

**AUDIT REPORT
OF THE
NEBRASKA BOARD OF
EDUCATIONAL LANDS AND FUNDS**

JULY 1, 1998 THROUGH JUNE 30, 1999

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

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NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

BACKGROUND

When Nebraska became a state in 1867, it received land in each township from the federal government for the support of public schools. In 1936, the duties of the Commissioner of Public Lands and Buildings, which included overseeing the school lands, were transferred to the Board of Educational Lands and Funds. The Board consists of five persons appointed by the Governor, one of whom must be competent in the field of investments.

The Board acts as trustee and manager of more than 1.5 million acres of school land. The income received from surface and subsurface leasing of this land is distributed to school districts. The income is also used to meet the cost of managing the land. Royalties are deposited in the Permanent School Fund.

The agency also houses the office of the State Surveyor. The State Surveyor provides support services to the Board in the area of mapping and analysis of areas and settles surveying disputes between Nebraska landowners and surveyors. The State Surveyor also keeps a repository of land surveys done in the State.

As of June 30, 1999 the Board had 23 full-time employees in Divisions 1, 3 and 4 (School Trust operations funded from Trust income). It now has 22. In addition, the generally funded office of the Nebraska State Surveyor (Division 2 of the Board) had 6 full-time employees and 1 hourly employee on that date. The only other “employed individuals” were the private citizen members of this Board and the statutorily created Board of Appraisers for Educational Lands.

MISSION STATEMENT

The Board of Educational Lands and Funds is now the Constitutionally established Trustee of Nebraska’s School Trust Lands. The Board is governed entirely by trust law and its Trustee members are legally bound to fulfill exclusively the Trust duties of maximizing the income and preserving the assets of the School Trust for the benefit of the State and its citizens.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

SUMMARY OF COMMENTS

During our audit of the Nebraska Board of Educational Lands and Funds, 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. Land Sales
2. Cash Appropriations
3. Annual Report
4. Segregation of Duties Over Receipts (Surveyor's Office)
5. Fixed Assets
6. Documented Substantiating Evidence for Sick Leave
7. Compensatory Leave
8. Reasonableness of Expenditures
9. Performance Measures

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 Board 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.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

1. Land Sales

State Statute Section 72-201.01(1) R.R.S. 1996 states “The Board of Educational Lands and Funds shall prepare a plan for the sale of educational lands over which the board has general management and control on July 19, 1996. The plan shall be submitted to the Education Committee of the Legislature on or before December 1, 1996. The plan shall provide for the sale of enough of the total of the educational lands by January 1, 2008, to result in one-fourth of the value of the school trust permanent portfolio being invested by the board in real property located within the State of Nebraska and the remaining three-fourths of the value of the school trust permanent portfolio being invested by the state investment officer. The plan shall be implemented beginning on July 1, 1997.” Additionally, the Statute states in no case shall the plan for the sale of land be executed if such execution violates the fiduciary duties of the board.

During our audit, we noted the Board had sold 107 parcels of land from July 1, 1997 through June 30, 1999. This is an average of 53.5 parcels per year. The plan prepared by the Board noted they would have to sell between 2200 and 2900 parcels of land over the 10.5 year period noted in the Statute. This would average approximately 240 parcels sold per year. Although there are no statutory requirements that any specific amounts of land be sold in any particular year it appears the Board will need to increase sales in the future to meet the statutory requirements. When Legislative Bill 1205 was passed in 1996, land accounted for 68% of the School Trust assets. At June 30, 1999, land accounted for 65% of the School Trust assets.

We recommend policies and procedures be implemented to ensure enough land is sold to meet the statutory deadline of January 1, 2008.

BOARD’S RESPONSE: THIS BOARD IS COMMITTED TO FULFILLING ITS FIDUCIARY DUTY IN REGARD TO LAND SALES AND THE FIGURES USED DO NOT ACCURATELY REFLECT THE RELATIVE PERCENTAGES. THE PERIOD FROM JULY 1, 1997 THROUGH JUNE 30, 1999 REPRESENTS ONLY THE FIRST 19% OF THE 10 ½ YEARSREFERRED TO IN SECTION 72-201.01(1). THE LAND CONSTITUTED 68.3% OF THE TOTAL VALUE OF THE SCHOOL TRUST PORTFOLIO AT THE TIME L.B. 1205 WAS ENACTED AND 56.6% OF THAT TOTAL VALUE ON JUNE 30, 1999. THE BOARD ALSO SOLD 74 ADDITIONAL PARCELS DURING THE FALL OF 1999.

AUDITOR'S RESPONSE: THE 65% WAS CALCULATED, BASED ON INFORMATION ORIGINALLY PROVIDED BY THE BOARD, USING THE APPRAISED RENTAL VALUE. THE 56.6% IS BASED ON NEBRASKA FARM REAL ESTATE MARKET VALUES PER THE UNIVERSITY OF NEBRASKA, INSTITUTE OF AGRICULTURE AND NATURAL RESOURCES. THIS INFORMATION WAS PROVIDED BY THE BOARD AFTER THE INITIAL RESPONSE INCLUDED ABOVE WAS SUBMITTED TO THE AUDITORS. FOLLOWING ARE THE CALCULATIONS USED TO ARRIVE AT THE PERCENTAGE OF LAND TO THE TOTAL VALUE OF THE SCHOOL TRUST PORTFOLIO (NOTE THE DOLLARS ARE IN MILLIONS):

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

1. Land Sales (Concluded)

JUNE 30, 1996

$$\frac{1}{4+1} = \frac{\$334.1}{\$154.9 + \$334.1} = 68.3\%$$

JUNE 30, 1999

$$\frac{2}{3+2} = \frac{\$516.2}{\$276.8 + \$516.2} = 65\%$$

JUNE 30, 1999

$$\frac{1}{4+1} = \frac{\$370.2}{\$284.3 + \$370.2} = 56.6\%$$

1 = MARKET VALUE OF LAND PER THE UNIVERSITY OF NEBRASKA REPORT

2 = APPRAISED RENTAL VALUE OF LAND

3 = VALUE OF SCHOOL TRUST PORTFOLIO INVESTED BY THE STATE INVESTMENT OFFICER PER THE NEBRASKA ACCOUNTING SYSTEM (NAS) CASH AND INVESTMENT STATUS REPORT

4 = VALUE OF SCHOOL TRUST PORTFOLIO INVESTED BY THE STATE INVESTMENT OFFICER PER THE NEBRASKA INVESTMENT COUNCIL PERMANENT SCHOOL PLAN ACCOUNTING REPORT

BASED ON THE CHANGE BETWEEN 68.3% AND 56.6% THE BOARD HAS MADE PROGRESS TOWARD THE STATUTORY REQUIREMENT. THE MAJORITY OF THE CHANGE CAN BE ATTRIBUTED TO AN INCREASE IN THE VALUE OF THE SCHOOL TRUST PERMANENT PORTFOLIO BEING INVESTED BY THE STATE INVESTMENT OFFICER RATHER THAN BECAUSE OF THE SALE OF LAND BY THE BOARD. THE VALUE OF THE SCHOOL TRUST PERMANENT PORTFOLIO INVESTMENTS BEING INVESTED BY THE STATE INVESTMENT OFFICER AT JUNE 30, 1996 WAS \$154.9 MILLION AND AT JUNE 30, 1999 WAS \$284.3 MILLION. THIS IS AN INCREASE OF \$129.4 MILLION, WHICH INCLUDES ADDITIONS FROM THE SALE OF LAND. SALES OF SCHOOL LAND FOR THE PERIOD JULY 1997 THROUGH JANUARY 2000 TOTALED APPROXIMATELY \$15 MILLION. THESE SALES WOULD ACCOUNT FOR A SMALL PORTION OF THE \$129.4 MILLION INCREASE. THIS INCREASE IN THE VALUE OF THE SCHOOL TRUST PORTFOLIO BEING INVESTED BY THE STATE INVESTMENT OFFICER DECREASED THE AMOUNT OF LAND NEEDED TO BE SOLD BY THE BOARD TO MEET THE STATUTORY REQUIREMENT. CHANGES IN FINANCIAL MARKETS AND CHANGES IN LAND VALUES WILL CONTINUE TO IMPACT THE AMOUNT OF LAND REQUIRED TO BE SOLD TO MEET THE STATUTORY REQUIREMENT. THE BOARD SHOULD MONITOR THE IMPACT OF THESE MARKET CHANGES TO DETERMINE THE APPROPRIATE AMOUNT OF LAND TO BE SOLD TO MEET THE STATUTORY REQUIREMENT.

2. Cash Appropriations

State Statute Section 72-232.02 R.R.S. 1996 states, "The Board of Educational Lands and Funds shall pay the costs of administering the unsold school lands out of receipts from school

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

2. Cash Appropriations (Concluded)

land income. A cash fund is hereby authorized and the State Treasurer shall, out of the receipts for school land income, deposit in such cash fund that amount appropriated by the Legislature for each fiscal year on the first day of each fiscal year.”

During our testing, we noted the State Treasurer did not make a deposit into the Board’s cash fund on the first day of the fiscal year. Instead, the Board was depositing receipts from school land income into the cash fund periodically during the year to cover the costs of administering school lands. School land income includes proceeds from leases of school land, management fees, and other administrative fees. This condition has been an audit comment for many years.

We recommend the Board either comply with Section 72-232.02 or make an effort to get the Statute revised to allow the Board’s current practice.

BOARD’S RESPONSE: THE BOARD HAS MADE AN EFFORT TO GET THE STATUTE REVISED AND HAS BEEN UNABLE TO DO SO.

3. Annual Report

State Statute Section 72-240.26 R.R.S. 1996 requires the Board and the Nebraska Investment Council to “jointly report annually to the Clerk of the Legislature, and such report shall contain anticipated future actions by the board as well as actions already taken.”

During our audit, we noted the Board does prepare a biennial report to the Clerk of the Legislature in even numbered years. However, in odd-numbered years they do not issue a report providing this detail of information. Instead, the Board has considered the Blue Book as a substitute for an annual report. The Blue Book is not an annual report. This was a comment in a prior audit.

Therefore, the Board is not in compliance with State Statute Section 72-240.26, R.R.S. 1996.

We recommend the Board comply with State Statute and prepare an annual report as specified.

BOARD’S RESPONSE: REPORTS ARE MADE TO THE CLERK OF THE LEGISLATURE WHO ALSO COMPILES AND PUBLISHES THE NEBRASKA BLUE BOOK. THE CURRENT EDITION STATES, WITH RESPECT TO THE BOARD OF EDUCATIONAL LANDS AND FUNDS, ON PAGE 664:

“PUBLICATION: BIENNIAL REPORT (IN EVEN-NUMBERED YEARS) SUPPLEMENTED BY REPORT IN THE *NEBRASKA BLUE BOOK* (IN ODD-NUMBERED YEARS)”

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

3. **Annual Report** (Concluded)

THE BOARD ALSO FILED A SUPPLEMENTAL LAND SALE SUMMARY WITH THE CLERK OF THE LEGISLATURE IN DECEMBER OF 1999 AFTER ALL FY 1998-99 TRANSACTIONS WERE COMPLETED.

AUDITORS' RESPONSE: THE STATUTE REQUIRES AN ANNUAL REPORT.

4. **Segregation of Duties Over Receipts (Surveyor's Office)**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a segregation of duties so no one individual can be involved in all phases of a transaction from beginning to end.

During our audit we noted one individual collects money, sends out statements, prepares deposits, and reconciles the information to the posted transaction report and general ledger.

Lack of segregation of duties increases the possibility of the loss or misuse of state funds.

We recommend the State Surveyor implement procedures so someone else reconciles the receipt information to the posted transaction report, or alternatively a documented supervisory review is completed.

BOARD'S RESPONSE: IN AN ATTEMPT TO REMEDY THIS SITUATION, THE STATE SURVEYOR'S OFFICE WILL IMPLEMENT PROCEDURES SO THAT EITHER SOMEONE ELSE RECONCILES THE RECEIPT INFORMATION TO THE POSTED TRANSACTION REPORT, OR ALTERNATIVELY A DOCUMENTED SUPERVISORY REVIEW BE COMPLETED.

5. **Fixed Assets**

State Statute Section 81-1118.02, R.R.S. 1999, states each department "shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission or other state agency." The inventory listing should be an accurate listing as of June 30 of each year. The statute requires all items be inventoried. Department of Administrative Services (DAS) policy recommends all fixed assets with a purchase cost over \$300 be inventoried. The Nebraska Accounting System Manual (NAS) requires items coded to the 4800 account codes (capital assets) be included on the Board's inventory listing.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a segregation of duties so no one individual can handle all phases of a transaction from beginning to end.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

5. **Fixed Assets** (Continued)

During our audit we noted no physical inventory of fixed assets was taken for fiscal year 1999 as required by Section 81-1118.02. Additions and deletions to the fixed asset inventory listing were made only once a year and were therefore, not timely. The additions and deletions were made after the end of the fiscal year. Therefore, the fixed asset inventory listing was not accurate as of June 30, 1999.

We noted the Board does not review the Statewide Inventory System (SWIS) history report to see if additions or deletions have been made correctly. No items have been added since 1997 even though the Board has purchased items and requested additions be made to the fixed asset inventory listing.

The Board does not have on-line access to the Statewide Inventory System (SWIS) and must process all transactions manually by preparing a form for each transaction and submitting them to the Department of Administrative Services Materiel Division – State Surplus Property.

We also noted items coded to capital outlay account codes (4800's) which were not added to the inventory listing. The Board used capital outlay account codes for purchases, which they did not intend to add to the fixed asset inventory listing. Some items were under the \$300 amount recommended by Department of Administrative Services (DAS). We noted a scanner was purchased by the Surveyor's Office but was not added to the fixed asset inventory listing or tagged as property of the State of Nebraska.

We also noted the Board has a lack of segregation of duties over fixed assets since one person is capable of handling all procedures from beginning to end. The same individual conducts the physical inventory, adds items to inventory, and can remove items because they were "added-in-error."

The problems noted above result in non-compliance with Section 81-1118.02. Additionally, there is an increased risk of loss or misuse of state property.

We recommend the following:

- Annual physical inventory of fixed assets be conducted in compliance with State Statute.
- The Board process additions and deletions in a timely manner so their fixed asset inventory listing is accurate as of the end of each fiscal year.
- Items which are not intended to be inventoried should be coded to account codes other than the 4800 accounts.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

5. **Fixed Assets** (Continued)

- Someone review the SWIS history report to make sure the correct changes have been made to the listing.
- All items coded to the 4800 account codes should be items that fall under the NAS guidelines for capital expenditures
- All items coded to the 4800 account codes be added to the Board's inventory listing.
- The Board promptly tag all items and add them to the fixed asset inventory listing once the items are received.
- The Board implement procedures requiring someone independent of the fixed asset inventory process to review the SWIS inventory history report and document the review.

BOARD'S RESPONSE: ADEQUATE SEGREGATION OF DUTIES EXISTS (BULLET POINT 8). THE PERSON WHO MAINTAINS THE INVENTORY OF FIXED ASSETS DOES NOT SIGN THE SWIS FORM REQUIRED TO ADD, CHANGE, TRANSFER OR DELETE INVENTORY ITEMS (FORM SWI-08192-1). THE BOARD INTENDS TO IMPLEMENT THE RECOMMENDATION THAT THE COMPUTER GENERATED SWIS HISTORY REPORT BE REVIEWED TO MAKE SURE THAT DAS PERSONNEL HAVE FAITHFULLY MADE THE AUTHORIZED CHANGES TO THE LISTING (BULLET POINTS 4 & 8).

IT IS NOT THE BOARD'S UNDERSTANDING THAT "THE NEBRASKA ACCOUNTING SYSTEM MANUAL (NAS) REQUIRES ITEMS CODED TO THE 4800 ACCOUNTS (CAPITAL ASSETS) BE INCLUDED ON THE BOARD'S INVENTORY LISTING." INSTEAD, THE BOARD BELIEVES THIS NAS MANUAL REQUIRES THAT ALL CAPITAL ASSET EXPENDITURES BE CODED TO THE APPROPRIATE 4800 CAPITAL OUTLAY ACCOUNT (SO A \$295 CHAIR AND \$305 CHAIR WOULD BE CODED THE SAME); AND THE NAS INVENTORY MANUAL RECOMMENDS THAT ONLY CAPITAL ASSETS WHICH COST \$300 OR MORE BE INVENTORIED. THE EXPENDITURES HERE INVOLVED WERE FOR CAPITAL ASSETS HAVING A USEFUL LIFE EXCEEDING ONE YEAR (AND CODED TO THE CORRECT 4800 ACCOUNT) WHICH WERE NOT INVENTORIED BECAUSE THEY COST LESS THE \$300 (BULLET POINTS 3, 5 & 6).

IN REGARD TO BULLET POINT 2, THE EXIT AGENDA PREPARED BY AUDIT PERSONNEL STATED "ADDITIONS AND DELETIONS TO THE FIXED ASSET INVENTORY LISTING WERE MADE ONLY ONCE FOR THE FISCAL YEAR AND WERE MADE AFTER JUNE 30, 1999 DURING THE MONTH OF AUGUST . . . IF THE BOARD CHOOSES TO MAKE ADDITIONS/DELETIONS ONE TIME PER YEAR, THE CHANGES SHOULD BE MADE EARLY ENOUGH SO THAT THE SWIS SYSTEM CAN BE UPDATED AND HAVE A CORRECT BALANCE AS OF THE END OF THE FISCAL YEAR." THE BOARD INTENDS TO IMPLEMENT THIS "TIMING" RECOMMENDATION AND WILL SEE IF THE MONTH OF APRIL ALLOWS DAS PERSONNEL ADEQUATE TIME TO UPDATE THE SWIS SYSTEM.

THE SCANNER PURCHASED BY THE SURVEYOR'S OFFICE (WHICH COST MORE THAN \$300) HAS BEEN TAGGED AND ADDED TO THE FIXED ASSET INVENTORY LISTING (BULLET POINT 7). THE

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

5. **Fixed Assets** (Concluded)

ANNUAL PHYSICAL INVENTORY (BULLET POINT 1) WAS ALSO OVERLOOKED. REASONABLE EFFORTS WILL CONTINUE TO BE MADE TO SATISFY ALL APPROPRIATE INVENTORY REQUIREMENTS CONSISTENT WITH COST EFFICIENCY AND LIMITED STAFFING.

SECTION 81-1118.02 REQUIRES THAT ALL FIXED ASSETS BE INVENTORIED AND THE BOARD IS CERTAINLY NOT BOUND BY THE DAS POLICY RECOMMENDING THAT FIXED ASSETS COSTING LESS THAN \$300 NOT BE INVENTORIED (AND BE REMOVED FROM EXISTING INVENTORY LISTING BY DAS AUTHORITY). THEREFORE, THE BOARD WILL ALSO CONSIDER WHETHER THIS “TRIGGER LEVEL” FOR COMPLIANCE SHOULD BE DIFFERENT FOR SCHOOL TRUST OPERATIONS.

AUDITORS’ RESPONSE: OUR CONCERN IS THE ADDITIONS, CHANGES, TRANSFERS OR DELETIONS CAN BE MADE WITHOUT THE PROPER SIGNATURE ON SWIS FORM SWI-08192-1. NO AUTHORIZED SIGNATURES ARE MAINTAINED AT THE DEPARTMENT OF ACCOUNTING SERVICES FOR THE SWIS SYSTEM. THEREFORE, A COMPENSATING CONTROL IS THE INDEPENDENT REVIEW OF THE SWIS INVENTORY HISTORY REPORT.

6. **Documented Substantiating Evidence for Sick Leave**

Nebraska Classified System Personnel Rules Chapter 9 (Title 273) Section 005.02 require substantiating evidence to be obtained if a sick leave absence lasts for a period of ten or more days. The Board has chosen to follow the Department of Administrative Service’s Personnel policies.

We noted the one individual tested did not have documented substantiating evidence on file for an absence of greater than ten days.

We recommend the Board implement procedures to ensure substantiating evidence is documented and on file for employees who use ten or more days of continuous sick leave.

BOARD’S RESPONSE: ABUNDANT SUBSTANTIATION EXISTED BECAUSE STAFF MEMBERS, INCLUDING THOSE RESPONSIBLE FOR MAINTAINING SICK LEAVE RECORDS, VISITED THE MOTHER ABSENT ON MATERNITY LEAVE (AND THE NEW BABY) IN THE HOSPITAL AND SUBSEQUENTLY AT THEIR HOME. GOOD JUDGEMENT AND COMMON SENSE WILL CONTINUE BEING USED TO DETERMINE WHEN WRITTEN SUBSTANTIATION SHOULD BE OBTAINED FROM MEDICAL PERSONNEL.

AUDITORS’ RESPONSE: THE REQUIREMENT IS FOR SUBSTANTIATING EVIDENCE TO BE DOCUMENTED.

7. **Compensatory Leave**

The Nebraska Employee Information System (NEIS) Procedures Manual, Section CONC-001 states NEIS has the capability to record employees’ compensatory leave earned and used. Good internal control requires adequate accounting procedures be in place over compensatory time earned and used by employees.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

7. Compensatory Leave (Concluded)

During our testing of the payroll process, we noted the Board was manually tracking compensatory time earned and used and not recording compensatory time on NEIS. Additionally, the Federal Fair Labor Standards Act (FLSA) may require compensatory time to be earned at a rate of one and one half times the hours worked in excess of 40 hours in any work week. Use of the NEIS system creates a more uniform and efficient means of accumulating this leave information.

We recommend the Board use NEIS to record compensatory time earned and used by employees.

BOARD'S RESPONSE: IT WILL BE THE BOARD'S INTENTION TO IMPLEMENT THIS RECOMMENDATION IF IT IS NECESSARY TO ACCOUNT FOR COMPENSATORY TIME OF ANY NON-EXEMPT EMPLOYEE. HOWEVER, IT IS THE BOARD'S UNDERSTANDING THAT THE NEIS SYSTEM IS NOT TO BE USED FOR FLEX TIME AND ONLY NON-EXEMPT EMPLOYEES QUALIFY FOR TIME AND A HALF (150%) HOURLY PAYMENTS OR COMPENSATORY TIME EARNINGS.

8. Reasonableness of Expenditures

Sound business practice requires the Board to evaluate the costs associated with their operations and select the most economical method available.

During our audit, we noted the Board owns one vehicle which is used primarily for trips between their office and the State Capitol Building. Per a review of six months of mileage logs, the vehicle was used an average of 161 miles each month. During fiscal year 1999, the mileage reimbursement rate was \$.30 per mile. If employees had been reimbursed for using personal vehicles instead of using the State's vehicle the cost would have averaged \$48.30 per month.

We recommend the Board consider the following options:

- The use of a courier service to make the trips to the Capitol for them. This would result in additional security for monies deposited with the State Treasurer. Less staff time would be required if a courier were used.
- The reimbursement of employees for personal mileage instead of using a State vehicle.

BOARD'S RESPONSE: WHILE THIS 4-WHEEL DRIVE TRUCK HAS BEEN RETAINED AS A SPARE FIELD VEHICLE AND IS ONE OF THE OLDEST IN THE BOARD'S FLEET, THE BOARD HAS DECIDED TO SURPLUS THIS RESERVE VEHICLE AND IMPLEMENT EMPLOYEE REIMBURSEMENT FOR PERSONAL MILEAGE OR THE USE OF A COURIER SERVICE.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

COMMENTS AND RECOMMENDATIONS

9. Performance Measures

Good internal control requires documentation be maintained by the Board to support the performance measures presented in their biennial report or budget.

During our testing, we were unable to verify information with supporting documentation in a timely manner.

We recommend the Board maintain supporting documentation to support performance measures.

BOARD'S RESPONSE: AUDIT STAFF HAVE CONFIRMED THAT THIS ITEM RESULTS FROM THE TWO MATTERS DISCUSSED BELOW.

THE PROCESS OF ASSIGNING THESE TYPE CODES (IRRIGATION, DRYLAND, PASTURE AND MISCELLANEOUS) TO CAPITAL EXPENDITURE PROJECTS WILL BE CLARIFIED FOR FUTURE AUDIT PURPOSES. HOWEVER, JUDGEMENT CANNOT ALWAYS BE QUANTIFIED FOR AUDIT PURPOSES.

TO COMPLY WITH THIS RECOMMENDATION, THE STATE SURVEYOR WILL HEREAFTER INCLUDE ONLY QUANTIFIED AND DOCUMENTED INFORMATION IN BUDGET PERFORMANCE MEASURES. THIS MAY RESULT IN LESS INFORMATION BEING PRESENTED WITH THE STATE SURVEYOR'S GENERAL FUND BUDGET REQUEST. PERFORMANCE MEASURES INCLUDED IN PREVIOUS GENERAL FUND BUDGETS OF THE STATE SURVEYOR ARE ESTIMATES WHICH ARE NOT COMPLETELY SUPPORTED BY DOCUMENTED MEASUREMENT. IN SOME CASES THESE ESTIMATES ARE DERIVED FROM SAMPLING OF PROJECTS, EMPLOYEES CALENDARS OR SIMPLY APPROXIMATIONS FROM THE PERSONNEL INVOLVED IN THE WORK. IN OTHER CASES THEY ARE SUPPORTED BY DOCUMENTED MEASUREMENT.

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Auditor of Public Accounts



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NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Board of Educational Lands and Funds 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 Board'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 Board of Educational Lands and Funds, 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 Board of Educational Lands and Funds 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 Board of Educational Lands and Funds is or will become year 2000 compliant, that Nebraska Board of Educational Lands and Funds' year 2000 remediation efforts will be successful in whole or in part, or that parties with which Nebraska Board of Educational Lands and Funds does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2000, on our consideration of the Nebraska Board of Educational Lands and Funds' 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.

A handwritten signature in dark ink, reading "Timothy J. Chamber CPA". The signature is fluid and cursive, with the initials "TJ" being prominent at the start.

Audit Manager

February 22, 2000

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINED STATEMENT OF ASSETS, FUND BALANCES AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 1999

	Governmental Fund Types		Fiduciary Fund Type	Account Group	
	General	Special Revenue	Trust Funds	General Fixed Assets	Totals (Memorandum Only)
Assets					
Cash in State Treasury	\$ -	\$ 44,306	\$ 7,217,371	\$ -	\$ 7,261,677
Deposit with Vendors	40	101	1,463	-	1,604
Property, Plant, and Equipment	-	-	-	168,416	168,416
Total Assets	<u>\$ 40</u>	<u>\$ 44,407</u>	<u>\$ 7,218,834</u>	<u>\$ 168,416</u>	<u>\$ 7,431,697</u>
Fund Balances and Other Credits					
Other Credits,					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 168,416	\$ 168,416
Fund Balances:					
Reserved For Mineral Bonds	-	-	67,000	-	67,000
Reserved For Sales Tax	-	23	-	-	23
Reserved For Postage	40	101	1,463	-	1,604
Unreserved, Undesignated	-	44,283	7,150,371	-	7,194,654
Total Fund Balances and Other Credits	<u>\$ 40</u>	<u>\$ 44,407</u>	<u>\$ 7,218,834</u>	<u>\$ 168,416</u>	<u>\$ 7,431,697</u>

See Notes to Financial Statements.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 1999

	Governmental Fund Types		Fiduciary Fund Types	
	General	Special Revenue	Trust Funds	Totals (Memorandum Only)
RECEIPTS:				
Appropriations	\$ 363,430	\$ -	\$ -	\$ 363,430
Sales and Charges	48,944	20,914	9,971	79,829
Land Use Revenues	-	-	21,262,437	21,262,437
Rental Revenues	-	-	282,134	282,134
Miscellaneous	200	2,408	362,592	365,200
TOTAL RECEIPTS	412,574	23,322	21,917,134	22,353,030
DISBURSEMENTS:				
Personal Services	278,205	12,081	1,314,171	1,604,457
Operating	33,045	5,592	756,023	794,660
Travel	1,666	-	32,658	34,324
Capital Outlay	50,514	651	410,850	462,015
TOTAL DISBURSEMENTS	363,430	18,324	2,513,702	2,895,456
Excess of Receipts Over Disbursements	49,144	4,998	19,403,432	19,457,574
OTHER FINANCING SOURCES (USES):				
Sales of Assets	56	-	5,853,624	5,853,680
Operating Transfers In	-	-	6,519,500	6,519,500
Operating Transfers Out	-	-	(6,764,644)	(6,764,644)
Deposit to General Fund	(49,200)	-	-	(49,200)
Deposits to Common Funds	-	-	(22,907,826)	(22,907,826)
(Net) Distributive Activity:				
Ins	-	(110)	(3,000)	(3,110)
Outs	-	46	26,000	26,046
TOTAL OTHER FINANCING SOURCES (USES)	(49,144)	(64)	(17,276,346)	(17,325,554)
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	-	4,934	2,127,086	2,132,020
FUND BALANCE, JULY 1, 1998	40	39,473	5,091,748	5,131,261
FUND BALANCE, JUNE 30, 1999	\$ 40	\$ 44,407	\$ 7,218,834	\$ 7,263,281

See Notes to Financial Statements.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL AND CASH FUNDS
 For the Year Ended June 30, 1999

	GENERAL FUND			CASH FUNDS			TOTAL FUNDS	
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)
RECEIPTS:								
Appropriations		\$ 363,430			\$ -			\$ 363,430
Sales and Charges		48,944			30,885			79,829
Land Use Revenues		-			10,717,494			10,717,494
Rental Revenues		-			22,173			22,173
Miscellaneous		200			285,417			285,617
TOTAL RECEIPTS		<u>412,574</u>			<u>11,055,969</u>			<u>11,468,543</u>
DISBURSEMENTS:								
Personal Services		278,205			1,326,252		\$ 1,867,956	1,604,457
Operating		33,045			716,463		969,130	749,508
Travel		1,666			32,658		77,640	34,324
Capital Outlay		50,514			411,501		557,858	462,015
Total Budgeted	586,255	363,430	222,825	2,886,329	2,486,874	399,455	3,472,584	2,850,304
Under (Over) Budgeted (Note 1.D.)	(198,699)	-	(198,699)	39,116		39,116	(159,583)	
TOTAL DISBURSEMENTS	<u>387,556</u>	<u>363,430</u>	<u>24,126</u>	<u>2,925,445</u>	<u>2,486,874</u>	<u>438,571</u>	<u>3,313,001</u>	<u>2,850,304</u>
Excess of Receipts Over Disbursements		<u>49,144</u>			<u>8,569,095</u>			<u>8,618,239</u>
OTHER FINANCING SOURCES (USES):								
Sale of Assets		56			31,530			31,586
Operating Transfers Out		-			(6,478,000)			(6,478,000)
Deposit to State General Fund		(49,200)			-			(49,200)
(NET) Distributive Activity:								-
Ins		-			(3,110)			(3,110)
Outs		-			26,046			26,046
TOTAL OTHER FINANCING SOURCES (USES)		<u>(49,144)</u>			<u>(6,423,534)</u>			<u>(6,472,678)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			2,145,561			2,145,561
FUND BALANCES, JULY 1, 1998		<u>40</u>			<u>5,062,288</u>			<u>5,062,328</u>
FUND BALANCES, JUNE 30, 1999		<u>\$ 40</u>			<u>\$ 7,207,849</u>			<u>\$ 7,207,889</u>

See Notes to Financial Statements.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 1999

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Board of Educational Lands and Funds are on the basis of accounting as described in the Nebraska Accounting System Manual.

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

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

- B. Basis of Accounting.** The accounting records of the Board are maintained and the Board'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 expendable trust 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 Board are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust 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.

The combined financial statements present the non-expendable and expendable trust funds together since the cash basis of accounting was used. GAAP financial statements would present the two types of trust funds separately.

General Fixed Assets Account Group. Used to account for general fixed assets of the Board exclusive of assets held by certain trust funds.

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 Board are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

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.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

- 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 Board 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 general and cash fund types 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 general and 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.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

The General Fund had \$198,699 more budgeted than had been appropriated. This was due to the total amount appropriated for Program 529 including the cash fund appropriations being included in the amount budgeted for the General Fund. The Survey division budgeted for part of their cash fund appropriations in the General Fund. The Cash Funds were under budgeted by \$39,116. This occurred because the Board of Educational Lands and Funds budgets according to the budget set by their Board rather than the appropriation amount.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

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 and Distributed Funds and, as a result, no budgetary comparisons are presented.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 1999, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES		
		PRIMARY GOVERNMENT		
	Total	General	Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund balances into Financial Statement fund structure:				
General	\$ 40	\$ -	\$ -	\$ -
Cash	7,207,849	40	7,207,849	-
Budgetary fund balances classified into Financial Statement fund structure	<u>\$ 7,207,889</u>	40	7,207,849	-
Entity Difference:				
Record funds not budgeted		-	(7,163,442)	7,218,834
Financial Statement Fund Balances, June 30, 1999		<u>\$ 40</u>	<u>\$ 44,407</u>	<u>\$ 7,218,834</u>

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. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 1999, have been recorded at cost by the Board. 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.

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Board 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 Board 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 Board earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. 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 Board are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

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

Land Use Revenues. Revenues received from leasing of Common School land for support of K-12 schools including mineral rents, sand and gravel rents and royalties, and timber sales.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Rental Revenues. Revenue received from Rental of University Agricultural College and Normal School (State College) lands and buildings.

Miscellaneous. Receipts from sources not covered by other major categories. The major source was Investment Interest.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Board 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 and mineral bonds.

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 Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees;

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

natural disasters; and health care insurance. The Board, 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 Board of Educational Lands and Funds' financial statements.

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

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

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 Board 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 Board 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 \$57,250 and the Board contributed \$89,310.

5. **Net Distributive Activity**

The Board's net distributive activity for the audit period consists primarily of mineral bonds. These bonds are required under the provisions of State Statute Section 72-904, R.R.S. 1996. The mineral bond deposits on hand at June 30, 1999 have been shown separately on the financial statements.

6. **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	\$ 135,021	\$ 34,140	\$ 745	\$ 168,416

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **Fixed Assets (Concluded)**

In addition to the fixed assets noted above, the Nebraska Board of Educational Lands and Funds owns fixed assets valued at \$650,314 in their cash fund (BELF Fund 2322) which is a non-expendable trust fund. Since the financial statements are on a cash basis fixed asset amounts are not reflected in the nonexpendable trust fund.

The Board acts as trustee and manager of the lands but does not have title to the lands. Therefore, the value of the land is not presented in the Board's financial statements.

7. **Full Accountability of the General and Fund**

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

General Fund

Beginning (Reappropriated) Balance July 1, 1998	\$ 7,459
New Appropriations	<u>380,097</u>
Total Appropriations	<u>387,556</u>
Disbursements	(363,430)
Lapse of Appropriations	<u>(3,343)</u>
Ending (Appropriations) Balance June 30, 1999	<u>\$ 20,783</u>

8. **Deposits to Common Funds**

The amount represents the total receipts deposited to non-expendable trust funds (Temporary School Fund, Normal School Endowment Fund, Veterans Aid Fund, Permanent School Fund, Permanent University Endowment Fund and Agriculture Endowment Fund). Once deposited into these funds, the cash is invested by the Nebraska Investment Council. Because the Board has no control over these funds once the deposits are made, the fund balances are not reflected in the Board's financial statements.

9. **Sale of Assets**

The amounts represent the total money received from the sale of the fixed assets. The major source was from the sale of the school lands held in trust by the Board.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Operating Transfers In and Operating Transfers Out

The amounts represent money transferred from one fund into another. The major transfer consists of a journal entry used to transfer cash balances. In December, any cash balance over \$300,000 is transferred to the Temporary School Fund for distribution in February.

11. Legislative Bill 1205

Legislative Bill 1205 was adopted by the Ninety-Fourth Legislature, Second Session. This bill required the Nebraska Board of Educational Lands and Funds to prepare a plan for the sale of educational lands to be submitted by December 1996. The plan was to provide for the sale of enough of the educational lands by January 1, 2008, to result in 25 percent of the value of the school trust permanent portfolio being invested in real property and the remaining 75 percent being invested by the State's Investment Council. The Board submitted their plan to the Education Committee of the Nebraska Legislature in November 1996. The land was 68 percent of the School Trust assets when LB 1205 was passed in 1996. The plan was to be implemented beginning on July 1, 1997 and to conclude by the January 1, 2008. During fiscal year 1998 and fiscal year 1999, a total of 104 parcels of land were sold.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS

June 30, 1999

	Special Revenue Funds		Total Special Revenue Funds
	Surveys Cash Fund 2321	Survey Record Repository Fund 2323	
Assets			
Cash in State Treasury	\$ 2,853	\$ 41,453	\$ 44,306
Deposit with Vendors	20	81	101
Total Assets	\$ 2,873	\$ 41,534	\$ 44,407
Fund Balances			
Fund Balances:			
Reserved for Sales Taxes	\$ -	\$ 23	\$ 23
Reserved for Postage	20	81	101
Unreserved, Undesignated	2,853	41,430	44,283
Total Fund Balances	\$ 2,873	\$ 41,534	\$ 44,407

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL TRUST FUND TYPES

June 30, 1999

	Expendable Trust Fund	Non-Expendable Trust Fund	Total Trust Funds
	Ag & Univ Land Lease Fund 6332	BELF Fund 2322	
Assets			
Cash in State Treasury	\$ 55,392	\$ 7,161,979	\$ 7,217,371
Deposits with Vendors	-	1,463	1,463
Total Assets	<u>\$ 55,392</u>	<u>\$ 7,163,442</u>	<u>\$ 7,218,834</u>
Fund Balances			
Fund Balances:			
Reserved for Mineral Bonds	\$ -	\$ 67,000	\$ 67,000
Reserved For Postage	-	1,463	1,463
Unreserved, Undesignated	<u>55,392</u>	<u>7,094,979</u>	<u>7,150,371</u>
Total Fund Balances	<u>\$ 55,392</u>	<u>\$ 7,163,442</u>	<u>\$ 7,218,834</u>

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 1999

	Special Revenue Funds		
	Surveys	Survey	Total
	Cash Fund	Record	Special
	2321	Repository	Revenue
		Fund 2323	Funds
RECEIPTS:			
Sales and Charges	\$ -	\$ 20,914	\$ 20,914
Miscellaneous	159	2,249	2,408
TOTAL RECEIPTS	159	23,163	23,322
DISBURSEMENTS:			
Personal Services	-	12,081	12,081
Operating	51	5,541	5,592
Capital Outlay	-	651	651
TOTAL DISBURSEMENTS	51	18,273	18,324
Excess of Revenues Over Disbursements	108	4,890	4,998
OTHER FINANCING SOURCES (USES)			
(Net) Distributive Activity:			
Ins	-	(110)	(110)
Outs	-	46	46
TOTAL OTHER FINANCING SOURCES (USES)	-	(64)	(64)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	108	4,826	4,934
Fund Balance, July 1, 1998	2,765	36,708	39,473
Fund Balance, June 30, 1999	\$ 2,873	\$ 41,534	\$ 44,407

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
TRUST FUNDS**

For the Fiscal Year Ended June 30, 1999

	Expendable Trust Fund	Non-Expendable Trust Funds				Non-Expendable Trust Funds			
	Agriculture and University Land Lease Fund 6332	BELF Cash Fund 2322	Temporary School Fund 6136	Normal School Endowment Fund 6328	Veterans' Aid Fund 6333	Permanent School Fund 6334	Permanent University Endowment Fund 6335	Agriculture Endowment Fund 6513	Total Trust Funds
RECEIPTS:									
Sales and Charges	\$ -	\$ 9,971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,971
Land Use Revenues	9,773	10,717,494	10,160,830	-	-	374,340	-	-	21,262,437
Rental Revenues	259,939	22,173	-	-	-	22	-	-	282,134
Miscellaneous	3,391	283,009	-	343	16,754	52,687	3,019	3,389	362,592
TOTAL RECEIPTS	273,103	11,032,647	10,160,830	343	16,754	427,049	3,019	3,389	21,917,134
DISBURSEMENTS:									
Personal Services	-	1,314,171	-	-	-	-	-	-	1,314,171
Operating	-	710,871	45,152	-	-	-	-	-	756,023
Travel	-	32,658	-	-	-	-	-	-	32,658
Capital Outlay	-	410,850	-	-	-	-	-	-	410,850
TOTAL DISBURSEMENTS	-	2,468,550	45,152	-	-	-	-	-	2,513,702
Excess of Revenues Over Disbursements	273,103	8,564,097	10,115,678	343	16,754	427,049	3,019	3,389	19,403,432
OTHER FINANCING SOURCES (USES)									
Sale of Assets	-	31,530	-	-	-	5,822,094	-	-	5,853,624
Operating Transfers In	-	-	6,519,500	-	-	-	-	-	6,519,500
Operating Transfers Out	(286,644)	(6,478,000)	-	-	-	-	-	-	(6,764,644)
Deposits to Common Funds	-	-	(16,635,178)	(343)	(16,754)	(6,249,143)	(3,019)	(3,389)	(22,907,826)
(Net) Distributive Activity:									
Ins	-	(3,000)	-	-	-	-	-	-	(3,000)
Outs	-	26,000	-	-	-	-	-	-	26,000
TOTAL OTHER FINANCING SOURCES (USES)	(286,644)	(6,423,470)	(10,115,678)	(343)	(16,754)	(427,049)	(3,019)	(3,389)	(17,276,346)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(13,541)	2,140,627	-	-	-	-	-	-	2,127,086
Fund Balance, July 1, 1998	68,933	5,022,815	-	-	-	-	-	-	5,091,748
Fund Balance, June 30, 1999	\$ 55,392	\$ 7,163,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,218,834

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
SCHEDULE OF PERFORMANCE MEASURES

Statistics	FY 95	FY 96	FY 97	FY 98	FY 99
Income from school lands (millions):					
Agricultural rent received	18.42	17.48	19.25	20.13	20.36
Other income received	0.97	0.63	1.18	1.04	0.52
Minerals royalties received	0.53	0.49	0.66	0.49	0.36
Minerals rent received	N/A	N/A	0.21	0.1	0.06
Leases offered	404	386	487	441	418
 Land Sales					
Total acres**	N/A	N/A	103.19	23,213.63	18,950.81
Grass acres	N/A	N/A	40.00	19,053.63	17,280.64
Crop acres	N/A	N/A	33.78	305.10	693.00
CRP acres*	N/A	N/A	-	3,814.00	440.30
Other acres	N/A	N/A	29.41	40.90	62.13
Appraised Value	N/A	N/A	\$ 870,900	\$ 4,758,795	\$ 4,609,650
Sale Price	N/A	N/A	\$ 1,105,900	\$ 4,865,585	\$ 4,935,950
Excess over Appraised Value	N/A	N/A	\$ 235,000	\$ 106,790	\$ 326,300
Total parcels sold	N/A	N/A	4	57	50

*CRP acres - Conservation Reserve Program

** Grass acres, crop acres, CRP acres, and other acres do not include the roads, easements, condemnations or right-of-ways in fiscal year 1999. The total acres do include these items in the previous fiscal years.

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
STATE SURVEYOR PERFORMANCE MEASURES

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>
Official Instructions issued to County Surveyors	1	-	-	1	-
Surveys maintained	132,998	141,147	150,824	158,136	168,160

NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS

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 Board of Educational Lands and Funds. (1) 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.

As of the report date of February 22, 2000, there have been no apparent significant Y2K problems. However, because of the unprecedented nature of the Y2K problem, problems may yet arise in the critical systems noted above or parties with whom the State of Nebraska or the Board does business may yet have problems.

STATE OF NEBRASKA
Auditor of Public Accounts



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**NEBRASKA BOARD OF EDUCATIONAL LANDS AND FUNDS
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 Board of Educational Lands and Funds as of and for the year ended June 30, 1999, and have issued our report thereon dated February 22, 2000. 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 Board of Educational Lands and Funds 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 Board of Educational Lands and Funds' 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 Board of Educational Lands and Funds in the Comments Section of this report as Comment Number 2 (Cash Appropriations), Comment 3 (Annual Report), Comment Number 5 (Fixed Assets), and Comment 6 (Documented Substantiating Evidence for Sick Leave).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Board of Educational Lands and Funds' 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Board of Educational Lands and Funds' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 4 (Segregation of Duties Over Receipts – Surveyor's Office).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Board of Educational Lands and Funds in the Comments Section of the report as Comment Number 5 (Fixed Assets).

This report is intended solely for the information and use of the Board, 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Audit Manager

February 22, 2000