

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
BANKING AND FINANCE**

JULY 1, 1998 THROUGH JUNE 30, 1999

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Summary of Comments	3
Comments and Recommendations	4 - 5
Financial Section	
Independent Auditors' Report	6 - 7
Financial Statements:	
Combined Statement of Assets, Fund Balances and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	8
Combined Statement of Receipts, Disbursements and Changes in Fund Balances	9
Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual - Cash Funds	10
Notes to Financial Statements	11 - 18
Combining Statements and Schedules:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – Special Revenue Funds	19
Combining Statement of Receipts, Disbursements and Changes in Fund Balances – Special Revenue Funds	20
Combining Statement of Receipts, Disbursements and Changes in Fund Balances – Fiduciary Funds	21
Schedule of Performance Measures	22 - 23
Required Supplementary Information Section	24
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	25 - 26

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

BACKGROUND

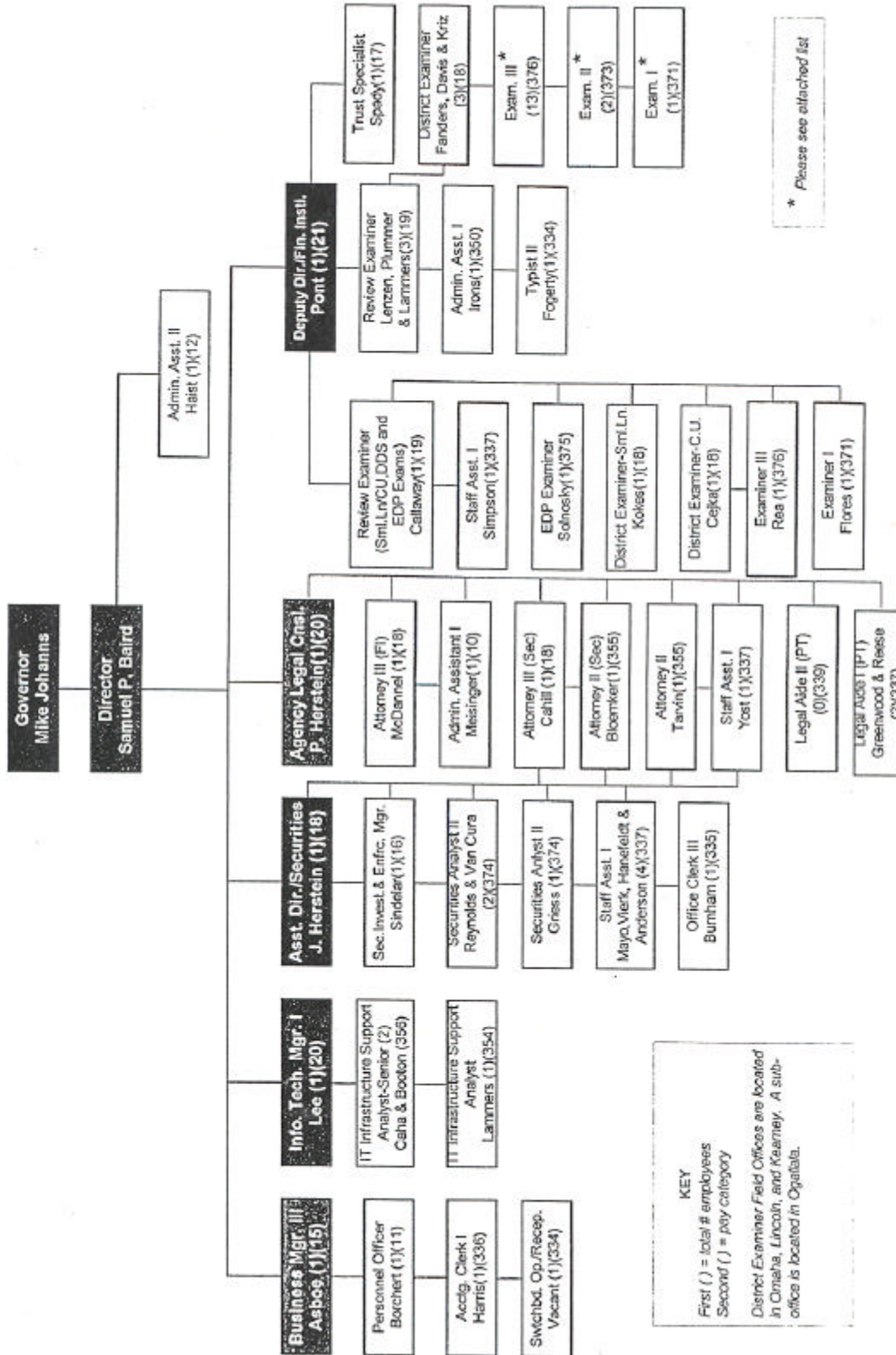
In 1933 the Legislature established the Department of Banking, and in 1976 the name was changed to the Department of Banking and Finance. The director of the Department is appointed by the Governor. The Department is a regulatory agency which enforces statutes pertaining to the banking and financial industry to ensure compliance and to provide for public protection with sound financial institutions. The Department also includes the Nebraska Securities Bureau which is responsible for the registration and regulation of securities sold in the State, as well as the entities and persons engaged in their sale. The revenue to operate the Department is derived primarily from the registration of securities, financial institution examination fees and a fee based on financial institution assets.

MISSION STATEMENT

The Mission of the Department of Banking & Finance Shall be to protect and maintain the public confidence through the fair, efficient, and experienced supervision of the state-regulated financial services industries; to assist the public in their dealings with those entities; to assist those whom we regulate in a manner which allows them to remain competitive, yet maintain their soundness in compliance with the law; to fulfill our statutory responsibilities with regard to all licensees and registrants; and to investigate violations of the laws and cooperate with other agencies in seeking a timely resolution of problems and questions.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF BANKING AND FINANCE

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Banking and Finance, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. Performance Measures
2. Payroll Allocations
3. Lodging and Meal Disbursements

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Performance Measures

A key responsibility of state government is to develop and manage services, programs, and resources as efficiently and effectively as possible and to communicate the results of these efforts to the public.

During our testing, we noted performance measures were not included in the formal budget.

Meaningful performance measures assist government officials and citizens in identifying financial and program results, evaluating past resource decisions, and facilitating qualitative improvements in future decisions.

We recommend the Department develop and track performance measures and include them in the formal budget.

DEPARTMENT'S RESPONSE: THE DEPARTMENT WILL DEVELOP PERFORMANCE MEASURES TO BE INCLUDED IN THE BUDGET REQUEST.

2. Payroll Allocations

Good internal controls require adequate supporting documentation to ensure allocations to programs are correct.

During our testing, we noted 15 employees' salaries were allocated between funds or programs. There was no documentation to support the allocations to the programs were reasonable.

Using unsupported information for allocation purposes may result in an inaccurate allocation of expenses to Department programs. This could also result in overcharging or undercharging the banks.

We recommend the Department implement procedures to ensure the salary allocations are reasonable.

DEPARTMENT'S RESPONSE: ALTHOUGH THE DEPARTMENT BASES SALARY ALLOCATIONS ON INPUT FROM EMPLOYEES AND SUPERVISORS, THE DEPARTMENT WILL IMPLEMENT PROCEDURES TO BETTER DOCUMENT THIS PROCESS.

3. Lodging and Meal Disbursements

The Nebraska Accounting System Manual provides that lodging may be reimbursed when an employee is away from home overnight. The absence must be of such duration that you cannot reasonably leave and return to that location before and after each day's work.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

COMMENTS AND RECOMMENDATIONS

3. Lodging and Meal Disbursements (Concluded)

During our testing of disbursements, we noted the following:

The Department paid a total of \$975 for lodging expenses in Lincoln for four days for employees who lived in Omaha. Events were documented on agendas beginning at 8:30 a.m. and ending at 4:30 p.m., which would have allowed the employees adequate time to return to Omaha each day. These employees were also reimbursed for meals and tips in the total amount of \$315 associated with this travel.

We recommend the Department follow the Nebraska Accounting System Manual when making payments for lodging and meals of employees.

DEPARTMENT'S RESPONSE: THE DEPARTMENT WILL WORK WITH THE AUDITOR OF PUBLIC ACCOUNTS TO DEVELOP PROCEDURES IN COMPLIANCE WITH THE NEBRASKA ACCOUNTING MANUAL.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Banking and Finance as of and for the fiscal year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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. 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 provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Banking and Finance, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Banking and Finance as of June 30, 1999, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

The Year 2000 Issues supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Nebraska Department of Banking and Finance is or will become year 2000 compliant, that Nebraska Department of Banking and Finance's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Nebraska Department of Banking and Finance does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 1999, on our consideration of the Nebraska Department of Banking and Finance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

Manager

December 3, 1999

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
COMBINED STATEMENT OF ASSETS AND FUND BALANCES
AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP
June 30, 1999

	Governmental Fund Type	Fiduciary Fund Type	Account Group	
	Special Revenue	Nonexpendable Trust	General Fixed Assets	Totals (Memorandum Only)
Assets				
Cash in State Treasury	\$ 16,941,463	\$ 62,405	\$ -	\$ 17,003,868
Deposit with Vendors	2,585	-	-	2,585
Property, Plant, and Equipment (Note 5)	-	-	569,206	569,206
Total Assets	<u>\$ 16,944,048</u>	<u>\$ 62,405</u>	<u>\$ 569,206</u>	<u>\$ 17,575,659</u>
Fund Balances and Other Credits				
Other Credits,				
Investment in Fixed Assets	\$ -	\$ -	\$ 569,206	\$ 569,206
Fund Balances:				
Reserved For Postage	2,585	-	-	2,585
Unreserved, Undesignated	16,941,463	62,405	-	17,003,868
Total Fund Balances and Other Credits	<u>\$ 16,944,048</u>	<u>\$ 62,405</u>	<u>\$ 569,206</u>	<u>\$ 17,575,659</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 1999

	Governmental Fund Type Special Revenue	Fiduciary Fund Type Trust and Agency	Totals (Memorandum Only)
RECEIPTS:			
Taxes	\$ 1,624,621	\$ -	\$ 1,624,621
Sales and Charges:			
Securities Registrations	9,874,223	-	9,874,223
Examination Fees	911,028	-	911,028
License Fees	2,960,310	-	2,960,310
Other	211,590	-	211,590
Miscellaneous:			-
Investment Interest	1,116,311	-	1,116,311
Other	10,451	43,500	53,951
TOTAL RECEIPTS	<u>16,708,534</u>	<u>43,500</u>	<u>16,752,034</u>
DISBURSEMENTS:			
Personal Services	3,012,386	-	3,012,386
Operating	496,841	-	496,841
Travel	173,342	-	173,342
Capital Outlay	89,414	-	89,414
TOTAL DISBURSEMENTS	<u>3,771,983</u>	<u>-</u>	<u>3,771,983</u>
Excess of Receipts Over (Under) Disbursements	<u>12,936,551</u>	<u>43,500</u>	<u>12,980,051</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	1,919	-	1,919
Operating Transfers Out (Note 6)	(9,000,000)	-	(9,000,000)
Deposits to Permanent School Fund	-	(43,500)	(43,500)
Net Distributive Activity	-	2,927	2,927
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,998,081)</u>	<u>(40,573)</u>	<u>(9,038,654)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>3,938,470</u>	<u>2,927</u>	<u>3,941,397</u>
FUND BALANCE, JULY 1, 1998	<u>13,005,578</u>	<u>59,478</u>	<u>13,065,056</u>
FUND BALANCE, JUNE 30, 1999	<u>\$ 16,944,048</u>	<u>\$ 62,405</u>	<u>\$ 17,006,453</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 1999

	CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Taxes	\$ -	\$ 1,624,621	\$ -
Sales and Charges:			
Securities Registrations		9,874,223	
Examination Fees		911,028	
License Fees		2,960,310	
Other		211,590	
Miscellaneous:			
Investment Interest		1,116,311	
Other		10,451	
TOTAL RECEIPTS	-	16,708,534	-
DISBURSEMENTS:			
Personal Services	3,283,685	3,012,386	271,299
Operating	610,708	496,841	113,867
Travel	230,500	173,342	57,158
Capital Outlay	578,172	89,414	488,758
TOTAL DISBURSEMENTS	4,703,065	3,771,983	931,082
Excess of Receipts Over (Under) Disbursements		12,936,551	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		1,919	
Operating Transfers Out		(9,000,000)	
TOTAL OTHER FINANCING SOURCES (USES)		(8,998,081)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		3,938,470	
FUND BALANCES, JULY 1, 1998		13,005,578	
FUND BALANCES, JUNE 30, 1999		\$ 16,944,048	

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 1999

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Banking and Finance are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Banking and Finance (the Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Department 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 Department 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 Department.

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

- B. **Basis of Accounting.** The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental, and agency fund types and the accrual basis for nonexpendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting revenues are recognized when earned and expenditures are recognized when the liability is incurred.
- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

The operations of each fund are accounted for with a self-balancing set of accounts which record receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP and include:

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes. The Department's Special Revenue Funds reflect transactions related to registration of securities, financial institution examination fees, fees based upon financial institution assets, and other fees received and used for operating purposes and periodic transfers to the State General Fund.

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. First Investors Inc. Settlement Fund is an agency fund used to reflect transactions related to assets held by the State as an agent for eligible Nebraska investors. The nonexpendable trust fund reflects fines collected by the Department that, by statute, must be credited to the Permanent School Fund.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. 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 appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one 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 Department of Administrative Services Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the cash fund type are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts , Disbursements and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 1999, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report.

Receipts are not budgeted and therefore there are no budgeted amounts shown on the Budget and Actual Statement.

There are no annual budgets prepared for Trust Funds and, as a result, no budgetary comparisons are presented.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is appropriately classified as a special revenue fund for Financial Statement purpose.

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets on hand as of June 30, 1999, have been recorded at cost by the Department. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department were designated for investment during fiscal year 1999.
- G. Net Distributive Activity.** Net Distributive Activity transactions would be those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency or are deposits which will be returned on completion of some specified requirement.
- H. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- I. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds (and amounts related to proprietary funds and non-expendable trust funds would be reflected separately in those funds). Under the 'receipts and disbursements basis of accounting' the balances which would be reported in the Long Term Debt Account Group are not reported as they do not represent balances arising from Cash Transactions.
- J. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Taxes. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous. Receipts from sources not covered by other major categories.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character owned or held by the government.

L. Fund Balance Reservations. Reservations of fund balance are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balance are also established for assets which are not current in nature, such as postage.

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

employees; natural disasters; and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Banking and Finance's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgement against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **State Employees' Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Department in accordance with the provisions of the State Employees Retirement Act and may be amended through legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 1999, employees contributed \$102,599 and the Department contributed \$160,055.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1998	Additions	Retirements	Balance June 30, 1999
Equipment	\$ 624,746	\$ 88,035	\$ 143,575	\$ 569,206

6. **Operating Transfer Out**

Transfer from the Securities Act Cash Fund (2192) to the State General Fund (1000) \$9,000,000 per Legislative Bill 1108.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS

June 30, 1999

	Financial Institutions Assessment Fund 2191	Securities Act Cash Fund 2192	Total Special Revenue Funds
Assets			
Cash in State Treasury	\$ 1,134,330	\$ 15,807,133	\$ 16,941,463
Deposit with Vendors	29	2,556	2,585
Total Assets	<u>\$ 1,134,359</u>	<u>\$ 15,809,689</u>	<u>\$ 16,944,048</u>
Fund Balances			
Fund Balances:			
Reserved	\$ 29	\$ 2,556	\$ 2,585
Unreserved, Undesignated	1,134,330	15,807,133	16,941,463
Total Fund Balances	<u>\$ 1,134,359</u>	<u>\$ 15,809,689</u>	<u>\$ 16,944,048</u>

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 1999

	Financial Institutions Assessment Fund 2191	Securities Act Cash Fund 2192	Total Special Revenue Funds
RECEIPTS:			
Taxes	\$ 1,624,621	\$ -	\$ 1,624,621
Sales and Charges:			
Securities Registrations		9,874,223	9,874,223
Examination Fees	863,708	47,320	911,028
License Fees		2,960,310	2,960,310
Other	210,844	746	211,590
Miscellaneous:			
Investment Interest	96,614	1,019,697	1,116,311
Other	3,259	7,192	10,451
TOTAL RECEIPTS	<u>2,799,046</u>	<u>13,909,488</u>	<u>16,708,534</u>
DISBURSEMENTS:			
Personal Services	2,323,915	688,471	3,012,386
Operating	322,411	174,430	496,841
Travel	167,364	5,978	173,342
Capital Outlay	54,815	34,599	89,414
TOTAL DISBURSEMENTS	<u>2,868,505</u>	<u>903,478</u>	<u>3,771,983</u>
Excess of Revenues Over(Under) Disbursements	<u>(69,459)</u>	<u>13,006,010</u>	<u>12,936,551</u>
OTHER FINANCING SOURCES (USES)			
Sale of Assets	1,608	311	1,919
Operating Transfers Out	-	(9,000,000)	(9,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,608</u>	<u>(8,999,689)</u>	<u>(8,998,081)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>(67,851)</u>	<u>4,006,321</u>	<u>3,938,470</u>
Fund Balance, July 1, 1998	<u>1,202,210</u>	<u>11,803,368</u>	<u>13,005,578</u>
Fund Balance, June 30, 1999	<u>\$ 1,134,359</u>	<u>\$ 15,809,689</u>	<u>\$ 16,944,048</u>

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
FIDUCIARY FUND TYPES

For the Fiscal Year Ended June 30, 1999

	Agency Fund First Investors Inc. Settlement Fund 6191	Nonexpendable Trust Fund Permanent School Fund 6334	Total Fiduciary Fund Types
RECEIPTS:			
Miscellaneous,			
Other	\$ -	\$ 43,500	\$ 43,500
TOTAL RECEIPTS	-	43,500	43,500
DISBURSEMENTS:			
Personal Services	-	-	-
Operating	-	-	-
Travel	-	-	-
Capital Outlay	-	-	-
TOTAL DISBURSEMENTS	-	-	-
Excess of Revenues Over(Under)			
Disbursements	-	43,500	43,500
OTHER FINANCING SOURCES (USES)			
Deposits to Permanent School Fund	-	(43,500)	(43,500)
Net Distributive Activity	2,927	-	2,927
TOTAL OTHER FINANCING SOURCES (USES)	2,927	(43,500)	(40,573)
Excess of Receipts and Other Financing			
Sources Over (Under) Disbursements and			
Other Financing Uses	2,927	-	2,927
Fund Balance, July 1, 1998	59,478	-	59,478
Fund Balance, June 30, 1999	\$ 62,405	\$ -	\$ 62,405

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SCHEDULE OF PERFORMANCE MEASURES

Program 65 Enforcement of Standards-Financial Institutions and Small Loan Companies

The Department charters, licenses, and examines financial institutions. The Department also regulates small loan companies, sales finance companies, mortgage bankers, consumer rental purchase agreements, and delayed deposit services.

	Fiscal Year Ended June 30				
	1995	1996	1997	1998	1999
Financial Institutions:					
State Charters/Licenses of Record:					
Banks	240	234	229	225	216
Credit Unions	36	35	35	35	34
Other Institutions	6	7	6	6	6
Billed Examinations:					
Banks (1)	182	139	139	104	100
Credit Unions (2)	38	36	34	35	36
Other Institutions (3)	8	5	5	4	6
Percent Examined	81%	65%	66%	54%	55%
Total Assets State Chartered Financial Institutions	\$10,214,883,227	\$10,537,413,917	\$11,255,410,487	\$11,557,699,635	\$12,234,321,475
Number of Examination Hours	32,684	28,357	25,500	22,346	21,804
Billing Charges	\$0.12 per \$1,000 assets and \$25 per exam hour	\$0.12 per \$1,000 assets and \$25 per exam hour	\$0.12 per \$1,000 assets and \$25 per exam hour	\$0.14 per \$1,000 assets and \$35 per exam hour	\$0.14 per \$1,000 assets and \$35 per exam hour
Other Companies:					
Small Loan Companies (4)	65	68	65	61	57
Sales Finance Companies	126	156	201	211	251
Mortgage Bankers	218	235	302	389	509
Delayed Deposit (5)	Not available	22	29	43	60
Sale of Checks	18	18	18	22	20
Number of Examination Hours	910	1,165	1,297	1,189	1,197
Billing Charges	\$85 per exam hour	\$85 per exam hour	\$85 per exam hour	\$85 per exam hour	\$85 per exam hour
Total Program 65					
Number of Examination Hours	33,594	29,522	26,797	23,535	23,001
Number of Field Examiners					
Full-Time Equivalent (FTE)	27	24	25	24	25
Number of Other FTE	17	17	18	17	18
TOTAL FTE	44	41	43	41	43
Average Examination hours per Field Examiner FTE	1,244	1,230	1,072	981	920
Examination Fees & Assessments	\$ 1,933,801	\$ 1,984,965	\$ 2,008,369	\$ 2,379,328	\$ 2,488,330

- (1) Banks are examined on an 18 month cycle. The Department has an agreement with the FDIC to rotate the examinations.
- (2) Credit unions are required by statute to be examined annually. In addition, the Department may perform visitations of the credit unions as needed.
- (3) Other institutions include savings and loan and trust companies. Trust companies are required to be examined annually. There is no requirement for savings and loan companies.
- (4) Small loan companies are required to be examined semi-annually.
- (5) Delayed deposit services are required to be examined no more than annually, unless violations are noted.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SCHEDULE OF PERFORMANCE MEASURES

Program 66 Enforcement of Standards-Securities

The Department registers security issues, licenses salespersons and brokers, investigates complaints, and conducts examinations. It inspects and investigates the affairs, books, and records of individuals involved in the securities industry.

	Fiscal Year Ended June 30				
	1995	1996	1997	1998	1999
Securities Registrations Issued	8,021	8,891	10,621	13,349	14,165
Authorized for Sale in Nebraska	\$ 4,340,862,458	\$ 4,366,777,438	\$ 4,917,973,597	\$ 5,804,370,252	\$ 5,799,663,765
Securities Enforcement Investigations (6)	71	90	76	86	97
Total Amount of Money Offered or Returned to Investors in Connection with the Settlement of Enforcement Cases (7)	\$ 454,183	\$ 786,499	\$ 61,750	\$ 37,023	\$ 2,706,014
Broker Licenses	984	1,078	1,178	1,232	1,311
# FTE Program 66	16	16	17	17	18
Transfers to General Fund (8)	\$ 6,000,000	\$ 9,000,000	\$ 11,000,000	\$ 9,000,000	\$ 9,000,000

(6) Investigations are initiated when an individual or group contacts the Department with the belief that he/she has been defrauded.

(7) The amount of money returned to investors is related to the investigation performed by the Department. The money does not go through the books of the Department.

(8) The transfer from securities registrations fees to the General Fund is determined by the dollar amount available from the Department and the dollar amount requested from the Legislature. It can be used for whatever purpose the Legislature chooses.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues. Many computer-based financial, information and operational systems may not be able to properly interpret and apply some dates before and following December 31, 1999 (commonly referred to as the Year 2000 problem or the Y2K problem). If not corrected, malfunction of these systems could adversely impact information processing and system operations.

Statewide systems

The State recognized this problem prior to 1995 and has been working on a resolution of the issue since that time. A formal plan was developed and has been revised and expanded, as additional information has become available. Two Statewide systems have been identified as critical to the Nebraska Department of Banking and Finance. They are the accounting system (commonly referred to as NAS) and the payroll system (commonly referred to as NEIS). These systems have been evaluated, repaired and tested for the ability to process transactions in the year 2000 and beyond.

Agency specific systems

The Nebraska Department of Banking and Finance has identified the Banking and Finance computer system and AS/400 and NT server as critical to its operations. As of June 30, 1999, the Nebraska Department of Banking and Finance has committed approximately \$10,000 and are in the following stages of work in process or completion to make their computer systems and the electronic equipment Year 2000-compliant:

Awareness Stage – Encompasses establishing a budget and project plan for dealing with the year 2000 issue. The Nebraska Department of Banking and Finance has completed this stage.

Assessment Stage – The actual process of identifying all systems (preparing and inventory) and individual components of the systems. The Nebraska Department of Banking and Finance has completed this stage.

Remediation Stage – The stage when changes to systems and equipment had actually been made. The Nebraska Department of Banking and Finance has completed this stage.

Validation/Testing Stage – The stage when changes made during the conversion process have been validated and tested. The Nebraska Department of Banking and Finance has completed this stage.

It is important to note the completion of these stages is NOT a guarantee that system and equipment will be year 2000 compliant.

STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

P.O. Box 98917
Suite 2303, State Capitol
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Department of Banking and Finance as of and for the year ended June 30, 1999, and have issued our report thereon dated December 3, 1999. The report notes the financial statements were prepared on the basis of cash receipts and disbursements, was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Banking and Finance and an explanatory paragraph was added disclaiming an opinion on Required Supplementary Information-Year 2000 issues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Banking and Finance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Banking and Finance in the Comments Section of this report as Comment Number 3 (Lodging and Meal Disbursements).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Banking and Finance's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over

financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Banking and Finance in the Comments Section of this report as Comment Number 2 (Payroll Allocations).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

Manager

December 3, 1999