AUDIT REPORT
OF THE
NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

JULY 1, 2012 THROUGH JUNE 30, 2013

Issued on February 24, 2014

NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

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NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

BACKGROUND

The Nebraska Commission for the Deaf and Hard of Hearing (Commission) was created in 1979 to improve the quality and coordination of existing services for the deaf and hard of hearing and to promote the development of new services when necessary. The Commission provides information on hearing loss and available services to the public. The State statutes governing the Commission are found at Neb. Rev. Stat. §§ 71-4720 through 71-4732.01 (Reissue 2009, Cum. Supp. 2012).

The Commission has nine members appointed by the Governor to three-year terms with approval of the Legislature. Members include three deaf persons, three hard of hearing persons, and three persons who have an interest in and knowledge of deafness and hearing loss issues. A majority of the members who are deaf and hard of hearing must be able to express themselves through sign language. The Commission meets at least four times a year. Members are not paid but are reimbursed for expenses.

The Twenty-First Century Communications and Video Accessibility Act of 2010 (CVAA), was signed into law by President Obama on October 8, 2010. The CVAA requires the Federal Communications Commission (FCC) to take certain steps to ensure that individuals with disabilities have access to emerging communications technologies in the twenty-first century. The National Deaf-Blind Equipment Distribution Program (NDBEDP) was established by FCC 11-56 report and order released April 6, 2011, as a pilot program to distribute specialized customer premises equipment used for telecommunications service, internet access service, and advanced communications, including interexchange services and advanced telecommunications and information services, to low-income individuals who are deaf and blind. The duration of the pilot program will be two years, beginning July 1, 2012, with the FCC option to extend the program for an additional year.

Annual funding for the NDBEDP of $10 million comes from the Interstate Telecommunications Relay Service Fund for the nationwide distribution of communications equipment to eligible individuals, with $500,000 set aside for national outreach efforts during each year of the pilot program. The Perkins School for the Blind was selected as the national outreach coordinator to receive those set-aside funds. The remaining $9.5 million in funds is then allocated to each of the certified entities, with a minimum base amount of $50,000 to each jurisdiction, plus a portion of the available funds based on the population of each of these jurisdictions.

The FCC contracted with a third-party administrator, Rolka Loube Saltzer Associates (RLSA), to administer the NDBEDP. The primary lead entities for the NDBEDP on the national level are the FCC, RLSA, the Perkins School for the Blind, and the Helen Keller National Center for Deaf-Blind Youths and Adults. The FCC selected 1 entity in each of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands for certification to participate in the NDBEDP. The Commission was selected as the State of Nebraska's certified entity and was allocated $90,008 in NDBEDP funding for year one.

MISSION STATEMENT

The mission of the Nebraska Commission for the Deaf and Hard of Hearing is to promote and advocate for Nebraskans who are Deaf, Deaf-Blind or Hard of Hearing; to achieve equality and opportunity in social, educational, vocational, and legal aspects impacting their daily lives; and to enhance and monitor access to effective communication and telecommunication technology.

EXIT CONFERENCE

An exit conference was held February 12, 2014, with the Commission to discuss the results of our examination. Those in attendance for the Commission were:

NAME	TITLE
Peggy Williams	Mental Health Specialist
Kelsey McGerr	Public Information Officer
Lori Burrage	Business Manager
Kim Davis	Field Representative II
Cindy Woldt	Staff Assistant
Curtis Youngman	DAS – Financial Reports Coordinator
John Wyvill	Executive Director
Steven Manning	Commission Chair

SUMMARY OF COMMENTS

During our audit of the Nebraska Commission for the Deaf and Hard of Hearing National Deaf-Blind Equipment Distribution Program (Program), we noted certain matters involving internal control over financial reporting and other operational matters that are presented here.

1. ***Separate Accountability for the Program:*** Financial activity for the Program was not accounted for separately in the State's accounting system. Additionally, there was an overall lack of internal controls over Program activities, including eligibility determination, equipment distribution and monitoring, and reporting.

2. ***Eligibility Determination:*** We noted a lack of segregation of duties over eligibility determinations, which were not reviewed by supervisory level personnel. Additionally, the Commission staff member responsible for ensuring client eligibility also provided professional attestation of an individual's disability.

3. ***Equipment Monitoring:*** There was no documentation by Program management for the determination to operate the Program as an ownership program instead of a loan program. There were no documented procedures for the verification of eligible individuals' receipt of distributed equipment, no procedures to maintain adequate records of equipment received or distributed, and no documented procedures in place to ensure equipment distributed was not transferred from eligible individuals to other parties.

4. ***Reporting:*** Data included in the required "six-month" reports for the Program was not accurate or not adequately supported with appropriate records.

5. ***Reimbursement Requests:*** Reimbursement requests were not submitted timely, ranging from a few days to four months late. Additionally, the Commission did not maintain adequate support to ensure all expenses claimed were for allowable NDBEDP activities, and administrative costs claimed were in excess of the allowable limits.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Commission to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Separate Accountability for the Program

The Governor of the State of Nebraska approved the Commission to participate in the National Deaf-Blind Equipment Distribution Program (NDBEDP) on September 27, 2012. The approval was conditional and stated in part, "Please track and report all financial activities with respect to this grant through a unique business unit." The approval letter also directed the Commission "not request General Funds to replace any funds not reimbursed by the FCC and/or TPA for this grant."

A good internal control plan and sound accounting practices require procedures to ensure the Program's activities are accounted for separately from other Commission activity to ensure compliance with laws, regulations, and provisions of program agreements, and to ensure adequate accountability of funds for financial reporting purposes. This should include maintaining adequate controls over all aspects of Program activities.

Separate Accounting for Program Expenditures
The Commission utilized EnterpriseOne, the State's accounting system, for recording transactions. During our audit, we noted the following:

- A unique business unit was set up in EnterpriseOne under the Commission's cash fund for the Program. However, the only transactions recorded to that business unit were receipts for reimbursement requests from the FCC, totaling $10,575 for the fiscal year ended June 30, 2013.

- Program disbursements were not recorded to the unique business unit in the Commission's cash fund. Instead, the Commission utilized its general funds to pay for Program disbursements. The Commission did not perform journal entries to move the related Program disbursements from its general funds to its cash fund and unique Program business unit. Therefore, the only method of identifying total Program disbursements for financial reporting was through monthly reimbursement requests submitted to the FCC's third-party administrator, RLSA. Program disbursements for the fiscal year ended June 30, 2013, totaled $13,646.

Lack of Controls for Program Accountability
The Commission had an overall lack of controls over various Program activities. During the audit, we noted the following:

- Only one staff member was involved in making eligibility determinations. There was no documented secondary review by supervisory personnel to ensure those determinations were appropriate. The individual involved in making the eligibility determinations and performing needs assessments was also the only individual responsible for receiving equipment ordered through the NDBEDP, recording all required equipment identification information for reporting purposes, and distributing the equipment to the eligible individuals.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Separate Accountability for the Program</u> (Continued)

- There was no complete master list of applications received and eligibility determinations to ensure all applicants were appropriately reviewed for eligibility. Additionally, without such records, there was a lack of supporting documentation to ensure certain data elements required for reporting purposes were correct.
- There were no documented procedures for verifying eligible individuals' receipt of distributed equipment, no procedures to maintain adequate records of equipment received or distributed, and no documented procedures in place to ensure equipment distributed was not transferred from the eligible individuals to other parties.
- The individual responsible for eligibility determinations and equipment distribution was also the individual who prepared the required "six-month" reports.

Without adequate and separate accountability for Program activities, there is a serious risk for the loss or misuse of Program and/or Commission funds and equipment due to error or fraud. This also increases the risk of material misstatement of the financial statements due to error or fraud.

> We recommend the Commission account for all financial transactions of the Program by utilizing the unique business unit established in the State's accounting system. We also recommend the Commission work with the Department of Administrative Services to determine if journal entries are required to move Program disbursements from the general fund to the cash fund under the unique business unit. We strongly recommend the Commission increase oversight of Program staff and implement additional control procedures to ensure that one individual is not in a position to perpetrate and conceal fraudulent activities. These procedures should include a review of eligibility determinations by management, segregation of duties between eligibility determinations, receipt and distribution of equipment to eligible individuals, and tracking and reporting of Program activities.

Agency Response: NCDHH is in agreement with the audit recommendations for increased program oversight and the need to implement internal control procedures. Increased oversight and internal control procedures have been put in place. Procedures have been revised to address eligibility determinations and the need for segregation of duties for eligibility determinations, receipt and distribution of equipment, and tracking and reporting of the Pilot program activities. NCDHH appreciates audit staff bringing these serious concerns to the attention of management so these vulnerabilities could start being addressed prior to the issuance of the final audit report.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Separate Accountability for the Program</u> (Concluded)

NCDHH is in agreement that all financial transactions for the pilot program should be done utilizing the unique business unit established in the state accounting system. Since July 1, 2013 program related expenses are being coded to the appropriate business unit and/or journal entries are being used to move the disbursements from the general fund to the cash fund as needed.

The Pilot program in its first year was a unique program in that it was a reimbursement based program and not a draw down program which is typical with federal funds. NCDHH believes that the state accounting system was not designed to support this unique Pilot program when it began. The previous Executive Director consulted with State Accounting and State Budget office and made the decision to proceed with the program and how to track the Pilot program expenditures. NCDHH then had to expend general funds prior to receiving reimbursements. Once initial reimbursements were received NCDHH was unable to get ACH invoices processed and journal entries completed in the state accounting system due to the end of the state fiscal year. NCDHH considers the issues cited in the audit report to be unique to the start-up of the Pilot program and are now moot. It is also noted that there was conflicting information about how to begin this Pilot program from an accounting standpoint after NCDHH began reviewing this issue raised by audit staff.

2. <u>Eligibility Determinations</u>

47 CFR 64.610(d)(1) (October 1, 2012) requires individuals claiming eligibility under the NDBEDP to provide verification of disability, as defined in 47 CFR 64.610(b), from a professional with direct knowledge of the individual's disability. Professionals may include community-based service providers, vision or hearing-related professionals, vocational rehabilitation counselors, educators, audiologists, speech pathologists, hearing instrument specialists, and medical or health professionals. Those professionals must attest, either to the best of their knowledge or under penalty of perjury, that the applicant is deaf-blind.

Per the Commission's Employee Handbook, approved by the Commission's Board, the Code of Conduct states, in part:

> *[S]taff will conduct themselves according to these standards…immediately report to the Executive Director any situation where impropriety, bias, fraud, or conflict of interest could be perceived.*

A good internal control plan and sound business practices require procedures for the review of staff-determined eligibility by supervisory-level personnel to ensure the eligibility determinations are appropriate, and all information was properly verified and documented in the eligibility files. A good internal control plan and sound business practices also require that a professional other than the staff member performing the overall eligibility determination attest to an individual's disability as deaf-blind to ensure the determination is made without any conflict of interest and to mitigate the opportunity for fraudulent eligibility determinations.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Eligibility Determinations (Concluded)

During our audit, we noted a lack of controls over eligibility determinations, as one employee was responsible for receiving and reviewing applications to determine eligibility of individuals for the Program. As noted in Comment Number 1, there was no documented review of those determinations made by appropriate supervisory-level personnel to ensure the determinations were accurate and made in accordance with NDBEDP guidelines.

Additionally, we tested three of eight individuals determined eligible to receive equipment through the Program. During testing, we noted the professional attestation of the individual's disability as meeting the definition of deaf-blind was done by the Commission employee responsible for determining eligibility for the Program for one of three tested. We reviewed the individual's file and did not note any additional support, such as medical reports or other certifications from other professionals, which would certify the individual met the NDBEDP definition of deaf-blind.

Without adequate procedures for the review of eligibility determinations by supervisory-level personnel, there is an increased risk of incorrect eligibility determinations being made by staff due to error or fraud. Additionally, when a Commission staff member performs eligibility determinations and also attests to the individual's disability, there is a potential conflict of interest and an additional increased risk of individuals being determined eligible due to error or fraud.

> We recommend the Commission implement procedures to ensure eligibility determinations are reviewed and documented by appropriate supervisory-level personnel. We also recommend the Commission implement procedures to prohibit staff from providing the professional attestation of an individual's disability to reduce the risk of inappropriate eligibility determinations and conflicts of interest.

Agency Response: NCDHH is in agreement with the recommendations of the audit report in this section. NCDHH has implemented procedures to require the Executive Director to review the eligibility determinations made by the staff person responsible or the day to day operations of the Pilot program. The eligibility decision will now be documented in writing, reviewed by the Executive Director and documentation of the NCDHH eligibility decision will be in the recipient case file. A new checklist was created in response to the audit recommendations that will be in each case file. In addition, NCDHH now requires a third party professional to attest the disabilities of all applicants seeking equipment from the Pilot program.

3. Equipment Monitoring

Federal Communications Commission Report and Order FCC 11-56, adopted April 4, 2011, and released April 6, 2011, states in paragraph 58:

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Equipment Monitoring</u> (Continued)

> *We conclude that lending equipment to deaf blind recipients is the preferable approach for distributing equipment under the pilot program… Accordingly, while we strongly recommend that certified programs lend equipment distributed under the NDBEDP to equipment recipients, we will not require that they use this exclusive method of distributing equipment.*

47 CFR 64.610(e), states, in part, "(1) Each program certified under the NDBEDP must…(v) Prohibit recipients from transferring equipment received under the NDBEDP to another person through sale or otherwise."

47 CFR 64.610(g), states, in part, "(1) Each program certified under the NDBEDP must submit the following data…(iii) For each piece of equipment distributed, its name, serial number, brand, function, and cost, the type of communications service with which it is used, and the type of relay service it can access."

A good internal control plan and sound business practices require that adequate documentation be maintained to define the method utilized for program operations, including documentation of the proper authorization by the Commission or executive personnel. A good internal control plan also requires that procedures be in place to ensure adequate records are maintained to document receipt and distribution of equipment, as well as follow-up procedures to ensure recipients have not transferred ownership to another individual.

As noted in Comment Number 1, there was a lack of controls over equipment distribution for the Program, as the Commissions procedures involved only one individual to receive equipment, record all required identification information into the Commission's records, and distribute the equipment to eligible clients. This individual was also responsible for ordering, after approval from the Commission's Executive Director, equipment determined necessary for individuals through equipment needs assessments. There were also no procedures in place to verify that the recipients received all of the appropriate equipment.

During our audit, we also noted the Commission did not have procedures for communicating the NDBEDP requirement for prohibiting the transfer of ownership from recipients to another party, through sale or otherwise, and the Commission did not have established procedures for follow-up monitoring to ensure equipment distributed was still in the possession of the recipients.

Additionally, we noted the Commission operated the Program on an ownership basis instead of as an equipment loan program. This means that ownership of equipment would transfer to individuals deemed eligible for the Program. While our review of NDBEDP regulations noted this was an allowable method, our review of the Commission's application to participate in the NDBEDP and other documentation did not note any instances where the operational method elected by the Commission was identified. Additionally, there was no documentation to support that the method of operation chosen was approved by the Commissioners or by executive management.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Equipment Monitoring</u> (Concluded)

Without adequate procedures to monitor equipment distributed through the Program, there is an increased risk of the loss or misuse of equipment and Program funds due to error or fraud. Additionally, without proper documentation and authorization of the operational method utilized for the Program, there is an increased risk of the loss or misuse of resources and equipment and a potential risk of non-compliance with laws, regulations, and provisions of agreements applicable to the NDBEDP.

> We recommend the Commission implement procedures to ensure that complete and accurate records of equipment received and distributed are maintained. These procedures should include, at a minimum: (1) two separate staff members to record, at the time of receipt, all necessary information for appropriate identification of equipment, including name, serial number, brand, function, and cost; and (2) obtaining verification from recipients that their equipment was properly received. We also recommend the Commission implement procedures to communicate, and document the communication, all requirements of the NDBEDP to recipients, including the prohibition of the transfer of ownership by the recipient. Finally, we recommend the Commission document explicitly the method by which equipment is to be distributed, either through loan or ownership, and to obtain the appropriate authorization for such method from the Commission's Board or executive management.

Agency Response: NCDHH is in agreement with the recommendations of the audit report in this section. NCDHH has revised its procedures to track the equipment received, established a verification process and communicates important information about the Pilot program to the recipients in writing. New forms and revised policies were included as attachments to the NCDHH audit response.

4. <u>Reporting</u>

47 CFR 64.610(g) requires each program certified under the NDBEDP to submit specified activity information electronically to the FCC, as instructed by the NDBEDP Administrator, every six months, commencing with the start of the pilot program.

A good internal control plan and sound business practices requires adequate documentation be maintained to support data elements included on required reports.

For the fiscal year ended June 30, 2013, the Commission was required to submit two six-month reporting packages. These reports were for the six-month periods ended December 31, 2012,

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Reporting</u> (Continued)

and June 30, 2013. We tested both reports and noted the information reported in the required data elements was not accurate or could not be verified to supporting Commission records. This included the following items:

<u>Six-month Report for the Period Ending December 31, 2012</u>

- The Commission's submitted report noted there was nothing to report for each of the required data elements. However, as noted in Comment Number 1, there were overall control issues for the Program, which impact the reporting.

- We also noted that, while having no data to include on the report, the Commission subsequently submitted reimbursement requests for the three months, October 2012 through December 2012, totaling $630 for administrative expenses.

<u>Six-month Report for the Period Ending June 30, 2013</u>

- The Commission reported that no costs, time, or other resources were allocated to assessing an individuals' equipment needs. However, the Commission had submitted reimbursement requests, which included claims for expenses for individualized assessment of eligibility and communication costs. These expenses, totaling $162, were included in the June 2013 reimbursement request, resulting in incorrect reporting for this required data element. Additionally, reporting requirements include identifying the number of qualified applicants on waiting lists to receive equipment, for which the Commission reported "nothing to report." However, there was no support this was accurate, as the Commission had claimed expenses related to individualized assessment of eligibility.

- The Commission reported $5,812 for outreach expenses. However, we noted the Commission submitted reimbursement requests for the period, which included a total of $6,130 in outreach expenses claimed resulting in outreach activities under reported by $318. Requirements for the report include reporting complaints received and the resolution of the noted complaints. The Commission included items on the report for this data element; however, there was no documentation to support this was a complete record of the complaints or documentation to support the resolutions noted.

Without appropriate procedures to ensure adequate records are maintained to support information included on reports, there is an increased risk of inaccurate reporting of Program activities and non-compliance with NDBEDP regulations.

> We recommend the Commission implement procedures to ensure adequate documentation is maintained on file to support information included in the required data elements on NDBEDP reports. We also recommend the Commission implement procedures to ensure required reporting is completed in accordance with NDBEDP regulations.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Reporting (Concluded)

Agency Response: NCDHH is in agreement with the recommendations of the audit report in this section. To ensure adequate documentation and compliance with the Pilot program rules and regulations NCDHH has revised its internal control procedures and included more NCDHH personnel in the preparation of the required reports. The new forms and revised policies were included as attachments to the NCDHH audit response. Comments attributed to employee work performance will be addressed in accordance with the NAPE/AFSCME contract.

5. Reimbursement Requests

47 CFR 64.610(f)(1) states, in relevant part: "Programs certified under the NDBEDP shall be reimbursed for the cost of equipment that has been distributed to eligible individuals and authorized related services…." This regulation provides the definition of general activities that are allowable for the NDBEDP and requires that each program certified under the NDBEDP pilot must submit reimbursement requests and supporting documentation for the requests within 30 days after the period end. This section also requires that administration costs should not exceed 15% of the total reimbursement costs for the distribution of equipment and related services.

The "Administrative Costs Related to This Program" section of the reimbursement request forms issued by the third-party administrator, RLSA, states: "Only up to 15% of the total reimbursable costs for the distribution of equipment and related services is permissible."

A good internal control plan requires procedures to ensure accurate and timely submission of reimbursement requests. A good internal control plan also requires that adequate supporting documentation be maintained for activities to ensure all related disbursements are allowable under NDBEDP guidelines and are for necessary and reasonable expenses.

The Commission implemented the Program beginning October 2012. During the program year ended June 30, 2013, the Commission submitted eight reimbursement requests for the nine-month period, from October 2012 through June 2013, during which it was participating in the NDBEDP. We selected two reimbursement requests, November 2012 and February 2013, to test. During our testing, we noted the following:

- Both reimbursement requests were not submitted timely. The November request was due by December 30, 2012, but was not submitted until April 9, 2013, over three months late. The February 2013 request was due March 30, 2013, but was not submitted until April 10, 2013, which was 11 days late.

- The November 2013 request included only administrative costs related to the Program totaling $226. As this was the only item on the request, the administrative costs claimed exceeded the 15% maximum allowable. Per our review, the total expenditures for equipment and related services for the fiscal year ended June 30, 2013, was $10,040, and

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Reimbursement Requests</u> (Continued)

the administrative costs claimed for reimbursement for the fiscal year ended June 30, 2013 was $3,607. The maximum allowable for administration was $1,506 ($10,040 x 15%), resulting in $2,101 in administrative costs claimed over the allowable 15% limit. We noted RLSA "banked" administrative costs requested for reimbursement and reimbursed up to 15% once non-administrative costs were later requested for reimbursement.

- The February 2013 request included administrative expenses of $150 for a meeting in Omaha, Nebraska; however, the Commission could not provide an agenda or meeting minutes to support the meeting was an allowable activity for the NDBEDP. Per reviewof the supporting documentation for these items, the expenses included $55 in charges for use of a Department of Administrative Services Transportation Services Bureau (DAS-TSB) motor pool car to travel to the meeting, $90 for interpreting services for the meeting in Omaha, Nebraska, and $5 for reimbursement of personal vehicle mileage related to travel to the meeting in Omaha, Nebraska.

It was also noted during our audit that only one of eight reimbursement requests submitted was timely in accordance with NDBEDP regulations. Of the seven reimbursement requests submitted late, the submissions ranges from two days late to over four months late. It was also noted that timely submission issues continued for periods subsequent to our audit period.

Without adequate supporting documentation and procedures for preparing and submitting reimbursement requests for Program disbursements, there is an increased risk of the loss of Program funds and non-compliance with NDBEDP regulations.

> We recommend the Commission implement procedures to ensure adequate documentation is maintained on file to support disbursements for allowable NDBEDP activities. We also recommend the Commission implement monitoring procedures to ensure administrative costs claimed are within NBDEDP requirements. Finally, we recommend the Commission implement procedures to ensure reimbursement requests are submitted timely in accordance with NDBEDP requirements.

Agency Response: NCDHH is in agreement with the recommendations of the audit report in this section as it relates to the need for adequate documentation and timeliness. The new forms and revised policies were included as attachments to the NCDHH audit response. NCDHH accountability measures and revised checks and balances have also been implemented to ensure future compliance with the timeliness requirements of submitting the reports for the Pilot program. Comments attributed to employee work performance will be addressed in accordance with the NAPE/AFSCME contract.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Reimbursement Requests (Concluded)

NCDHH is in concurrence with the recommendations of the audit report as it related to the administrative costs of the Pilot program. Monitoring of administrative cost expense has been enhanced. Administrative costs are being submitted in accordance with RLSA requirements. The Pilot program provides for "banking" of administrative cost and each entity is eligible for reimbursement for administrative charges up to 15% of the total program cost, not just 15% a month.

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NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

INDEPENDENT AUDITORS' REPORT

Nebraska Commission for the Deaf and Hard of Hearing
Lincoln, Nebraska

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities of the Nebraska Commission for the Deaf and Hard of Hearing National Deaf-Blind Equipment Distribution Program (Program), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We were engaged to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion
Because the pilot program is not a bona fide federal grant, the required information necessary to track it as such in the State of Nebraska's accounting system did not exist. The Nebraska Commission for the Deaf and Hard of Hearing (Commission) received conditional approval to participate in the Program with a State cash fund appropriation. The Commission was to account for all activities of the Program through a unique business unit in its cash fund. However, all program disbursement activity was paid out of the State's general fund and comingled with other Commission activity. As a result, we were unable to identify what general fund activity pertained to program disbursements.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which the Program's financial statements, as of and for the year ended June 30, 2013, may have been affected by the matters discussed in the preceding paragraph; accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements as of and for the year ended June 30, 2013.

Disclaimer of Opinion
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Program are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

February 20, 2014

Philip J. Olsen, CPA, CISA
Audit Manager

NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

STATEMENT OF NET POSITION - CASH BASIS
June 30, 2013

		Governmental Activities TOTAL
Assets		
Cash and Cash Equivalents	$	(3,071)
Total Assets	$	(3,071)
Net Position		
Unrestricted (Deficit)	$	(3,071)
Total Net Position	$	(3,071)

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

NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM

STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2013

	Governmental Activities TOTAL
Disbursements:	
Individualized Assessments of Applicant Eligibility and Communications Needs	$ 161
Equipment and Related Expenses	-
Outreach Efforts	9,878
Administration	3,607
Total Disbursements	13,646
Program Receipts:	
Reimbursements	10,575
Net Program Receipts	(3,071)
Change in Net Position	(3,071)
Net Position July 1, 2012	-
Net Position June 30, 2013	$ (3,071)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Commission for the Deaf and Hard of Hearing National Deaf-Blind Equipment Distribution Program (Program) have been prepared in conformity with the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The basic financial statements have been prepared from reimbursement forms submitted to Rolka Loube Saltzer Associates (RLSA), a third-party administrator that contracted with the Federal Communications Commission (FCC) to administer the National Deaf-Blind Equipment Distribution Program (NDBEDP), and accounts maintained by the State of Nebraska Accounting Administrator of the Department of Administrative Services for reimbursements received.

B. Reporting Entity

The Nebraska Commission for the Deaf and Hard of Hearing (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The financial statements include only funds of the Commission disbursed for the Program and those funds that were reimbursed by the NDBEDP. The Commission has also considered all potential component units for which it is financially accountable, and other organizations that are fiscally dependent on the Commission or whose relationship with the Commission is so significant that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (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 Commission 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 Commission. The Commission is also considered financially accountable if an organization is fiscally dependent on and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commission regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Program-Wide Financial Statements

Program-Wide Financial Statements. The Cash Basis Statement of Net Position and Statement of Activities display information about the activities of the Program and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Program. The Program reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Cash Basis Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported as unrestricted (deficit) net position. Unrestricted net position often has constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Cash Basis Statement of Activities demonstrates the degree to which the direct disbursements of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts are requested on a reimbursement basis. Reimbursements are requested for allowable Program costs from RSLA.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a program is determined by its measurement focus and basis of accounting. The Program-Wide financial statements were reported using the current financial resources measurement focus and the cash basis of accounting. With the current financial resources measurement focus, only those assets and program balances arising from cash transactions are included on the Statement of Net Position. Receipts are recorded when received, and disbursements are recognized when paid by the Commission. This differs from governmental GAAP, which requires Program-Wide financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. Cash and Cash Equivalents

The Program operates on a reimbursement basis. As a result, the Program had no cash or cash equivalents. The Commission was to use its separate cash funds for Program disbursements and be made whole through the reimbursement process. Rather, the Commission used State general funds for Program disbursements and receipted Program reimbursements into its cash fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

The Commission disbursed more general funds than had been reimbursed to its cash fund due to pending reimbursement requests or unreimbursed administrative costs that exceeded program regulation limits at the program year ended June 30, 2013, resulting in a credit (deficit) Program balance.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the Statement of Net Position. All capital assets are valued at cost when historical records are available and at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment which has a cost in excess of $1,500 at the date of acquisition and has an expected useful life of more than one year is capitalized.

The Commission operates the Program as an ownership program. As such, the Commission does not retain ownership rights for Program assets purchased on behalf of clients. Ownership transfers to the client. As such, the Commission had no capital assets relating to the Program as of June 30, 2013.

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NEBRASKA COMMISSION FOR THE DEAF AND HARD OF HEARING
NATIONAL DEAF-BLIND EQUIPMENT DISTRIBUTION PROGRAM
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Nebraska Commission for the Deaf and Hard of Hearing
Lincoln, Nebraska

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Nebraska Commission for the Deaf and Hard of Hearing National Deaf-Blind Equipment Distribution Program (Program) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated February 20, 2014. We were unable to express an audit opinion due to the Nebraska Commission for the Deaf and Hard of Hearing's (Commission) failure to account separately for Program activity in its accounting system.

Internal Control Over Financial Reporting

In planning and performing the engagement, we considered the Commission's internal control over financial reporting (internal control) to determine the procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Comments Section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the Comments Section of the report to be material weaknesses: Comment Number 1 (Separate Accountability for the Program), Comment Number 2 (Eligibility Determinations), Comment Number 3 (Equipment Monitoring), and Comment Number 4 (Reporting).

A *significant deficiency* is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Commission's internal control described in the Comments Section of the report to be a significant deficiency: Comment Number 5 (Reimbursement Requests).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from 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 engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Comments Section of our report as Comment Number 1 (Separate Accountability for the Program), Comment Number 2 (Eligibility Determinations), Comment Number 3 (Equipment Monitoring), Comment Number 4 (Reporting), and Comment Number 5 (Reimbursement Requests).

Commission's Response to Findings

The Commission's response to the findings identified in our engagement are described in the Comments Section of the report. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the Commission declined to respond.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

February 20, 2014

Philip J. Olsen, CPA, CISA
Audit Auditor