

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

JULY 1, 2000 THROUGH JUNE 30, 2001

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

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 and 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 Balance - Budget and Actual - Cash Funds	10
Notes to Financial Statements	11 - 19
Combining Statements and Schedule:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	20
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	21
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Fiduciary Funds	22
Schedule of Service Efforts and Accomplishments – Unaudited	23 - 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

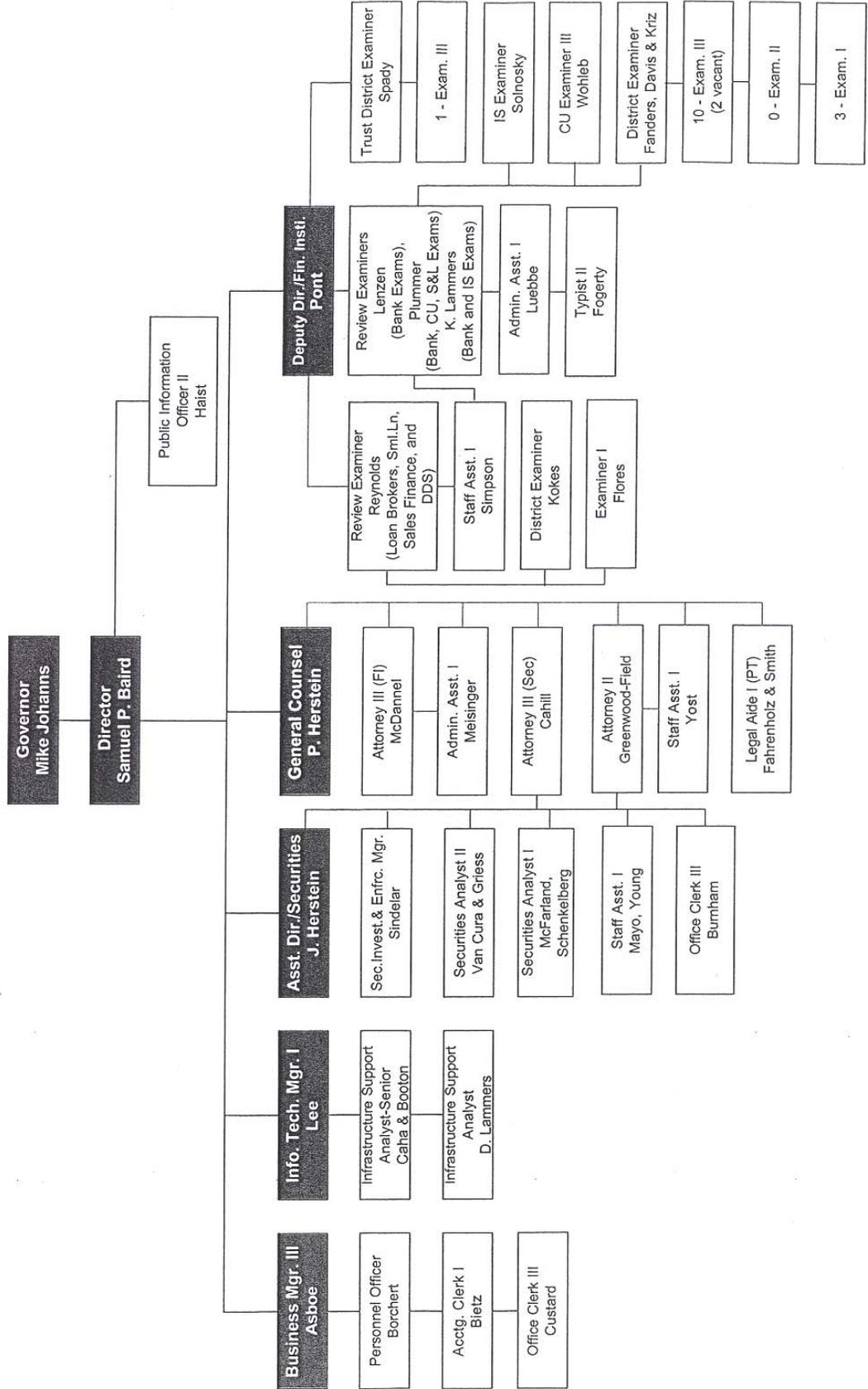
In 1933 the Legislature established the Department of Banking. In 1976 the name was changed to the Department of Banking and Finance. The Director of the Department is appointed by the Governor. The Department is a regulatory agency, which enforces statutes pertaining to the banking and finance industry, 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 and Finance is 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. ***Payroll Allocations:*** Documentation was not adequate to support the allocation of salaries between programs for 21 employees.
2. ***Employee Meal Reimbursements:*** Employee meal reimbursements were not supported with logs or receipts as required by IRS and State requirements.
3. ***Vehicle Usage:*** The Department maintained a permanently assigned vehicle which was not used 1,000 miles per month.

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. Payroll Allocations

Neb. Rev. Stat. Section 8-601 R.R.S. 1997 requires the Financial Institution Cash Fund be used to pay the expenses relating to examinations. Neb. Rev. Stat. Section 8-1120(6) R.S.Supp., 2000 states the Securities Act Cash Fund shall be used to pay expenses relating to the administration and enforcement of the Securities Act of Nebraska. Good internal control requires adequate supporting documentation to ensure allocations to programs and funds are correct.

We noted 21 of 62 employees whose payroll costs were allocated between funds and programs. The Department maintained a list used to allocate an employee's payroll costs to the respective programs the employee worked on; however, there was no documentation to support these percentage allocations were accurate. This was also noted in our prior audit report.

Without adequate supporting documentation there is an increased risk for errors, resulting in the misallocation of expenses between funds and programs, and noncompliance with State Statutes.

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

Department's Response: The Department will work to develop supporting documentation that is adequate, but not burdensome on Department employees.

2. Employee Meal Reimbursements

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 requires reimbursement requests for actual expenses incurred in the line of duty to be fully itemized. The Nebraska Accounting System (NAS) Manual, CONC-005, Travel Expense Policies, Section (5)(a), effective January 15, 2001, states, "Pursuant to Section 81-1174, employees traveling on State business shall claim only actual amounts paid for meals." The policy further states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost of meals. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount and restaurant [e.g. city] for each meal/food cost. A combination of receipts and detailed itemization is permitted. . . . Unsubstantiated meals should not be reimbursed."

We noted employee expense reimbursements after January 15, 2001 did not have a log or receipts to substantiate meals as required by NAS Policies. All four expense reimbursements tested were not supported with actual receipts or a meal log.

COMMENTS AND RECOMMENDATIONS

2. Employee Meal Reimbursements (Concluded)

Failure to comply with Federal and State regulations increases the risk for misuse of funds and jeopardizes the accountable plan status.

We recommend the Department implement procedures to ensure meal reimbursements are substantiated as required by Federal and State regulations.

Department's Response: The Department is currently in the process of finalizing a meal reimbursement policy which will comply with Federal and State regulations.

3. Vehicle Usage

The Department of Administrative Services – Transportation Services Bureau (DAS-TSB) policy Section IV(1) states, “vehicles shall be considered for permanent assignment when they are required for a period of thirty days or longer, will travel a minimum of 1,000 miles, and be utilized seventeen (17) working days per month.” Sound business policy requires procedures to ensure State vehicle usage is cost efficient.

We noted the Department had a permanently assigned vehicle from DAS-TSB that was used less than 1,000 miles for ten of twelve months in fiscal year 2001. During six of these months, the vehicle was driven fewer than 500 miles. The Department paid DAS-TSB \$3,015 for the use of the vehicle during the fiscal year; if the Department had reimbursed the employee for his personal vehicle use based on the same mileage, it would have cost \$2,664. We further noted from July 2001 to March 2002, the same vehicle was driven over 1,000 miles in only two of these months.

We recommend the Department periodically review the use of State vehicles to determine whether a permanently assigned vehicle is necessary.

Department's Response: The Department will periodically review State vehicle mileage.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Banking and Finance as of and for the fiscal year ended June 30, 2001, 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.

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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.

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

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.

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

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.

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 23, 2002, 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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, except for that portion marked "unaudited," on which we express no opinion, 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.

April 23, 2002

Pat Reding, CPA
Manager

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, 2001

	<u>Governmental Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	Totals
	Special Revenue	Trust and Agency	General Fixed Assets	(Memorandum Only)
<u>Assets</u>				
Cash in State Treasury	\$ 18,355,658	\$ 91	\$ -	\$ 18,355,749
Deposit with Vendors	2,584	-	-	2,584
Property, Plant, and Equipment	-	-	656,362	656,362
 Total Assets	 <u>\$ 18,358,242</u>	 <u>\$ 91</u>	 <u>\$ 656,362</u>	 <u>\$ 19,014,695</u>
 <u>Fund Balances and Other Credits</u>				
Other Credits:				
Investment in Fixed Assets	\$ -	\$ -	\$ 656,362	\$ 656,362
Fund Balances:				
Reserved For Postage	2,584	-	-	2,584
Unreserved, Undesignated	18,355,658	91	-	18,355,749
 Total Fund Balances and Other Credits	 <u>\$ 18,358,242</u>	 <u>\$ 91</u>	 <u>\$ 656,362</u>	 <u>\$ 19,014,695</u>

The accompanying notes are an integral part of the 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, 2001

	Governmental Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Special Revenue	Trust and Agency	
RECEIPTS:			
Taxes	\$ 2,136,293	\$ -	\$ 2,136,293
Sales and Charges:			
Securities Registrations	12,296,284	-	12,296,284
Other	5,573,046	-	5,573,046
Miscellaneous:			
Investment Interest	1,553,178	-	1,553,178
Other	5,588	50,391	55,979
TOTAL RECEIPTS	<u>21,564,389</u>	<u>50,391</u>	<u>21,614,780</u>
DISBURSEMENTS:			
Personal Services	3,393,417	-	3,393,417
Operating	534,140	2	534,142
Travel	175,302	-	175,302
Capital Outlay	133,355	-	133,355
TOTAL DISBURSEMENTS	<u>4,236,214</u>	<u>2</u>	<u>4,236,216</u>
Excess of Receipts Over Disbursements	<u>17,328,175</u>	<u>50,389</u>	<u>17,378,564</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	1,206	-	1,206
Operating Transfers Out	(17,000,000)	-	(17,000,000)
Deposits to Permanent School Fund	-	(50,391)	(50,391)
Net Distributive Activity	-	66	66
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,998,794)</u>	<u>(50,325)</u>	<u>(17,049,119)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	329,381	64	329,445
FUND BALANCES, JULY 1, 2000	<u>18,028,861</u>	<u>27</u>	<u>18,028,888</u>
FUND BALANCES, JUNE 30, 2001	<u>\$ 18,358,242</u>	<u>\$ 91</u>	<u>\$ 18,358,333</u>

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

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Cash Funds
 For the Fiscal Year Ended June 30, 2001

	CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Taxes		\$ 2,136,293	
Sales and Charges:			
Securities Registrations		12,296,284	
Other		5,573,046	
Miscellaneous:			
Investment Interest		1,553,178	
Other		5,588	
TOTAL RECEIPTS		21,564,389	
DISBURSEMENTS:			
Personal Services	\$ 3,637,475	3,393,417	\$ 244,058
Operating	610,028	534,140	75,888
Travel	212,925	175,302	37,623
Capital Outlay	545,180	133,355	411,825
TOTAL DISBURSEMENTS	5,005,608	4,236,214	769,394
Excess of Receipts Over Disbursements		17,328,175	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		1,206	
Operating Transfers Out		(17,000,000)	
TOTAL OTHER FINANCING SOURCES (USES)		(16,998,794)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		329,381	
FUND BALANCE, JULY 1, 2000		18,028,861	
FUND BALANCE, JUNE 30, 2001		\$ 18,358,242	

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

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

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 (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 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 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 and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

operation of these funds are included on the balance sheet. Nonexpendable trust fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Under the cash receipts and disbursement basis of accounting, 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. The operations of each fund are accounted for with a self-balancing set of accounts which records 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, 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 deposited to a permanent school fund.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

- 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 appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations 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 vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this 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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

All State budgetary disbursements for the cash fund type are made pursuant to the appropriations which 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.

The Department 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 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, 2001, 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. 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. 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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

- 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, 2001 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.

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 does 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 a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except Fund 6191, were designated for investment during fiscal year 2001.
- G. Net Distributive Activity.** Net Distributive Activity transactions are 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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since 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.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

L. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances 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, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. 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 generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

- A. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or 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 judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

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 by 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not 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.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. State Employees Retirement Plan (Plan) (Concluded)

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, 2001, employees contributed \$120,713 and the Department contributed \$188,312.

5. Fixed Assets

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

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Equipment	\$ 561,455	\$ 114,840	\$ 19,933	\$ 656,362

6. Operating Transfers Out

Operating Transfers Out includes a \$15,000,000 transfer from the Securities Act Cash Fund to the State General Fund per 1999 Neb. Laws LB 880, Section 267(2)(r), as amended by 2000 Neb. Laws LB 1220, Section 267(2)(s), and a \$2,000,000 transfer from the Securities Act Cash Fund to the Department of Economic Development Affordable Housing Trust Fund per Neb. Rev. Stat. Section 8-1120(6) R.S.Supp., 2000.

7. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State's revenue and expenditure recognition, and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

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

June 30, 2001

	Financial Institutions Assessment Fund 2191	Securities Act Cash Fund 2192	Total Special Revenue Funds
Assets			
Cash in State Treasury	\$ 1,878,458	\$ 16,477,200	\$ 18,355,658
Deposit with Vendors	28	2,556	2,584
Total Assets	\$ 1,878,486	\$ 16,479,756	\$ 18,358,242
Fund Balances			
Reserved For Postage	\$ 28	\$ 2,556	\$ 2,584
Unreserved, Undesignated	1,878,458	16,477,200	18,355,658
Total Fund Balances	\$ 1,878,486	\$ 16,479,756	\$ 18,358,242

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2001

	Financial Institutions Assessment Fund 2191	Securities Act Cash Fund 2192	Total Special Revenue Funds
RECEIPTS:			
Taxes	\$ 2,136,293	\$ -	\$ 2,136,293
Sales and Charges:			
Securities Registrations	-	12,296,284	12,296,284
Other	1,468,482	4,104,564	5,573,046
Miscellaneous:			
Investment Interest	139,542	1,413,636	1,553,178
Other	4,961	627	5,588
TOTAL RECEIPTS	3,749,278	17,815,111	21,564,389
DISBURSEMENTS:			
Personal Services	2,580,258	813,159	3,393,417
Operating	358,318	175,822	534,140
Travel	172,388	2,914	175,302
Capital Outlay	114,743	18,612	133,355
TOTAL DISBURSEMENTS	3,225,707	1,010,507	4,236,214
Excess of Receipts Over Disbursements	523,571	16,804,604	17,328,175
OTHER FINANCING SOURCES (USES):			
Sales of Assets	1,206	-	1,206
Operating Transfers Out	-	(17,000,000)	(17,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,206	(17,000,000)	(16,998,794)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	524,777	(195,396)	329,381
FUND BALANCES, JULY 1, 2000	1,353,709	16,675,152	18,028,861
FUND BALANCES, JUNE 30, 2001	\$ 1,878,486	\$ 16,479,756	\$ 18,358,242

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL FIDUCIARY FUND TYPES
For the Fiscal Year Ended June 30, 2001

	Agency Fund First Investors Inc. Settlement Fund 6191	Nonexpendable Trust Fund Permanent School Fund 6334	Total Fiduciary Fund Types
RECEIPTS:			
Miscellaneous, other	\$ -	\$ 50,391	\$ 50,391
TOTAL RECEIPTS	<u>-</u>	<u>50,391</u>	<u>50,391</u>
DISBURSEMENTS:			
Operating	2	-	2
TOTAL DISBURSEMENTS	<u>2</u>	<u>-</u>	<u>2</u>
Excess of Receipts Over (Under) Disbursements	<u>(2)</u>	<u>50,391</u>	<u>50,389</u>
OTHER FINANCING SOURCES (USES):			
Deposits to Permanent School Fund	-	(50,391)	(50,391)
Net Distributive Activity	66	-	66
TOTAL OTHER FINANCING SOURCES (USES)	<u>66</u>	<u>(50,391)</u>	<u>(50,325)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	64	-	64
FUND BALANCES, JULY 1, 2000	<u>27</u>	<u>-</u>	<u>27</u>
FUND BALANCES, JUNE 30, 2001	<u><u>\$ 91</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 91</u></u>

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SERVICE EFFORTS AND ACCOMPLISHMENTS
 Fiscal Years Ended June 30, 1997 through 2001
UNAUDITED

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.

	1997	1998	1999	2000	2001
Financial Institutions:					
State Charters/Licenses of Record:					
Banks	229	225	216	204	198
Credit Unions	35	35	34	30	30
Other Institutions	6	6	6	6	7
Billed Examinations:					
Banks (1)	139	104	100	68	120
Credit Unions (2)	34	35	36	31	32
Other Institutions	5	4	6	6	7
Total Assets State Chartered Financial Institutions	\$ 11,255,410,487	\$ 11,557,699,635	\$ 12,234,321,475	\$ 14,795,167,794	\$ 15,800,583,941
Percent Examined	66%	54%	55%	44%	68%
Billing Charges	\$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	\$0.16 per \$1,000 assets and \$45 per exam hour	\$0.16 per \$1,000 assets and \$45 per exam hour
Number of Examination Hours	25,500	22,346	21,804	18,519	25,372
Other Companies:					
Small Loan Companies	65	61	57	62	56
Sales Finance Companies	201	211	251	259	257
Mortgage Bankers	302	389	509	640	548
Delayed Deposit	29	43	60	89	96
Sale of Checks	18	22	20	22	22
Number of Examination Hours	1,297	1,189	1,197	802	1,519
Billing Charges	\$85 per exam hour				
Total Program 65					
Examination Fees & Assessments	\$ 2,008,369	\$ 2,379,328	\$ 2,488,330	\$ 2,889,298	\$ 3,393,418
Number of Examination Hours	26,797	23,535	23,001	19,321	26,891
Number of Field Examiners					
Full-Time Equivalent (FTE)	25	24	25	24	24
Number of Other FTE	18	17	18	19	19
TOTAL FTE Program 65	43	41	43	43	43
Average Examination hours per Field Examiner FTE	1,072	981	920	805	1,120

(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.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SERVICE EFFORTS AND ACCOMPLISHMENTS
 Fiscal Years Ended June 30, 1997 through 2001
UNAUDITED

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.

	1997	1998	1999	2000	2001
Securities Registrations Issued	10,621	13,349	14,165	17,789	21,232
Authorized for Sale in Nebraska	\$ 4,917,973,597	\$ 5,804,370,252	\$ 5,799,663,765	\$ 7,119,150,972	\$ 8,698,411,020
Securities Enforcement Investigations (3)	76	86	97	87	93
Total Amount of Money Offered or Returned to Investors in Connection with the Settlement of Enforcement Cases (4)	\$ 61,750	\$ 37,023	\$ 2,706,014	\$ 1,716,906	\$ 908,793
Broker Licenses	1,178	1,232	1,311	1,459	1,529
# FTE Program 66	17	17	18	19	19
Transfers to General Fund (5)	\$ 11,000,000	\$ 9,000,000	\$ 9,000,000	\$ 13,000,000	\$ 15,000,000
Transfers to Affordable Housing Trust Fund				\$ 2,000,000	\$ 2,000,000

- (3) Investigations are initiated when an individual or group contacts the Department with the belief that he/she has been defrauded.
- (4) 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.
- (5) The transfers come from the securities registrations and is determined by the dollar amount available from the Department and the dollar amount requested from the Legislature.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

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

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Banking and Finance as of and for the year ended June 30, 2001, and have issued our report thereon dated April 23, 2002. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Banking and Finance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 a certain immaterial instance 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 2 (Employee Meal Reimbursements).

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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Department of Banking and Finance's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Comments Section of the report as Comment Number 1 (Payroll Allocations).

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 the reportable condition described above is not a material weakness.

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

April 23, 2002