

STATE OF NEBRASKA
STATEWIDE SINGLE AUDIT
Year Ended June 30, 2008

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Issued on February 17, 2009

STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2008

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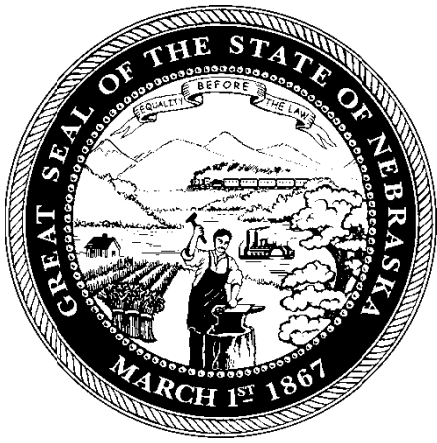
STATE OF NEBRASKA

Basic Financial Statements and
OMB Circular A-133 Compliance Reports

Year Ended June 30, 2008

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FINANCIAL SECTION



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska, as of and for the year ended June 30, 2008, which collectively comprise the State of Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College Savings Plan and the NETC Leasing Corporation. The College Savings Plan and the NETC Leasing Corporation represent 15% and 38% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the College Savings Plan and the NETC Leasing Corporation is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the College Savings Plan and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of the State of Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 16, the Budgetary Comparison Schedules on pages 49 through 54; and the Information About Infrastructure Assets Reported Using the Modified Approach on page 55, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated, in all material respects, in relation to the basic financial statements.

Signed Original on File

Lincoln, Nebraska
December 19, 2008

Don Dunlap, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Nebraska provides the following discussion and analysis of the State of Nebraska's financial performance, as reflected in the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. Please read it in conjunction with the additional information furnished in the letter of transmittal at the front of this report, and with the State's basic financial statements, which follow. Numerical years refer to fiscal years with a June 30 year-end, unless otherwise noted.

The State of Nebraska (State) implemented three new standards in 2008 required by the Governmental Accounting Standards Board (GASB): Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which has no material effect on the State's financial statements; Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which had no material effect on the financial statements; and Statement No. 50, *Pension Disclosures*, which only slightly changed the disclosures regarding the retirement plans shown in Footnote 11 to the 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, 2008 along with an analysis of the State's capital assets and long-term debt related to capital assets.

FINANCIAL HIGHLIGHTS

Government-wide:

The assets of the State exceeded its liabilities at June 30, 2008 by \$10.9 billion (presented as "net assets" in the CAFR). The majority of the net assets are represented by the investment in the State's infrastructure and other capital assets, which cannot be used to fund ongoing activities of the State. Of the net assets, unrestricted net assets were reported as \$1,126 million, most of which is available to be used to fund future needs of the State. The primary government's net revenues exceeded net expenses for 2008 resulting in an increase in net assets of \$338 million. The increase in net assets was only half of the increase the State enjoyed in 2007, due to a \$131 million decrease in investment earnings (a result of unrealized market losses) coupled with an increase of expenses, net of revenue, of \$310 million, which more than offset the small increase in tax revenues of \$95 million.

Fund Level:

General Fund receipts for 2008 were \$117 million above the original budgeted amount and above the final budget by \$99 million. Expenditures were \$220 million less than the original budget. On a Generally Accepted Accounting Principles (GAAP) basis, the General Fund had \$128 million in excess revenues prior to a legislatively mandated property tax relief transfer of \$105 million and \$21 million in other financing uses, resulting in an ending fund balance on June 30, 2008 of \$974 million. Other governmental funds expenditures exceeded revenues by \$35 million, chiefly due to unrealized market losses; in addition, such other funds received \$160 million in other financing sources (namely net transfers in for capital projects) increasing such fund balances at June 30, 2008 to \$1,966 million.

The \$343 million of net assets of the Unemployment Insurance Fund represents eighty-six percent of the proprietary funds. Such fund had a \$23 million increase in net assets for 2008 compared to a \$47 million increase in 2007, a \$24 million smaller increase. This was due to a \$24 million decrease in business

assessment fees collected from employers (due to a lower rate being charged) and a \$4 million increase in unemployment claims, offset by a \$4 million increase in investment income.

Long-term Liabilities:

Long-term liabilities shown on the government-wide financial statements totaled \$492 million at June 30, 2008, which is a slight decrease from the prior year. Most of these liabilities consist of claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, employee health insurance, and Medicaid, in addition to the calculated amount for accrued vacation and vested sick leave due employees when they retire. After a retired employee reaches the age of 65, the State has no further obligation for other post employment benefits, except for a very small number of employees.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The *Statement of Net Assets* presents all the State's assets and liabilities with the difference between the two reported as "net assets." Changes in net assets over time may indicate the relative health of the State and this statement will assist users in assessing whether or not the State's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the reported year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows, using the accrual basis of accounting discussed earlier.

Both of these statements have separate sections for three different types of State programs or activities. These sections are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental Activities and Business-type Activities are combined to report on what is termed Primary Government activities, which is separate and distinct from the activity of the component units. Fiduciary Funds, which include the Pension Funds, are not included in the Government-wide Financial Statements.

Primary Government

GOVERNMENTAL ACTIVITIES – Activities in this section are mostly supported by taxes and federal grants. All General Fund activity is included here. Governmental activities represent over 96% of all activity of

the primary government. It includes general government; education; health and human services; public safety; transportation; regulatory services; and economic development and assistance.

BUSINESS-TYPE ACTIVITIES – Functions reported in this section include those activities whereby the State charges fees and other charges to external users of the State’s services and purchasers of State’s goods in order to recover all or a significant portion of the State’s operating costs related to these activities, much like a private business. Such activities are unemployment insurance services, lottery tickets, premium surcharges for excess liability coverage, and the sales and services provided by Cornhusker State Industries.

Component Units

DISCRETELY PRESENTED COMPONENT UNITS – These are separate entities for which the State has financial accountability (in which the State provides over one-fourth of their funding) but such organizations have independent qualities as well. The University of Nebraska and the Nebraska State College System are the State’s only two discretely presented component units. While presented in this report, each of these two units has separate audited financial statements and such audited reports can be obtained from their respective administrative offices.

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

Fund Financial Statements

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

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

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

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

The State's principal fiduciary fund is the Pension Fund, which contains retirement contributions held by the State for state employees, county employees and public school employees (see Note 11 to the financial statements). There are also Private-Purpose Trust Funds whereby the State has control of unclaimed property and funds held for inmates and clients or wards of the State. The State also has Agency Funds whereby the State holds funds earmarked as aid for other political subdivisions.

Component Units Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

Following the basic financial statements and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information includes budgetary comparison schedules reconciling statutory fund balances used for budgetary purposes to the fund balances determined by GAAP used in the Fund Financial Statements for the General Fund, Cash Funds, Construction Funds, Federal Funds, and Revolving Funds. Other information included is the condition and maintenance data regarding certain aspects of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes the combining statements for non-major governmental, proprietary and fiduciary funds. These funds are summarized by fund type and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the Governmental Fund Financial Statements. Also presented is a statistical section providing State data.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's assets totaled \$12,600 million at June 30, 2008 as compared to \$12,273 at June 30, 2007. As total liabilities only totaled \$1,746 million, net assets amounted to \$10,854 million as of June 30, 2008. As of June 30, 2007, these amounts were \$1,757 million and \$10,516 million, respectively. By far the largest portion of the State of Nebraska's net assets (70 percent) reflects the State's investment in capital assets (e.g., land, buildings, equipment and infrastructure – highways, bridges, dams, etc.). The State uses these capital assets to provide services to citizens; thus, these assets are not available for future spending.

Restricted net assets are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. They also are not available for future general government spending.

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

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and Other						
Non-current Assets	\$ 4,503	\$ 4,363	\$ 475	\$ 440	\$ 4,978	\$ 4,803
Capital Assets	7,616	7,464	6	6	7,622	7,470
Total Assets	12,119	11,827	481	446	12,600	12,273
Non-current Liabilities	444	447	48	52	492	499
Other Liabilities	1,219	1,222	35	36	1,254	1,258
Total Liabilities	1,663	1,669	83	88	1,746	1,757
Net assets:						
Invested in Capital Assets, Net of Related Debt	7,588	7,428	6	6	7,594	7,434
Restricted	1,790	1,763	344	321	2,134	2,084
Unrestricted	1,078	967	48	31	1,126	998
Total Net Assets	\$ 10,456	\$ 10,158	\$ 398	\$ 358	\$ 10,854	\$ 10,516

Over 74% of the State's non-capital assets consist of cash and investments. It should be noted that \$457 million in 2008 and \$512 million in 2007 of such assets represent "Securities Lending Collateral," an amount created by a journal entry required by GASB in order to record a lending transaction. Since the asset is offset by a corresponding equal liability, the net asset is zero and thus the asset cannot be spent. (For more detail, see Note 2 to the financial statements.) Receivables, chiefly from taxes and the federal government, represent 20% of the non-capital assets.

Liabilities largely reflect three groupings which represent 93% of total State liabilities, not including the obligations under securities lending explained in the above paragraph. These are operational payables, which consist of accounts payables and accrued liabilities of \$403 million (\$344 million in 2007); tax refunds payable of \$310 million (\$299 million in 2007); and long-term payables explained next.

Since the State's Constitution generally prohibits the State from incurring debt, the Statement of Net Assets presents few long-term liabilities (shown as noncurrent liabilities), which total only \$492 million (\$499 million in 2007). The majority of such liabilities are for claims payable for workers' compensation, medical excess liability, litigation, unemployment insurance, and employee health insurance totaling \$128 million for 2008 (\$138 million for 2007), Medicaid claims for \$196 million (\$192 million in 2007) and the calculated amount for vested sick leave due employees when they retire and accrued vacation of \$123 million in 2008 (\$118 million for 2007). Other minor amounts of long-term liabilities consist chiefly of capital lease obligations (See Note 8 to the Financial Statements), and bonds payable related to NETC Leasing Corporation and Nebraska State Building Corporation bonds (See Note 7 to the Financial Statements). Both of these entities are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State (See Note 1.B. to the Financial Statements). Such debt related to capital assets totaled \$30 million at June 30, 2008. There was also \$15 million of obligations under other financing arrangements (See Note 9 to the Financial Statements).

The change in net assets of Governmental Activities, other than an increase of \$160 million in capital assets, was due to the \$128 million increase in unrestricted net assets and the \$50 million increase in restricted net assets. This was the result of a small increase in taxes collected coupled with lower spending than expected which offset the decreased amount of investment income in 2008.

At the end of June 30, 2008, the State is able to report positive balances in all of the three categories of net assets.

Changes in Net Assets

The condensed financial information on the following page was derived from the Government-wide Statement of Activities and reflects how the State's net assets changed during the year. Following that table is management's analysis of the changes in net assets for 2008, analyzing both the governmental activities and the business-type activities.

STATE OF NEBRASKA
CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30
(in millions of dollars)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 549	\$ 516	\$ 246	\$ 263	\$ 795	\$ 779
Operating Grants and Contributions	2,235	2,218	-	-	2,235	2,218
Capital Grants and Contributions	21	8	-	-	21	8
General Revenues						
Taxes	3,966	3,871	-	-	3,966	3,871
Unrestricted Investment Earnings	114	250	23	18	137	268
Miscellaneous	4	1	-	-	4	1
Total Revenues	<u>6,889</u>	<u>6,864</u>	<u>269</u>	<u>281</u>	<u>7,158</u>	<u>7,145</u>
EXPENSES						
General Government	438	355	-	-	438	355
Conservation of Natural Resources	113	119	-	-	113	119
Culture - Recreation	26	27	-	-	26	27
Economic Development and Assistance	85	89	-	-	85	89
Education	1,450	1,369	-	-	1,450	1,369
Higher Education - Colleges and Universities	558	529	-	-	558	529
Health and Social Services	2,744	2,650	-	-	2,744	2,650
Public Safety	373	360	-	-	373	360
Regulation of Business and Professions	131	156	-	-	131	156
Transportation	714	615	-	-	714	615
Interest on Long-term Debt	2	2	-	-	2	2
Unemployment Insurance	-	-	98	94	98	94
Lottery	-	-	92	86	92	86
Excess Liability	-	-	(3)	14	(3)	14
Cornhusker State Industries	-	-	11	11	11	11
Total Expenses	<u>6,634</u>	<u>6,271</u>	<u>198</u>	<u>205</u>	<u>6,832</u>	<u>6,476</u>
Excess (deficiency) Before Transfers and Contributions to Permanent Fund Principal	255	593	71	76	326	669
Transfers Contributions to Permanent Fund Principal	31 12	29 19	(31) -	(29) -	- 12	- 19
Increase (Decrease) in Net Assets	298	641	40	47	338	688
Net Assets - Beginning	10,158	9,517	358	311	10,516	9,828
Net Assets - Ending	<u>\$ 10,456</u>	<u>\$ 10,158</u>	<u>\$ 398</u>	<u>\$ 358</u>	<u>\$ 10,854</u>	<u>\$ 10,516</u>

Governmental Activities

Governmental activities increased the State's net assets by \$298 million in 2008 (\$641 million in 2007). Furthermore, governmental activities represent 96% of all the primary government's revenues. Program revenues of governmental activities were \$2,805 million and were used to partially offset program expenses of \$6,634 million, leaving net expenses of \$3,829 million. Only 7% of total expenses were spent on general government expenses. General taxes, investment earnings, contributions to the permanent fund principal and transfers all totaling \$4,127 million were used to more than cover the remaining costs of the governmental activities' programs as shown below.

Program revenues only increased 2% from 2007. Tax revenues were up \$95 million (almost identical to the increase recorded in 2007), which fell short of offsetting the \$300 million increase in program expenses, net of revenues. In addition, investment earnings decreased \$136 million, as opposed to a \$157 million increase in 2007. These items were the chief reasons the increase in net assets was \$343 million lower in 2008 than the \$641 million increase recorded in 2007. The decrease in investment earnings was the result of unrealized market valuation losses on investments held in the Health and Social Services and Permanent School Fund programs in 2008 of \$57 million, as opposed to unrealized gains of \$94 million in 2007, a negative difference of \$151 million, which was only offset somewhat by increased actual investment earnings received. While the General Fund has more investments than both of those programs, it maintains safer investments and actually showed an increase in investment income in 2008 over 2007 of \$13 million.

Program expenses, net of revenue, increased by \$300 million in 2008, as shown below:

GOVERNMENTAL ACTIVITIES (in millions of dollars)

Program Expenses, Net of Revenue	2008	2007
General Government	\$ (342)	\$ (254)
Conservation of Natural Resources	(33)	(38)
Culture - Recreation	(7)	(7)
Economic Development and Assistance	(29)	(30)
Education	(1,122)	(1,043)
Higher Education - Colleges and University	(558)	(529)
Health and Social Services	(1,192)	(1,101)
Public Safety	(211)	(214)
Regulation of Business and Professions	(6)	(35)
Transportation	(327)	(276)
Interest on Long-Term Debt	(2)	(2)
Subtotal	(3,829)	(3,529)
General Revenues		
Taxes	3,966	3,871
Unrestricted Investment Earnings	114	250
Miscellaneous	4	1
Transfers	31	29
Contributions to Permanent Fund Principal	12	19
Increase (Decrease) in Net Assets	\$ 298	\$ 641

Four functional areas of the State comprise 82% of the expenses of all Governmental Activities: Education, Higher Education, Health and Social Services and Transportation. They also comprise 83% of the increase in program expenses, net of revenue. Education net expenses were up \$79 million chiefly due to planned budgetary increases providing more school aid to the K-12 school systems in Nebraska. Health and Social Services was up \$91 million mainly because of increased aid for behavioral health, welfare, Medicaid and other aid programs and a \$7 million decrease in funding from grants. Higher Education was up as appropriations from the State to the University of Nebraska and the state colleges were increased \$29 million. Transportation net expenses were up \$51 million chiefly due to increased highway construction, more aid to cities and counties, and less tax revenues. All the other functional areas had small variances in net expenses, except for General Government expenses, which increased due to property tax relief of \$105 million provided to property owners in Nebraska.

Business-type Activities

The business-type activities increased the State's net assets by \$40 million for 2008, which was net of a \$31 million transfer to the governmental activities. Most of the \$246 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 only \$5 million in 2008. However, this income, when combined with the \$23 million in investment income and \$13 million of net revenue from Excess Liability activities, produced \$41 million of net revenue. Lottery revenues of \$122 million generated net revenue of \$30 million, which was offset by the \$31 million transfer to the Governmental Activities. The lottery transfer was used primarily for education and environmental studies.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows and outflows and the availability of spendable resources. In particular, the unreserved balance may provide some indication of the State's net resources available for spending at the end of the fiscal year. (Unreserved balances may be designated or undesignated. If unreserved balances are designated, they are unreserved only within the confines of the purposes of the fund involved. In the Governmental Funds, most of the unreserved balances reside in designated funds.) At June 30, 2008, the State's Governmental Funds reported combined ending fund balances of \$2,940 million. The total unreserved balances amounted to \$2,251 million.

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 \$302 million. However, such refunds payable are \$5 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 \$969 million.

On June 30, 2007, the General Fund had a positive fund balance of \$972 million. While both revenues and expenditures increased in 2008, revenues again exceeded expenditures which increased the fund balance \$128 million in 2008. (This was much less than the \$285 million increase that occurred in 2007.)

This operating increase in 2008, when coupled with the \$126 million of net transfers out, caused the General Fund balance to increase by only \$2 million, ending with a fund balance of \$974 million. The significant transfer out was the \$105 million for the aforementioned property tax relief.

Revenues in 2008, somewhat more than anticipated, were up \$115 million over 2007 chiefly due to (1) an increase in income tax revenue of \$90 million (a 5% increase) over 2007 and (2) sales taxes from retail sales were up 1.6% over last year, increasing \$21 million. Expenditures were less than budgeted due to continued efforts by agency heads to be conservative in spending.

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 2008.

The Cash Reserve Fund was at \$274 million at the beginning of 2007. Due to the fact that 2006 revenues exceeded the forecast, a statutory requirement caused a \$260 million transfer from the General Fund cash account to the Cash Reserve Fund in 2007. There were also other transfers out of the Fund of \$18 million, leaving a Cash Reserve Fund balance at June 30, 2007 of \$516 million. The statutory transfer into the Fund for excess receipts for FY 2007 of \$191 million was made in July, 2007. In 2008, there were also net transfers out of \$162 million, leaving a Fund balance of \$545 million at June 30, 2008.

Other Governmental Funds

Other governmental fund balances totaled \$1,966 million at June 30, 2008; \$688 million of such fund balances is reserved to indicate that such dollars are not available for new spending because such funds (1) are represented by endowment principal (\$418 million), (2) are represented by an asset that has not yet been received, e.g., loans receivable (\$253 million), (3) have been expended for other assets, chiefly inventories (\$7 million) and thus the funds are not available, or (4) have been committed for debt service (\$10 million).

Of the non-General Fund unreserved fund balances of \$1,279 million, \$65 million represents permanent school funds which can be used only for support of public schools. Special Revenue Funds fund balances of \$1,065 million, while unreserved, normally must be spent within the confines of such special revenue funds (a majority of these same funds are considered "restricted" on the government-wide financial statements). Twenty-seven million dollars is represented by other permanent funds, which again normally must be spent within the confines of the fund. One hundred twenty-two million dollars is in the Capital Projects Fund, which, while unreserved, must be spent on capital projects.

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 \$647 million. Of this balance, \$638 million is classified as unreserved, but which are restricted in the government-wide statements, indicating that the funds are unreserved only within the confines of such funds.

Governmental funds other than the General Fund saw an increase in fund balances of \$124 million. The fund balances of the following funds increased: the Highway Fund (\$2 million), the Federal Fund (\$1 million) and other Nonmajor Funds (\$155 million). The Permanent School Fund decreased by \$11 million and Health and Social Service Fund decreased by \$23 million.

The Highway Fund had a \$33 million increase in federal funds, increased charges for services of \$16 million, and \$15 million increased sales tax revenue. However, decreases in fuels tax revenues of \$37 million and \$92 million of increases in operating expenses (namely \$58 million in highway construction, \$16 million in aid to cities and counties, and payment for a \$10 million lawsuit settlement) were the major reasons the Highway Fund had only a \$2 million increase in its fund balance in 2008 as opposed to a \$56 million increase in 2007.

The activity in the Federal Fund represents federal funds received and each year's spending should generally approximate grant funds received. In 2008 the State received about the same funding in federal grants and contracts as it did in 2007 as other revenue only increased \$5 million; expenditures were only \$9 million less than 2007. Transfers out increased \$3 million, so at the end of 2008 there was a net increase in the fund of \$11 million, compared to a \$10 million decrease in 2007.

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 \$2 million increase in investment income in 2008 but incurred \$36 million of unrealized losses in the market value of investments, compared to \$52 million of unrealized gains in 2007. The decreased revenues of \$85 million, when coupled with a \$10 million increase in expenditures, resulted in a \$95 million decrease in the net change in fund balance in 2008, as opposed to a \$72 million increase in 2007.

The Permanent School Funds had a \$69 million decrease in revenue, chiefly due to a \$63 million decrease in investment income caused by \$21 million of unrealized losses in the market value of investments in 2008, as opposed to \$42 million of unrealized gains in 2007. When the unrealized market losses were combined with other income and a \$6 million decrease in expenditures, the net change in fund balance decreased \$10 million in 2008 in comparison with a \$53 million increase in 2007.

The Nonmajor Funds revenues and expenses both increased about \$4 million from 2007 to 2008. There were no significant changes in the types of revenues and only one significant change in the expenditures, in that Regulation spent \$24 million less in 2008, which was offset by increased expenditures in other programs. The result was no increase in 2008, which was about equal to the 2007 fund balance decrease from operations of \$1 million. There were \$119 million more net transfers in for the Nonmajor funds in 2008 versus 2007. This was chiefly caused by \$71 million transferred for capital projects, \$12 million for agriculture conservation and \$14 million for economic development. As a result, the net change in fund balance increased \$155 million in 2008 as opposed to only \$34 million in 2007.

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, had reported net assets of \$343 million at the end of 2008. This fund's net assets increased \$23 million in 2008, due to business assessment fees exceeding the unemployment claims paid out by \$5 million (which in effect helped rebuild the cash reserves of the fund) and investment earnings of \$18 million. Other proprietary or enterprise funds, the Lottery Fund, the Excess Liability Fund (this fund was established to provide limited liability for physicians working in Nebraska) and Cornhusker State Industries (this operation utilizes incarcerated persons to manufacture and sell items) had combined income of \$49 million prior to a \$31 million transfer from the Lottery to governmental funds. Such transfer was used primarily for education and environmental studies. The \$18 million increase in net assets was the due to the Excess Liability Fund having \$11 million in premium charges; \$4 million in investment earnings; and the decrease in the Fund's "incurred but not reported" claims liability was \$3 million more than the actual claims paid in 2008.

Fiduciary Funds

The Pension Trust Funds represent the majority of the fiduciary funds. Such Pension Trust Fund's net assets decreased \$375 million to \$8,727 million in 2008 due primarily to a declining market in 2008, which depreciated the market value of investments by \$510 million. (In 2007 there was a \$1,185 million appreciation of investments.) Investment income in 2008 was \$194 million versus \$147 million in 2007. Benefits, refunds and related administrative expenses exceeded the contributions to the plans by \$41 million. In another trust fund, \$579 million of participant contributions was received by the College Savings Plan and is recorded in the Private Purpose Trust Funds. Total net assets in the College Savings Plan now total over two billion dollars.

ANALYSIS OF GENERAL FUND BUDGET VARIATIONS

In 2008, the State continued to benefit from a relatively stable economy in the Midwest. Forecasted revenues, upon which the State's budgeted General Fund expenditures are based, were anticipated to be basically flat in 2008 and equal to 2007 net revenue. Because revenues were a concern during 2008, the State's Forecasting Board made two new forecasts throughout the year. However, they ended up with forecasted net tax revenues only \$18 million above the original forecast. Nevertheless, the State even exceeded the revised projected tax revenues of \$3,306 million by \$99 million, realizing actual tax revenues, net of refunds, of \$3,405 million on a budgetary basis. Additionally, agencies continued to watch their General Fund expenditures and spent \$240 million less than the final appropriated amount. This reduction, when coupled with the increased tax revenues, allowed the State to finish 2008 with \$250 million of General Fund revenues in excess of expenditures on a budgetary basis, prior to net transfers out. Most of this excess was transferred out for specific purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the State had invested \$7.6 billion, net of accumulated depreciation, in capital assets as reported in the Statement of Net Assets and summarized in the table below. Depreciation expense for 2008 totaled \$45 million, compared to \$40 million for 2007.

CAPITAL ASSETS AS OF JUNE 30 (net of depreciation in millions of dollars)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 527	\$ 519	\$ -	\$ -	\$ 527	\$ 519
Buildings and Equipment	370	344	6	6	376	350
Infrastructure	6,651	6,525	-	-	6,651	6,525
Subtotal	<u>7,548</u>	<u>7,388</u>	<u>6</u>	<u>6</u>	<u>7,554</u>	<u>7,394</u>
Construction in Progress	68	76	-	-	68	76
Total	<u>\$ 7,616</u>	<u>\$ 7,464</u>	<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 7,622</u>	<u>\$ 7,470</u>

Infrastructure (roads, bridges, dams, etc.) is by far the largest group of assets owned by the State. GASB Statement No. 34 requires the State to select one of two methods to account for its infrastructure assets.

One process is to record depreciation expense on selected infrastructure assets. The State has adopted an alternative process, referred to as the modified approach. Under this alternative method, the State expenses certain maintenance and preservation costs and does not record any depreciation expense. Assets accounted for under the modified approach include approximately 10,000 miles of roads that the State is responsible to maintain.

In assessing the condition of State roads, the State's goal is to maintain at least an overall system rating of 72 or above using the Nebraska Serviceability Index. The most recent condition assessment, completed for calendar year 2007, indicated an overall system rating of 82, a rating that has been very consistent over the past six years.

For 2008, it was estimated that the State needed to spend \$155 million to preserve and maintain the roads at the abovementioned level. The State actually spent \$208 million on roads in 2008, compared to \$167 million in 2007. For 2009, it is estimated that the State needs to spend \$206 million, a slight reduction from 2008 and about the same as the average of the previous five years. However, past history indicates the State typically spends more than estimated.

The State also spent \$133 million on capitalized infrastructure and land purchases relating to roads in 2008 (\$145 million in 2007), most notably reconstructing (a) Highway 34 west of Lincoln, (b) Interstate 80 between Omaha and Lincoln, (c) Highway 30 around Fremont, and (d) Highway 275 around Hooper. Major land purchases included areas next to two interchanges on Interstate 80, in south Lincoln and land purchased near three State highways. At June 30, 2008, the State had contractual commitments of \$561 million for various highway and building projects. Most of the related expenditures will be expensed and not capitalized. (See Notes 1 .J and 3 to the financial statements.)

During 2008, the State added \$74 million of new depreciable capital assets, both buildings and equipment. A more detailed analysis of capital assets is shown in Note 3 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 7 and 8 to the financial statements.

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

	GOVERNMENTAL ACTIVITIES	
	2008	2007
<u>Bonds Payable:</u>		
Nebraska State Building Corporation	\$ 1	\$ 1
NETC Leasing Corp	10	14
	11	15
 <u>Capitalized Leases:</u>		
	\$ 19	\$ 22

There were no new bonds issued in 2008 or 2007. There were two capitalized leases added in 2008 (only one lease was added in 2007). Bonds and Certificates of Participation for leases issued on behalf of the State maintain an AA rating from Standard and Poors and an Aa3 rating from Moody's. Standard and Poor's has issued an AA+ rating for the State as a whole.

FACTORS THAT WILL AFFECT THE FUTURE

Nebraska's economy has continued with slow, steady growth. How the State revenue is affected by the current national economy decline and market freefall will greatly impact the future net revenues of the State. It also could cause additional required State contributions to retirement plans. In addition, the State must continue to monitor the recent annual increases in State spending for Medicaid. This is critical to the future cash position of the State. In 2009, Medicaid aid is projected to increase only \$15 million over the 2008 budgeted amount; however, in 2008 the State actually spent \$36 million less than budgeted. Another area of concern is the appropriated increase in aid to education for K-12 schools and special education of \$81 million, which represents 65% of the appropriated increase in General Fund aid of \$125 million for 2009. Net General Fund revenues for 2009 are currently projected to only exceed actual 2008 revenues by \$40 million, as the recent downturn in economic conditions will offset normal inflationary increases in tax revenues. As a result, the current 2009 budget, after including all planned net transfers out (assuming 100% of all appropriations will be spent) anticipates a \$6 million decrease in the General Fund balance, which will be considerably less than previous years' significant dollar increases. However, in the past three years the State has, on average, spent 6% less each year of appropriated expenditures. If this trend continues, this could provide for an increase in the General Fund in 2009.

The State passed legislation in 2006 that commits the State's General Fund to provide aid to education for maintenance, repair and renovation of buildings and facility replacement construction on the campuses of the University and state colleges. The total amount of the aid from 2007 through 2020 will total \$153.25 million. To date the State has spent \$6.625 million in both 2007 and 2008, will spend a like amount in 2009 and then will spend \$12.125 million annually from July 1, 2009 through June 30, 2020. As of June 30, 2008 the remaining commitment for the State through 2020 is \$140 million. Both the University and the state colleges have secured debt financing for such repairs, renovation and construction, and these State funds will be used for debt service on the bonds which will be paid off in 2020.

To help offset any future economic downturns, as previously explained, the State maintains a Cash Reserve Fund. As of June 30, 2008, this Fund had a \$545 million balance. One hundred seventeen million was transferred from the General Fund in July 2008 to the Cash Reserve Fund as statutorily required. From the Cash Reserve Fund there were \$11 million of other statutory disbursements in July 2008, resulting in a balance of \$651 million at July 31, 2008. Future significant statutory disbursements from this fund in the next two years include \$55 million to be transferred to the General Fund, \$10 million transferred to the Nebraska Capital Construction Fund and \$5 million to the Roads Operations 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, Suite 1309 State Capitol, Lincoln, NE 68509-4664, (402) 471-2581.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component units. For the University of Nebraska, contact the University of Nebraska, Director of University Accounting, 209 Varner Hall, 3835 Holdrege, Lincoln, NE 68583, (402) 472-2191. For the State College System, contact the Nebraska State College System, Fiscal and Facilities Management, 1115 K Street, Lincoln, NE 68509-4605, (402) 471-2505.

State of Nebraska
STATEMENT OF NET ASSETS
June 30, 2008

(Dollars in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Cash and Cash Equivalents	\$ 158,280	\$ 319,776	\$ 478,056	\$ 322,150
Receivables, net of allowance				
Taxes	346,753	-	346,753	-
Due from Federal Government	280,429	-	280,429	-
Other	212,094	57,045	269,139	260,806
Internal Balances	(480)	480	-	-
Due from Primary Government	-	-	-	6,377
Investments	2,768,856	83,474	2,852,330	1,782,859
Loans Receivable	252,743	-	252,743	39,972
Investment in Joint Venture	-	-	-	227,508
Other Assets	17,253	2,492	19,745	39,535
Restricted Assets:				
Cash and Cash Equivalents	19,323	-	19,323	354,444
Other	-	1,769	1,769	1,434
Securities Lending Collateral	447,890	9,297	457,187	-
Capital assets:				
Land	526,453	315	526,768	61,358
Infrastructure	6,651,497	-	6,651,497	-
Construction in Progress	68,017	-	68,017	244,697
Land Improvements	-	-	-	138,593
Buildings and Equipment	867,951	11,379	879,330	1,705,653
Less Accumulated Depreciation	(497,537)	(5,268)	(502,805)	(678,137)
Total Capital Assets, net of depreciation	<u>7,616,381</u>	<u>6,426</u>	<u>7,622,807</u>	<u>1,472,164</u>
Total Assets	<u>\$ 12,119,522</u>	<u>\$ 480,759</u>	<u>\$ 12,600,281</u>	<u>\$ 4,507,249</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 382,475	\$ 20,500	\$ 402,975	\$ 185,109
Tax Refunds Payable	309,957	-	309,957	-
Due to Other Governments	14,275	-	14,275	-
Deposits	9,705	-	9,705	24,758
Due to Component Units	6,377	-	6,377	-
Unearned Revenue	48,730	4,785	53,515	92,391
Obligations under Securities Lending	447,890	9,297	457,187	-
Noncurrent Liabilities:				
Due within one year	242,776	25,336	268,112	95,788
Due in more than one year	201,119	22,452	223,571	632,434
Total Liabilities	<u>\$ 1,663,304</u>	<u>\$ 82,370</u>	<u>\$ 1,745,674</u>	<u>\$ 1,030,480</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 7,587,729	\$ 6,426	\$ 7,594,155	\$ 922,600
Restricted for:				
Education	22,137	-	22,137	1,431,482
Health and Social Services	501,824	-	501,824	-
Conservation of Natural Resources	386,487	-	386,487	-
Transportation	158,273	-	158,273	-
Licensing and Regulation	52,335	-	52,335	-
Other Purposes	149,079	1,769	150,848	304,837
Unemployment Insurance Benefits	-	342,417	342,417	-
Debt Service and Construction	10,226	-	10,226	208,968
Permanent Trusts:				
Nonexpendable	417,823	-	417,823	-
Expendable	91,759	-	91,759	-
Unrestricted	<u>1,078,546</u>	<u>47,777</u>	<u>1,126,323</u>	<u>608,882</u>
Total Net Assets	<u>\$ 10,456,218</u>	<u>\$ 398,389</u>	<u>\$ 10,854,607</u>	<u>\$ 3,476,769</u>

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

State of Nebraska
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

(Dollars in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 437,830	\$ 86,869	\$ 6,451	\$ 2,252
Conservation of Natural Resources	112,936	34,439	44,970	215
Culture – Recreation	26,073	17,072	2,578	77
Economic Development and Assistance	84,852	4,808	51,095	-
Education	1,450,085	25,807	302,280	42
Higher Education - Colleges and University	558,282	-	-	-
Health and Social Services	2,744,217	126,075	1,426,639	-
Public Safety	372,677	25,118	117,925	18,672
Regulation of Business and Professions	130,603	122,667	1,520	-
Transportation	714,032	105,748	281,646	-
Interest on Long-term Debt	2,241	-	-	-
Total governmental activities	<u>6,633,828</u>	<u>548,603</u>	<u>2,235,104</u>	<u>21,258</u>
Business-type activities:				
Unemployment Insurance	98,365	102,881	-	-
Lottery	91,653	121,910	-	-
Excess Liability	(2,707)	10,947	-	-
Cornhusker State Industries	10,435	9,880	-	-
Total business-type activities	<u>197,746</u>	<u>245,618</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 6,831,574</u>	<u>\$ 794,221</u>	<u>\$ 2,235,104</u>	<u>\$ 21,258</u>
COMPONENT UNITS:				
University of Nebraska	\$ 1,604,803	\$ 671,656	\$ 366,599	\$ 5,961
State Colleges	86,458	29,621	10,901	1,679
Total Component Units	<u>\$ 1,691,261</u>	<u>\$ 701,277</u>	<u>\$ 377,500</u>	<u>\$ 7,640</u>

General revenues:
Income Taxes
Sales and Use Taxes
Petroleum Taxes
Excise Taxes
Business and Franchise Taxes
Other Taxes
Unrestricted Investment earnings
Miscellaneous
Payments from State of Nebraska
Contributions to Permanent Fund Principal
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

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

**NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS**

PRIMARY GOVERNMENT			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (342,258)	\$ -	\$ (342,258)	\$ -
(33,312)	-	(33,312)	-
(6,346)	-	(6,346)	-
(28,949)	-	(28,949)	-
(1,121,956)	-	(1,121,956)	-
(558,282)	-	(558,282)	-
(1,191,503)	-	(1,191,503)	-
(210,962)	-	(210,962)	-
(6,416)	-	(6,416)	-
(326,638)	-	(326,638)	-
(2,241)	-	(2,241)	-
<u>(3,828,863)</u>	<u>-</u>	<u>(3,828,863)</u>	<u>-</u>
-	4,516	4,516	-
-	30,257	30,257	-
-	13,654	13,654	-
-	(555)	(555)	-
<u>-</u>	<u>47,872</u>	<u>47,872</u>	<u>-</u>
<u>(3,828,863)</u>	<u>47,872</u>	<u>(3,780,991)</u>	<u>-</u>
-	-	-	(560,587)
-	-	-	(44,257)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(604,844)</u>
1,956,656	-	1,956,656	-
1,481,067	-	1,481,067	-
290,721	-	290,721	-
141,012	-	141,012	-
80,925	-	80,925	-
15,269	-	15,269	-
114,252	23,347	137,599	93,041
3,374	-	3,374	161,353
-	-	-	558,282
12,301	-	12,301	-
31,008	(31,008)	-	-
<u>4,126,585</u>	<u>(7,661)</u>	<u>4,118,924</u>	<u>812,676</u>
297,722	40,211	337,933	207,832
10,158,496	358,178	10,516,674	3,268,937
<u>\$ 10,456,218</u>	<u>\$ 398,389</u>	<u>\$ 10,854,607</u>	<u>\$ 3,476,769</u>

State of Nebraska
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2008

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
ASSETS:							
Cash and Cash Equivalents	\$ 40,204	\$ 5,933	\$ 1,817	\$ 1,285	\$ 508	\$ 27,283	\$ 77,030
Cash on Deposit with Fiscal Agents	-	-	-	-	-	19,323	19,323
Investments	1,098,335	156,753	54,324	473,478	416,335	569,631	2,768,856
Securities Lending Collateral	219,708	31,356	11,872	51,450	24,132	109,372	447,890
Receivables, net of allowance							
Taxes	307,328	39,241	-	-	-	184	346,753
Due from Federal Government	-	30,483	249,025	-	-	921	280,429
Loans	810	-	2,363	407	-	249,163	252,743
Other	29,374	7,217	22,807	32,976	94,931	22,147	209,452
Due from Other Funds	78,591	852	1,459	6,251	-	5,670	92,823
Inventories	553	6,744	1,982	22	-	-	9,301
Prepaid Items	5	10	8	-	-	100	123
Other	4,316	-	-	-	-	2,187	6,503
TOTAL ASSETS	\$ 1,779,224	\$ 278,589	\$ 345,657	\$ 565,869	\$ 535,906	\$ 1,005,981	\$ 4,511,226
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 86,898	\$ 67,219	\$ 107,814	\$ 8,031	\$ 43,728	\$ 31,191	\$ 344,881
Tax Refunds Payable	302,275	7,682	-	-	-	-	309,957
Due to Other Governments	6,769	7,400	-	-	-	106	14,275
Deposits	4,322	1,216	2,180	418	153	1,416	9,705
Due to Other Funds	53,066	5,531	81,175	2,532	15	8,705	151,024
Due to Component Units	6,377	-	-	-	-	-	6,377
Obligations under Securities Lending	219,708	31,356	11,872	51,450	24,132	109,372	447,890
Claims Payable	95,412	-	96,219	-	-	-	191,631
Deferred Revenue	30,722	-	40,237	20,386	4,534	-	95,879
TOTAL LIABILITIES	805,549	120,404	339,497	82,817	72,562	150,790	1,571,619
FUND BALANCES:							
Reserved for:							
Long-Term Receivables	810	-	2,363	407	-	249,163	252,743
Inventories and Prepaid Items	558	6,754	8	22	-	100	7,442
Debt Service	-	-	-	-	-	10,455	10,455
Endowment Principal	-	-	-	-	398,258	19,565	417,823
Unreserved, reported in:							
General Fund	972,307	-	-	-	-	-	972,307
Special Revenue Funds	-	151,431	3,789	482,623	-	427,549	1,065,392
Permanent Funds	-	-	-	-	65,086	26,673	91,759
Capital Projects Fund	-	-	-	-	-	121,686	121,686
TOTAL FUND BALANCES	973,675	158,185	6,160	483,052	463,344	855,191	2,939,607
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,779,224	\$ 278,589	\$ 345,657	\$ 565,869	\$ 535,906	\$ 1,005,981	\$ 4,511,226

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

State of Nebraska

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2008

(Dollars in Thousands)

Total fund balances for governmental funds \$ 2,939,607

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	526,453	
Infrastructure	6,651,497	
Construction in progress	68,017	
Other capital assets	808,782	
Accumulated depreciation	<u>(462,252)</u>	7,592,497

Certain tax revenues and charges are earned but not available and therefore are deferred in the funds. 47,845

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 50,902

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:

Bonds payable	(10,835)	
Accrued interest on bonds	(229)	
Capital leases	(10,063)	
Obligations under other financing arrangements	(14,785)	
Compensated absences	(117,818)	
Claims and judgments	<u>(20,903)</u>	<u>(174,633)</u>

Net assets of governmental activities \$ 10,456,218

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, 2008

(Dollars in Thousands)

	GENERAL FUND	HIGHWAY FUND	FEDERAL FUND	HEALTH AND SOCIAL SERVICES	PERMANENT SCHOOL FUND	NONMAJOR FUNDS	TOTALS
REVENUES:							
Income Taxes	\$ 1,946,761	\$ -	\$ -	\$ 3,602	\$ -	\$ -	\$ 1,950,363
Sales and Use Taxes	1,314,813	155,801	-	-	-	3,637	1,474,251
Petroleum Taxes	-	276,377	-	-	4,600	14,344	295,321
Excise Taxes	80,201	-	-	7,708	-	50,890	138,799
Business and Franchise Taxes	62,630	-	-	-	-	18,295	80,925
Other Taxes	4,307	3,263	-	-	-	7,699	15,269
Federal Grants and Contracts	21	265,743	1,955,207	963	-	34,428	2,256,362
Licenses, Fees and Permits	20,184	74,542	531	46,360	918	116,465	259,000
Charges for Services	2,716	29,034	14,789	28,560	-	33,202	108,301
Investment Income	82,863	10,458	4,361	(17,810)	(5,093)	35,937	110,716
Rents and Royalties	-	419	39	479	24,965	25,907	51,809
Surcharge	-	-	-	-	-	53,329	53,329
Other	3,630	4,478	7,528	27,317	6,993	26,586	76,532
TOTAL REVENUES	3,518,126	820,115	1,982,455	97,179	32,383	420,719	6,870,977
EXPENDITURES:							
Current:							
General Government	358,672	-	4,049	-	-	67,589	430,310
Conservation of Natural Resources	32,377	-	24,453	-	-	55,503	112,333
Culture – Recreation	5,770	-	2,270	-	-	18,186	26,226
Economic Development and Assistance	7,053	-	55,239	-	-	23,515	85,807
Education	1,090,644	-	302,958	-	42,911	11,657	1,448,170
Higher Education - Colleges and University	524,751	-	-	-	-	33,531	558,282
Health and Social Services	1,149,281	-	1,445,042	119,330	-	1,730	2,715,383
Public Safety	217,544	-	134,943	-	-	30,669	383,156
Regulation of Business and Professions	4,105	-	1,795	-	-	124,430	130,330
Transportation	16	834,266	-	-	-	19,239	853,521
Capital Projects	-	-	-	-	-	27,289	27,289
Debt Service:							
Principal	-	-	-	-	-	6,215	6,215
Interest	-	-	-	-	-	1,459	1,459
TOTAL EXPENDITURES	3,390,213	834,266	1,970,749	119,330	42,911	421,012	6,778,481
Excess of Revenues Over (Under) Expenditures	127,913	(14,151)	11,706	(22,151)	(10,528)	(293)	92,496
OTHER FINANCING SOURCES (USES):							
Transfers In	21,101	25,731	9	935	-	206,210	253,986
Transfers Out	(147,039)	(9,400)	(10,933)	(2,043)	-	(53,563)	(222,978)
Proceeds from Other Financing Arrangements	-	-	-	-	-	2,790	2,790
Proceeds from Capital Leases	57	-	-	-	-	-	57
TOTAL OTHER FINANCING SOURCES (USES)	(125,881)	16,331	(10,924)	(1,108)	-	155,437	33,855
Net Change in Fund Balances	2,032	2,180	782	(23,259)	(10,528)	155,144	126,351
FUND BALANCES, JULY 1	971,643	156,005	5,378	506,311	473,872	700,047	2,813,256
FUND BALANCES, JUNE 30	\$ 973,675	\$ 158,185	\$ 6,160	\$ 483,052	\$ 463,344	\$ 855,191	\$ 2,939,607

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, 2008

(Dollars in Thousands)

Net change in fund balances—total governmental funds \$ 126,351

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, net of gains or losses	187,363	
Depreciation expense	<u>(37,236)</u>	150,127

Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Other financing arrangements	<u>(2,790)</u>	(2,790)
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Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (57)

Repayment of long-term debt and other financing arrangements is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:

Bond principal retirement	4,405	
Other financing arrangement payments	1,810	
Capital lease payments	<u>4,252</u>	10,467

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. (3,093)

Because some revenues will not be collected in the next year, they are not considered available revenues and are deferred in the governmental funds. Unearned revenues increased by this amount this year. 14,838

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	79	
Increase in compensated absences	(4,323)	
Decrease in claims and judgments	<u>6,123</u>	<u>1,879</u>

Change in net assets of governmental activities \$ 297,722

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

State of Nebraska
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008

(Dollars in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 301,049	\$ 18,727	\$ 319,776	\$ 81,919
Receivables, net of allowance	25,481	31,564	57,045	2,457
Due from Other Funds	-	643	643	44,387
Inventories	-	1,961	1,961	191
Prepaid Items	-	531	531	1,135
TOTAL CURRENT ASSETS	326,530	53,426	379,956	130,089
NONCURRENT ASSETS:				
Restricted Long-Term Deposits	-	1,769	1,769	-
Long-Term Investments	32,917	50,557	83,474	-
Securities Lending Collateral	6,585	2,712	9,297	-
Capital Assets:				
Land	-	315	315	-
Buildings and Equipment	885	10,494	11,379	59,169
Less Accumulated Depreciation	(770)	(4,498)	(5,268)	(35,285)
Total Capital Assets, net	115	6,311	6,426	23,884
TOTAL NONCURRENT ASSETS	39,617	61,349	100,966	23,884
TOTAL ASSETS	\$ 366,147	\$ 114,775	\$ 480,922	\$ 153,973
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 1,632	\$ 18,868	\$ 20,500	\$ 18,164
Due to Other Funds	-	163	163	6,351
Capital Lease Obligations	-	-	-	3,141
Claims, Judgments and Compensated Absences	15,383	9,953	25,336	28,302
Unearned Revenue	-	4,785	4,785	696
TOTAL CURRENT LIABILITIES	17,015	33,769	50,784	56,654
NONCURRENT LIABILITIES:				
Capital Lease Obligations	-	-	-	6,305
Claims, Judgments and Compensated Absences	15	22,437	22,452	40,112
Obligations under Securities Lending	6,585	2,712	9,297	-
TOTAL NONCURRENT LIABILITIES	6,600	25,149	31,749	46,417
TOTAL LIABILITIES	23,615	58,918	82,533	103,071
NET ASSETS:				
Invested in Capital Assets, net of related debt	115	6,311	6,426	14,438
Restricted for:				
Lottery Prizes, Noncurrent	-	1,769	1,769	-
Unemployment Insurance Benefits	342,417	-	342,417	-
Unrestricted	-	47,777	47,777	36,464
TOTAL NET ASSETS	342,532	55,857	398,389	50,902
TOTAL LIABILITIES AND NET ASSETS	\$ 366,147	\$ 114,775	\$ 480,922	\$ 153,973

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

State of Nebraska
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:				
Charges for Services	\$ 102,881	\$ 142,581	\$ 245,462	\$ 312,449
Other	-	156	156	2,078
TOTAL OPERATING REVENUES	102,881	142,737	245,618	314,527
OPERATING EXPENSES:				
Personal Services	112	5,720	5,832	31,621
Services and Supplies	265	27,256	27,521	101,607
Lottery Prizes	-	69,239	69,239	-
Unemployment Claims	97,793	-	97,793	-
Insurance Claims	-	(3,268)	(3,268)	182,154
Depreciation	195	434	629	6,809
TOTAL OPERATING EXPENSES	98,365	99,381	197,746	322,191
Operating Income (Loss)	4,516	43,356	47,872	(7,664)
NONOPERATING REVENUES (EXPENSES):				
Investment Income	17,985	5,362	23,347	3,536
Gain (Loss) on Sale of Capital Assets	-	-	-	(852)
Other	-	-	-	1,887
TOTAL NONOPERATING REVENUES (EXPENSES)	17,985	5,362	23,347	4,571
Income (Loss) Before Transfers	22,501	48,718	71,219	(3,093)
Transfers Out	-	(31,008)	(31,008)	-
Change in Net Assets	22,501	17,710	40,211	(3,093)
NET ASSETS, JULY 1	320,031	38,147	358,178	53,995
NET ASSETS, JUNE 30	\$ 342,532	\$ 55,857	\$ 398,389	\$ 50,902

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, 2008

(Dollars in Thousands)	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTALS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 107,178	\$ 134,384	\$ 241,562	\$ 16,013
Cash Received from Interfund Charges	-	7,236	7,236	308,829
Cash Paid to Employees	(111)	(5,627)	(5,738)	(31,455)
Cash Paid to Suppliers	(268)	(25,525)	(25,793)	(91,396)
Cash Paid for Lottery Prizes	-	(69,988)	(69,988)	-
Cash Paid for Insurance Claims	(91,894)	(7,232)	(99,126)	(180,842)
Cash Paid for Interfund Services	(8)	(2,141)	(2,149)	(8,360)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>14,897</u>	<u>31,107</u>	<u>46,004</u>	<u>12,789</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cigarette Tax Proceeds	-	-	-	2,213
Transfers Out	-	(31,008)	(31,008)	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(31,008)</u>	<u>(31,008)</u>	<u>2,213</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	(76)	(901)	(977)	(6,693)
Proceeds from Sale of Capital Assets	-	-	-	1,355
Principal Paid on Capital Leases	-	-	-	(2,514)
Interest Paid on Capital Leases	-	-	-	(326)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(76)</u>	<u>(901)</u>	<u>(977)</u>	<u>(8,178)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investment Securities	(2,443)	(487,181)	(489,624)	-
Proceeds from Sale of Investment Securities	-	469,422	469,422	-
Interest and Dividend Income	20,955	5,028	25,983	3,347
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>18,512</u>	<u>(12,731)</u>	<u>5,781</u>	<u>3,347</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33,333	(13,533)	19,800	10,171
CASH AND CASH EQUIVALENTS, JULY 1	<u>267,716</u>	<u>32,260</u>	<u>299,976</u>	<u>71,748</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 301,049</u>	<u>\$ 18,727</u>	<u>\$ 319,776</u>	<u>\$ 81,919</u>

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, 2008

(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)	\$ 4,516	\$ 43,356	\$ 47,872	\$ (7,664)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	195	434	629	6,809
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables	4,297	(669)	3,628	(255)
(Increase) Decrease in Due from Other Funds	-	47	47	10,821
(Increase) Decrease in Inventories	-	(270)	(270)	5
(Increase) Decrease in Prepaid Items	-	(191)	(191)	(81)
(Increase) Decrease in Long-Term Deposits	-	(170)	(170)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(8)	(419)	(427)	1,730
Increase (Decrease) in Due to Other Funds	(2)	(16)	(18)	363
Increase (Decrease) in Claims Payable	5,899	(10,500)	(4,601)	1,312
Increase (Decrease) in Unearned Revenue	-	(495)	(495)	(251)
Total Adjustments	10,381	(12,249)	(1,868)	20,453
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 14,897	\$ 31,107	\$ 46,004	\$ 12,789

NONCASH TRANSACTIONS (dollars in thousands):

Noncash transactions are investing and financing activities that affect assets and liabilities but do not result in cash receipts or payments.

The following noncash transactions occurred during the year:

Capital Assets acquired through Capital Leases	\$ -	\$ -	\$ -	\$ 4,146
Change in Fair Value of Investments	-	286	286	-
Total Noncash Transactions	\$ -	\$ 286	\$ 286	\$ 4,146

State of Nebraska
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

(Dollars in Thousands)	PENSION TRUST	PRIVATE PURPOSE TRUST	AGENCY
ASSETS			
Cash and Cash Equivalents	\$ 3,399	\$ 29,596	\$ 89,331
Investments:			
U.S. Treasury Notes and Bonds	3,887	-	-
U.S. Treasury Bills	11,394	-	-
Government Agency Securities	24,052	-	-
Corporate Bonds	497,576	-	-
International Bonds	43,250	-	-
Equity Securities	954,154	-	-
Private Equity	88,308	-	-
Options	(1,302)	-	-
Mortgages	991,717	-	-
Private Real Estate	304,552	-	-
Asset Backed Securities	88,441	-	-
Municipal Bonds	11,722	-	-
Commingled Funds	5,547,965	2,006,584	-
Guaranteed Investment Contracts	124,198	-	-
Short Term Investments	121,596	3,644	-
Total Investments	<u>8,811,510</u>	<u>2,010,228</u>	-
Securities Lending Collateral	342,256	-	-
Receivables:			
Contributions	17,635	-	-
Interest and Dividends	16,173	3,538	753
Other	420,612	2	461
Total Receivables	<u>454,420</u>	<u>3,540</u>	<u>1,214</u>
Due from Other Funds	201,948	-	-
Capital Assets:			
Buildings and Equipment	16,436	-	-
Less Accumulated Depreciation	(12,751)	-	-
Total Capital Assets, net	<u>3,685</u>	<u>-</u>	<u>-</u>
Other Assets	-	10,711	-
TOTAL ASSETS	<u>\$ 9,817,218</u>	<u>\$ 2,054,075</u>	<u>\$ 90,545</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 560,941	\$ 3,040	\$ 12,007
Due to Other Governments	-	-	51,245
Deposits	-	35	-
Due to Other Funds	182,250	13	-
Obligations under Securities Lending	342,256	-	-
Capital Lease Obligations	4,595	-	-
Accrued Compensated Absences	244	-	-
Other Liabilities	-	-	27,293
TOTAL LIABILITIES	<u>\$ 1,090,286</u>	<u>\$ 3,088</u>	<u>\$ 90,545</u>
NET ASSETS			
Held in Trust for:			
Pension Benefits	\$ 8,726,932	\$ -	\$ -
College Savings Plan	-	2,011,039	-
Other Purposes	-	39,948	-
TOTAL NET ASSETS	<u>\$ 8,726,932</u>	<u>\$ 2,050,987</u>	<u>\$ -</u>

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

State of Nebraska
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2008

(Dollars in Thousands)

	PENSION TRUST	PRIVATE PURPOSE TRUST
ADDITIONS:		
Contributions:		
Participant Contributions	\$ 161,476	\$ 579,097
Client Contributions	-	201
State Contributions	83,963	-
Political Subdivision Contributions	105,976	-
Court Fees	3,281	-
Total Contributions	<u>354,696</u>	<u>579,298</u>
Investment Income:		
Net Appreciation (Depreciation) in		
Fair Value of Investments	(510,402)	39,350
Interest and Dividend Income	193,800	83,320
Securities Lending Income	16,630	-
Total Investment Income	<u>(299,972)</u>	<u>122,670</u>
Investment Expenses	14,336	12,700
Securities Lending Expenses	14,273	-
Total Investment Expense	<u>28,609</u>	<u>12,700</u>
Net Investment Income	<u>(328,581)</u>	<u>109,970</u>
Escheat Revenue	-	16,725
Other Additions	182,279	8,402
TOTAL ADDITIONS	<u>208,394</u>	<u>714,395</u>
DEDUCTIONS:		
Benefits	376,905	320,029
Refunds	10,609	-
Amounts Distributed to Outside Parties	-	18,917
Administrative Expenses	8,656	2,269
Other Deductions	186,996	-
TOTAL DEDUCTIONS	<u>583,166</u>	<u>341,215</u>
Change in Net Assets Held in Trust for:		
Pension Benefits	(374,772)	-
College Savings Plan	-	367,784
Other Purposes	-	5,396
NET ASSETS-BEGINNING OF YEAR	<u>9,101,704</u>	<u>1,677,807</u>
NET ASSETS-END OF YEAR	<u>\$ 8,726,932</u>	<u>\$ 2,050,987</u>

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

State of Nebraska
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2008

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
ASSETS			
Cash and Cash Equivalents	\$ 304,380	\$ 17,770	\$ 322,150
Receivables, net of allowance			
Loans	37,382	2,590	39,972
Other	258,051	2,755	260,806
Due from Primary Government	-	6,377	6,377
Investments	1,748,366	34,493	1,782,859
Investment in Joint Venture	227,508	-	227,508
Other Assets	35,672	3,863	39,535
Restricted Assets:			
Cash and Cash Equivalents	328,567	25,877	354,444
Investments Held by Trustee	-	1,434	1,434
Capital assets:			
Land	60,486	872	61,358
Land Improvements	120,879	17,714	138,593
Construction in Progress	222,316	22,381	244,697
Buildings and Equipment	1,561,540	144,113	1,705,653
Less Accumulated Depreciation	<u>(613,343)</u>	<u>(64,794)</u>	<u>(678,137)</u>
Total Capital Assets, net of depreciation	<u>1,351,878</u>	<u>120,286</u>	<u>1,472,164</u>
Total Assets	<u>\$ 4,291,804</u>	<u>\$ 215,445</u>	<u>\$ 4,507,249</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 174,982	\$ 10,127	\$ 185,109
Deposits	24,322	436	24,758
Deferred Revenue	92,056	335	92,391
Noncurrent Liabilities:			
Due within one year	90,057	5,731	95,788
Due in more than one year	<u>589,186</u>	<u>43,248</u>	<u>632,434</u>
Total Liabilities	<u>\$ 970,603</u>	<u>\$ 59,877</u>	<u>\$ 1,030,480</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 841,385	\$ 81,215	\$ 922,600
Restricted for:			
Education	1,431,482	-	1,431,482
Other Purposes	260,347	44,490	304,837
Construction and Debt Service	196,295	12,673	208,968
Unrestricted	<u>591,692</u>	<u>17,190</u>	<u>608,882</u>
Total Net Assets	<u>\$ 3,321,201</u>	<u>\$ 155,568</u>	<u>\$ 3,476,769</u>

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, 2008

(Dollars in Thousands)

	UNIVERSITY OF NEBRASKA	STATE COLLEGES	TOTALS
Operating Expenses:			
Compensation and benefits	\$ 964,254	\$ 54,376	\$ 1,018,630
Supplies and materials	232,108	5,516	237,624
Contractual services	99,876	3,632	103,508
Repairs and maintenance	41,919	1,897	43,816
Utilities	32,975	3,668	36,643
Communications	14,583	822	15,405
Depreciation	71,203	4,297	75,500
Scholarships and fellowships	133,774	837	134,611
Other	14,111	11,413	25,524
Total Operating Expenses	<u>1,604,803</u>	<u>86,458</u>	<u>1,691,261</u>
Program Revenues:			
Charges for Services	671,656	29,621	701,277
Operating Grants and Contributions	366,599	10,901	377,500
Capital Grants and Contributions	5,961	1,679	7,640
Total Program Revenues	<u>1,044,216</u>	<u>42,201</u>	<u>1,086,417</u>
Net (Expense) Revenue	<u>(560,587)</u>	<u>(44,257)</u>	<u>(604,844)</u>
General Revenue:			
Interest and investment earnings	89,774	3,267	93,041
Payments from the State of Nebraska	501,904	56,378	558,282
Miscellaneous	159,163	2,190	161,353
Total General Revenues	<u>750,841</u>	<u>61,835</u>	<u>812,676</u>
Change in Net Assets	190,254	17,578	207,832
Net Assets - Beginning	<u>3,130,947</u>	<u>137,990</u>	<u>3,268,937</u>
Net Assets - Ending	<u>\$ 3,321,201</u>	<u>\$ 155,568</u>	<u>\$ 3,476,769</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

(dollars expressed in thousands)

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.

Blended Component Units. The following component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

NETC Leasing Corporation. The NETC Leasing Corporation is a nonprofit corporation formed by the State in 1999 to acquire property to be leased

to and purchased by the Nebraska Educational Telecommunications Commission (NETC), a State agency. The Governor appoints the members of the Board of Commissioners of the NETC and they in turn appoint and elect the five members of the Board of Directors of the NETC Leasing Corporation. Even though it is legally separate, the NETC Leasing Corporation is reported as if it were part of the State because it provides services entirely to the State.

Nebraska State Building Corporation. The Nebraska State Building Corporation (NSBC) is a nonprofit corporation formed by the State in 1987 to finance the acquisition of property to be used by the State. Even though it is legally separate, the NSBC is reported as if it were part of the State because it provides services entirely to the State.

Discretely Presented Component Units. The following component units are entities that are legally separate from the State, but are financially accountable to the State, or their relationships with the State are such that their exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State and governed by separate boards.

Nebraska State College System. The Board of Trustees of the Nebraska State Colleges governs Chadron State College, Peru State College and Wayne State College. The Board of Trustees is also the Board of Directors of the Nebraska State Colleges Facilities Corporation, a nonprofit corporation incorporated in 1983 to finance the repair or construction of buildings or the acquisition of equipment for use by the State Colleges. The Board of Trustees consists of the Commissioner of Education and six members appointed by the Governor. Chadron State, Peru State and Wayne State Foundations are tax-exempt nonprofit corporations whose purpose is to provide financial support for the Nebraska State College System. Audit reports have been issued under separate cover.

University of Nebraska. The University of Nebraska consists of the following campuses: University of Nebraska – Lincoln, University of Nebraska at Omaha, University of Nebraska at Kearney, and University of Nebraska Medical Center. The University of Nebraska is governed by an elected eight-member Board of Regents. The University's financial reporting entity also consists of the following units: the University of

Nebraska Facilities Corporation, a nonprofit corporation organized to finance the construction and repair of buildings and hold them in trust for the University of Nebraska; the UNMC Physicians, organized for the purpose of billing medical service fees generated by university clinicians; UNeMed, organized to develop and market biomedical technologies for the university; 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 Peter Kiewit Institute Technology Development Corporation, a nonprofit corporation formed for the purpose of teaching and developing information science technology through students and faculty by conducting applied research; and the University of Nebraska Foundation, a tax-exempt nonprofit corporation whose purpose is to provide financial support for the University of Nebraska. The University of Nebraska is included as a component unit because it is fiscally dependant on the State, since it receives over one fourth of its revenue from the State. Audit reports have been issued under separate cover.

The university and colleges are funded chiefly through State appropriations, tuition, federal grants, private donations and grants, and auxiliary operations.

Related Organizations. The State's officials are responsible for appointing members of boards of other organizations, but the State's accountability for these organizations does not extend beyond making these appointments. The Governor appoints the boards of the following organizations: Nebraska Educational Finance Authority, Nebraska Investment Finance Authority, and Wyuka Cemetery.

C. Government-wide and Fund Financial Statements. The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the State as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely

to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted Net Assets. This category results when constraints are externally imposed on net asset use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

It is the policy of the State to spend restricted net assets only when unrestricted net assets are insufficient or unavailable.

The Statement of Net Assets reports \$2,134,129 of restricted net assets, of which \$1,260,065 is restricted by enabling legislation.

Unrestricted Net Assets. This category represents net assets that do not meet the definition of the preceding two categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Administrative overhead charges of internal service funds are included in direct expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment; and 3) investment earnings of permanent funds that are legally restricted for a specific program. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except agency funds. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available, i.e., earned and collected within the next 60 days, except for federal reimbursement grants which use a one year availability period. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include sales taxes, income taxes, other taxpayer-assessed tax revenues, unemployment insurance taxes, federal grants and contracts, charges for services, and investment income. All other revenue items, including estate taxes, are considered to be measurable and available when cash is received by the State. Receivables not expected to be collected in the next 60 days (or 12 months in the case of federal reimbursement grants) are offset by deferred revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

General Fund. This is the State's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Highway Fund. This fund accounts for the maintenance and preservation of State highways financed with sales tax on motor vehicles, gas taxes, federal aid and other highway user fees.

Federal Fund. This fund accounts for substantially all federal monies received by the State, except those received by the Highway Fund.

Health and Social Services Fund. This fund accounts for activities of agencies, boards, and commissions providing health care and social services financed primarily by user fees and tobacco settlement proceeds.

Permanent School Fund. This fund receives proceeds from any sale of the school lands held in trust for public education; payments for easements and rights-of-way over these lands; royalties and severance taxes paid on oil, gas and minerals produced from these lands; escheats; unclaimed property and other items provided by law. 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.

Additionally, the State 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. Reflects transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens, such as veterans, state airports and others.

Proprietary Fund Types:

Enterprise Funds. Reflect transactions used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Internal Service Funds. These funds account for fleet management, facilities management, accounting, risk management, communication, information technology, printing, purchasing, and postal services provided to other funds on a cost reimbursement basis.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private Purpose Trust Funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals, and assets held for clients and inmates.

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

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989 but not after, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

- E. Cash and Cash Equivalents.** In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2008, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an

operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

- F. Investments.** Investments as reported in the basic financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State and its component units are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds for the State; however, investments are under the responsibility of the Nebraska Investment Council or other administrative bodies as determined by law.
- G. Receivables.** Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.
- H. Inventories.** Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Significant inventories of governmental funds are valued using weighted average cost. Proprietary Funds' valuation method is primarily at the lower of cost (first-in, first-out) or market. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).
- Commodities on hand at fiscal year end are reflected as inventories, offset by a like amount of deferred revenue, in the Federal Fund. Commodities are reported at fair values established by the federal government at the date received.
- I. Restricted Assets.** Assets held by the trustees for the NETC Leasing Corporation, the Nebraska State Building Corporation, the State Revolving Fund, and the Master Lease Purchase Program are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond and lease covenants. These assets are reflected as cash on deposit with fiscal agents in the fund financial statements. The nonmajor enterprise funds reflect long-term deposits with the Multi-State Lottery as restricted assets.
- J. Capital Assets.** Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Assets. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital

assets are valued at their estimated fair market value on the date received.

The State possesses certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These collections are not capitalized by the State because they are (1) held for public exhibition, education or research in furtherance of public service, rather than financial gain, (2) protected, kept unencumbered, cared for and preserved, and (3) subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These assets include works of art and historical treasures, such as statues; historical documents; paintings; rare library books; and miscellaneous capitol-related artifacts and furnishings.

Generally, equipment that has a cost in excess of \$5 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100 are capitalized. Building improvements and renovations in excess of \$100 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings and equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

The State has elected to use the “modified approach” to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: commit to maintaining and preserving affected assets at or above a condition level established by the State; maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Roads are accounted for using the modified approach. Infrastructure acquired prior to June 30, 1980, is reported.

K. Compensated Employee Absences. All permanent employees earn sick and vacation leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. The liability has been calculated using the vesting method in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

State employees accrue vested vacation leave at a variable rate based on years of service. Generally, accrued vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days (or 180 days for non-union employees). Sick leave is not vested except upon death or upon reaching the age of 55, at which time, the State is liable for 25 percent of the employee’s accumulated sick leave. In addition, some State agencies permit employees to accumulate compensatory leave rather than paying overtime.

The government-wide, proprietary, and fiduciary fund financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

L. Reservations. Reservations of fund balance are established to identify the existence of assets that are not available for subsequent year appropriations (i.e., prepaid items and inventories) or have been legally segregated for specific purposes. Assets of legally restricted budgetary funds are an example of this type of reservation. Reservations of fund balance are also established for assets that are not current in nature, such as long-term loans receivable.

M. Interfund Transactions. Interfund services provided and used are accounted for as revenues, expenditures or expenses in the funds involved. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The effect of interfund activity has been eliminated from the government-wide financial statements.

N. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments Portfolio

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents and Investments on the June 30, 2008, 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, 2008, the carrying amounts of the State's deposits were \$125,533 and the bank balances were \$175,251. 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 \$68,732 at June 30, 2008.

Investments. State Statute Section 72-1239.01 authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the State. Certain State entities are also allowed by statute to invest in real estate and other investments.

The investment amounts for some funds presented in the fiduciary fund financial statements reflected audited financial statements for the period ended December 31, 2007. The investment risk disclosures presented below for fiduciary funds represent risks as of June 30, 2008.

The primary government's investments at June 30, 2008, 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, 2008

	GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		FIDUCIARY FUNDS	
	FAIR VALUE	EFFECTIVE DURATION	FAIR VALUE	EFFECTIVE DURATION
Debt Securities				
U.S. Treasury Notes and Bonds	\$ 394,094	4.06	\$ 3,887	11.55
U.S. Treasury Bills	4,952	0.24	11,394	0.20
Government Agency Securities	1,251,541	3.46	24,052	4.80
Corporate Bonds	811,955	4.34	497,576	5.44
International Bonds	5,204	8.46	43,250	7.15
Mortgages	125,282	4.17	991,717	4.45
Asset Backed Securities	3,783	2.62	88,441	2.74
Commingled Funds	146,303	4.69	1,011,223	4.37
Municipal Bonds	2,323	12.96	11,722	11.37
Guaranteed Investment Contracts	2,571	2.68	124,198	2.68
Short Term Investments	203,935	0.15	125,240	0.10
	<u>2,951,943</u>		<u>2,932,700</u>	
Other Investments				
Equity Securities	77,110		954,154	
Private Equity	76		88,308	
Commingled Funds	435,067		6,543,326	
Options	(316)		(1,302)	
Private Real Estate			304,552	
U.S. Treasury Investment Pool	298,559		-	
Less: Component Unit Investment in State Investment Pool	<u>(415,937)</u>		<u>-</u>	
Total Investments	3,346,502		10,821,738	
Securities Lending Short-term Collateral Investment Pool	<u>457,187</u>		<u>342,256</u>	
Total	<u>\$ 3,803,689</u>		<u>\$ 11,163,994</u>	

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment

will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. The primary government's rated debt investments as of June 30, 2008, 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.

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES INVESTMENTS AT JUNE 30, 2008

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 1,251,541	\$ 1,251,541	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	811,955	303,843	335,101	133,457	21,434	6,184	5,631	6,305
International Bonds	5,204	3,443	-	332	1,429	-	-	-
Mortgages	125,282	104,007	-	-	-	-	-	21,275
Asset Backed Securities	3,783	2,685	175	-	162	-	-	761
Commingled Funds	146,303	-	-	-	-	-	-	146,303
Short Term Investments	203,935	-	-	-	-	-	-	203,935
Municipal Bonds	2,323	845	1,311	-	167	-	-	-

FIDUCIARY FUND INVESTMENTS AT JUNE 30, 2008

	FAIR VALUE	QUALITY RATINGS						
		AAA	AA	A	BBB	BB	B	UNRATED
Govt Agency Securities	\$ 22,788	\$ 21,912	\$ -	\$ 196	\$ 332	\$ -	\$ 348	\$ -
Corporate Bonds	552,097	51,682	125,509	174,608	64,951	48,448	49,795	37,104
International Bonds	45,543	18,152	403	6,302	12,463	7,365	735	123
Mortgages	1,045,970	776,430	3,999	-	111	-	295	265,135
Asset Backed Securities	108,148	97,081	1,049	191	1,405	909	-	7,513
Commingled Funds	971,929	-	-	-	-	-	-	971,929
Short Term Investments	113,198	-	-	-	-	-	-	113,198
Municipal Bonds	13,060	6,473	4,584	1,429	574	-	-	-

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, 2008, the primary government, except fiduciary funds, had debt securities investments with more than 5 percent or more of total investments in Federal Farm Credit Bank (8 percent), Federal Home Loan Bank (9 percent), Federal Home Loan Mortgage Corporation (9 percent), and Federal National Mortgage Corporation (9 percent). 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 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 as collateral for securities of the type on loan at year-end. 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 of 41 and 42 days. Because loans were terminable at will, their duration did not generally match the duration of the investments

made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

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. Over 75% of all such instruments are pension trust investments; the remaining are endowment investments. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives Policy. The State invests in futures contracts, options and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. Government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms.

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2008, is as follows:

Disclosure Regarding Deposits and Investments:

Total Investments	\$ 14,967,683
Carrying amount of Deposits	125,533
Total	<u>\$ 15,093,216</u>

Statement of Net Assets:

Cash and Cash Equivalents	\$ 478,056
Investments	2,852,330
Restricted Cash and Cash Equivalents	19,323
Securities Lending Collateral	457,187

Statement of Fiduciary Net Assets:

Cash and Cash Equivalents	122,326
Investments	10,821,738
Securities Lending Collateral	342,256
Total	<u>\$ 15,093,216</u>

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.

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOREIGN CURRENCY AT JUNE 30, 2008**

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Australian Dollar	\$ 8	\$ 497	\$ -
Brazilian Real	(1,519)	-	153
Canadian Dollar	12	48	77
Danish Krone	-	94	-
Euro Currency	(110)	6,285	4,331
Hong Kong Dollar	-	510	-
Iceland Krona	-	-	256
Indonesian Rupiah	-	102	115
Israeli Shekel	-	152	-
Japanese Yen	31	2,858	-
Malaysian Ringgit	-	-	310
Mexican Peso	(122)	732	416
New Zealand Dollar	-	-	86
Norwegian Krone	-	26	-
Polish Zloty	-	6	-
Pound Sterling	55	1,760	-
Singapore Dollar	-	546	279
South Korean Won	13	877	213
Swedish Krona	-	34	-
Swiss Franc	-	1,514	-
Thailand Baht	2	57	-
Total	<u>\$ (1,630)</u>	<u>\$ 16,098</u>	<u>\$ 6,236</u>

FIDUCIARY FUND FOREIGN CURRENCY AT JUNE 30, 2008

Currency	SHORT TERM INVESTMENTS	EQUITY SECURITIES	DEBT SECURITIES
Argentine Peso	\$ 15	\$ -	\$ -
Australian Dollar	517	4,107	-
Brazilian Real	(6,409)	1,593	1,337
Canadian Dollar	65	75	433
Danish Krone	33	2,402	-
Euro Currency	37	106,789	22,197
Hong Kong Dollar	1	6,335	-
Hungarian Forint	4	-	-
Iceland Krona	-	-	1,537
Indonesian Rupiah	2	359	287
Israeli Shekel	-	46	-
Japanese Yen	2,741	38,879	5,666
Malaysian Ringgit	-	-	2,111
Mexican Peso	(518)	7,620	2,711
New Zealand Dollar	1	-	569
Norwegian Krone	260	-	-
Philippine Peso	2	-	-
Polish Zloty	1	203	-
Pound Sterling	168	28,615	144
Singapore Dollar	43	2,914	2,092
South Korean Won	222	14,793	851
Swedish Krona	36	1,700	-
Swiss Franc	82	25,122	-
Thailand Baht	7	644	-
Total	<u>\$ (2,690)</u>	<u>\$ 242,196</u>	<u>\$ 39,935</u>

3. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 518,781	\$ 7,672	\$ -	\$ 526,453
Infrastructure	6,525,148	126,349	-	6,651,497
Construction in progress	76,182	30,043	38,208	68,017
Total capital assets, not being depreciated	<u>7,120,111</u>	<u>164,064</u>	<u>38,208</u>	<u>7,245,967</u>
Capital assets, being depreciated:				
Buildings and improvements	454,826	40,946	2,084	493,688
Equipment	358,594	32,110	16,441	374,263
Total capital assets, being depreciated	<u>813,420</u>	<u>73,056</u>	<u>18,525</u>	<u>867,951</u>
Less accumulated depreciation for:				
Buildings and improvements	220,753	12,919	1,797	231,875
Equipment	248,347	31,127	13,812	265,662
Total accumulated depreciation	<u>469,100</u>	<u>44,046</u>	<u>15,609</u>	<u>497,537</u>
Total capital assets, being depreciated, net	<u>344,320</u>	<u>29,010</u>	<u>2,916</u>	<u>370,414</u>
Governmental activities capital assets, net	<u>\$ 7,464,431</u>	<u>\$ 193,074</u>	<u>\$ 41,124</u>	<u>\$ 7,616,381</u>
Business-type activities:				
Unemployment Insurance				
Equipment, being depreciated	\$ 809	\$ 76	\$ -	\$ 885
Less accumulated depreciation	575	195	-	770
Total Unemployment Insurance, net	<u>234</u>	<u>(119)</u>	<u>-</u>	<u>115</u>
Nonmajor Enterprise Funds				
Capital assets, not being depreciated:				
Land	315	-	-	315
Total capital assets, not being depreciated	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>
Capital assets, being depreciated:				
Buildings and improvements	5,195	556	-	5,751
Equipment	4,494	345	96	4,743
Total capital assets, being depreciated	<u>9,689</u>	<u>901</u>	<u>96</u>	<u>10,494</u>
Less accumulated depreciation for:				
Buildings and improvements	1,250	137	-	1,387
Equipment	2,910	297	96	3,111
Total accumulated depreciation	<u>4,160</u>	<u>434</u>	<u>96</u>	<u>4,498</u>
Total capital assets, being depreciated, net	<u>5,529</u>	<u>467</u>	<u>-</u>	<u>5,996</u>
Total Nonmajor Enterprise, net	<u>5,844</u>	<u>467</u>	<u>-</u>	<u>6,311</u>
Business-type activities capital assets, net	<u>\$ 6,078</u>	<u>\$ 348</u>	<u>\$ -</u>	<u>\$ 6,426</u>

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

Governmental activities:	
General Government	\$ 13,980
Conservation of Natural Resources	1,650
Culture – Recreation	1,964
Economic Development and Assistance	390
Education	1,000
Health and Social Services	749
Public Safety	8,712
Regulation of Business and Professions	271
Transportation	15,330
Total depreciation expense - Governmental activities	<u>\$ 44,046</u>

Construction Commitments. At June 30, 2008, the State had contractual commitments of approximately \$561,002 for various highway and building projects. Funding of these future expenditures is expected to be provided as follows:

Federal funds	\$ 123,352
State funds	399,417
Local funds	38,233
	<u>\$ 561,002</u>

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.

4. Interfund Balances

Due To/From Other Funds at June 30, 2008, consists of the following:

	DUE TO								TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
DUE FROM									
General Fund	\$ -	\$ 238	\$ 42	\$ 568	\$ 2,521	\$ 329	\$ 30,036	\$ 19,332	\$ 53,066
Highway Fund	2	-	233	1	37	144	5,106	8	5,531
Federal Fund	69,776	47	-	5,669	2,801	85	2,797	-	81,175
Health and Social Services	3	-	1,100	-	15	9	1,405	-	2,532
Permanent School Fund	-	-	-	-	-	-	15	-	15
Nonmajor Governmental Funds	4,142	53	75	-	47	71	3,787	530	8,705
Nonmajor Enterprise Funds	-	36	-	-	-	-	127	-	163
Internal Service Funds	4,668	478	9	13	213	5	965	-	6,351
Fiduciary Funds	-	-	-	-	36	-	149	-	185
TOTALS	\$ 78,591	\$ 852	\$ 1,459	\$ 6,251	\$ 5,670	\$ 643	\$ 44,387	\$ 19,870	\$ 157,723

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, except for \$32,400 due from the General Fund, Highway Fund, Health and Social Services, and Nonmajor Governmental Funds to internal service funds for workers compensation liability.

Interfund transfers at June 30, 2008, consist of the following:

	TRANSFERRED TO:					TOTALS
	General Fund	Highway Fund	Federal Fund	Health and Social Services	Nonmajor Governmental Funds	
TRANSFERRED FROM:						
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 147,039	\$ 147,039
Highway Fund	-	-	-	-	9,400	9,400
Federal Fund	-	-	-	-	10,933	10,933
Health & Social Services Fund	1,539	-	-	-	504	2,043
Nonmajor Governmental Funds	19,562	25,731	9	130	8,131	53,563
Nonmajor Enterprise Funds	-	-	-	805	30,203	31,008
TOTALS	\$ 21,101	\$ 25,731	\$ 9	\$ 935	\$ 206,210	\$ 253,986

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.

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as presented in the financial statements at June 30, 2008, consists 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	\$ 16,280	\$ 7,772	\$ 6,090	\$ 1,009	\$ -	\$ 2,020	\$ 1,864	\$ 3	\$ 324	\$ 35,362
Payables and Accruals	70,618	53,281	101,724	7,022	43,728	28,944	15,857	1,584	18,544	341,302
Due to Fiduciary Funds *	-	-	-	-	-	-	19,870	-	-	19,870
Miscellaneous	-	6,166	-	-	-	227	3	45	-	6,441
TOTALS	\$ 86,898	\$ 67,219	\$ 107,814	\$ 8,031	\$ 43,728	\$ 31,191	\$ 37,594	\$ 1,632	\$ 18,868	\$ 402,975

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

6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2008, are summarized as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Claims Payable	\$ 278,836	\$ 1,625,893	\$ 1,628,175	\$ 276,554	\$ 219,625
Bonds Payable	15,240	-	4,405	10,835	5,985
Capital Lease Obligations	22,072	4,203	6,766	19,509	7,521
Obligations Under Other Financing Arrangements	13,805	2,790	1,810	14,785	1,090
Compensated Absences	117,779	15,294	10,861	122,212	8,555
Totals	\$ 447,732	\$ 1,648,180	\$ 1,652,017	\$ 443,895	\$ 242,776
Business-type Activities:					
Unemployment Insurance:					
Claims Payable	\$ 8,687	\$ 98,589	\$ 91,894	\$ 15,382	\$ 15,382
Compensated Absences	14	5	3	16	1
Totals for Unemployment Insurance	8,701	98,594	91,897	15,398	15,383
Nonmajor Enterprise Funds:					
Claims Payable	42,200	-	10,500	31,700	9,904
Compensated Absences	623	111	44	690	49
Totals for Nonmajor Enterprise Funds	42,823	111	10,544	32,390	9,953
Totals for Business-type Activities	\$ 51,524	\$ 98,705	\$ 102,441	\$ 47,788	\$ 25,336

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. Bonds payable and obligations under other financing arrangements have been liquidated in the special revenue funds.

7. 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, 2008, there was no outstanding debt for either of these purposes.

The State created the NETC Leasing Corporation for the purpose of acquiring property to be leased to and purchased by the State. In February 2000, the NETC Leasing Corporation issued \$22,515 of lease rental revenue bonds to construct and acquire digital television facilities and equipment and related facilities. In May 2002, the NETC Leasing Corporation issued \$9,850 of lease rental revenue bonds to renovate facilities. The NETC Leasing Corporation is not subject to State constitutional restrictions on the incurrence of debt,

which may apply to the State itself. The obligations outstanding at June 30, 2008 are collateralized by the revenues of the NETC Leasing Corporation, which consist primarily of rental paid by the State.

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State for its data processing and general services operations. In September 1987, the NSBC issued \$7,700 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2008 are

collateralized by the revenues of the NSBC, which consist primarily of building rental paid by the State.

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.

	DATES ISSUED	MATURITY DATES	INTEREST RATES	BALANCE JUNE 30, 2008
BONDS PAYABLE				
PRIMARY GOVERNMENT				
NETC Leasing Corporation Issue	2000,2002	Through 2010	2.70%-6.00%	\$ 9,880
Nebraska State Building Corporation Issue	2002	Through 2009	1.50%-3.85%	955
Primary Government Total				<u>\$ 10,835</u>
COMPONENT UNITS				
University of Nebraska	1998-2008	Through 2039	2.40%-5.25%	\$ 594,220
Nebraska State Colleges	1999-2006	Through 2028	1.60%-5.05%	44,580
Component Units Total				<u>\$ 638,800</u>

PRIMARY GOVERNMENT DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2009	5,985	584	6,569
2010	4,850	291	5,141
Total	<u>\$ 10,835</u>	<u>\$ 875</u>	<u>\$ 11,710</u>

COMPONENT UNITS DEBT SERVICE REQUIREMENTS TO MATURITY			
YEAR	PRINCIPAL	INTEREST	TOTAL
2009	34,750	28,945	63,695
2010	51,185	27,463	78,648
2011	37,830	25,522	63,352
2012	44,770	23,820	68,590
2013	27,505	22,016	49,521
2014 - 2018	175,455	88,091	263,546
2019 - 2023	121,075	49,777	170,852
2024 - 2028	61,710	28,520	90,230
2029 - 2033	44,100	16,305	60,405
2034 - 2038	35,875	6,112	41,987
2039 - 2043	4,545	174	4,719
Total	<u>\$ 638,800</u>	<u>\$ 316,745</u>	<u>\$ 955,545</u>

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 (principle and interest) and the present value of future minimum payments for capital leases as of June 30, 2008 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2009	\$ 8,191
2010	5,699
2011	2,913
2012	1,506
2013	724
2014-2018	2,339
2019-2023	74
Total Minimum Payments	<u>21,446</u>
Less: Interest and executory costs	<u>1,937</u>
Present value of net minimum payments	<u>\$ 19,509</u>

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, 2008:

GOVERNMENTAL ACTIVITIES	
Buildings	\$ 7,070
Equipment	32,229
Less: accumulated depreciation	<u>(19,412)</u>
Carrying value	<u>\$ 19,887</u>

The minimum annual lease payments for operating leases as of June 30, 2008 are as follows:

YEAR	GOVERNMENTAL ACTIVITIES
2009	\$ 9,502
2010	5,297
2011	3,742
2012	1,394
2013	1,109
2014-2018	2,354
2019-2023	688
2024-2028	358
2029-2033	<u>280</u>
Total	<u>\$ 24,724</u>

Primary Government operating lease payments for the year ended June 30, 2008 totaled \$14,945.

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, 2008, 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 \$28,636 were received under these and other lease agreements for the year ended June 30, 2008.

9. Obligations Under Other Financing Arrangements

The State has entered into special financing arrangements with certain public benefit corporations to fund certain grant programs. Under these arrangements, the State enters into an agreement with a public benefit corporation, the Nebraska Investment Finance Authority

(NIFA), whereby NIFA issues bonds, the proceeds of which, along with federal capitalization grants, are used to provide loans to various municipalities and local units of government in Nebraska that qualify for such loans. Such loans are used for improvements to wastewater and drinking water treatment facilities. Funds to repay NIFA come from the municipalities and units of government to which the loans are given.

A summary of the future minimum contractual obligations including interest at rates from 2.5 percent to 5.70 percent is as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2009	\$ 1,090	\$ 644	\$ 1,734
2010	1,145	601	1,746
2011	1,185	553	1,738
2012	1,245	502	1,747
2013	1,290	447	1,737
2014-2018	6,860	1,239	8,099
2019-2023	<u>1,970</u>	<u>164</u>	<u>2,134</u>
Total	<u>\$ 14,785</u>	<u>\$ 4,150</u>	<u>\$ 18,935</u>

10. Receivables

Receivables are reflected net of allowances for doubtful accounts. The following are such related allowances listed by major fund at June 30, 2008:

Governmental Activities:	
General Fund	\$ 82,214
Federal Fund	14,666
Health and Social Services Fund	<u>3,391</u>
Total Governmental Activities	<u>\$ 100,271</u>
Business-type Activities:	
Unemployment Insurance	\$ 7,324
Total Business-type Activities	<u>\$ 7,324</u>

Of the taxes and other receivables, \$27,459 and \$20,386, respectively, is not expected to be collected within 60 days of the fiscal year end. These amounts have been offset by deferred revenue in the General Fund and the Health and Social Services Fund. The majority of the loans receivable balance is not expected to be collected in the next year.

11. Pension Plans

Plans Administered by the Public Employees Retirement Board

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

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

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

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

State Employees' Retirement. The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered employees of the State. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the State Employees' Retirement System are for the fiscal year ended December 31, 2007.

Participation in the plan is required for all permanent full-time employees upon employment. Each

member contributes 4.8 percent of their compensation. The State matches a member's contribution at a rate of 156 percent.

As of December 31, 2007, there were 17,074 active members and 3,273 inactive members. Members contributed \$29,496 and the State contributed \$46,018 during the year ended December 31, 2007, which was equal to required contributions.

County Employees' Retirement. In 1973, the State Legislature brought the County Employees' Retirement System under the administration of the Board. This cost-sharing multiple-employer plan covers employees of 91 of the 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees by State law. Prior to January 1, 2003, the plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The amounts presented in the accompanying financial statements for the County Employees' Retirement System are for the fiscal year ended December 31, 2007.

Participation in the plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. Part-time employees may elect voluntary participation upon reaching age 20. Part-time elected officials may exercise the option to join. County employees and elected officials contribute four and one half percent of their total compensation. Commissioned law enforcement personnel in participating counties with less than 85,000 inhabitants contribute an extra one percent, or a total of five and one half percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of 85,000 inhabitants contribute an extra two percent, or a total of six and one half percent of their total compensation. The counties match a member's contribution at a rate of 150 percent.

As of December 31, 2007, there were 7,510 active members and 1,548 inactive members. Members contributed \$9,746 and counties contributed \$14,411 during the year ended December 31, 2007, which was equal to required contributions.

School Retirement. The School Retirement System is a cost-sharing multiple-employer defined benefit pension plan with 280 participating school districts.

All regular public school employees in Nebraska, other than those who have their own retirement plan, are members of the system. The benefits are based on both service and contributions or salary.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 7.83 percent of their total pay from September 1, 2006 through August 31, 2007 and 7.28 percent after August 31, 2007. The school district's contribution is 101 percent of the employees' contribution.

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

Members' contributions, a portion of court fees collected, and the State's contribution, which is based on an annual actuarial valuation, fund the

plan. The judges contribute between four and eight percent of their salary.

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

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

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

SCHEDULES OF FUNDING PROGRESS

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (Excess of Assets over AAL)	Funded Ratio	Covered Payroll	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll
State Cash Balance						
12/31/2007	\$ 606,552	\$ 586,830	\$ (19,722)	103.4 %	\$ 384,709	(5.1)%
12/31/2006	392,442	379,735	(12,707)	103.3	323,983	(3.9)
12/31/2005	342,730	300,852	(41,878)	113.9	238,874	(17.5)
County Cash Balance						
12/31/2007	\$ 163,783	\$ 151,557	\$ (12,226)	108.1 %	\$ 141,110	(8.7)%
12/31/2006	116,379	110,630	(5,749)	105.2	113,468	(5.1)
12/31/2005	99,464	84,817	(14,647)	117.3	88,144	(16.6)
School						
6/30/2008	\$ 6,932,919	\$ 7,654,536	\$ 721,617	90.6 %	\$ 1,389,125	51.9 %
6/30/2007	6,396,337	7,070,309	673,972	90.5	1,325,616	50.8
6/30/2006	5,739,049	6,584,275	845,226	87.2	1,247,684	67.7
Judges'						
6/30/2008	\$ 119,962	\$ 114,251	\$ (5,711)	105.0 %	\$ 17,990	(31.7)%
6/30/2007	111,006	103,704	(7,302)	107.0	17,004	(42.9)
6/30/2006	100,566	101,438	872	99.1	16,423	5.3
State Patrol						
6/30/2008	\$ 273,394	\$ 291,997	\$ 18,603	93.6 %	\$ 26,980	69.0 %
6/30/2007	254,663	265,847	11,184	95.8	26,073	42.9
6/30/2006	231,741	245,373	13,632	94.4	24,058	56.7

	STATE CASH BALANCE	COUNTY CASH BALANCE	SCHOOL RETIREMENT	JUDGES' RETIREMENT	STATE PATROL RETIREMENT
Actuarial Valuation Date	12/31/2007	12/31/2007	6/30/2008	6/30/2008	6/30/2008
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed	Level dollar amount, closed
Amortization Period	25 years	25 years	28 years	30 years	29 years
Asset Valuation Method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial Assumptions:					
Investment Rate of Return **	7.8%	7.8%	8.0%	8.0%	8.0%
Projected Salary Increases **	4.5% to 5.9%	5.5% to 15.0%	4.5% to 7.5%	4.5%	4.5% to 9.0%

** Includes assumed inflation of 3.5% per year.

THREE - YEAR TREND INFORMATION

YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
State Cash Balance			
12/31/2007	\$22,921	100%	\$ -
12/31/2006	16,672	100%	-
12/31/2005	14,885	100%	-
County Cash Balance			
12/31/2007	\$ 8,195	100%	\$ -
12/31/2006	6,245	100%	-
12/31/2005	5,521	100%	-
School			
6/30/2008	\$15,833	100%	\$ -
6/30/2007	15,220	100%	-
6/30/2006	28,057	100%	-
Judges'			
6/30/2008	\$ 3,353	100%	\$ -
6/30/2007	3,208	100%	-
6/30/2006	3,120	100%	-
State Patrol			
6/30/2008	\$ 4,856	100%	\$ -
6/30/2007	5,059	100%	-
6/30/2006	5,082	100%	-

12. Contingencies and Commitments

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

All State agencies including institutions of higher education are required to comply with various federal regulations issued by the U.S. Office of Management and Budget if such agency or institution is a recipient of

federal grants, contracts, or other sponsored agreements. Certain agencies or institutions may not be in total compliance with these regulations. Failure to comply may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. Management believes that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the State.

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

The State also has been named as a party in legal proceedings that occur outside of the normal course of governmental operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State for all of these proceedings. The effects of this litigation, if any, will be reflected in future years, as the uncertainties regarding the litigation are determined.

The State is a party to a lawsuit relating to \$37,000 of tobacco settlement money the State received in April 2004. It is not possible at the present time to determine the outcome of this lawsuit or its implications for potential similar future lawsuits.

13. 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 and limited general liability on two buildings. Motor vehicle liability is insured with a \$5,000 limit and a \$300 retention per occurrence (the self-insured retention for vehicular pursuit is \$1,000) and employee dishonesty is insured with a \$1,000 limit with a \$25 retention per incident. The State insures against property damage, maintaining a policy with a \$250,000 limit and a \$200 retention per occurrence. The State also carries some insurance for personal property damage. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. Administrative Services provides life insurance for eligible State employees. These activities are reported in the Risk Management Internal Service Fund.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage

awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors, but do not include non-incremental claims adjustment expenses.

The liability for workers' compensation is recorded as a claims payable of \$49,221 at a discounted rate of 3.5 percent (\$9,310).

Changes in the balances of claims liabilities of the Risk Management Internal Service Fund during the years ended June 30, 2008, and 2007, were as follows:

	Fiscal Year	
	2008	2007
Beginning Balance	\$ 62,707	\$ 63,561
Current Year Claims and Changes in Estimates	182,155	171,153
Claim Payments	<u>(180,842)</u>	<u>(172,007)</u>
Ending Balance	<u>\$ 64,020</u>	<u>\$ 62,707</u>

14. Subsequent Event

The fair value of investments declined after June 30, 2008 due to changes in economic and market conditions. It is not known what impact, if any, the decline will have on future earnings.

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2008

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ 3,288,565	\$ 3,306,379	\$ 3,405,541	\$ 99,162
Federal Grants and Contracts	(21)	(21)	(21)	-
Sales and Charges	22,812	22,812	22,812	-
Other	57,544	57,544	57,544	-
TOTAL REVENUES	<u>3,368,900</u>	<u>3,386,714</u>	<u>3,485,876</u>	<u>99,162</u>
EXPENDITURES:				
Current:				
General Government	260,029	251,874	237,472	14,402
Conservation of Natural Resources	44,366	50,909	32,182	18,727
Culture – Recreation	6,208	6,237	5,638	599
Economic Development and Assistance	9,864	9,871	7,070	2,801
Education	1,619,116	1,636,190	1,590,583	45,607
Health and Social Services	1,282,809	1,287,021	1,142,631	144,390
Public Safety	228,805	229,699	216,218	13,481
Regulation of Business and Professions	4,346	4,357	3,982	375
Transportation	19	19	16	3
TOTAL EXPENDITURES	<u>3,455,562</u>	<u>3,476,177</u>	<u>3,235,792</u>	<u>240,385</u>
Excess of Revenues Over (Under) Expenditures	<u>(86,662)</u>	<u>(89,463)</u>	<u>250,084</u>	<u>339,547</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	287,527	287,527	287,527	-
Transfers Out	(519,160)	(519,160)	(519,160)	-
Other	329	329	329	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(231,304)</u>	<u>(231,304)</u>	<u>(231,304)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(317,966)</u>	<u>(320,767)</u>	<u>18,780</u>	<u>339,547</u>
FUND BALANCES, JULY 1	<u>1,106,802</u>	<u>1,106,802</u>	<u>1,106,802</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 788,836</u>	<u>\$ 786,035</u>	<u>\$ 1,125,582</u>	<u>\$ 339,547</u>

A reconciliation of the budgetary basis versus GAAP fund balance for the General Fund as of June 30, 2008, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2008	
General	\$ 580,036
Cash Reserve	545,546
Budgetary fund balances	<u>1,125,582</u>
DIFFERENCES DUE TO BASIS OF ACCOUNTING:	
Record taxes receivable	307,328
Record tax refund liability	(302,275)
Record State contributions due pension funds	(19,331)
Record claims payable	(95,412)
Record other net accrued receivables and liabilities	<u>(42,217)</u>
GAAP fund balance, June 30, 2008	<u>\$ 973,675</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CASH FUNDS

For the Year Ended June 30, 2008

(Dollars in Thousands)	CASH FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 110,160	\$ 110,160	\$ 110,160	\$ -
Federal Grants and Contracts	315,438	315,438	315,438	-
Sales and Charges	410,691	410,691	410,691	-
Other	224,128	224,128	224,128	-
TOTAL REVENUES	1,060,417	1,060,417	1,060,417	-
EXPENDITURES:				
Current:				
General Government	191,316	206,362	185,397	20,965
Conservation of Natural Resources	93,075	100,272	52,020	48,252
Culture – Recreation	24,048	26,184	18,182	8,002
Economic Development and Assistance	63,605	64,238	22,211	42,027
Education	401,280	416,032	332,116	83,916
Health and Social Services	174,410	175,955	127,327	48,628
Public Safety	37,220	37,954	28,507	9,447
Regulation of Business and Professions	158,150	161,880	123,385	38,495
Transportation	687,241	723,978	655,986	67,992
Capital Projects	70,382	71,963	17,940	54,023
TOTAL EXPENDITURES	1,900,727	1,984,818	1,563,071	421,747
Excess of Revenues Over (Under) Expenditures	(840,310)	(924,401)	(502,654)	421,747
OTHER FINANCING SOURCES (USES):				
Transfers In	1,039,017	1,039,017	1,039,017	-
Transfers Out	(467,478)	(467,478)	(467,478)	-
Other	(2,174)	(2,174)	(2,174)	-
TOTAL OTHER FINANCING SOURCES (USES)	569,365	569,365	569,365	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(270,945)	(355,036)	66,711	421,747
FUND BALANCES, JULY 1	720,452	720,452	720,452	-
FUND BALANCES, JUNE 30	\$ 449,507	\$ 365,416	\$ 787,163	\$ 421,747

A reconciliation of the budgetary basis versus GAAP fund balance for the

Major Funds as of June 30, 2008, follows (dollars in thousands):

Actual Fund Balances, budgetary basis, June 30, 2008

Cash	\$ 787,163
Construction	66,305
Federal	52,288
Revolving	\$ 207,425
Budgetary fund balances	1,113,181
Unbudgeted fund balances	1,364,264
Non-major fund balances	(1,018,800)
Differences due to basis of accounting	(347,904)
GAAP fund balance, June 30, 2008	\$ 1,110,741
Actual Fund Balances of Major Funds, June 30, 2008	
Highway	\$ 158,185
Federal	6,160
Health and Social Services	483,052
Permanent School	463,344
GAAP fund balance, June 30, 2008	\$ 1,110,741

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CONSTRUCTION FUNDS

For the Year Ended June 30, 2008

	CONSTRUCTION FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	-	-	-	-
Sales and Charges	-	-	-	-
Other	3,529	3,529	3,529	-
TOTAL REVENUES	<u>3,529</u>	<u>3,529</u>	<u>3,529</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	-	-	-	-
Education	29,440	29,440	24,427	5,013
Health and Social Services	-	-	-	-
Public Safety	-	-	-	-
Regulation of Business and Professions	-	-	-	-
Transportation	-	-	-	-
Capital Projects	27,853	28,003	18,506	9,497
TOTAL EXPENDITURES	<u>57,293</u>	<u>57,443</u>	<u>42,933</u>	<u>14,510</u>
Excess of Revenues Over (Under) Expenditures	<u>(53,764)</u>	<u>(53,914)</u>	<u>(39,404)</u>	<u>14,510</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	101,956	101,956	101,956	-
Transfers Out	-	-	-	-
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>101,956</u>	<u>101,956</u>	<u>101,956</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	48,192	48,042	62,552	14,510
FUND BALANCES, JULY 1	<u>3,753</u>	<u>3,753</u>	<u>3,753</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 51,945</u>	<u>\$ 51,795</u>	<u>\$ 66,305</u>	<u>\$ 14,510</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUNDS

For the Year Ended June 30, 2008

	FEDERAL FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal Grants and Contracts	2,108,831	2,108,831	2,108,831	-
Sales and Charges	14,698	14,698	14,698	-
Other	11,525	11,525	11,525	-
TOTAL REVENUES	<u>2,135,054</u>	<u>2,135,054</u>	<u>2,135,054</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	7,175	7,470	4,735	2,735
Conservation of Natural Resources	51,823	57,154	36,791	20,363
Culture – Recreation	3,420	3,978	2,536	1,442
Economic Development and Assistance	90,323	90,854	56,187	34,667
Education	631,127	646,159	570,736	75,423
Health and Social Services	1,546,940	1,564,184	1,342,554	221,630
Public Safety	94,281	170,160	134,571	35,589
Regulation of Business and Professions	976	2,251	1,853	398
Transportation	-	-	-	-
Capital Projects	4,250	2,816	2,373	443
TOTAL EXPENDITURES	<u>2,430,315</u>	<u>2,545,026</u>	<u>2,152,336</u>	<u>392,690</u>
Excess of Revenues Over (Under) Expenditures	<u>(295,261)</u>	<u>(409,972)</u>	<u>(17,282)</u>	<u>392,690</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	11,082	11,082	11,082	-
Transfers Out	(11,259)	(11,259)	(11,259)	-
Other	(2,536)	(2,536)	(2,536)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,713)</u>	<u>(2,713)</u>	<u>(2,713)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(297,974)</u>	<u>(412,685)</u>	<u>(19,995)</u>	<u>392,690</u>
FUND BALANCES, JULY 1	<u>72,283</u>	<u>72,283</u>	<u>72,283</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ (225,691)</u>	<u>\$ (340,402)</u>	<u>\$ 52,288</u>	<u>\$ 392,690</u>

See independent auditors' report

State of Nebraska
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVOLVING FUNDS

For the Year Ended June 30, 2008

	REVOLVING FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
(Dollars in Thousands)				
REVENUES:				
Taxes	\$ 2	\$ 2	\$ 2	\$ -
Federal Grants and Contracts	2,753	2,753	2,753	-
Sales and Charges	465,914	465,914	465,914	-
Other	130,081	130,081	130,081	-
TOTAL REVENUES	<u>598,750</u>	<u>598,750</u>	<u>598,750</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	202,891	203,094	150,976	52,118
Conservation of Natural Resources	-	-	-	-
Culture – Recreation	-	-	-	-
Economic Development and Assistance	485	483	449	34
Education	441,912	483,866	403,712	80,154
Health and Social Services	-	-	-	-
Public Safety	19,413	19,437	13,726	5,711
Regulation of Business and Professions	-	-	-	-
Transportation	2,718	2,718	596	2,122
Capital Projects	-	-	-	-
TOTAL EXPENDITURES	<u>667,419</u>	<u>709,598</u>	<u>569,459</u>	<u>140,139</u>
Excess of Revenues Over (Under) Expenditures	<u>(68,669)</u>	<u>(110,848)</u>	<u>29,291</u>	<u>140,139</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	36,670	36,670	36,670	-
Transfers Out	(37,623)	(37,623)	(37,623)	-
Other	2,741	2,741	2,741	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,788</u>	<u>1,788</u>	<u>1,788</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(66,881)</u>	<u>(109,060)</u>	<u>31,079</u>	<u>140,139</u>
FUND BALANCES, JULY 1	<u>176,346</u>	<u>176,346</u>	<u>176,346</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 109,465</u>	<u>\$ 67,286</u>	<u>\$ 207,425</u>	<u>\$ 140,139</u>

See independent auditors' report

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2008

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 2008, the Legislature passed deficit appropriation bills that increased the allowable expenditure level in several of the programs.

For the year ended June 30, 2008, 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, 2008

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).

<u>Calendar Year</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Very Good	33%	42%	39%	39%	40%	38%
Good	49%	38%	46%	46%	44%	43%
Fair	17%	19%	12%	12%	14%	16%
Poor	1%	1%	3%	3%	2%	3%
Overall System Rating	82	83	84	83	83	83

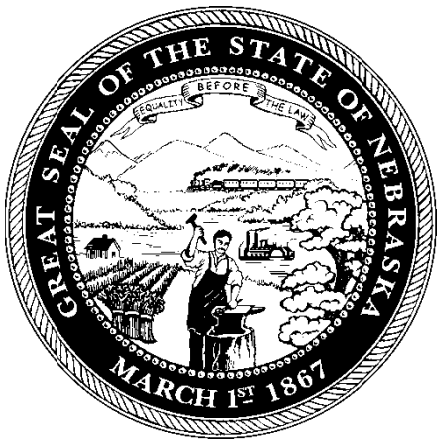
Estimated and Actual Costs to Maintain

The following table presents the State’s estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level cited above, and the actual amount spent during the past fiscal years (amounts in millions). Beginning in Fiscal Year 2005, a newly developed Pavement Optimization Program was used to calculate the annual amount required to maintain the highway system at a NSI of 72 by performing a cost-benefit analysis of various improvement strategies by pavement section. This has resulted in a lower estimated annual cost. However, 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 82 actual).

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Estimated	\$ 206	\$ 155	\$ 148	\$ 125	\$ 123	\$ 179
Actual		208	167	214	221	200
Difference		53	19	89	98	21

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SINGLE AUDIT SECTION

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Agriculture, U.S. Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$ 1,495,897
Plant and Animal Disease, Pest Control, and Animal Care	Game and Parks Commission	10.025	176,754
Wetlands Reserve Program	Game and Parks Commission	10.072	220,665
Market News	Agriculture, Department of	10.153	11,313
Federal-State Marketing Improvement Program	Corn Board	10.156	113,000
Market Protection and Promotion	Agriculture, Department of	10.163	10,437
Grants for Agricultural Research - Competitive Research Grants	Corn Board	10.206	98,374
State Mediation Grants	Agriculture, Department of	10.435	127,695
Rural Community Development Initiative	Economic Development, Department of	10.446	96,057
Meat, Poultry, and Egg Products Inspection	Agriculture, Department of	10.477	325
Food Distribution	Health and Human Services, Department of	10.550 ^	8,155,134
Food Stamp Cluster:			
Food Stamps	Health and Human Services, Department of	10.551 ^	128,773,492
State Administrative Matching Grants for Food Stamp Program	Health and Human Services, Department of	10.561 ^	13,748,176
Child Nutrition Cluster:			
School Breakfast Program	Education, Department of	10.553	9,943,636
National School Lunch Program	Education, Department of	10.555	45,129,670
Special Milk Program for Children	Education, Department of	10.556	53,305
Summer Food Service Program for Children	Education, Department of	10.559	1,041,007
Special Supplemental Nutrition Program for Women, Infants, and Children	Health and Human Services, Department of	10.557 *	29,372,080
Child and Adult Care Food Program	Education, Department of	10.558 *	25,392,985
State Administrative Expenses for Child Nutrition	Education, Department of	10.560	1,193,300
State Administrative Expenses for Child Nutrition	Health and Human Services, Department of	10.560	122,488
Commodity Supplemental Food Program	Health and Human Services, Department of	10.565 ^	3,840,410
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Health and Human Services, Department of	10.568	327,609
Emergency Food Assistance Program (Food Commodities)	Health and Human Services, Department of	10.569 ^	1,095,139
Senior Farmers Market Nutrition Program	Agriculture, Department of	10.576	239,029
Forestry Research	Game and Parks Commission	10.652	858
Public Television Station Digital Transition Grant Program	Educational Telecommunications Commission	10.861	294,621
Soil and Water Conservation	Natural Resources, Department of	10.902	9,493
Environmental Quality Incentives Program	Corn Board	10.912	45,384
National Rural Development Partnership	Economic Development, Department of	43-3157-8-RDP03	1,293
Nebraska Rural Rehabilitation Program	Agriculture, Department of	N/A	130,069
FSIS/FERN Lab	Agriculture, Department of	FSIS - C-38-2005	49,359
Total U.S. Department of Agriculture			\$ 271,309,054

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Commerce, U.S. Department of			
Economic Development-Support for Planning Organizations	Economic Development, Department of	11.302	\$ 65,229
Public Safety Interoperable Communications Grant Program	Military Department	11.555	59,802
Manufacturing Extension Partnership	Economic Development, Department of	11.611	659,195
Total U.S. Department of Commerce			<u>\$ 784,226</u>
Corporation for National and Community Service			
State Commissions	Health and Human Services, Department of	94.003	\$ 155,743
Learn and Serve America-School and Community Based Programs	Education, Department of	94.004	107,076
Americorps	Health and Human Services, Department of	94.006	963,909
Planning and Program Development Grants	Health and Human Services, Department of	94.007	49,548
Training and Technical Assistance	Health and Human Services, Department of	94.009	91,037
Volunteers in Service to America	Health and Human Services, Department of	94.013	6,175
Total Corporation for National and Community Service			<u>\$ 1,373,488</u>
Defense, U.S. Department of			
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	\$ 140,809
Military Construction, National Guard	Military Department	12.400 *	17,303,839
National Guard Military Operations and Maintenance (O&M) Projects	Military Department	12.401	11,224,883
National Guard Civilian Youth Opportunities	Military Department	12.404	293,454
US Army Corps of Engineers	Game and Parks Commission	DACW99P0397, DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	1,390,993
Total U.S. Department of Defense			<u>\$ 30,353,078</u>
Education, U.S. Department of			
Adult Education - Basic Grants to States	Education, Department of	84.002	\$ 2,846,086
Title 1 Grants to Local Educational Agencies	Education, Department of	84.010	55,168,617
Migrant Education - State Grant Program	Education, Department of	84.011	4,587,902
Title 1 Program for Neglected and Delinquent Children	Education, Department of	84.013	283,584
Special Education Cluster:			
Special Education - Grants to States	Education, Department of	84.027	68,248,748
Special Education - Preschool Grants	Education, Department of	84.173	2,374,516
Career and Technical Education - Basic Grants to States	Education, Department of	84.048	7,066,699
Leveraging Educational Assistance Partnership	Postsecondary Education, Coordinating Commission for	84.069	502,715
Rehabilitation Services - Vocational Rehabilitation Grants to States	Blind and Visually Impaired Commission	84.126	2,648,617
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, Department of	84.126	16,114,590
Rehabilitation Services - Client Assistance Program	Education, Department of	84.161	125,696

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STATE OF NEBRASKA
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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Education, U.S. Department of, Continued:			
Independent Living - State Grants	Blind and Visually Impaired Commission	84.169	39,183
Independent Living - State Grants	Education, Department of	84.169	260,464
Paul Douglas Teacher Scholarships	Education, Department of	84.176	(15,646)
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	Blind and Visually Impaired Commission	84.177	209,228
Special Education-Grants for Infants and Families	Education, Department of	84.181	2,659,649
Byrd Honors Scholarships	Education, Department of	84.185	228,000
Safe and Drug-Free Schools and Communities - State Grants	Education, Department of	84.186	1,644,408
Safe and Drug-Free Schools and Communities - State Grants	Health and Human Services, Department of	84.186	382,116
Supported Employment Services for Individuals with Significant Disabilities	Blind and Visually Impaired Commission	84.187	7,356
Supported Employment Services for Individuals with Significant Disabilities	Education, Department of	84.187	216,237
Education for Homeless Children and Youth	Education, Department of	84.196	332,613
Star Schools	Education, Department of	84.203	1,061
Even Start-State Educational Agencies	Education, Department of	84.213	715,226
Assistive Technology	Education, Department of	84.224	416,895
Tech-Prep Education	Education, Department of	84.243	708,931
National Institute for Literacy	Education, Department of	84.257	1,160
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired Commission	84.265	19,160
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	Education, Department of	84.265	32,618
Twenty-First Century Community Learning Centers	Education, Department of	84.287	6,096,735
Foreign Language Assistance	Education, Department of	84.293	145,032
State Grants for Innovative Programs	Education, Department of	84.298	578,896
Education Technology State Grants	Education, Department of	84.318	1,831,910
Special Education - State Personnel Development	Education, Department of	84.323	900,880
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, Department of	84.326	406,970
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, Department of	84.330	8,000
Grants to States for Incarcerated Youth Offenders	Corrections, Department of	84.331	77,026
Comprehensive School Reform Demonstration	Education, Department of	84.332	609,700
Transition to Teaching	Education, Department of	84.350	89,270
Reading First State Grants	Education, Department of	84.357	4,207,244
Rural Education	Education, Department of	84.358	88,011
English Language Acquisition Grants	Education, Department of	84.365	2,263,376
Mathematics and Science Partnerships	Education, Department of	84.366	1,017,685
Improving Teacher Quality State Grants	Education, Department of	84.367	13,618,592
Improving Teacher Quality State Grants	Post Secondary Education Commission	84.367	366,374

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Education, U.S. Department of, Continued:			
Grants for State Assessments and Related Activities	Education, Department of	84.369	6,203,683
Statewide Data Systems	Education, Department of	84.372	686,466
Special Education - Technical Assistance on State Data Collection	Education, Department of	84.373	398,974
Total U.S. Department of Education			<u>\$ 207,421,253</u>
Election Assistance Commission			
Help America Vote Act Requirements Payments	Secretary of State	90.401 *	\$ 1,484,790
Total Election Assistance Commission			<u>\$ 1,484,790</u>
Energy, U.S. Department of			
National Energy Information Center	Governor	81.039	\$ 6,000
State Energy Program	Governor	81.041	437,944
Weatherization Assistance for Low-Income Persons	Governor	81.042	2,423,170
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Governor	81.117	3,560
State Energy Program Special Projects	Governor	81.119	60,300
Total U.S. Department of Energy			<u>\$ 2,930,974</u>
Environmental Protection Agency, U.S.			
State Indoor Radon Grants	Health and Human Services, Department of	66.032	\$ 149,691
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Quality, Department of	66.034	218,143
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Health and Human Services, Department of	66.034	31,817
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	78,680
State Public Water System Supervision	Health and Human Services, Department of	66.432	776,631
State Underground Water Source Protection	Environmental Quality, Department of	66.433	17,742
State Underground Water Source Protection	Oil and Gas Commission	66.433	92,657
Targeted Watersheds Grants	Environmental Quality, Department of	66.439	45,817
Water Quality Management Planning	Environmental Quality, Department of	66.454	86,987
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	5,429,600
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	2,225,813
Regional Wetland Program Development Grants	Game and Parks Commission	66.461	38,969
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	1,199
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Quality, Department of	66.467	21,778
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	7,032,737
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Health and Human Services, Department of	66.471	231,736

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Environmental Protection Agency, U.S., Continued:			
State and Tribal Underground Storage Tanks Program	Fire Marshal	66.804	397,849
Performance Partnership Grants	Environmental Quality, Department of	66.605	4,195,969
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Quality, Department of	66.608	492,622
Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700	636,688
TSCA Title IV State Lead Grants Certification of Lead - Based Paint Professionals	Health and Human Services, Department of	66.707	304,450
Pollution Prevention Grants Program	Environmental Quality, Department of	66.708	74,926
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Quality, Department of	66.802	357,079
Leaking Underground Storage Tank Trust Fund Program	Environmental Quality, Department of	66.805	823,262
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	176,627
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	527,614
Total U.S. Environmental Protection Agency			<u>\$ 24,467,083</u>
Equal Employment Opportunity Commission, U.S.			
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	Equal Opportunity Commission	30.002	\$ 373,124
Total U.S. Equal Employment Opportunity Commission			<u>\$ 373,124</u>
General Services Administration			
Donation of Federal Surplus Personal Property	Corrections, Department of	39.003	\$ 538,239
Total General Services Administration			<u>\$ 538,239</u>
Health and Human Services, U.S. Department of			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, Department of	93.006	\$ 149,656
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	59,010
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	66,788
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	Health and Human Services, Department of	93.043	88,484
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 *	2,184,821
Special Programs for the Aging - Title III, Part C - Nutrition Services	Health and Human Services, Department of	93.045 *	3,728,858
Nutrition Services Incentive Program	Health and Human Services, Department of	93.053 *	1,377,871
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	Health and Human Services, Department of	93.048	137,748
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, Department of	93.051	96,540
National Family Caregiver Support, Title III, Part E	Health and Human Services, Department of	93.052	1,042,508
Public Health Emergency Preparedness	Health and Human Services, Department of	93.069	998,371

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Health and Human Services, U.S. Department of, Continued:			
Food and Drug Administration - Research	Agriculture, Department of	93.103	4,940
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, Department of	93.110	376,315
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, Department of	93.116	225,078
Emergency Medical Services for Children	Health and Human Services, Department of	93.127	52,360
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, Department of	93.130	157,094
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, Department of	93.136	340,226
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, Department of	93.150	297,883
Family Planning - Services	Health and Human Services, Department of	93.217	1,830,483
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services, Department of	93.230	1,682,754
Traumatic Brain Injury State Demonstration Grant Program	Education, Department of	93.234	121,235
Abstinence Education Program	Health and Human Services, Department of	93.235	199,304
State Rural Hospital Flexibility Program	Health and Human Services, Department of	93.241	1,881,019
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Health and Human Services, Department of	93.243	1,030,601
Universal Newborn Hearing Screening	Health and Human Services, Department of	93.251	99,325
Rural Access to Emergency Devices Grant	Health and Human Services, Department of	93.259	34,768
Immunization Grants	Health and Human Services, Department of	93.268 ^	12,274,311
Drug Abuse and Addiction Research Programs	Health and Human Services, Department of	93.279	29,967
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Health and Human Services, Department of	93.283 *	13,790,624
Small Rural Hospital Improvement Grant Program	Health and Human Services, Department of	93.301	590,370
Ruminant Feed Ban Support Project	Agriculture, Department of	93.449	252,970
Promoting Safe and Stable Families	Health and Human Services, Department of	93.556	1,728,977
Temporary Assistance for Needy Families	Health and Human Services, Department of	93.558 * ^	29,748,077
Child Support Enforcement	Health and Human Services, Department of	93.563 ^	29,745,499
Child Support Enforcement Research	Health and Human Services, Department of	93.564	18,597
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services, Department of	93.566	1,094,446
Low-Income Home Energy Assistance	Health and Human Services, Department of	93.568 *	21,389,585
Low-Income Home Energy Assistance	Governor	93.568 *	2,516,914
Community Services Block Grant	Health and Human Services, Department of	93.569	4,475,969
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services, Department of	93.575 * ^	29,426,310
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, Department of	93.596 * ^	16,672,179
Refugee and Entrant Assistance - Discretionary Grants	Health and Human Services, Department of	93.576	355,859
Empowerment Zones Program	Health and Human Services, Department of	93.585	8,875
State Court Improvement Program	Supreme Court, Nebraska	93.586	423,460

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<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Health and Human Services, U.S. Department of, Continued:			
Grants to States for Access and Visitation Programs	Health and Human Services, Department of	93.597	95,826
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, Department of	93.599	549,802
Head Start	Education, Department of	93.600	137,842
Adoption Incentive Payments	Health and Human Services, Department of	93.603	113,435
Voting Access for Individuals with Disabilities - Grants to States	Secretary of State	93.617	167,468
Basic Center Grant	Health and Human Services, Department of	93.623	220,000
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, Department of	93.630	476,467
Children's Justice Grants to States	Health and Human Services, Department of	93.643	102,413
Child Welfare Services - State Grants	Health and Human Services, Department of	93.645	2,008,151
Foster Care - Title IV-E	Health and Human Services, Department of	93.658 * ^	19,882,733
Adoption Assistance	Health and Human Services, Department of	93.659 * ^	10,322,482
Social Services Block Grant	Health and Human Services, Department of	93.667 *	10,192,003
Child Abuse and Neglect State Grants	Health and Human Services, Department of	93.669	234,738
Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	Health and Human Services, Department of	93.671	924,211
Chafee Foster Care Independence Program	Health and Human Services, Department of	93.674	1,614,597
State Children's Insurance Program	Health and Human Services, Department of	93.767 * ^	33,723,500
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, Department of	93.768	502,837
Medicaid Cluster:			
State Medicaid Fraud Control Units	Attorney General	93.775 *	493,606
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, Department of	93.777 * ^	3,832,235
Medical Assistance Program	Health and Human Services, Department of	93.778 * ^	944,721,836
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, Department of	93.779	362,116
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Insurance, Department of	93.779	395,396
Grants to States for Operation of Qualified High-Risk Pools	Insurance, Department of	93.780	779,427
National Bioterrorism Hospital Preparedness Program	Health and Human Services, Department of	93.889	2,674,940
Grants to States for Operataion of Offices of Rural Health	Health and Human Services, Department of	93.913	153,978
HIV Care Formula Grants	Health and Human Services, Department of	93.917	2,115,118
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Education, Department of	93.938	303,811
HIV Prevention Activities-Health Department Based	Health and Human Services, Department of	93.940	1,315,776
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, Department of	93.944	109,681
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, Department of	93.945	63,748

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Health and Human Services, U.S. Department of, Continued:			
Cooperative Agreements to Support State - Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, Department of	93.946	142,057
Block Grants for Community Mental Health Services	Health and Human Services, Department of	93.958	2,733,595
Block Grants for Prevention and Treatment of Substance Abuse	Education, Department of	93.959	30,253
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, Department of	93.959	6,567,415
Preventive Health Services - Sexually Transmitted Diseases Control Grants	Health and Human Services, Department of	93.977	307,619
Cooperative Agreements for State - Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, Department of	93.988	281,679
Preventive Health and Health Services Block Grant	Health and Human Services, Department of	93.991	1,203,563
Maternal and Child Health Services Block Grant to The States	Health and Human Services, Department of	93.994	4,011,853
National Center for Health Statistics	Health and Human Services, Department of	200-2000-07227	208,542
Tissue Residue Inspections	Agriculture, Department of	HHSF223200640175P	22,936
Food/Grain Warehouse Inspection	Agriculture, Department of	HHSF223200740130P	46,558
Feed Establishment & BSE Inspection Contract	Agriculture, Department of	HHSF223200740060C	96,570
Total U.S. Department of Health and Human Services			<u>\$ 1,237,049,842</u>
Homeland Security, U.S. Department of			
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	Military Department	97.004 *	\$ 1,623,991
Homeland Security Grant Program	Military Department	97.067 *	8,875,576
Boating Safety Financial Assistance	Game and Parks Commission	97.012	364,844
Pre-Disaster Mitigation (PDM) Competitive Grants	Military Department	97.017	192,740
Pre-Disaster Mitigation (PDM) Competitive Grants	Natural Resources, Department of	97.017	1,688
Community Assistance Program State Support Services Element (CAP-SSSE)	Natural Resources, Department of	97.023	110,627
Crisis Counseling	Military Department	97.032	47,601
Crisis Counseling	Health and Human Services, Department of	97.032	43,254
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	97.036	68,679,456
Hazard Mitigation Grant	Military Department	97.039	675,342
National Dam Safety Program	Natural Resources, Department of	97.041	96,801
Emergency Management Performance Grants	Military Department	97.042	1,989,138
State Fire Training Systems Grants	Fire Marshal	97.043	26,934
Cooperating Technical Partners	Natural Resources, Department of	97.045	76,604
Emergency Operations Centers	Military Department	97.052	1,367,989
Map Modernization Management Support	Natural Resources, Department of	97.070	104,986
Buffer Zone Protection Program (BZPP)	Military Department	97.078	188,817
Total U.S. Department of Homeland Security			<u>\$ 84,466,388</u>

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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	\$ 9,203,690
Emergency Shelter Grants Program	Health and Human Services, Department of	14.231	665,021
HOME Investment Partnerships Program	Economic Development, Department of	14.239	6,241,605
Housing Opportunities for Persons with AIDS	Health and Human Services, Department of	14.241	552,843
Fair Housing Assistance Program - State and Local	Equal Opportunity Commission	14.401	304,812
Manufactured Homes	Public Service Commission	DV100K900016698	2,733
Total U.S. Department of Housing & Urban Development			<u>\$ 16,970,704</u>
Interior, U.S. Department of			
Water Reclamation and Reuse Program	Game and Parks Commission	15.504	\$ 103,130
Cultural Resources Management	Historical Society	15.511	217,741
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Game and Parks Commission	15.605	6,063,906
Wildlife Restoration	Game and Parks Commission	15.611	4,012,898
Fish and Wildlife Management Assistance	Game and Parks Commission	15.608	23,059
Fish and Wildlife Management Assistance	Historical Society	15.608	101,616
Cooperative Endangered Species Conservation Fund	Game and Parks Commission	15.615	518,165
Wildlife Conservation and Appreciation	Game and Parks Commission	15.617	16,632
Sportfishing and Boating Safety Act	Game and Parks Commission	15.622	61,023
Wildlife Conservation and Restoration	Game and Parks Commission	15.625	8,142
Landowner Incentive Program	Game and Parks Commission	15.633	804,570
State Wildlife Grants	Game and Parks Commission	15.634	869,492
Challenge Cost Share	Game and Parks Commission	15.642	7,500
Domestic Travel Promotion	Economic Development, Department of	15.901	151
Historic Preservation Fund Grants-In-Aid	Historical Society	15.904	697,426
Outdoor Recreation-Acquisition, Development and Planning	Game and Parks Commission	15.916	520,281
Save America's Treasures	Historical Society	15.929	104,620
Save America's Treasures	Administrative Services	15.929	35,969
Total U.S. Department of Interior			<u>\$ 14,166,321</u>
Justice, U.S. Department of			
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Military Department	16.007 *	\$ (16,034)
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections, Department of	16.202	374,599
Juvenile Accountability Block Grants	Law Enforcement and Criminal Justice, Commission for	16.523	384,694
Juvenile Justice and Delinquency Prevention - Allocation to States	Law Enforcement and Criminal Justice, Commission for	16.540	656,240

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Justice, U.S. Department of, Continued:			
Missing Children's Assistance	State Patrol	16.543	122,779
Title V - Delinquency Prevention Program	Law Enforcement and Criminal Justice, Commission for	16.548	61,250
State Justice Statistics Program for Statistical Analysis Centers	Law Enforcement and Criminal Justice, Commission for	16.550	62,003
National Criminal History Improvement Program (NCHIP)	State Patrol	16.554	240,138
National Institute of Justice Research, Evaluation, and Development Project Grants	State Patrol	16.560	398,182
Crime Victim Assistance	Law Enforcement and Criminal Justice, Commission for	16.575	2,513,450
Crime Victim Compensation	Law Enforcement and Criminal Justice, Commission for	16.576	41,178
Edward Byrne Memorial Formula Grant Program	Law Enforcement and Criminal Justice, Commission for	16.579	2,030,296
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	State Patrol	16.580	481,863
Violence Against Women Formula Grants	Law Enforcement and Criminal Justice, Commission for	16.588	1,109,343
Violence Against Women Formula Grants	State Patrol	16.588	70,106
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Attorney General	16.590	252,970
Residential Substance Abuse Treatment for State Prisoners	Law Enforcement and Criminal Justice, Commission for	16.593	112,348
State Criminal Alien Assistance Program	Corrections, Department of	16.606	275,536
Bulletproof Vest Partnership Program	State Patrol	16.607	9,627
Community Prosecution and Project Safe Neighborhoods	Law Enforcement and Criminal Justice, Commission for	16.609	229,337
Public Safety Partnership and Community Policing Grants	Law Enforcement and Criminal Justice, Commission for	16.710	280,284
Public Safety Partnership and Community Policing Grants	State Patrol	16.710	57,198
Enforcing Underage Drinking Laws Program	Motor Vehicles, Department of	16.727	390,867
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Corrections, Department of	16.735	138,146
Gang Resistance Education and Training	State Patrol	16.737	20,698
Criminal and Juvenile Justice and Mental Health Collaboration Program	Health and Human Services, Department of	16.745	22,000
High Intensity Drug	State Patrol	16.745	22,000
		IG-02-0104, I5PMWP634Z	1,026,717
Total U.S. Department of Justice			<u>\$ 11,345,815</u>
Labor, U.S. Department of			
Labor Force Statistics	Labor, Department of	17.002	\$ 920,608
Compensation and Working Conditions	Worker's Compensation Court	17.005	33,590
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, Department of	17.207	7,441,185
Disabled Veterans' Outreach Program (DVOP)	Labor, Department of	17.801	321,382
Local Veterans' Employment Representative Program	Labor, Department of	17.804	659,361
Unemployment Insurance - Federal	Labor, Department of	17.225	2,054,142
Unemployment Insurance - State	Labor, Department of	17.225	80,524,449
Unemployment Insurance - Admin	Labor, Department of	17.225	15,666,720

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Labor, U.S. Department of, Continued:			
Senior Community Service Employment Program	Health and Human Services, Department of	17.235	780,256
Trade Adjustment Assistance	Labor, Department of	17.245	1,165,532
Workforce Investment Act Cluster:			
WIA Adult Program	Labor, Department of	17.258 *	3,958,657
WIA Youth Activities	Labor, Department of	17.259 *	2,221,851
WIA Dislocated Workers	Labor, Department of	17.260 *	1,625,458
Work Incentive Grants	Labor, Department of	17.266	167,973
Incentive Grants - WIA Section 503	Labor, Department of	17.267	373,481
Work Opportunity Tax Credit Program (WOTC)	Labor, Department of	17.271	172,826
Temporary Labor Certification for Foreign Workers	Labor, Department of	17.273	116,482
Consultation Agreements	Labor, Department of	17.504	458,790
Veterans' Employment Program	Labor, Department of	17.802	480,821
Transition Assistance Program	Labor, Department of	17.807	18,192
Total U.S. Department of Labor			<u>\$ 119,161,756</u>
National Foundation on the Arts and Humanities			
Promotion of the Arts - Partnership Agreements	Arts Council	45.025	\$ 700,138
Grants to States	Library Commission	45.310	1,701,576
National Leadership Grants	Historical Society	45.312	106,625
Laura Bush 21st Century Librarian Program	Library Commission	45.313	116,519
Total National Foundation on the Arts and Humanities			<u>\$ 2,624,858</u>
Social Security Administration			
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Education, Department of	96.001 *	\$ 9,266,032
Supplemental Security Income	Education, Department of	96.006 *	33,724
Supplemental Security Income	Blind and Visually Impaired Commission	96.006 *	322,588
Total Social Security Administration			<u>\$ 9,622,344</u>
Transportation, U.S. Department of			
Airport Improvement Program	Aeronautics, Department of	20.106 *	\$ 16,082,478
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Roads, Department of	20.205	260,763,487
National Motor Carrier Safety	Motor Vehicles, Department of	20.218	6,514
National Motor Carrier Safety	State Patrol	20.218	2,743,430
Recreational Trails Program	Game and Parks Commission	20.219	602,309
Highway Research and Development Program	Education, Department of	20.200	12,761

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By Federal Agency
For the Fiscal Year Ended June 30, 2008

<u>Federal Agency/Program Title</u>	<u>State Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Transportation, U.S. Department of, Continued:			
Federal Transit - Metropolitan Planning Grants	Roads, Department of	20.505	448,709
Formula Grants for Other Than Urbanized Areas	Roads, Department of	20.509	3,463,756
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Roads, Department of	20.513	63,875
Highway Safety Cluster:			
State and Community Highway Safety	Motor Vehicles, Department of	20.600	1,899,676
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Motor Vehicles, Department of	20.601	1,309,899
Occupant Protection	Motor Vehicles, Department of	20.602	544,067
Safety Incentive Grants for Use of Seatbelts	Motor Vehicles, Department of	20.604	164,970
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Roads, Department of	20.605	284,129
State Traffic Safety Information System Improvement Grants	Motor Vehicles, Department of	20.610	250,957
Incentive Grant Program to Increase Motorcyclist Safety	Motor Vehicles, Department of	20.612	30,939
Pipeline Safety Program Base Grants	Fire Marshal	20.700	35,400
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military Department	20.703	150,472
Highway Related Safety Grants	Roads, Department of	DTMH22-87-C-0-76	52,396
Total U.S. Department of Transportation			<u>\$ 288,910,224</u>
U.S. Forest Service			
USFS T&E and Sensitive Species	Game and Parks Commission	N/A	\$ 1,250
Total U.S. Forest Service			<u>\$ 1,250</u>
Veterans Affairs, U.S. Department of			
Grants to States for Construction of State Home Facilities	Health and Human Services, Department of	64.005 *	\$ 2,078,059
Veterans State Domiciliary Care	Health and Human Services, Department of	64.014 ^	1,221,977
Veterans State Nursing Home Care	Health and Human Services, Department of	64.015 * ^	8,629,122
Total U.S. Department of Veterans Affairs			<u>\$ 11,929,158</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,337,283,969</u>

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See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Administrative Services			
Save America's Treasures	Interior, U.S. Department of	15.929	\$ 35,969
Total Administrative Services			<u>\$ 35,969</u>
Aeronautics, Department of			
Airport Improvement Program	Transportation, U.S. Department of	20.106 *	\$ 16,082,478
Total Department of Aeronautics			<u>\$ 16,082,478</u>
Agriculture, Department of			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 1,495,897
Market News	Agriculture, U.S. Department of	10.153	11,313
Market Protection and Promotion	Agriculture, U.S. Department of	10.163	10,437
State Mediation Grants	Agriculture, U.S. Department of	10.435	127,695
Meat, Poultry, and Egg Products Inspection	Agriculture, U.S. Department of	10.477	325
Senior Farmers Market Nutrition Program	Agriculture, U.S. Department of	10.576	239,029
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency, U.S.	66.700	636,688
Food and Drug Administration - Research	Health and Human Services, U.S. Department of	93.103	4,940
Ruminant Feed Ban Support Project	Health and Human Services, U.S. Department of	93.449	252,970
Tissue Residue Inspections	Health and Human Services, U.S. Department of	HHSF223200640175P	22,936
Food/Grain Warehouse Inspection	Health and Human Services, U.S. Department of	HHSF223200740130P	46,558
Feed Establishment & BSE Inspection Contract	Health and Human Services, U.S. Department of	HHSF223200740060C	96,570
FSIS/FERN Lab	Agriculture, U.S. Department of	FSIS - C-38-2005/02	49,359
Nebraska Rural Rehabilitation Program	Agriculture, U.S. Department of	N/A	130,069
Total Department of Agriculture			<u>\$ 3,124,786</u>
Arts Council			
Promotion of the Arts - Partnership Agreements	National Foundation on the Arts and Humanities	45.025	\$ 700,138
Total Arts Council			<u>\$ 700,138</u>
Attorney General			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Justice, U.S. Department of	16.590	\$ 252,970
Medicaid Cluster:			
State Medicaid Fraud Control Units	Health and Human Services, U.S. Department of	93.775 *	493,606
Total Attorney General			<u>\$ 746,576</u>
Blind and Visually Impaired Commission			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	\$ 2,648,617
Independent Living - State Grants	Education, U.S. Department of	84.169	39,183
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	Education, U.S. Department of	84.177	209,228

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Blind and Visually Impaired Commission, Continued:			
Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187	7,356
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	19,160
Disability Insurance/SSI Cluster: Supplemental Security Income	Social Security Administration	96.006 *	322,588
Total Blind and Visually Impaired Commission			<u>\$ 3,246,132</u>
Corn Board			
Federal-State Marketing Improvement Program	Agriculture, U.S. Department of	10.156	\$ 113,000
Grants for Agricultural Research - Competitive Research Grants	Agriculture, U.S. Department of	10.206	98,374
Environmental Quality Incentives Program	Agriculture, U.S. Department of	10.912	45,384
Total Corn Board			<u>\$ 256,758</u>
Corrections, Department of			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	Justice, U.S. Department of	16.202	\$ 374,599
State Criminal Alien Assistance Program	Justice, U.S. Department of	16.606	275,536
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Justice, U.S. Department of	16.735	138,146
Donation of Federal Surplus Personal Property	General Services Administration	39.003	538,239
Grants to States for Incarcerated Youth Offenders	Education, U.S. Department of	84.331	77,026
Total Department of Corrections			<u>\$ 1,403,546</u>
Economic Development, Department of			
Rural Community Development Initiative	Agriculture, U.S. Department of	10.446	\$ 96,057
Economic Development - Support for Planning Organizations	Commerce, U.S. Department of	11.302	65,229
Manufacturing Extension Partnership	Commerce, U.S. Department of	11.611	659,195
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Housing & Urban Development, U.S. Department of	14.228	9,203,690
HOME Investment Partnerships Program	Housing & Urban Development, U.S. Department of	14.239	6,241,605
Domestic Travel Promotion	Interior, U.S. Department of	15.901	151
National Rural Development Partnership	Agriculture, U.S. Department of	43-3157-8-RDP03	1,293
Total Department of Economic Development			<u>\$ 16,267,220</u>
Education, Department of			
Child Nutrition Cluster: School Breakfast Program	Agriculture, U.S. Department of	10.553	\$ 9,943,636
National School Lunch Program	Agriculture, U.S. Department of	10.555	45,129,670
Special Milk Program for Children	Agriculture, U.S. Department of	10.556	53,305
Summer Food Service Program for Children	Agriculture, U.S. Department of	10.559	1,041,007

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Education, Department of, Continued:			
Child and Adult Care Food Program	Agriculture, U.S. Department of	10.558 *	25,392,985
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	1,193,300
Highway Research and Development Program	Transportation, U.S. Department of	20.200	12,761
Adult Education - Basic Grants to States	Education, U.S. Department of	84.002	2,846,086
Title I Grants to Local Educational Agencies	Education, U.S. Department of	84.010	55,168,617
Migrant Education - State Grant Program	Education, U.S. Department of	84.011	4,587,902
Title I Program for Neglected and Delinquent Children	Education, U.S. Department of	84.013	283,584
Special Education Cluster:			
Special Education - Grants to States	Education, U.S. Department of	84.027	68,248,748
Special Education - Preschool Grants	Education, U.S. Department of	84.173	2,374,516
Career and Technical Education - Basic Grants to States	Education, U.S. Department of	84.048	7,066,699
Rehabilitation Services - Vocational Rehabilitation Grants to States	Education, U.S. Department of	84.126	16,114,590
Rehabilitation Services - Client Assistance Program	Education, U.S. Department of	84.161	125,696
Independent Living - State Grants	Education, U.S. Department of	84.169	260,464
Paul Douglas Teacher Scholarships	Education, U.S. Department of	84.176	(15,646)
Special Education - Grants for Infants and Families	Education, U.S. Department of	84.181	2,659,649
Byrd Honors Scholarships	Education, U.S. Department of	84.185	228,000
Safe and Drug - Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	1,644,408
Supported Employment Services for Individuals with Significant Disabilities	Education, U.S. Department of	84.187	216,237
Education for Homeless Children and Youth	Education, U.S. Department of	84.196	332,613
Star Schools	Education, U.S. Department of	84.203	1,061
Even Start - State Educational Agencies	Education, U.S. Department of	84.213	715,226
Assistive Technology	Education, U.S. Department of	84.224	416,895
Tech-Prep Education	Education, U.S. Department of	84.243	708,931
National Institute for Literacy	Education, U.S. Department of	84.257	1,160
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	Education, U.S. Department of	84.265	32,618
Twenty-First Century Community Learning Centers	Education, U.S. Department of	84.287	6,096,735
Foreign Language Assistance	Education, U.S. Department of	84.293	145,032
State Grants for Innovative Programs	Education, U.S. Department of	84.298	578,896
Education Technology State Grants	Education, U.S. Department of	84.318	1,831,910
Special Education - State Personnel Development	Education, U.S. Department of	84.323	900,880
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	Education, U.S. Department of	84.326	406,970
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	Education, U.S. Department of	84.330	8,000

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Education, Department of, Continued:			
Comprehensive School Reform Demonstration	Education, U.S. Department of	84.332	609,700
Transition to Teaching	Education, U.S. Department of	84.350	89,270
Reading First State Grants	Education, U.S. Department of	84.357	4,207,244
Rural Education	Education, U.S. Department of	84.358	88,011
English Language Acquisition Grants	Education, U.S. Department of	84.365	2,263,376
Mathematics and Science Partnerships	Education, U.S. Department of	84.366	1,017,685
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	13,618,592
Grants for State Assessments and Related Activities	Education, U.S. Department of	84.369	6,203,683
Statewide Data Systems	Education, U.S. Department of	84.372	686,466
Special Education - Technical Assistance on State Data Collection	Education, U.S. Department of	84.373	398,974
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services, U.S. Department of	93.234	121,235
Head Start	Health and Human Services, U.S. Department of	93.600	137,842
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	Health and Human Services, U.S. Department of	93.938	303,811
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	30,253
Learn and Serve America - School and Community Based Programs	Corporation For National and Community Service	94.004	107,076
Disability Insurance / SSI Cluster:			
Social Security - Disability Insurance	Social Security Administration	96.001 *	9,266,032
Supplemental Security Income	Social Security Administration	96.006 *	33,724
Total Department of Education			<u>\$ 295,936,115</u>
Educational Telecommunications Commission			
Public Television Station Digital Transition Grant Program	Agriculture, U.S. Department of	10.861	\$ 294,621
Total Educational Telecommunications Commission			<u>\$ 294,621</u>
Environmental Quality, Department of			
State Memorandum of Agreement Program for the Reimbursement of Technical Services	Defense, U.S. Department of	12.113	\$ 140,809
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	218,143
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency, U.S.	66.419	78,680
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	17,742
Targeted Watersheds Grants	Environmental Protection Agency, U.S.	66.439	45,817
Water Quality Management Planning	Environmental Protection Agency, U.S.	66.454	86,987
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency, U.S.	66.458	5,429,600
Nonpoint Source Implementation Grants	Environmental Protection Agency, U.S.	66.460	2,225,813
Water Quality Cooperative Agreements	Environmental Protection Agency, U.S.	66.463	1,199

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<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Environmental Quality, Department of, Continued:			
Wastewater Operator Training Grant Program (Technical Assistance)	Environmental Protection Agency, U.S.	66.467	21,778
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency, U.S.	66.468	7,032,737
Performance Partnership Grants	Environmental Protection Agency, U.S.	66.605	4,195,969
Environmental Information Exchange Network Grant Program and Related Assistance	Environmental Protection Agency, U.S.	66.608	492,622
Pollution Prevention Grants Program	Environmental Protection Agency, U.S.	66.708	74,926
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	Environmental Protection Agency, U.S.	66.802	357,079
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency, U.S.	66.805	823,262
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency, U.S.	66.809	176,627
State and Tribal Response Program Grants	Environmental Protection Agency, U.S.	66.817	527,614
Total Department of Environmental Quality			<u>\$ 21,947,404</u>
Equal Opportunity Commission			
Fair Housing Assistance Program - State and Local	Housing & Urban Development, U.S. Department of	14.401	\$ 304,812
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Equal Employment Opportunity Commission, U.S.	30.002	373,124
Total Equal Opportunity Commission			<u>\$ 677,936</u>
Fire Marshal			
Pipeline Safety Program Base Grants	Transportation, U.S. Department of	20.700	\$ 35,400
State and Tribal Underground Storage Tanks Program	Environmental Protection Agency, U.S.	66.804	397,849
State Fire Training Systems Grants	Homeland Security, U.S. Department of	97.043	26,934
Total Fire Marshal			<u>\$ 460,183</u>
Game and Parks Commission			
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, U.S. Department of	10.025	\$ 176,754
Wetlands Reserve Program	Agriculture, U.S. Department of	10.072	220,665
Forestry Research	Agriculture, U.S. Department of	10.652	858
Water Reclamation and Reuse Program	Interior, U.S. Department of	15.504	103,130
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	Interior, U.S. Department of	15.605	6,063,906
Wildlife Restoration	Interior, U.S. Department of	15.611	4,012,898
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	23,059
Cooperative Endangered Species Conservation Fund	Interior, U.S. Department of	15.615	518,165
Wildlife Conservation and Appreciation	Interior, U.S. Department of	15.617	16,632
Sportfishing and Boating Safety Act	Interior, U.S. Department of	15.622	61,023
Wildlife Conservation and Restoration	Interior, U.S. Department of	15.625	8,142
Landowner Incentive Program	Interior, U.S. Department of	15.633	804,570
State Wildlife Grants	Interior, U.S. Department of	15.634	869,492

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Game and Parks Commission, Continued:			
Challenge Cost Share	Interior, U.S. Department of	15.642	7,500
Outdoor Recreation - Acquisition, Development and Planning	Interior, U.S. Department of	15.916	520,281
Recreational Trails Program	Transportation, U.S. Department of	20.219	602,309
Regional Wetland Program Development Grants	Environmental Protection Agency, U.S.	66.461	38,969
Boating Safety Financial Assistance	Homeland Security, U.S. Department of	97.012	364,844
US Army Corps of Engineers	Defense, U.S. Department of	DACW99P0397,DACW4503P0076, W912F-04-P-0284, W9128F-05-P- 0171, W912F-06-P-0101	1,390,093
USFS T&E and Sensitive Species	U.S. Forest Service	N/A	1,250
Total Game and Parks Commission			<u>\$ 15,804,540</u>
Governor			
National Energy Information Center	Energy, U.S. Department of	81.039	\$ 6,000
State Energy Program	Energy, U.S. Department of	81.041	437,944
Weatherization Assistance for Low-Income Persons	Energy, U.S. Department of	81.042	2,423,170
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Energy, U.S. Department of	81.117	3,560
State Energy Program Special Projects	Energy, U.S. Department of	81.119	60,300
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568 *	2,516,914
Total Governor			<u>\$ 5,447,888</u>
Health and Human Services, Department of			
Food Distribution	Agriculture, U.S. Department of	10.550 ^	\$ 8,155,134
Food Stamp Cluster:			
Food Stamps	Agriculture, U.S. Department of	10.551 ^	128,773,492
State Administrative Matching Grants for Food Stamp Program	Agriculture, U.S. Department of	10.561 ^	13,748,176
Special Supplemental Nutrition Program for Women, Infants, and Children	Agriculture, U.S. Department of	10.557 *	29,372,080
State Administrative Expenses for Child Nutrition	Agriculture, U.S. Department of	10.560	122,488
Commodity Supplemental Food Program	Agriculture, U.S. Department of	10.565 ^	3,840,410
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	Agriculture, U.S. Department of	10.568	327,609
Emergency Food Assistance Program (Food Commodities)	Agriculture, U.S. Department of	10.569 ^	1,095,139
Emergency Shelter Grants Program	Housing & Urban Development, U.S. Department of	14.231	665,021
Housing Opportunities for Persons with AIDS	Housing & Urban Development, U.S. Department of	14.241	552,843
Criminal and Juvenile Justice and Mental Health Collaboration Program	Justice, U.S. Department of	16.745	22,000
Senior Community Service Employment Program	Labor, U.S. Department of	17.235	780,256

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Health and Human Services, Department of, Continued:			
Grants to States for Construction of State Home Facilities	Veterans Affairs, U.S. Department of	64.005 *	2,078,059
Veterans State Domiciliary Care	Veterans Affairs, U.S. Department of	64.014 ^	1,221,977
Veterans State Nursing Home Care	Veterans Affairs, U.S. Department of	64.015 * ^	8,629,122
State Indoor Radon Grants	Environmental Protection Agency, U.S.	66.032	149,691
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Environmental Protection Agency, U.S.	66.034	31,817
State Public Water System Supervision	Environmental Protection Agency, U.S.	66.432	776,631
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	Environmental Protection Agency, U.S.	66.471	231,736
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	Environmental Protection Agency, U.S.	66.707	304,450
Safe and Drug-Free Schools and Communities - State Grants	Education, U.S. Department of	84.186	382,116
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	Health and Human Services, U.S. Department of	93.006	149,656
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	59,010
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	66,788
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services Aging Cluster:	Health and Human Services, U.S. Department of	93.043	88,484
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 *	2,184,821
Special Programs for the Aging - Title III, Part C - Nutrition Services	Health and Human Services, U.S. Department of	93.045 *	3,728,858
Nutrition Services Incentive Program	Health and Human Services, U.S. Department of	93.053 *	1,377,871
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	Health and Human Services, U.S. Department of	93.048	137,748
Alzheimer's Disease Demonstration Grants to States	Health and Human Services, U.S. Department of	93.051	96,540
National Family Caregiver Support, Title III, Part E	Health and Human Services, U.S. Department of	93.052	1,042,508
Public Health Emergency Preparedness	Health and Human Services, U.S. Department of	93.069	998,371
Maternal and Child Health Federal Consolidated Programs	Health and Human Services, U.S. Department of	93.110	376,315
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Health and Human Services, U.S. Department of	93.116	225,078
Emergency Medical Services for Children	Health and Human Services, U.S. Department of	93.127	52,360
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	Health and Human Services, U.S. Department of	93.130	157,094
Injury Prevention and Control Research and State and Community Based Programs	Health and Human Services, U.S. Department of	93.136	340,226
Projects for Assistance in Transition from Homelessness (PATH)	Health and Human Services, U.S. Department of	93.150	297,883
Family Planning - Services	Health and Human Services, U.S. Department of	93.217	1,830,483
Consolidated Knowledge Development and Application (KD&A) Program	Health and Human Services, U.S. Department of	93.230	1,682,754
Abstinence Education Program	Health and Human Services, U.S. Department of	93.235	199,304
State Rural Hospital Flexibility Program	Health and Human Services, U.S. Department of	93.241	1,881,019

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Health and Human Services, Department of, Continued:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Health and Human Services, U.S. Department of	93.243	1,030,601
Universal Newborn Hearing Screening	Health and Human Services, U.S. Department of	93.251	99,325
Rural Access to Emergency Devices Grant	Health and Human Services, U.S. Department of	93.259	34,768
Immunization Grants	Health and Human Services, U.S. Department of	93.268 ^	12,274,311
Drug Abuse and Addiction Research Programs	Health and Human Services, U.S. Department of	93.279	29,967
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Health and Human Services, U.S. Department of	93.283 *	13,790,624
Small Rural Hospital Improvement Grant Program	Health and Human Services, U.S. Department of	93.301	590,370
Promoting Safe and Stable Families	Health and Human Services, U.S. Department of	93.556	1,728,977
Temporary Assistance for Needy Families	Health and Human Services, U.S. Department of	93.558 * ^	29,748,077
Child Support Enforcement	Health and Human Services, U.S. Department of	93.563 ^	29,745,499
Child Support Enforcement Research	Health and Human Services, U.S. Department of	93.564	18,597
Refugee and Entrant Assistance - State Administered Programs	Health and Human Services, U.S. Department of	93.566	1,094,446
Low-Income Home Energy Assistance	Health and Human Services, U.S. Department of	93.568 *	21,389,585
Community Services Block Grant	Health and Human Services, U.S. Department of	93.569	4,475,969
Child Care and Development Fund Cluster:			
Child Care and Development Block Grant	Health and Human Services, U.S. Department of	93.575 * ^	29,426,310
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Health and Human Services, U.S. Department of	93.596 * ^	16,672,179
Refugee and Entrant Assistance - Discretionary Grants	Health and Human Services, U.S. Department of	93.576	355,859
Empowerment Zones Program	Health and Human Services, U.S. Department of	93.585	8,875
Grants to States for Access and Visitation Programs	Health and Human Services, U.S. Department of	93.597	95,826
Chafee Education and Training Vouchers Program (ETV)	Health and Human Services, U.S. Department of	93.599	549,802
Adoption Incentive Payments	Health and Human Services, U.S. Department of	93.603	113,435
Basic Center Grant	Health and Human Services, U.S. Department of	93.623	220,000
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services, U.S. Department of	93.630	476,467
Children's Justice Grants to States	Health and Human Services, U.S. Department of	93.643	102,413
Child Welfare Services - State Grants	Health and Human Services, U.S. Department of	93.645	2,008,151
Foster Care - Title IV-E	Health and Human Services, U.S. Department of	93.658 * ^	19,882,733
Adoption Assistance	Health and Human Services, U.S. Department of	93.659 * ^	10,322,482
Social Services Block Grant	Health and Human Services, U.S. Department of	93.667 *	10,192,003
Child Abuse and Neglect State Grants	Health and Human Services, U.S. Department of	93.669	234,738
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	Health and Human Services, U.S. Department of	93.671	924,211
Chafee Foster Care Independence Program	Health and Human Services, U.S. Department of	93.674	1,614,597
State Children's Insurance Program	Health and Human Services, U.S. Department of	93.767 * ^	33,723,500
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Health and Human Services, U.S. Department of	93.768	502,837

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Health and Human Services, Department of, Continued:			
Medicaid Cluster:			
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services, U.S. Department of	93.777 * ^	3,832,235
Medical Assistance Program	Health and Human Services, U.S. Department of	93.778 * ^	944,721,836
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	362,116
National Bioterrorism Hospital Preparedness Program	Health and Human Services, U.S. Department of	93.889	2,674,940
Grants to States for Operataion of Offices of Rural Health	Health and Human Services, U.S. Department of	93.913	153,978
HIV Care Formula Grants	Health and Human Services, U.S. Department of	93.917	2,115,118
HIV Prevention Activities - Health Department Based	Health and Human Services, U.S. Department of	93.940	1,315,776
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Health and Human Services, U.S. Department of	93.944	109,681
Assistance Programs for Chronic Disease Prevention and Control	Health and Human Services, U.S. Department of	93.945	63,748
Cooperative Agreements to Support State - Based Safe Motherhood and Infant Health Initiative Programs	Health and Human Services, U.S. Department of	93.946	142,057
Block Grants for Community Mental Health Services	Health and Human Services, U.S. Department of	93.958	2,733,595
Block Grants for Prevention and Treatment of Substance Abuse	Health and Human Services, U.S. Department of	93.959	6,567,415
Preventive Health Services - Sexually Transmitted Diseases Control Grants	Health and Human Services, U.S. Department of	93.977	307,619
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services, U.S. Department of	93.988	281,679
Preventive Health and Health Services Block Grant	Health and Human Services, U.S. Department of	93.991	1,203,563
Maternal and Child Health Services Block Grant to the States	Health and Human Services, U.S. Department of	93.994	4,011,853
State Commissions	Corporation For National and Community Service	94.003	155,743
AmeriCorps	Corporation For National and Community Service	94.006	963,909
Planning and Program Development Grants	Corporation For National and Community Service	94.007	49,548
Training and Technical Assistance	Corporation For National and Community Service	94.009	91,037
Volunteers in Service to America	Corporation For National and Community Service	94.013	6,175
Crisis Counseling	Homeland Security, U.S. Department of	97.032	43,254
National Center for Health Statistics	Health and Human Services, U.S. Department of	200-2000-07227	208,542
Total Department of Health and Human Services			<u>\$ 1,433,826,369</u>
Historical Society			
Cultural Resources Management	Interior, U.S. Department of	15.511	\$ 217,741
Fish and Wildlife Management Assistance	Interior, U.S. Department of	15.608	101,616
Historic Preservation Fund Grants-In-Aid	Interior, U.S. Department of	15.904	697,426
Save America's Treasures	Interior, U.S. Department of	15.929	104,620
National Leadership Grants	National Foundation on the Arts and Humanities	45.312	106,625
Total Historical Society			<u>\$ 1,228,028</u>
Insurance, Department of			
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Health and Human Services, U.S. Department of	93.779	\$ 395,396
Grants to States for Operation of Qualified High-Risk Pools	Health and Human Services, U.S. Department of	93.780	779,427
Total Department of Insurance			<u>\$ 1,174,823</u>

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Labor, Department of			
Labor Force Statistics	Labor, U.S. Department of	17.002	\$ 920,608
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	Labor, U.S. Department of	17.207	7,441,185
Disabled Veterans' Outreach Program (DVOP)	Labor, U.S. Department of	17.801	321,382
Local Veterans' Employment Representative Program	Labor, U.S. Department of	17.804	659,361
Unemployment Insurance - Federal	Labor, U.S. Department of	17.225	2,054,142
Unemployment Insurance - State	Labor, U.S. Department of	17.225	80,524,449
Unemployment Insurance - Admin	Labor, U.S. Department of	17.225	15,666,720
Trade Adjustment Assistance	Labor, U.S. Department of	17.245	1,165,532
Workforce Investment Act Cluster:			
WIA Adult Program	Labor, U.S. Department of	17.258 *	3,958,657
WIA Youth Activities	Labor, U.S. Department of	17.259 *	2,221,851
WIA Dislocated Workers	Labor, U.S. Department of	17.260 *	1,625,458
Work Incentive Grants	Labor, U.S. Department of	17.266	167,973
Incentive Grants - WIA Section 503	Labor, U.S. Department of	17.267	373,481
Work Opportunity Tax Credit Program (WOTC)	Labor, U.S. Department of	17.271	172,826
Temporary Labor Certification for Foreign Workers	Labor, U.S. Department of	17.273	116,482
Consultation Agreements	Labor, U.S. Department of	17.504	458,790
Veterans' Employment Program	Labor, U.S. Department of	17.802	480,821
Transition Assistance Program	Labor, U.S. Department of	17.807	18,192
Total Department of Labor			<u>\$ 118,347,910</u>
Law Enforcement and Criminal Justice, Commission for			
Juvenile Accountability Block Grants	Justice, U.S. Department of	16.523	\$ 384,694
Juvenile Justice and Delinquency Prevention - Allocation to States	Justice, U.S. Department of	16.540	656,240
Title V-Delinquency Prevention Program	Justice, U.S. Department of	16.548	61,250
State Justice Statistics Program for Statistical Analysis Centers	Justice, U.S. Department of	16.550	62,003
Crime Victim Assistance	Justice, U.S. Department of	16.575	2,513,450
Crime Victim Compensation	Justice, U.S. Department of	16.576	41,178
Edward Byrne Memorial Formula Grant Program	Justice, U.S. Department of	16.579	2,030,296
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	1,109,343
Residential Substance Abuse Treatment for State Prisoners	Justice, U.S. Department of	16.593	112,348
Community Prosecution and Project Safe Neighborhoods	Justice, U.S. Department of	16.609	229,337
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	57,198
Total Commission for Law Enforcement and Criminal Justice			<u>\$ 7,257,337</u>

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STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Library Commission			
Grants to States	National Foundation on the Arts and Humanities	45.310	\$ 1,701,576
Laura Bush 21st Century Librarian Program	National Foundation on the Arts and Humanities	45.313	116,519
Total Library Commission			<u>\$ 1,818,095</u>
Military Department			
Public Safety Interoperable Communications Grant Program	Commerce, U.S. Department of	11.555	\$ 59,802
Military Construction, National Guard	Defense, U.S. Department of	12.400 *	17,303,839
National Guard Military Operations and Maintenance (O&M) Projects	Defense, U.S. Department of	12.401	11,224,883
National Guard Civilian Youth Opportunities	Defense, U.S. Department of	12.404	293,454
Homeland Security Cluster:			
State and Local Domestic Preparedness Equipment Support Program	Justice, U.S. Department of	16.007 *	(16,034)
State Domestic Preparedness Equipment Support Program	Homeland Security, U.S. Department of	97.004 *	1,623,991
Homeland Security Grant Program	Homeland Security, U.S. Department of	97.067 *	8,875,576
Interagency Hazardous Materials Public Sector Training and Planning Grants	Transportation, U.S. Department of	20.703	150,472
Pre-Disaster Mitigation (PDM) Competitive Grants	Homeland Security, U.S. Department of	97.017	192,740
Crisis Counseling	Homeland Security, U.S. Department of	97.032	47,601
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Homeland Security, U.S. Department of	97.036	68,679,456
Hazard Mitigation Grant	Homeland Security, U.S. Department of	97.039	675,342
Emergency Management Performance Grants	Homeland Security, U.S. Department of	97.042	1,989,138
Emergency Operations Centers	Homeland Security, U.S. Department of	97.052	1,367,989
Buffer Zone Protection Program (BZPP)	Homeland Security, U.S. Department of	97.078	188,817
Total Military Department			<u>\$ 112,657,066</u>
Motor Vehicles, Department of			
Enforcing Underage Drinking Laws Program	Justice, U.S. Department of	16.727	\$ 390,867
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	6,514
Highway Safety Cluster:			
State and Community Highway Safety	Transportation, U.S. Department of	20.600	1,899,676
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Transportation, U.S. Department of	20.601	1,309,899
Occupant Protection	Transportation, U.S. Department of	20.602	544,067
Safety Incentive Grants for Use of Seatbelts	Transportation, U.S. Department of	20.604	164,970
State Traffic Safety Information System Improvement Grants	Transportation, U.S. Department of	20.610	250,957
Incentive Grant Program to Increase Motorcyclist Safety	Transportation, U.S. Department of	20.612	30,939
Total Department of Motor Vehicles			<u>\$ 4,597,889</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
Natural Resources, Department of			
Soil and Water Conservation	Agriculture, U.S. Department of	10.902	\$ 9,493
Pre-Disaster Mitigation (PDM) Competitive Grants	Homeland Security, U.S. Department of	97.017	1,688
Community Assistance Program State Support Services Element (CAP-SSSE)	Homeland Security, U.S. Department of	97.023	110,627
National Dam Safety Program	Homeland Security, U.S. Department of	97.041	96,801
Cooperating Technical Partners	Homeland Security, U.S. Department of	97.045	76,604
Map Modernization Management Support	Homeland Security, U.S. Department of	97.070	104,986
Total Department of Natural Resources			<u>\$ 400,199</u>
Oil and Gas Commission			
State Underground Water Source Protection	Environmental Protection Agency, U.S.	66.433	\$ 92,657
Total Oil and Gas Commission			<u>\$ 92,657</u>
Postsecondary Education, Coordinating Commission for			
Leveraging Educational Assistance Partnership	Education, U.S. Department of	84.069	\$ 502,715
Improving Teacher Quality State Grants	Education, U.S. Department of	84.367	366,374
Total Coordinating Commission for Postsecondary Education			<u>\$ 869,089</u>
Public Service Commission			
Manufactured Homes	Housing & Urban Development, U.S. Department of	DU100K900016698	\$ 2,733
Total Public Service Commission			<u>\$ 2,733</u>
Roads, Department of			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	Transportation, U.S. Department of	20.205	\$ 260,763,487
Federal Transit - Metropolitan Planning Grants	Transportation, U.S. Department of	20.505	448,709
Formula Grants for Other Than Urbanized Areas	Transportation, U.S. Department of	20.509	3,463,756
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Transportation, U.S. Department of	20.513	63,875
Highway Safety Cluster:			
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Transportation, U.S. Department of	20.605	284,129
Highway Related Safety Grants	Transportation, U.S. Department of	DTMH22-87-C-0-763	52,396
Total Department of Roads			<u>\$ 265,076,352</u>
Secretary of State			
Help America Vote Act Requirements Payments	Election Assistance Commission	90.401 *	\$ 1,484,790
Voting Access for Individuals with Disabilities-Grants to States	Health and Human Services, U.S. Department of	93.617	167,468
Total Secretary of State			<u>\$ 1,652,258</u>

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See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Schedule of Expenditures of Federal Awards - By State Agency
For the Fiscal Year Ended June 30, 2008

<u>State Agency/Program Title</u>	<u>Federal Agency</u>	<u>CFDA or Grant #</u>	<u>2008 Expenditures</u>
State Patrol			
Missing Children's Assistance	Justice, U.S. Department of	16.543	\$ 122,779
National Criminal History Improvement Program (NCHIP)	Justice, U.S. Department of	16.554	240,138
National Institute of Justice Research, Evaluation, and Development Project Grants	Justice, U.S. Department of	16.560	398,182
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	Justice, U.S. Department of	16.580	481,863
Violence Against Women Formula Grants	Justice, U.S. Department of	16.588	70,106
Bulletproof Vest Partnership Program	Justice, U.S. Department of	16.607	9,627
Public Safety Partnership and Community Policing Grants	Justice, U.S. Department of	16.710	280,284
Gang Resistance Education and Training	Justice, U.S. Department of	16.737	20,698
National Motor Carrier Safety	Transportation, U.S. Department of	20.218	2,743,430
High Intensity Drug	Justice, U.S. Department of	IG-02-0104, I5PMWP634Z	1,026,717
Total State Patrol			<u>\$ 5,393,824</u>
Supreme Court, Nebraska			
State Court Improvement Program	Health and Human Services, U.S. Department of	93.586	\$ 423,460
Total Nebraska Supreme Court			<u>\$ 423,460</u>
Worker's Compensation Court			
Compensation and Working Conditions	Labor, U.S. Department of	17.005	\$ 33,590
Total Worker's Compensation Court			<u>\$ 33,590</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,337,283,969</u>

^ - Amounts taken from financial status reports.

* - Represents major programs.

See accompanying Notes to the Schedules of Expenditures of Federal Awards.

STATE OF NEBRASKA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

(1) General

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

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The State's reporting entity is defined in note 1(b) to the financial statements. The accompanying Schedule includes the federal awards programs administered by the State (the primary government) for the fiscal year ended June 30, 2008.

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

University of Nebraska
Nebraska State College System

(b) Basis of Presentation

The accompanying Schedule presents total expenditures for each federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA) whenever possible.

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

Major Programs—In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are considered major programs.

STATE OF NEBRASKA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

(c) ***Basis of Accounting***

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

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

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

Nonmonetary Assistance—The Schedule contains amounts for nonmonetary assistance programs. The Food Stamp program is presented at the dollar value of food stamp benefits disbursed to recipients. The commodities programs are presented at the value assigned by the U.S. Department of Agriculture. The Childhood Immunization vaccines are presented at the value assigned by the U.S. Department of Health and Human Services.

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

(3) **Nonmonetary Assistance Inventory**

Nonmonetary assistance is reported in the Schedule based on the amounts disbursed. As of June 30, 2008, the inventory balance of nonmonetary assistance for Food Commodities at the State level was \$1,810,593.

(4) **Commodity Supplemental Food Program and Childhood Immunization Grants**

Expenditures for the Commodity Supplemental Food program included \$3,008,380 of nonmonetary federal assistance in the form of food commodities. The U.S. Department of Agriculture, upon direction from the Nebraska Department of Health and Human Services, delivers the commodities directly to the subrecipients for distribution. The Childhood Immunization Grants included expenditures of \$10,502,931 of nonmonetary federal assistance in the form of vaccines.

STATE OF NEBRASKA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

(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 program. Donated federal surplus personal property in 2008 was valued at the historical cost of \$3,588,257 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 for which the federal government imposes continuing compliance requirements (other than repayment of the loan) on the following outstanding balances:

CFDA #	Program	Outstanding Balance at June 30, 2008
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 152,492,573
66.468	Capitalization Grants for Drinking Water State Revolving Funds	71,375,864
84.176	Paul Douglass Teacher Scholarship Loan Program	29,151

New loans provided from these programs totaling \$10,958,513 are included as current year expenditures on the Schedule.

(7) Airport Improvement Program

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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the College Savings Plan and the NETC Leasing Corporation, as described in our report on the State of Nebraska's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the College Savings Plan and the NETC Leasing Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting: findings #08-23-01, #08-25-01, #08-65-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State of Nebraska's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

The State of Nebraska's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Nebraska's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor and State Legislature, others within the government of the State of Nebraska, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Lincoln, Nebraska
December 19, 2008

Don Dunlap, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the State of Nebraska with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The State of Nebraska's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State of Nebraska's management. Our responsibility is to express an opinion on the State of Nebraska's compliance based on our audit.

The basic financial statements of the State of Nebraska include the operations of the University of Nebraska and State College System component units, which received Federal awards during the year ended June 30, 2008. Our audit, described below, did not include the operations of the University of Nebraska or the State College System because the component units engaged the auditors to perform separate audits in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Nebraska's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Nebraska's compliance with those requirements.

Scope Limitations

We were unable to obtain sufficient documentation regarding the compliance of the State of Nebraska with the major federal program listed below regarding the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State of Nebraska's compliance with those requirements by other auditing procedures.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Period of Availability	08-23-07
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Earmarking	08-23-08

Qualifications

As identified by the finding number and described in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with certain compliance requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major Federal programs.

<u>CFDA #</u>	<u>Federal Program</u>	<u>Compliance Requirement</u>	<u>Finding #</u>
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Allowable Costs/Cost Principles	08-23-04
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Reporting	08-23-06
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring	08-25-03
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Allowability	08-25-06
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	08-25-10
93.667	Social Services Block Grant	Allowability	08-25-17

Adverse

As identified by the finding number and described in the accompanying schedule of findings and questioned costs, the State of Nebraska did not comply with the compliance requirements that are applicable to the major Federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Nebraska to comply with requirements applicable to those major programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
17.258, 17.259 and 17.260	Workforce Investment Act Cluster	Cash Management/Reporting	08-23-02
17.258, 17.259 and 17.260	Workforce Investment Act Cluster	Allowability/ Cash Management	08-23-03

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State of Nebraska did not comply, in all material respects, with the requirements applicable to the programs identified in the preceding paragraph. Also, in our opinion, except for noncompliance described in the second preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Nebraska's compliance with the requirements described in the third preceding paragraph, the State of Nebraska complied, in all material respects, with the requirements referred to above that are applicable to each of its other major Federal programs for the year ended June 30, 2008.

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

CFDA #	Federal Program	Compliance Requirement	Finding #
90.401	Help America Vote Act	Allowable Costs/Cost Principles & Equipment	08-09-01
90.401	Help America Vote Act	Reporting	08-09-02
20.106	Airport Improvement Program	Allowable Costs/Cost Principles	08-17-01
17.002, 17.207, 17.225, 17.245, 17.258, 17.259, and 17.260	Labor Force Statistics, Employment Service/Wagner-Peyser Funded Activities, Unemployment Insurance, Trade Adjustment Assistance, Workforce Investment Act Cluster	Reporting	08-23-05

CFDA #	Federal Program	Compliance Requirement	Finding #
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Reporting	08-23-09
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Subrecipient Monitoring	08-23-10
17.258, 17.259, and 17.260	Workforce Investment Act Cluster	Allowability	08-23-11
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring	08-25-02
64.015	Veterans State Home Nursing Care	Eligibility	08-25-04
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	08-25-05
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Reporting	08-25-07
93.558	Temporary Assistance for Needy Families	Allowability/Eligibility	08-25-08
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	08-25-09
93.568	Low-Income Home Energy Assistance Program	Activities Allowed/Eligibility	08-25-11
93.575 and 93.596	Child Care and Development Fund Cluster	Allowability/Eligibility	08-25-12
93.658	Foster Care Title IV-E	Activities Allowed/Eligibility	08-25-13
93.658	Foster Care Title IV-E	Matching	08-25-14
93.659	Adoption Assistance	Allowability/Matching	08-25-15
93.659	Adoption Assistance	Allowable Costs/Cost Principles & Reporting	08-25-16
93.667	Social Services Block Grant	Allowability	08-25-18

CFDA #	Federal Program	Compliance Requirement	Finding #
93.767	State Children's Insurance Program	Reporting	08-25-19
93.767	State Children's Insurance Program	Eligibility	08-25-20
93.778	Medical Assistance Program	Matching/Reporting	08-25-21
93.778	Medical Assistance Program	Allowability/Subrecipient Monitoring	08-25-22
93.778	Medical Assistance Program	Allowability/Matching	08-25-23
93.778	Medical Assistance Program	Eligibility	08-25-24
Various	Various	Reporting	08-25-25
93.044, 93.045, 93.575, and 93.596	Aging Cluster, Child Care and Development Fund Cluster	Allowable Costs/Cost Principles	08-25-26
93.575, 93.596, 93.658, 93.667, 93.777, and 93.778	Child Care and Development Fund Cluster, Foster Care Title IV-E, Social Services Block Grant, Medicaid Cluster	Allowable Costs/Cost Principles	08-25-27
Various	Various	Reporting	08-33-01
93.568	Low-Income Home Energy Assistance Program	Subrecipient Monitoring	08-71-01

Internal Control Over Compliance

The management of the State of Nebraska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Nebraska's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the State of Nebraska's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #08-09-01, #08-23-02, #08-23-03, #08-23-04, #08-23-06, #08-23-07, #08-23-08, #08-23-10, #08-25-03, #08-25-06, #08-25-08, #08-25-10, #08-25-12, #08-25-13, #08-25-14, #08-25-15, #08-25-16, #08-25-18, #08-25-19, #08-25-20, and #08-25-21 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items #08-23-02, #08-23-03, #08-23-04, #08-23-06, #08-23-07, #08-23-08, 08-25-03, and #08-25-10 to be material weaknesses.

The State of Nebraska's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Nebraska's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the State of Nebraska, the Governor, and State Legislature, others within the government of the State of Nebraska, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Lincoln, Nebraska
February 10, 2009

Pat Reding, CPA
Assistant Deputy Auditor

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

I. Summary of Auditors' Results

- a) Type of report issued as it related to the State of Nebraska's (the State's) basic financial statements: Unqualified.
- b) Significant deficiencies in internal control were disclosed by the audit of the financial statements and are included in the schedule of findings and questioned costs in Part II as items #08-23-01, #08-25-01, and #08-65-01. These findings were not considered to be material weaknesses.
- c) The audit disclosed no instances of noncompliance, which is material to the State's basic financial statements.
- d) Significant deficiencies in internal control over the major programs were disclosed by the audit and are included in the schedule of findings and questioned costs in Part III as items #08-09-01, #08-23-02, #08-23-03, #08-23-04, #08-23-06, #08-23-07, #08-23-08, #08-23-10, #08-25-03, #08-25-06, #08-25-08, #08-25-10, #08-25-12, #08-25-13, #08-25-14, #08-25-15, #08-25-16, #08-25-18, #08-25-19, #08-25-20, and #08-25-21.

We consider items #08-23-02, #08-23-03, #08-23-04, #08-23-06, #08-23-07, #08-23-08, #08-25-03, and #08-25-10 to be material weaknesses in internal control over the major programs.

- e) Type of report issued on compliance for major programs: Qualified, Disclaimer, and Adverse.
- f) The audit disclosed audit findings, which are required to be reported in accordance with section .510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III.
- g) The following table shows programs that are considered to be major programs:

CFDA # 10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA # 10.558	Child and Adult Care Food Program
CFDA # 12.400	Military Construction, National Guard
CFDA # 16.007, 97.004, and 97.067	Homeland Security Cluster
CFDA # 17.258, 17.259, and 17.260	Workforce Investment Act Cluster
CFDA # 20.106	Airport Improvement Program
CFDA # 64.005	Construction of State Home Facilities
CFDA # 64.015	Veterans State Nursing Home Care
CFDA # 90.401	Help America Vote Act Requirements Payments
CFDA # 93.044, 93.045,	Aging Cluster

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
 Year Ended June 30, 2008

	and 93.053	
CFDA #	93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance
CFDA #	93.558	Temporary Assistance for Needy Families
CFDA #	93.568	Low-Income Home Energy Assistance
CFDA #	93.575 and 93.596	Child Care Cluster
CFDA #	93.658	Foster Care – Title IV-E
CFDA #	93.659	Adoption Assistance
CFDA #	93.667	Social Services Block Grant
CFDA #	93.767	State Children’s Insurance Program (SCHIP)
CFDA #	93.775, 93.777, and 93.778	Medicaid Cluster
CFDA #	96.001 and 96.006	Disability Supplemental Security Income Cluster

- h) Dollar threshold used to distinguish between Type A and Type B programs: \$7,011,852
- i) The State did not qualify as a low-risk auditee.

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

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

DEPARTMENT OF LABOR

Finding #08-23-01

Bank Reconciliations

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Sound accounting practice and good internal control also require regular, detailed reconciliations of monies on deposit to the Agency's records to ensure errors, omissions, or irregularities that might occur are detected and resolved in a timely manner.

As part of its bank reconciliation process, the Agency tracked outstanding Unemployment Compensation checks using a manually prepared excel spreadsheet and their Benefits Payment System (BPS). Although the Agency performed monthly reconciliations of outstanding checks between these two records, unexplained variances remained in each month's outstanding checks total. During our audit, we noted many problems with the Agency's reconciliation process. As a result of our testing, we determined the total amount of outstanding checks used in the reconciliation was not accurate. The total amount of outstanding checks on the June 30, 2008, bank reconciliation was \$1,258,100.

Subsequent to our testing, Administrative Services State Accounting Division (State Accounting) began working with the Agency on their reconciliation process. As of October 31, 2008, the Agency had identified and reconciled bank activity to book activity; however, the Agency's bank reconciliation was incomplete and showed an unknown variance of \$5,288 between the Agency's bank balance and their manually prepared spreadsheets. Due to this information, we could not determine if the bank reconciliations performed by the Agency during the fiscal year ended June 30, 2008, were reliable. The last reliable reconciliation was performed in January 2003.

A similar comment was noted in our prior audit.

When variances between the Agency's bank balance and book balance are not sufficiently itemized to ensure their accuracy, there is an increased risk errors, omissions, or irregularities might occur and go undetected or unresolved.

We strongly recommend the Agency review its reconciliation procedures and develop a method to account for, in detail, all variances and reconciling items. We also recommend, for errors that have been

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

identified, a subsequent adjustment be made in the Agency's accounting records. Furthermore, we recommend the Agency continue to work with State Accounting to resolve these issues.

Management Response: The Agency's Treasury Management team has been working closely with State Accounting to formally adopt a reconciliation process and has already identified and corrected variances found to date. The team will continue to enforce this formal policy and research and document any variances found during the daily reconciliation process. Formal coordination is ongoing with both the State Accounting Team as well as the Agency's information technology staff on a daily basis to correct errors found in the reconciliation process.

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #08-25-01

Accrual Information

As part of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. Good internal control requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the 2008 CAFR, we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- Estimated accounts receivable accruals for Medicaid Drug Rebates were understated by \$11,663,557. This understatement occurred as a result of the reduction of the Drug Rebate accrual amount by cash receipts due as of June 30, 2008, and collected after June 30, 2008.
- Intergovernmental accounts payable and accounts receivable accruals were understated by \$6 million and overstated by \$12,869 respectively. The understatement of accounts payable was caused by an incorrect amount being reported to State Accounting while the overstatement of accounts receivable was due to the double recording of \$2.5 million in TANF and the exclusion of \$2,487,131 in LIHEAP, SSBG, and adoption assistance receivables.
- The Patient and County billings accounts receivable was overstated by \$2,453,269 due to the inclusion of the State matching portion of the Medicaid/Managed Care billings.
- After submitting their accrual response form to State Accounting, the Agency revised their estimation of the medical student loan receivables that will be collectible. While the Agency reported the change in the net receivable amount, the Agency failed to report the revision in the accounts receivable allowance to State Accounting. As a result, the accounts receivable allowance amount was understated by \$228,758.
- The Agency did not report a payable to a vendor which was estimated at \$6,295,236. An invoice had not been received; however, payment was expected to be made for the period of March through May 2008.
- A \$1.3 million payment made in August 2008 was incorrectly recorded as a fiscal year 2009 obligation when it should have been recorded as a fiscal year 2008 obligation.

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). Similar findings have been noted in our previous audits.

Without proper controls to ensure amounts reported to State Accounting are accurate there is an increased risk the financial statements are misstated.

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

Management Response: The Department agrees and has assigned the task of documenting this process. It will be completed by June 30, 2009.

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding #08-65-01

Review of CAFR Information

Good internal control requires an adequate review of information used to prepare the Comprehensive Annual Financial Report (CAFR), including information provided by other agencies.

During our audit of the CAFR, we noted the following errors in its preparation:

- Administrative Services State Accounting Division (State Accounting) did not have adequate procedures to ensure the amounts submitted by State agencies on the accrual response forms were correct. Significant errors, ranging from \$228,758 to \$11,663,557 were noted in amounts reported by the Department of Health and Human Services and the State Treasurer. State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA). A similar finding was noted in previous reports.
- There were numerous errors noted on information prepared by State Accounting to support entries made to the financial statements. The errors ranged from \$7,000 to \$6,795,755. State Accounting did make correcting entries for all material amounts as recommended by the APA. A similar finding was noted in previous reports.

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

We recommend State Accounting continue to obtain an understanding of how State agencies prepare key accrual information, and work with and train State agency personnel to ensure accrual information is supportable and has a sound accounting base. Once State agencies submit their information to State Accounting, State Accounting should have procedures in place to review and verify the information is supportable, reasonable, and accurate. We also recommend State Accounting ensure an adequate review of internally prepared documentation to ensure accuracy.

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Management Response:

- State Accounting has and will continue to work with agencies to ensure that the amounts the agencies submit with the accrual questionnaires are correct. Prior to distribution of the financial reporting package, State Accounting met with many of the larger agencies to discuss this issue. Members from State Accounting are continuing to attend each exit conference and be a party to all discussions with the auditors and the agencies regarding this issue. Finally, State Accounting continues to meet with appropriate agencies to improve reporting methods.

- State Accounting has procedures to review work papers before they are given to the auditor. This year all work papers were reviewed by State Accounting employees. Even so, some immaterial items were overlooked. In the future, we will again put strong emphasis on making our work papers correct.

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III. Findings and Questioned Costs Relating to Federal Awards:

SECRETARY OF STATE

Finding #08-09-01

Program: CFDA 90.401 – Help America Vote Act – Allowable Costs/Cost Principles & Equipment

Grant Number & Year: #BU9824588, April 2003

Federal Grantor Agency: Election Assistance Commission

Criteria: OMB Circular A-87 Attachment A, Section C 1.j. requires costs charged to Federal programs to be adequately documented. OMB Circular A-133 requires the auditee to maintain internal controls over Federal programs that provide reasonable assurance the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. Title 41 CFR 105-71.132 requires a State to use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Good internal control requires maintaining adequate supporting documentation for purchases and maintaining an accurate listing of all equipment purchased with Federal grant funds.

Condition: During our testing of equipment records we noted the following:

- The number of voting machines received and the number of voting machines paid for did not agree.
- The purchase cost recorded on NIS was incorrect for seven items.

Questioned Costs: \$60,207

Context: Our prior audit noted the Agency did not have all equipment properly inventoried, tagged, and entered into NIS. Our follow-up for fiscal year 2008 noted the following:

- The amount paid for voting machines in fiscal year 2006 was for the number of voting machines contracted for; however, the vendor sent a different number of machines. The contract was for 172 M100 machines and 159 were received, a difference of 13 machines with a total variance of \$60,207.
- During the fiscal year, the Agency made significant progress to inventory, tag, and enter equipment into the Nebraska Information System (NIS). As of June 30, 2008, the Agency had entered 1,565 election machines into NIS; however, the

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purchase cost for seven machines was entered incorrectly. The purchase cost for four items was recorded as \$8,230 which appears to be the purchase cost of two Automark machines. The purchase cost of one machine was recorded as \$9,262 which appears to be the purchase cost of two M100 machines. The purchase cost for another machine was recorded as \$12,345 which appears to be the purchase cost of three Automark machines. The purchase cost for another machine was recorded as \$59,365 which appears to be the purchase cost of one M650 machine and one Automark machine.

Cause: An error was made in the payment for election equipment. The initial purchase cost of equipment was entered as a lump sum and subsequently adjusted to individual tag numbers by numerous journal entries. Minor errors were made when adjusting the purchase cost of items recorded on NIS.

Effect: There is an increased risk of loss or misuse of funds when incorrect payments are made to vendors and accurate inventory records are not maintained.

Recommendation: We recommend the Agency ensure proper payments are made to vendors and ensure the NIS listing reflects the correct purchase costs for those items that appear to have an incorrect purchase cost recorded.

Management Response: The Agency concurs that the number of voting machines received differed from the number paid for. We have requested a refund from the vendor in the amount of \$60,207 which will be deposited into the HAVA cash fund. We anticipate receiving the refund no later than February 28, 2009.

The Agency concurs that when inputting 1565 fixed asset items into the State's Nebraska Information System (NIS) fixed asset module, 7 items were assigned an incorrect cost. The financial records and corresponding federal funds were not affected by the dollar amounts entered into the fixed asset module. The total number of items entered incorrectly amount to a .0045 percent error which is not material to the financial statements or to this federal program. The Agency respectfully requests this finding be removed from this report and be noted as an exit item only. The Agency does not feel that there is any danger of loss or misuse of federal funds as a result of a clerical error in the fixed asset portion of the State's accounting system.

Corrective Action Plan: We have requested a full refund from the vendor in the amount of \$60,207. This payment will be deposited into the HAVA fund no later than February 28, 2009. Internal controls over payables and staff in charge of approving HAVA transactions have changed since this error occurred in 2006. Current internal controls would have required the number of equipment items received match to the number paid for. Therefore, no changes to current policies or procedures are necessary within the Agency to prevent such errors from occurring in the future.

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All errors will be corrected within NIS by February 28, 2009.

Contact: Suzanne Hinzman, Deputy Secretary of State for Finance and Human Resources

Anticipated Completion Date: February 28, 2009

Auditor's Response: There was a prior report finding noting issues regarding inventory records for equipment and due to the errors noted, we feel the issue has not been fully resolved and therefore should be reported to the Federal Agency.

Finding #08-09-02

Program: CFDA 90.401 – Help America Vote Act – Reporting

Grant Number & Year: #BU9824588, April 2003

Federal Grantor Agency: Election Assistance Commission

Criteria: OMB Circular A-133 § 300 requires the State to prepare the Schedule of Expenditures of Federal Awards (SEFA) in accordance with section 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

Condition: The SEFA amount was incorrectly reported. We informed Administrative Services and the Agency of the errors and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amount initially reported was \$1,200,910. The corrected SEFA amount was \$1,484,790. The variance was \$283,880.

Cause: Receipt amounts were included.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

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Management Response: We agree that a clerical error occurred when presenting the SEFA amount to Administrative Services. The SEFA amount was subsequently adjusted to reflect the correct amount of expenditures.

Corrective Action Plan: This was a clerical error only. Subsequent reports run to obtain SEFA amounts will be limited to expenditure accounts only.

Contact: Suzanne Hinzman, Deputy Secretary of State for Finance and Human Resources

Completion Date: The SEFA amount has already been corrected.

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DEPARTMENT OF AERONAUTICS

Finding #08-17-01

Program: CFDA 20.106 – Airport Improvement Program – Allowable Costs/Cost Principles

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87 Attachment E, B.6. discusses the requirement to carry forward an adjustment for the difference between estimated costs and actual costs. OMB Circular A-87 Attachment E, C.2.b. requires capital expenditures to be excluded from indirect costs.

Condition: The difference between actual and estimated indirect costs was not carried forward as an adjustment to the rate computation of the subsequent period. The Agency has been using 1.5 as their indirect cost rate for a number of years and the FAA has been paying them. The indirect cost rate calculation included capital assets which are not an allowable indirect cost.

Questioned Costs: Unknown

Context: Total administrative costs charged to the Federal projects were \$215,307. Administrative costs included both direct and indirect costs.

Cause: Unknown

Effect: The indirect costs charged may be more or less than allowed.

Recommendation: We recommend the Agency prepare their indirect cost rate plan in accordance with OMB Circular A-87.

Management Response: We agree with the finding.

Corrective Action Plan: We have compiled new figures for overhead, in compliance with OMB Circular A-87. We will request that State Accounting review and certify our methodology. Upon confirmation from their office, we will forward the certification to the FAA.

Contact: Robin Edwards and Russell Gasper

Anticipated Completion Date: Submission to State Accounting by December 31, 2008.

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DEPARTMENT OF LABOR

Finding #08-23-02

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act (WIA) Cluster; due to the cross-cutting nature of this finding, all Agency CFDA's are also impacted – Cash Management & Reporting

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133 § 300 states, “The auditee shall: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.” Title 29 CFR § 97.21(b) (July 1, 2007) states, “Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee...” Good internal control requires procedures to ensure expenditures are properly reported and reconciled to Federal funds received.

Condition: There have been variances between Federal reported expenditures, actual expenditures, and Federal receipts drawn for the past several years. Although these variances may not have been significant for any particular grant for a particular year, the cumulative effect has risen to approximately \$4 - 6 million variance between reported expenditures and drawdowns received. The Agency is currently working with Federal program officials to resolve this issue; however, we noted several issues with the procedures used.

Questioned Costs: Unknown

Context: Due to concerns by Federal program officials and the Agency, the Auditor of Public Accounts (APA) evaluated the accounting records and other information regarding variances between Federal reported expenditures, Federal expenditures per the State accounting system, and funds received from the Federal government from January 2003 to March 2008. Nebraska Information System (NIS) is the State accounting system implemented in 2003. Financial Accounting and Reporting System (FARS) was the system used for Federal reporting through December 2006 and was the approved system for cost allocations. The Agency did not reconcile FARS reported expenditures to NIS actual expenditures, or to drawdowns received.

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Several concerns were noted and the Agency began work to attempt to resolve the issues and to determine the amount needed to repay the Federal government. The Agency performed procedures for the period from July 1, 2003, through June 30, 2008. This work included (1) the use of spreadsheets accumulating adjusted expenses and Payment Management System (PMS) drawdowns, and (2) a comparison of NIS general ledger expenses to NIS general ledger receipts.

The first method involved comparing adjusted NIS expenses to PMS draws. Adjusted NIS expenses were NIS general ledger expenses plus or minus adjustments identified by the APA necessary to correct improper cost allocations.

We noted the following regarding the first method:

- The Agency did not have written approval from the U.S. Department of Labor (U.S. DOL) for the time frame analyzed. The Agency indicated they had discussed the timeframe with U.S. DOL representatives. The Agency used from July 1, 2003, through June 30, 2008. The APA had noted variances from January 1, 2003, through June 30, 2003, in the amount of \$1,929,137.
- The Agency focused on Workforce Investment Act, Employment Services and Unemployment Insurance grants, but the Agency did not consider all the projects in each of these programs. Also, the Agency did not consider other Federal programs which appeared to have discrepancies. The Agency did not have approval from the U.S. DOL to exclude any projects or programs.
- We could not trace all PMS draw amounts to PMS. We could not trace 8 of 15 Workforce Investment Act draws tested with variances ranging from (\$169,357) to \$959,962; 7 of 30 Employment Services draws tested ranging from (\$629,588) to \$352,054, and 13 of 20 Unemployment Insurance draws tested ranging from (\$3,858,787) to \$24,903.
- Amounts that were supposed to carryover from one spreadsheet to the next were not always properly carried forward. We noted errors ranging from (\$931,809) to \$598,624 for various projects tested. In addition, the APA noted many other clerical errors in the Agency's analysis.
- The purpose of the first method was to determine if any grant was overdrawn for a particular year; however, the results were not carried forward to a final determination of adjustments or repayments needed.

The second method compared NIS general ledger expenses and NIS general ledger receipts for only the specific grants originally identified by the Federal government as being overdrawn. The Agency's analysis resulted in a variance of \$4,368,453. As noted in finding #08-23-03 our testing of unallowable transfers shows \$5,589,779 has not been repaid.

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We noted the following regarding the second method:

- The Agency did not evaluate all grants.
- The second method is based on the NIS general ledger and does not include adjustments needed due to cost allocation problems and other issues.
- The analysis used NIS receipts and not PMS draws. Since the Agency was not consistently depositing grant money from PMS into the correct grant business units in NIS, using NIS receipts would not accurately reflect which grants the dollars originated from. Also, the Agency did not consistently use the NIS receipt amount when determining the variance. If NIS receipts exceeded obligation authority, the Agency only recorded the amount they were authorized to spend.

We determined this work was not sufficient to adequately determine the amount needed to repay the Federal government.

Cause: The Agency was not performing adequate periodic reconciliations. Procedures within the Agency's finance area were not adequately documented. Supervisory reviews of cash management and reporting were ineffective.

Effect: WIA Federal funds were used for non-WIA purposes.

Recommendation: We recommend the Agency continue to work with Federal program officials to resolve this issue and repay funds as necessary. Specifically, we recommend the Agency: 1) Obtain the U.S. DOL's approval for the parameters of the evaluation, including approval for any dates or projects excluded, 2) The evaluation should be based on NIS general ledger expenditures adjusted for cost allocation errors and PMS drawdowns received, and 3) Adequate supporting documentation should be maintained for all adjustments and repayments.

Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: The Agency will continue to work with federal administrators in the Region V office on the validation controls to be used to determine the amount of the actual shortfall and will ensure that any agreements on parameters is obtained in writing. Evaluation will include adjusted NIS expenses as well as a comparison to current GL and reported numbers compared with actual draw downs from the federal payment management system.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: July 2009

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Finding #08-23-03

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

Grant Number & Year: #AA154910655, FFY 2007; #AA160420755A31, FFY 2008; #AA171350855A31, FFY 2009

Federal Grantor Agency: U.S. Department of Labor

Criteria: Per 31 C.F.R. 205.33(a) (July 1, 2007), “A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes.” Per OMB Circular A-87, “To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.” Per 29 C.F.R. 97.20(a) (July 1, 2007), “Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to... (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.” Good internal control requires procedures be in place to ensure draws are accurate.

Condition: The Agency drew funds from the WIA Cluster and then performed a journal entry to transfer the funds to another Federal program. In addition, we tested three cash draws and noted all three draws did not comply with Federal regulations.

Questioned Costs: \$5,589,779

Context: On May 2, 2007, a U.S. DOL employee sent the Agency an email showing the Employment Services and Unemployment Insurance Administration grants were overdrawn by \$8,190,181. To cover these grant overdrafts, the Agency drew funds from WIA. We determined the Agency made three journal entries transferring \$7,522,047 from WIA to cover the other grants. Of this amount, one transaction occurred in fiscal year 2008 for \$827,010 and transferred funds from WIA to Unemployment Insurance CFDA 17.225. The transactions for the other \$6,695,037 occurred in June 2007. First, the Agency drew the funds from WIA, and then they performed a journal entry to transfer the funds to the other grants. At the end of fiscal year 2008, the Agency repaid \$1,932,268 as follows: \$1,612,351 was drawn from Unemployment Insurance and repaid to WIA and \$319,917 was transferred from Employment Services to WIA, leaving \$5,589,779 that had not been repaid.

During testing of cash draws, we also noted the following:

- Throughout the fiscal year the Agency drew funds from WIA and deposited them directly into non-WIA grants. Funds were deposited into Food Stamps and Workfare, which were programs the Nebraska Department of Health and Human

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Services (DHHS) contracted with the Agency to perform. The Agency was effectively borrowing from WIA to cover these program expenses until reimbursed by DHHS. For the three draws tested, the Agency drew \$8,025 for Food Stamps and \$18,116 for Workfare.

- The Agency overdrew \$11,780 due to a data entry error.
- The Agency was unable to locate supporting spreadsheets for two of three draws tested.
- For the first six months of the fiscal year, the Agency deposited many of the WIA draws into a few business units instead of using all of the actual business units the expenditures were paid from. Therefore, we were unable to determine the actual source of funds used for each expenditure.

Cause: Inadequate reconciliation procedures in current and prior years. The Agency drew funds from WIA to pay expenses for other grants. In addition, the Agency used combining spreadsheets to accumulate draw information. Dollar amounts were entered into multiple spreadsheets numerous times, making data entry errors more likely.

Effect: The Agency misused WIA Federal funds. Funds are due to the Federal government.

Recommendation: We recommend the Agency reverse the unallowable transfer. We further recommend all accounting entries be adequately supported and documented. The Agency should not prepare journal entries to transfer funds between grants; nor should they directly deposit WIA funds into other grants. If corrections are needed, each grant should have separate accounting entries with proper documentation to support each transaction. We recommend the Agency implement procedures to ensure cash draws are accurate. Finally, we recommend the Agency comply with all Federal regulations.

Management Response: The Agency accepts the findings and recommendations of the State audit team with comment. As noted in the finding above the Agency is working with its federal partners to gain agreement on the amount of Federal funds owed to the WIA program and is further working with the state legislature on obtaining the funds required to reverse this unallowable transfer.

Corrective Action Plan: The Agency will continue to work with its Federal partners to gain agreement on the parameters to be used to determine the amount of the shortfall within the Federal program and thus the exact amount to be repaid to the WIA program. To date a total of approximately \$1.9M has already been repaid. In addition the Agency will continue to work with the state legislature to gain agreement and approval on the method to be used to repay these federal funds. Corrective actions will be taken to return the funds and correct the inappropriate journal entries once funds have been provided.

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Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: August 2009

Finding #08-23-04

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

Grant Number & Year: Various

Federal Grantor Agency: U. S. Department of Labor

Criteria: Per OMB Circular A-87 all activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Also per A-87 fringe benefits must be equitably allocated to all related activities, therefore, the Agency must allocate to State programs using the same method as Federal projects. All projects, both State and Federal must use the same allocation method. Also, per A-87 a "cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Per written correspondence from the U.S. Department of Labor Division of Cost Determination (DCD) dated April 29, 2005, "The cost allocation methodology to be utilized in the centralized State of Nebraska Information System (NIS) should be submitted to the DCD, for written acceptance/approval, before the transfer is implemented." Good internal control requires procedures to ensure the Agency has an approved Cost Allocation Plan.

Condition: The Agency was not properly allocating costs in accordance with OMB Circular A-87. Additionally, we noted the Agency did not have a Federally-approved Cost Allocation Plan for the fiscal year ended June 30, 2008.

Questioned Costs: Unknown

Context: Implemented in 2003, NIS is the State's official accounting system and is used to record all State expenditures and revenues. The Agency enters all accounting transactions into the NIS General Ledger in order to record and make payments from Federal funds received. From 2003 through December 2006, the Agency also entered its accounting information into the Financial Accounting and Reporting System (FARS) to allocate indirect costs and report expenditures to the Federal government.

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The Federal government approved this use of FARS through June 30, 2006, with the understanding that NIS could take over the allocation process once written acceptance/approval was received from the Federal government.

In January 2007, the Agency switched from using FARS to using NIS to allocate indirect costs and report expenditures to the Federal government. However, the Agency did not have authorization from the Federal government to change from FARS to NIS. In fact, the Agency did not obtain approval for any cost allocation plan, NIS or FARS, until August 25, 2008, when the Federal government provisionally accepted NIS to replicate the previously approved FARS cost allocation methodologies.

In addition, the Agency was not properly allocating overhead costs to State Safety projects. These State projects were charged a flat rate which was less than allocated costs, as a result Federal programs were charged for Safety costs. The Agency continued to misallocate Safety costs through fiscal year 2008. There are also business units that are accumulated and allocated to other projects. One of these is project code 500. At the end of the month, this code is allocated out to programs within Greater Nebraska WIA. Per the Agency, this allocation was based on the percentage of Federal authorization for each CFDA within the WIA Cluster. Project codes 160, 165, 200, and 800 were also allocated to various Federal programs based on available funds or estimates. This is not an acceptable allocation method per OMB Circular A-87.

Cause: The Agency indicated that Safety projects did not have enough funds to pay for all costs allocated based on hours and so they were charged a set percentage of 7.5%.

Effect: Noncompliance with regulations could result in Federal sanctions.

Recommendation: We recommend the Agency have procedures to ensure costs are allocated in accordance with an approved Cost Allocation Plan and Circular A-87.

Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: This corrective action has been implemented. An approved cost allocation plan, developed in accordance with OMB Circular A-87 and approved by the US Department of Labor is currently in place and will be updated annually as appropriate.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: Completed August 2008

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Finding #08-23-05

Program: CFDA 17.002 – Labor Force Statistics; CFDA 17.207 – Employment Service/Wagner-Peyser Funded Activities; CFDA 17.225 – Unemployment Insurance; CFDA 17.245 – Trade Adjustment Assistance; CFDA 17.258 – WIA Adult Program; CFDA 17.259 – WIA Youth Activities; CFDA 17.260 – WIA Dislocated Workers – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State shall also prepare the Schedule of Expenditures of Federal Awards (SEFA) in accordance with section 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA. We informed Administrative Services and the Agency of the error and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amounts reported were as follows:

CFDA #	Amount Initially Reported	Corrected SEFA Amount	Variance
17.002	\$ 931,143	\$ 920,608	\$ 10,535
17.207	\$ 7,297,709	\$ 7,441,185	\$ (143,476)
17.225	\$ 14,775,345	\$ 15,666,720	\$ (891,375)
17.245	\$ 1,092,087	\$ 1,165,532	\$ (73,445)
17.258	\$ 3,805,352	\$ 3,958,657	\$ (153,305)
17.259	\$ 2,234,568	\$ 2,221,851	\$ 12,717
17.260	\$ 1,561,531	\$ 1,625,458	\$ (63,927)

Cause: The Agency manually accumulated expenditures from NIS on a spreadsheet by month and by project number (multiple project numbers may combine into one CFDA) and the auditor noted input errors occurred. In addition, some NIS business units were not properly linked to the correct CFDA.

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Effect: Noncompliance with Circular A-133.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with Circular A-133.

Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: The Agency has begun to phase out its use of the abbreviated GA-17 report to determine actual SEFA amounts and will use the summary grant reporting system contained with the NIS accounting reports. This system allows for the capture of actual draws and expenses by business unit and associated grant. To date all PY08 FY09 grants have been adapted into the system and approximately 85% of the agencies business units. Additional work is required on those business units contained within the WIA program which tie to multiple grants. This effort is being worked with the State Accounting office.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: July 2009

Finding #08-23-06

Program: CFDA 17.258, 17.259 & 17.260 – Workforce Investment Act Cluster – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Title 29 CFR § 92.20 (July 1, 2007) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires procedures to reconcile the accounting system to the submitted reports.

Title 29 CFR § 92.20 also requires subgrantees maintain records and adequately identify the source and application of funds provided for financially-assisted activities. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The regulations also require accurate, current, and complete disclosure of the financial results of financially-assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant and accounting records must be supported by such source documentation as cancelled checks,

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paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. Title 29 CFR § 97.40 (July 1, 2007) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." Good internal control requires procedures to ensure amounts paid to subrecipients agree to amounts reported by the subrecipients.

Condition: We noted the Agency did not have adequate procedures to ensure amounts reported by subrecipients agreed to accounting records.

Questioned Costs: Unknown

Context: We tested six quarterly WIA reports submitted for the quarter ended June 30, 2008, and noted the amounts reported could not be traced to financial records. The quarterly reports were prepared from information included on monthly expenditure reports from the local areas. Two of the local areas were managed by the Agency and the monthly reports were prepared by the Agency. The Agency indicated the monthly reports were prepared utilizing financial information from the GA-17 reports from NIS. During testing, we were unable to trace the amounts from the monthly expenditure reports to the supporting information. The Agency staff member who prepared the reports was no longer employed by the Agency and other staff members were not aware of the process utilized to prepare the monthly expenditure reports so no explanation for the variances could be provided. In an attempt to reconcile the local area monthly reports to the NIS GA-17 reports we subtracted the cumulative amount for the June 30, 2007, local area reports from the cumulative amount for the June 30, 2008, local area reports for program years 2006 and 2007. The amount determined to be current expenditures from the process was \$6,118,709. We also ran a General Ledger Detail from NIS for the business units which corresponded to the monthly reports. The amount of expenditures per NIS was \$5,926,204. The variance between the two amounts was \$192,505 which was included in the reports utilized to prepare the ETA-9130, but not supported by NIS expenditures.

The other local area was self-managed and prepared financial reports based on information from their own accounting system. The Agency received the reports from the local area on a monthly basis; however, we noted the local area did not include supporting documentation for the amounts reported. The Agency paid the local area \$890,447 during the fiscal year according to the State accounting system.

Cause: Departure of the Agency staff member responsible for preparing the monthly expenditure reports for two local areas. The Agency did not feel they needed to complete additional procedures for the local area which prepared its own monthly expenditure report.

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Effect: Without adequate procedures to ensure amounts reported reconcile to the accounting system there is a risk amounts reported are not correct and cannot be relied on. Failure to require subrecipients to send supporting documentation with reported amounts increases the risk the amounts are incorrect.

Recommendation: We recommend the Agency improve procedures utilized to prepare monthly reports for the local areas it manages in order to ensure the amounts can be traced to support and the correct amounts are reported. We also recommend the Agency implement procedures to ensure the amounts paid to the independent local area agree to amounts reported on the monthly expenditure reports.

Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: Control practices have been put in place which ensures that at least three accounting staff review financial reports prior to their publication; the program manager, accountant, budget office or financial manager will review all reports and supporting documents to ensure that numbers reported are correct and auditable.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: Completed January 2009

Finding #08-23-07

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Period of Availability

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: According to 20 CFR § 667 107(a) (April 1, 2007), “Funds allotted to States under WIA sections 127(b) and 132(b) for any program year are available for expenditure by the State receiving the funds only during that program year and the two succeeding program years.” Title 29 CFR 97.20(a) (July 1, 2007) states, “Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to . . . Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.” Good internal control requires the official accounting system to identify the source of funds expended.

Condition: The business units used to record the WIA expenditures were not tied to a particular grant number and year, thus expenditures could not be tied to which grant funds were expended.

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Questioned Costs: Unknown

Context: NIS is the official accounting system for the State of Nebraska which utilizes business units to identify the source and expenditure of funds. In NIS, a business unit is a separate entity within a fund used to track revenues and expenditures. The Agency did not properly utilize the business units to identify the source of funds. Rather the business units reflected the fiscal year the expenditure was made. WIA grants are available 3 years. For all 26 expenditures tested, it appears the grant funds being used met the period of availability as the 2004 grant was closed. However, since the Agency did not utilize the business units to separately identify each grant year, we were unable to determine if these expenditures met the period of availability.

Cause: The business units reflect the fiscal year the expenditure was made rather than being tied to a particular grant.

Effect: Unable to determine compliance with the period of availability requirements.

Recommendation: We recommend the Agency set up NIS business units to properly identify the source and use of Federal funds. Each grant should have a separate and unique business unit.

Management Response: The Agency accepts the findings and recommendations of the State audit team with comment. Because each grant can have multiple business units – e.g. the WIA grant can support multiple projects – the recommendation should read that each business unit should tie to only one grant. This philosophy has been confirmed with the State Accounting office and is currently in place with other state agencies which utilize Federal grant funds.

Corrective Action Plan: This plan has been put in place for all Federal grants in PY08 and FY09 with the exception of those WIA administrative accounts which tie through necessity to multiple grants. The Agency financial officer will continue his work with the state accounting staff to establish parent-child business unit relationships to establish better control over these remaining accounts.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: July 2009

Finding #08-23-08

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Earmarking

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

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Criteria: Title 29 CFR § 92.20 (July 1, 2007) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires that adequate supporting documentation be maintained to show expenditures.

Condition: We noted the Agency did not have adequate supporting documentation to ensure earmarking levels were met.

Questioned Costs: Unknown

Context: We tested the grants that were closed during State fiscal year 2008 and noted that several of the earmarks were not supported by adequate documentation. In reviewing the spreadsheets the Agency prepares and utilizes to show the earmarks, it appears the requirements have been met. However, the earmark requirements for 10% local area administrative costs and 30% out-of-school youth activity funds were supported by the local areas' monthly expenditure reports. Two of the local areas were managed by the Agency and the monthly reports were prepared by the Agency. The Agency indicated the monthly reports were prepared utilizing financial information from the GA-17 reports from NIS. During testing we were unable to trace the amounts from the monthly expenditure reports to the supporting information. Additionally, one local area prepares monthly expenditure reports which are sent to the Agency with no supporting documentation. The Agency does not have procedures in place to ensure these monthly reports are accurate. The earmark requirements for 15% State Reserve, 5% State administrative costs, and 25% rapid response were supported by expenditure reports from NIS. However, the Agency did not properly utilize the NIS business units to identify the source of funds. Rather the business units reflected the fiscal year the expenditure was made, and thus expenditures could not be tied to which grant funds were expended. Therefore, the tracking of these earmarking requirements by grant in NIS was not possible without Agency hand-written cumulative amounts. We were unable to trace these cumulative amounts to supporting information.

Cause: Departure of the Agency staff member responsible for preparing the monthly expenditure reports for two local areas. The Agency did not feel they needed to complete additional procedures for the local area which prepared its own monthly expenditure report. The Agency uses a cumulative amount when calculating several monthly expenditures.

Effect: Without adequate supporting documentation we could not determine whether earmarking requirements were met.

Recommendation: We recommend the Agency maintain supporting documentation to ensure earmarking requirements were met. We further recommend the Agency utilize separate business units for each grant year to track earmarking requirements.

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Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: Control practices have been put in place which ensures that at least three accounting staff review financial reports prior to their publication; the program manager, accountant, budget office or financial manager will review all reports and supporting documents to ensure that numbers reported are correct and auditable. In addition the financial management staff will work with the state accounting office and the Agency's program management office to establish better audit procedures related to the issuance and monitoring of funds for the Lincoln WIA program.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: August 2009

Finding #08-23-09

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Reporting

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: Good internal control requires procedures be in place to ensure information from the client database correctly transfers to the Workforce Investment Act Standardized Record Data (WIASRD) report.

Condition: We tested 25 lines of coding on the WIASRD for key line items and noted one inconsistency between the report and supporting documentation.

Questioned Costs: None

Context: Line item 619, "Type of Recognized Credential" had a value of "0" on the WIASRD, meaning no credential was received. However, information on the Agency's case management system, the Tracking and Reporting Exchange System (TRES) showed the client actually received an associate's degree. The data on the TRES did not match the WIASRD.

Cause: There was a programming error in the code to transfer data from the TRES to the WIASRD. The client was co-enrolled in the WIA Dislocated Worker (DLW) program and the National Emergency Grant (NEG) program. The client received the degree through the DLW program and did not receive a degree through the NEG program. However, the results of the NEG record inadvertently overrode the results of the DLW record.

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Effect: Incorrect information reported could lead to sanctions.

Recommendation: We recommend the Agency correct the programming error and ensure data in the WIASRD properly reflects the actual information on the TREX.

Management Response: The Agency acknowledges the need for accurate reporting. The described programming error was fixed, tested and moved to production on December 22, 2008. The Agency does not feel any further corrective action is needed at this time.

It should be noted that this data was reflected correctly in the WIA Annual Report submitted September, 23, 2008. Per Training and Employment Guidance Letter (TEGL) 9-07, the Annual Report is the official submission that contains the data upon which incentive and sanction determinations are based.

Corrective Action Plan: As noted above

Contact: Joan Modrell, Director, Office of Employment and Training

Anticipated Completion Date: Completed

Finding #08-23-10

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Subrecipient Monitoring

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

Criteria: OMB Circular A-133 § 400(d)(3) requires that pass-through entities “monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” Good internal control requires that a reconciliation be performed between a subrecipient’s reported expenditures and Federal receipts to ensure Federal funds are being used properly. OMB Circular A-133 § 400 (d) states, “A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.”

Condition: Monitoring of expenditures was inadequate for one subrecipient tested. Additionally, this subrecipient was not properly notified of Federal award information.

Questioned Costs: Unknown

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Context: The Agency has three local areas. Two of these areas the programs are administered by the Agency. The other local area is administered by a subrecipient. The subrecipient reported expenditures monthly to the Agency and periodically submitted a request for funds. However, no supporting documentation was submitted with the request for funds and the Agency did not reconcile the amount of Federal funds given to the subrecipient to the monthly expenditure reports nor to the subrecipient's Single audit.

Additionally, award information provided to this subrecipient did not include the CFDA numbers or the Federal awarding agency. The amount of Federal funds paid to this subrecipient during State fiscal year 2008 was \$890,448.

Cause: Unknown

Effect: Without adequate monitoring of subrecipients there is an increased risk of misuse of Federal funds. Without notification of award information there is increased risk for errors at the subrecipient level.

Recommendation: We recommend the Agency reconcile the Federal funds paid to the subrecipient to the expenditures the subrecipient reports. Additionally, we recommend the Agency include all required information on subrecipient award documents.

Management Response: The Agency accepts the findings and recommendations of the State audit team.

Corrective Action Plan: Control practices have been put in place which ensures that at least three accounting staff review financial reports prior to their publication; the program manager, accountant, budget office or financial manager will review all reports and supporting documents to ensure that numbers reported are correct and auditable. In addition the financial management staff will work with the state accounting office and the Agency's program management office to establish better audit procedures related to the issuance and monitoring of funds for the Lincoln WIA program.

Contact: Mike Smith, Director of Finance/Controller

Anticipated Completion Date: August 2009

Finding #08-23-11

Program: CFDA 17.258, 17.259, & 17.260 – Workforce Investment Act Cluster – Allowability

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Labor

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Criteria: OMB Circular A-87 states, “To be allowable under Federal awards, costs must...Be necessary and reasonable for proper and efficient performance and administration of Federal awards...Be adequately documented.” The Student Orientation Agreement all WIA participants sign before they receive training states, “I understand that any books, tools, uniforms, or any other material purchased by WIA will remain the property of WIA during the training period. If I discontinue training, or if I am terminated before completion, I agree to return these items to the WIA office no later than seven (7) days after the date of termination.” The agreement goes on to state, “I agree to pay the cost of all classes that are dropped after the school’s identified drop/add time frame. I may either repay Nebraska Workforce Development the appropriate amount or pay the training provider directly. If I return to WIA for additional training services, I will repay the training provider directly for all future training costs until the amount I have paid equals the amount I owed from previous dropped classes.”

Condition: For 2 of 16 aid expenditures tested, the participant dropped the classes and did not reimburse WIA the tuition nor did they return to WIA the textbooks, tools, or other supplies purchased with WIA funds.

Questioned Costs: \$1,472 known

Context: One WIA client dropped three classes in the spring of 2008, each at a charge to WIA. There was no documentation showing the case manager informed the participant he would have to reimburse WIA for the tuition of the dropped classes. Case notes state WIA paid for summer 2008 classes that were also dropped. After the summer classes were dropped the case manager informed the client that WIA would not pay for the next few classes for fall 2008, but there was no attempt to collect the tuition from the participant. The textbooks and tools purchased with WIA funds for the dropped classes were not returned to WIA. The total cost of dropped classes for spring 2008 was \$270. The tools and textbooks cost \$345.

Another WIA client dropped three classes in the fall of 2007, each at a charge to WIA. The case manager informed the client she would have to pay for these classes if she would need to take them again, but there was no attempt to collect tuition from the participant. Additionally, the textbooks and calculator for the dropped classes were purchased with WIA funds and were not returned to WIA. The tuition for the dropped classes totaled \$575. The textbooks and calculator cost \$282.

Federal payment errors noted were \$1,472. The total Federal sample tested was \$20,320 and total WIA Federal aid payments for fiscal year 2008 were \$3,400,843. Based on the sample tested, the case error rate was 12.5% (2/16). The dollar error rate for the sample was 7.24% (\$1,472/\$20,320) which estimates the potential dollars at risk for fiscal year 2008 to be \$246,221 (dollar error rate multiplied by population).

Cause: Unknown

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Effect: By not following WIA policies there is an increased risk for misuse of Federal funds.

Recommendation: We recommend the Agency collect supplies, textbooks, and tuition from clients who discontinue training by following current policies.

Management Response: The Agency acknowledges the need to follow its own prescribed policies, especially in the absence of federal WIA guidance for recouping client training costs as outlined in items #3 and #9 the Student Orientation Agreement (noted under Criteria).

Corrective Action Plan:

Corrective Action Steps	Accountable Person	Due Date
Revise Student Orientation Agreement	Administrative Entity	01/23/2009
Draft client Request for Repayment and/or Return of Materials letter	Administrative Entity	01/23/2009
Develop Guidance letter to staff concerning seeking repayment of tuition and/or return of materials	Administrative Entity	02/28/2009
Complete Training with staff concerning Guidance Letter and use of the Request of Repayment letter via the monthly WIA conference call.	WIA Program Coordinators	03/15/2008

Upon review, the Agency feels the need to further clarify the statements contained within the Student Orientation Agreement:

For item #3, a client's "training period" should be defined as the overall training program, not one particular component of the training. IE: One class.

For item #9, the statement was revised to highlight the client's ability to satisfy tuition costs incurred by classes previously dropped after the school's identified drop/add time frame by paying "equal" to the amount owed as well as better define the Agency's right to pursue payment. The revised statement below:

I agree to pay the cost of all classes that are dropped after the schools identified drop/add time frame. I understand that if I return to WIA for additional training services, WIA has the right to demand that I pay the training provider directly for all future training costs until the amount I have paid equals the amount I owed from the previous dropped classes. Additionally, I understand that if no additional training is completed Nebraska Workforce Development can seek payment of training costs incurred for the dropped classes.

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Additionally, a formal letter of request is being developed that will seek payment of tuition and/or materials. When appropriate to do so, this letter will be sent via certified mail by staff and will serve as documentation of collection attempts.

Finally, all staff and management will be trained on these new procedures and the need for proper documentation of all activities.

Contact: Cecilia Coatney, Administrator, Office of Employment and Training

Anticipated Completion Date: All steps completed by April, 2009

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding #08-25-02

Program: CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – Subrecipient Monitoring

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Title 7 C.F.R. § 246.19 (January 1, 2008) requires the State Agency to establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, and on-site reviews. The on-site reviews shall include evaluation of certification. Title 7 C.F.R. § 246.4 (January 1, 2008) requires the State Agency to develop policies and procedures for preventing conflicts of interests at the local agency in a reasonable manner.

Condition: We noted for all three Local Agency subrecipients tested, the Agency's on-site monitoring of Local Agencies did not include specific monitoring procedure steps or documentation of monitoring, for the prevention of conflict of interest, or separation of duties in determining certification of eligibility for the program participants.

Questioned Costs: Unknown

Context: The Agency conducts on-site monitoring of their subrecipients and uses monitoring spreadsheets to document the specific items reviewed during the on-site monitoring. The Agency has developed written policies for Local Agencies regarding prevention of conflict of interests. However the on-site monitoring spreadsheets did not include any specific documentation regarding the process the Local Agencies should be using to ensure they are adhering to the written policies prohibiting certification practices which include: certifying oneself, certifying relatives or close friends, and one employee determining eligibility for all certification criteria and issuing food instruments or supplemental food for the same participant. This finding was also noted during a Federal review conducted in April 2007, by the United States Department of Agriculture.

Cause: Unknown

Effect: Without documentation by the Agency during their on-site monitoring regarding Local Agency procedures to prevent conflict of interest, or separation of duties, there is an increased risk of inappropriate participant certification occurring.

Recommendation: We recommend the Agency develop and document procedures to use during on-site monitoring of Local Agencies to ensure the Local Agencies are adhering to the policies requiring separation of duties in WIC certification. The on-site

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monitoring spreadsheets used should indicate the names of both individuals involved in the certification process at the Local Agency.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The WIC Program has a procedure describing action required by WIC local agencies to address separation of duties and conflict of interest. To monitor local agency operations and compliance with procedures, the WIC Program uses standardized monitoring forms. Existing monitoring forms currently include questions regarding provision of benefits to WIC staff members who are also WIC participants. Staff will use the standardized monitoring forms to document adherence to the policies requiring separation of duties. The “*Active Chart Review*” and “*Clinic Observation of Staff & Client Services*” forms have been revised to include the following line:

	Y	N	NA	Comments
A separation of duties exists which ensures that at least two staff are evaluating eligibility criteria (income, nutrition risk, benefit package)				List staff names: INCOME ASSESSMENT _____ RISK CODE ASSESSMENT _____ BENEFIT ISSUANCE _____

Contact: Peggy Trouba

Anticipated Completion Date: The forms have been updated as of 9/15/08.

Finding #08-25-03

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

Grant Number & Year: All open grants

Federal Grantor Agency: U.S. Department of Agriculture

Criteria: Title 7 C.F.R. § 246.19 (January 1, 2008) requires the State Agency to establish an ongoing management evaluation system which includes the review of Local Agency financial and participation reports. The State shall conduct monitoring reviews at least once every two years. Good internal control requires timely reviews of Local Agency financial information to ensure accurate financial reporting for Local Agency reimbursements.

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Condition: For one of three Local Agency subrecipients tested, the Agency's on-site monitoring of the Local Agency's financial information has not been done within a two-year period. The last fiscal review for this Local Agency was completed in March 2005. The other two Local Agency fiscal reviews tested were completed in August and November 2006.

Questioned Costs: Unknown

Context: Local Agencies submit monthly reports of expenditures requesting reimbursement; supporting documentation for the monthly reports is not required to be submitted. The State reviews the submitted report and compares to the Local Agencies available budgeted amount. The State previously contracted for the service of fiscal reviews for Local Agencies, where reimbursed expenditures of Local Agencies were reviewed for accuracy. The last fiscal review was conducted in December 2006. The State is currently working on securing a new contract for this service. Fiscal reviews at the Local Agencies were not conducted as part of on-site monitoring during the fiscal year. The total amount of reimbursed costs for fiscal year 2008, to the one Local Agency which did not have a fiscal review completed within two years, was \$575,782. The total amount of reimbursed costs for all subrecipients for fiscal year 2008 was \$6,868,412.

Cause: Unknown

Effect: Without timely and adequate fiscal review monitoring of Local Agencies, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency conduct fiscal reviews of Local Agency's financial information as part of on-site monitoring to ensure that amounts being requested for reimbursement from Local Agencies are accurate.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: A contract is currently in place through April 30, 2009, with Pat Wulff to provide financial reviews for seven Agency programs, including the WIC program.

Contact: Peggy Trouba

Anticipated Completion Date: Financial reviews will be completed for WIC agencies included in the contract schedule, beginning September 10, 2008.

Finding #08-25-04

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

Grant Number & Year: All open grants

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

Criteria: CFDA 64.015, 38 U.S.C. § 1710 (January 2, 2006), and 38 U.S.C. § 1741 (January 2, 2006) detail criteria for eligibility and payment of Federal funds, including that a veteran must meet State admission criteria. Per 38 U.S.C. § 1741 (a)(1) the State shall be paid the per diem rate for each veteran receiving care in a State home, if such veteran is eligible for such care. Neb. Rev. Stat. § 80-316 (Supp. 2007) requires veteran's admitted to a Veterans Home to have served in the armed forces of the United States during a period of war as defined by section 80-401.01. Neb. Rev. Stat. § 80-401-01(6) (Cum. Supp. 2006) states, "Veteran of the Vietnam War means a person (a) who served on active duty in the armed forces of the United States (i) between August 5, 1964, and May 7, 1975, or (ii) in the Republic of Vietnam between February 28, 1961, and May 7, 1975, and (b) who, being a citizen of the United States at the time of his or her entry into such service, served with the military forces of any government allied with the United States in that war."

Condition: One of 35 veterans tested was not eligible as they had not served in the armed forces in Vietnam during a time of war as required by Nebraska State Statute.

Questioned Costs: \$25,798

Context: The individual was on active duty February 1960 to February 1964, but was not in the Republic of Vietnam. Questioned costs are the total per diem payments for one individual for July 1, 2007, through June 30, 2008.

Cause: Oversight in reviewing dates of service and where the individual was stationed.

Effect: Individual is not eligible and Federal per diem is not allowed.

Recommendation: We recommend the Agency strengthen procedures to ensure only eligible veterans are admitted to State Veterans Homes.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Grand Island Veterans Home will prepare an adjusting entry to the Form 10-558 Statement of Claim with the next report filed to the V A for reimbursement of Per Diem. The adjustment will include July 2007-September 2007 for 92 days @ \$67.71 (\$6,229.32) and for October 2007-June 2008 for 274 nursing care days @ \$71.42 (\$19,569.08) and will be in the amount of \$25,798.40 on the August 2008 VA Form 10-5588. The form will be submitted to the VA during September 2008. From July 1, 2008, forward, the GIVH will not collect per diem for this Veteran.

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Furthermore, an additional check will be performed prior to admission at the Veterans Homes.

Re-educated Nebraska Department of Veterans Affairs staff regarding eligibility emphasizing on war time dates. (80-401-01)

Contact: John Hilgert, Director, Division of Veterans' Homes; V. Ginada Hostetler, Administrator and/or Janet M. Warneke, Business Manager.

Anticipated Completion Date: September 30, 2008

Finding #08-25-05

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

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-133 Section 400(d)(3) requires that pass-through entities “monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” A-133, Section 200(a) requires entities that spend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. Section 235(c)(1) states, “The audit shall be completed and the reporting required by...nine months after the end of the audit period.” Section 400(d)(1) requires that pass-through entities “identify Federal Awards made by informing each subrecipient of CFDA title and number, award name and number, if the award is R&D, and name of Federal Agency.” Good internal control requires procedures to ensure payments to subrecipients are proper and to ensure A-133 audits are obtained and reviewed as required.

Condition: Monitoring procedures were not adequate for 9 of 20 subrecipients tested. For 1 of the 10 subrecipients tested which required an A-133 audit report, the Agency did not obtain the A-133 audit report. For 7 of 12 subrecipients tested, the Agency documented either the incorrect information to the subrecipient or did not document part or all of the information required.

Questioned Costs: Unknown

Context: Tobacco Prevention had a total of nine subrecipients. The Agency indicated they perform on-site visits for the largest four Tobacco Prevention subrecipients about every three years; however, on-site visits for these four subrecipients have not been conducted since February to December 2004. The total grant award these four

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subrecipients received for fiscal year 2008 was \$262,274. Additionally, another large Tobacco Prevention subrecipient has not had an on-site visit since they first started receiving grant money in July 2006. The total grant award given to this subrecipient in fiscal year 2008 was \$89,452. Tobacco Prevention does not perform on-site visits for the other four smaller subrecipients, and they do not require these subrecipients to submit detailed invoices when they request reimbursement. The total grant award these four subrecipients received in fiscal year 2008 was \$20,000.

The Agency did not receive or follow up on a required A-133 audit for one Epidemiology and Lab Capacity subrecipient tested. This subrecipient received \$809,481 during fiscal year 2008. A similar finding was noted in our prior audit report.

The Epidemiology and Lab Capacity program did not document the name of the Federal Agency or the CFDA title to two subrecipients tested and did not document the name of the Federal Agency to one subrecipient. Bioterrorism documented the wrong CFDA number and title to three subrecipients tested and did not document any of the required information to one subrecipient.

Cause: Unknown

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

Recommendation: We recommend the Agency perform timely on-site reviews and require detailed invoices be submitted by subrecipients that do not have an on-site financial review performed. The Agency should implement procedures to ensure all audits are received within nine months after the end of the audit period. We further recommend the Agency inform all subrecipients of the CFDA number and title, amount of award, award name, and the name of the Federal Agency, as required by A-133.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan:

Tobacco Free Nebraska (TFN) Program: Staff time will be prioritized to assure on-site reviews are conducted in a more timely manner and a site-visit schedule developed for future site-visits. The TFN Program will begin requiring additional detail on invoices from mini-grant recipients in any future announcements of mini-grant funding.

Bioterrorism Preparedness: On October 29, 2008, the Preparedness Office (a.k.a. Bioterrorism) sent letters to the three identified subrecipients, informing them of the correct CFDA number for the amended contracts that expired July, 2008. On October 30, 2008, the Office sent a letter to one subrecipient, informing the recipient of the contract's funding source and CFDA number.

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Anticipated Completion Date:

Tobacco Free Nebraska (TFN) Program: Site-visits on the sub-grantees have been conducted in the past few months. A site-visit schedule with timelines will be developed for the larger sub-grantees by November 7, 2008.

Bioterrorism Preparedness: October 31, 2008

Contact Person: Judy Martin, Tobacco Free NE Program Administrator and Christine Newlon, Bioterrorism Preparedness

Finding #08-25-06

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

Grant Number & Year: All open grants

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

Criteria: OMB Circular A-87 Attachment A – General Principles for Determining Allowable Costs (C)(1) states, “To be allowable under Federal awards, costs must meet the following general criteria...Be necessary and reasonable for proper and efficient performance and administration of Federal award...Be adequately documented.” Good internal control requires adequate documentation and procedures to ensure costs are reasonable for proper and efficient administration of Federal awards.

Condition: For 2 of 40 documents tested, there was inadequate supporting documentation attached to the invoices. Additionally, three providers were identified who can enter in their own claim information into the Automated Computer Tracking System (ACTS) and are not required to submit documentation, these providers had not received an on-site review of claim information in over a year.

Questioned Costs: Unknown

Context: The Every Woman Matters program pays claims received from doctor’s offices, clinics, or hospitals for cancer screenings for women who are eligible for the program. There is an “Amount Paid” section on the claim with the amounts paid by the patient’s insurance, amounts written off by insurance, or amounts the patient has paid. An explanation of benefits (EOB) is required, if the woman has insurance, with the claim before it can be paid to verify the amount the insurance company has paid. One document tested did not have an explanation of benefits or other documentation attached for two claims to support whether insurance or the client had paid any amount of the claim.

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Additionally, the claim shows if the patient has insurance and the name of the insurance company. For one document tested, Every Woman Matters did not have an explanation of benefits or any other documentation attached for one claim to show whether the patient had insurance. The Every Woman Matters Finance Coordinator, stated the reason there was no attached explanation of benefits was because Every Woman Matters sends out a letter in June or July of every year stating that the providers can send in their claims without an explanation of benefits so their claims can get paid before the grant year runs out. Every Woman Matters then relies on the clinic, doctor's office, or hospital to submit a refund payment if they receive payment from an insurance company. Every Woman Matters does not follow up on the claims received without an explanation of benefits during the time covered by the letter. Every Woman Matters paid \$1,580,120 in fiscal year 2008 to providers.

Furthermore, three providers could enter claim information directly into the ACTS system and were not required to submit documentation to Every Woman Matters. The Agency reviews various reports and performs training for these providers; however, the Agency has not performed on-site audits in several years. Two of these providers are no longer entering claim information directly. The Agency paid \$142,222 to these three providers during the fiscal year.

Cause: Every Woman Matters sends out a letter in June or July each year that tells their providers that an explanation of benefits is not required on claims even if the patient does have insurance. The Agency then relies on the provider to send in a refund payment if that provider received an insurance payment after Every Woman Matters paid the provider. They do not request that the providers submit the explanation of benefits at a later time to ensure providers are not receiving double payment.

Effect: Without adequate controls, there is an increased risk of errors or fraud to occur and not be detected, resulting in overpayments to providers.

Recommendation: We recommend the Agency implement procedures to ensure all claims requiring an explanation of benefits, have such before payment. If it is not feasible to have the explanation of benefits before payment, the Agency should require the documentation be submitted within a reasonable timeframe and a post-payment review be conducted of all such payments to ensure the proper amount was paid.

Management Response: The Agency agrees with the condition reported.

It is not feasible that the program wait for an EOB for services rendered at the end of the fiscal year. The program must submit a Financial Status Report to CDC within 90 days of the end of the fiscal year. In order for the program to close out the fiscal year and still ensure that services performed under the grant are reimbursed according to contractual agreement, the program sets a claims submission cutoff date. If client has insurance the provider must seek reimbursement from insurance company first. The providers are dependent on the insurance company to be timely in their notification of

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benefits via the EOB. By waiting for the EOB the provider could submit claims to the program that would exceed the cutoff date thus making the claim unpayable. The program believes that a better option would be to continue current procedures paying for allowable services without an EOB for services rendered during the fiscal year but paid out after the end of the fiscal year. The program would set up a system for post-payment review to obtain EOBs, require refunds as appropriate, and make adjustments to claims data as needed.

Corrective Action Plan: New data field will be added to the claims data entry screen that will allow billing representative to enter whether or not claim had EOB attached. A monthly list will be generated to inform providers of need for EOB. Failure to submit either an EOB or insurance update will generate a notification of refund due by provider.

Contact: Melissa D. Leypoldt, Program Director Every Woman Matters

Anticipated Completion Date: October 31, 2008

Finding #08-25-07

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

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 92.20 (October 1, 2007) requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Good internal control requires reports be reconciled to the State's accounting system, the Nebraska Information System (NIS). Good internal control requires individuals preparing the Financial Status Reports (FSRs) ensure amounts are accurate. Good internal control also requires a supervisory review of all FSRs to ensure accuracy.

Condition: For all four FSRs tested, there was no supervisory review before the report was submitted to the Federal agency. Two FSRs tested did not correctly report indirect costs and total outlays. A similar finding was noted in the prior audit report.

Questioned Costs: \$13,901

Context: Epidemiology & Laboratory Capacity Grant U50/CCU723775-02-2 submitted May 14, 2008, reported indirect costs of \$52,028. The correct amount should have been \$38,127, a difference and questioned costs of \$13,901. This also caused total outlays to be over-reported by \$13,901.

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Pandemic Flu Grant U90/CCU716975-07-3 submitted December 26, 2007, reported indirect costs of \$15,707, which should have been \$29,571. The payroll base reported was \$39,268 and should have been \$73,927 times the 40% indirect cost rate equaling \$29,571. However, indirect costs were correctly charged on the accounting system. The cumulative expenditures reported were \$802,597 and should have been \$799,792.

Cause: Lack of supervisory review and clerical errors.

Effect: Increased risk of inaccurate reporting, which could lead to Federal sanctions.

Recommendation: We recommend the Agency implement procedures to ensure amounts reported on the FSR agree to the NIS general ledger. We further recommend a documented supervisory review of all FSRs.

Management Response: The Agency agrees with the context of the finding.

Corrective Action Plan: A final report for the Epidemiology & Laboratory Capacity Grant U50/CCU723775-02-2 was submitted with corrected information on June 14, 2008. A new interim report for the Pandemic Flu Grant U90/CCU716975-07-3 will be submitted to include corrected information.

Contact: Larry Morrison

Anticipated Completion Date: January 31, 2009

Finding #08-25-08

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

Grant Number & Year: #G0702NETANF, FFY 2007; #G0802NETANF, FFY 2008

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

Criteria: Per 42 U.S.C. § 608(a)(4) (2006), “A State...shall not use any part of the grant to provide assistance to an individual who has not attained 18 years of age, is not married, has a minor child at least 12 weeks of age in his or her care, and has not successfully completed a high-school education (or its equivalent), if the individual does not participate in educational activities directed toward the attainment of a high school diploma or its equivalent; or an alternative educational or training program that has been approved by the State.” Per 42 U.S.C. § 608(a)(5) (2006), a State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative.

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The Nebraska State Plan for TANF effective October 1, 2007, states “Failure of a dependent child age 16, 17, 18 to attend school without participating in any other *Employment First* approved work activity results in removal of the child’s needs from the ADC unit.”

Good internal control and Title 468 Nebraska Administrative Code (NAC) 1-010 requires the worker to redetermine eligibility for grant and medical assistance every six months.

Condition: Four of 45 TANF payments tested were not in compliance with Federal and State requirements.

Questioned Costs: \$175 known

Context: For one case tested, the mother was sixteen years old, unmarried, had a nine-month-old child, had not completed high school and was not going to school. Also, the mother was not living with a parent, legal guardian, or other adult relative. Therefore, the unit was not eligible to receive TANF benefits. Additionally, the caseworker had not completed a review within six months of the date of the previous application. The review was five months overdue.

For one case tested, the only person in the unit was a seventeen-year-old child. The child was not going to school and was not enrolled in *Employment First*. Therefore, the unit was not eligible to receive TANF benefits.

In two additional cases tested, the caseworker had not completed a review within six months of the date of the previous application. The reviews were two and nine months overdue.

Federal payment errors noted were \$175. The total Federal sample tested was \$7,371 and total TANF cash assistance payments for fiscal year 2008 were \$14,861,654. Based on the sample tested, the case error rate was 8.89% (4/45). The dollar error rate for the sample was 2.37% (\$175/\$7,371) which estimates the potential dollars at risk for fiscal year 2008 to be \$352,221 (dollar error rate multiplied by population).

A similar finding was noted in previous audit reports.

Cause: Inadequate procedures.

Effect: Increased risk for misuse of Federal funds.

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

Management Response: The Agency agrees with TANF audit finding #08-25-08. The Agency would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor’s findings.

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Corrective Action Plan: Results were shared with EA Administrators and TANF Supervisors from the Service Areas on 12/2/08 and will be followed-up with a memo to local office staff by 2/28/09 sharing the results of the audit and highlighting areas that need more review from local eligibility staff.

The Agency implemented the Nebraska Economic Assistance Review System (NEARS) effective October 1, 2007. Supervisory staff is required to review and monitor a targeted number of cases each month. The supervisory reviews are captured in the NEARS system and the results of this monitoring are used for corrective action and staff training. Household composition and case review timeliness were found as error prone eligibility factors in the audit. These criteria are two of many areas reviewed as part of the TANF case read in NEARS. While reviewing a TANF case, the supervisor must review 20 different causal factors that may identify a household composition error and 14 review process causal factors, including specifically a review not being completed timely. To assist Agency staff to target the error prone cases identified in this audit, supervisors will be encouraged to use the following monitoring Crystal Reports to identify cases to review.

1. The Employment First Case Activity Report – developed to assist the workers and supervisors to manage EF case work and identify problem areas.
2. The Monitoring EF Requirements Report – developed to assist the monitoring of Employment First regulations and procedures.
3. The Case Review Report – identifies all ADC cases whose next review dates in NFOCUS are at least two months overdue.

Contact: Todd Reckling

Anticipated Completion Date: The monitoring reports have already been developed and implemented. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #08-25-09

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

Grant Number & Year: All TANF grants open during State fiscal year 2008

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

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Criteria: Good internal control requires adequate procedures to ensure the recipient's assistance payments are properly reduced in a timely manner when notice of non-cooperation is received. Per Title 42 U.S.C. Section 608(a)(2)(A), "the State shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance."

Condition: The TANF assistance was not properly reduced for Child Support non-cooperation for 5 of 30 cases tested.

Questioned Costs: \$533 known

Context: We tested 45 Child Support non-cooperation notices to determine if the TANF assistance payment was appropriately sanctioned and reduced in a timely manner. Of the 45 tested, 30 received TANF assistance during the individual's non-cooperation time period. For 3 of the 30 cases, assistance was never reduced for payments ranging from 1 to 4 months. These TANF cases were later closed for other reasons. For 2 of the 30 cases, assistance was not reduced for 3 and 4 months. One of these cases did begin cooperating while the other case was eventually sanctioned. The Agency has a control in place to review cases that are in non-cooperation status but were not sanctioned on a report that is run monthly. However, it appears this report may not be complete and not showing all "sanction not imposed" recipients. Additional procedures are still needed to ensure assistance payments are reduced in a timely manner.

A similar finding was noted in previous audit reports.

Cause: Unknown

Effect: Without proper effective procedures in place to ensure assistance payments are reduced in a timely manner, there is an increased risk for the loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure all referrals are properly reduced or terminated in a timely manner.

Management Response: The Agency feels that substantial improvement has continued since the Agency Corrective compliance plan was implemented. Strong internal controls have been developed and enhancements to the NFOCUS system continue to be made to further strengthen the procedures to ensure the assistance cases are properly reduced in a timely manner when CSE non-cooperation notices are received.

Corrective Action Plan: Compliance will continue to be monitored through Supervisory Case Reads on the NEARS system. While reviewing a TANF case, the supervisor must review 10 different causal factors that may identify an error

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pertaining to Child Support. In addition, Central Office staff continue to monitor the monthly CSE Sanction Report. If a case on the listing needs to be acted on, the Central Office Staff member sends an email to the worker, supervisor and administrator and then tracks the completion of the needed action.

To assist supervisors to target error prone cases the following monitoring reports were developed:

1. CSE Sanction Not Imposed Listing – The report identifies on a monthly basis those cases where an alert was created due to a non-cooperation begin date interfacing from CHARTS and no sanction has occurred.
2. Lifted Sanction with an Open Non-Cooperation Listing – This report identifies those cases where a non-cooperation row was received from CHARTS, the worker has lifted the sanction, but the non-cooperation row remains high-dated.

As the audit finding indicated there are certain cases that the reports will not pick up. (example: When non-cooperation occurs at a time when the ADC case is not opened and then when the client reapplies the sanction is not imposed.) An enhancement will be added to NFOCUS to assist the workers in remembering to review open CSE Non-cooperation. When the worker selects ADC budgeting in NFOCUS the system will alert them: *“There is an open CSE Non-cooperation on <custodial party name>. Please select the reason the person is being opened in the program case or select Cancel to return to Case Maintenance and close the person from the program case which will impose a sanction.”* This will require the worker to make a decision to either select a reason to not impose a sanction or go back and impose the sanction. Reports can then be run from the selected reason for monitoring purposes.

Contact: Todd Reckling

Anticipated Completion Date: The corrective compliance plan has been in place since the 2006 State audit. The monitoring reports have already been developed and implemented. The new NFOCUS enhancement is scheduled to be implemented with the July 13, 2009 NFOCUS release. The Supervisory Case Read requirement took effect October 1, 2007 and will be ongoing.

Finding #08-25-10

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

Grant Number & Year: All TANF grants open during State fiscal year 2008

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

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Criteria: Per Title 45 CFR Section 261.62(a)(4), “to ensure accuracy in the reporting of work activities by work-eligible individuals on the TANF Data Report and, if applicable, the SSP-MOE Data Report, each State must establish and employ internal controls to ensure compliance with the procedures.”

Condition: Employment First hours and work participation status were incorrectly reported on the ACF-199 Report for 4 of the 38 cases tested.

Questioned Costs: Unknown

Context: Each month the Agency reviews 10% of cases that are reported as meeting the required work participation by each of the Employment First contractors. For 2 of the 38 cases tested, the Agency found that the TANF participant was not meeting the required work participation; however, the Employment First hours were not corrected. Because the hours were not corrected, the ACF-199 report showed these cases as meeting Employment First participation when they actually did not meet the required participation. For 2 of the 38 cases tested, the Agency originally found the TANF participant was not meeting the required work participation; however, later determined that they were meeting participation. The Agency did not keep adequate documentation to show that these cases were meeting the required participation. The ACF-199 report showed these cases as meeting Employment First participation when according to the documentation on file, they did not meet the required participation.

Cause: The Agency has a process in place to ensure the Employment First participation hours are being reported accurately; however, it appears that the process was not being done in a timely manner. The Agency stated that since this process was not implemented at the beginning of Federal fiscal year 2008, they had to go back to prior months to perform reviews and catch up on current month reviews.

Effect: Without adequate controls in place, the Employment First participation rate could be incorrectly reported, which could result in Federal sanctions.

Recommendation: We recommend the Agency implement adequate procedures to ensure Employment First participation hours are correct.

Management Response: In order to monitor the data received by the Employment First contractors and ultimately the data that is reported to ACF through the ACF-199 report, a review of 10% of the cases reported as meeting participation is completed. Those cases found to not be meeting participation are required to be amended in NFOCUS prior to submission of the quarterly ACF-199 report. This monitoring procedure was developed during the spring of 2008. In order to adequately monitor the contractors for performance, a review of the cases were done retroactively back to October 2007. The sample month picked by the auditors was one of the months that were reviewed retroactively. Entry of participation is “locked down” just prior to running the ACF-199 report in NFOCUS so timeframes have been established for

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both the Agency staff to review the 10% case reads and for the contractors to have the cases fixed on NFOCUS if appropriate. Since the review month was one of the retro months, the contractors had not timely fixed all the cases. This will not be a problem going forward. We recognize that the first submission of the report did have the incorrect Participation Rate information for the identified cases. The Agency has the ability to correct these cases and amend and resubmit the 2008 ACF-199 report. These amendments and resubmissions are not only permitted by the final TANF regulations, but are encouraged as the federal government recognizes that states often receive data from a variety of sources that require correction of submitted quarterly data and they want states to provide them with complete and accurate data.

Corrective Action Plan: The internal controls to ensure compliance have been established and are currently being followed by all staff responsible for monitoring work participation. The reviews are entered on NEARS and the results of this monitoring are used for corrective action and staff training. Each Service Area has both Agency and contractor staff to perform monthly reviews to ensure compliance. In addition, Central Office program staff has completed a second party review in each of the Service Areas to ensure consistency and accuracy. Second party reviews will continue to be completed as needed.

Contact: Todd Reckling

Anticipated Completion Date: The internal controls are a monthly ongoing process.

Finding #08-25-11

Program: CFDA 93.568 – Low-Income Home Energy Assistance Program (LIHEAP) – Activities Allowed & Eligibility

Grant Number & Year: #0G08B1NELIEA, FFY 2008

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

Criteria: Per 42 U.S.C § 8624 (2006) States shall use funds to provide assistance to low income households in meeting their home energy costs, particularly those with the lowest incomes that pay a high proportion of household income for home energy and to intervene in energy crisis situations. Regulations for determining eligibility and calculating the amount of assistance per household are included in the State Plan and Chapter 476 NAC.

Good internal control requires procedures to ensure income guidelines are followed, proper classification of housing unit, and payments are not made in error.

Condition: During our testing of 45 payments, we noted three cases had overpayments totaling \$414.

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Questioned Costs: \$414

Context: One payment tested of \$182 for household was canceled as the household had already received energy assistance; however, the other payment to the same household was for \$396 while income guidelines specified household should have only received a payment of \$110, resulting in an overpayment of \$286. For another payment, the individual was paid the single family dwelling rate of \$254; however, per the application lived in a multi-family dwelling with a rate of \$127, and therefore was overpaid \$127. For another payment, the individual was paid a \$1 crisis payment in error. When the caseworker determined the individual had received the maximum allowed crisis payments for the season, the worker noted this in the computer system and entered \$1 in the amount line.

Total known Federal payment errors noted were \$414. However, the \$286 overpayment was not the specific payment tested and therefore was excluded in extrapolation. For the \$127 overpayment, the household was paid in installments and only the \$32 installment payment was selected for testing; therefore, only \$16 was included for extrapolation purposes. Federal payment errors noted for the sample were \$17. The total Federal sample tested was \$7,154 and total Federal assistance payments for fiscal year 2008 were \$18,252,597. Based on the sample tested, the case error rate was 6.67% (3/45). The dollar error rate for the sample was 0.24% (\$17/\$7,154) which estimates the potential dollars at risk for fiscal year 2008 to be \$43,806 (dollar error rate multiplied by population). A similar finding was noted in the prior audit.

Cause: Caseworker error.

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

Recommendation: We recommend the Agency implement procedures to ensure all payments are in accordance with State and Federal regulations.

Management Response: First, we would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

The Agency agrees with the condition reported.

Condition One: The audit error for the household was \$16.

Condition Two: This error was \$1 because the Omaha local office energy unit entered a \$1 payment and then showed that the household was not eligible for any additional crisis payments because the maximum crisis amount had been reached. The worker did not close this payment line as is normally done by the worker.

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Corrective Action Plan: Effective 10-1-2007 the Agency has started to do a review of LIHEAP case files through the Nebraska Economic Assistance Review System (NEARS). Supervisory staff is required to review and monitor a targeted number of cases each month. The information from the supervisory reviews are captured in the NEARS system and the results of this monitoring are to be used for corrective action and staff training. We anticipate that this monitoring will provide adequate controls to ensure that payments are allowable and adequately supported. The factors that are reviewed during a NEARS review are:

- A. Current application;
- B. vulnerability is properly determined;
- C. appropriate household members are included;
- D. households containing ineligible aliens have been identified as a “mixed household”;
- E. resources, income and PA or NA status identified;
- F. living arrangement (single or multiple);
- G. IM-7 completed on NA case, payment designated to household or provider, crisis need is documented, payment amount is correct, LIHEAP C1 fields are correctly entered, copy of IM-8 in file if action is “other”; LIHEAP approved, and SUA is allowed in FS.

DHHS plans to add LIHEAP to its primary eligibility system called NFOCUS in 2010. This will give the local office staff a source to document actions in the record. The entry of a \$1 payment line and then closing the payment line will not be an option.

Contact: Todd Reckling, George Kahlandt and Mike Kelly

Anticipated Completion Date: NEARS reviews are being conducted now; LIHEAP to NFOCUS is anticipated for 2010.

Auditor’s Response: The extrapolation method is in accordance with auditing standards.

Finding #08-25-12

Program: CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster
– Allowability & Eligibility

Grant Number & Year: #0G0701NECCDF, FFY 2007; #0G0801NECCDF, FFY 2008

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

Criteria: Title 392 NAC 5-001.01 states, "Before furnishing any service, each provider must sign Form CC-9B agreeing:...(2) To provide service only as authorized, in accordance with the Department's standards." Good internal control requires procedures be in place to ensure every provider agreement indicates what type of child care services are being provided in order to ensure standards are being followed. Per Title 392 NAC 3-005.01D individuals whose income exceeds the maximum limit are eligible for child care through the low income sliding fee schedule and must pay a fee as shown in the fee schedule. Title 45 CFR Section §98.20(a) (October 1, 2007) states, "in order to be eligible for services under §98.50, a child shall: reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size". Good internal control requires procedures be in place to ensure the appropriate copay is charged to the client. Good internal control also requires procedures to ensure amounts are properly billed. OMB Circular A-87 states that to be allowable under Federal awards, costs must be authorized or not prohibited under State regulations.

Condition: During review of child care payments it was noted 11 of 45 claims tested did not have adequate documentation and/or were not in compliance with State and Federal regulations. Controls were not sufficient to ensure charges were appropriate and in compliance with regulations.

Questioned Costs: \$106 known

Context: We tested 45 child care claims paid through the Nebraska Family Online Client User System (NFOCUS) during the fiscal year. During testing we noted one case had income below the income limit and should not have been responsible for a copay; one case was not charged the appropriate copay amount; two providers were underpaid for services provided; three providers were overpaid for hours/days worked; one case was incorrectly billed to the wrong child; two cases (one client file and one provider file) were unable to be located; and two cases did not have documentation an Agency representative reviewed the application. Our prior audit reports also noted allowability/eligibility findings during case file testing.

Federal payment errors noted in testing were \$106. The total Federal sample tested was \$4,862 and Child Care Federal assistance claims paid through NFOCUS for the fiscal year were \$37,311,276. Based on the sample tested, the case error rate was 24.44% (11/45). The dollar error rate for the sample was 2.18% (\$106/\$4,862) which estimates the potential dollars at risk for fiscal year 2008 to be \$813,386 (dollar error rate multiplied by population).

Cause: Ineffective review

Effect: Without adequate controls and supporting documentation, there is an increased risk of loss or misuse of Federal funds.

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Recommendation: We recommend the Agency implement procedures to ensure payments are allowable, adequately supported, and in accordance with State and Federal regulations. We also recommend the Agency consider having a separate individual review the billing documents for mathematical accuracy to ensure providers are appropriately paid.

Management Response: We would like to note that the sample size of the test is not statistically valid to support extrapolation of the results of this test to the entire population. Therefore, we disagree that the dollars at risk should be stated in the Auditor's findings.

Corrective Action Plan: A memo was sent to local office staff sharing the results of the audit and highlighting areas that need more review. This is targeted for September, 2008. In addition, specific findings will be shared with individual workers and supervisors.

Effective 9/8/08, Child Care Subsidy eligibility will be in the NFOCUS Expert System; NFOCUS will now have the ability to calculate income, determine category of assistance, and calculate co-pay. In addition, Child Care Subsidy will be in the same system as other assistance programs, so, for instance, when a worker makes a change to Food Stamps, it will not be necessary to go to a different system to make the corresponding change in Child Care Subsidy (as was the case with one error).

Although the Division has utilized a worker's signature as one part of documentation, a worker's signature on an application is not a Federal requirement. Applications for assistance will not require a worker's signature when the Agency transfers to an electronic assistance application on 9/8/08. The worker begins their process of application review by seeking necessary verifying information on the application and completes the process by making a final determination of eligibility. This full process signifies a worker's acceptance of the application and final determination and has more relevance for verifying that a worker has actually reviewed and processed the application than just a worker's signature on the initial application. In addition to the fact that the signature is not federally required, it was deemed an unnecessary step in setting up the electronic process. We are working to align our electronic and paper procedures at this time. The child care program will continue to comply with any determinations made regarding documentation to indicate worker approval of an application. If a decision is made to continue to require the worker's signature on hard copy applications, this requirement will be reviewed through use of the NEARS system described below.

The child care program recently became part of the Nebraska Economic Assistance Review System (NEARS). This is a process for supervisors to review files for improving accuracy and documentation. This review includes elements of family eligibility such as determining income eligibility and establishing the family co-pay. Additionally, the Provider records are evaluated for complete agreements, accurate billing, etc.

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Contact: Betty Medinger, Administrator, Child Care and Community Based Services

Anticipated Completion Date: January 1, 2009

Auditor's Response: The extrapolation method is in accordance with auditing standards.

Finding #08-25-13

Program: CFDA 93.658 – Foster Care Title IV-E – Activities Allowed & Eligibility

Grant Number & Year: #0G0701NE1401, FFY 2007; #0G0801NE1401, FFY 2008

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

Criteria: Per 42 U.S.C. § 672 (2006) funds may be expended for Foster Care maintenance payments on behalf of eligible children. Per 42 U.S.C. § 671 (a)(10) (2006) and 672(c) (2006) the provider, whether a foster home or child-care institution must be fully licensed by the proper State Foster Care licensing authority. Good internal control requires the Agency ensure Foster Care payments include the correct amount of service days. Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls.

Condition: We tested 45 Foster Care payments and noted four payments did not comply with Federal regulations.

Questioned Costs: \$281 known.

Context: We noted the following during our testing:

- For two child care payments, the child was living with a parent or guardian at the time of service; therefore, child care was not an allowable expense.
- For one child care payment, the child was not in a licensed foster home; therefore, child care was not an allowable expense.
- For one maintenance payment, provider was paid for 30 days of service when provider actually provided 31 days of service.

Federal payment errors noted were \$281. The total Federal sample tested was \$21,986 and total Foster Care Title IV-E assistance payments for fiscal year 2008 were \$6,539,572. Based on the sample tested, the case error rate was 8.89% (4/45). The dollar error rate for the sample was 1.28% (\$281/\$21,986) which estimates the potential dollars at risk for fiscal year 2008 to be \$83,707 (dollar error rate multiplied by population). A similar finding was noted in the prior audit.

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Cause: Inadequate controls over processing claims.

Effect: Without adequate controls to ensure claims are paid per Federal requirements there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure payments are an allowable expense, on behalf of eligible children, and in accordance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: In the three cases involving child care, selected sample payments were made prior to NFOCUS release SCR 4570. That release corrected (fixed) the claiming of IV-E monies, so that child care no longer is claimed from IV-E when a child lives in a non-IV-E facility.

In the single case where the maintenance payment was paid for 30 days rather than 31, the internal controls already are in place, including the following:

- NFOCUS alert #0229 is posted twice to the NFOCUS User (person assigned to put the authorizations on NFOCUS), with notices approximately 30 and 60 days prior to the end date of the authorized payment period;
- At the time the Service Authorization is created, a Service Authorization notice is sent to the receiver of the payments showing the period of payment and the monthly amount; and
- An automated monthly notice called Explanation of Benefit is sent to the receiver of the payment showing the amount paid for the period.

No additional systems corrective action is needed regarding the child care payments. In the three cases involving child care payments, notice has been sent to Finance and Support to unclaim the Federal portion of the child care payments. Regarding the underpayment, the worker and supervisor involved with the specific authorization in question will be made aware of the error and reminded of how NFOCUS works. (Completion date: 12/31/08) In addition, the results of the audit will be shared with all Service Area Administrators and persons supervising staff who do authorizations to remind them of the importance of accuracy. (Completion date: 1/31/09) Lastly, since this error occurred in a foster home payment, an article will be prepared and a request will be made that the NE Foster and Adoptive Parent Association publish it in their newsletter. The article will remind foster parents that their EOB provides them with information on the period of time for which a payment is being made, and will recommend that they check it monthly to avoid either an underpayment or overpayment. (Anticipated date of publication of article: 3/31/09) Corrective action on the specific payment has been done, with the claim being adjusted to pay for the one day.

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Contact: Ruth Grosse or Margaret Bitz

Anticipated Completion Date: The claim was adjusted to pay for the one day underpayment on 11/8/2008. Completion date for the entire corrective action plan is 3/31/09. For completion dates for specific actions, see "Corrective Action Plan."

Finding #08-25-14

Program: CFDA 93.658 – Foster Care Title IV-E – Matching

Grant Number & Year: #0G0801NE1401, FFY 2008

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

Criteria: OMB Circular A-87 requires match to not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period. OMB Circular A-87 also requires that salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards. Good internal control requires the Agency verify third-party match complies with Federal regulations.

Condition: The Agency did not adequately verify in-kind match for foster care training.

Questioned Costs: Unknown

Context: The Agency contracted with a third-party vendor to provide foster care-related training to new Agency employees. The vendor was responsible for providing the required 25% match. However, the Agency did not review the match to ensure it was met and that it was from an allowable source. The total amount paid to the vendor for fiscal year 2008 was \$1,826,700; 25% required match would be \$608,900.

Cause: Unknown

Effect: Without a proper review of third-party match, it cannot be determined whether the required match was met or if the match was allowable.

Recommendation: We recommend the Agency review the in-kind match to determine the match was met and ensure compliance with Federal regulations.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: The Agency will review documentation of the match contribution to insure compliance with the Federal regulations.

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Contact: Mary Osborne, Staff and Partnership Development Administrator, DHHS Human Resources and Development.

Anticipated Completion Date: Method will be established in January 2009, and utilized in the subsequent billing periods.

Finding #08-25-15

Program: CFDA 93.659 – Adoption Assistance – Allowability & Matching

Grant Number & Year: #0G0801NE1407, FFY 2008; #0G0701NE1407, FFY 2007

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

Criteria: Title 42 USC 673(a)(3) (January 2, 2006) states, “The amount of the payments to be made in any case...shall be determined through agreement between the adoptive parents and the State or local agency administering the program... and may be readjusted periodically, with the concurrence of the adopting parents...” Title 45 CFR 1356.41(f)(1) (October 1, 2007) states, “Funds expended by the State under an adoption assistance agreement, with respect to nonrecurring adoption expenses incurred by or on behalf of parents who adopt a child with special needs, shall be considered an administrative expenditure of the Title IV-E Adoption Assistance Program. Federal reimbursement is available at a 50 percent matching rate, for State expenditures up to \$2,000, for any adoptive placement.” Good internal control requires procedures to ensure payments are in accordance with Federal requirements.

Condition: We noted that 6 of 45 claims tested did not comply with Federal regulations.

Questioned Costs: \$332 known

Context: For three claims tested, the adoption subsidy payment amount exceeded the Adoption Assistance Agreement amount. One agreement was amended without parental consent and the claim was paid at \$52 over the original agreement amount. Another claim was paid at \$100 over the agreement amount, and one claim exceeded the agreement amount by \$10.

For three non-recurring expenses (legal fees) tested, the Federal share paid exceeded the 50% administrative cost match percentage.

Federal payment errors noted were \$332. The total Federal sample tested was \$30,488 and total Federal aid payments for fiscal year 2008 were \$7,361,028. Based on the sample tested the case error rate was 13.33% (6/45). The dollar error rate for the sample was 1.09% (\$332/\$30,488) which estimates the potential dollars at risk for fiscal year 2008 to be \$80,235 (dollar error rate multiplied by population). Similar errors were noted in our prior audit report.

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Cause: Unknown

Effect: Lack of compliance with regulations and inadequate internal controls increase the risk that Federal funds will be misused.

Recommendation: We recommend the Agency strengthen procedures to ensure compliance with Federal regulations.

Management Response:

- Management agrees with the findings regarding three payments that exceeded the Subsidized Adoption Agreement amount.
- Management agrees with the finding that an error was made in the match rate for three non-recurring expenses (legal fees). The errors occurred prior to 11/1/07, which is the date that a change was made in NFOCUS to correct the match rate error.

Corrective Action Plan:

- On payments that exceeded the Subsidized Adoption Agreement amount: Future payments will be made at the correct rate, that is, the rate specified in the Subsidy Agreement.
- On claims in excess of the allowable Federal match rate: As stated above, the system error was corrected as of 11/1/07. Adjustment for the errors in the three claims noted in this audit already has been made.
- In addition to the above actions, the audit results will be presented, in writing, to Service Area Administrators for discussion with their staff (by 2/28/09). The case-specific information will be reported to the appropriate supervisors and workers, as a reminder of the need for caution and appropriate review (by 2/28/09).

Contact: Ruth Grosse, Margaret Bitz, or Mary Dyer.

Anticipated Completion Date: All corrective actions will be completed by 2/28/09.

Finding #08-25-16

Program: CFDA 93.659 – Adoption Assistance – Allowable Costs/Cost Principles & Reporting

Grant Number & Year: Various

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

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Criteria: OMB Circular A-87 states, “to be allowable under Federal awards, costs must . . . Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.” Good internal control requires procedures to ensure adjustments on the Financial Status Report (FSR) are proper.

Condition: Adjustments reported on the quarter ended March 31, 2008, FSR were not proper.

Questioned Costs: \$622 known

Context: We tested one of four quarterly FSRs. For the March 31, 2008, FSR, the Agency reported adjustments increasing the Federal share of payments totaling \$757,209. We tested 25 adjusted claims and noted 3 claims tested were for child care and were paid from Federal Child Care funds. These claims are unallowable for Adoption Assistance as they have been included as costs for the Child Care Cluster. The Federal share of these 3 claims reported on the Adoption Assistance FSR totaled \$622. In review of the adjustments detail for the FSR tested, the auditor noted \$124,314 (Federal share) of claims were for child care and were likely to have been paid with Federal Child Care funds.

Cause: Staff did not verify the original funding for the claims adjusted.

Effect: Double-reported claims under Child Care and Adoption Assistance.

Recommendation: We recommend the Agency implement procedures to ensure adjustments reported are proper. In addition, the Agency should review the adjustments reported and make corrections as necessary.

Management Response: The Agency partially agrees with the condition reported. Because SSBG is a block grant, Federal funds are not "matched" with General Funds. NFOCUS payments are paid at a percentage that approximates the estimated funding mix for the year.

Corrective Action Plan: When cases are changed from State Subsidized Adoption to Federal Subsidized Adoption, and include child care expenditures, a correcting journal entry will be made to transfer child care payments to 100% General Funds. Another journal entry then will be made to transfer the expenditures to IV-E. These corrective actions will occur on a monthly basis.

Contact: Ruth Grosse

Anticipated Completion Date: 1/31/09 for the payments found in error. The action will occur monthly for cases in which a change in eligibility was made during that month.

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Finding #08-25-17

Program: CFDA 93.667 – Social Services Block Grant (SSBG) – Allowability

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 96.30 (October 1, 2007) requires “Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.” OMB Circular A-87 states, “to be allowable under Federal awards, costs must . . . not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award.”

Condition: We noted the Agency did not have adequate procedures to permit the tracing of Federal funds to the detail level of expenditures. Claims originally paid with both State and Federal funds were transferred out as paid solely with State funds.

Questioned Costs: Unknown

Context: The Agency sets up the NIS general ledger to pay NFOCUS SSBG claims at an approximate rate, based on Federal funds at the beginning of the fiscal year. In fiscal year 2008, the rate used was 15% SSBG Federal funds and 85% General funds.

Monthly, medical transportation claims that were paid for SSBG clients who are Medicaid eligible are transferred out of SSBG to claim on the Medicaid side. This transfer is made entirely from General funds and not at the original 15% Federal/85% General rate. Therefore, there is no way to determine how the Federal funds initially used for these claims were expended.

During the fiscal year, the Agency transferred \$6,333,351 from the General fund to Medicaid for medical transportation. From this amount, \$950,002 should have been credited to SSBG Federal funds.

	As Recorded		Should Be	
	State Funds	Federal Funds	State Funds	Federal Funds
Initial Claim	\$ 5,383,349	\$ 950,002	\$ 5,383,349	\$ 950,002
Transfer to Medicaid	(6,333,351)		(5,383,349)	(950,002)
Medicaid Payment	2,660,168	3,673,183	2,660,168	3,673,183
Total Funds Expended	\$ 1,710,166	\$ 4,623,185	\$ 2,660,168	\$ 3,673,183

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Cause: Per Agency staff “There is no way to discern which portion of each individual claim is “paid” with Federal funds, as this would occur on the Nebraska Information System (NIS) side.”

Effect: The Agency is charging Federal Medicaid funds for claims partially paid with Federal SSBG funds. There is an increased risk for errors to occur and not be detected.

Recommendation: We recommend the Agency implement procedures to permit the tracing of Federal funds to the detail level of expenditures. We further recommend expenditures transferred to other programs should be coded in the same manner as the original documents.

Management Response: The Agency partially disagrees with the condition reported. Because SSBG is a block grant, Federal funds are not “matched” with General Funds. NFOCUS payments are paid at a percentage that approximates the estimated funding mix for the year.

Corrective Action Plan: Each month, a correcting journal entry will be made to transfer medical transportation payments with the funding mix of 85% General Funds and 15% Federal Funds to 100% General Funds. Another journal entry will be made to transfer the expenditures to Medicaid.

Contact: Kim Collins

Anticipated Completion Date: Change implemented November, 2008.

Finding #08-25-18

Program: CFDA 93.667 – Social Services Block Grant – Allowability

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR 96.30 (a) states, “... a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.” Title 473 NAC 2-007.03B Resource Development states, “When the worker assigned resource development responsibilities and a provider negotiate a rate that exceeds the maximum unit rate the worker shall ... 2. Initiate Form DSS-2A requesting a specific unit rate exceeding the maximum.” Title 473 NAC 3-002.02 Provider Standards states, “Before furnishing any service, each provider shall sign Form DSS-9 agreeing to... 3. Submit Form DSS-5B, ‘Social Services Billing Document’, after service is provided and within 90 days.” Title 473 NAC 2-005.04B Client Relatives as Providers states, “The Department discourages authorization of providers who are related to the clients they serve. Before considering a relative

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provider, the worker shall determine that the provider would not donate his/her service to the client at no cost.” Title 473 NAC 5-001.02 Defined Chore Services identifies obtaining food, clothing, housing or personal care items as essential shopping (Service Code 0102). Title 473 NAC 5-001.06 Maximum Rates and Allowable Units states that each chore task (0102) should be charged at a rate of \$5.00/job and each chore housekeeper should be charged hourly at the Federal minimum wage. Title 473 NAC 5-010.05 Maximum Rates and Allowable Units states that each congregate meal should be charged at a rate of \$1.50/meal and that each home-delivered meal should be charged at a rate of \$1.75/meal. Title 473 NAC 5-002.06 Maximum Rates and Allowable Units states that day services at a center should be charged at \$7.50/day. Title 473 NAC 5-018.06B1 Common Carriers states, “Neb. Rev. Stat. 75-303.02 limits the distance rates for common carriers at a rate no greater than three times the state employee mileage rate.” Title 473 NAC 5-018.06B4 Escort Providers states, “The mileage rate for escort providers must not exceed the state employee mileage rate ... The hourly rate is set by DHHS Central office.” Sound business practice requires that supporting documents submitted for payment from the provider are signed by the client as evidence of services received.

Condition: We noted that 37 of 45 claims tested did not have adequate documentation and/or did not comply with State and Federal regulations.

Questioned Costs: \$145 known

Context: For two claims tested, the billing document provided was not signed as approved by Agency staff.

For 13 claims tested, there was not adequate supporting documentation for the services provided. Four of the claims had a relative of the client as the service provider. The Agency was unable to produce documentation that the provider would not donate his/her service to the client at no cost. Seven of the claims were for transportation and there was no signature by the client as evidence of services received. Two of the claims were supported only by the billing document with no client signature and no log or other documentation to justify the expenditure.

Twenty-nine claims tested did not comply with the rates and procedures listed in 473 NAC. Of these, nineteen claims were paid at rates which exceeded the Federal minimum wage, contrary to NAC regulations. Additionally, four of the nineteen claims tested were charging essential shopping at an hourly rate. Per 473 NAC, essential shopping should be charged on an occurrence basis. We also noted one medical escort claim tested was not paid, per 473 NAC, at the rate established by DHHS Central office and another medical escort claim was not paid according to actual miles traveled. Seven other claims tested were paid at rates which exceeded 473 NAC; however, these were flat rates established in 1983 and 1992. As the costs for these claims appeared reasonable and the NAC rate was clearly outdated, no questioned costs were accumulated for the flat rate exceptions; however, the Agency needs to have the NAC manual updated and approved as soon as possible. The Agency was unable to provide a signed HHS-2A Exception

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Form to approve an exceeding rate for these claims. We also noted one claim tested included a charge for an after hour's transportation fee. Per 473 NAC, there are no regulations that govern the payment of fees for services that are not performed during normal business hours.

Total Federal questioned costs noted during testing were \$145. The total Federal sample tested was \$603 and total SSBG Federal assistance payments for fiscal year 2008 were \$2,064,422. Based on the sample tested, the case error rate was 82.22% (37/45). The dollar error rate for the sample was 24.05% (\$145/\$603) which estimates the potential dollars at risk for fiscal year 2008 to be \$496,493 (dollar error rate multiplied by aid amount). Similar errors were noted in our prior audit report.

Cause: Unknown

Effect: Without adequate compliance with the NAC manual and supporting documentation of services received, there is an increased risk of loss and/or misuse of Federal funds.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are made in compliance with State and Federal regulations and are supported by adequate documentation. We further recommend the Agency implement procedures to update NAC regulations as needed.

Management Response: The Agency agrees that current NAC regulation does not support actual policy regarding service rates. NAC Title 473 is being revised to outline the process for establishing rates and the methodology for future rate adjustments, but will no longer identify specific rate amounts. This information will be moved to the appendix.

The Agency disagrees with Chore, Respite, and Homemaker rates because R.R.S., 1943 Section 68-1204 provides DHHS authority to establish rates. A statewide memo dated September 1, 1998 to local offices addressed the Chore, Respite and Homemaker hourly rate increase to \$6.50 per hour.

The Agency disagrees with the need for written documentation of relative refusal to donate time when family members provide a service, written documentation is not required. However, the aforementioned NAC regulation revision will treat relative providers on the same basis as non-relative providers.

The Agency agrees that current NAC regulation does not support actual policy regarding the requirement for transportation providers to obtain client signatures.

The Agency disagrees with exceptions for medical escort because NAC does not require an exception form HHS-2A when rates are established by Central Office. However, DHHS agrees that NAC rate chart needs to be revised in order to accurately pay claims based on a fee schedule of actual miles traveled.

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The Agency disagrees with exceptions for billing document approval because NAC does not require a signature by the caseworker. However, the aforementioned NAC regulation revision will address the exceptions by outlining the caseworker requirements regarding approval of billing documents.

The Agency agrees 2 claims were not adequately supported. These claims were misplaced and could not be located for the audit. Local offices will keep a copy in their files when information is sent to Central Office.

Corrective Action Plan:

Adult Day Care, Chore and Meals (Home Delivered and Congregate):

The Safety and Independence Supports (SIS) Unit will complete the revisions to NAC 473, and submit for promulgation and implementation by 7/01/09.

Regulations will be revised and rates and services codes for all SSBG services will be moved to an appendix. Revised regulations will specify that agencies providing Meal services document consumer name, when the meal is delivered, and that provider and consumer signatures are recorded to verify meal delivery.

SIS Program Specialist will implement quality assurance/improvement random reviews of files for required documentation by July 1, 2009.

Worker training will be provided when regulations have been revised and promulgated. Central Office will review a sampling of files from each Service Area to ensure required documentation is present.

Transportation

Behavioral Health Pharmacy & Ancillary Services Unit will develop a fee schedule for transportation services which will be placed in NAC 473 appendix. A provider bulletin will be issued to all transportation providers that will outline the importance of client signatures on all trip claims. The fee schedule and provider bulletin will be housed on the Agency website. Implementation date is July 1, 2009.

Contact: Joni Thomas, Unit Manager, Safety & Independence Supports Unit, Division of Medicaid & Long-Term Care and Roxie Cillessen, Unit Manager, Behavioral Health Pharmacy & Ancillary Services Unit, Division of Medicaid & Long-Term Care.

Anticipated Completion Date: The draft NAC manual changes are currently being reviewed internally. The target date for Public Hearing is March 2009. Once the regulations are promulgated rate related findings will be addressed.

The Transportation Program Specialist will develop a Provider bulletin and Fee schedule. The targeted completion date is July 1, 2009.

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Auditor's Response: Regarding Chore, Respite, and Homemaker rates, the State Statutes provide the Agency with the authority to establish rates. These rates are established in NAC Rules and Regulations. NAC Rules and Regulations have the same effect as State Statutes. A memo does not have the same force as NAC Rules and Regulations. Therefore, the Agency must comply with NAC 473.

Finding #08-25-19

Program: CFDA 93.767 – State Children's Insurance Program (SCHIP) – Reporting

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR § 92.20 (October 1, 2007) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires procedures to reconcile the accounting system to the reports required to be submitted.

Condition: We noted the Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

Questioned Costs: Unknown

Context: During testing we noted the amount of expenditures recorded in the NIS general ledger was \$12,378,438 and the amount of expenditures reported in the CMS-64 report was \$11,803,484 for a variance of \$574,954. The Agency was able to explain \$476,432 of the variance noted; however, \$98,522 of the variance was not explained. A similar finding was noted in the prior audit.

Cause: There was turnover in the staff who prepared the reconciliation.

Effect: Without adequate procedures to reconcile the official accounting system to the required periodic reports there is a risk of misuse of funds and/or inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts from the State accounting system and explain any variances.

Management Response: The Agency disagrees in part with the finding that the amounts recorded in NIS do not reconcile to the CMS-64 report for March 31, 2008. The amounts reported on the CMS-64 were correct.

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Corrective Action Plan: The Agency will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the Quarterly SCHIP statement of expenditures.

Contact: Kim Collins

Anticipated Completion Date: April 30, 2009. (The January – March, 2009 quarterly report.)

Finding #08-25-20

Program: CFDA 93.767 – State Children’s Insurance Program – Eligibility

Grant Number & Year: #050705NE5021, FFY 2007; #050805NE5021, FFY 2008

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

Criteria: Title 42 USC 1397bb (January 2, 2006) requires the State Plan to include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Title 477 NAC 6-001 Eligibility Requirements states, “Medical assistance is available to a child age 18 or younger if the family’s income is at or below 185 percent of the Federal Poverty Level ...” Title 477 NAC 4-001.04 states, “The worker must redetermine eligibility every six months. Eligibility may be redetermined in less than six months to coordinate review dates for more than one program.” Title 477 NAC 1-012.02C states, “Once an unborn has been determined eligible, the eligibility continues through the month the child turns age one, without regard to changes in the household income ...” Good internal control requires procedures to ensure compliance with eligibility requirements.

Condition: We noted that 5 of 45 claims tested were not adequately supported by documentation from case files and/or did not comply with State and Federal regulations.

Questioned Costs: \$111 known

Context: For two claims tested, the individual receiving assistance did not have eligibility redeterminations every six months. One individual was reviewed in October 2007 with no other redetermination until discontinuation from SCHIP program in October 2008 and another individual was determined eligible in November 2007 and no other reviews were performed through November 2008.

For two claims tested, the individual receiving assistance was not eligible per requirements in 477 NAC and did not have eligibility redeterminations every six months. One individual remained eligible for 12 months after the newborn’s first birthday even

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though income was over eligibility limits and no review was done during these 12 months to redetermine eligibility. Another individual had eligibility redeterminations 12 months apart in August 2007 and August 2008 and were allowed to remain eligible through August 2008 after turning age 19 on November 9, 2007.

For one claim tested, the individual receiving assistance was not eligible per requirements in 477 NAC and their total adjusted income recorded in NFOCUS did not agree to support in the case file. We noted that the same paystub was used in the earned income calculation for both the mother and the father. Total adjusted income calculated by the auditor was \$4,328 which exceeded the eligibility limit (\$4,257) by \$71. In addition, total adjusted income in NFOCUS was understated by \$423. The budget tested was created on August 24, 2007, which occurred after the claim date of July 30, 2007; but was retroactively placed into effect starting July 1, 2007.

Total Federal questioned costs noted during testing were \$111. The total Federal sample tested was \$3,139 and total SCHIP Federal assistance payments for fiscal year 2008 were \$31,276,700. Based on the sample tested, the case error rate was 11.11% (5/45). The dollar error rate for the sample was 3.54% (\$111/\$3,139) which estimates the potential dollars at risk for fiscal year 2008 to be \$1,107,195 (dollar error rate multiplied by population). Similar errors were noted in our prior audit report.

Cause: Unknown

Effect: Lack of compliance with NAC regulations and inadequate reviews increase the risk that ineligible individuals will receive services and that Federal funds would be misused.

Recommendation: We recommend the Agency strengthen procedures to ensure NAC regulations are followed, eligibility criteria are met, and eligibility is reviewed on a timely basis.

Management Response: The Auditors found four of the 45 Kids Connection claims did not have eligibility reviews performed six months after the prior determination. These six-month reviews should have been completed. Two of the cases, were eligible the month of the claim and were eligible in future months but a review was not completed within the six month time frame. Two cases were eligible the month of the claim but not eligible in future months. The future ineligibility would have been detected had the six month review been completed. No claims were identified for one of the two cases and a total of \$111 in claims was identified for the other case.

One case was found in error because the caseworker used a paystub twice in determining eligibility, but no claims were paid because the case was ineligible. The case was ineligible because the paystub that was used twice overstated the income available. Staff should not have used the same paystub for calculations for the mother and father.

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Corrective Action Plan: As stated in last year's Corrective Action Plan, effective 10/01/07 (three months into this audit period) the Agency began supervisory reviews of Kids Connection case files utilizing a new quality assurance system, the Nebraska Economic Review System (NEARS). As part of the new quality control measures, supervisory staff are required to review and monitor a targeted number of cases each month. The review information is captured on the NEARS system for use in targeting corrective action and staff training. This monitoring and feedback is beginning to improve performance as evidenced by the reduction in error cases from seven cases cited in the last audit to five errors in this audit. We expect continued improvement and further reduction in errors in the next audit when the NEARS system will have been in place for the entire audit review period. The elements of Medicaid eligibility that are included in our NEARS review are as follows: applications, review processing, citizenship, earned income, deductions, and self-employment, unearned income, etc.

NFOCUS Reports have Case Activity Summary Reports and Case Review Reports available online to assist the Social Service Workers in managing their caseloads for overdue Eligibility Reviews. NFOCUS also creates Alerts which are posted to each Eligibility Worker's position when Reviews are due to assist the worker. In anticipation of ACCESSNebraska, all redeterminations as of January 01, 2009 have been extended to a 12-month period which will reduce the number of reviews a worker must complete and give workers more time to work their alerts and listings to prevent these errors from occurring.

Contact: George C. Kahlandt, Administrator I, Economic Assistance Unit

Anticipated Completion Date: The corrective action plan activities mentioned above are fully implemented. Notification of audit findings will be shared with Administrative and Supervisory staff so they can meet with their staff and discuss these errors and findings. A memo to Administrative Staff will be released no later than January 31, 2009 reminding staff how to reduce and avoid errors related to the Kids Connection program.

Finding #08-25-21

Program: CFDA 93.778 – Medical Assistance Program – Matching & Reporting

Grant Number & Year: All open grants

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

Criteria: Title 45 CFR § 92.20 (October 1, 2007) requires fiscal control and accounting procedures of the State sufficient to permit preparation of required reports and permit the tracing of funds to expenditures adequate to establish the use of these funds were not in violation of applicable regulations. Title 42 CFR § 433.10 (October 1, 2007) provides for

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payments to states, on the basis of a Federal medical assistance percentage. NIS is the official accounting system for the State of Nebraska and all expenditures are generated from NIS. Good internal control requires procedures to reconcile the accounting system to the submitted reports.

Condition: We noted the Agency did not have adequate procedures to reconcile the Quarterly Medicaid Statement of Expenditures (CMS-64) to the NIS General Ledger.

Questioned Costs: Unknown

Context: The Agency utilized amounts from the NIS General Ledger, Medicaid Management Information System (MMIS), NFOCUS, and other sources to prepare the quarterly CMS-64 report. The Agency prepared a reconciliation to compare the CMS-64 reported amount to the NIS General Ledger; however, the procedures were not adequate. We noted the following:

- The reconciliation was prepared utilizing sources other than the NIS General Ledger. While it is necessary for the Agency to use MMIS and NIS to prepare the report, all payments must be processed through the NIS General Ledger, and using other sources such as MMIS and NFOCUS in the reconciliation increases the risk for double-reporting or other errors to occur and not be detected. In addition, MMIS and NFOCUS only record the total expenditure, not the breakdown of Federal funds versus State match. Only the NIS General Ledger records the Federal/State funding source. The Agency also prepared monthly reconciliations between NIS and MMIS; we reviewed the March 2008 reconciliation and noted a \$130,340 variance.
- The Agency reconciled amount did not agree to the current quarter expenditures reported on the CMS-64 report. The period ended March 2008 reported quarterly expenditures were \$385,756,937 and the reconciliation only showed expenditures of \$380,974,987; the variance of \$4,781,950 was not explained and indicates expenditures may have been over-reported.
- The Agency reconciliation procedures utilized total Medicaid expenditures only, not separated by Federal funding and State match. Therefore, the reconciliation does not substantiate whether the Federal share reported agrees to Federal funds actually spent, or if State match requirements were met.

A similar finding was noted in our 2006 and 2007 audit reports.

Cause: The methodology to reconcile reports to the NIS General Ledger was developed in fiscal year 2006 and first implemented in fiscal year 2007. The individual responsible for performing the reconciliation and addressing the issues noted in previous audits, left the Agency in February 2008.

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Effect: Without adequate reconciliation procedures there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal sanctions.

Recommendation: We recommend the Agency develop procedures to ensure quarterly reconciliations are adequately performed including procedures to reconcile all amounts reported to the NIS General Ledger. This reconciliation should include a separate determination for Federal funds and State match.

Management Response: The Agency disagrees in part with the Condition reported that the amounts recorded in NIS do not reconcile to the Quarterly Medicaid Statement of Expenditures Report. The NIS amounts reconcile in total, the only difference is in the State and Federal fund split.

The Agency also disagrees with the Context section. NIS does not provide the service level of detail required for reporting on the CMS-64. This is why other sources such as MMIS and NFOCUS must be used. Because reconciliation is done at the total funds level, there is no risk for double-reporting as suggested in the Context. The variance of \$4,781,950 identified in the Context section, second bullet point, is calculated by summing up the totals found on the 64.9 pages of the report and then comparing that sum to the NIS total. This is not a valid comparison because certain refunds and recoveries are not reported on the 64.9 pages. Examples of amounts not included on the 64.9 are child support collections and refunds posted outside of MMIS, the inclusion of which puts the variance within a more acceptable range. While the third bullet point is true, that the Department reconciles to the total Medicaid expenditures, a full reconciliation of the federal share is performed at the end of each federal fiscal year by CMS. After this reconciliation is completed by CMS, they will award additional federal funds or will issue a negative grant award, so that the amount of federal Medicaid funds spent by Nebraska will match the amount reported on the CMS-64 for the federal fiscal year under review.

Corrective Action Plan: The Agency will continue to improve methods of reconciliation by modifying the spreadsheet used to show adjustments made between what is reported in NIS and what is reported on the Quarterly Medicaid Statement of Expenditures.

Contact: Kim Collins

Anticipated Completion Date: April 30, 2009. (The January – March, 2009 quarterly report)

Auditor's Response: We disagree with the Agency that NIS amounts reconcile in total. We also disagree that there is no risk for double-reporting.

STATE OF NEBRASKA
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Finding #08-25-22

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Subrecipient Monitoring

Grant Number & Year: #050705NE5048, FFY 2007; #050805NE5048, FFY 2008

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

Criteria: OMB Circular A-87 states that to be allowable costs must be necessary, reasonable, and adequately documented. OMB Circular A-133 §.400(d) states, “A pass-through entity shall perform the following for the Federal awards it makes: ... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved... (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year... (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.”

Condition: We noted the Agency did not have procedures to adequately monitor two subrecipients who received Medical Assistance Program Funds, and did not have adequate documentation to support the payments were for the correct amount.

Questioned Costs: Unknown

Context: The Medicaid School-Based Administrative Claiming Guide provided by the Centers for Medicare and Medicaid Services states, “The school setting provides a unique opportunity to enroll eligible children in the Medicaid program, and to assist children who are already enrolled in Medicaid to access the benefits available to them. Medicaid, a joint state-federal program, offers reimbursement for both the provision of covered medical services and for the costs of administrative activities, such as outreach, which support the Medicaid program.” The Agency has agreements with two consortiums which distribute the funds to schools based on school claims. The claims indicate the amount of funds expended by the school to enroll and assist children in Medicaid. The Agency reviews the claims to ensure the correct indirect cost rates and Medicaid Eligibility Rates are utilized; however, does not perform procedures to ensure total expenditure amounts claimed are correct. The Agency paid \$2,861,832 to the NE Medicaid School Consortium and \$26,901,112 to the NE Association of School Boards during the year, who distributed the funds to the schools. The Agency receives three percent of the total claim back from the consortiums for administration.

There were not adequate procedures for monitoring the subrecipients to ensure the amounts paid were correct and the subrecipients did not submit A-133 audits to the Agency.

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We used the guidance in OMB Circular A-133 to determine whether the consortiums were vendors or subrecipients. In our judgment the consortiums meet the definition for subrecipients as they are responsible for adherence to Federal requirements and help to carry out the program. The consortiums are not vendors as they do not operate in a competitive environment, and do not provide similar services to many different purchasers. However, whether considered vendors or subrecipients, there was not adequate documentation to support the payments were proper.

Cause: The Agency did not request A-133 audits and did not utilize the three percent administration funds to perform on-site monitoring of the consortiums or the schools.

Effect: Without adequate procedures there is an increased risk for fraud or errors to occur.

Recommendation: We recommend the Agency implement procedures to ensure payments for school claims are accurate. The Agency should obtain and review A-133 audit reports. The Agency should also consider the need to perform on-site reviews on a sample basis, or obtain sufficient documentation from the consortiums to determine consortium procedures are adequate to ensure claims are proper.

Management Response: The Department is still reviewing this comment.

Corrective Action Plan: Legal staff are reviewing the need for A-133 audits and program staff are reviewing methods to ensure claims are proper.

Contact: Willard Bouwens, Jon Sterns

Anticipated Completion Date: April 30, 2009

Finding #08-25-23

Program: CFDA 93.778 – Medical Assistance Program – Allowability & Matching

Grant Number & Year: #050705NE5028, FFY 2007

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

Criteria: To be allowable, Medicaid costs for medical services must be paid to eligible providers, and paid at the rate allowed by the State plan. 42 CFR § 433.10 (October 1, 2006) provides for payments to States, on the basis of a Federal medical assistance percentage. Title 42 CFR § 433.51 (October 1, 2006) allows public funds to be considered as the State's share in claiming Federal participation if the public funds are appropriated directly to the local Medicaid agency, or certified by the contributing agency as representing expenditures eligible for Federal participation; and the public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

STATE OF NEBRASKA
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Condition: The Agency did not pay developmental disability services for July 2007 at the proper Federal medical assistance percentage. As a result, Federal funds were overcharged \$594,258.

Questioned Costs: \$594,258

Context: The Agency paid providers of developmental disability services at 90% of Agency determined rates, and included the 10% not paid in the calculation of match. The Agency did not have adequate documentation to support the amount paid was 90% of costs or that 10% was provided by public funds. Further, the public funds were not appropriated directly to the local provider, and were not certified as representing expenditures eligible for Federal participation.

Cause: This was a prior finding and the Agency did not make corrections to the accounting system until August 2007.

Effect: Noncompliance with Federal regulations and misuse of Federal funds.

Recommendation: We recommend the Agency make the proper adjustments as needed to the accounting system and the quarterly report for the July 2007 services.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: As reported the Agency has corrected this practice in August 2007. The questioned costs will be resolved in the cost settlement performed for the Fiscal Year 2008.

Contact: Willard Bouwens

Anticipated Completion Date: August 2007 and March 1, 2009.

Finding #08-25-24

Program: CFDA 93.778 – Medical Assistance Program – Eligibility

Grant Number & Year: #050805NE5028, FFY 2008; #050705NE5028, FFY 2007

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

Criteria: Title 45 CFR § 92.20 (October 1, 2007) states a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Title 480 NAC 2-006 states, “To be eligible for waiver services, the client must...Have documentation of a physical exam current within one year.” Good internal control requires documentation of each client’s yearly physical be maintained in the case file.

STATE OF NEBRASKA
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Condition: For 1 of 45 Adult Developmental Disabilities Waiver cases tested, physical exams occurred greater than one year apart. For 1 other of the 45 cases tested, physical exams could not be located.

Questioned Costs: \$617 known.

Context: For one client physical exams occurred in October 2005 and January 2008 (15 months overdue). On the annual redetermination, the caseworker indicated there was a physical exam completed in January 2007, however per further investigation, it was determined this did not occur. For another client, physical exams could not be located. Per caseworker notes exams occurred annually; however, this could not be verified.

Federal payment errors noted were \$617. The total Federal sample tested was \$53,748 and total Adult Developmental Disabilities Waiver aid payments for fiscal year 2008 were \$77,872,805. The case error rate for the sample was 4.44% (2/45). The dollar error rate for the sample was 1.15% (\$617/\$53,748) which estimates the potential dollars at risk for fiscal year 2008 to be \$895,537 (dollar error rate multiplied by population).

Cause: Unknown

Effect: If a physical exam is not completed annually, clients could lose eligibility and payments for those clients would be improper.

Recommendation: We recommend the Agency implement procedures to ensure all Medicaid Developmental Disabilities Waiver clients receive an annual physical, and documentation is maintained in the case file.

Management Response: The Agency agrees with the findings and has implemented the following plan of correction.

Corrective Action Plan: By 11/10/08 copies of physicals examinations for the three cited cases will be secured and forwarded to the Disabilities Service Specialist.

By 12/31/08, all waiver files will contain a current physical exam as required for waiver eligibility.

Action steps:

1. Service Coordinators (SC) will ensure all individuals have a current physical exam as recommended by the individual's physician.
2. Current physical exam documentation for all persons will be forwarded to the Disability Services Specialist if not previously received.

If there is no current exam, the individual's waiver authorization will be terminated until such time a current exam can be completed.

By 01/01/09 Service Coordination will implement a shared system of tracking for annual physical examinations. The tracking system will be shared by the Service Coordinator, Disability Services Specialist and Service Coordination Supervisor.

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Action steps:

1. An excel spreadsheet will be developed to be used for tracking annual physical dates by 11/24/08.
2. SCs will enter each person on the spreadsheet that will then be forwarded to the SC Supervisors by 12/15/08.
3. SC Supervisor will combine the input and forward to appropriate DSS by 12/31/08.
4. Beginning 01/01/09, a monthly review of annual physical exams will be completed by the SC, SC Supervisor, and Disability Services Specialist.
 - a. At the end of each month, dates of physical exams for the upcoming month will be identified.
 - b. Annual physical exams, or as recommended by the individual's physician, will be reviewed at the time the Annual Plan is developed and responsibility will be assigned.
 - c. Contact will be made with the responsible party when the physical exam report has not been received within the month following the month it is due. Continued effort by the service coordinator is necessary to ensure all persons receive an annual physical exam, or as recommended by the individual's physician.

Contact: Tricia Mason, Community Based Administrator, DDD

Anticipated Completion Date: January 1, 2009

Finding #08-25-25

Program: Various – Reporting

Grant Number & Year: Various

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

Criteria: OMB Circular A-133 § 300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The State shall prepare a Schedule of Expenditures of Federal Awards (SEFA) in accordance with § 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA. We informed Administrative Services and the Agency of the errors and the SEFA was subsequently adjusted.

Questioned Costs: None

STATE OF NEBRASKA
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Year Ended June 30, 2008

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amounts reported were as follows:

CFDA #	Program	Amount Initially Reported	Corrected SEFA Amount	Variance
93.659	Adoption Assistance	\$ 8,185,875	\$ 10,322,482	\$ 2,136,607
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	\$ 14,788,995	\$ 13,790,624	\$ (998,371)
93.069	Public Health Emergency Preparedness	\$ 0	\$ 998,371	\$ 998,371
93.774	Medicare Supplementary Medical Insurance	\$ 4,783,822	\$ 0	\$ (4,783,822)
93.268	Immunization Grants	\$ 12,816,773	\$ 12,274,311	\$ (542,462)
93.003	Public Health and Social Services Emergency Fund	\$ 890,543	\$ 0	\$ (890,543)
93.889	National Bioterrorism Hospital Preparedness Program	\$ 1,784,397	\$ 2,674,940	\$ 890,543
64.015	Veterans State Nursing Home Care	\$ 4,978,813	\$ 8,629,122	\$ 3,650,309

Cause: Inadequate review.

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

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

Management Response: The Agency agrees with this response.

Corrective Action Plan: The Agency will add an additional review to the schedule of expenditures before reporting FY 2009 amounts.

Contact: Larry Morrison

Anticipated Completion Date: September 30, 2009

Finding #08-25-26

Program: CFDA 93.044 & 93.045 – Aging Cluster; CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster – Allowable Costs/Cost Principles

STATE OF NEBRASKA
Schedule of Findings and Questioned Costs
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Grant Number & Year: Various

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

Criteria: OMB Circular A-87 states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

Condition: The Agency did not have procedures for the certification of payroll for individuals whose time was charged to a single Federal program. This was also noted in our prior report.

Questioned Costs: Unknown

Context: We tested one pay check date from the fiscal year for 25 different employees and noted three employees who worked on a single Federal program did not have periodic payroll certifications. The total amount of payroll expenditures tested was \$61,993, and of this amount one biweekly employee directly charged \$1,588 to CFDA 93.045 and two monthly employees directly charged \$7,640 to CFDA 93.596.

Cause: The Agency has not completed development of a new time-keeping system which will address this issue.

Effect: The Agency was not in compliance with OMB Circular A-87. There is an increased risk employee hours were charged to the incorrect Federal program.

Recommendation: We recommend the Agency develop procedures to periodically certify the time of employees whose hours are directly charged to a single Federal program.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: All Agency employees will be required to use a new time reporting system by the end of the current State fiscal year. The time reporting will cover all individuals who otherwise would need to provide the certification. The corrective action plan presented for the prior year finding is unchanged except that the anticipated completion has been adjusted from December, 2008 to June, 2009.

Contact: Linda Gerner and Larry Morrison

Anticipated Completion Date: June, 2009

STATE OF NEBRASKA
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Finding #08-25-27

Program: CFDA 93.575 & 93.596 – Child Care and Development Fund Cluster; CFDA 93.658 – Foster Care Title IV-E; CFDA 93.667 – Social Services Block Grant; and CFDA 93.777 & 93.778 – Medicaid Cluster – Allowable Costs/Cost Principles

Grant Number & Year: Various

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

Criteria: The approved Cost Allocation Plan states, “The cost center will be allocated to the benefiting programs based on time and effort reports prepared by DHHS Resource Developers in the cost center.”

Condition: The time and effort reports utilized to allocate costs of the Service Area – Resource Development cost center for the quarter ended March 31, 2008, were not correctly accumulated to arrive at the allocation percentage. One employee tested did not submit time and effort reports for all weeks in the quarter. Five employees did not sign their weekly time reports. Two employees’ hours were correctly not included in the calculation of the allocation percentage; however, their pay was incorrectly charged to the cost center. A similar finding was noted in the prior year report.

Questioned Costs: \$12,857 known

Context: There were 70 employees whose hours were included in the calculation of the Resource Development allocation. We tested 20 employees’ time and effort reports for the quarter ended March 31, 2008, and noted:

- The Agency incorrectly recorded hours reported by 4 of 20 Resource Developers on the time and effort summary. The time and effort summary is utilized to calculate the allocation percentage for Resource Developers pay.
- One of 20 Resource Developers did not submit weekly time and effort reports for 4 weeks during the quarter.
- Five of 20 Resource Developers did not sign the weekly time and effort reports submitted to the Agency.

During our testing we also noted two individuals who were not Resource Developers and whose time was appropriately not included in the Resource Development allocation calculation, but were being paid from a Resource Development business unit. Although the employees’ time did not affect the calculation of the allocation percentages, their payroll was being allocated according to the percentages.

STATE OF NEBRASKA
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Cause: Hours reported by the Resource Developers in the time and effort reports are not being recorded correctly in the time and effort summary.

Effect: Failure to correctly record time and effort reported by employees increases the risk the allocation to the benefiting programs is incorrect. Coding of payroll costs to incorrect business units could result in the incorrect allocation of costs.

Recommendation: We recommend the Agency develop procedures to ensure time and effort reported by employees is correctly summarized and the summary is reviewed. We further recommend Resource Developers submit all weekly time and effort reports to the Agency and that all reports are signed by employees. We recommend the Agency review employees' payroll business units periodically to ensure appropriateness.

Management Response: The Agency agrees with the condition reported.

Corrective Action Plan: We now maintain a copy of the email document with the time report as the electronic signature. We will begin periodic reviews of employee payroll assignments to ensure staff costs are assigned to the correct cost centers. We will incorporate the time and effort reporting into the agency's new electronic time reporting system which will ensure that all reports are signed and submitted and will electronically capture the hours as recorded by the staff.

Contact: Larry Morrison

Anticipated Completion Date: Signatures – Completed. Review payroll assignments – February, 2009. Electronic time reporting – June, 2009.

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 Year Ended June 30, 2008

GAME AND PARKS COMMISSION

Finding #08-33-01

Program: Various – Reporting

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Interior

Criteria: OMB Circular A-133 §300 requires the State to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include: the CFDA title and number, award number and year, name of the Federal agency. The State shall also prepare the Schedule of Expenditures of Federal Awards (SEFA) in accordance with section 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

Condition: The Agency did not accurately report Federal expenditures by CFDA. We informed Administrative Services and the Agency of the errors and the SEFA was subsequently adjusted. A similar finding was noted in the prior audit report.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amounts reported were as follows:

CFDA #	Amount Initially Reported	Corrected SEFA Amount	Variance
15.605	\$ 6,150,318	\$ 6,063,906	\$ (86,412)
15.611	\$ 4,284,746	\$ 4,012,898	\$ (271,848)
15.634	\$ 1,524,395	\$ 869,492	\$ (654,903)

Cause: Inadequate review.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

Management Response: The errors resulted from double counting one amount and misinterpreting a couple of grants as direct rather than pass-through. The loss of a staff member just prior to the reporting period contributed to the processing error.

STATE OF NEBRASKA
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Corrective Action Plan: A new staff member has been hired that will take over the primary duties of coordinating the preparation of both the CAFR and SEFA reports for the Agency. Those responsible for the current years report will work with the individual to identify all existing Federal projects to ensure correct CFDA numbers are recorded and tracked within the NIS system and that non-reportable “pass-through” grants are identified and treated appropriately for future reporting efforts.

Contact: Becky Tejral, Judy Alderman, and Patrick Cole

Anticipated Completion Date: Late January-mid February 2009.

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ENERGY OFFICE

Finding #08-71-01

Program: CFDA 93.568 – Low–Income Home Energy Assistance Program (LIHEAP) – Subrecipient Monitoring

Grant Number & Year: #0G07B1NELIEA, FFY 2007; #0G08B1NELIEA, FFY 2008

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

Criteria: OMB Circular A-133 § 400 (d) states, “A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.”

Condition: Both subrecipients tested were not properly notified of Federal award information.

Questioned Costs: None

Context: We tested two of nine subrecipients. We noted award information provided to subrecipients did not include the CFDA number and the Federal awarding agency was identified as the Department of Energy; the correct agency is the U.S. Department of Health and Human Services.

Cause: Unknown

Effect: Increased risk for errors at subrecipient level.

Recommendation: We recommend the Agency include all required information on subrecipient award documents.

Management Response: The Nebraska Energy Office does not dispute the single finding that two subrecipients were not notified of the Federal awarding agency and the CFDA number of the Low Income Home Energy Assistance Program.

Corrective Action Plan: The Nebraska Energy Office has implemented the following corrective action plan. Current financial assistance awards have been amended to reference the Federal awarding agency and the appropriate CFDA number. Procedures have been created to ensure that future financial assistance awards will reference the Federal awarding agency and the appropriate CFDA number.

Contact: Pete Davis

Anticipated Completion Date: Complete

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Secretary of State

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-09-01 06-09-01	90.401	Help America Vote Act Equipment	Corrective action plan is complete. All Help America Vote Act equipment has been inventoried, tagged, and entered into the fixed asset system. Policies and procedures are in place to perform an annual inventory of the equipment.	Procedures completed; however, discrepancies noted Finding 08-09-01

Nebraska State Treasurer

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-65-02 06-12-01	93.563	Child Support Enforcement Special Tests and Provisions	State Accounting continues working to identify variances that are listed on its Reconciliation of Bank Records to the State's general ledger. Effective June 2008 the \$1,893,449.00 variance referenced in the finding and an additional \$1,566,383.55 have been properly settled between the State and the SDU's bank accounts. Work is being done on a continual basis to relate variances on the SDU's Bank Reconciliation to the overall State reconciliation.	Repeated with changes Finding 08-65-02

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Education

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-13-02	84.010	Title I Grants to Local Educational Agencies Special Tests and Provisions	<p>The following action was taken:</p> <ul style="list-style-type: none"> • A Data Quality Conference held on April 28, 2008 and was attended by 481 district and educational service unit staff and administrators. • Four trainers were hired under the federal grant. • Developed a series of workshops for administrators and data coordinators using the curriculum from the materials that were distributed to all districts – the Forum Curriculum for Improving Education Data and the U. S. Department of Education’s Guide to Quality Data. • An assurance has been added to the No Child Left Behind Consolidated Application for all formula title grants. This assurance requires districts to have policies and procedures in place to ensure quality data. • The Nebraska Department of Education conducted an onsite Nebraska-led Peer Review of STARS (NLPRS) in every district in the State in the 2007-08 school year. Each district’s policies/procedures for consistent and comparable administration of assessments were included in the NLPRS. 	Conference and workshops were held and training conducted. Onsite reviews of districts were conducted; however no AYP data was reviewed. Agency is continuing to work with Federal Government to resolve the issue.

Nebraska Department of Health and Human Services

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-02	64.005	Grants to States for Construction of State Home Facilities Davis-Bacon Act	Corrective action plan is complete.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-03 06-26-15	93.044 93.045 93.053	Aging Cluster Subrecipient Monitoring	Corrective action plan is complete and is ongoing.	No current finding
07-26-04	93.283	CDC Investigations and Technical Assistance Subrecipient Monitoring	Corrective action plan is complete and is ongoing.	Repeated with changes Finding 08-25-05
07-26-05	93.283	CDC Investigations and Technical Assistance Reporting/Matching	All members of the staff have been instructed that all reports are to be reviewed. The notice regarding documentation for inkind costs has not been completed. It will be done with an agency announcement and posted on the Grants Management Web page by August 31, 2008.	Repeated with changes Finding 08-25-07
07-26-06 06-26-20 05-06-15 05-26-14 04-26-07	93.558	TANF Allowability/Eligibility	Corrective action plan of implementing monitoring reports and a supervisory case review system was completed.	Repeated with changes Finding 08-25-08
07-26-07	93.558	TANF Allowable Costs/Cost Principles	Corrective action plan is complete.	No current finding
07-26-08 06-26-21 05-26-20	93.558	TANF Special Tests	Corrective action plan is complete and ongoing.	Repeated with changes Finding 08-25-09
07-26-09 06-26-22 05-26-17	93.558	TANF Eligibility/Allowability	Corrective action plan is complete and ongoing.	No current finding
07-26-10	93.558	TANF Reporting	Corrective action plan is complete and ongoing.	No current finding

STATE OF NEBRASKA
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Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-11	93.568	LIHEAP Activities Allowed/Eligibility	Corrective action plan is complete and ongoing.	Repeated with changes Finding 08-25-11
07-26-12	93.575 93.596	Child Care Cluster Allowability/Eligibility	Corrective action plan is complete.	Repeated with changes Finding 08-25-12
07-26-13 06-26-28 05-26-04 04-26-01 03-26-01	93.658	Foster Care Allowability/Eligibility	For the five payments where the child was not in a licensed foster home, corrective action at the systems level was initiated 10/31/2006 to change NFOCUS coding so child care would not be claimed as a IV-E expenditure unless the foster home in which the child was placed was licensed. This change was released into NFOCUS on 11/12/2007. Notice was sent by State's Child Welfare to the State's Finance and Support on 11/21/2007 to unclaim the federal share of these payments. Finance and Support will include this request to unclaim in its next federal quarterly report. A system of Quality Assurance Review will be put in place by 1/1/2009, to include performance accountability standards for Income Maintenance staff.	Repeated with changes Finding 08-25-13
07-26-14 06-26-27 05-26-06	93.658	Foster Care Reporting	Corrective action plan is complete.	No current finding
07-26-15	93.659	Adoption Assistance Allowability/Eligibility	Staff received specific information regarding the errors and a reminder of policies between January 2008 and May 2008. The request to unclaim funds has been sent to the State's Finance and Support on two of the seven cases. This process will be completed on the other five cases by August 15, 2008. Regulations and guidebook have been reviewed, and changes are in draft form. A hearing date for regulatory changes has not been set. A quality assurance process is under discussion with a completion date by December 31, 2008.	Repeated with changes Finding 08-25-15

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-16	93.667	Social Services Block Grant Allowability	Corrective action is in progress. The Social Services Block Grant (SSBG) regulation revision is in process, but is extending beyond the anticipated completion date.	Repeated with changes Finding 08-25-18
07-26-17	93.767	State Children's Insurance Program Reporting	Due to changes in staff, work continues on this finding. The State's general ledger expenditures are reconciled to Medicaid Management Information System (MMIS) reports each month for the Medicaid Monthly Statistical Report. The process to document differences between the general ledger and MMIS is a work in progress and will continue to improve as the new staff person learns the process.	Repeated with changes Finding 08-25-19
07-26-18	93.767	State Children's Insurance Program Eligibility	Corrective action plan is complete.	Repeated Finding 08-25-20
07-26-19 06-26-08	93.778	Medicaid Allowability/Reporting/ Matching	Corrective action plan is complete.	No current finding
07-26-20 06-26-06	93.778	Medicaid Allowability/Period of Availability	Corrective action plan is complete.	No current finding
07-26-21	93.778	Allowable Costs/Cost Principles	Corrective action plan is complete.	No current finding
07-26-22 06-26-07	93.775 93.777 93.778	Medicaid Cluster Reporting	Corrective action has been implemented. The agency continues to make improvements in their reconciliation process.	Repeated with changes Finding 08-25-21

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Continued)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-23	93.775 93.777 93.778	Medicaid Cluster Special Tests and Provisions	Corrective action plan is complete.	No current finding
07-26-24 06-26-12	93.778	Medicaid Special Tests and Provisions	Corrective action plan is complete.	No current finding
07-26-25 06-26-10	93.778	Medicaid Allowable Costs/Cost Principles	Corrective action was taken when the agency invoiced drug manufacturers for rebates on physician administered drugs. The process will continue on an ongoing basis.	No current finding
07-26-26 06-26-02	10.561 93.674 93.959 93.778	State Administrative Matching Grants for Food Stamp Chafee Foster Care Independence Block Grants for Prevention & Treatment of Substance Abuse Medicaid Allowable Costs/Cost Principles	Corrective action plan is on schedule for completion at 12/31/2008.	Repeated with changes Finding 08-25-26
07-26-27	Various	Various Allowable Costs/Cost Principles	Corrective action plan is complete.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Health and Human Services (Concluded)

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-26-28 06-26-04 05-26-01	93.658 93.575 93.596 93.777 93.778 93.558 93.659 93.667	Foster Care Child Care Cluster Medicaid Cluster TANF Adoption Assistance Social Services Block Grant Allowable Costs/Cost Principles	Corrective action plan is complete.	Repeated with changes Finding 08-25-27
07-26-29	Various	Various Allowable Cost/Cost Principles	The Medicaid and Food Stamp adjustments will be on the quarterly reports that are due January 30, 2009.	Estimated completion January 30, 2009
06-26-03 05-65-02	93.558 93.778 93.575 93.596 93.659 93.658	Temporary Assistance for Needy Families (TANF) Medicaid Child Care Cluster Adoption Assistance Foster Care Allowability/Eligibility	Procedures have been developed to compile, review, and recertify individuals with specific levels of computer access to CHARTS, MMIS, and N-FOCUS. Since this is the inaugural performance of this new procedure completion of the process has taken longer than expected, but will be completed by the end of August 2008.	Partially corrected; however, application developers still have access. See Management Letter
06-26-25 05-26-07 04-26-02 03-26-04	93.563	Child Support Enforcement Subrecipient Monitoring	Corrective action will be complete when the cooperative agreements for Clerks of the District Court and County Attorneys are renewed. Clerk of the District Court agreement will be renewed July 1, 2011. County Attorney agreement will be renewed October 1, 2008.	Estimated completion July 1, 2011
06-26-34 05-26-13 04-26-08 02-26-08	93.994	Maternal and Child Health Services Block Grant Earmarking	Part I - Has not been completed due to staff shortage in Financial Services. It will be completed as soon as staffing allows. Part II – Is complete.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Department of Military

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-31-01 06-31-02 05-31-01	12.401	National Guard Operations and Management Allowable Cost/Cost Principles	Corrective action plan is complete.	Corrected January 2007
07-31-02 06-31-04	97.067	Homeland Security Reporting	Corrective action plan is complete. The Nebraska Emergency Management Agency (NEMA) has implemented a second level of review for all federal grants; this was implemented for all quarterly reports ending on December 31, 2007.	No current finding
07-31-03	97.067 97.004	Homeland Security Cluster Reporting	NEMA continues to track grants by the CFDA numbers on the awards due to reporting requirements from the federal agencies. A plan has been implemented to crosswalk the grant numbers to the CFDA numbers provided by the Federal Office of Grant Operations at FEMA/DHS for the Schedule of Expenditures of Federal Awards (SEFA) reporting.	No current finding

Nebraska Game and Parks Commission

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-33-01	Various	Various Reporting	The corrective action is a thorough review by the Nebraska Game and Parks Commission's accounting staff and federal aid staff prior to submission to Administrative Services. This review will occur for the next fiscal year and subsequent fiscal years.	Repeated with changes Finding 08-33-01

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Historical Society

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-54-01	15.904	Historic Preservation Reporting/Matching	Corrective action plan is complete. Historical Preservation continues reconciling expenditures to the State's general ledger on a monthly basis.	No current finding
07-54-02	15.511	Cultural Resources Management Allowable Costs/Cost Principles	Corrective action plan is complete.	No current finding
07-54-03	15.608	Fish and Wildlife Management Assistance Allowability/Cash Management	Corrective action plan is complete and ongoing. A business unit was set-up to record the expenses for the cooperative agreement with the U.S. Fish and Wildlife Service. Billings will be based on the number of artifacts or groups treated.	No current finding

Nebraska Department of Economic Development

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-72-01	11.611	Manufacturing Extension Partnership Allowability/Subrecipient Monitoring	Corrective action plan is complete.	No current finding

STATE OF NEBRASKA
Summary Schedule of Prior Audit Findings

Nebraska Commission on Law Enforcement and Criminal Justice

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
06-78-01	16.523 16.540 16.548 16.550 16.575 16.579 16.588	Juvenile Accountability Juvenile Justice and Delinquency Prevention Title V Delinquency Prevention State Justice Statistics Crime Victim Assistance Edward Byrne Memorial Violence Against Women Allowable Costs/Cost Principles	Obtained approval from the Department of Justice (DOJ) for the payroll tracking system that is being used on all DOJ grants.	No current finding

Nebraska Commission for the Blind and Visually Impaired

Finding Number	Catalog Number	Grant/Finding	Administrative Services/Department Response Status of Finding	Auditor Comments/ Current Finding
07-81-01	84.126	Rehabilitation Services- Vocational Rehabilitation Grants to States Allowable Costs/Cost Principles	Corrective action plan is complete.	No current finding