

**AUDIT REPORT
OF THE
NEBRASKA ARTS COUNCIL**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA ARTS COUNCIL

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Summary of Comments	3 - 4
Comments and Recommendations	5 - 24
Financial Section	
Independent Auditors' Report	25 - 26
Management's Discussion and Analysis	27 - 30
Basic Financial Statements:	
Agency-wide Financial Statements:	
Statement of Net Assets Arising from Cash Transactions	31
Statement of Activities - Cash Basis	32
Fund Financial Statements:	
Statement of Assets and Fund Balances Arising from Cash Transactions - Governmental Funds	33
Statement of Receipts, Disbursements, and Changes in Fund Balances - Governmental Funds	34
Notes to Financial Statements	35 - 44
Supplementary Information:	
Budgetary Comparison Schedule of Disbursements by Program - Budget and Actual - General Fund	45
Budgetary Comparison Schedule of Disbursements by Program - Budget and Actual - Nebraska Arts Council Cash Fund and Fine Arts Federal Fund	46
Notes to Supplementary Information	47 - 48
Schedules:	
Basic Support Grants	49
Artists in Schools/Communities	49
Multicultural Awareness	50
Nebraska Cultural Preservation Endowment Fund	50
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 <i>Government Auditing Standards</i>	51 - 52

NEBRASKA ARTS COUNCIL

BACKGROUND

The Nebraska Arts Council was created by the 1965 Legislature to improve the State's cultural resources. The act was repealed in 1973 with new legislation creating a Council of 15 members who are appointed by the Governor and approved by the Legislature. The members of the Council are known for their professional competence and experience or long-standing interest in the arts. The Council oversees all agency policy and makes final decisions on grant awards as recommended by review panels. The Council meets four times per year. Members are not paid but are reimbursed for expenses.

The Council promotes the arts, cultivates resources, and supports excellence in artistic endeavors for all Nebraskans by providing grants that support arts activities, developing leadership initiatives, and offering publications and reference services available upon request.

The Nebraska Arts Council is responsible for the Governor's Arts Awards, the Governor's Mansion exhibition program, and administering the One Percent for Art program for the State of Nebraska. The Council collaborates with Mid-America Arts Alliance and other State and/or federal agencies in activities such as Youth Arts Month, cultural tourism products like the arts and music audio guide to Nebraska's Panhandle, international cultural exchanges, and arts policy research for economic development.

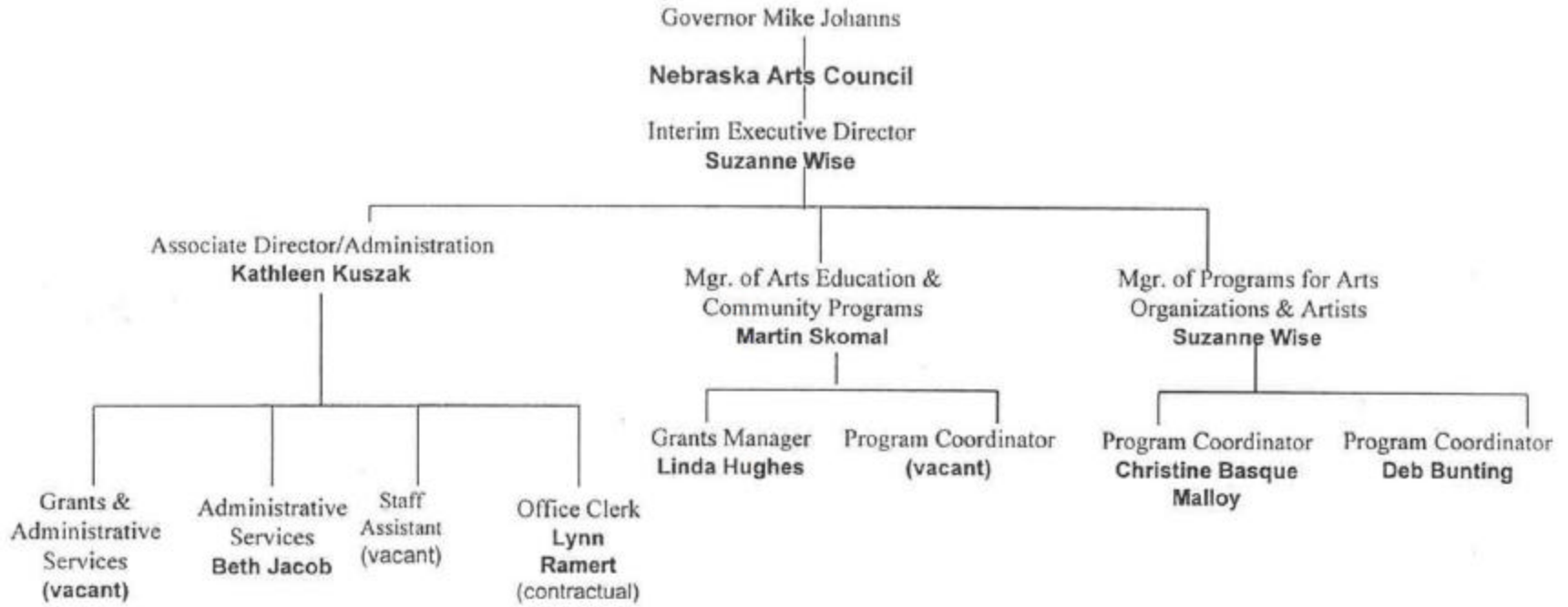
Legislative Bill 799, approved by the Governor April 3, 1998, established a financial partnership between the Nebraska Arts Council and the Nebraska Humanities Council (a private, non-profit organization) and created the Nebraska Cultural Preservation Endowment Fund and the Nebraska Arts and Humanities Cash Fund. The bill required the State Treasurer to transfer five million dollars from the General Fund to the Endowment Fund on August 1, 1998. The bill further provided for all investment earnings from the Endowment Fund to be credited to the Nebraska Arts and Humanities Cash Fund in a ratio of seventy percent to projects, endowments, or programs designated by the Nebraska Arts Council and thirty percent to projects, endowments, or programs designated by the Nebraska Humanities Council.

MISSION STATEMENT

The Nebraska Arts Council is a State agency that promotes, cultivates, and sustains the arts for the people of Nebraska.

NEBRASKA ARTS COUNCIL

ORGANIZATIONAL CHART



NEBRASKA ARTS COUNCIL

SUMMARY OF COMMENTS

During our audit of the Nebraska Arts Council, 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. ***Grant Procedures and Monitoring:*** The Council awarded \$1,468,046 in governmental aid. The Council's overall policy for subrecipient monitoring should be improved. Five of seven grant recipients tested did not submit the final report to the Council as required by Council guidelines.
2. ***Inadequate Documentation for Separation Agreement:*** There was not adequate documentation to support the separation agreement between the Council and the former executive director. Under the agreement, the former executive director was to be paid \$29,294.
3. ***Adequate Supporting Documentation:*** The Council paid \$10,000 in State general funds to the Nebraska Cultural Endowment without adequate documentation to support the payment.
4. ***Travel Expenses:*** There were several issues related to travel expenses of the Council, including an unreasonable expense to a conference in excess of \$9,000, unallowable lodging expenses, inadequate documentation for reimbursement of expenses, unreasonable meal expense reimbursements, and the improper completion of reimbursement request forms.
5. ***Employee Operating Expense Reimbursement:*** One employee purchased office supplies and other items and was reimbursed for the purchases. The employee was reimbursed \$1,180 during fiscal year 2002 and \$8,200 during fiscal year 2001 for these purchases. The purchasing procedures of the Council were not followed.
6. ***Internal Control Over Receipts:*** There was a lack of segregation of duties over the receipt process. The initial log of monies received did not include dollar amounts and was not reconciled with the document to record and post the receipt to the accounting system. Three of five receipts were not deposited within 3 business days as required by statute.
7. ***Separation of State Business/Accounting and Not-for-Profit Activities:*** Council employees provided services to two not-for-profit organizations but did not keep track of their time and did not receive compensation for the services. Additionally, the Council reimbursed a non-State employee for expenses when the not-for-profit organization should have paid the expenses.

NEBRASKA ARTS COUNCIL

**SUMMARY OF COMMENTS
(Concluded)**

8. ***Procedures Over Capital Assets:*** One employee performed almost all functions related to capital assets without review by another employee. Some errors were noted in testing of capital assets.

9. ***Annual Art Inspection:*** The Council did not complete an annual inspection of all works of art purchased under the One Percent for Arts program as required by statute. The total amount of works of art on the inventory listing maintained by the Council was \$1,447,515.

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 Council 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 ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Grant Procedures and Monitoring

The Nebraska Arts Council policies and procedures indicate the Council is required by the National Endowment for the Arts (NEA) to verify the expenditures of subrecipients. OMB Circular A-133, Part 3, Compliance Requirements, Section M, Subrecipient Monitoring, states, "A pass-through entity is responsible for . . . Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements." One of the procedures established by the Council to verify the expenditures of their subrecipients was to perform on-site audits.

The Nebraska Arts Council Grant Book 2001-2002, Grantee Responsibilities, page 7, states, "Grant recipients must complete and submit a Project Evaluation and Financial Report 30 days after the ending of the project or program . . . If an organization doesn't comply with the requirements of this report, it will automatically forfeit the final 10 percent payment of the grant." The report also required the grantee to explain significant variances between the grant application budget and the final report. Program coordinators of the Council review and compare the final report to the application budget to ensure only approved items and services were paid with grant funds; however, actual supporting documentation was not verified.

The process set by the Council in Grant Book 2001-2002 requires receipt of the award contract and disbursement of a portion of the grant prior to the completion of the project.

The Council awarded \$1,468,046 in governmental aid. The following conditions were noted during our testing of government aid payments from the Council:

- The overall plan for subrecipient monitoring should be improved. Subrecipient monitoring can include reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, reviewing the subrecipient's audit results and evaluating audit findings and the subrecipient's corrective action plan. The Council's current plan included reviewing the Project Evaluation and Financial Report (PEFR) for any variances between the budget and final report. On site visits may be performed randomly or on any grantees whose explanation for variances was not adequate. However, there were only three on site visits logged since 1998. Without a stronger policy for subrecipient monitoring to include actual verification of expenditures, the risk of misuse of grant monies increases. This was also a comment in the prior audit of the Council.
- Three of eight subrecipients tested did not have documentation of subrecipient monitoring on file or the monitoring was not performed timely. There was no CPA audit done, no on site audit performed, and no final report was received or the final report was received several months late.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Grant Procedures and Monitoring (Continued)

- Five of seven subrecipients tested did not submit their PEFR within 30 days after the completion of the project. They were not penalized the final ten percent of the grant as indicated in the Grant Book guidelines.
- One of six subrecipients tested was not paid ninety percent of the grant prior to completion of the project. The Council did not receive the award contract until after the project had been completed. There was no documentation to support the Council had requested the contract prior to the completion of the project or had followed up on the receipt of the contract. Without the Council following the guidelines set forth in the Grant Book, there is an increased risk of misuse of the federal grant awarded.
- One of six subrecipients tested did not have the 10 percent withheld on a grant award until the project was completed. The subrecipient was the Mid America Arts Alliance, who received a set deadline grant in the amount of \$65,000. The Council paid the full amount to the subrecipient prior to the completion of the project. The Council indicated they did not find it necessary to withhold the 10 percent due to the close relationship with the subrecipient. However, there were no exceptions to the guideline indicated by Council policy or otherwise.

We recommend the following:

- The Council should improve their subrecipient monitoring policy. The policy should include risk factors associated with the type of awards given, such as the size of the grant award, the number and frequency of awards given to the grantee, other knowledge about the grantee operations, etc. Subrecipient monitoring can include reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, and reviewing the subrecipient audit results and evaluating audit findings and the subrecipient's corrective action plan. Any subrecipient monitoring procedures should be documented. The overall subrecipient monitoring policy should be reviewed by the Council annually.
- The Council should ensure appropriate subrecipient monitoring is performed on all grants awarded and is performed timely.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Grant Procedures and Monitoring (Continued)

- The Council should implement procedures to ensure the guidelines in the Grant Book are followed and to ensure the subrecipients are penalized the final 10 percent payment of the grant when the final report is not received when specified.
- The Council should develop procedures to ensure the grant process flows according to the guidelines set forth in the Grant Book so that 90 percent of the grant is paid prior to completion of the project. The Council should also maintain documentation to support any contact with the subrecipient when the guidelines are not followed.
- The Council should follow the guidelines established in the Grant Book and withhold the required 10 percent of the award until completion of the project.

Council's Response: The Nebraska Arts Council (NAC) works with all grantees to ensure the Project Evaluation & Final Report be completed after the event. The PEFR is due 30 days after the end of the event. Time extensions are given to grantees to finish the project and necessary PEFR after the original grant period has ended. Time expectations are a normal process and are recorded in the Grants Accounting System maintained by the NAC. Grantees have to request all time extensions in writing and that documentation becomes part of the grant file.

The NAC will not process any payments for grants until the organization returns a notarized signed contract. Payments will be processed after the contract is returned and this may occur after the event takes place. The NAC feels this control is necessary to ensure the grantee's board and authorizing official agree upon requirements of the grants before payment is made. The NAC has no control over when an applicant signs and returns the contract.

Mid- America Arts Alliance (MAAA) and Nebraska Educational Television grants are classified as Special Grants and not subject to the rules and regulations as outlined in the Grant Book. The Nebraska Arts Council board approves these grants and the grant award payment is processed in full immediately after approval. To ensure compliance, recipients of Special Grants are required to submit annual audits with their applications. MAAA submitted the required audit in a timely manner and this report serves as proof that the organization is completing all the programs and services in respect to the partnership between the NAC and MAAA. In addition MAAA submits a PEFR upon completion of their grant period to provide the statistical information needed to be in compliance with the National Endowment for the Arts grant requirements.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. **Grant Procedures and Monitoring** (Concluded)

Auditors' Response: Considering the amount of aid awarded by the Council, as noted above, it is important the Council improve their overall plan for monitoring subrecipients and document the actual policy approved by the Council. Any subrecipient monitoring performed by Council staff should be adequately documented.

If a 30-day period for submitting the final report is not practical, resulting in time extensions and the lack of enforcement of penalties in accordance with the Grant Book, the Council should consider whether the requirements set forth in the Grant Book need revision.

Finally, if there are known exceptions to the requirements in the Grant Book, such as not withholding the 10% for all grants awarded, the Council should adequately document the procedures regarding the entities that do not follow the written grant guidelines.

2. **Inadequate Documentation for Separation Agreement**

Good internal control requires procedures and records designed to provide reliable financial information.

Article III, Section 19 of the Nebraska Constitution applies to the State and its political subdivisions and states that the Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered.

The former executive director terminated employment effective June 7, 2002. The Council and the former executive director entered into a separation agreement to pay the former executive director \$29,294, which is equivalent to the former executive director's regular salary from June 8, 2002 through October 31, 2002. Although there was a signed agreement between the parties, there was no documentation to support the reason for the agreement or to determine whether the amount paid was reasonable.

Without adequate documentation to support the payment, it is unclear whether the payment is a legal payment under the Nebraska constitution.

We recommend the Council maintain adequate documentation to support any amounts paid to employees or former employees. The documentation should be maintained and available for auditor review.

Council's Response: The Council takes note of the Auditors recommendation, and will consider the recommendation for the future.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

3. Adequate Supporting Documentation

Good internal control requires procedures and records designed to safeguard assets and provide reliable financial information.

The Council paid \$10,000 in State general fund money to the Nebraska Cultural Endowment (NCE), a not-for-profit corporation, for NCE expenses that exceeded the amount it received in grants and contributions. The NCE had expenses \$50,000 greater than the grants and private contributions it received. There was not adequate documentation to support the payment.

Without adequate documentation to support amounts paid by the Council, there is an increased risk of loss or misuse of State funds.

We recommend the Council implement procedures to ensure adequate documentation is maintained for all payments.

Council's Response: The NAC and the Nebraska Humanities Council (NHC) agreed to support the first three years of the Nebraska Cultural Endowment (NCE). The support was estimated at \$50,000. The same ratio was used to calculate the support as outlined in the legislation for disbursement of revenue funds. 70% of the support was the NAC's responsibility and 30% was allocated from the NHC. The NHC paid the \$15,000 directly to the NCE the first year. The NAC's obligation was \$35,000 and paid out over a period of three years as outlined in the Nebraska Arts Council financial statements. The \$10,000 referenced above was the NAC's final obligation to the NCE. In the future, a separate contract and documents will be used to explain all payments and will be signed by all entities to ensure a clear audit trail is available.

4. Travel Expenses

We noted several issues related to travel expenses of the Council as follows:

Unreasonable Annual Conference Expenses

Sound business practice requires policies to ensure State funds are used efficiently. These policies would include the Council approval of staff travel.

Six of twelve Council employees and two Council members attended an annual conference in New York City from July 26 through July 31, 2001 at a total cost of \$9,216.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. **Travel Expenses** (Continued)

A breakdown of the funding for the conference cost is as follows:

State General Fund	\$	6,472
Federal Funds		2,601
Arts Council Trust Funds		143
Total	\$	<u>9,216</u>

The Council did not pre-approve travel for any of its staff members throughout the year.

Without adequate policies to ensure State funds are used efficiently, there is an increased risk of misuse of State funds.

We recommend the Council implement policies to ensure State funds are used efficiently. The Council should consider the need to pre-approve all employee out-state travel to ensure it is an efficient use of State money.

Unallowable Lodging Expenses

Department of Administrative Services Accounting Division's (DAS Accounting) Nebraska Accounting System (NAS) Manual Concept 005, Travel Expense Policies, Section 4, states, "It is DAS Accounting policy that a person must be more than 60 miles from his or her workplace in order to be eligible for lodging." Good internal control requires adequate pre-audit procedures to ensure DAS Accounting policies related to travel expenses are complied with and to ensure travel expenses are an efficient use of State funds.

Three of nine travel documents tested contained lodging for Council members or Council employees who were not more than 60 miles from their workplace.

- The first document reimbursed ten Council members or Council employees \$99 each for lodging at the Lied Conference Center in Nebraska City. Five of the ten members or employees were less than 60 miles from their workplace. Three were from Omaha. Two were from Lincoln. The total reimbursed to employees who were less than 60 miles from their workplace was \$495.
- The second document reimbursed four Council members \$89 each for lodging at the Cornhusker Hotel in Lincoln. One of the four Council members was less than 60 miles from his hometown of York.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses (Continued)

- We also noted one staff member from Omaha stayed in Lincoln for one night. The employee's lodging was paid by the Council.

Without adequate pre-audit procedures to ensure expense reimbursement requests are in accordance with DAS Accounting policies, there is an increased risk of misuse of State funds.

We recommend the Council review its travel policies to ensure they comply with DAS Accounting policies. We also recommend the Council review its pre-audit procedures to ensure the procedures are functioning as intended, which is to ensure State funds are expended in accordance with appropriate policies and to ensure an efficient use of State funds.

Inadequate Documentation

The NAS Manual Concept 005 describes the State's accountable plan; the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. 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, place (e.g. city) or description, and purpose for each expense or meal/food cost. The NAS Manual Concept 005 also requires original receipts as support for all expenditures, except meals and immaterial items identified by the Director of DAS. The requirement to provide receipts includes, but is not limited to, lodging, car rental, commercial travel, and registration fees. The requirement is an internal control feature to guard against duplicate claims.

Good internal control also requires adequate pre-audit procedures to ensure the required documentation is available prior to the payment of claims for reimbursement of expenses.

Three of five employee expense reimbursement documents tested did not contain adequate documentation for certain travel expenses:

- The Executive Director was reimbursed \$80 for a registration fee in which no receipt or after-the-fact documentation was provided.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses (Continued)

- One employee was reimbursed \$15 in miscellaneous receipts, but did not indicate what the charges were for on the expense document. Additionally, the dates of travel listed on the expense document for one trip did not agree to the documentation provided to support the trip. The purpose of the same trip was not adequately supported. After the auditor inquired about the trip, the employee provided a more detailed written description of the trip.
- One employee was reimbursed for a transportation expense of \$55; however, there was no documentation to support the expense. Additionally, the same employee was reimbursed for 68 miles, or \$23, for which there was not adequate documentation. The points between the travel and the destination and arrival time were not documented on the request for reimbursement. Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 states, “When reimbursement is requested for mileage by automobile . . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be shown on such request.” Additionally, the request for reimbursement appeared to be for one trip; however, the purpose of the trip was not indicated on the request for reimbursement.

Without adequate pre-audit procedures to ensure expense reimbursement requests are in accordance with DAS Accounting policies or State statutes, there is an increased risk for misuse of State funds.

We recommend the Council review its pre-audit process to ensure the pre-audit function is designed and operating effectively. This would include ensuring the pre-audit staff are aware of all applicable laws and regulations related to the payment of an employee’s requests for reimbursement of expenses. We also recommend the Council require its employees to submit adequate documentation for the payment of employee expenses.

Unreasonable Meal Expenses

The NAS Manual also includes the guidelines for agencies’ pre-audit procedures. The NAS Manual PREA-003 identifies specific items to review including:

- Particulars – Identifies the reason for travel and the to and from travel destination.
- Time started/stopped – If meals are being reimbursed the time the travel began and ended for each trip needs to be entered.
- Breakfast may be reimbursed to an employee if leaving for travel on or before 6:30 a.m.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses (Continued)

Good internal control requires procedures to ensure meals are not reimbursed to employees when provided by a conference or seminar attended by the employee and that reimbursement for meal expenses are reasonable and valid expenses. If receipts are required by the Council to support meal expenses, good internal control requires detailed receipts.

All five expense reimbursement documents tested contained unreasonable meal expenses, or meal expenses without adequate documentation.

- The Executive Director was reimbursed for the following unreasonable meal expenses:
 1. A \$22 dinner was reimbursed in Lincoln on January 30, 2002 to attend the Governor's Arts Awards. The Governor's Arts Awards invitation indicated the awards were from 10:30 a.m. to 1:30 p.m. on Wednesday, January 30, 2002. We also noted there was a Council meeting the day after the awards. The \$22 dinner expense was not reasonable based on the time of the travel.
 2. We also noted the Executive Director was reimbursed for a breakfast at a seminar in Phoenix. Per the seminar agenda, a continental breakfast was provided.

- One employee was reimbursed for the following unreasonable expenses:
 1. The document tested contained nine meal receipts. Three of the nine receipts did not contain adequate documentation to support the expense, as the employee only submitted the credit card total and not an itemized receipt. Good internal control requires detailed receipts to ensure the expenses are reasonable and allowable. The total of the three receipts was \$45.
 2. The same employee was reimbursed for two meals for one day during an annual conference. The agenda for the conference indicated breakfast and lunch were provided for the same day. Therefore, only a dinner should have been reimbursed to the employee. The total of the lunch claimed was \$7.

- One employee was reimbursed for the following unreasonable meal expenses:
 1. Two meals were reimbursed on a day in which lunch and dinner were provided in connection with a conference the employee attended. The employee was reimbursed \$17 for a dinner that night. Only one meal should have been reimbursed.
 2. Additionally, of seven meal receipts provided as documentation, four of the receipts did not contain adequate documentation to support the expenses, as only the amount billed was provided. Again, good internal control requires detailed receipts to ensure the expenses are reasonable and allowable. The total of the four receipts was \$83.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses (Continued)

- One employee was reimbursed for the following unreasonable meal expenses:
 1. A \$10 breakfast was not allowable per the NAS Manual. The employee had a meeting in Lincoln at 8 a.m. NAS Manual Concept 005 states that the employee must leave for one-day travel prior to 6:30 a.m. or 1 ½ hours before the employee's shift begins, whichever is earlier, in order to qualify for reimbursement for one-day travel.
 2. The same employee included seven meal receipts with the expense reimbursement document. Two of the seven meal receipts were torn and the actual date of the receipt was not available. The employee had hand-written a date on the receipt. The total of the two receipts was \$36. Another two receipts did not contain adequate documentation to support the expenses as only the credit card receipt for the meal was provided. One of these credit card receipts deducted an amount from the reimbursement request listed as an alcoholic beverage. However, there was no documentation to support the amount of alcohol deducted from the bill to determine whether any alcohol was reimbursed. Good internal control requires detailed receipts to ensure the expenses are reasonable and allowable. The total of these two receipts was \$47.
 3. The employee also was reimbursed for lunch on two days in which lunch was provided at a conference in the amount of \$27.
- One employee was reimbursed for three meals, which were provided by the conference attended. The total of the three meals was \$24.

The risk of misuse of State funds greatly increases without adequate pre-audit procedures to ensure expenses for meal reimbursements are reasonable and in accordance with DAS Accounting policies.

We recommend the Council review its procedures related to meal expense reimbursements to ensure the policies of the Council reflect the policies defined by DAS Accounting in the NAS Manual. A significant control would be to require itemized receipts to document meal expenses of its employees. We also recommend the Council review its pre-audit process to ensure the procedures are designed and operating effectively. Again, this would include ensuring the pre-audit staff are aware of all applicable laws and regulations related to the payment of an employee's requests for reimbursement of expenses.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. **Travel Expenses** (Continued)

Reimbursement Requests Not Properly Completed

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 requires State employees to present a request for reimbursement each month that is fully itemized, including when, where, and why the expense was incurred and the actual amount involved. The statute states, “When reimbursement is requested for mileage by automobile . . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be shown on such request.”

Good internal control requires procedures to ensure expense reimbursement documents are completed in accordance with State statutes in order to determine whether expenses claimed for reimbursement are allowable.

Three of five employee travel reimbursement documents tested were not completed in accordance with statutes.

- The Executive Director included a request for reimbursement for expenses for three trips. The document did not include departure and arrival times for two of the three trips. Reimbursement for mileage was requested on the document for one trip and reimbursement for meals was requested on the document for another trip.
- One employee included a request for reimbursement of expenses for two trips. The document did not contain departure and arrival times for either of the trips. The employee requested reimbursement of \$40 for meals on the days she actually traveled.
- One employee included a request for reimbursement of expenses for one trip. The document did not include the departure or arrival time for the trip or the purpose of the travel. The employee was reimbursed \$77 on days she actually traveled.

Without departure and arrival times listed on the request for reimbursement document, the pre-audit staff would be unable to determine whether all meals claimed for reimbursement were allowable.

We recommend the Council remind its employees of the requirement of statute regarding the completion of the expense reimbursement documents. We also recommend the Council review its pre-audit process to ensure the procedures are designed and operating

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

4. Travel Expenses (Concluded)

effectively. Again, this would include ensuring the pre-audit staff are aware of all applicable laws and regulations related to the payment of an employee's requests for reimbursement of expenses.

Council's Response: In July 2001, the National Association of State Arts Agencies (NASAA) and Americans for the Arts held a joint conference for their members. The NAC is a member of both agencies and sends staff to these conferences each year. Normally, NASAA meets in the fall, and Americans for the Arts meets during the summer in different locations. These organizations are the professional associations for arts administrators, and attendance at annual meetings provide staff with the tools they need to effectively administer grants and agency programs for constituents.

Six staff members attended this joint conference in New York. Each staff member attended different peer group sessions. Some staff members, as part of their peer group, were required to attend pre-conference sessions. Staff shared rooms to help reduce the costs. The average cost per staff member was \$1,500 for professional development directed at each staff member's responsibilities and requirements of their position.

All NAC board meetings are scheduled over a two-day period. The first evening, a social event and/or performance are organized for the board by the staff and hosting community. The event usually ends after nine o'clock in the evening. If staff and council members are required to travel back to their home, additional costs will be incurred, such as mileage reimbursement and staff working overtime. The Nebraska Arts Council board members serve as public servants and receive no compensation for the many hours they serve as ambassadors for the State of Nebraska. The NAC will continue to do costs analysis on all expenditures to provide the most cost effective delivery of services to our grantees. (FYI: A major snowstorm occurred in Lincoln making travel dangerous between Omaha, York and Lincoln for the meeting held at the Cornhusker.)

The NAC will review travel and reimbursement policies with the entire staff. Pre-audit procedures will be reviewed to ensure that all reimbursements comply with DAS Accounting policies and the proper documentation is retained as part of the document.

Auditors' Response: There was no cost analysis provided to the auditors, at the time of the audit, regarding any of the travel documents tested. When a cost analysis is performed, the documentation should be maintained for subsequent inspection.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

5. Employee Operating Expense Reimbursement

Good internal control requires procedures to ensure only authorized individuals are allowed to make purchases with State funds. Council policy also requires three bids for printing jobs.

One employee of the Council purchased office supplies and other items and was reimbursed for the purchases, including sales tax. The Council did not ensure these items purchased were actually used by the Council. The items purchased by the employee should have been purchased under the Council's normal purchasing procedures without the incurrence of sales tax. Some of the purchases were for printing expenses, and there was no documentation the required three bids were obtained.

The employee was reimbursed \$1,180 for office supplies and other operating expenses from the Council in fiscal year 2002 and \$8,200 for office supplies and other operating expenses from the Council in fiscal year 2001. We reviewed 2 of 11 reimbursement documents in fiscal year 2002 and noted \$14 in sales tax paid on the two documents.

Without adequate procedures related to purchasing of supplies, there is an increased risk of loss or misuse of State funds.

We recommend the Council implement and enforce purchasing procedures for its employees. Only authorized individuals should make purchases on behalf of the Council.

Council's Response: The NAC was approved in FY02 for the State Purchasing Card. In the future expenditures will be made with this purchasing card and the NAC will enforce purchasing procedures as stated in the State Purchasing Agreement.

The employee mentioned above was administering funds from a private foundation for a specific project totaling \$255,667 in FY01. Providing School Resources of \$30,000 was allowable for the program. Resources of this nature are available at bookstores and art supply vendors. The majority of the expenditures for FY2001 were provided to the participating schools or to fulfill the requirements of the program as established and required by the private foundation.

Auditors' Response: The Council should specifically document those employees excluded from the Council's regular policies regarding purchasing procedures, for example, those who administer private foundation projects, and should implement procedures specific to those individuals. Otherwise, the Council should require all employees to follow the same policies regarding purchasing. If appropriate policies are not followed, the risk that items will be purchased and not be used for the business of the Arts Council increases.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

6. Internal Control Over Receipts

Good internal controls require 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.

Neb. Rev. Stat. Section 84-710 R.R.S. 1999, states deposits made to the State Treasurer are required to be made “within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.”

During our testing of receipts we noted the following:

- One person was responsible for opening the mail, preparing an initial listing of money received, preparing the receipt, preparing the bank deposit slip, and making the deposit at the bank. Without proper segregation of duties, a single individual may be in a position to both perpetrate and conceal errors or irregularities.
- The initial listing of monies received did not include the dollar amount received. Without the dollar amount included in the receipt log, there is no way to determine whether the proper amount was posted to the State accounting system.
- Checks were not endorsed “For deposit only to the State Treasurer” when opened. The risk of loss or misuse of State funds increases for checks that are not immediately endorsed.
- No comparison was made between the document used to record cash receipts and the initial listing of monies received. Without this comparison, there is an increased risk that a receipt would not be properly deposited.
- Three of five receipts tested were not deposited to the State Treasurer within three business days as required by Statute. One deposit, totaling \$1,168, was not deposited for 10 business days. Another deposit, totaling \$1,320, was not deposited for 6 business days. A third, totaling \$1,055, was not deposited for 5 business days. Without timely deposits to the State Treasurer interest earned on State funds is lost and the Council is not in compliance with State statute.
- Reimbursements received for the One Percent for the Arts project were not properly recorded as receipts. The Council recorded \$1,309 in reimbursements from other State agencies as a negative disbursement. Without adequate procedures to ensure the amounts received are properly recorded, there is an increased risk for misstatement of financial information.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

6. **Internal Control Over Receipts** (Concluded)

We recommend the following:

- At least one other person is involved in the receipt process to ensure a single individual is not in a position to both perpetrate and conceal errors or irregularities.
- The dollar amount of the receipt is included on the initial listing of monies received in order to determine whether the proper amount posted to the State accounting system.
- Checks are endorsed "For deposit only to the State Treasurer" as soon as the mail is opened.
- A comparison of the document used to record cash receipts is made to the initial listing of monies received.
- The Council implement procedures to ensure all monies received are deposited promptly as required by State statute.
- The Council implement procedures to ensure reimbursements from other State agencies are properly recorded as receipts.

Council's Response: The NAC will ensure that deposits are made within 3 days for amounts over \$500.00. During fiscal year 2002 the NAC receipted 228 payments due the NAC. 197 of the receipts were for the Governor's Arts Award event held in January. These receipts were balanced back to the GAA database for over 450 participants and to make table assignments at the Governor's Arts Awards. The GAA Data base is compared back to the receipt book weekly during this registration process. The receipt # is recorded in the database for the ease of balancing. Deposits were made at the least once a week during this time. This event represents 86% of the total receipts for the agency. This database also tracks the accounts receivables to the NAC for this event. The NAC has very good internal controls in place when the volume of activity is high. The NAC will initiate additional steps to record amounts in the mail log during off-peak times to ensure proper control of the receipts.

Auditors' Response: The GAA database is not the official accounting system for State funds. The Council should ensure all monies are properly deposited to the State accounting system. This would include a proper segregation of duties, as well as many of the other recommendations mentioned above.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

7. Separation of State Business/Accounting and Not-For-Profit Activities

Good internal control requires adequate procedures to ensure activities and duties performed by Council staff for not-for-profit organizations are adequately documented to enable the Council to appropriately charge the not-for-profit organizations for the cost of services provided.

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 and NAS Manual Concept 005 detail the procedures for reimbursement of expenses of State employees.

During our testing we noted the following:

- Council employees performed various administrative duties for the Nebraska Cultural Endowment (NCE) and the Nebraska Endowment for the Arts (NbEA). These entities are not-for-profit organizations. The NCE is a discretely presented component unit of the Council. The NbEA is a blended component unit of the Council. Employees did not document the amount of time spent related to the not-for-profit organizations and were not compensated for the services provided. The Council did not have a policy relating to the services provided to not-for-profit organizations by Council employees. The policy should ensure the employees complete their regular work hours and duties for the Council. Without policies and procedures to ensure proper documentation of time worked on the not-for-profit organizations, there is an increased risk of misuse of State funds or resources.
- The Interim Director included reimbursement for a non-State employee on two of her expense reimbursement documents. The NbEA actually paid the expenses of the non-State employee for one of the documents. However, the Council paid a registration fee and airfare for the non-State employee in the amount of \$489 with State general funds. In discussion with Council staff, it was noted the NbEA should have paid this expense as well. Without procedures to ensure the Council does not reimburse non-State employees for expenses, there is an increased risk of misuse of State funds.

We recommend the Council:

- Establish a policy to ensure employees work the regular hours of Council staff. This policy should include procedures to ensure duties performed by Council staff for the not-for-profit organizations are adequately documented.
- Implement procedures to ensure non-State employee expenses are not reimbursed by the Council. This should include a policy to maintain clearly separate accounting for these organizations.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

7. **Separation of State Business/Accounting and Not-For-Profit Activities** (Concluded)

Council's Response: Staff members providing services to the two not-for-profit organizations will record their time when they provide services to these organizations.

8. **Procedures Over Capital Assets**

Good internal control requires a proper segregation of duties so no one individual is capable of handling all phases of a transaction. Good internal control also requires a review of the history report from the Statewide Inventory System (SWIS) to ensure all transactions were authorized.

NAS Manual ACC-005 defines capital outlay as expenditures that result in the acquisition of or addition to capital assets. Items that are purchased at a value below the council capitalization policy of \$500 should be coded as an operating expense in NAS.

Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states that all agencies are required to submit an annual inventory of all State property in their possession, custody, or control as of June 30 of each year. Good internal controls require items to be added to SWIS in a timely manner.

The SWIS Users Manual issued by DAS Materiel Division, dated June 15, 1998, states that whenever any property cannot be located and is presumed to be missing or stolen, the DAS Materiel Administrator is to be notified in writing within 10 days of discovery.

Neb. Rev. Stat. 81-1118.02(3) R.R.S. 1999 requires each State agency to indelibly tag, mark, or stamp all such property belonging to the State with "Property of the State of Nebraska."

The following conditions were noted during our testing of capital assets:

- One employee performed almost all functions related to capital assets. This employee maintained the records, added items and deleted items, and helped another employee complete the physical inventory. There also was no review of the history report of all SWIS transactions to ensure all transactions were authorized. There is an increased risk of loss or misuse of State assets without a proper segregation of duties.

This was also a comment in the fiscal year 2000 audit report. At that time, the Council responded that the Grants Officer would become responsible for reviewing the 4800 series on the general ledger on a monthly basis to lessen the risk of errors and monitor the input of information to SWIS. It did not appear this procedure was implemented.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

8. Procedures Over Capital Assets (Continued)

- There was no independent review to ensure all capital assets purchased were included on the SWIS listing. Seven items totaling \$4,370 either were not added, or were not added at the correct amount. There is an increased risk of misstatement of capital assets without procedures to ensure all items are added to the listing and added in the correct amount.
- Three items totaling \$7,266 were not added to the capital asset listing until the fiscal year subsequent to purchase. The Council updates the capital asset listing once a year. There is an increased risk of misstatement of capital assets or of loss or misuse of State assets if the listing is not updated timely.
- One of five items tested from the capital asset listing was not located. The item, a 35mm camera purchased for \$468, had been declared missing. There were also two other items, totaling \$834, identified as missing. None of the items had been reported to the DAS Materiel Administrator nor were they removed from SWIS. There is an increased risk of loss or misuse of State assets without procedures to ensure compliance with State statutes.
- Two of nine items tested were not properly tagged “Property of the State of Nebraska.” These items were a fax machine for \$545 and a digital camera for \$1,716. All 17 items available for Council staff to check out had incomplete tag numbers, and four of the 17 were not identified as property of the State of Nebraska. The risk of loss or misuse of State assets also increases without procedures to properly identify assets.

We recommend the following:

- An independent review of the SWIS history report should be performed to ensure an appropriate segregation of duties and to ensure all transactions were authorized.
- An independent reconciliation of the capital outlay purchases on NAS to the additions on the SWIS listing should be completed to ensure all capital outlay purchases were added to the listing in the correct amount. In addition, only purchases of capital assets, excluding software, should be coded to capital outlay account codes in NAS and added to the capital asset listing. Items that do not fall into this category should be coded to office supplies expense.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

8. **Procedures Over Capital Assets** (Concluded)

- Capital outlay items purchased should be added to the capital asset listing in a timely manner, particularly during the fiscal year of purchase.
- The Council should comply with State statute by notifying the DAS Materiel Administrator within 10 days of declaring an item missing. The Council should also ensure inventory is properly tagged "Property of the State of Nebraska."

Council's Response: Due to staff reductions in the administrative area, the procedures will need to be reviewed. The NAC board members at the quarterly board meeting on September 14, 2001 approved the change for the NAC's Inventory Procedures. The NAC will incorporate the revised Inventory Procedures in the job descriptions for staff members.

9. **Annual Art Inspection**

Neb. Rev. Stat. Section 82-329 R.R.S. 1999 requires the Council to maintain an inventory of all works of art purchased under the One Percent for the Arts project and to inspect each work of art at least once each calendar year to determine its condition.

The Council did not inspect each work of art purchased as required by statute on a calendar year basis. The Interim Director noted some works of art maintained on the inventory list were inspected, but no documentation to support the inspection was maintained. The total amount of art maintained on the inventory list was \$1,447,515.

Without an annual inventory and inspection of the art, the risk of loss of the art increases. In addition, the Council is not in compliance with State statute.

We recommend the Council implement procedures to ensure an inspection is performed on all art included in the statutes noted.

Council's Response: The duties of administering the 1% for Art program comprises .25 FTE of a program staff position. Since the 1% for Art legislation was passed in 1978, the state inventory has grown to over 250 works in over 40 locations from Chadron to Omaha. The NAC practices spot inspections annually. The methodology for selecting a work to inspect is based on other NAC business travel plans to maximize employee and agency resources. Approximately 40 works of art are inspected each year. The NAC advises client agencies on appropriate care of

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

9. **Annual Art Inspection** (Concluded)

Council's Response, Concluded:

artworks and appropriate security measures to be taken with art. The legislation has not provided the NAC with any duty other than to "inspect", so that ensuring proper care and security of artwork is the responsibility of the client agency.

The NAC agrees that an annual inspection of all works to comply with current statute is an activity that the agency will strive to achieve. However, given the disparity between the time required to complete the activity and the staff available to undertake the activity at that level of completion, the current compromise situation of annual random inspections will continue while a new solution to the dilemma is sought.

Auditors' Response: Documentation should be maintained for inspections performed on works of art relating to administering the 1% for Art program.

Overall APA Response: Many of the Council's responses did not address all of our recommendations. The Council should consider all of the recommendations included in this report.

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NEBRASKA ARTS COUNCIL

INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Arts Council (Council), as of and for the year ended June 30, 2002, which collectively comprise the Council's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Nebraska Cultural Endowment, a discretely presented component unit, and the Nebraska Endowment for the Arts, a blended component unit of the Nebraska Arts Council, which represent all of the discretely presented component unit and 57 percent and 5 percent, respectively, of the total assets and receipts of the governmental funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nebraska Cultural Endowment and the Nebraska Endowment of the Arts, is based on the report of the other auditors.

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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Arts Council are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Arts Council. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Arts Council, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2002, on our consideration of the Nebraska Arts Council'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules, except for that portion marked "unaudited," on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 12, 2002



Assistant Deputy Auditor

NEBRASKA ARTS COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Arts Council's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Arts Council for the fiscal year ended June 30, 2002. Please read it in conjunction with the Council's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Arts Council's basic financial statements. The Council's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Council's overall financial status. Over time, increases or decreases in the Council's net assets are one indicator of whether its financial health is improving or deteriorating. The Council's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Council. Nonfinancial factors also need to be considered to assess the overall health of the Council. Agency-wide financial statements divide the Council into three kinds of activities:

Governmental activities – The Council's basic services are included here. These activities are generally financed through charges for services and Federal grants.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Council had no business-type activities for fiscal year ended June 30, 2002.

Component units – The Council has a discretely presented component unit, the Nebraska Cultural Endowment, and a blended component unit, the Nebraska Endowment for the Arts included in its financial statements.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Council, reporting the Council's operations in more detail than the agency-wide statements by providing information about the Council's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Council currently has no proprietary funds.

NEBRASKA ARTS COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

Fiduciary fund statements provide information about financial relationships in which the Council acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Council currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as a schedule of performance measures. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Arts Council's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE COUNCIL AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Council (current assets resulting from cash basis transactions) decreased 42 percent.

NEBRASKA ARTS COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE COUNCIL AS WHOLE (Continued)

	Governmental Activities		% Change
	2002	2001	
Restricted	\$ 10,597	\$ 11,209	-5%
Unrestricted	148,661	264,101	-44%
Total Net Assets	\$ 159,258	\$ 275,310	-42%

Governmental Activities

Receipts for the Council's governmental activities decreased 15 percent, while expenses decreased 17 percent.

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities		% Change
	2002	2001	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 91,718	\$ 520,793	-82%
Operating Grants & Contributions	632,578	440,166	44%
General Receipts:			
Appropriations	1,394,434	1,529,029	-9%
Investment Interest	5,748	21,413	-73%
Total Receipts	2,124,478	2,511,401	-15%
DISBURSEMENTS:			
Culture - Recreation	2,305,535	2,776,457	-17%
Total Disbursements	2,305,535	2,776,457	-17%
Excess (Deficiency) before Other Financing Sources and Uses			
	(181,057)	(265,056)	-32%
OTHER FINANCING SOURCES & USES			
	65,005	112,045	-42%
Increase (Decrease) in Net Assets	(116,052)	(153,011)	-24%
Beginning Net Assets July 1	275,310	428,321	-36%
Ending Net Assets June 30	\$ 159,258	\$ 275,310	-42%

NEBRASKA ARTS COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE COUNCIL AS WHOLE (Concluded)

The program receipt category, Charges for Services, decreased as a result of two major factors. The first was the completion of the project Transforming Education Through Academic Curriculum (TETAC), which was funded by a private foundation. During fiscal year 2001, the Council received over \$255,000 for TETAC. The second major factor was the receipts from the Nebraska Cultural Endowment to the Nebraska Endowment for the Arts, a blended component unit of the Council, decreased over \$159,000 from fiscal year 2001.

Operating Grants and Contributions increased significantly due to the increase in federal funds received in fiscal year 2002. The increase in federal funds, in an amount in excess of \$161,000, was simply a result of the timing of the drawdown requests between the two years.

The beginning net assets decreased due to the decrease in the beginning net assets of the Council's Trust Fund. As noted, a major project (TETAC) ended during fiscal year 2001. Also as noted, the Receipts in the Trust Fund decreased over \$255,000 between the fiscal years. However, during fiscal year 2001, the disbursements in the Trust Fund were in excess of \$448,000 causing the significant drop in the net assets available at the beginning of fiscal year 2002.

FINANCIAL ANALYSIS OF THE COUNCIL'S FUNDS

As noted earlier, the Nebraska Arts Council uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. No significant changes from the prior year were noted.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Arts Council.

NEBRASKA ARTS COUNCIL
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	Primary Government	Component Unit
	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)	Nebraska Cultural Endowment
Assets		
Cash	\$ 157,269	\$ 50,273
Petty Cash	250	-
Deposit with Vendors	1,739	-
Investments (Note 2)	-	125,459
	-	125,459
Total Assets	\$ 159,258	\$ 175,732
Net Assets		
Restricted for:		
Expenses incident to conferences, performances, or exhibitions sponsored by the Council	\$ 10,597	\$ -
Unrestricted	148,661	175,732
Total Net Assets	\$ 159,258	\$ 175,732

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

NEBRASKA ARTS COUNCIL
STATEMENT OF ACTIVITIES - CASH BASIS
 June 30, 2002

	Primary Government	Component Unit
	Culture-Recreation Function TOTAL (Memorandum Only)	Nebraska Cultural Endowment
Disbursements:		
Personal Services	\$ 507,717	\$ -
Operating	290,811	132,935
Travel	22,400	-
Capital Asset Purchases	16,561	-
Government Aid	1,468,046	-
Total Disbursements	2,305,535	132,935
Program Receipts:		
Charges for Services	91,718	-
Operating Grants & Contributions	632,578	174,597
Net Program Receipts (Disbursements)	(1,581,239)	41,662
General Receipts and Other Financing Sources & Uses:		
Appropriations	1,394,434	-
Unrestricted Investment Interest	5,748	-
Other Financing Sources & Uses	65,005	-
Total General Receipts and Other Financing Sources & Uses	1,465,187	-
Change in Net Assets	(116,052)	41,662
Net Assets July 1, 2001	275,310	134,070
Net Assets June 30, 2002	\$ 159,258	\$ 175,732

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

NEBRASKA ARTS COUNCIL
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Funds					Other Fund	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Arts Council Cash Fund 2690	Fine Arts Federal Fund 4691	Arts Council Trust Fund 6691	Nebraska Endowment for the Arts Cash Fund	Nebraska Arts & Humanities 2692	
Assets							
Cash	\$ -	\$ 10,597	\$ 20,623	\$ 34,923	\$ 91,108	\$ 18	\$ 157,269
Petty Cash	250	-	-	-	-	-	250
Deposit with Vendors	1,739	-	-	-	-	-	1,739
Total Assets	\$ 1,989	\$ 10,597	\$ 20,623	\$ 34,923	\$ 91,108	\$ 18	\$ 159,258
Fund Balances							
Reserved for:							
Postage	\$ 1,739	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,739
Unreserved	250	10,597	20,623	34,923	91,108	-	157,501
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	-	-	18	18
Total Fund Balances	\$ 1,989	\$ 10,597	\$ 20,623	\$ 34,923	\$ 91,108	\$ 18	\$ 159,258

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

NEBRASKA ARTS COUNCIL
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Funds					Other Fund	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Arts Council Cash Fund 2690	Fine Arts Federal Fund 4691	Arts Council Trust Fund 6691	Nebraska Endowment for the Arts Cash Fund	Nebraska Arts & Humanities 2692	
RECEIPTS:							
Appropriations	\$ 1,394,434	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,394,434
Federal Grants & Contracts	-	-	592,471	-	-	-	592,471
Sales & Charges	-	12,537	-	7,549	-	-	20,086
Miscellaneous:							
Investment Interest	-	524	-	4,079	1,668	1	6,272
Donations & Contributions	-	8,340	-	250	30,993	-	39,583
Other Miscellaneous	442	-	39	83	71,068	-	71,632
TOTAL RECEIPTS	<u>1,394,876</u>	<u>21,401</u>	<u>592,510</u>	<u>11,961</u>	<u>103,729</u>	<u>1</u>	<u>2,124,478</u>
DISBURSEMENTS BY FUNCTION:							
Culture - Recreation	1,377,434	22,013	629,609	84,039	127,093	65,347	2,305,535
TOTAL DISBURSEMENTS	<u>1,377,434</u>	<u>22,013</u>	<u>629,609</u>	<u>84,039</u>	<u>127,093</u>	<u>65,347</u>	<u>2,305,535</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>17,442</u>	<u>(612)</u>	<u>(37,099)</u>	<u>(72,078)</u>	<u>(23,364)</u>	<u>(65,346)</u>	<u>(181,057)</u>
OTHER FINANCING SOURCES (USES):							
Sales of Assets	246	-	-	-	-	-	246
Deposits to General Fund	(688)	-	-	-	-	-	(688)
Net Distributive Activity	100	-	-	-	-	-	100
Operating Transfers In	-	-	-	-	57,000	65,347	122,347
Operating Transfers Out	(17,000)	-	(40,000)	-	-	-	(57,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(17,342)</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>57,000</u>	<u>65,347</u>	<u>65,005</u>
Net Change in Fund Balances	100	(612)	(77,099)	(72,078)	33,636	1	(116,052)
FUND BALANCES, JULY 1, 2001	<u>1,889</u>	<u>11,209</u>	<u>97,722</u>	<u>107,001</u>	<u>57,472</u>	<u>17</u>	<u>275,310</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 1,989</u>	<u>\$ 10,597</u>	<u>\$ 20,623</u>	<u>\$ 34,923</u>	<u>\$ 91,108</u>	<u>\$ 18</u>	<u>\$ 159,258</u>

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

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Arts Council are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Arts Council (Council) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Council is exempt from State and Federal income taxes. The financial statements include all funds of the Council. The Council has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Council, or the significance of their relationship with the Council is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Council 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 Council.

These financial statements present the Nebraska Arts Council and its component units. The Nebraska Arts Council is part of the primary government for the State of Nebraska's reporting entity. The component units are included in the Council's reporting entity because of the significance of their operational or financial relationships with the Council. Complete financial statements of the individual component units that issue separate financial statements, as noted below, can be obtained from their respective administrative offices.

Blended Component Unit. The following component unit is an entity that is legally separate from the Council, but is so intertwined with the Council that it is, in substance, the same as the Council. It is reported as part of the Council and blended into the appropriate funds.

Nebraska Endowment for the Arts (NbEA). The NbEA is a nonprofit corporation. Three members of the Council and its Executive Director also serve as the Board of Directors for the NbEA. The Council provides a portion of the NbEA's receipts in the form of governmental aid. The NbEA is included in the Council's financial statements using the blending method because the NbEA's purpose is almost entirely to provide a service to the Council, namely to redistribute its governmental aid to smaller subrecipients. It is reflected in a Special Revenue Fund.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Discretely Presented Component Unit. The following component unit is an entity that is legally separate from the Council, but is financially accountable to the Council, or its relationship with the Council is such that its exclusion would cause the Council's financial statements to be misleading or incomplete. The component unit is reported in a separate column to emphasize that it is legally separate from the State and governed by a separate board.

Nebraska Cultural Endowment (NCE). The NCE is a nonprofit corporation formed with the Arts Council and the Nebraska Humanities Council with the sole purpose of operating to support the two councils. The NCE members elect the Board of Directors. NCE was created to raise a matching private endowment and to distribute the annual income, public and private, exclusively to the Nebraska Art Council and the Nebraska Humanities Council. The receipts on the earnings from the Nebraska Cultural Preservation Endowment Fund are disbursed from the Arts and Humanities Cash Fund of the Nebraska Arts Council. The ultimate use of these funds is required by statute to be in a ratio of 70% to projects, endowments, or programs designated by the Nebraska Arts Council and 30% to those designated by the Nebraska Humanities Council. The NCE's fiscal period is on a calendar year basis. An audit report for the fiscal year ended December 31, 2001, has been issued under separate cover.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Council, and its component units, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Council, and its component units. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Council reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Likewise, the Council is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Council reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent. It also reported Unrestricted Investment Interest and Other Financing Sources.

Fund Financial Statements. The fund financial statements provide information about the Council's funds, including its blended component units. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Council uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Council reports the following major governmental funds:

General Fund. This is the Council's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Arts Council Cash Fund. This fund's use is defined in statute to include the receipt of all fees received from any conference, performance, or exhibition held by the Council and the disbursement of funds incident to the administration and sponsoring of any conference, performance, or exhibition by the Council.

Fine Arts Federal Fund. This fund is used to account for all funds made available by the federal government for programs related to the performing and fine arts.

Arts Council Trust Fund. This fund is used to account for funds donated from private sources.

Nebraska Endowment for the Arts Cash Fund. The fund is used to distribute grants and contributions it received from private sources and to redistribute the governmental aid received from the Council to smaller subrecipients.

The Council reports the following other fund:

Nebraska Arts and Humanities Cash Fund. This fund consists of money deposited from the Nebraska Cultural Preservation Endowment Fund to be matched dollar-for-dollar with funding generated from external sources.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Council are maintained and the Agency-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Council. This differs from governmental generally accepted accounting principles (GAAP), which requires the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

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 Council, except cash fund 2690, account number 1113, the One Percent for Arts Cash Fund, and the Council's federal fund, were designated for investment during fiscal year 2002.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments. The Nebraska Cultural Endowment (NCE), a discretely presented component unit of the Council, adopted an Investment and Distribution Policy. This policy is separate from the investment policy of the State of Nebraska. The objectives are defined in the NCE policy. The common stock portfolio shall include stocks purchased or owned that are United State equities and/or United States and foreign equity funds, with emphasis on growth. The short-term portfolio shall be investment in U.S. Government and investment grade corporate bonds, laddered, short-to-intermediate-term and U.S. cash and equivalents. Managers may invest in funds offered by their companies only with prior approval of the NCE Finance Committee. The common stock portfolio must be at least 50 percent, but no more than 75 percent of the total portfolio. Likewise, the short-term portfolio must be at least 25 percent, but no more than 50 percent of the total portfolio.

The following transactions shall not be engaged in: warrants, commodities, margin purchases, oil or gas venture rights, letter stock, options not used for hedging, real estate, illiquid real or tangible property, and any investment that violates the New Prudent Investor Rule (1992).

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Council 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 the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Council's policy to use unrestricted resources first, then restricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

E. 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. Investments – Discretely Presented Component Unit

GASB Statement Number 3 requires government entities to categorize investments for the purpose of giving an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the NCE or its agent in the name of the NCE. Category 2 includes uninsured or unregistered investments for which securities are held by the bank's trust department or agent in the name of the NCE. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer but not in the NCE's name.

The NCE's common stock portfolio is invested in a mutual fund which is not required to be categorized.

The following is a summary of the type of investments as of December 31, 2001:

	Cost	Fair Value
<u>Category 1</u>		
Corporate Bonds	\$ 20,934	\$ 18,659
<u>Not Categorized</u>		
Mutual Funds	27,791	27,634
Cash and Cash Equivalent	79,166	79,166
Total Investments	\$ 127,891	\$ 125,459

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **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 because interfund balances and transactions have not been eliminated.

4. **Contingencies and Commitments**

Risk Management. The Council 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 Council, 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.
- E. State agencies have the option to purchase building contents and inland marine coverage.

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

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Arts Council's financial statements.

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

5. **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. Prior to April 18, 2002, membership in the Plan was 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. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Council matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **State Employees Retirement Plan (Plan) (Concluded)**

For the fiscal year ended June 30, 2002, employees contributed \$17,874 and the Council contributed \$27,883.

6. **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 Council, which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

The Council's Net Distributive Activity for the audit period consists of postage due.

7. **Operating Transfers**

The disbursements of aid to the Council's blended component unit, the Nebraska Endowment for the Arts, has been classified as operating transfers. Operating transfers out of the State general fund and the fine arts federal fund were made for \$17,000 and \$40,000, respectively. An operating transfer into the NbEA Cash fund for \$57,000 was recorded.

Additionally, the Council received an operating transfer into the Nebraska Arts and Humanities Cash fund for \$65,347. The Council received the money from the \$5 million Nebraska Cultural Preservation Endowment Fund with the Nebraska State Treasurer. The earnings from this fund can only be accessed when documentation of new matching funds are approved by DAS Budget Division.

8. **Full Accountability of the General 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, 2001	\$ 101,869
New Appropriations	1,440,556
Total Appropriations	<u>1,542,425</u>
Disbursements	(1,377,434)
Operating Transfer Out	<u>(17,000)</u>
Ending (Appropriations) Balance June 30, 2002	<u><u>\$ 147,991</u></u>

NEBRASKA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Council implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in note 1.C. the Council's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Council were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Council.

NEBRASKA ARTS COUNCIL
SUPPLEMENTARY INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
326 - Development of the Arts	\$ 576,458	\$ 554,185	\$ 490,161	\$ 64,024
327 - Aid to the Arts	885,322	869,260	768,293	100,967
328 - Nebraska Humanities Council	123,938	118,980	118,980	-
TOTAL DISBURSEMENTS	<u>\$ 1,585,718</u>	<u>\$ 1,542,425</u>	<u>\$ 1,377,434</u>	<u>\$ 164,991</u>

See Notes to Supplementary Information

NEBRASKA ARTS COUNCIL
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

Fund 2690 - Nebraska Arts Council Cash Fund

	<u>BUDGET AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
PROGRAM:				
326 - Development of the Arts	\$ 25,000	\$ 25,000	\$ 22,013	\$ 2,987
TOTAL DISBURSEMENTS	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 22,013</u>	<u>\$ 2,987</u>

Fund 4691 - Fine Arts Federal Fund

	<u>BUDGET AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
PROGRAM:				
326 - Development of the Arts	\$ 337,604	\$ 337,604	\$ 235,041	\$ 102,563
327 - Aid to the Arts	501,720	501,720	394,568	107,152
TOTAL DISBURSEMENTS	<u>\$ 839,324</u>	<u>\$ 839,324</u>	<u>\$ 629,609</u>	<u>\$ 209,715</u>

See Notes to Supplementary Information

NEBRASKA ARTS COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Council's legally adopted annual budget amount. The Council's budgetary comparison schedules include the general fund, the Nebraska Arts Council cash fund, and the Fine Arts federal fund. A budgetary comparison could not be shown for Arts Council trust fund, which for reporting purposes is reported as a special revenue fund, because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

GAAP also requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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 Council 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 presents the 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 approved appropriations 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. As a result, the budgetary comparison schedules only reports total disbursements *by program*.

NEBRASKA ARTS COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

BUDGETARY COMPARISON SCHEDULES

(Concluded)

A separate publication entitled “Annual Budgetary Report” shows the detail of this level of control. This publication is available from DAS Accounting.

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 fund, the Nebraska Arts Council cash fund, and the Fine Arts federal fund 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 objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from the Council’s federal fund may be increased to the extent receipts of the federal fund exceed the original budget estimate. The Council 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 Council’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 Council’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, 2002, there were no budgetary funds in which disbursements exceeded appropriations.

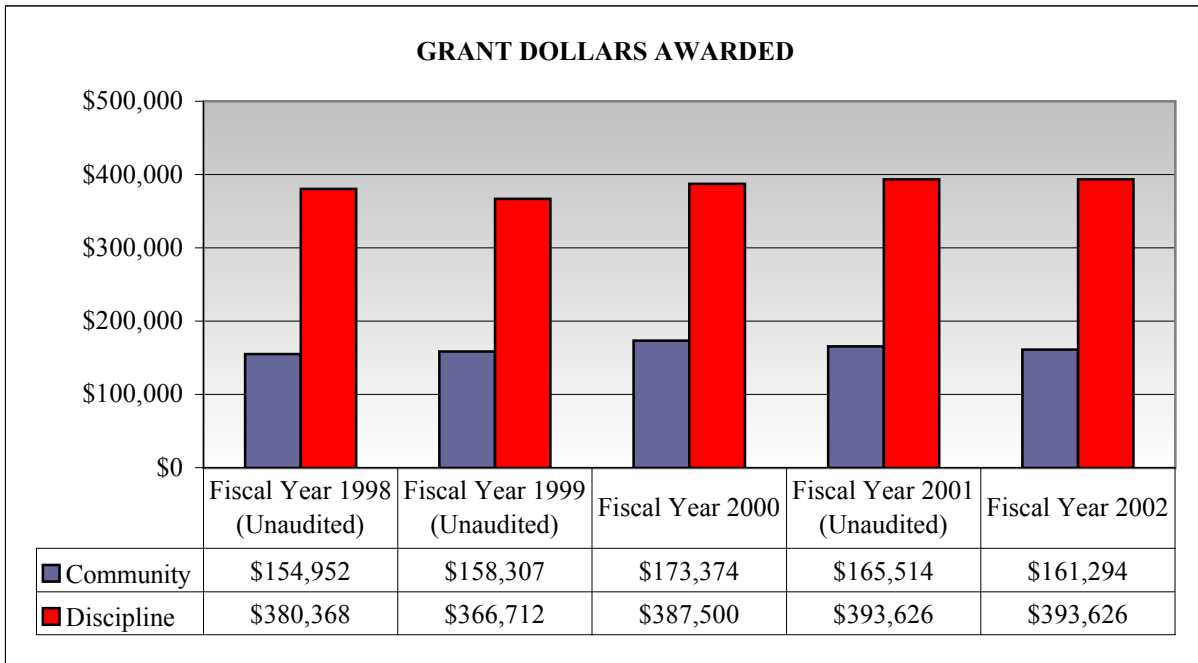
Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object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

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA ARTS COUNCIL

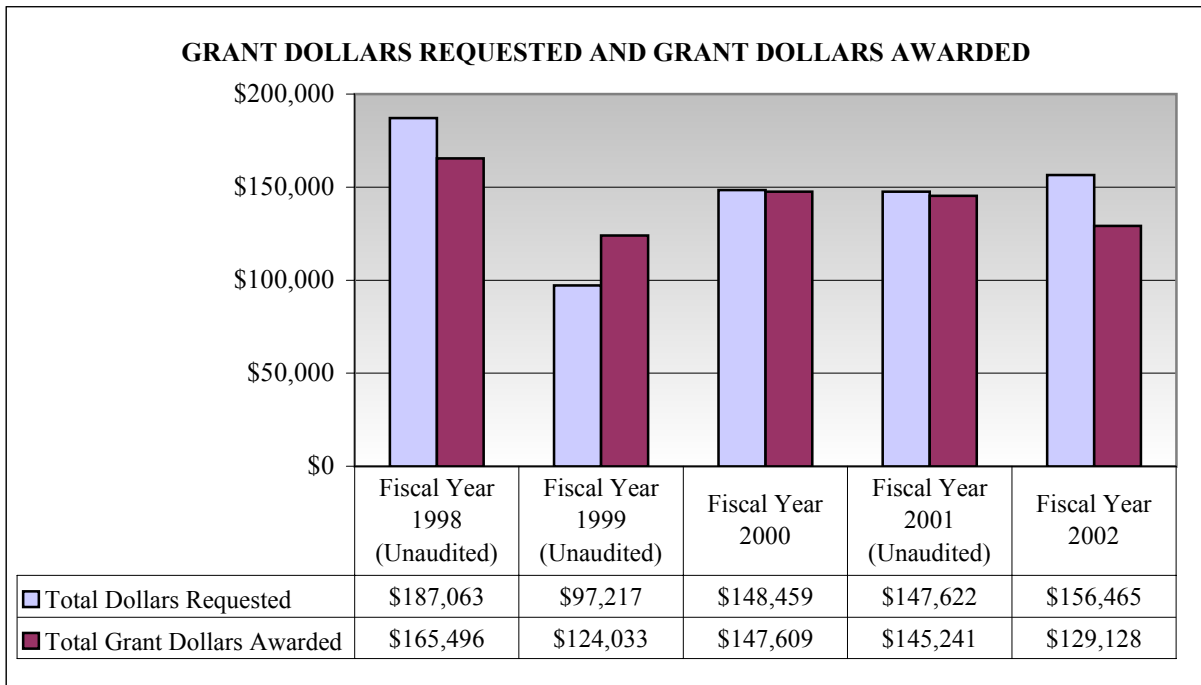
BASIC SUPPORT GRANTS

These awards provide annual operating support to eligible community, volunteer, and discipline based arts organizations. Recipients are required to provide a 50% match, half of which must be in-kind.



ARTISTS IN SCHOOLS/COMMUNITIES

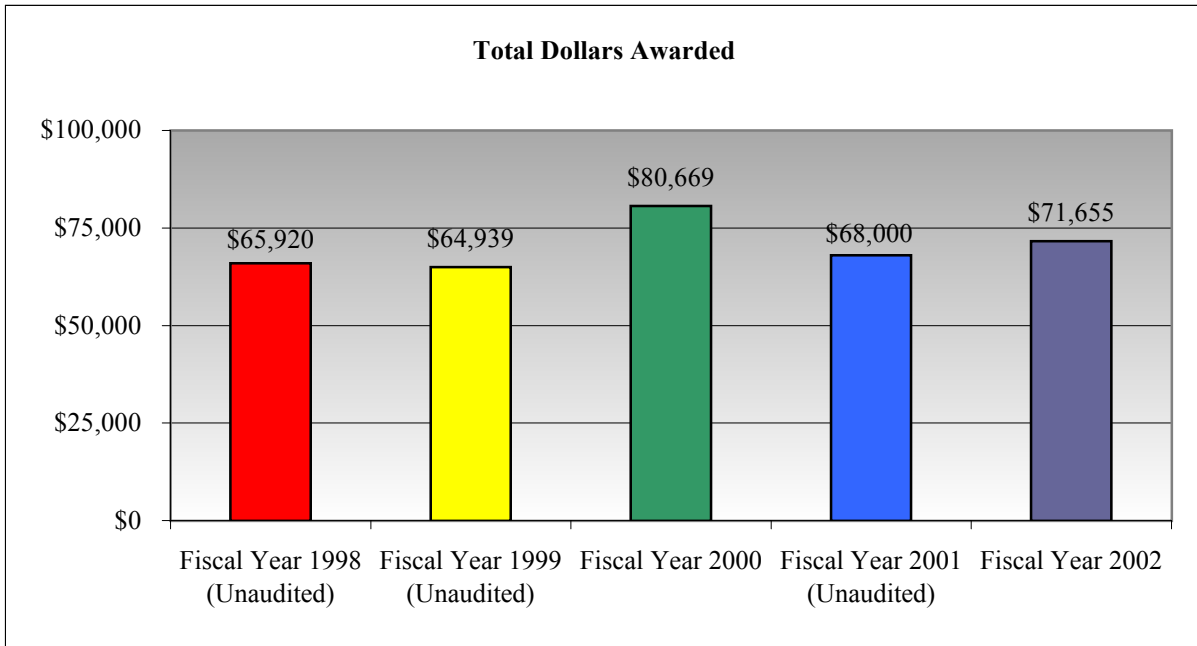
These awards are support fees for the Artists-in Residence Program. The program places an artist in a school or community setting with the recipient paying up to 50% of the costs.



NEBRASKA ARTS COUNCIL

MULTICULTURAL AWARENESS

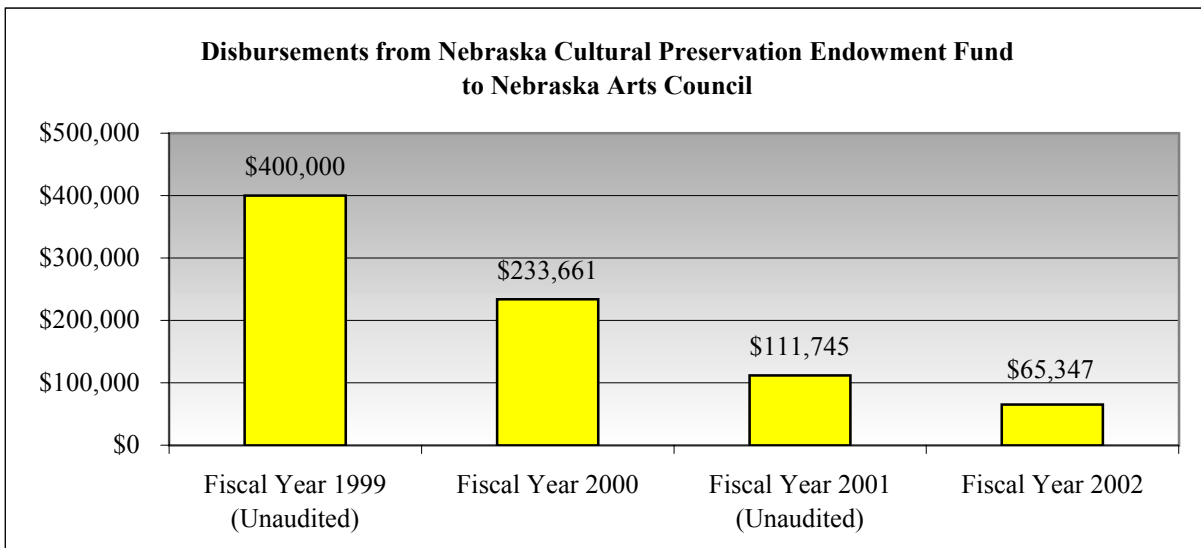
These grants are made to organizations for projects that include works people of color in existing or new arts programming.



NEBRASKA CULTURAL PRESERVATION ENDOWMENT FUND

The Nebraska Cultural Preservation Endowment Fund consists of \$5.5 million held by the State Treasurer and invested by the Nebraska Investment Council. The earnings in excess of \$5.6 million are deposited into the Nebraska Arts and Humanities Cash Fund (NAS Fund 2692) upon request of the State Investment Officer and State Treasurer once adequate documentation confirming matching funds has been approved by the DAS Budget Division.

The following graph represents all drawdowns made by the Nebraska Arts Council since the fund was established. The four drawdowns total \$810,753.



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

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We have audited the financial statements of the Nebraska Arts Council as of and for the year ended June 30, 2002, and have issued our report thereon dated September 12, 2002. The report notes the component units were audited by other auditors, 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 Arts Council. 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 Arts Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to the management of the Nebraska Arts Council in the Comments Section of this report as Comment Number 1 (Grant Procedures and Monitoring), Comment Number 4 (Travel Expenses), Comment Number 6 (Internal Control Over Receipts), Comment Number 8 (Procedures Over Capital Assets), and Comment Number 9 (Annual Art Inspection).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Arts Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Nebraska Arts Council in the Comments Section of this report as Comment Number 1 (Grant Procedures and Monitoring), Comment Number 2 (Inadequate Documentation for Separation Agreement), Comment Number 3 (Adequate Supporting Documentation), Comment Number 4 (Travel Expenses), Comment Number 5 (Employee Operating Expense Reimbursement), Comment Number 6 (Internal Control Over Receipts), Comment Number 7 (Separation of State Business/Accounting and Not-for-Profit Activities), and Comment Number 8 (Procedures Over Capital Assets).

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

September 12, 2002



Assistant Deputy Auditor