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

**JULY 1, 2013 THROUGH JUNE 30, 2014**



**Issued on November 19, 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-blind. The duration of the pilot program was initially two years, beginning July 1, 2012. On February 7, 2014, the FCC adopted order DA 14-170 to extend the program for one 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 program. 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 one 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 and $90,009 for year two.

## 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, education, 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 November 5, 2014, with the Nebraska Commission for the Deaf and Hard of Hearing (Commission) to discuss the results of our examination. Those in attendance for the Commission were:

| NAME | TITLE |
|---|---|
| Michael Brummer | Chairperson |
| John Wyvill | Executive Director |
| Kim Davis | Field Representative |
| Lori Burrage | Business Manager |
| Curtis Youngman | DAS – Financial Reports Coordinator |

## COMMENT AND RECOMMENDATION

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

### 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 to, "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.

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 to record the activity of the Program. However, when reconciling activity in EnterpriseOne to disbursements claimed and reported for the program, we noted not all disbursement activity for the program was recorded to the unique business unit, as a portion of Program disbursements was paid from the General Fund.

- We identified disbursements paid from General Funds and not recorded to the unique business unit totaling $8,258, including $4,910 in audit and audit-related costs; $2,700 for fees for the use of the Keystone Library Automated System database through the Perkins School for the Blind, a lead agency for the NDBEDP; and $648 in personnel costs. Additionally, we noted $107 in disbursements recorded to the unique business unit for the program, which could not be traced to the Commission's monthly reimbursement claims submitted to Rolka Loube Saltzer Associates (RLSA), the Federal Communication Commission's (FCC) third-party administrator (TPA).

- Due to the issues noted above, there was not an adequate method for identifying and extracting all Program disbursements for the fiscal year from the State's accounting system, EnterpriseOne. Program disbursements for financial reporting were obtained from the monthly reimbursement requests submitted to RLSA.

A similar finding was noted in the previous audit.

**COMMENT AND RECOMMENDATION**
(Concluded)

The Commission informed the FCC of its intention to de-certify as the State's certified entity to administer the program effective June 30, 2014.

Without adequate and separate accounting 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 address the need for separately accounting for all financial transactions of Federally funded programs in the State's accounting system, should the Commission receive such funding in the future.

*Agency Response: NCDHH is in agreement with the audit recommendation that the agency needs to address the need for separate accounting for all financial transactions should the Commission receive federal funds in the future. If the Commission receives such funding in the future, the Executive Director will provide the Board with the plan to address the need for a separate accounting of all financial transactions for the federally funded program.*

*As noted in the previous year's audit response, the Pilot program was a unique program in that it was not a reimbursement base 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 Pilot program when it began. The previous Executive Director consulted with the State Accounting and State Budget office and made the decision to proceed with the program and how to track the Pilot program expenditures.*

It should be noted this report is critical in nature, containing only our comment and recommendation on the area 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 comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time.

**NEBRASKA AUDITOR OF PUBLIC ACCOUNTS**

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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

**INDEPENDENT AUDITOR'S 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, 2014, 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 these 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion***

Because the pilot program is not a bona fide Federal grant, the 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, not all program disbursement activity was paid out of the State's cash fund, as some disbursements for the program were paid from the State's general fund and commingled with other Commission activity. As a result, the information necessary for the preparation of the financial statements of the program was not available from the State's accounting system, and misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to previously do not present fairly, in all material respects, the respective financial position of the governmental activities of the Program, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***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, 2014, 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 November 6, 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, 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.

Philip J. Olsen

November 6, 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, 2014

| | Governmental Activities TOTAL |
|---|---|
| **Assets** | |
| Cash and Cash Equivalents | $ (8,957) |
| Total Assets | $ (8,957) |
| **Net Position** | |
| Unrestricted (Deficit) | $ (8,957) |
| Total Net Position | $ (8,957) |

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, 2014

| | Governmental Activities TOTAL |
|---|---|
| Disbursements: | |
| Individualized Assessments of Applicant Eligibility and Communications Needs | $ 1,413 |
| Equipment and Related Expenses | 21,682 |
| Installation of Equipment and Individualized Consumer Training | 1,187 |
| Inventory of Equipment Costs and Maintenance | 2,567 |
| Outreach Efforts | 378 |
| Administration | 10,940 |
| Total Disbursements | 38,167 |
| Program Receipts: | |
| Reimbursements | 32,281 |
| Net Program Disbursements | (5,886) |
| Change in Net Position | (5,886) |
| Net Position July 1, 2013 | (3,071) |
| Net Position June 30, 2014 | $ (8,957) |

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended June 30, 2014

## 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 (RSLA), a third-party administrator that contracted with the Federal Communications Commission (FCC) to administer the NDBEDP, and accounts maintained by the State 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 all 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 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 timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**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 though the reimbursement process. Rather, the Commission used both State general funds and cash 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, 2014, 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 that 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. The Commission does retain ownership rights for Program assets purchased for demonstration and assessment purposes.

Equipment retained by the Program is depreciated using the straight-line method with estimated useful lives of 3 to 10 years.

**2. Capital Assets**

Capital asset activity for the year ended June 30, 2014, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Equipment | $ - | $ 2,567 | $ - | $ 2,567 |
| Less Accumulated Depreciation | | | | 470 |
| Governmental Activities Capital Assets, Net | | | | $ 2,097 |

**NOTES TO THE FINANCIAL STATEMENTS**
(Concluded)

**3. Subsequent Event**

At the March 14, 2014, Commission Board meeting, the Commission voted unanimously to submit to the FCC and RLSA a letter of intent for the Commission to de-certify from the Program as the State's certified entity. The effective date of the de-certification was June 30, 2014. Effective July 1, 2014, the Program transferred administration to the State's new certified entity, the Nebraska Assistive Technology Partnership (NATP), under the Nebraska Department of Education's Vocational Rehabilitation Program.

# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov


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, 2014, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated November 6, 2014. The report was modified to emphasize that the financial statements present only the funds of the Program.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 a certain deficiency in internal control that we consider to be a material weakness.

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 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 deficiency described in the Comments Section of the report to be a material weakness: Comment Number 1 (Separate Accountability for the Program).

**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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Comment Section of our report as Comment Number 1 (Separate Accountability for the Program).

**Commission's Response to Findings**

The Commission's response to the finding identified in our audit is described in the Comment 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, not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral 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.

Philip J. Olsen

November 6, 2014

Philip J. Olsen, CPA, CISA
Audit Manager