate charged was $1.50 per mile; however, the rate for a second passenger should have been $0.50 per mile. The claims were paid 90% with Federal funds. As a result, we question $1,144 (1,271 miles at $1 difference in rate x 90%).

We tested $20,548 (Federal share $19,142) in EF supportive services and, of that total, $1,530 (Federal share $1,403) was not in accordance with State and Federal requirements. Total Federal expenditures for EF supportive services during the fiscal year were $1,095,514.

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.

Finding 2017-038

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

Grant Number & Year: #1502NETANF, FFY 2015

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

Criteria: Title 45 CFR § 75.351 (October 1, 2016) details characteristics that should be used to determine whether a subrecipient or contractor relationship exists. In making that determination, according to subsection (c) of the regulation, "[T]he substance of the relationship is more important than the form of the agreement." Moreover, it is not expected that all of the characteristics of either category will be present, and judgment should be used in determining whether an entity is a subrecipient or contractor.

Title 45 CFR § 75.352 (October 1, 2016) details requirements for pass-through entities. Among those directives is that every subaward must be clearly identified to the subrecipient, and the required information must be provided. Pass-through entities must also monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with Federal requirements.

45 CFR 75.303(a) (October 1, 2016) 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.*

Per the Employment First (EF) contracts between the Agency and its contractors:

> *Following the end of each month of operation, the Contractor shall submit an itemized invoice for <u>actual</u> and <u>allowable</u> costs incurred in the delivery of services under this Contract.*

(Emphasis added.) Good internal control requires procedures to ensure expenditures are allowable and in accordance with Federal requirements and contract provisions.

Condition: Procedures to monitor expenditures of the EF contractors should be improved. A similar finding has been noted in prior audits since 2013.

Repeat Finding: 2016-033

Questioned Costs: $190,662 known

Statistical Sample: No

Context: The Agency paid $11,146,025 (Federal share) during the fiscal year to two contractors to provide EF case management and program services for TANF recipients. The Agency paid the contractors monthly based on invoices submitted.

With regard to the contractors, we noted the following indicators of 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's 2015 corrective action plan stated, "Effective 7/1/2016 the Agency's agreements with EF Providers will become subawards." However, subaward agreements were not signed during the 2016 or 2017 fiscal year. Therefore, the Agency did not inform the contractors of required subaward information. The Agency is currently in the process of awarding new agreements.

During the fiscal year, the Agency implemented a desk review process that involved requesting substantiating documentation for one line item from each monthly invoice. We reviewed the June 2017 payment for May services for each contractor and noted the following:

- For one contractor, the Agency selected salaries of $103,711 as the line item to review and obtained a detail listing of payroll by employee and timesheets for a sample of the employees. However, the Agency did not verify that the pay rate was correct or that the amount agreed to the actual paid. The Agency did not obtain pay stubs or a general ledger.

- For the second contractor, the Agency selected salaries of $399,892 as the line item to review. The Agency obtained a general ledger and timesheets for a sample of employees. However, the salaries invoiced included $86,951 in accruals and allocations that were not reviewed by the Agency.

As a result, we question costs of $190,662.

Cause: The Agency did not award the agreements as subawards. The Agency implemented desk reviews but did not obtain sufficient documentation to ensure the costs were allowable and accurate.

Effect: Increased risk of unallowable Federal costs and noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are allowable and in accordance with Federal regulations. We further 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.

Finding 2017-039

Program: CFDA 93.563 – Child Support Enforcement – Allowability & Subrecipient Monitoring

Grant Number & Year: #1604NECSES, FFY 2016; #1704NECSES, FFY 2017

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

Criteria: 45 CFR 75.303 (October 1, 2016) establishes that an Agency has the responsibility to ensure compliance with Federal requirements through the use of effective internal controls. A good internal control plan requires the pass-through entity to establish controls to ensure subrecipients comply with Federal requirements, including procedures for the proper monitoring of subrecipients' fiscal activities.

45 CFR § 75.403 (October 1, 2016) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

45 CFR § 75.352(d) (October 1, 2016) requires 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 § 75.302(a) (October 1, 2016) requires:

> *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.*

Neb. Rev. Stat. § 81-2403(1) (Reissue 2014) states the following:

> *Except as provided in subsection (2) of this section, each agency shall make payment in full for all goods delivered or services rendered on or before the forty-fifth calendar day after (a) the date of receipt by the agency of the goods or services or (b) the date of receipt by the agency of the bill for the goods or services, whichever is later, unless other provisions for payment agreed to in writing by the creditor and the agency.*

Child Support Enforcement (CSE) subawards contain the following language:

> *Reimbursement by DHHS to the Subrecipient shall be made on a quarterly basis. The Subrecipient shall submit all quarterly claims within forty-five (45) days following the end of the quarter for which reimbursement is being claimed, but may extend this time period with good cause, as determined by DHHS.*
>
> *DHHS will pay approved claims within sixty (60) days of the date on which the Subrecipient submits an approved claim for reimbursement. If claims are not received within forty-five (45) days after the end of the quarter for which reimbursement is being claimed, unless an extension was granted by DHHS, there will be no reimbursement of expenses. Claims received within the above time line may be revised up to eighteen (18) months after the quarter ending date (Sub-part G of 45 CFR, Part 95; 45 CFR §304.24).*

A good internal control plan requires procedures to ensure the Agency receives timely payment requests from the subrecipients in accordance with the terms of the subaward and makes payments timely and in accordance with both State statute and the subaward terms.

Condition: Subrecipient monitoring procedures were not adequate. The Agency did not have adequate procedures to ensure payments to subrecipients were for allowable expenditures. Three claims did not have adequate supporting documentation for the payroll costs and fees claimed. We also noted that the Agency did not receive payment requests or make payments timely in accordance with both State statute and applicable subaward terms.

Repeat Finding: No

Questioned Costs: $136,506 known (#1604NECSES, $46,672; #1704NECSES, $89,834)

Statistical Sample: No

Context: DHHS has subaward agreements with County Clerks and County Attorneys to assist in the administration of the Child Support Enforcement (CSE) program. These subrecipients submit quarterly CSE claims to the Agency requesting reimbursement for various program expenditures, including salaries and benefits, various operating expenses, and indirect costs. The Agency reviews the quarterly claims and invoices or supporting documentation submitted with the claims. However, the Agency does not require any invoices or supporting documentation for certain items, including postage and telephone expenses. The Agency requires support for other items, including office supplies and miscellaneous expenses only if the individual invoice amounts claimed exceed $500. Additionally, the Agency did not perform other monitoring, such as on-site fiscal reviews, to periodically ensure these items are adequately supported and allowable.

We tested 26 payments to subrecipients and identified the following:

- Three payments tested for the same subrecipient included a reimbursement for payroll; however, adequate supporting documentation to support the payroll costs was not on file. The documentation provided included a spreadsheet that summarized the subrecipient's quarterly payroll information with a statement certifying the original documentation was on file with the subrecipient. Additionally, the subrecipient submitted a claim for $36 for fees incurred a year prior to the period of the claim. The total Federal questioned costs noted for these items were $16,609.

- Payments to 18 subrecipients tested included expenses for items under $500 for which no supporting documentation was provided. The total Federal questioned costs for these items was $2,893.

The total Federal questioned costs for the aforementioned items was $19,502. The total CSE claims tested was $457,458 and payments to subrecipients during the fiscal year totaled $10,342,477. The dollar error rate for the sample tested was 4.26% ($19,502/$457,458), which estimates the potential dollars at risk for fiscal year 2017 to be $440,590 (dollar error rate multiplied by population).

Furthermore, we determined payments were not in accordance with subaward agreements, which require the claim to be submitted within 45 days after the end of the quarter and to be paid by the Agency within 60 days of receipt.

We determined 4 payments tested were not submitted to the Agency within the required 45 day timeframe. Those claims ranged from 4 to 346 days late and were still paid even though the subaward stated "there will be no reimbursement of expenses" if not received within 45 days. Total Federal questioned costs were $117,004 for these four claims.

Additionally, 21 of 26 payments tested were not paid within 60 days, as required. These payments ranged from 12 to 341 days late.

Cause: Instruction forms the Agency provided to CSE subrecipients do not require invoices to support postage and telephone expenses claimed for reimbursement and only require invoices for office supplies and other expenses, if the individual invoice amount exceeds $500. The instruction forms also require invoices to be retained in case of an audit; however, the Agency does not perform periodic fiscal monitoring of these items to ensure the costs are adequately supported and are allowable. Additionally, the Agency lacked adequate procedures to ensure claims were received within 45 days and paid within 60 days, as required by the subaward terms.

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. The Agency also failed to comply with State statute and subaward requirements.

Recommendation: We recommend the Agency strengthen its procedures to monitor subrecipients, including the development of a written plan that describes the procedures to ensure quarterly reports are accurate and agree to support, expenditures are in accordance with Federal requirements, adequate documentation is retained, and fiscal monitoring is conducted. We further recommend the Agency implement procedures to ensure that payment requests and payments are made timely and in accordance with both State statute and applicable subaward terms.

> **Management Response:** The Agency partially agrees with the condition reported. The Agency is not paying for services, but rather is passing through entitlement reimbursement from the federal government through a Title IV-D grant. Federal rules allow claims to be submitted and reimbursed within two years. For this reason, counties are allowed to revise quarterly claims up to 18 months after the quarter ending date. DHHS views claims submitted within 18 months of the quarter in which they were incurred as the functional equivalent of revising an earlier claim.
>
> Additionally, since the county clerk is responsible for preparing the payroll for the county, a declaration certifying the payroll records should serve as the same adequate supporting documentation as computer generated payroll report. For this reason, CSE disagrees with this part of the finding.

APA Response: We disagree that a mere unsubstantiated declaration, the veracity if which remains unconfirmed, serves as adequate documentation to support that the amounts are actual costs and in accordance with Federal cost principles.

Finding 2017-040

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability

Grant Number & Year: #G17B1NELIEA, FFY 2017

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

Criteria: 45 CFR § 96.30(a) (October 1, 2016) 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 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 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 Multi-Family Arrangement.*

Good internal control requires procedures to ensure payments are in accordance with Federal and State requirements.

Condition: One of 10 energy assistance payments tested did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Repeat Finding: 2016-036

Questioned Costs: $370 known

Statistical Sample: No

Context: In one case tested, the individual lived in an apartment but received assistance based on a single family dwelling. The payment was $730 but should have been $360, resulting in questioned costs of $370.

Federal payment errors noted were $370. The total Federal sample tested was $5,291 and total Federal cash assistance for the fiscal year was $25,373,423. Based on the sample tested, the case error rate was 10% (1/10). The dollar error rate for the sample was 6.99% ($370/$5,291), which estimates the potential dollars at risk for fiscal year 2017 to be $1,773,602 (dollar error rate multiplied by population).

Cause: Worker error. The error occurred in November 2016, prior to the Agency implementing the corrective action plan. In April 2017, the Agency updated a job aid document for staff and began payment integrity reviews.

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 improve procedures to ensure compliance with Federal and State requirements.

Management Response: The Agency has made progress towards resolving the findings from the June 30, 2015 LIHEAP Audit. The Agency only had one energy assistance payment that did not comply with federal and state requirements.

Finding 2017-041

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability & Eligibility

Grant Number & Year: #1401NECCDF, FFY 2014; #1601NECCDF, FFY 2016; #1701NECCDF, FFY 2017

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

Criteria: 45 CFR § 98.67(a) (October 1, 2016) states, "Lead Agencies shall expend and account for CCDF [Child Care and Development Fund] funds in accordance with their own laws and procedures for expending and accounting for their own funds."

Title 392 NAC 3-005.01C states, "A family whose income exceeds the maximum for LF [low income family] but is equal to or less than 130 percent of the Federal Poverty Level (FPL) is eligible as LC [low income sliding fee schedule]. To participate in LC, a family must pay the fee as shown in the fee schedule." Per Title 392 NAC 3-005.01D1, "A family that is receiving TCC [transitional child care] may be required to pay a fee."

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 5-001.01 provides the following: "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[.]"

Title 392 NAC 5-004.03(4) states, "Service provider agreements are effective up to 12 months, are not back-dated, and must be completed and signed by all parties on or before the effective date." According to 392 NAC 5-001.04A, "Department staff must not have a Child Care Provider Agreement with a potential individual provider if a history of convictions for misdemeanor or felony actions that endanger the health and safety of any client is indicated." Per 392 NAC 5-001, the Agency must check the central registries if the provider is an individual and, if care is in the home of the provider, the central registries must be checked for any household members.

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 4.001.01 states in part, "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. . . ; [or] 3. Is participating in an EF [Employment First] activity . . . [.]"

Per 392 NAC 1-003, a "License-Exempt Family Child Care Home" is defined as "[a]n individual who is providing care in his/her own home, serving a maximum of three children from different families or six children from one family."

A good internal control plan requires procedures to ensure State and Federal regulations are followed.

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: 2016-037

Questioned Costs: $34,298 known

CFDA	Grant #	Known Questioned Costs
93.575	1601NECCDF	$ 5,967
93.575	1701NECCDF	$ 24,142
93.596	1401NECCDF	$ 1,501
93.596	1601NECCDF	$ 1,919
93.596	1701NECCDF	$ 769

Statistical Sample: No

Context: During the fiscal year, the Agency prepared journal entries to charge Federal funds for child care services. These journal entries included claims for the current fiscal year charged to the 2017 and 2016 grants. The Agency also prepared journal entries to charge the 2014 grant for claims originally paid from October 1, 2013, through September 30, 2014.

We tested 25 child care claims charged to the 2016 and 2017 grants and noted 11 with errors. We also tested 28 child care claims charged to the 2014 grant and noted 9 with errors. Some payments had more than one type of error. We noted the following:

<u>2016 and 2017 Grants for Claims Paid During Fiscal Year 2017</u>

- Two payments did not have the proper co-pay deducted. Based on income, certain families are required to pay a fee or co-pay for child care. For one claim tested, the Agency had determined a co-pay was required, but the provider failed to deduct the co-pay and was paid the entire amount. For another case, we noted the provider deducted the incorrect co-pay amount for the month tested and for seven additional months.

- Four payments did not agree to attendance records. Child care providers are paid by a daily rate and/or an hour rate depending on how long the child attends each day. One provider charged for two days, but child care was only one day from 11:03 a.m. to 11:34 p.m. On that day, child care was authorized while the parent was job searching; however, it appears the provider billed based on the authorization for employment, which had not yet started. Another claim was billed at the daily rate when only 2.75 hours were provided. Another billed at the hourly rate but should have billed at the daily rate. One provider did not submit the required attendance calendar.

- For one payment, the provider billed and was paid for three days while the child was in school.

- For four claims, child care was provided during unauthorized days and times. For two claims, the provider billed at times when the parent was neither at work nor at school. For one of these, the provider was license-exempt but was providing care for more than three children from different families, which is not allowable. For two other claims, the number of hours billed exceeded the authorized hours by 2.5 hours to 5.5 hours per week.

- For one payment, the Agency could not find the provider agreement; for another, the worker did not sign the agreement. That worker no longer works for the Agency, and there was no documentation that the required background checks were completed.

For the sample tested, the Federal payment errors noted amounted to $895. The total Federal sample tested was $4,662. In addition to the $895 Federal questioned costs noted on the sample items tested, we also noted $31,902 of Federal questioned costs on other line items of the claims reviewed.

<u>2014 Grant for Prior Claims Charged to the Grant in Fiscal Year 2017</u>

Shortly before the 2014 grant closed on September 30, 2016, the Agency performed two journal entries. The first journal entry backed out all aid expenditures already within the 2014 grant. The second journal entry charged $39,800,524 to the 2014 grant for child care claims and included claim-level support.

The net effect of these journal entries was an additional $5,955,368 charged to the 2014 grant. Lacking claim-level detail for the first journal entry, the Agency was unable to identify which claims on the second journal entry were for the additional $5,955,368. Therefore, we tested from the entire amount of $39,800,524. We tested 28 of the 2014 claims and noted the following:

- Four payments did not agree to the attendance records. One claim was for 23 days of service, but the attendance records supported only 17 days and 24.75 hours. Another claim was 22 days and 72 hours of service, but the attendance records supported only 13 days and 9 hours of day care. Another claim was for 69 hours, but only 15 hours were supported. The fourth claim had .75 hours not supported.

- For four claims, child care was provided during days and times not authorized by the caseworker. For two of the claims, the provider billed for times when the parent was not working or participating in Employment First activities. For one of these, the provider also exceeded the authorization by 7 to 15 hours per week. For a third claim, the provider billed mornings, but the service authorization specifically stated morning hours were not approved. For a fourth claim, the provider exceeded the authorization by five hours for one week.

- For one claim tested, the Agency had determined a co-pay was required, but the provider was paid the entire amount instead of the net of the required co-pay.

Federal payment errors noted for the 2014 journal entry totaled $1,501. The total Federal sample tested was $4,984.

Grant Year	Errors in Sample	Sample Tested	Error Rate	Federal $ Charged during FY 2017	Dollars at Risk (Error Rate Times Population)
2016 & 2017	$ 895	$ 4,662	19.20%	$ 39,233,088	$ 7,532,753
2014	$ 1,501	$ 4,984	30.12%	$ 5,955,368	$ 1,793,757
				Total Dollars at Risk	$ 9,326,510

Cause: Inadequate review procedures.

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 and adequately supported, 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 noted.

Management Response: The Agency agrees with the condition reported.

Finding 2017-042

Program: CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Cash Management & Matching

Grant Number & Year: #1401NECCDF, FFY 2014

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

Criteria: A good internal control plan requires procedures to ensure State and Federal regulations are followed, and transactions are charged at the proper Federal Medical Assistance Percentage (FMAP).

45 CFR § 98.55(b) (October 1, 2016) provides the following:

> *Expenditures in a State under paragraph (a) of this section will be matched at the Federal medical assistance rate for the applicable fiscal year for allowable activities, as described in the approved State Plan, that meet the goals and purposes of the Act.*

31 CFR § 205.15(d) (July 1, 2016) states the following:

> *In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.*

Condition: One child care journal entry tested was not matched at the proper rate.

Repeat Finding: No

Questioned Costs: $681,566 known

Statistical Sample: No

Context: Shortly before the 2014 grant closed on September 30, 2016, the Agency performed two journal entries. The first journal entry backed out all aid expenditures already within the 2014 grant. The second journal entry charged $39,800,524 to the 2014 grant for child care claims, including $10,765,068 to the Child Care and Development Fund (CCDF) Matching Funds. The CCDF Matching Funds are to be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year.

The FMAP used on the journal entry – 58.44% – was incorrect. This was the FMAP for Federal fiscal year 2011. The FMAP for Federal fiscal year 2014 was 54.74%. This resulted in an overcharge to Federal funds of $681,566 and is considered questioned costs.

	Charged	Should Be	Federal Overcharge
State Share	$ 7,655,652	$ 8,337,218	
Federal Share	$ 10,765,068	$ 10,083,502	$ 681,566
Total	$ 18,420,720	$ 18,420,720	
FMAP Rate	58.44%	54.74%	

A State incurs interest liabilities if Federal funds are used in excess of the required proportions.

Cause: Worker error

Effect: Federal funds were overcharged.

Recommendation: We recommend the Agency improve procedures to ensure transactions are charged at the proper FMAP.

Management Response: The Agency agrees with the condition reported.

Finding 2017-043

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Grant Number & Year: All open, including #1401NECCDF, FFY 2014

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

Criteria: Title 45 CFR § 75.302(a) (October 1, 2016) requires financial management systems of the State to be sufficient to permit preparation of required reports and the tracing of funds to a level of expenditures adequate to establish that 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 all required reports are submitted, and expenditures are properly reported and agree to the accounting records.

Condition: Several errors were noted during testing of the ACF-696 Federal Financial Reports (FFRs). A similar finding was noted in the prior audit. Additionally, one required report was never submitted.

Repeat Finding: 2016-038

Questioned Costs: None

Statistical Sample: No

Context: The 2014 grant report for the quarter ended September 30, 2016, was not completed or submitted as required. The 2014 grant had cumulative expenditures of $51,836,518, including $7,606,251 for the quarter ended September 30, 2016.

We also tested three completed reports and noted the following errors:

Line on Report	Per Report	Should Be	Variance
FFY 2015 grant FFR for the quarter ended June 30, 2017			
2(a) Regular State Share of Expenditures, Matching Funds	$ 9,139,685	$ 9,512,527	$ (372,842)
1(b) Quality Activities Excluding Infant/Toddler Quality Activities and all Targeted Funds, Discretionary Funds	$ 2,010,798	$ 1,878,575	$ 132,223
1(d) Quality Expansion Targeted Funds, Discretionary Funds	$ 329,505	$ 298,612	$ 30,893
4 Federal Share of Unliquidated Obligations, Discretionary Funds	$ 0	$ 2,175,155	$ (2,175,155)
7 Unobligated Balance, Discretionary Funds	$ 2,175,155	$ 0	$ 2,175,155

FFY 2016 grant FFR for the quarter ended September 30, 2016			
7 Unobligated Balance, Discretionary Funds	$ 9,701,067	$ 9,639,155	$ 61,912
FFY 2017 grant FFR for the quarter ended March 31, 2017			
1 Total, Matching Funds	$ 4,527,358	$ 8,731,645	$ (4,204,287)
2(a) Regular State Share of Expenditures, Matching Funds	$ 4,527,358	$ 4,204,287	$ 323,071
3 Federal Share of Expenditures, Matching Funds	$ 0	$ 4,527,358	$ (4,527,358)
1(h)(2) Certificate Program Costs/ Eligibility Determination, Discretionary Funds	$ 1,018,340	$ 1,041,066	$ (22,726)
4 Federal Share of Unliquidated Obligations, Discretionary Funds	$ 0	$ 657,090	$ (657,090)
7 Unobligated Balance, Discretionary Funds	$ 6,614,690	$ 5,957,600	$ 657,090

Cause: Inadequate review and employee turnover. The Agency confused obligations with liquidations.

Effect: Inaccurate reporting and noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure reports are accurate, and adjustments are performed in a timely manner.

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

Finding 2017-044

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Grant Number & Year: All open, including #1701NECCDF, FFY 2017

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

Criteria: Per 45 CFR § 98.60(i) (October 1, 2016), "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." Per 45 CFR § 98.68(b), "Lead Agencies are required to . . . (1) Identify fraud or other program violations . . . (2) Investigate and recover fraudulent payments and to impose sanctions on clients or providers in response to fraud." The Agency's definition of fraud is found at 465 NAC 2-007.01, which states the following:

As defined by state law, fraud includes, but is not limited to, the willful false statement or representation, or impersonation or other device, made by a recipient or applicant, provider, Departmental employee, or any other person, for the purpose of obtaining or attempting to obtain, or aiding or abetting any person to obtain –

1. *Any commodity, food stuff, food coupons, or payment to which the individual is not entitled;*

2. *A larger amount of payment than that to which the individual is entitled;*
3. *Any other benefit administered by the Nebraska Department of Social Services to which the individual is not entitled; or*
4. *Assistance in violation of any statutory provision relating to programs administered by the Nebraska Department of Social Services.*

A note to Title 392 NAC 3-013.02D states the following:

Before a referral is made for IPV [Intentional Program Violation] for a family being served through HHS protection and safety services or Employment First, there must be consultation and agreement by the protection and safety or Employment First staff involved with the case.

According to the Agency's Collection Policy dated July 12, 2011:

The following procedure will be followed for accounts which are 90 days overdue, unless suitable arrangements have been made for payment:

a. *DHHS will send the Debtor a letter, 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. The letter will contain an appropriate advisement regarding further action that may be taken.*
c. *If no response is received within 30 days of the second letter, DHHS will take the following action, based on the dollar value of the account: . . .*

    iv. *More than $2,000.00 – Referral to LRS for decision on further collection efforts. LRS will initiate legal action or refer the account to the DHHS collection agency.*

A good internal control plan requires procedures to be in place to ensure referred cases are reviewed, appropriate dispositions are made in a timely manner, and repayments are adequately pursued.

Condition: We tested 25 cases referred to the Special Investigations Unit. For five of those cases, we noted the following: fraud should have been pursued but was not; the case did not have an accounts receivable established; and/or the case was not investigated on a timely basis. We tested three additional cases where fraud was identified. For all three, the debtor has not made payment and, for one of these, the Agency did not follow its collection policy. A similar finding was noted in the prior audit.

Repeat Finding: 2016-039

Questioned Costs: $18,889 known

CFDA	Grant #	Known Questioned Costs
93.575	1401NECCDF	$ 10,709
93.596	1401NECCDF	$ 6,682
93.596	1701NECCDF	$ 1,498

Statistical Sample: No

Context: We noted the following:

#	Dates Not Worked	Time Lag	Notes
1	January 2015 to April 2017 *Fraud not pursued*	27 months *Not Timely*	The investigator on the case left in December 2015, and the case was not reassigned timely. The Agency also did not adequately investigate for fraud. The case documentation indicates misleading or false information was provided, so it appears there was evidence of fraudulent overbilling; however, the Agency closed the case. The Federal funds at risk that were charged to the Federal fiscal year 2014 grant during the current fiscal year were $13,439 and are considered questioned costs.
2	January 2015 to May 2017	28 months *Not Timely*	The investigator on the case left in December 2015, and the case was not reassigned timely. The current investigation supports the unauthorized use of child care benefits occurred, but an overpayment has yet to be identified. Meanwhile, the individual under review has been eligible for child care continuously, and the Federal share of payments to providers for her children was $23,271 in the fiscal year.
3	May 2016 to April 2017	11 months *Not Timely*	The Agency has not yet determined whether fraud occurred. Meanwhile, the provider who was allegedly overbilling received $79,619 in Federal child care funds during the fiscal year.
4	*Fraud not pursued, accounts receivable not established or pursued.*		For one case, a parent received child care assistance while she was not working or attending school. There is evidence to indicate the misuse was fraudulent, as she had lied to the Agency about her employment. Fraud was not pursued because the Agency noted the recipient was also involved in a child protective services case. A note to Title 392 NAC 3-013.02D directs the investigator to consult with the relevant caseworker regarding pursuit of a case. An overpayment of $1,448 was identified, but an accounts receivable has not been set up or pursued.
5	*Accounts receivable not established or pursued.*		For one case, a provider billed child care for a client who was not working or attending school. An overpayment was not calculated, and an accounts receivable was never established for the child care misuse as per policy. The provider continued to receive $50,975 in Federal funds in State fiscal year 2017.

Additionally, we tested three cases where fraud was identified to determine whether the Agency adequately pursued repayment. None of the accounts receivable that were established have been repaid yet, resulting in Federal questioned costs of $5,450. For one of the cases, the Agency sent out monthly billing statements but failed to send out an initial or second letter demanding repayment or to refer the matter to Legal Services.

Cause: The Agency did not devote adequate resources to completing child care fraud cases.

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 potential fraud cases are not adequately pursued, this results in noncompliance with Federal requirements. When repayment is not adequately pursued, this results in a loss of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure cases referred to the Special Investigations Unit are reviewed timely, and appropriate dispositions are made. We further recommend collection efforts be improved.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-045</u>

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Grant Number & Year: All open, including #1701NECCDF, FFY 2017

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

Criteria: Per 45 CFR § 98.41 (October 1, 2016), the State must have requirements to protect the health and safety of children, including the prevention and control of infectious diseases (including immunizations), building and physical premises safety, and health and safety training.

391 NAC 3-005.03 provides the following:

> *To determine compliance with licensing regulations, the Department will conduct unannounced inspections: 1. A minimum of once each year of child care centers licensed for 29 or fewer children; and 2. A minimum of twice each year to child care centers licensed for 30 or more children.*

Per 391 NAC 3-005.09A, "The Department will make a fire inspection referral when: . . . 2. Every two years following the initial fire inspection[.]" Per 391 NAC 3-005.09B, "The Department will make a sanitation inspection referral when: . . . 2. Every two years following the initial sanitation inspection . . . [.]"

A good internal control plan requires adequate documentation to be maintained to support compliance with health and safety requirements and to ensure compliance with Agency policies.

Condition: The Agency did not have adequate procedures in place to ensure health and safety requirements were met for child care providers.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: The Agency has two tiers of providers that are subject to health and safety requirements. These are child care centers and family child care homes. Each type of provider is subject to separate but similar State regulations. Agency policy is to conduct inspections of child care providers at least annually and to document the review on a checklist. Any deficiencies noted are carried forward to a compliance review form, and the child care inspection specialist ensures the deficiencies are corrected. We reviewed the State's health and safety requirements for child care providers and tested 40 child care providers subject to the health and safety requirements. We noted the following:

- For three providers tested, health and safety requirements were unanswered on the checklist. The checklist was not complete for requirements related to maintaining immunization records and ensuring child care providers completed annual training.

- For two providers tested, the worker conducting the interview failed to obtain the provider's signature, certifying the information provided to the Agency was true and correct.

- One child care center did not have a fire inspection performed within the last two years as its last inspection occurred in April 2015. Depending on the city or county, the Agency relies on local fire departments or the State Fire Marshal to conduct fire inspections for child care centers. The Agency makes a referral to the fire department when an inspection is due, but the Agency does not pay for these inspections and cannot control the timing of the inspections.

- Two child care centers did not have a building and physical premises inspection performed within the last two years (latest inspections were both in April 2015), and one did not have any record of an inspection.

Cause: Worker error and limited staff.

Effect: Without adequate procedures to ensure health and safety requirements are met, there is an increased risk of noncompliance with Federal regulations and the possibility of children being cared for in unsafe facilities.

Recommendation: We recommend the Agency implement procedures to ensure all health and safety requirements are met for child care providers.

> **Management Response:** The Agency agrees with the condition reported. Children's Services Licensing conducted over 5,700 inspection in 2017. It is the goal to ensure all regulations are evaluated correctly at each licensing inspection. All fire and health referrals are sent to the appropriate entity for routine inspections. Children' Services Licensing monitors the approvals we have returned and checks with Fire/Health Offices frequently to inquire about status of the referrals.

<u>Finding 2017-046</u>

Program: CFDA 93.575 – Child Care and Development Block Grant – Allowability

Grant Number & Year: #1701NECCDF, FFY 2017

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

Criteria: A good internal control plan requires procedures be in place to ensure duplicated indirect costs are not charged to the same grant.

Per 45 CFR § 98.54(a)(6) (October 1, 2017), administrative costs may include "[i]ndirect costs as determined by an indirect cost agreement **<u>or</u>** cost allocation plan pursuant to § 98.57." (Emphasis added.)

Per 45 CFR § 98.67(c) (October 1, 2016), "Fiscal control and accounting procedures shall be sufficient to permit: . . . (2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part."

Condition: Indirect costs of $132,344 were inappropriately charged to the Child Care grant.

Repeat Finding: No

Questioned Costs: $132,344 known

Statistical Sample: No

Context: Grants administered by the Agency can claim indirect costs in one of the following two ways: 1) through the Agency's approved cost allocation plan (CAP); or 2) by using an approved indirect cost rate. The CCDF Cluster uses the CAP. However, for three months of the fiscal year, the Agency also claimed indirect costs on the grant using the second methodology, which resulted in the duplicative charging of indirect costs. This issue was noted by the Agency's internal auditors, but it had not been corrected as of January 31, 2018.

Cause: Inadequate control and accounting procedures.

Effect: Loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure duplicated indirect costs are not charged to the same grant.

Management Response: The Agency agrees with the condition reported.

Finding 2017-047

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

Grant Number & Year: #1401NECCDF, FFY 2014

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

Criteria: Per 45 CFR § 98.60(d)(1) (October 1, 2016), "Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year." 45 CFR § 98.60(d)(7) adds, "Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government."

45 CFR § 75.2 (October 1, 2016) provides the following:

> *When used in connection with a non-Federal entity's utilization of funds under a Federal award,* obligations *means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period.*

A good internal control plan requires procedures to ensure Federal funds are obligated within the appropriate timeframes.

Condition: An obligation was made after the end of the period of performance, resulting in questioned costs of $102,384.

Repeat Finding: No

Questioned Costs: $102,384 known

Statistical Sample: No

Context: Federal fiscal year 2014 grant discretionary funds were required to be obligated by September 30, 2015. We tested a payment to the Nebraska Department of Education that was for reimbursements to subrecipients. We reviewed four subawards and noted one was awarded outside the period of performance. The Agency subawarded $195,071 from the 2014 grant on April 13, 2016. The funds were not obligated by September 30, 2015, as required. The expenditure that we reviewed from this subaward was for $102,384, which are questioned costs; however, the entire $195,071 is likely questioned costs.

Cause: Agency staff stated that they intended to make the subaward a continuation of older funding; however, in actuality, it was written as a new subaward outside the period of performance.

Effect: Obligations made outside of the period of performance result in a loss of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure funds are obligated within the required timeframes. The Agency should return funds to the Federal government for payments on subawards obligated outside of the period of performance.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-048</u>

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Grant Number & Year: #1401NECCDF, FFY 2014

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

Criteria: Per 45 CFR § 98.60(a) (October 1, 2016), "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) 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.

* * * *

(7) 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.

A good internal control plan requires procedures to be in place to ensure targeted funds are met.

Condition: The Agency did not meet earmarking requirements for FFY 2014 targeted funds. The FFY 2014 Discretionary grant was required to be obligated by September 30, 2015, and liquidated by September 30, 2016. However, $367,831 in targeted funds were unspent for the grant. A similar finding was noted in the prior audit.

Repeat Finding: 2016-040

Questioned Costs: None

Statistical Sample: No

Context: The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds known as Toddler and Infant, Quality Expansion, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities.

	FFY 2014 Allocation	Expenditures	Earmark Not Met
Quality Expansion	$ 1,134,958	$ 798,149	$ 336,809
Toddler & Infant	$ 657,283	$ 657,283	
School Age R&R	$ 108,610	$ 77,588	$ 31,022
Total	$ 1,900,851	$ 1,533,020	$ 367,831

The Agency had not met its earmarking requirement as of June 30, 2017, and the liquidation period ended September 30, 2016. Therefore, no further expenditures can be made for the 2014 grant.

Cause: The Agency stated that it was aware of the issue and intend to reclassify as Federal funds some targeted fund expenditures originally paid from State general funds; however, it has neither performed the necessary entries in the State accounting system nor the drawn Federal funds for this. The liquidation period for the grant has already ended. The majority of the amount underspent had been allocated to the Nebraska Department of Education (NDE), which did not ensure the funds were expended timely. The Agency claims now to be working more closely with NDE to ensure funds are expended appropriately and timely.

Effect: Noncompliance 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.

Finding 2017-049

Program: CFDA 93.658 – Foster Care Title IV-E – Allowability

Grant Number & Year: #0G1701NEFOST, FFY 2017

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

Criteria: Per 45 CFR § 75.403 (October 1, 2016), costs must be necessary, reasonable, and adequately documented. Per 45 CFR 75.303(a) (October 1, 2016), the Agency must 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.*

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, "Care for 6 or more hours must be billed by the day."

According to 45 CFR § 75.511(a) (October 1, 2016), "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."

Condition: We noted that three of eight Foster Care payments tested for child care services did not comply with Federal and State requirements. The Summary Schedule of Prior Audit Findings states that corrective action was taken.

Repeat Finding: 2016-041

Questioned Costs: $26 known

Statistical Sample: No

Context: For three of eight payments tested, the amount paid for child care was not proper based on the supporting records, resulting in questioned costs of $26. Two providers were paid at the daily rate, but they should have been paid at the hourly rate. Another provider claimed 24 hours but had support for only 23.25 hours.

The total Federal questioned costs noted were $26. The total Federal sample tested was $1,281. The Federal share of child care payments on behalf of Foster Care children for the fiscal year was $934,714.

Cause: Inadequate review. The Agency implemented additional procedures related to other error types noted in the prior finding, but it did not implement additional procedures related to child care claims. The Agency decided not to increase the number of claims sampled and reviewed, as the Agency believed increasing the sample size would not materially prevent additional errors.

Effect: Unallowable costs charged to the grant.

Recommendation: We recommend the Agency implement procedures to ensure payments are proper and in accordance with State and Federal regulations.

Management Response: The Agency agrees with the condition reported.

Finding 2017-050

Program: CFDA 93.658 – Foster Care Title IV-E – Allowability

Grant Number & Year: #0G1701NEFOST, FFY 2017

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

Criteria: Per 45 CFR § 75.302(b)(4) (October 1, 2016), "The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes."

Per 45 CFR § 75.403 (October 1, 2016), costs must be necessary, reasonable, and adequately documented.

Per Nebraska Foster Care Waiver terms and conditions, the State may use Federal Foster Care grant funds to pay for the following:

> *[A]n expanded array of evidence-based programs and 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 is to be submitted for payment on a Travel Log. Those contracts also provide the following:

> *Travel time shall be rounded up to the nearest fifteen (15) minute increment for each one-way trip rate recorded on the Travel Log. DHHS shall pay 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.*

Regarding payments for Family Support Services, the contracts state the following:

1. *For the service of Family Support, DHHS shall pay the Contractor* ***$47.00 per full hour of*** *direct, face to face contact time assisting the child and/or family.*
2. *In those unplanned situations where the Family Support Worker spends less than one hour of direct, face to face contact time with the youth and family, DHHS will pay the Contractor for one full hour of service at $47.00 per hour.*

3. *In those situations where the Family Support Worker travels to meet the family, and the family is not present (a no-show) for the session at the designated time and location, or the session is cancelled while en-route to the location (a no-show), DHHS will pay the Contractor for one full hour of services at $47.00 per hour. The Contractor must provide written documentation of each no-show. The documentation must include the client's name, the date and time of the no-show and the circumstances surrounding the no-show.*

Good internal control requires procedures to ensure that charges to grants are in accordance with Federal and State requirements.

According to 45 CFR § 75.511(a) (October 1, 2016), "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."

Condition: Five of 10 waiver expenditures tested were not adequately documented or were not reasonable. The Summary Schedule of Prior Audit Findings states that corrective action was taken.

Repeat Finding: 2016-042

Questioned Costs: $119 known

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 charged $5,622,117 in waiver-based expenditures to the Foster Care grant. These expenditures were for family support services paid to contractors and travel time and mileage costs paid to contractors related to family support services. We selected 10 claims and noted the following:

- For one claim, the worker traveled only 5 to 10 minutes each way but rounded that number up to 15 minutes each way. Consequently, the contractor was paid a cumulative total of 1.5 hours for multiple trips when the actual travel time was only .75 hour. Though allowable under the terms of the contract, such rounding up does not appear to be in keeping with the Federal requirement that all costs be reasonable. It is not reasonable to pay unnecessarily for travel time not earned, especially when it would be relatively easy to track and pay for actual travel time.

- One claim had travel time that did not appear reasonable. For October 2016, the workers had numerous unscheduled visits. While we acknowledge that it may be necessary to make unscheduled visits, the workers appear to have been trying sometimes to arrive at the home when the family was not there. Of the 54 visits during the month, 43 were no-shows, including times when the worker expected the family to be absent. One narrative stated, "FSW [Family Support Worker] arrived at 5:35pm to ensure [Mother] was at work. [Mother] was not home and was still at work." However, stopping at the family home does not ensure that the mother was at work; it verified only that she was not at home. Another narrative stated, "FSW arrived at 4:10pm to ensure [Mother] had left town as she had said. [Mother] was not home." Again, this does not verify the whereabouts of the family. Another visit occurred at 9:35 a.m. on a Sunday morning, when the worker knew that the family was out of town for the weekend. For this claim, we question the six trips related to the narratives noted; however, numerous other no-shows appear suspect as to their necessity and reasonableness. We further noted this claim had instances of the actual round trip time totaling 2.25 hours; however, rounding each way, the contractor was paid for 3.5 hours.

- For one claim, the mileage was not a direct route on October 12, 2016. We also noted the travel log had overlapping times on October 4, 2016. The following travel was claimed on October 4, 2016, by the same worker:

Start	Finish	From*	To*	Miles
1:37 pm	1:52 pm	A	B	7.5
1:43 pm	1:56 pm	B	C	4.0
7:00 pm	7:08 pm	C	D	1.9
7:08 pm	7:15 pm	C	D	1.9
7:11 pm	7:29 pm	D	A	5.2
7:17 pm	7:33 pm	D	A	5.2

*Actual address not included to protect confidentiality.

- One claim for family support services charged 12.5 hours; however, the case notes support only 11 hours based on paying a minimum of one full hour. The actual hours provided could not be determined, as only start times were listed.

- One claim for family support services included an hour charged for a no-show, but there was no support that the worker traveled to the meeting or the circumstances surrounding the no-show.

Federal questioned costs noted totaled $119. The Federal sample tested totaled $2,978. Total Federal population was $5,622,117. Based on the sample tested, the case error rate was 50% (5/10). The dollar error rate for the sample tested was 4%, which estimates the potential dollars at risk for fiscal year 2017 to be $224,885 (dollar error rate multiplied by population).

Cause: Worker error and inadequate review. Per the Agency:

> *DHHS has engaged multiple parenting time providers in negotiating 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 parenting time services statewide. Providers had complained about the rates not being high enough and this was a negotiated contractual compromise to allow services to be provided for children and families . . . .*
>
> *Providers travel in good faith to provide parenting time and supervision and when the client is not available there needs to be compensation for the attempt to provide [family support] services. This is a contractual negotiated way of ensuring providers receive compensation for the attempt to provide services or drop-ins and to ensure services will be provider [sic] in all service areas in the state.*

Effect: Unallowable costs 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. Current contracts are all negotiated to allow for the rounding up of to the nearest quarter of an hour for each one-way trip. Payments were processed according to allowable contract language. The Agency agrees with all other exceptions noted.

Finding 2017-051

Program: CFDA 93.658 – Foster Care Title IV-E – Subrecipient Monitoring

Grant Number & Year: All open, including #0G1601NEFOST, FFY 2016

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

Criteria: 45 CFR § 75.352 (October 1, 2016) specifies pass-through entity responsibilities, including ensuring that 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."

Condition: The Agency did not notify subrecipients of the dollar amount made available under each Federal award and the CFDA number at the time of disbursement. According to the Summary Schedule of Prior Audit Findings, corrective action was taken.

Repeat Finding: 2016-043

Questioned Costs: None

Statistical Sample: No

Context: The Agency did not notify subrecipients of the dollar amount made available under each Federal award or the CFDA number at the time of disbursement; instead, the Agency informed the subrecipients of the total expected amount for the Federal fiscal year in May 2017. This appears inadequate due to the fact that only the expected, as opposed to actual, dollars were disclosed. Because the amount made available was not detailed by month, moreover, the subrecipient would be unable to determine the actual amount for its fiscal year.

Cause: Unknown

Effect: When subrecipients are not provided all required notifications, there is an increased risk for noncompliance with Federal requirements. If not made aware of the total Federal funds received, the subrecipient may fail to obtain a Single Audit or include all required major programs.

Recommendation: We recommend the Agency notify subrecipients of all information required by Federal regulations.

Management Response: The Agency agrees with the condition reported.

Finding 2017-052

Program: CFDA 93.659 – Adoption Assistance – Allowability

Grant Number & Year: #1701NEADPT, FFY17

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

Criteria: Good internal control requires procedures to ensure compliance with State and Federal regulations and the maintenance of documentation to support such regulatory compliance.

45 CFR § 75.403 (October 1, 2016) requires costs to be reasonable, necessary, and adequately supported.

Per 45 CFR § 75.302(a) (October 1, 2016), "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."

Title 392 NAC 5-001.01 states, "Before furnishing any service, each provider must sign Form CC-9B agreeing . . . (7) To retain authorizations, billing documents, and attendance records for four years to support and document all claims[.]"

Title 392 NAC 4-003.01A2 states the following:

For foster children or children receiving adoption or guardianship subsidy, payment may be made based on enrollment within the following guidelines:

1. *The provider must be licensed;*
2. *The provider must have written policies specifying that they charge private-paying families by enrollment;*

> 3. *The child must attend the child care facility for a minimum of 30 hours a week; and*
>
> 4. *The provider may charge a maximum of one daily unit for a day when the child is not in care or is in care for less than six hours.*

The Child Care Provider Agreement (Form CC-9B), entered into by the Agency and child care providers, states the following:

> *A full day of care means 5 hours and 46 minutes through 9 hours or longer if the child care program defines its day of care as longer than 9 hours.*

Condition: Adoption Assistance payments were not in accordance with State and Federal regulations for 3 of 40 payments tested. A similar finding was noted in the prior audit.

Repeat Finding: 2016-044

Questioned Costs: $227 known

Statistical Sample: No

Context: We tested 40 Adoption Assistance payments and noted that 3 were for child care services that were overbilled:

- For one payment tested, attendance records supported two days of child care services. However, the provider billed and was paid for 22 days. The provider's bill included 2 days that were adequately supported, 10 days the child was absent, 3 days the provider was closed, and 7 days supported only by a checkmark on the attendance records with no in or out times.

  The provider should not have billed for days the child was not in attendance because the provider's agreement states, "Bill for attendance only." Additionally, the child did not attend the child care facility for a minimum of 30 hours a week, which is a NAC prerequisite for charging for non-attendance.

- For another payment tested, attendance records reflected 4 hours and 29 minutes of child care services. However, the provider billed and was paid for one full day.

- For a third payment tested, attendance records reflected 8 days and 5.5 hours of child care services. However, the provider billed and was paid for 10 days.

The total Federal share of errors noted was $227. The total Federal sample tested was $9,174, and the Federal share of expenditures for adoption subsidies for fiscal year 2017 was $15,310,601. The dollar error rate for the sample was 2.47% ($227/$9,174), which estimates the potential dollars at risk for fiscal year 2017 to be $378,172 (dollar error rate multiplied by population).

Cause: Inadequate review.

Effect: Increased risk for loss or misuse of funds.

Recommendation: We recommend the Agency implement procedures to ensure State and Federal requirements are met, and documentation is maintained to support compliance.

Management Response: The Agency agrees with the condition reported.

Finding 2017-053

Program: CFDA 93.659 – Adoption Assistance – Reporting

Grant Number & Year: #1601NEADPT, FFY16

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

Criteria: 45 CFR § 75.403 (October 1, 2016) requires costs to be reasonable, necessary, and adequately supported.

45 CFR § 75.302(a) (October 1, 2016) 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 requires "the financial management system of each non-Federal entity" to 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 . . . .*

EnterpriseOne is the official accounting system for the State of Nebraska, and all expenditures are generated from it.

Good internal control requires procedures to ensure compliance with Federal regulations and the maintenance of documentation to support such regulatory compliance. A good internal control plan also requires procedures to ensure reports are accurate and reconciled to the accounting system and to the Agency's Cost Allocation Plan (CAP) on a timely basis.

Condition: Expenditures reported for the quarter ended September 30, 2016, were not adequately supported and did not agree to the accounting system. Administrative expenditures reported on this same report did not agree to the Agency's CAP and did not agree to the accounting system. A similar finding was noted in the prior audit.

Repeat Finding: 2016-045

Questioned Costs: Unknown

Statistical Sample: No

Context: We tested two of four quarterly reports. Expenditure adjustments for prior quarters were not adequately supported or recorded on the accounting system for the Federal report for the quarter ended September 30, 2016. We noted the following:

- Increasing aid adjustments, totaling $3,024,455 (Federal share $1,655,642), and decreasing administrative expenditure adjustments of $460,522 (Federal share $230,264) were not reflected in EnterpriseOne, the State's accounting system. The decreasing administrative expenditure adjustments were also not included in the CAP.

- The Agency did not have adequate support on file for the $3,024,455 aid adjustments reported. The Agency provided a summary of the process used but did not maintain the actual detail on file. Therefore, we were unable to test whether the underlying transactions were accurate and allowable, or if the amount was correct. However, as the entry was not recorded on the accounting system, no questioned costs are noted.

Cause: Employee turnover and staff training.

Effect: Increased risk for errors or misuse of funds to occur.

Recommendation: We recommend the Agency maintain documentation to support all amounts reported, including adjustments associated with prior periods. We also recommend the Agency reconcile financial reports to the accounting system and the CAP on a timely basis.

> **Management Response:** The Agency partially agrees with the condition reported. Administrative expenditures reported did match the Agency's CAP during the 9/30/16 quarter. The reason the general ledger did not match during that time period is because the reconciliation of administrative expenditures is not done until after reporting is complete.

APA Response: Reconciliations should be performed in a timely manner. A journal entry for adjustments reported on the September 30, 2016, quarterly Federal report had not been made as of fieldwork in January 2018, more than one year later.

Finding 2017-054

Program: CFDA 93.758 – Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PHBG) – Allowability & Subrecipient Monitoring

Grant Number & Year: 2B01OT009036-15, FFY 2016; 1NB01OT0090367-01, FFY 2017

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

Criteria: 45 CFR § 75.403 (October 1, 2016) requires costs charged to Federal programs to be reasonable, necessary, and 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 § 75.456, participant support costs are allowable with the prior approval of the awarding agency.

45 CFR § 75.352(d) requires pass-through entities to "[m]onitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved . . . ."

45 CFR § 75.303 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 procedures to ensure subrecipients use Federal awards in accordance with Federal compliance requirements, including procedures for monitoring of subrecipients' fiscal activities related to Federal expenditures.

Condition: The Agency did not have adequate subrecipient monitoring procedures to ensure costs were allowable and in accordance with Federal requirements. We also noted an operating expense not allocated in accordance with relative benefits received.

Repeat Finding: No

Questioned Costs: $39,058 known (2B01OT009036-15, $35,892; 1NB01OT0090367-01, $3,166)

Statistical Sample: No

Context: We selected 25 payments, including 14 payments to subrecipients. Seven of the 14 did not have adequate documentation to support that the charges were necessary, reasonable, and in accordance with Federal requirements. The Agency selects one payment period for the grant to perform financial monitoring. We reviewed the financial monitoring and noted that support, such as timesheets, pay stubs, invoices, or the basis for allocations, was not on file, or documentation was not adequate for seven subrecipients. After being questioned by the auditor, the Agency subsequently obtained additional support. However, three subrecipients still had questioned costs, as follows:

- For one subrecipient, the timesheets and pay stubs for one individual supported $1,694, but $2,300 was charged.

- The documentation for one subrecipient included timesheets for periods prior to the start date of the subaward.

- One subrecipient allocated office expenses to the grant based on the percentage of revenue of the grant compared to other activities. This is not a reasonable basis, as costs should be charged based on the relative benefits received. In addition, this subrecipient did not have adequate support for fringe benefits.

Federal questioned costs noted totaled $4,155. The total Federal sample tested was $135,342. The total sample population was $1,422,773. The dollar error rate for the sample tested was 3.07%, which estimates the potential dollars at risk for fiscal year 2017 to be $43,679 (dollar error rate multiplied by population).

We also randomly selected 40 Agency operating expenses charged to Federal funds, including eight expenses charged to PHBG. One expense tested, a $400 charge for an Agency attorney and internal audit administrator to attend training related to Federal Uniform Guidance requirements, was paid entirely by PHBG, although the benefit was for numerous Federal programs. Based on the training, the staff then presented Uniform Guidance training to over 100 Agency employees who worked on numerous Federal grants. The underlying charge was allowable but not 100% allocable to PHBG; questioned costs to PHBG were $394.

During our examination of the Health Aid Program, for the period ended December 31, 2016, we also noted that subrecipient monitoring procedures could be improved. One expenditure tested was not adequately supported. Agency monitoring did not include several significant categories of expenses. We noted unallowable public relation costs, participant costs for prizes and gift cards not approved by the Federal grantor as required, personnel costs not adequately supported, and the detail of expenditures did not total correctly, resulting in an overpayment. As a result, we questioned costs of $34,509.

Cause: Lack of familiarity with requirements of Federal cost principles. It appears monitoring improved after additional training was provided.

Effect: The Agency did not comply with Federal requirements, and there is an increased risk for unallowable charges.

Recommendation: We recommend the Agency implement procedures to improve subrecipient monitoring and ensure compliance with Federal requirements.

Management Response: Management agrees with the condition reported.

Finding 2017-055

Program: CFDA 93.778 – Medical Assistance Program – Reporting

Grant Number & Year: #051605NE5MAP, #051605NE5ADM, FFY 2016; #1705NE5MAP, #1705NE5ADM, FFY 2017

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

Criteria: Title 45 CFR § 75.302 (October 1, 2016) requires financial management systems of the State to be sufficient to permit the preparation of required reports and permit the tracing of funds to expenditures adequate to establish that 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 procedures for reconciling submitted reports to the accounting system. A good internal control plan also requires adjustments and reconciling items to be resolved in a timely manner.

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. Good internal control requires procedures to ensure that all monies received are deposited to the State Treasury timely.

Condition: 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: 2016-046

Questioned Costs: Unknown

Statistical Sample: No

Context: We tested two quarterly reports and noted that neither was complete and accurate, as all accounts were not reported.

Description	Total Not Reported	Federal Share
September Report:		
Refunds	$ (1,000,759)	$ (525,022)
Administration	$ 109,758	$ 54,879
Prior Period Adjustment-Administration	$ (2,044,925)	$ (1,533,694)
March Report:		
Program Integrity Collections	$ (2,460,259)	$ (1,258,684)
Children with Disability Waiver	$ 20,090	$ 10,417
Administration	$ 113,385	$ 56,693

The refunds and waiver amounts were noted on the Agency reconciliation as not reported, but follow-up was not performed in a timely manner. Program Integrity collections were noted on the reconciliation as "need to research." Administration charges were coded to aid on the general ledger, but they were charged to the administration grant; these charges were not reported. We also noted a prior-period adjustment for administration where only one part of the adjustment was reported. The increasing adjustment was reported, but the corresponding decreasing adjustment was not.

As of the June 30, 2017, quarterly report, the items noted above had not yet been reported.

On August 30, 2017, we performed a cash count to follow up on the prior finding related to drug rebate checks not being deposited timely. The office safe contained a folder with old checks dated from September 2013 to November 2015 that had not been deposited. The Agency disciplined the responsible employee and researched the checks. As of October 2, 2017, there was a total of $37,660 in old checks with a Federal share of $20,629 that was owed to the Agency that had not been resolved.

The Agency reported a total of $1,128,649,916 in Federal expenditures for the Medical Assistance Program in fiscal year 2017.

Cause: Procedure changes and staff turnover. The manager assigned to the old checks stated they had been taken care of when, in fact, they had not. He was disciplined with six months probation and a demotion.

Effect: Without adequate procedures, there is an increased risk for misuse or loss 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. We also recommend the Agency improve procedures to ensure that all monies received are deposited to the State Treasury timely.

> **Management Response:** The Agency agrees with the condition reported. Management has reviewed all of the checks and has requested replacement checks where appropriate or destroyed checks where replacement checks were already received.

Finding 2017-056

CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #1705NE5MAP, FFY 2017; #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.

Per 45 CFR § 75.302(a) (October 1, 2016), "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."

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.*

Condition: Health insurance premium payments (HIPP) were not in accordance with regulations. A similar finding has been noted since 2013.

Repeat Finding: 2016-047

Questioned Costs: Unknown

Statistical Sample: No

Context: We noted 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 or overpayments could be minimized if the Agency complied with regulations and made the payments directly to the insurance companies or employers.

The Agency's corrective action plan for prior audit finding 2016-047 stated, "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."

During fiscal year 2017, the Agency did not use alternative methods to minimize the payments made directly to clients. The Agency did begin drafting changes to the NAC regulations to allow payments to be made directly to the policyholder; however, that process was not completed.

The Federal share of expenditures for HIPP for fiscal year 2017 was $734,568.

Cause: The Agency was waiting for Federal approval of Medicaid State Plan Amendments before changing State NAC regulations.

Effect: Non-compliance with regulations and 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 2017-057

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #051605NE5MAP, FFY 2016; #1705NE5MAP, FFY 2017

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

Criteria: Per 45 CFR 75.403(g) (October 1, 2016), 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 Timesheet."

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.

A good internal control plan requires procedures to be in place to ensure services provided agree to the service needs assessment.

Condition: During testing of personal assistance service (PAS) claims, we noted services provided did not agree to the service needs assessment for eight claims. For one of these claims, the provider did not document the individual who provided the services. A similar finding was noted in prior audits.

Repeat Finding: 2016-048

Questioned Costs: $896 known (#051605NE5MAP, $67; #1705NE5MAP, $829)

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.

We tested 10 PAS claims paid during the fiscal year and noted 8 claims with errors. We noted the following:

- For one claim, the organization providing the service did not document which individual performed the service. Therefore, the entire claim is questioned costs, totaling $639. In November 2015, the Agency opened a case to investigate the organization, but the case was not worked timely. The Agency eventually terminated the organization's provider agreement in April 2017 for various infractions, including employing providers with criminal records; however, by then, the organization had been paid $89,139 in Federal funds during State fiscal year 2017.

- For eight claims (including the claim noted above), the services provided on the "Service Provider Time Sheet" did not agree to the authorized services on the SNA, resulting in questioned costs of $257. Providers billed for services and time allotments that differed significantly from those authorized on the recipients' SNAs. In some cases, the provider billed the maximum authorized weekly quarterly units even though the services recorded on the time sheet did not support the billing of the maximum units. The following is a partial example of services authorized for one recipient and the time supported by the Service Provider Time Sheet:

Needs per SNA	Frequency per Week	Time Allowed Each Occurrence	Maximum Minutes per Week	Minutes Supported by Time Sheet
Accompany to Appointments	1	30	30	0
Shampoo	1	30	30	0
Hair Grooming	7	10	70	30
Meals Prepared	21	45	945	675
Wash Dishes	7	15	105	60

For this recipient, the provider billed the maximum units allowed but did not document having performed numerous services, such as shampooing, that were required to bill the maximum amount. Also, other services were not documented as being provided as often as billed; for instance, hair grooming was noted on the timesheet on only three days.

Federal payment errors noted in the sample totaled $896. The total Federal sample tested was $1,264, and the total Federal share of PAS claims for the fiscal year was $9,359,176. Based on the sample tested, the case error rate was 80% (8/10). The dollar error rate for the sample was 70.89% ($896/$1,264), which estimates the potential dollars at risk for fiscal year 2017 to be $6,634,720 (dollar error rate multiplied by population).

Cause: Inadequate review of claims.

Effect: An inadequate review of PAS claims increases the risk of services provided not being in accordance with the recipients' needs, as well as providers billing for services not provided.

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 agrees with the condition reported.

Finding 2017-058

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #051605NE5MAP, FFY 2016; #1705NE5MAP, FFY 2017

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

Criteria: Per 45 CFR § 75.403 (October 1, 2016), allowable costs must be necessary, reasonable, and adequately documented.

20 CFR § 416.415(a) (April 1, 2016) states, in part, "If you are a disabled child under age 18 and meet the conditions in § 416.1165(i) for waiver of deeming, your parents' income will not be deemed to you . . . ."

According to 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[.]*

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 5-002(1), to be eligible for waiver services, clients must be eligible for the Nebraska Medical Assistance Program (NMAP).

Per Title 480 NAC 5-003(B)(7), "The services coordinator shall – . . . (e) Maintain regular communication with Medicaid eligibility staff, especially in regard to the family's spenddown/shared cost obligation, if any, and ongoing Medicaid eligibility."

Per Title 480 NAC 5-006(1)(a), HCBS waiver providers may bill "only for services which are authorized and actually provided."

The N-FOCUS Billing Document states, "By signing this form, the claimant certifies that the information contained in this claim is accurate and all services provided were in compliance with Department of Health and Human Services Nebraska Administrative Codes . . . ."

The Provider Record of Services states, "This Record of Services is a legal document completed by you to record the dates and units of service provided. Both the provider and the client must sign and date this record verifying the accuracy of this information."

A good internal control plan requires review procedures to be in place to ensure the following: 1) services are provided only to eligible clients; 2) the Provider Record of Services are accurately completed and signed by the client; 3) services are provided by only one provider at a time unless otherwise authorized; and 4) correct amounts are paid for services provided.

Condition: We tested 26 home-based claims for the aged and disabled waiver and noted that seven payments did not comply with Federal and State requirements. A similar finding was noted in the prior audit.

Repeat Finding: 2016-049

Questioned Costs: $8,107 known (#051605NE5MAP, $2,824; #1705NE5MAP, $5,283)

Statistical Sample: No

Context: We noted the following:

- One payment tested was not allowable, as services were provided when the individual was 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 payment totaled $626 and is considered questioned costs. We also noted additional claims paid for the individual while ineligible. The Federal share of additional ineligible claims during State fiscal year 2017 totaled $3,165.

- For two payments tested, the client's name on each of the Provider Record of Services was signed by the provider. Therefore, the clients did not verify the hours of service provided, resulting in questioned costs of $447. We also noted additional services included on the claim that the client's name was signed by the providers. This resulted in additional questioned costs of $3,709.

- For one payment tested, the client had three chore service providers during the service dates tested. There were five instances of overlapping hours, ranging from 1 hour to 4 hours per instance, totaling 17 hours. The overlapping hours were billed by relatives who are the client's providers. All overlapping hours involved the client's daughter; as a result, we question $132 paid outside of the sample claim tested.

- For one payment tested, the line item of the claim was not reduced by the required customer obligation of $5.30 per hour; rather, another line item on the claim for a different service provided was reduced. This resulted in a difference of 3.25 hours or questioned costs of $9.

- For one payment tested, the Provider Record of Services showed the provider calculated five hours of service for 9:00 am to 1:00 pm for one day; however, this was only four hours of service provided, resulting in questioned costs of $5. We also noted three additional days with service from 9:00 am to 1:00 pm calculated as five hours, resulting in questioned costs outside the sample of $14.

- For one payment tested, the dates of service on the billing document did not agree to the Provider Record of Services. The billing document noted service dates of October 1, 2016, to October 31, 2016, but the Provider Record of Services included service dates of September 26, 2016, to October 21, 2016.

Federal payment errors noted in the sample were $1,087. The total Federal sample tested was $7,684, and total home-based aged and disabled waiver payments for State fiscal year 2017 were $36,694,884. Based on the sample tested, the case error rate was 26.92% (7/26). The dollar error rate for the sample was 14.15% ($1,087/$7,684), which estimates the potential dollars at risk for fiscal year 2017 to be $5,192,326 (dollar error rate multiplied by population). In addition to the $1,087 questioned costs noted on the sample items tested, we also noted $7,020 of Federal questioned costs on related claims.

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 2017-059

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Grant Number & Year: All open, including #1705NE5MAP, FFY 2017

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

Criteria: According to 42 CFR § 447.253(g) (October, 1, 2016), "The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers." Per 42 CFR § 447.253(b)(1)(i):

> *The Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and Federal laws, regulations, and quality and safety standards.*

The 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 fiscal year 2014 for most hospitals. We also noted the Agency has not adequately reviewed inpatient rates for noncritical access hospitals for several years.

Repeat Finding: 2016-050

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 performed a rebasing study during State fiscal year 2016; however, the underlying data used was raw claims data from 2015, not the most recent settled cost reports, and they did not implement the updated rates due to budget constraints.

Audited cost reports are used to make final adjustment payments to critical access hospitals. 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. Final audited cost reports can generally be obtained from the independent auditor 18 months after the hospital's year end. We noted the Agency still has not adjusted most of the hospital rates for 2014. Of the 64 critical access hospitals in the State, only 4 had been settled.

The Federal share of inpatient hospital payments for the fiscal year totaled $29,989,119. A similar finding was noted in the eight 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 unaudited or incomplete 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 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 partially agrees with the condition reported.

As noted in the finding, the Department did procure the services of an external vendor, Navigant, to perform a rebasing study for all inpatient rates for non-critical and critical access hospitals as a response to a prior year audit finding. Upon receiving the results of the rebasing study from Navigant, the data indicated that the current rates were below the actual costs based on the claims data provided to the external vendor, which indicates that there is not an increased risk that rates are in excess of actual costs, given that the study's outcomes confirmed that was not the case.

APA Response: As noted above, the State Plan requires that the most recent settled Medicare cost report be used to calculate rates. The Agency has failed to ensure rates are based on audited data for many years. The rebasing study noted by the Agency did not use settled Medicare cost reports.

Finding 2017-060

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #1705NE5MAP, FFY 2017; #051605NE5MAP, FFY 2016

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

Criteria: Per 42 CFR § 431.53 (October 1, 2016), "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 are a ride, or mileage reimbursement for a ride, and 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 ten (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.*

Title 45 CFR§ 75.403(g) (October 1, 2016), requires costs to be adequately documented.

Per 45 CFR § 75.303(a) (October 1, 2016), 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, and Federal and State requirements are followed.

Condition: The Agency did not adequately monitor the NET broker. We tested 10 NET claims. For 2 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. A similar finding was noted in the prior audit.

Although the known questioned costs for the 10 claims tested is only $13, the potential for additional improper payments is significant. In March 2017 the Office of Inspector General reported improper claims over $1.9 million.

Repeat Finding: 2016-051

Questioned Costs: $13 known (#051605NE5MAP, $2; #1705NE5MAP, $11)

Statistical Sample: No

Context: A broker provides NET 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 between $3.94 and $4.74 (depending on the service date) per one-way trip for managing the 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. In previous years, the broker never performed these audits because the Agency did not provide them with the necessary information from the Medicaid Management Information System (MMIS). This information was developed and provided to the broker in March 2017; however, when we inquired of the status of the audits, the Agency learned they were not being completed. Prior to March 2017, the Agency's policy was to perform the audits themselves. However, when we inquired of the status of those audits, the Agency administrator in charge of NET learned only three months had been performed. For those three months, the Agency had identified 1,143 trips that did not have documentation of a completed medical service. The Agency did not follow up on these cases to determine whether overpayments occurred.

During our testing of 10 broker claims and the associated provider claims, we noted for two payments, there was no associated medical claim to support the trip was proper. These resulted in Federal questioned costs of $8 to the broker and $5 to the provider. In both instances, the recipient signed off on the trip to indicate it actually occurred. However, 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.

The broker was paid $615,504 in Federal Medicaid funds during the fiscal year. The Federal sample tested for the broker was $36, and errors noted were $8. The dollar error rate was 22.22% ($8/$36), which estimates the potential dollars at risk to be $136,765 (dollar error rate multiplied by population). We tested $136 paid to NET providers and noted $5 questioned costs. Per the Agency, the Federal share of payments to NET providers for the fiscal year was $3,588,227.

In March 2017, the Office of Inspector General (OIG) for the U.S. Department of Health and Human Services issued a report that "Nebraska Did Not Always Comply with Federal and State Requirements for Claims Submitted for the Nonemergency Transportation Program." The OIG looked at NET claims for fiscal years 2012 through 2014 and noted 41 of 100 claims tested were unallowable. Per the report, "Nebraska improperly paid, and incorrectly claimed at least $1.9 million in Federal Medicaid reimbursement for, nonemergency transportation services during Federal fiscal years 2012 through 2014." The Agency's Deputy Director of Finance and Program Integrity stated that the Agency "still dispute[s] quite a few of the findings on specific claims" and is working with the Federal grantor to reduce the disallowance.

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 provided a NET Claims Audit Report, so the broker could perform monthly audits to ensure transportation was allowable; however, the broker did not complete the audits.

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, and Federal and State requirements are followed.

Management Response: The Agency agrees with the condition reported.

Upon recognition that the audits were not up to date, the Department put a plan in place to complete all outstanding monthly audits. Currently, IntelliRide has completed all monthly audits through September 2017 and is working on the October 2017 audit. The results of each audit have been sent to the IntelliRide contract manager who then sent the results to Program Integrity.

Finding 2017-061

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #1705NE5MAP, FFY 2017; #051605NE5MAP, FFY 2016

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

Criteria: Per 45 CFR § 75.403 (October 1, 2016), 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 . . . ."

Per 45 CFR § 75.423, "Costs of alcoholic beverages are unallowable."

Condition: The Agency had inadequate supporting documentation for the amounts paid for team behavioral consultations. A similar finding was noted in prior audits.

Repeat Finding: 2016-052

Questioned Costs: $29,829 known (#051605NE5MAP, $7,362; #1705NE5MAP, $22,467)

Statistical Sample: No

Context: The Agency paid one provider its actual costs for team behavioral consultations. The Federal share was calculated using the percentage of hours provided on behalf of Medicaid-eligible clients.

The Agency lacked procedures to ensure that all amounts included in the monthly invoices contained adequate documentation to support the expenses or whether the expenses were reasonable and necessary. The following is an example of a monthly invoice submitted by the contractor:

ITMS Reimbursement ***For the Month ending March 31, 2017***	
Salary	68,014.30
Payroll taxes	6,235.12
Travel/Mileage	14,258.81
Employee Medical Ins	7,471.67
Contract Labor	12,649.46
Client Needs	914.90
Staff Specific Training Implementation	454.59
Fidelity and Adherence	24,666.67
Rent	1,675.00
Repair and Maintenance	681.54
IT/Technical Needs	4,151.73
Supplies	936.14
Phones	1,569.45
Postage Expense	
Utilities	682.14
Total expenses	144,361.52
22% Admin Costs	31,759.53
Total ITMS Due for March 2017	176,121.05

Note: ITMS refers to Intensive Treatment Mobile Services – the contractor's reference to Team Behavioral Consultation (TBC) Services.

Generally, the Agency selected one of the expense line items from above to request documentation from the contractor to support the expenses. Prior to March 2017, the Agency failed to review the largest expense category, salary expense. Since that time, the Agency obtained a payroll report from the contractor to verify the amounts reported; however, they did not adequately review timesheets to ensure amounts paid were adequately supported. The Agency also performed on site reviews for two months during fiscal year 2017.

The APA reviewed the reported salary expenses for August and September 2016 and March 2017 and noted the following:

- The contractor charged $5,000 and $7,500 per month to the program for two employees' salaries. The contractor did not require them to submit timesheets like all other employees charged to the program and stated the following:

  > *[The employees] were both in administrative and clinical oversight positions, providing consultation on all clients under the ITMS contract and therefore were exempt from keeping timesheets.*

  The Agency failed to document whether these employees were also included in the 22% administrative rate charged to the program.

- At least one individual was included in the salary expense by the contractor but was not included in the payroll report for the program. The individual also had only a portion of her salary charged to the program – 25% or $1,250 per month for August and September 2016, and $1,666.66 per month in March 2017. The contractor explained that, "Salary was allocated to the department for supervisor and director roles, allowing for staff to be exempt from accruing overtime expenses." Additionally, the percentage was determined based on an analysis of time spent across four departments she oversaw. The Agency failed to obtain the analysis to determine if the portion charged to ITMS was reasonable. Additionally, as previously mentioned, the Agency did not have documentation to determine if these non-direct departmental salary expenses were included in both the salary expense and the 22% administrative rate charged to the program.

The APA also reviewed the travel/mileage expenses reported by the contractor for the months of August and September 2016 and March 2017 and determined the following:

- The Agency lacked appropriate procedures to ensure all meal reimbursements paid to employees were reasonable and in accordance with the State's policies. The following amounts were reimbursed to employees for meal expenses:

Aug-16	$ 1,499.69
Sep-16	$ 799.69
Mar-17	$ 1,911.43

  The APA noted the following related to the meal expenses reimbursed:

  - The support obtained for the March 2017 meals included two receipts which contained alcohol purchases. The total alcohol purchases were $34.20. The Federal share, $17.51, is questioned costs.

  - The Agency reimbursed a number of meals that appeared to be for one-day travel – meaning the employee was not in an overnight travel status but received reimbursement for a meal. Generally, the State does not reimburse State employees for one-day travel meals. If the meal is reimbursed, it is separately coded to ensure the amounts are included in the employee's income, if applicable. The Agency lacked procedures to determine whether these one day meal reimbursements were reasonable.

  - Detailed receipts were not provided for a large majority of the meal reimbursements. The only documentation provided was a credit card copy of the receipt, which does not provide essential details of the expense, including whether alcohol was purchased.

- The Agency did not have adequate procedures to ensure hotel costs were adequately supported and non-duplicative. The APA reviewed the reimbursements for hotel receipts during August and September 2016 and March 2017 as follows:

Aug-16	$ 279.00
Sep-16	$ 1,250.70
Mar-17	$ 5,102.49

  For August 2016, the contractor provided documentation for a conference registration, not a hotel expense.

  For March 2017, the contractor did not provide receipts for $753.66 in hotel expenses.

  Two hotel invoices were paid for twice, totaling $251.22. The Agency was unaware of the issue, due to its lack of adequate monitoring of the actual expenses. The contractor has claimed that the two rooms were not included in a subsequent reimbursement.

Additionally, the contractor continued to report fidelity and adherence costs as actual expenses, although prior audits had determined these amounts were not adequately documented. It is likely that the same salaries that comprised the fidelity and adherence amounts were also included in the 22% administrative indirect cost calculation, likely resulting in duplicative costs.

In the current period, the Agency performed journal entries to remove the unallowable fidelity and adherence charges from Federal funds. However, the provider also received 19.89% in indirect costs related to those fidelity and adherence charges. The Agency did not remove that amount, totaling $29,811, from Federal funds.

The Agency did not have adequate procedures to determine whether costs charged to the program were duplicative due to the lack of documentation and monitoring performed.

Total Federal share of payments to the provider during the fiscal year was $390,240.

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 2017-062

Program: CFDA 93.778 – Medical Assistance Program – Allowability & 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: Title 42 CFR § 455.1 (October 1, 2016) 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.

Condition: We noted 10 of 25 Program Integrity cases tested did not comply with Federal and/or State requirements. A similar finding was noted in the prior audit.

Repeat Finding: 2016-053

Questioned Costs: Unknown

Statistical Sample: No

Context: During our review of Program Integrity case files, we noted nine cases that, per the case documentation, were not worked for 6 to 18 months, including the following:

#	Documented Dates of Review		Comments
1	May 2016	*August 2017	Misfiled in closed cases, but was not a closed case; the provider received $3,175 in Federal Medicaid payments for the fiscal year.
2	June 2016	January 2017	Case involved the possibility of a provider billing for overlapping times. The provider was subsequently terminated. Federal Medicaid payments for fiscal year 2017 to the provider totaled $2,141.
3	December 2016	August 2017	Referred to the Medicaid Fraud Control Unit in August 2017 for potential overpayments greater than $30,000.
4	February 2017	*August 2017	Agency has not determined if there are billing issues. Since the case was opened, the provider has received $3,800 in Federal Medicaid payments.

#	Documented Dates of Review		Comments
5	March 2016	March 2017	Closed April 2017, education letter sent to provider.
6	July 2016	June 2017	Closed, allegation could not be substantiated.
7	August 2015	February 2017	Worked timely after transferred to another review in January 2017, remains active case.
8	July 2016	March 2017	Worked timely after transferred to another reviewer, overpayment recouped.
9	September 2015	March 2017	Worked timely after transferred to another reviewer who determined no errors and closed case.

*No documentation as of August 2017, when case was requested by auditor.

We also noted one case, in May 2015, for which the Agency identified $61 in overpayments, but it did not request accounts receivable to be established until April 2017. Once the receivables were established, $49 was recouped, but $12 has not been recouped or repaid. If the receivable had been set up timely, it might have been recouped.

Cause: Per the Program Integrity Unit Administrator:

> *[T]he entire team tries to work higher priority cases sooner than lower priority cases, so some cases may wait for attention longer . . . . Program Integrity staff have a significant number of other projects and duties in addition to the high volume of cases that are referred for investigation . . . . [Staff] use their professional judgment and skill to determine which cases and assignments need their current attention.*

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

Recommendation: We recommend the Agency improve procedures to ensure cases are worked timely.

Management Response: The Agency agrees with the condition reported.

Finding 2017-063

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #1705NE5MAP, FFY 2017

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

Criteria: Title 45 CFR § 75.403(g) (October 1, 2016) requires costs to be adequately documented.

The Agency's Home and Community-Based waiver for developmental disabilities services contains the following:

> *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 . . . .*

Daily rates are available for Day Habilitation services when the person receives this service for four or more hours. Hourly rates are also available for times when the individual might be in this service a portion of the day but not a full four hours.

CLDS [Community Living and Day Supports] provides the necessary assistance and supports to meet the daily needs and preferences of the individual. These participant directed services and supports are provided to ensure adequate functioning in the individual's home, as well as assisting the individual to participate in a wide range of activities outside the home . . . . This service will not overlap with, supplant, or duplicate other services provided through the waiver . . . . CLDS cannot be delivered at the same time as the delivery of . . . Day Habilitation services.

A good internal control plan requires procedures to be in place to ensure day services provided are allowable according to waiver definitions and adequately supported to include the specific service performed and who is providing the service.

Condition: The Agency had inadequate supporting documentation for the amounts paid for developmental disability adult day habilitation services. Also, the Agency paid for day services provided in a residential setting; however, the waiver requires day services to take place in a non-residential setting separate from the individual's residence.

Repeat Finding: 2016-055

Questioned Costs: $9,686 known

Statistical Sample: No

Context: We tested the 10 recipients who received the highest value of adult day services in May 2017 and who also received continuous residential services. We tested a total of $85,048 in adult day habilitation services. We noted 6 of 10 recipients tested did not have adequate support, as follows:

	Day Services Paid for May 2017		Amount
#	# Days/Hours	Amount	Questioned
1	22 days	$ 9,889	$ 1,798
2	14 days, 43.25 hours	$ 9,071	$ 690
3	18 days, 13 hours	$ 8,926	$ 5,747
4	18 days, 9.75 hours	$ 8,718	$ 4,559
5	30 days	$ 7,266	$ 242
6	13 days, 165.5* hours	$ 7,581	$ 5,644
		Total Amount Questioned:	$ 18,680
		Federal Share of Questioned Costs:	**$ 9,686**

*165.5 hours includes 48 duplicate hours and 69.5 hours of community living and day supports.

- For four cases, the recipient did not attend traditional formalized training in a nonresidential setting due to various medical and behavioral constraints. Instead, the Agency allowed any outings in the community or certain work-related home activities to count as day service. We did not question costs for residential services if the activities agreed to the Individual Support Plan (ISP) for the recipient; 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 worker shifts. Often the activities described were residential in nature and not per the ISP (taking medication, attending to hygiene, watching television, consuming meals).

  - For one case, the provider's documentation noted that the recipient refused to work on some days, but the provider billed a full day anyway.

  - For one case, the provider's documentation generally supported non-residential day service; however, on six days, not enough support was provided to verify the number of hours billed. Additionally, on one day, 3.5 hours were billed as an entire day.

  - For one case, the provider's documentation often did not have any narratives to indicate who provided the service or what service was performed. One narrative stated that the recipient refused to do anything, and another stated that she slept most of the day; however, adult day service was billed anyway.

  - For one case, the provider's documentation often did not have any narratives to indicate who provided the service or what service was performed. Several narratives stated only "refusals"; however, adult day service was billed anyway.

- For one case, a claim of $1,660 for 48 hours day habilitation was duplicated and paid twice. Also, documentation often did not include who was providing the service, what was done, service length, or whether the recipient was in his residence or attending a day activity. In addition to adult day habilitation, a different provider billed for community living and day supports. However, that provider indicated only times in and out – not the work performed – and often overlapped with the adult day habilitation.

- For one case, there was no narrative documenting adult day services provided on one day.

The total of adult day services in May 2017 for recipients who also received continuous residential services was $4,949,514, Federal share of $2,566,323. The total paid for adult day services during the fiscal year was $94,146,971, Federal share of $48,619,568.

A similar finding was noted in the prior audit.

Cause: Agency staff stated that "staff supports" are supervision; therefore, as long as the recipient is being supervised, day service is allowable. We agree with that determination as long as the recipient has been transported to a nonresidential setting. However, in instances where the recipient is staying at home and the provider is not documenting day services above and beyond regular residential services, the day rate on top of the residential rate is unreasonable.

Effect: Unallowable claims were paid, resulting in a misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure day services provided are adequately supported and are allowable according to waiver definitions. The Agency should consider amending its waiver to correspond with services actually provided.

Management Response: The Agency partially agrees with the condition reported. The payment for $1,660 for 48 hours of day habilitation that was billed twice was resolved by issuing an overpayment to the provider on October 14, 2017. The cause of this error was that the provider erroneously submitted for payment twice for the same service. This incident was isolated and is not consistent with the condition cited in this finding. Considering this, The Agency believes the questioned costs are $17,020 (Federal share of $8,825).

APA Response: The duplicate claim was not discovered until we asked for supporting documentation for the claims. Although only one duplicate claim was noted in the sample tested, other duplicate claims could occur and not be detected.

Finding 2017-064

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Grant Number & Year: #1705NE5MAP, FFY 2017

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

Criteria: Per Title 477 NAC 21-001.01, "If the total equity value of available non-excluded resources exceeds the established maximum, the client is ineligible." Per 477 NAC 21-001.16, the resource limit for individuals eligible only for medical assistance is $4,000.

According to NAC Appendix 477-000-012, if you reside in a nursing facility, your "standard of need" (meaning, your income you get to keep) is $60. Any other income received must be paid to the nursing facility as a share of cost.

Title 477 NAC 21-001.09A, Resources Reserved for the Community Spouse, states, in part, the following:

> *Resources may be reserved for the community spouse when the alternate care spouse is residing continuously in a specified living arrangement and applies for Medicaid. The amount of resources that a community spouse may reserve is based on the Consumer Price Index.*

A note to Title 477 NAC 21-001.15B7, Liquidation of Real Property, provides, the following:

> *If the client has excess resources because of real property other than his or her home during a retroactive period, s/he is ineligible for Medicaid. The client may be prospectively eligible with excess resources because of real property if an Agreement to Sell Real Property and Repay Assistance is signed.*

Per 45 CFR § 75.302(a) (October 1, 2016): "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." 45 CFR § 75.403(g) requires costs to be adequately documented.

A good internal control plan requires procedures to ensure all income, resources, and expenses are updated for changes timely, adequately documented, and verified.

Condition: The Agency did not adequately verify the income and resources of individuals residing in nursing home facilities to ensure limits were not exceeded, and the individuals were eligible.

Repeat Finding: No

Questioned Costs: $49,514 known

Statistical Sample: No

Context: We tested 15 Medicaid recipients admitted to nursing home facilities during fiscal year 2017 and noted the following:

- For one recipient tested with a community spouse, numerous errors occurred in calculating the recipient's eligibility:

    - The Agency determined one property was "inaccessible," meaning it was unable to be sold, and it was excluded as a resource. However, it was sold in June 2016 for $89,000.

    - An annuity documented in the Agency's case processing system valued at $6,572 was not included in determining the recipient's eligibility.

    - A vehicle valued at $7,575 was reported by the recipient, but the Agency did not include it in determining the recipient's eligibility.

    - The Agency miscalculated the value of a property to be $47,000; its value according to assessor information was only $13,630. This discrepancy caused the community spouse's reserved amount to be overstated. Then, the Agency did not include the property in determining the recipient's eligibility.

  As a result of these errors, the recipient was over the resource limit for the entire year and, therefore, was ineligible for Medicaid. The Federal share of the claim tested, $2,247, is questioned costs. Questioned costs for additional claims paid during the fiscal year were $23,444.

- One recipient was residing in a nursing home, but her benefit was determined as if she were living at home. As a result, her share of cost should have been $894 instead of $0. Federal share of $464 are questioned costs for the claim tested and an additional $464 for another claim.

- One recipient was receiving military retirement pay of $901 per month that should have been considered. Share of cost should have been $901 higher; Federal share of $467 is questioned costs. We identified three other nursing facility claims paid during the year, all of which had the incorrect share of cost, resulting in additional questioned costs of $1,402.

- One recipient was residing in a nursing home, but her benefit was determined as if she were living in an assisted living facility. As a result, her share of cost should have been $1,137 higher. Federal share of $590 are questioned costs. Additionally, monthly farm house rental income of $371 and farm land rental income of $856 were included in the eligibility determination, but we were unable to determine how those amounts were derived.

- One recipient's bank account was valued as $2,347, but the value according to the bank statement was $4,972. If the correct value were used, the recipient would have been ineligible for Medicaid. The Federal share of $4,560 for the claim tested is questioned costs. Questioned costs for additional claims paid during the fiscal year were $15,876.

Federal payment errors noted in the sample were $8,328. Federal payment errors on other claims totaled $41,186. The total Federal sample tested was $24,404, and the total claims paid to nursing facilities for recipients who entered the facility for the first time during the fiscal year were $24,213,637. Based on the sample tested, the case error rate was 33.33% (5/15). The dollar error rate for the sample was 34.13% ($8,328/$24,404), which estimates the potential dollars at risk for fiscal year 2017 to be $8,264,114 (dollar error rate multiplied by population).

Cause: Worker error and inadequate review. The Agency stated there have recently been numerous retirements of experienced nursing facility eligibility caseworkers, which contributed to the errors.

Effect: If income, resources, and expenses are not adequately verified, there is an increased risk recipients will be inappropriately determined eligible for Medicaid or determined eligible with an incorrect share of cost.

Recommendation: We recommend the Agency implement procedures to ensure all income, resources, and expenses are updated for changes timely, are adequately documented, and verified.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-065</u>

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Grant Number & Year: All open, including #1705NE5MAP, FFY 2017

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

Criteria: Title 42 CFR § 447.253(b)(1)(i) (October 1, 2016) provides the following:

> *The Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and Federal laws, regulations, and quality and safety standards.*

According to 42 CFR § 447.253(g) (October, 1, 2016), "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-D, 12-011.11 (Audits), states the following:

> *The Department will perform at least one initial desk audit and may perform subsequent desk audits and/or a periodic field audit of each cost report. Selection of subsequent desk audits and field audits will be made as determined necessary by the Department to maintain the integrity of the Nebraska Medical Assistance Program. The Department may retain an outside independent public accounting firm, licensed to do business in Nebraska or the state where the financial records are maintained, to perform the audits. Audit reports must be completed on all field audits and desk audits.*

AICPA Professional Standards AU-C Section 500.A32 states the following:

> *Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control) . . . . Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies, facsimiles, or documents that have been filmed, digitized, or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.*

A good internal control plan requires procedures to ensure a risk assessment is performed on long-term care facilities, and those considered to be high risk are field audited in order to maintain the integrity of the Medical Assistance Program.

Condition: We noted the Agency did not perform any field audits on long-term care facilities during the fiscal year.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: The Agency performs risk assessments of the facilities each year and identifies some high-risk facilities. For fiscal year 2014, the Agency identified three high-risk facilities. For fiscal year 2015, the Agency identified nine high-risk facilities. We would expect those facilities to have been field audited by the end of State fiscal year 2017, but they were not. We noted the Agency did enter into a contract in July 2017 with an outside firm to perform six field audits; however, that contract does not include six of the nine high-risk facilities identified for 2015. The Agency did not document why field audits were unnecessary for the other high-risk facilities.

The Federal share of Medicaid payments to long-term care facilities in State fiscal year 2017 was $175,110,157.

Cause: The Agency did not dedicate adequate resources to the task of field audits.

Effect: When facilities do not have periodic field audits, there is an increased risk for submitted cost reports to contain errors or fraud.

Recommendation: We recommend the Agency devote adequate resources to field audits of long-term care facilities.

> **Management Response:** The Agency does not agree with the condition reported.
>
> The Agency disagrees with the determination that the department did not dedicate adequate resources per the Departments Policy and the following:
>
> Per the Nebraska Medicaid State Plan, the Department has 5 years from the end of the report period (State Fiscal Year) to initiate an audit, the Department has already acquired the services of a qualified external contractor, which has already completed the field audit for the 3 high risk facilities for the report period July 1, 2013 – June 30, 2014; which is required to be initiated no later than June 30, 2019. Additionally the Department followed the language appropriately as defined in the state plan in determining as necessary by the Department to perform field audits on 3 of the 9 high risk facilities identified to maintain the integrity of the Nebraska Medical Assistance Program; which too is prior to the necessary date of initiation for the reported period of State Fiscal year 2015, which would be due to be initiated no later than June 30th, 2020.

APA Response: Although the State Plan allows the Agency to initiate an audit within five years, it does not seem reasonable for the Agency to delay initiation of an audit of a provider identified as high-risk. High-risk providers should be audited as soon as possible to ensure issues are resolved timely and to reduce the risk for errors or abuse to occur.

<u>Finding 2017-066</u>

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Grant Number & Year: #1705NE5MAP, FFY 2017

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

Criteria: Title 45 CFR§ 75.403 (October 1, 2016), requires costs to be necessary, reasonable and adequately documented.

Title 45 CFR § 75.302 (October 1, 2016) requires financial management systems of the State to be sufficient to permit the preparation of required reports and permit the tracing of funds to a level of expenditures adequate to establish that the use of these funds 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 it.

Per 45 CFR § 75.303 (October 1, 2016), an Agency must establish and maintain effective internal control to ensure compliance with Federal requirements.

Condition: Depreciation amounts included in the provider rate for the Beatrice State Development Center (BSDC) were not adequately supported. BSDC is a State facility of the Agency.

Repeat Finding: No

Questioned Costs: $45,642 known

Statistical Sample: No

Context: BSDC is a State intermediate care facility for individuals with developmental disabilities. Medicaid reimburses the State for the cost of care of Medicaid-eligible individuals. The Agency prepares a cost report to determine the cost per day to be reimbursed. In addition to depreciation from the EnterpriseOne system, the Agency also used a depreciation schedule from an unknown source that was not adequately supported. The information from this schedule was used in the calculation of the Medicaid cost per day for BSDC. The depreciation appears to be from building improvements from 1992 to 2003 before the State implemented the EnterpriseOne system. But there is not adequate documentation to ensure the amounts are correct or that the amounts were not duplicated in the conversion to EnterpriseOne. The Federal share of questioned costs related to including these costs totaled $45,642.

Cause: Unknown

Effect: If inaccurate or unsupported information is used to calculate the Medicaid cost per day, there is an increased risk that the rate could be inaccurate and the State overcharging Medicaid for services.

Recommendation: We recommend the Agency ensure that all costs are adequately documented and in accordance with Federal requirements.

Management Response: The Agency agrees with the condition reported.

Finding 2017-067

Program: CFDA 93.917 – HIV Care Formula Grants – Allowable Costs/Cost Principles & Subrecipient Monitoring

Grant Number & Year: X07HA00042-27-00, Period end 3/31/18; X07HA00042-26-00, Period end 3/31/17

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

Criteria: Per 45 CFR § 75.305(b)(5) (October 1, 2016):

To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

Per 42 USC § 300ff–31a(d) (2015):

If an expenditure of ADAP rebate funds would trigger a penalty under this section or a higher penalty than would otherwise have applied, the State may request that for purposes of this section, the Secretary deem the State's unobligated balance to be reduced by the amount of rebate funds in the proposed expenditure.

A good internal control plan requires procedures to ensure rebate funds are expended before Federal funds.

Per 45 CFR § 75.352(a)(1)(xi) (October 1, 2016), "[T]he pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement[.]" Also, per 45 CFR § 75.352:

All pass-through entities must:

** * * **

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

A good internal control plan requires procedures to ensure site visits are adequately documented.

Condition: During our examination of the Health Aid Program for the period ended December 31, 2016, we noted the Agency did not have procedures to ensure rebates were spent before requesting Federal grant funds. We also noted subrecipient monitoring procedures could be improved.

Repeat Finding: No

Questioned Costs: Unknown

Statistical Sample: No

Context: The Ryan White program provides HIV-related services for those who do not have sufficient health care coverage or financial resources for coping with HIV disease. The Ryan White program is funded through CFDA 93.917 HIV Care Formula Grants Federal funds, drug rebates, and State general funds. The Agency has a subaward with the University of Nebraska Medical Center (UNMC) to provide medical drug therapies to eligible and enrolled HIV-positive consumers through the AIDS Drug Assistance Program (ADAP). UNMC contracts with ScriptguideRx to bill drug manufacturers for drug rebates. ScriptguideRx collects the rebates and remits 90% to the Agency; ScriptguideRx retains a 10% fee. For the period July 1, 2016, through June 30, 2017, the Agency received over $3.6 million in drug rebates. We noted the following issues:

- Rebates are supposed to be used before Federal funds. However, the Agency does not have procedures to spend solely from the rebates fund when there is a balance in that fund. The table below illustrates the rebates fund balance at the end of each month of the fiscal year along with Federal expenditures made during that timeframe. Each month, there was a balance in the rebates fund; however, Federal funds continued to be spent.

Month Ended	Rebates Fund Balance	93.917 Federal Expenditures
July 2016	$ 838,425	$ 361,742
August 2016	$ 210,648	$ (30,740)
September 2016	$ 62,932	$ 59,887
October 2016	$ 62,932	$ 143,349
November 2016	$ 139,819	$ 143,195
December 2016*	$ 1,222,371	$ 797,627
January 2017	$ 1,200,625	$ 885,710
February 2017	$ 1,200,457	$ 438,371
March 2017	$ 603,600	$ 630,125
April 2017*	$ 3,273,932	$ 192,575
May 2017	$ 2,777,409	$ 195,098
June 2017	$ 2,757,167	$ 161,440

*Received large rebate receipts.

- The Agency performs periodic site visits of UNMC and completes a fiscal monitoring checklist. Staff indicated they review all accounting records, invoices, and timesheets for the one billing for allowability. However, source documentation was not maintained, and the checklist was not in sufficient detail to show what expenditures were actually reviewed or for which period.

- Staff indicated that ADAP drug rebate records are reviewed during site visits to verify that the Agency receives all rebates owed to it. However, the Agency did not have records to support this verification.

- The subaward denotes the various funding sources. However, when actual payments are issued to UNMC, the Agency does not communicate to UNMC the source of the funding for specific payments. Without this information, UNMC cannot accurately determine Federal funds expended for purposes of reporting on the University of Nebraska's Schedule of Expenditures of Federal Awards. For the fiscal year ended June 30, 2016, we noted that UNMC reported $4,163,205 Federal funds expended. Per State accounting records, we noted only $1,812,649 in Federal grant expenditures; we noted rebate funds of $1,550,000 and State general funds of $1,089,865, which totals $4,452,514. The Agency indicated that it does not reconcile its records to subrecipient Single Audit reports; it relies instead on the subrecipients' auditors to ensure those totals are correct. However, it is the Agency's responsibility to inform subrecipients of funding sources when payments are made.

Cause: Rebates are allocated by subaward to the UNMC AIDS Drug Assistance Program (ADAP); per the Agency, to utilize rebate funds in every aspect of program expenditures would be administratively overly burdensome.

Effect: Inadequate subrecipient monitoring could result in the loss or misuse of Federal funds and inaccurate subrecipient reporting. Failing to spend rebates first, could result in questioned costs or sanctions, as Federal funds are being expended when rebates are available.

Recommendation: We recommend rebates be expended before Federal funds. We further recommend the Agency implement procedures to ensure site visits are adequately documented, and the source of funds is adequately communicated to subrecipients.

Management Response: The Agency agrees with the condition reported

<u>Finding 2017-068</u>

Program: CFDA 93.945 – Assistance Programs for Chronic Disease Prevention and Control – Allowable Costs/Cost Principles & Subrecipient Monitoring

Grant Number & Year: NU58DP004819-03-00, budget period ended 6/29/2016

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

Criteria: Per 45 CFR § 75.353 (October 1, 2015):

> *With prior written approval from the HHS awarding agency, a pass-through entity may provide subawards based on fixed amounts up to the Simplified Acquisition Threshold, provided that the subawards meet the requirements for fixed amount awards in § 75.201.*

45 CFR § 75.403 (October 1, 2015) requires costs charged to Federal programs to be reasonable, necessary, and adequately documented.

Condition: During our examination of the Health Aid Program for the period ended December 31, 2016, we noted a subrecipient payment based on fixed amounts for deliverables; however, the Agency did not have the required prior written approval from the Federal grantor for fixed amount subawards.

Repeat Finding: No

Questioned Costs: $28,806 known

Statistical Sample: No

Context: During our examination of the Health Aid Program, we tested a May 6, 2016, subrecipient payment of $41,276. The payment was based on deliverables instead of actual costs, but the Agency did not have prior written approval to use fixed amount subawards. Per the subaward agreement, "Subrecipient shall be paid for actual, allowable, and reasonable costs as shown on the budget . . . Payment shall be made upon submission and approval of an invoice together with a report on deliverables." The Agency paid the budget amount for each deliverable, not the actual costs. The subrecipient was paid a total of $190,574 during fiscal year 2016. We also noted a payment of $28,806 for the subaward during fiscal year 2017. We question costs of $28,806 for fiscal year 2017.

Cause: Unknown

Effect: The Agency did not comply with Federal requirements. In addition, there is an increased risk for unreasonable and excessive costs to be paid.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal requirements. We further recommend the Agency discontinue subawards based on fixed amounts unless prior written approval is obtained.

Management Response: The Agency agrees with the condition reported.

<u>Finding 2017-069</u>

Program: CFDA 93.994 – Maternal and Child Health Services Block Grant to the States – Allowable Costs/Cost Principles & Subrecipient Monitoring

Grant Number & Year: B04MC29351, FFY 2017

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

Criteria: 45 CFR § 75.352(d) (October 1, 2015) requires pass-through entities to "Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."

The subaward agreement between the Agency and the subrecipient states reimbursement payments will be made "for actual costs that are allowable, allocable and reasonable."

Condition: During our examination of the Health Aid Program for the period ended December 31, 2016, we noted the Agency did not have adequate subrecipient monitoring procedures.

Repeat Finding: No

Questioned Costs: $30,423 known

Statistical Sample: No

Context: During our examination of the Health Aid Program, we tested two expenditures for the Maternal and Child Health Services Block Grant to the States (MCH). The Agency had a general policy regarding subrecipient monitoring. However, each program manager was responsible for his or her own specific procedures. For most transactions reviewed, the subrecipient was not required to submit source documentation such as timesheets and invoices with each reimbursement request. Instead, DHHS reviewed a sample of expenses through desk reviews or site visits. We noted the monitoring procedure for MCH was to perform a desk review of one quarter during the subaward.

However, there were no written policies regarding the support to be maintained, the dollar coverage to be achieved, selection of expenses, or sampling procedures to ensure the monitoring was representative of the subaward.

For both MCH payments tested, the monitoring review was not representative, and adequate coverage was not obtained to ensure expenditures were reasonable, necessary, and in accordance with Federal requirements.

- For one subrecipient, the Agency reviewed a reimbursement for $18,586, and the payment we selected was $48,762. After we requested additional information, the Agency was able to obtain documentation from the subrecipient to support the costs.

- For another subrecipient, the Agency reviewed a reimbursement for $18,576, and the payment we selected was $43,308. We noted there was not adequate documentation to support the reasonableness of charges for contract payments by the subrecipient. As a result, we question costs of $30,423.

Subrecipient expenditures for the fiscal year ended June 30, 2017, totaled $1,055,544.

Cause: Unknown

Effect: The Agency did not comply with Federal requirements, and there is an increased risk for excessive charges.

Recommendation: We recommend the Agency implement procedures to improve subrecipient monitoring and ensure compliance with Federal requirements.

> **Management Response:** The Agency partially agrees with the condition reported. The Agency does not agree that monitoring was not adequate regarding the $48,762 payment. The auditor selected transactions for a period different than the desk review previously conducted of this subrecipient. The Agency obtained support for the other period and all expenditures.

The Agency agrees with the portion of the finding and questioned costs where the item tested lacked adequate documentation to detail the history of procurement. Subrecipient was unable to produce documentation such as the basis of contractor selection, award cost or price, and justification for lack of competition or other market research to ensure reasonableness.

APA Response: The Agency reviewed a reimbursement for $18,586, and the payment we selected was $48,762. The monitoring review was not representative, and adequate coverage was not obtained to ensure expenditures were reasonable, necessary, and in accordance with Federal requirements.

LIBRARY COMMISSION

Finding 2017-070

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Grant Number & Year: #LS-00-16-0028-16, FFY 2016; #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.*

2 CFR § 200.302(a) (January 1, 2017) requires States "to expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds."

2 CFR § 200.303(a) (January 1, 2017) requires the Agency to "[e]stablish 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."

Condition: We noted the following:

- The funding allocation process was not in compliance with the Agency's own rules and regulations. Specifically, Title 236 NAC 2-008.03 requires funding support to regional Library Systems to be on a two-part formula basis.
- Subrecipient monitoring procedures were inadequate.

A similar finding was noted in the prior two audits.

Repeat Finding: 2016-058

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 the Agency through both State and Federal funds. We noted the 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. We noted that, 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 stated that an Agency staff representative attended all Systems' board meetings. At the board meetings, a detailed listing of System expenditures was provided. This listing was reviewed for allowability; however, the Agency did not compare the expenditure listing to the Systems' financial compilations to ensure no expenditures were left off of the listings provided at the board meetings. Additionally, the Agency did not review support for the expenditures included on the System listings to ensure they were allowable per Federal regulations.

In its corrective action plan for the fiscal-year-ended June 30, 2016, Single Audit, the Agency noted the following: "The Commission will advise the Library Systems to retain professional auditing services to ensure their practices are allowable in accordance with Federal requirements." Our follow-up procedures on this finding revealed that the Agency did not have documentation to support the taking of any corrective action on this finding during the fiscal year ended June 30, 2017. The Agency did provide documentation that the Library System agreements were modified; however, the agreements still require only a compilation of financial data, and the Agency did not provide any other documentation to support additional monitoring procedures.

The following amounts were paid from Federal funds to the regional systems as aid during the time period of July 1, 2016, to June 30, 2017:

Grant Number	Amount
LS-00-16-0028-16	$ 204,973
LS-00-15-0028-15	$ 68,324
Total	$ 273,297

Cause: Unknown

Effect: Noncompliance with the Agency's rules and regulations and 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 regional 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 implementing procedures to review support for these expenditures to ensure they are allowable in accordance with Federal requirements.

Management Response: The Commission acknowledges the comments as noted in follow-up of the June 30, 2016 audit findings for the Library Commission for the fiscal year ended June 30, 2017 Statewide Single Audit and will take action as necessary to improve processes.

DEPARTMENT OF TRANSPORTATION

Finding 2017-071

Program: CFDA 20.509 – Formula Grants for Rural Areas – Allowability & Subrecipient Monitoring

Grant Number & Year: #NE-18-X045-00, FFY 2012; #NE-18-X048-00, FFY 2013; #NE-2016-008-00, FFY 2014

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87 and 2 CFR § 200.403 (January 1, 2017) requires costs to be reasonable, necessary, and adequately supported.

Title 2 CFR § 200.331(a) (January 1, 2017) 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 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; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement; . . . (6) Appropriate terms and conditions concerning closeout of the subaward.*

Title 2 CFR § 200.331(d) (January 1, 2017) requires the pass-through entity to do the following:

> *Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.*

Title 2 CFR § 200.511(a) (January 1, 2017) 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."

Title 2 CFR § 200.437(b) (January 1, 2017) requires employee health and welfare costs to "be equitably apportioned to all activities of the non-Federal entity." Per 2 CFR 200.403(c), allowable costs must be "consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity."

Title 2 CFR § 200.430(h)(8)(i)(1) (January 1, 2017) 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 . . . .*

Title 2 CFR § 200.317 (January 1, 2017) states, in 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."

According to the Rail and Public Transportation Division Records Retention and Disposition Schedule 37-250-6 (August 17, 2009), Correspondence, Federal-Aid Programs:

> *All Other Records and Correspondence: Dispose of 6 years after all federal-aid funds pertaining to each program have been expended or cancelled; OR after 10 years, whichever is later, provided audit has been completed.*

A good internal control plan requires procedures to ensure that costs are reasonable, necessary, and adequately documented. A good internal control plan would also ensure that all required communications are included in subaward agreements, any changes are communicated to the subrecipients, and all site visit documentation is retained and kept on file at the Agency in accordance with applicable records retention schedules.

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. Additionally, the Agency did not maintain site visit documentation. Also, subrecipient agreements did not include all required communications. 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: 2016-062

Questioned Costs: $99,226 known (#NE-18-X045-00: $28,363; #NE-18-X048-00: $70,863)

Statistical Sample: No

Context: During the fiscal year, the Agency paid $6,164,758 to 61 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 and enhancing 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, 21 of which were payments to 17 subrecipients. Documentation on file for the payments tested included worksheets prepared by the subrecipient. The Agency did perform financial desk reviews of expense reimbursement requests submitted by some of the subrecipients; however, many of the reviews were inadequate. Some subrecipients were not reviewed at all. Questioned costs of $99,129 were noted for the following reasons:

- Four subrecipients tested were not reviewed. The person who completes the financial desk reviews does not perform reviews for intercity bus service subrecipients, for-profit subrecipients, and one subrecipient she determined too complicated to review herself. The reviews for these subrecipients are the responsibility of her manager. However, he did not perform any allowability reviews. We tested four subrecipients under the purview of the manager. Since no allowability reviews were performed, we questioned all the Federal share of the payments tested, totaling $39,192.

- For four subrecipients tested, the payroll reviewed for the year did not include detailed support, such as timesheets. The Agency requested this detailed support but when the subrecipient did not provide it, the Agency did not follow up. Personnel costs questioned were $53,870.

- For two subrecipients tested, fuel expense was not reviewed. Fuel costs questioned were $2,993.

- The Agency did not review fare revenue, which could include receiving supporting documentation or performing analytical review or any other procedures. We performed a limited review and three subrecipients' reported revenues that seemed too low given their published rates and reported ridership levels. When subrecipients report lower fares, this increases their Federal reimbursement. We calculated questioned costs of $1,164.

- For two of three Agency payroll reviews tested, we noted that the subrecipients allocated a portion of workers' compensation and payroll costs for some employees to the grant; however, the Agency did not verify whether the allocation percentages were reasonable, accurate, and in accordance with Federal cost principles. Additionally for one of the payroll reviews, the subrecipient claimed social security and Medicare costs for a contracted bookkeeper for whom those costs were not incurred. These issues resulted in questioned costs of $1,730.

- We noted one subrecipient was reimbursed costs for the subrecipient to provide lunches to Formula Grants employees. However, there was not documentation to support that all employees were 100% Formula Grant employees or that the activities were beneficial and necessary for the program. Additionally, there was no documentation that the subrecipient provided similar benefits to its other employees. Questioned costs were $180.

We also noted a payment for a professional services agreement with a total value of $1,398,391 to provide research on statewide mobility management and coordinated transportation services. The Agency accepted the contractor's cost estimate without negotiation or performing its own cost estimate. Neb. Rev. Stat. §§ 81-1701 to 81-1721 (Reissue 2014, Supp. 2017) comprise the Nebraska Consultants' Competitive Negotiation Act (Act). The Act requires the Agency to select a contractor not based on price but on qualifications. Price is determined in accordance with § 81-1715(1), which states, "The agency or the committee designated by the agency shall negotiate a contract with the most qualified firm for professional services at compensation which the agency determines is fair and reasonable." According to the Agency, it usually performs a cost estimate for most contracts, but this contract's service was unique and unprecedented. Therefore, the Agency did not perform a cost estimate; rather, it accepted the contractor's cost estimate without negotiation. Consequently, there is no documentation to support that the $1,398,391 is a fair and reasonable amount. We noted further that the wage rate paid for one employee covered by the contract was $1.52 higher than the amount specified in that agreement, resulting in $97 known questioned costs.

Federal payment errors noted in the sample were $99,226. The total Federal sample tested was $457,395, and the total Federal expenditures during the fiscal year were $7,572,570. Based on the sample tested, the dollar error rate was 21.69% ($99,226/$457,395), which estimates the potential dollars at risk for fiscal year 2017 to be $1,642,490 (dollar error rate multiplied by population).

Site Visit Documentation

For five of seven subrecipients tested, all of the applicable site visit documentation, including the review checklist, follow-up report, and corrective action items for the most recent site visits done prior to June 30, 2017, was not on file at the Agency.

Subaward Information

We noted that all seven subaward agreements tested, which were subject to Uniform Guidance requirements, did not include all of the communication requirements mandated by 2 CFR § 200.331(a). The following information was not included: 1) Federal award date; 2) Federal award project description; 3) contact information for awarding official; 4) CFDA name; and 5) terms and conditions concerning closeout of the subaward.

We noted a subaward agreement for a vehicle equipment purchase designated the Federal grant used as NE-2016-008-00. However, the Agency transferred the costs to available funds from NE-18-X048-00. The change in grant funding was not communicated to the subrecipients in a subsequent subaward modification, as required by 2 CFR § 200.331(a). We noted that a total of 14 transactions, totaling $546,976, were moved from the NE-2016-008-00 grant to the NE-18-X048-00 grant without the required communication to the subrecipient.

Cause: Inadequate procedures, documentation, and oversight. The Agency improved monitoring procedures during the fiscal year by increasing the frequency and depth of reviews; however, the reviews were not adequate to ensure subrecipient costs were in accordance with Federal requirements. Site visit documentation was not on file because it was accidentally purged. The new Uniform Guidance requirements were not considered when the subaward agreements were developed.

Effect: There is an increased risk of payments being 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 applicable laws and regulations.

Recommendation: We recommend the Agency improve procedures to ensure subrecipient expenditures are allowable and in accordance with Federal regulations. We also recommend the Agency implement procedures to ensure all subrecipient monitoring documentation is maintained on file, and all required information is communicated to its subrecipients.

Management Response:

Payments to subrecipients

NDOT Transit does not concur with any questioned costs with this finding. Language in FTA circulars, specifically C5010.1E, and related CFRs does not fully define “adequate”. Therefore, the term is open to subjective interpretation. NDOT Transit has developed an effective methodology for conducting page by page reviews, follow-up questions and results in answers or documentation for operating assistance reimbursement invoices. In addition, in depth desktop audits are preformed based on specific criteria. Examples: Personnel timesheets are compared to payroll registers or paycheck records. Fuel costs with odometer readings for each fleet vehicle, are compared to invoices from fuel supplier. Indirect costs are calculated for accuracy of the rate as approved by the Federal cognizant agency. If reviews indicate additional documentation is required to support expenses the information is requested, reviewed and kept on file.

As stated in previous management responses, fare revenue is not analyzed due to the number of variables that affect the amount collected when a boarding occurs. FTA regulations do not require transit systems to notify NDOT of fare structure changes. NDOT's transit directory most often states that "Rates subject to change. Please contact transit providers for most up to date rates." Care givers ride at no charge but are counted as a passenger boarding and some trips are "sponsored" by third parties. Therefore, an analysis of fare revenue to boarding's reported on monthly invoices, as the auditors note, would not effectively result in any change to the Federal funds claimed. The process of fare collection is reviewed during on-site visits to ensure adequate separation of duties.

The professional services agreement in question was awarded as part of a competitive process based on qualifications of the firms who submitted proposals for the project. NDOT and the selected firm negotiated project scope and hours.

Site Visit Documentation

Site visit documentation for fiscal years 14 and 15 were deleted following an agency emphasis to purge documents on the server. Hundreds of site visit documents are available for fiscal years 16 and 17. Current and future site visit documentation will be retained in accordance with the NDOT retention schedule which is pending approval by Administrative Services.

APA Response: The Agency performed no financial reviews for four subrecipients tested. For four other subrecipients tested, the Agency failed to complete the payroll review. Revenues were not reviewed for any subrecipients for the year. Review of revenues is important to ensure subrecipients are not increasing the Federal reimbursement by under-reporting revenues.

Finding 2017-072

Program: CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Grant Number & Year: #NE-18-X045-00, FFY 2012

Federal Grantor Agency: U.S. Department of Transportation

Criteria: 49 CFR § 630.1 (October 1, 2016) provides the following:

The purpose of this part is to prescribe requirements and procedures necessary for compliance with the National Transit Database Reporting System and Uniform System of Accounts, as mandated by 49 U.S.C. 5335, and to set forth the procedures for addressing a reporting entity's failure to comply with these requirements.

49 CFR § 630.5 states the following:

Failure to report data in accordance with this part may result in the noncompliant reporting entity being ineligible to receive any funding under 49 U.S.C. chapter 53, directly or indirectly, until such time as a report is filed in accordance with this part.

According to the April 2017 Compliance Supplement, "The State agency administering the 5311 program is responsible for submitting the rural report on behalf of the State and its subrecipients."

A good internal control plan requires procedures to ensure that all necessary reports are completed and submitted to the Federal government.

Condition: The Agency did not report critical information to the National Transit Database for three of its subrecipients.

Repeat Finding: No

Questioned Costs: None

Statistical Sample: No

Context: Every year, the Agency is required to submit annual reports containing financial and operating information for each of its subrecipients. The Agency submitted 57 subrecipient reports during the fiscal year. The Agency failed to submit reports for three additional subrecipients.

Cause: The Agency stated that it has historically not reported the data for intercity bus providers. However, those providers are subrecipients, and their data should be reported.

Effect: Incomplete information was reported to the Federal government.

Recommendation: We recommend the Agency implement procedures to ensure that all necessary reports are completed and submitted to the Federal government.

> **Management Response:** Historically, intercity bus providers supported by 5311f funds have been responsible for reporting to the NTD.

APA Response: The State agency is responsible for submitting the rural report on behalf of its subrecipients.


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

AUDITEE SECTION

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NEBRASKA

Good Life. Great Service.

DEPT. OF ADMINISTRATIVE SERVICES

Corrective Action Plan

The State of Nebraska Administrative Services respectfully submits the following corrective action plans for the fiscal year ended June 30, 2017. 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

Jerry Broz, Administrator
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STATE OF NEBRASKA
Corrective Action Plans

II. Findings Relating to the Financial Statements:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2017-001

CAFR Preparation

– Recommendation to hire sufficient number of staff . . .

Corrective Action Plan: Until such time that approval is given to add additional staff, State Accounting will continue implementing new processes and training for existing staff with the intent to increase efficiency and accuracy. It is critical that current staff be retained to capitalize on their continuity of growth in experience and knowledge.

Contact: Sheryl Hesseltine (402)471-0610

Anticipated Completion Date: On-going

– Recommendation that SOCs be received and reviewed timely…

Corrective Action Plan: State Accounting is working with the service providers on an action plan to assure timely completion and delivery of the SOC1 reports.

Contact: Sheryl Hesseltine (402)471-0610

Anticipated Completion Date: Fall of 2018

– Recommendation that DAS continue to work with State agency personnel…

Corrective Action Plan: State Accounting will continue to work with individual agencies on specific accrual reporting issues, as well as developing additional enterprise-wide training on these reporting issues.

Contact: Sheryl Hesseltine (402)471-0610

Anticipated Completion Date: On-going

Finding 2017-002

EnterpriseOne Business Continuity Planning

Corrective Action Plan: The hardware that supports the EnterpriseOne system was upgraded (Dec 2016) and redundant system hardware was installed at DOTCOMM in Omaha. Now, new IBM AS400 systems with EnterpriseOne installed are located in both Lincoln and Omaha and they have been replicating JDE journal receivers for several months. In the fall of 2017, we signed a managed services contract with Vision Solutions to install, monitor, train, and conduct a failover of the production system to Omaha using MIMIX software. As of January 24, 2018, an update has been performed to sync the two systems. The next step will be to load MIMIX software and begin replication between the two systems. Planned completion of this step is the end of January. After that, training will begin to bring local staff up to speed on the process. A failover is expected to be completed by the end of March 2018. Additionally, all ERP services will be migrated from EnterpriseOne to the new Oracle Cloud platform beginning in late 2018. Resources and efforts beyond that date will need to be re-evaluated for appropriateness.

Contact: Karen Hall (402)471-6640

Anticipated Completion Date: On-going installation and testing

GAME AND PARKS COMMISSION

Finding 2017-003

Federal Activity Adjustment

Corrective Action Plan: Per State Accounting Division approval, activity will continue to be recorded using the agreed upon methodologies. Updated practices are in consideration with the preparation for a new system conversion.

Contact: Pat Cole, NGPC Budget & Fiscal Division Administrator

Anticipated Completion Date: April 1, 2019

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2017-004

Material Adjustments

Corrective Action Plan: 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.

Contact: Michael Michalski

Anticipated Completion Date: March 31, 2018

Finding 2017-005

Overpayment Mailbox

Corrective Action Plan: A decision was made to suspend processing 10,614 SNAP referrals, and contact USDA Food and Nutrition Service for advice. We are looking for a cost efficient method to process referrals, calculate the overpayment if it is determined we have one and the ability to close agency caused overpayments that are over 3 years old. The Regional FNS office is consulting with the National office regarding the Nebraska situation. The state has continued to process the other Economic Assistance Programs such as ADC, AABD, LIHEAP, Child Care because these programs do not have the issue with the agency caused overpayments which exist in SNAP Program. The projected date is February 28, 2018 to complete processing of the Economic Assistance potential Overpayment Referral Backlog, which on February 1, 2017 had 18,432 referrals.

The monthly new referrals range from 300 – 500 referrals which are processed within 30 days of referral. In the past year staff has received information and training regarding the Agency Caused Overpayments. ACCESSNebraska is also efficient at case processing and staying current with workload. Together these things have helped reduce the number of Agency Caused Overpayments.

Contact: Karen Heng

Anticipated Completion Date: June 30, 2018

DEPARTMENT OF TRANSPORTATION

Finding 2017-006

Federal Activity Adjustment

Corrective Action Plan: The Division of Aeronautics does record the receipt of these Federal funds as a federal receipt. However, this is a reimbursable federal program, there are no federal funds expended. Aeronautics must first expend the funds out of its Cash Fund. Then a request is made for a reimbursement of those cash expenditures. Aeronautics has been accounting for these federal grant funds in its Cash Fund for decades as directed by the Nebraska Department of Administrative Services Accounting Division in compliance with that Accounting Division's interpretation of its own accounting manual.

Contact: Becky Fleming, Andre Aman and Robin Edwards

Anticipated Completion Date: NA

III. Findings Relating to Federal Awards:

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding 2017-007

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

Corrective Action Plan: The development of assessments, rates and surcharges for the next biennium - FY19-21 will begin in January 2018. The estimated costs used are based on historical costs and estimated increases during the final fiscal year of the current biennium and then the new biennium. At that time DAS will begin a review of its various rate setting procedures and work to improve the documentation of how rates are set and the various levels of approval that are required.

Contact: Ann Martinez, DAS Controller

Anticipated Completion Date: The next rate setting period begins in January 2018 and will be completed in June 2018 when the new biennial rates are published.

Finding 2017-008

Program: Various, including CFDA 93.778, Medical Assistance Program; CFDA 93.563, Child Support Enforcement; CFDA 93.575 & 93.596, Child Care Cluster; CFDA 10.558, Child and Adult Care Food Program; CFDA 84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States – Cash Management

Corrective Action Plan: The clearance patterns will be adjusted and will be updated in a timely manner in the future.

Contact: Ron Carlson

Anticipated Completion Date: December 31, 2017

Finding 2017-009

Program: Various, including CFDA 93.069 – Public Health Emergency Preparedness; CFDA 93.889 – National Bioterrorism Hospital Preparedness Program – Reporting

Corrective Action Plan: Future reports will be double-checked to ensure proper reporting.

Contact: Ron Carlson

Anticipated Completion Date: December 31, 2017

Finding 2017-010

Program: Various, including CFDA 93.575 – Child Care and Development Block Grant; CFDA 93.268 – Immunization Cooperative Agreements; CFDA 17.225 – Unemployment Insurance; CFDA 64.005 – Grants to States for Construction of State Home Facilities – Reporting

Corrective Action Plan: DAS will continue training of agencies on accurate reporting of their SEFA amounts and reach out directly to those agencies listed in the finding above to be sure the issues were taken care of and will not repeat.

Contact: Sheryl Hesseltine (402) 471-0610

Anticipated Completion Date: Ongoing

DEPARTMENT OF AGRICULTURE

Finding 2017-011

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: Corrections will be made to the questioned costs noted by the Auditor's Office, and relevant employees' personnel coding will be adjusted to match the previous fiscal year's activity reports.

Moving forward, activity reports will be reviewed at three month intervals by Finance to ensure that personnel and benefit costs are supported by activity reports, reconciliation can be done if needed, and modifications to existing personnel coding will be made after these reviews as well.

Contact: Christina Barber, Finance Administrator
(402) 471-6821, christina.barber@nebraska.gov

Anticipated Completion Date: Corrections for Fiscal Year 2016 personnel costs will be made before September 29, 2017 and the first review of employee activity reports will be completed before October 13, 2017, with the next quarterly review planned for January 2018.

DEPARTMENT OF ECONOMIC DEVELOPMENT

Finding 2017-012

Program: CFDA 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Cash Management & Period of Performance

Corrective Action Plan: Work teams are being assembled and procedures are being developed to correct the deficiencies.

Contact: Robin Kilgore, Chief Financial Officer

Anticipated Completion Date: July 1, 2018

Finding 2017-013

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

Corrective Action Plan: Work teams are being assembled and procedures are being developed to correct the deficiencies.

Contact: Robin Kilgore, Chief Financial Officer

Anticipated Completion Date: FY19

Finding 2017-014

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

Corrective Action Plan: Work teams are being assembled and procedures are being developed to correct the deficiencies.

Contact: Robin Kilgore, Chief Financial Officer

Anticipated Completion Date: FY19

Finding 2017-015

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

Corrective Action Plan: Work teams are being assembled and procedures are being developed to correct the deficiencies.

Contact: Robin Kilgore, Chief Financial Officer

Anticipated Completion Date: July 1, 2018

DEPARTMENT OF EDUCATION

Finding 2017-016

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

Corrective Action Plan: Financial Viability: Sharon Davis, Director of Nutrition Services will research the Financial Viability policy and procedures used by other State agencies responsible for monitoring CACFP in the Mountain Plains Region. Revision of the current Financial Viability policy and procedure completed in consult with the USDA Mountain Plains Regional Office, Steve Bauers (financial support staff) and CACFP program specialists.

Documentation of 25% income eligibility at for-profit centers: Sharon Davis, Director of Nutrition Services will review 15% of the compliance reviews conducted on for-profit centers in FY 2018 to ensure the free/reduced documentation confirmed the center met the 25% income eligibility requirements. After reviewing the CACFP Compliance Review form Sharon will initial and date the form and place in the institution's file. If the free/reduced documentation was not part of the review, the program specialist will return to the sub-recipients location to complete the verification of income eligibility.

Review sub-recipients with the required 3-year period: The Agency will conduct the compliance review on the missed institution after a monthly claim for reimbursement is submitted for payment in the CNP system.

Contact: Sharon Davis

Anticipated Completion Date: The first two items will be completed before June 1, 2018. There is already a process in place for the last item but specific follow up on review missed is dependent on the sub-recipient submitting a claim for reimbursement, which cannot be determined at this time.

Finding 2017-017

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

Corrective Action Plan: VR will consider the APA's recommendations and will review their policies and procedures accordingly.

Contact: Cathy Callaway

Anticipated Completion Date: Corrective actions are in place with the exception of the review of policies for tool/equipment purchases which will be completed by July 1, 2018.

Finding 2017-018

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

Corrective Action Plan: Nebraska VR hired an Assistant Fiscal Director in October, 2017 who will be verifying federal reports and checking data entry to ensure expenditures are properly recorded. Reorganization currently being implemented in NDE will provide additional oversight in this area.

Contact: Cathy Callaway

Anticipated Completion Date: Completed

Finding 2017-019

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

Corrective Action Plan: Nebraska VR currently completes a Compliance Review, which includes IPE and eligibility determinations, each year for each team and the results are shared with the Office Director. The reviews of each team began using a new automated process, which will allow management easier access to the information and the ability to determine issues of non-compliance.

Contact: Cathy Callaway

Anticipated Completion Date: July 1, 2018

Finding 2017-020

Program: CFDA 84.367 – Supporting Effective Instruction State Grant – Allowability & Subrecipient Monitoring

Corrective Action Plan: The Nebraska Department of Education (Department) contacted all subrecipients of federal grants on February 15, 2018 to reinforce existing guidance that the Department has provided to subrecipients for years. This guidance includes example forms for Personal Activity Reports, Semi-Annual Certifications, and approved alternative documentation per the United States Department of Education. The Department will review subrecipient monitoring checklists for all federal programs to ensure that all subrecipients have adequate supporting documentation for time-and-effort when Department staff perform on-site monitoring. The Department will also coordinate on-site monitoring reviews with desk reviews of financial information submitted for disbursement of federal grant funds to subrecipients to ensure that all subrecipients that do not have on-site monitoring that grant period will have time-and-effort documentation reviewed through the fiscal monitoring process.

Contact: Shane Rhian, Budget and Operations Officer

Anticipated Completion Date: December 31, 2018 for current grant period and ongoing after that.

Finding 2017-021

Program: CFDA 96.001 and 96.006 – Disability Insurance/SSI Cluster – Suspension and Debarment & Special Tests and Provisions

Corrective Action Plan: Corrective action has already been taken. A field has been added to the Agency's case management program. The field will annotate the date each check was performed in every individual provider file. This was implemented 1/29/18.

Contact: Krysti Michl

Anticipated Completion Date: Completed on 1/29/18.

GAME AND PARKS COMMISSION

Finding 2017-022

Program: CFDA 15.605 and 15.611 – Fish & Wildlife Cluster – Allowability

Corrective Action Plan: A new temporary timesheet template has been created and procedures are in place to review temporary overtime to ensure proper coding.

Contact: Angie Janda-Craig, NGPC Personnel Division Administrator

Anticipated Completion Date: January 31, 2018

Finding 2017-023

Program: CFDA 15.605 and 15.611 – Fish & Wildlife Cluster – Suspension and Debarment

Corrective Action Plan: The Commission has reviewed the requirements of 2 CFR 180.300 and will strengthen review of documentation for current procedures.

Contact: Judy Alderman, NGPC Budget & Fiscal Division Assistant Administrator

Anticipated Completion Date: June 30, 2018

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2017-024

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

Corrective Action Plan: DHHS will revise the PACAP appendix C-1 to reflect the required number of surveys that must be validated by a supervisor.

Contact: Patrick Werner

Anticipated Completion Date: December 31, 2017

Finding 2017-025

Program: Various, including CFDA 10.561 – State Administrative Grants for the Supplemental Nutrition Assistance Program (SNAP); CFDA 93.558 – Temporary Assistance for Needy Families (TANF); CFDA 93.568 – Low-Income Home Energy Assistance (LIHEAP); CFDA 93.575 & 93.596 – CCDF Cluster – Allowable Costs/Cost Principles

Corrective Action Plan: The Agency will begin including Medicaid counts with RMTS statistics effective the 12/31/17 quarter (retroactive to 10/1/17).

Contact: Patrick Werner

Anticipated Completion Date: December 31, 2017

Finding 2017-026

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

Corrective Action Plan: A journal entry to reverse the transfer and resubmit it to a business unit in the same Program/Division that is mapped to a State Only Cost Center will occur to remove any impact to Federal Funds.

Contact: Patrick Werner

Anticipated Completion Date: November 30, 2017

Finding 2017-027

Program: Various, including 93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare – Allowable Costs/Cost Principles

Corrective Action Plan: The Agency has implemented a 100% review of all payroll registers in comparison to the previous 5% and 30% reviews. All payroll registers now include comment sections when sent for certifications to include any adjustments made to the certifier. All payroll registers are now saved on a shared drive and is easily accessible in the event of employee turnover.

The Agency is also seeking to revise its current request for personnel action document to ensure timeliness and accuracy of allocation of cash funds.

The Agency will implement policy and procedure to ensure payroll costs are charged in accordance with 45 CFR 75.

Contact: Kelly Tep

Anticipated Completion Date: December 22, 2017

Finding 2017-028

Program: CFDA 93.778 – Medical Assistance Program – Cash Management

Corrective Action Plan: The Agency now has specific procedures in place for the reconciliation process. The finding notes that the reconciliation was completed for FY16 and errors still occurred. In May of 2017, Medicaid specific procedures were written for the reconciliation process and were used beginning quarter one of FY17.

Contact: John Meals

Anticipated Completion Date: Complete

Finding 2017-029

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 Division of Medicaid and Long-Term Care entered into a contract with the Auditor of Public Accounts, Special Audit and Evaluations, to perform subrecipient monitoring of programs administered by the State Unit on Aging and Medicaid Waiver. The APA audit unit began monitoring area agencies on aging in August, 2017, testing FY18 expenses. The CPA assigned has performed rigorous fiscal testing of the subrecipients. The contract has been beneficial for the Division, and is expected to be renewed for FY19. The reports provided by the APA have been used to improve fiscal procedures at the agency level already this fiscal year.

Contact: Cynthia Brammeier

Anticipated Completion Date: June 29, 2018

Finding 2017-030

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

Corrective Action Plan: The Agency will review and revise subrecipient monitoring procedures. Additionally, the HPP/PHEP Program has entered into a contract with the Auditor of Public Accounts, Special Audit and Evaluations, to perform subrecipient monitoring.

Contact: Eric Sergeant

Anticipated Completion Date: May 1, 2018

Finding 2017-031

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

Corrective Action Plan: Agency staff will presumptively investigate and alert the three subrecipients of the items found during their participation in onsite audits by the APA during the 2017 Single Audit. These include: lack of supporting documentation for expenditures; inaccurate calculation of patient fees; cost analysis inadequacies; and payroll allocation inadequacies. Guidance will be given to subrecipients to address each item as outlined by the APA. Specific action on the part of Agency staff include:

1. Meet with the staff of the three Title X subrecipients to determine the nature of the audited activities and the allowability of the expenditures for those activities. The three subrecipients will develop a corrective action plan for all issues noted by the APA which will be followed up on by the staff of Nebraska Reproductive Health to ensure compliance with the Code of Federal Regulations.

2. Enter into a contract with the APA to handle all onsite fiscal monitoring for NDHHS Reproductive Health as part of the programs overall subrecipient monitoring.

3. Direct all Title X subrecipients to use the provided Cost Analysis online program provided by the National Title X Training Center for Cost Analysis.

Contact: Sara Morgan

Anticipated Completion Date: February 28, 2018

Finding 2017-032

Program: CFDA 93.217 – Family Planning Services – Cash Management & Subrecipient Monitoring

Corrective Action Plan: Corrective action was taken during FY2017 starting in March to ensure that prospective payments are made monthly based on the operational need of the subrecipient and the monthly allocation determined by a funding formula based on the population of the assigned service area, number served, Medicaid status of clients, and the number of clients that are under 150% of poverty. In addition, NDHHS Reproductive Health staff will review the expense reports submitted monthly to ensure that the subsequent month's advance is appropriate for each subrecipient.

Contact: Sara Morgan

Anticipated Completion Date: February 28, 2018

Finding 2017-033

Program: CFDA 93.217 – Family Planning Services – Reporting

Corrective Action Plan: DHHS Financial Services - Grants will work closely with the Family Planning program to accurately determine the amount of program income. Also, Grants will review the unliquidated obligations for the entire grant including any carryover monies prior to entering the unliquidated obligation amount on the FFR and related backup documentation.

Contact: Bob Halada

Anticipated Completion Date: December 31, 2017

Finding 2017-034

Program: CFDA 93.268 – Immunization Cooperative Agreements – Allowability

Corrective Action Plan: The Department will review procedures for potential improvements.

Contact: Sara Morgan

Anticipated Completion Date: March 30, 2018

Finding 2017-035

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

Corrective Action Plan: The breast and cervical cancer program and WISEWOMAN programs have received Federal approval for Fixed Amount sub awards under the current awards for FY2018. A cost allocation plan for subrecipients will be reviewed by the Agency to determine appropriateness and reasonableness of reimbursed costs.

Contact: Melissa Leypoldt

Anticipated Completion Date: June 30, 2018

Finding 2017-036

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

Corrective Action Plan: DCFS will inform CFS Specialists of the need to notify our DCFS Billing and Payment team if a child is removed from a home that is receiving Family Support Services on the day the children are removed. Notification will be sent by the CFS Specialist to close the In-Home Family Support authorization and if needed, a new service referral for Out-of-Home Family Support Services will be sent to the Billing and Payment Team. This action will be done via a "High Importance" e-mail sent to service referral mail boxes, according to service area.

This process will be communicated to DCFS staff by distribution of a revised CFS Referral Process document which explains how to make referrals to the DCFS Billing and Payment team.

Contact: Manuel Escamilla

Anticipated Completion Date: June 15, 2018

<u>Finding 2017-037</u>

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

Corrective Action Plan: With regard to vehicle repairs; the Agency will develop a standardized form that will be completed when an estimate of needed vehicle repairs is obtained from a potential provider. This form will include language that directs the party completing to only list those repairs that are necessary for the safe and reliable operation of a vehicle. Pursuant to Part IV, number seven, of the provider agreement (Form CFS-21) the provider agrees to “assure that any false claims (including claims submitted electronically), statement, documents, or concealment of material fact may be prosecuted under applicable state or federal laws”. This will assure that only those repairs that are authorized will be in accordance with 468 NAC 2-020.08I1 where it is specified “Allowable repairs are those that are necessary for the vehicle to be in safe and reliable operating condition. Cosmetic repairs cannot be authorized.”

With regard to the identified issues with commercial transportation; the long-term action will include consideration being given to the elimination of commercial transportation or further restriction where it is only available for a one time use at Orientation and Assessment. In the short term, the Agency has started to compile a listing of those entities who provide commercial transportation to EF participants. Upon compiling an exhaustive list, the Agency will have each provider sign a new agreement where the rates and units that are able to be authorized, mirror that of those rates found at 473-000-501. Specific instruction will be provided to each remaining vendor as to the appropriate billing methods for services provided.

Contact: Samuel Malson

Anticipated Completion Date: June 30, 2018

Finding 2017-038

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

Corrective Action Plan: The Agency issued a Request for Proposal (RFP Number 5673 Z1) on August 1, 2017 where the agreement to be entered is clearly identified as a subaward. This subaward is fully executed and is effective July 1, 2018. The single winning bidder will be responsible for Employment First Case Management statewide.

With regard to the identified finding in the desk review process where select line items on contractor invoices were reviewed; the Agency does not believe there is increased risk with its method of review. However, we will implement steps where additional information (i.e. general ledger & pay stubs) is being requested and reviewed to increase the detail and validity of our review.

Contact: Samuel Malson

Anticipated Completion Date: June 30, 2018

Finding 2017-039

Program: CFDA 93.563 – Child Support Enforcement – Allowability & Subrecipient Monitoring

Corrective Action Plan: The Agency implemented a process in May 2017 to track claims submitted and a process for review and approval of claims submitted after the 45 day timeframe. The same tracking mechanism captures the timeframes from receipt of claim to pass through of the federal funds with targets to meet the 60 day timeframe. By August 2017, CSE was compliant with the terms of the subaward agreement timeframes and the average reimbursement was issued 18 days early. In an effort to become more customer friendly and recognizing that counties sometimes need additional days to submit a complete and accurate claim, county subaward agreements were amended to allow 60 days for submittal of the claims beginning on 10/1/17 for Federal Fiscal Year 2018.

The Agency will revise procedures to monitor subrecipients and implement random quarterly requests for documentation to support all expenditures, including expenses for supplies under $500, and telephone and postage expenses. The Agency will continue to utilize tracking mechanisms to ensure claims are submitted and reimbursed in a timely manner in accordance with the subaward agreements.

Contact: Cindy Wiesen

Anticipated Completion Date: March 31, 2018

Finding 2017-040

Program: CFDA 93.568 – Low-Income Home Energy Assistance – Allowability

Corrective Action Plan: The Agency has proactively sought continuous quality improvement to the LIHEAP program by implementing Program Integrity Payment Reviews to ensure accuracy of payments and follow up with the responsible worker and their supervisors when payment errors are found. This will also allow the agency to update policy documents according to error trends.

The Agency is requesting a system change specific to this finding that will require a worker to verify dwelling type in relation to the eligible households current address to ensure accurate payment amounts are being issued.

The Agency will provide updated policy documents, including an updated LIHEAP job aid, and webinars to staff on common error prone issues within LIHEAP.

Contact: Britton Gabel, Program Manager

Anticipated Completion Date: June 30, 2018

Finding 2017-041

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Allowability & Eligibility

Corrective Action Plan: The Agency will review the cases identified by the APA and initiate any necessary overpayment or disqualification actions.

In August 2017, the Agency created a provider enrollment process guide and provided training to staff. In addition, the Agency now conducts a second tier review of all provider enrollments and renewals to ensure the proper completion of background checks and provider agreements.

In October 2017, the Agency began a project to identify and implement modifications to its electronic billing and payment systems to ensure client co-payment amounts are excluded from provider payments.

In December 2017, the Agency revised its provider training materials to include additional information, with examples, of proper documentation and billing. The revised training materials will be provided to all providers at the time of enrollment or renewal, and will also be published on the Agency's website.

With regards to the deduction of co-payments, the CCDF program started working with the NFOCUS and the Business Systems Analyst teams in October 2017 to auto deduct co-payments from the total charge on the child care claim. A report was redesigned to report detailed information on providers who failed to deduct co-payments. This report is being reviewed and past claims are being adjusted to collect unpaid co-payments.

With regards to the billing errors and attendance records, The Agency revised the "Child Care Provider Online Portal Billing Guide" in December 2017. Revisions include screenshots and step-by-step instructions for submitting billing on the portal. The Agency also revised "Instructions for Completing Your N-FOCUS DHHS Billing" document. This document provides examples on calculating hours, when to use hour, day or both units, and how to document on a child care calendar. New Child Care Subsidy Providers will receive this training from their Resource Development Worker upon signing the provider agreement. A copy of the revised guide will be sent to current Child Care Subsidy Providers at time of renewing their annual Subsidy Agreement. The guide will be available on the Agency's Child Care website. Billing information currently available on the online billing portal Help page will be modified as well as adding a link to the entire guide for provider to easily access.

With regards to the missing Child Care Subsidy Provider Agreement and Agency signature on the agreement, a "Child Care Resource Development Process Guide" was created and reviewed with each staff in August 2017. This guide provides instructions on the completion of Subsidy Agreements. CCDF Policy staff conduct a monthly review on new and/or renewed provider cases from each RD worker.

Contact: Nicole Vint

Anticipated Completion Date: June 30, 2018

Finding 2017-042

Program: CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund – Cash Management & Matching

Corrective Action Plan: The Agency has written procedures that include applying the appropriate match rate to child care reported as Match Funds. Additional claims can be identified to support the federal claimed amount because the universe of allowable child care claims exceeds federal funding available. The Agency will work with the Administration of Children and Families (ACF) to determine if supporting claims documentation should be resubmitted.

Contact: Kim Collins

Anticipated Completion Date: June 30, 2018

Finding 2017-043

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Reporting

Corrective Action Plan: The Agency will work with ACF to correct report line items as needed. Reporting procedures are now completed to ensure similar errors do not occur in the future.

Contact: John Meals

Anticipated Completion Date: March 31, 2018

Finding 2017-044

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Corrective Action Plan: Agency will review regulations, processes and procedures in regards to overpayments, fraud referrals and investigations as they pertain to CCDF participants and providers.

To address timeliness, SIU has developed an internal process to assess a higher priority to child care cases to improve efficiency. The previous model of case assignment had one investigator assigned to CCDF case investigations, causing backlog in the event of turnover. Case assignment has been amended to include multiple investigators and therefore additional resources to be assigned to these cases.

To address collection procedures, electronic copies of documents pertaining to external accounts receivable created by the Issuance and Collections Center are now entered into NFOCUS for electronic tracking of our collection efforts.

Contact: Andrew Vanek

Anticipated Completion Date: June 30, 2018

Finding 2017-045

Program: CFDA 93.575 and 93.596 – CCDF Cluster – Special Tests and Provisions

Corrective Action Plan: Children's Services Licensing will evaluate the checklists used at inspections by the Child Care Inspection Specialist and develop additional training for the specialists including regulations to review when conducting a facility review and accurately documenting the inspection. This will address the three occurrences of documentation issues. The Program will continue to send and follow up on all referrals sent to Fire/Health agencies. In addition, management will do a random sample of file reviews of Child Care Inspection Specialists cases to ensure all items are being marked correctly and licensee's signatures are being obtained.

Contact: Diane Kvasnicka

Anticipated Completion Date: June 30, 2018

Finding 2017-046

Program: CFDA 93.575 – Child Care and Development Block Grant – Allowability

Corrective Action Plan: A procedure is in place between the Agency Grants and Accounting Units to ensure indirect costs are only claimed where appropriate. The business unit related to child care that was erroneously charged IDC has been removed from the calculation. A journal entry will be completed to move the costs charged to the child care grant in error.

Contact: John Meals

Anticipated Completion Date: March 31, 2018

Finding 2017-047

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

Corrective Action Plan: The Agency will obtain and review any Nebraska Department of Education subawards to ensure that funds are obligated within the timeframes allowed, and that any funds not obligated are returned to the Federal Government. The Agency will add language with deadlines for subawards amendments issues by the Nebraska Department of Education.

Contact: Nicole Vint

Anticipated Completion Date: June 30, 2018

Finding 2017-048

Program: CFDA 93.575 – Child Care and Development Block Grant – Earmarking

Corrective Action Plan: The Agency agrees that the earmarking requirements are not currently reflected in our accounting system. However, those requirements are not due to be reflected until the final report has been submitted. DHHS has been working closely with ACF to rectify the situation. Even though the liquidation period ended 9/30/16, the grant remains open in the federal payment system until 9/30/18. DHHS will continue working with ACF to ensure our accounting system matches our reporting and that all earmarking requirements have been met.

Contact: John Meals

Anticipated Completion Date: June 30, 2018

Finding 2017-049

Program: CFDA 93.658 – Foster Care Title IV-E – Allowability

Corrective Action Plan: The Agency revised the "Child Care Provider Online Portal Billing Guide" in December 2017. New Child Care Subsidy Providers will receive this training from their Resource Development Worker upon signing the provider agreement. A copy of the revised guide will be sent to current Child Care Subsidy Providers at time of renewing their annual Subsidy Agreement. The guide will be available on the Agency's Child Care website. Billing information currently available on the online billing portal help page will be modified as well as adding a link to the entire guide for provider to easily access. The Agency is exploring the use of electronic calendars that dually serves as a calendar and submitted claim.

Contact: Manuel Escamilla
Nicole Vint

Anticipated Completion Date: June 1, 2018

Finding 2017-050

Program: CFDA 93.658 – Foster Care Title IV-E – Allowability

Corrective Action Plan: The Agency will review all findings with the respective service providers. In all agreed to cases, the Agency will be pursuing overpayments or has already collected the questioned amount from the provider. Additionally, providers will be given training and guidance surrounding the areas that resulting in findings.

A notification will be sent to all providers to remind them that start and end times must be provided in their supporting documentation along with adequate support for no-shows. There is a random sample of claims pulled for review each month. Claims are reviewed for accuracy by billing and payment staff and when issues are found the provider is contacted for clarification or correction of the issue.

Contact: Manuel Escamilla

Anticipated Completion Date: June 30, 2018

Finding 2017-051

Program: CFDA 93.658 – Foster Care Title IV-E – Subrecipient Monitoring

Corrective Action Plan: The Agency will notify subrecipients, via email, of the dollar amount made available under each federal award and all the information required by Federal regulations by the first day of the month following the month the disbursement occurred.

Contact: Latifa Elbergame

Anticipated Completion Date: March 1, 2018

Finding 2017-052

Program: CFDA 93.659 – Adoption Assistance – Allowability

Corrective Action Plan: The Agency revised the "Child Care Provider Online Portal Billing Guide" in December 2017. Revisions include screenshots and step-by-step instructions for submitting billing on the portal. The Agency also revised "Instructions for Completing Your N-FOCUS DHHS Billing" document. This document provide examples on calculating hours, when to use hour, day or both units, and how to document on a child care calendar. New Child Care Subsidy Providers will receive this training from their Resource Development Worker upon signing the provider agreement. A copy of the revised guide will be sent to current Child Care Subsidy Providers at time of renewing their annual Subsidy Agreement. The guide will be available on the Agency's Child Care website. Billing information currently available on the online billing portal Help page will be modified as well as adding a link to the entire guide for provider to easily access. The Agency is exploring electronic calendars that dually serves as a calendar and submitted claim.

Contact: Nicole Vint

Anticipated Completion Date: June 30, 2018

Finding 2017-053

Program: CFDA 93.659 – Adoption Assistance – Reporting

Corrective Action Plan: The reconciliation journal entry will be completed and properly documented to reflect the amounts reported. Also, the current reporting procedures will be enhanced to ensure this oversight does not occur again.

Contact: John Meals

Anticipated Completion Date: March 31, 2018

Finding 2017-054

Program: CFDA 93.758 – Preventive Health & Health Services Block Grant Funded Solely with Prevention & Public Health Funds (PHBG) – Allowability & Subrecipient Monitoring

Corrective Action Plan: PHHS Block Grant Coordinator will implement and train Project Leads (grants managers) in procedures to improve subrecipient monitoring to ensure compliance with Federal requirements. PHHS Project Leads participate in the cross-Divisional Grants Management Community of Practice and therefore receive regular updates and information to support subrecipient monitoring that properly stewards grant dollars and complies with Federal requirements.

Contact: Gwen Hurst

Anticipated Completion Date: June 30, 2018

Finding 2017-055

Program: CFDA 93.778 – Medical Assistance Program – Reporting

Corrective Action Plan: The refunds and waiver amounts noted on prior reconciliations of the CMS-64 as "not reported" or "need to research" will be fully evaluated prior to the submission of the CMS-64 for QE 12/31/17. Any necessary prior period adjustments will be made by 1/30/18.

Contact: John Meals, Kim Collins, Karen Gatherer

Anticipated Completion Date: January 30, 2018

Finding 2017-056

CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: The State Plan Amendment has been approved and the revised regulations have been drafted. Regulation changes will be submitted for final approval.

Contact: Ruth Vineyard

Anticipated Completion Date: March 31, 2018

Finding 2017-057

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: The Agency has formed an operating committee and steering committee to begin planning for implementation of a Fiscal Agent as well as Electronic Visit Verification. Groundwork is being completed to fulfill the 21st Century Cures act which requires states to implement Electronic Visit Verification for personal care services on or after January 1, 2019.

Pre-audit activities are completed on PAS provider record of service in which billing clerks verify the billing against the authorization prior to allowing the payment to be completed.

The Agency is also developing NEARS (N-FOCUS Eligibility Accuracy Reporting System) reads for PAS. This will ensure that QA elements are applied to items that the Agency has received audit findings for in the past. Communication is being developed to address the issue of ensuring correct credentials are obtained when determining a provider's rate per quarter hour.

The NEARS reads will also address issues related to services not agreeing with services needs assessments (SNA) that were mentioned in the finding. The services authorized in the SNA will be reviewed in the NEARS reads which will allow opportunities for targeted training for Social Services Workers (SSW) and SSW Supervisors on how to properly complete a SNA.

Contact: Stephanie Crouch, Kathy Scheele

Anticipated Completion Date: June 30, 2018

Finding 2017-058

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Corrective Action Plan: The Agency has formed an operating committee and steering committee to begin planning for implementation of a Fiscal Agent as well as Electronic Visit Verification. Groundwork is being completed to fulfill the 21st Century Cures act which requires states to implement Electronic Visit Verification for personal care services on or after January 1, 2019.

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. All individuals that were participants of the AD Waiver prior to September 1, 2015 have been reviewed by the SRT as of August 31, 2016. The State fiscal year runs July 1 through June 30, therefore the time period June 30 through August 31 was included in the initial year of SRT review for disability determination.

A provider bulletin will be developed which will detail the billing process for AD Waiver providers.

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.

Contact: Stephanie Crouch, Kathy Scheele

Anticipated Completion Date: June 30, 2018

Finding 2017-059

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Corrective Action Plan: Audited cost report retro settlements have been completed for all but one of the critical access hospitals for 2014. Audited 2015 cost report retro settlements will be completed for all critical access hospitals by 6/30/18.

As noted in the finding, the Department did procure the services of an external vendor, Navigant, to perform a rebasing study for all impatient rates for non-critical and critical access hospitals as a response to a prior year audit finding. Upon receiving the results of the rebasing study from Navigant, the data indicated that the current rates were below the actual costs based on the claims data provided to the external vendor, which indicates that there is not an increased risk that rates are in excess of actual costs, given that the study's outcomes confirmed that was not the case.

Contact: Kim Collins, Flora Coan

Anticipated Completion Date: June 30, 2018

Finding 2017-060

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: Procedures are in place to ensure the monthly audits continue to occur. The IntelliRide contract manager receives and sends the monthly audit to IntelliRide every month and gives them a two week deadline to perform the phone calls that state if a corresponding medical appointment occurred on the date of the NET claim. The contract manager is also working with Program Integrity staff to ensure they are requesting the money back for NET claims that do not have a corresponding medical claim. This includes requesting the administrative fees back from IntelliRide as well.

Contact: Kimberly McClintick

Anticipated Completion Date: Complete

Finding 2017-061

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: The questioned costs will be returned to CMS and reported on the CMS-64. The Agency took the following actions to mitigate this condition:

– This contract with the provider for Team Behavioral Consultation was amended effective July 1, 2017 – September 30, 2017 to provide for reimbursement at an hourly rate of $87.50. This rate was determined as a market rate consistent with similar services offered through the Medicaid State Plan. The contract expired on September 30, 2017 and was not renewed.

– The Agency amended its DD HCBS waivers (4154 and 0394) to unbundle the Team Behavioral Consultation service into two distinct services (Crisis Intervention and Consultative Assessment Services). Rates paid for these services are based on the rate methodology approved in the waivers.

Contact: Tony Green, Joe Dondlinger

Anticipated Completion Date: June 30, 2018

Finding 2017-062

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Special Tests and Provisions

Corrective Action Plan: Program Integrity investigators use their professional judgment skill, and experience to prioritize their casework. There are current targets for the completion of preliminary and full cases based on the origin of the case. Program Integrity will improve its monitoring procedures with automated enhancements to alert management when cases are not being reviewed timely.

Staff compliance with these expectations is assessed regularly.

Contact: Anne Harvey

Anticipated Completion Date: December 1, 2017

Finding 2017-063

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: Questioned costs will be returned to CMS. This will be reported on the CMS-64 report for the quarter ending June 30, 2018. In addition, the Agency will attempt to collect payments made to providers for which adequate documentation could not be provided to demonstrate that the services were rendered.

Contact: Tony Green, Joe Dondlinger

Anticipated Completion Date: June 30, 2018

Finding 2017-064

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Eligibility

Corrective Action Plan: The Agency is working to develop new training material for staff working with this population. System efficiencies are being developed to have all nursing home cases put into a single queue to allow for specialization. Updated training and specialization will reduce error rates.

Contact: Catherine Gekas-Steeby

Anticipated Completion Date: March 31, 2018

Finding 2017-065

Program: CFDA 93.778 – Medical Assistance Program – Special Tests and Provisions

Corrective Action Plan: The Department has acquired the services of a qualified external contractor to perform field audits on the facilities as determined necessary by the Department to maintain the integrity of the Nebraska Medical Assistance Program.

Contact: Michael Michalski

Anticipated Completion Date: December 1, 2017

Finding 2017-066

Program: CFDA 93.778 – Medical Assistance Program – Allowability

Corrective Action Plan: During the next completion of cost reports, procedures will be written to include both adequate support for costs and a sufficient schedule for updating calculation methods.

Contact: John Meals

Anticipated Completion Date: December 31, 2017

Finding 2017-067

Program: CFDA 93.917 – HIV Care Formula Grants – Allowable Costs/Cost Principles & Subrecipient Monitoring

Corrective Action Plan: To ensure expenditure of drug rebate funds before Federal funds, the Ryan White Program Manager will code invoiced expenses up to the amount of rebate funds available. Any remaining balance will be charged to other appropriate resources.

The Ryan White Program Manager has adopted a revised format for performing and documenting site visits. This format records receipt of required documents from the subrecipient and subsequent review of them by the Program Manager. The Ryan White Program Manager will write procedures on this practice.

The current state enterprise accounting software performs batch payment processing and cannot provide such detail when payments are received by the subrecipient. However, DHHS does have procedures in place to identify total payment activity by CFDA number, and allows for subrecipients, or their auditors, to request this data whenever it is needed. This procedure allows for subrecipients to have accurate federal payment information for audit requirements.

Contact: Kay Wenzl, Administrator
Karen Gatherer, Chief Financial Officer

Anticipated Completion Date: December 15, 2017

Finding 2017-068

Program: CFDA 93.945 – Assistance Programs for Chronic Disease Prevention and Control – Allowable Costs/Cost Principles & Subrecipient Monitoring

Corrective Action Plan: The Agency has now received Federal approval and will not issue subawards for fixed cost amounts without prior written approval from Federal Agencies. The Unit Administrator will develop a policy and unit staff will receive information on the policy and acknowledge receipt.

Contact: Kay Wenzl, Administrator

Anticipated Completion Date: December 22, 2017

Finding 2017-069

Program: CFDA 93.994 – Maternal and Child Health Services Block Grant to the States – Allowable Costs/Cost Principles & Subrecipient Monitoring

Corrective Action Plan: The Agency will enhance the written policy and procedures for subrecipient monitoring of this grant. Revisions will establish a more comprehensive selection of source documentation to support transactions and a reasonable sampling technique to demonstrate that monitoring is representative of the subaward.

Contact: Sara Morgan, Administrator

Anticipated Completion Date: November 30, 2017

LIBRARY COMMISSION

Finding 2017-070

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Corrective Action Plan: The regional funding allocations were approved at the June 30 Commission meeting. Letters were sent to each of the regional systems with annual funding amounts and a statement regarding financial administration, and new contracts have been issued. The agreement has been updated to include financial administration requirements. If these provisions are not sufficient, or correct, we can revise these sections and reissue. The Library Commission has discussed the matter with each of the regional directors and asked that they discuss with Gary Riggs (the CPA retained by the regional systems) the financial reporting requirements for clarity.

Regarding subrecipient monitoring, 2 CFR Part 200, Appendix XI, of the Compliance Supplement issued by the OMB states that subrecipient awards of less than $750,000 do not require annual audits, and all of the four library systems are under that threshold. The Supplement states that "during-the-Award Monitoring should be conducted through reporting, site visits, regular contact, or other means to provide reasonable assurance that the sub-recipient monitors Federal awards in compliance with laws, regulations, and the provisions of grant agreements." To further clarify the supplement states that monitoring activities normally occur throughout the year and may take various forms, including:

- *Reporting* – reviewing financial and performance reports submitted by the subrecipient.
- *Site visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular contact* – regular contacts with subrecipients and appropriate inquiries concerning program activities.

We will continue to review financial and performance reports, conduct site visits, and have regular contact with subrecipients.

According to the language of the OMB's compliance requirements the Systems are not high risk subrecipients and should be considered as low risk:

> *Subrecipient risk – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., if the subrecipient has (1) a history of non-compliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems.) Evaluation of subrecipient risk also may take into consideration the extent of Federal monitoring of subrecipient entities that also are recipients of prime Federal awards.*

Although we are in general compliance with the OMB's monitoring recommendations as described in 2 CFR Part 200, Appendix XI, we will continue to work with the systems to strengthen the process through documentation of our comparison of expenditures to annual financial compilations. To assure compliance, systems will be instructed to provide detailed listings of their federal fund expenditures and the Commission will review these and ask for documentation as support for certain transactions.

Contact: Jerry Breazile, Business Manager

Anticipated Completion Date: June 30, 2018

DEPARTMENT OF TRANSPORTATION

Finding 2017-071

Program: CFDA 20.509 – Formula Grants for Rural Areas – Allowability & Subrecipient Monitoring

Corrective Action Plan: Invoices submitted by providers receiving Section 5311f payments for intercity bus service will be subject to periodic desktop reviews to ensure expenses are eligible.

George Gallardo and Kari Ruse will continue to place on the server relevant site visit document including on-site checklists, follow up reports and supporting documentation to close findings.

Contact: Frank Faughn, George Gallardo

Anticipated Completion Date: Completed

Finding 2017-072

Program: CFDA 20.509 – Formula Grants for Rural Areas – Reporting

Corrective Action Plan: NDOT will ensure the NTD reports for 5311f funds are completed either by the provider or NDOT.

Contact: Kari Ruse

Anticipated Completion Date: Fiscal Year 18 NTD reporting period.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Finding #	State Agency/Finding	Status of Finding/Agency Comments
2016-001 Since 2007	Administrative Services CAFR Preparation	This finding is recurring due to staff turnover within the financial reporting team and ongoing issues with obtaining timely and accurate financial information from agencies. 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.
2016-002	Administrative Services Business Continuity	DAS leadership concurs that the EnterpriseOne system still does not have adequate disaster recovery hardware, software, processes, and procedures in place to ensure a real time cutover from the current production environment to a recovery environment. We are continuing to work with the OCIO to establish and expand these capabilities to first, be able to conduct real time replication of the core mainframe data and infrastructure of the state's financial system of record between the 501 building data center and the DOT.COM data center located in Omaha, NE. Once this capability is reached later this year, we will then work on building out the web server infrastructure to eventually create a dual recovery environment in Omaha. The long-term solution will be well in place within the next two to three years when the state completes its migration to the, yet to be selected; cloud-based environment where our data of record will be replicated and maintained in four geographically dispersed data centers across the United States. This disaster recovery capability will be provided as part of our cloud subscription services with our future vendor.
2016-003	Education Average Daily Membership	Corrected August 2016
2016-004 Since 2004	Health & Human Services Material Adjustments	Corrective action has been taken on all adjustments. Future material adjustments may result in repeat audit findings.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #	State Agency/Finding	Status of Finding/Agency Comments
2016-005 Since 2014	Health & Human Services Medicare Part D	**Status**: Partially corrected **Reasons for Recurrence:** Contracts have not been fully executed for all vendors **Partial Corrective Action Taken:** Contracts are in place for several companies to allow for billing of Medicare Part D. Management of these contracts has been assigned to appropriate staff. **Corrective Action Planned:** Additional contracts are currently being finalized for other companies for future billings
2016-006 Since 2015	Health & Human Services Overpayment Mailbox	**Status:** Partially corrected **Reasons for Recurrence:** backlog has not been fully addressed **Partial Corrective Action Taken:** Processes, procedures, and assignment of overpayment referrals is complete including creation of new workflow system. **Corrective Action Planned:** Progress continues on the backlog resulting in over a 50% reduction in six months.
2016-007 Since 2015	Health & Human Services Overpayments	Corrective action has been taken. Overpayment referral Sharepoint site has been implemented.
2016-008	Health & Human Services External MMIS User Access	**Status:** Partially corrected **Reasons for Recurrence:** Not all users have been fully reviewed **Partial Corrective Action Taken:** Review process is established and is ongoing **Corrective Action Planned:** Finalization of all reviews
2016-009	Health & Human Services Checks Not Deposited Timely	Corrective action has been taken.

Finding #	State Agency/Finding	Status of Finding/Agency Comments
2016-010 Since 2014	Labor Errors in Financial Information	**Management Response:** Other State Wage Claims – Advances 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. Since meeting with the Auditors and DAS staff we have learned that there is not an Allowance or Bad Debt account available for our use. DAS reported this to the Auditors but we have not had a response. 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. **Corrective Action Plan:** The Controller and key accounting staff met 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 discussed the fact that the Department of Labor is unique in having to have receivables and payables between the different environments. We will review the receivables and make necessary adjustments. Per Sheryl Hesseltine at DAS there is no process in place at the state level for an allowance for doubtful accounts or bad debt write-offs.

FINDINGS RELATING TO FEDERAL AWARDS:

Nebraska Department of Administrative Services

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-011 Since 2015	Various, 93.778 Allowable Costs	DAS continues to monitor 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 during a fiscal year. Rates are set biennial. Rates for FY15-16 were developed early in 2014. The comments and recommendations from the review of Calendar Year 2014 were received in August 2015 after the FY15-16 and FY16-17 rates were set. FY17-19 Biennial rates were developed early in 2016. In early 2018 the rate development process will begin again. Data will be used from FY16-17 (most recent complete fiscal year) and the first six months of FY17-18. The OCIO reviewed fund balances and rates early in 2016 for the FY17-19 Biennium. Programs 172 (IMS) and 173 (DOC) had increased expenditures during FY16-17, reducing fund balances. A final version of Risk Management's Cost Allocation Report prepared by AON was used in 2016. A management decision was made to adjust the physical damage rate in 2014. However, the report does not include fund analysis. More detailed documentation is being discussed for the FY19-21 Biennium Rate Development when adjustments are made to recommended rates. Print Shop rates continue to be reviewed. With the planned move to Oracle Fusion it is planned that costs and units will be easily extracted from the system in order to develop rates and surcharges. The Print Shop continues to work with the DMV to provide large jobs to meet the Agency's needs. The DMV is the Print Shop's largest customer. G2 refers to the Postage billing and not the Print Shop. Copy Rates are the same as at the Print Shop. They are part of Printing Services. A copy is the same cost regardless of where the job is completed. Staff determines the best process to complete the requested job.

Nebraska Department of Administrative Services (Concluded)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
		The overhead rate was reviewed for the FY17-19 biennial rates. Building Division worked with the EnterpriseOne IT team to develop a report that will track building replacement costs moving forward. Building Division continues to work on the square footage of grounds in Lincoln – the total and per location. The process is more complex than thought. The various area is being "google mapped". Building Division is also working with the Nebraska State Patrol regrading security in Lincoln at the various facilities. Building Division has also been short staffed. New rental rates were developed for the various Building Division managed facilities for the 17-19 Biennium. Some rates were held flat, others were increased or decreased. Due to uncertainty regarding the future use of the Hasting Regional Center (HRC) no rental rate changes were made. The HRC rate for FY17-19 biennium was reduced. As mentioned earlier the FY15-16 rates were set early in 2014. Various assumptions are made during rate setting and many factors impact what the actual expenditures are several years later. Some facilities have a positive variance while others have a negative variance during a biennium. In addition to the comparison of revenue to expenses at each facility it is important to remember that the Program is called upon to complete projects at various facilities once rates have been set. During FY16-17 the Temporary Employee Pool provided an approximate $400,000 rebate.
2016-012	Various, 93.778 Reporting	Management completed the review of the Federal Filing Requirements and the March 2017 filing did include all required documentation.
2016-013	Various, 93.217 Reporting	Currently review and updating procedures to make sure reporting is accurate.
2016-014 Since 2015	Various, 93.778 Reporting	DAS continues to review the procedures to ensure the SEFA is accurate.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Department of Agriculture

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-015 Since 2015	93.103, 93.448 Allowable Costs	Activity reports and payroll distributions are being compared quarterly as a new financial procedure as of Jan 2017, but correcting JEs have not been completed as of June 30, 2017. Implementation of more complete ERS training for employees is planned for FY17.

Nebraska Department of Health and Human Services

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-016 Since 2015	Various, 93.778 Allowability	Corrective action has been taken.
2016-017 Since 2015	Various, 93.558, Allowability	Corrective action has been taken.
2016-018 Since 2013	Various, 10.561, 93.778 Allowability	Corrective action has been taken.
2016-019	Various, 93.283, 93.778 Allowability	**Status:** Partially corrected **Reasons for Recurrence:** 100% review process for payroll certifications is not fully implemented and may result in a repeat finding **Partial Corrective Action Taken:** Correspondence and training provided on error specified in the finding. Procedures developed for 100% reviews. **Corrective Action Planned:** Review process will be implemented for 100% of payroll each pay period
2016-020 Since 2012	93.767 Cash Management	Corrective action has been taken. Repeat findings may occur if grant reconciliations are not completed.

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-021 Since 2010	93.044, 93.045 Allowability/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Revised monitoring procedures were not implemented until mid-audit period and are not yet complete for all subrecipients **Partial Corrective Action Taken:** Monitoring procedures modified to include payroll and other improvements and reviews have been completed for most subrecipients **Corrective Action Planned:** Complete monitoring reviews for all subrecipients
2016-022 Since 2014	93.069, 93.889 Allowability/ Cash Management/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Revised monitoring procedures were not implemented until mid-audit period and are not yet complete for all subrecipients **Partial Corrective Action Taken:** Desk review procedures were revised and on-site monitoring was sub-contracted for additional monitoring. Reviews completed for majority of subrecipients. **Corrective Action Planned:** Complete monitoring reviews for all subrecipients
2016-023	93.069, 93.889 Allowability	**Status:** Partially corrected **Reasons for Recurrence:** Time coding has been implemented and currently reviewing process for leave allocation **Partial Corrective Action Taken:** Staff are currently time coding all activities. **Corrective Action Planned:** Reviews of leave time allocation are still being performed

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-024 Since 2015	93.217 Allowability/ Program Income/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Revised monitoring procedures were not implemented until mid-audit period and are not yet complete for all subrecipients **Partial Corrective Action Taken:** Corrective action plans from subrecipients have been received and are being reviewed. Additional desk review monitoring was implemented. **Corrective Action Planned:** Reviews of all subrecipients will be completed to include enhancements based on finding results.
2016-025	93.217 Period of Availability	**Status:** Partially corrected **Reasons for Recurrence:** Policy was not implemented until after June 30, 2016 resulting in a reoccurrence of the issue for FYE June 30, 2017 **Partial Corrective Action Taken:** Agency developed policy to ensure funds are not obligated past period of availability **Corrective Action Planned:** Implement policy
2016-026 Since 2015	93.217 Cash Management/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Revised subawards and payment process was not implemented until mid-audit period **Partial Corrective Action Taken:** Subawards were revised limiting cash advances to 30 days **Corrective Action Planned:** Developing process to ensure advancement amount is as close as administratively feasible to actual cash outlays.
2016-027 Since 2015	93.217 Reporting	Corrective action has been taken.

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-028 Since 2015	93.217 Procurement	**Status:** Partially corrected **Reasons for Recurrence:** Competitive bidding process was not completed during the audit period **Partial Corrective Action Taken:** Competitive bidding process is in progress **Corrective Action Planned:** Finalize competitive bidding process
2016-029	93.283 Allowability/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Have not received formal approval from Federal Awarding Agency on using fixed amount awards **Partial Corrective Action Taken:** Adequate documentation of time allocation for proper billing on Cancer Registry has been implemented and a request has been sent to federal partners to approve fixed amount subaward **Corrective Action Planned:** Awaiting approval from Federal Awarding Agency for fixed amount subaward.
2016-030 Since 2004	93.558 Allowability/ Eligibility	**Status:** Partially corrected **Reasons for Recurrence:** Adequate preventive controls were not implemented during the audit period **Partial Corrective Action Taken:** Division staff have implemented an audit resolution policy for all findings related to eligibility and an overpayment referral workflow system has been implemented **Corrective Action Planned:** NFOCUS system changes for improved controls on eligibility reviews will be implemented.
2016-031 Since 2011	93.558 Allowability	Corrective action has been taken.

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-032 Since 2013	93.558 Allowability	Corrective action has been taken although the volume of transactions and the limitations on the amount that can be reviewed could lead to a repeat finding if any errors are found.
2016-033 Since 2013	93.558 Allowability/ Subrecipient Monitoring	**Status:** Partially corrected **Reasons for Recurrence:** Subrecipient monitoring process was not implemented until mid-audit period **Partial Corrective Action Taken:** Monitoring procedures have been implemented and reviews are ongoing **Corrective Action Planned:** Completed adequate subrecipient monitoring for subrecipients
2016-034 Since 2011	93.558 Reporting	**Status:** Partially corrected **Reasons for Recurrence:** Inadequate review **Partial Corrective Action Taken:** Review procedures have been modified **Corrective Action Planned:** NFOCUS reports changes are being implemented to align with OMB compliance requirements and reporting needs
2016-035 Since 2012	93.558 Reporting	Corrective action has been taken on identified errors. Any future reporting errors could result in repeat audit findings.
2015-039	93.558 Special Tests	Corrective action has been taken.
2016-036 Since 2012	93.568 Allowability/ Eligibility	**Status:** Partially corrected **Reasons for Recurrence:** Controls in place require manual review and intervention **Partial Corrective Action Taken:** Random sample quality reviews have been implemented and the job aide has been completed for staff training **Corrective Action Planned:** Additional NFOCUS system changes are being implemented to improve controls and accuracy

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-037 Since 2007	93.575, 93.596 Allowability/ Eligibility	**Status:** Partially corrected **Reasons for Recurrence:** Controls in place require manual review and intervention **Partial Corrective Action Taken:** Specialization of staff to the CCDF program, established overpayments for errors noted in the finding, formalized a claims review process **Corrective Action Planned:** New provider/client agreements will be fully implemented
2016-038 Since 2013	93.575, 93.596 Reporting	**Status:** Not corrected **Reasons for Recurrence:** Reporting changes have not been made **Partial Corrective Action Taken:** None taken **Corrective Action Planned:** All required reporting changes will be made
2016-039 Since 2011	93.575, 93.596 Special Tests	Corrective action has been taken although additional errors may be noted in future audits.
2016-040	93.575 Earmarking	**Status:** Partially corrected **Reasons for Recurrence:** Formalized process for monitoring earmarking requirements was not fully implemented **Partial Corrective Action Taken:** Tools to monitor earmarking requirements have been developed **Corrective Action Planned:** Implement process to monitor earmarking requirements
2016-041 Since 2003	93.658 Allowability/ Eligibility	Corrective action has been taken.
2016-042	93.658 Allowability	Corrective action has been taken.

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-043	93.658 Subrecipient Monitoring	Corrective action has been taken.
2015-050	93.658 Special Tests	Corrective action has been taken.
2015-053	93.658 Reporting	Corrective action has been taken.
2014-060 Since 2013	93.658 Allowability/ Eligibility/Reporting	Corrective action has been taken.
2016-044 Since 2011	93.659 Allowability/ Eligibility	**Status:** Partially corrected **Reasons for Recurrence:** subsidy errors noted were related to agreements signed prior to corrective actions taken in previous audits **Partial Corrective Action Taken:** Quality Assurance reviews have been designed and implemented as well as additional staff training **Corrective Action Planned:** Review process requires modifications and is currently being updated
2016-045 Since 2015	93.659 Reporting	Corrective action has been taken for the specific errors noted. However controls are not in place to track all necessary adjusting entries.
2016-046 Since 2006	93.778, 93.767 Matching/ Reporting	Corrective action has been taken.
2016-047 Since 2013	93.778 Allowability	**Status:** Partially corrected **Reasons for Recurrence:** Regulations have not been updated **Partial Corrective Action Taken:** Regulations updates have been drafted to allow payment to individuals directly as primary option. **Corrective Action Planned:** Finalize regulation changes

Nebraska Department of Health and Human Services (Continued)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-048 Since 2014	93.778 Allowability/ Eligibility	Corrective action has been taken although given current controls in place, future audit findings are possible.
2016-049 Since 2009	93.778 Allowability/ Eligibility	Corrective action has been taken.
2016-050 Since 2009	93.778 Special Tests	**Status:** Partially corrected **Reasons for Recurrence:** backlog of cost settlements not completed **Partial Corrective Action Taken:** Rebasing process completed **Corrective Action Planned:** Backlog of cost settlements will be completed
2016-051 Since 2015	93.778 Allowability	**Status:** Partially corrected **Reasons for Recurrence:** Corrective actions from prior finding not fully implemented until mid-audit period **Partial Corrective Action Taken:** System changes to implement sample review process is complete and updated policies from the contractor have been approved **Corrective Action Planned:** Monthly reviews are still being completed. Additionally, NET services is scheduled to move into Managed Care effective 1/1/2018 which substantially changes the corrective action plan.
2016-052 Since 2013	93.778 Allowability	Corrective action has been taken. The contract was extended through 9/30/17. The Agency will continue to monitor throughout the contract.
2016-053 Since 2012	93.778 Allowability/ Special Tests	**Status:** Partially corrected **Reasons for Recurrence:** Corrective actions from prior finding not fully implemented until mid-audit period **Partial Corrective Action Taken:** Internal policies for Program Integrity case review standards have been drafted but not finalized **Corrective Action Planned:** Finalize internal policies and complete RAC reconciliations

Nebraska Department of Health and Human Services (Concluded)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-054	93.778 Allowability	Corrective action has been taken.
2016-055	93.778 Allowability	Corrective action has been taken.
2016-056	93.778 Special Tests and Provisions	See 2016-008
2015-064	93.778 Special Tests	Corrective action has been taken. Policies have been written establishing criteria for when field audits are required per management decision.
2015-070	93.778 Allowability	Corrective action has been taken.

Nebraska Commission for Law Enforcement and Criminal Justice

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-057	16.575 Allowable Costs	The sub-recipient in this case was the Women's Center for Advancement (WCA) in Omaha, Nebraska, whom the Crime Commission has worked with closely over the pay few years on time, recordkeeping, and reimbursement issues. Documentation in the form of timesheets and pay stubs were submitted however the allocation of time to this particular cost activity was the questioned costs. The Crime Commission has worked with WCA to improve their time record reporting so that actual hours are now being reported for all reimbursements, but it has been a long process. The documentation attached includes time reports for selected employees of the WCA, as well as email communication between the WCA and the Crime Commission. Regarding the time sheets, the employee submitted their time sheet to the system and the supervisor would approve and send the time sheet on to payroll for payment. However, the Paylocity system did not show this on the timesheet itself. The Crime Commission wrongly assumed since the payroll was paid, the employee had done their part in submitting, and the supervisor had done their part in approving to move it to be paid.

Nebraska Commission for Law Enforcement and Criminal Justice (Concluded)

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
		Timesheets had to be exported from Paylocity into Excel due to the size of the reports. When changes were made to the time report they were initially made by the WCA employee in Paylocity. In order to submit the reports by the deadline and make the changes in Paylocity, and then manual edits were made in Excel. These edits were all approved and signed by the employee before submitting to the Crime Commission. The Commission has since consulted with our state auditors, and we were made aware this would not be sufficient and we worked with WCA to change their process on how the timesheets were submitted to us with all appropriate signatures. This happened starting with the January through March 2015 quarter which was the quarter after the sample. We did not go back in time to have the signatures in place, but has ensured that these are happening going forward. The Crime Commission has developed strict procedures on the monitoring of all federal funds. All sub-recipients, including the WCA, have an annual financial monitor or desk review and programmatic monitor once every three years. The Commission went to a strict 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 and Business Manager. The Crime Commission has been working diligently with the WCA both via email, telephone calls, and at the WCA site with their staff over the past years, and as recently as 19 June 2017. The development and use of a timecard legend by WCA made a significant reduction in the number of pages of documentation which needed to be reviewed during pre-audit, allowing for a less time-consuming review. The further clarify, the documentation submitted by WCA prior to the use of this legend was very laborious and time-consuming for our staff to review due to the length of the previous timesheets. The Commission looks forward to sharing this legend with other sub-grantees in order to improve their timecard submissions.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Library Commission

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-058 Since 2014	45.310 Subrecipient Monitoring	The regional service grant agreement for the current biennium budget period has been updated to include the statement below relating to state and federal expenditures (Regional Services Agreement, page 3, section 2.a), but it was not available until it was presented for approval by the Systems at the statewide meeting on June 30, 2017: *Expenditures are subject to terms of the regional services agreement. Expenditures of federal LSTA funds are subject to the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (officially implemented in December 2014 by the Council on Financial Assistance Reform (COFAR). The Uniform Guidance – a "government-wide framework for grants management" – synthesizes and supersedes guidance from earlier OMB circulars.* The Commission will develop monitoring procedures to test the Library System expenditures for compliance with federal cost principles, and the procedures will be put in place for FY2017-18. Currently the Library Systems retain the services of a CPA for annual compilation of financial statements; compliance testing may be incorporated into that process.

Nebraska Military Department

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-059	12.401 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 see an exception to the CMIA, based on the nature of compliance requirements.

STATE OF NEBRASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Nebraska Department of Roads

Finding #	CFDA/Compliance	Status of Finding/Agency Comments
2016-060	20.205 Reporting	Complete
2016-061	20.205 Allowability	Complete
2016-062 Since 2013	20.509 Allowability/ Subrecipient Monitoring	Complete
2016-063 Since 2013	20.509 Reporting	Complete