

**AUDIT REPORT
OF THE
NEBRASKA STATE TREASURER**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA STATE TREASURER

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NEBRASKA STATE TREASURER

BACKGROUND

The Nebraska State Treasurer as a constitutional officer is elected to a term of four years, and can be re-elected for a second consecutive term. The State Treasurer receives and keeps all money of the State as designated by law. The State Treasurer disburses these funds by electronic means or by warrants lawfully drawn upon the State Treasury. The State Treasurer keeps a comprehensive account of all money received and disbursed. The State Treasurer determines all banking relationships for the State, and selects a custodial bank for the State for custody of all securities purchased. Cash management, ensuring only lawfully drawn warrants are paid, and the administration of the Unclaimed Property Act are primary functions of the Agency. The State Treasurer also maximizes interest income by increasing the amount of money available for investment through enhanced cash management procedures and by increasing the electronic movement of money. The State Treasurer is responsible for administering the Nebraska College Savings Program. The State Treasurer is responsible for the receipting and disbursement of child support as a part of the statewide system for receipt, distribution, and disbursement of child support. A portion of the cost of operating the statewide child support system is received from the federal child support program.

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SUMMARY OF COMMENTS

During our audit of the Nebraska State Treasurer, 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. **Control Structure:** During the course of the audit of the State Treasurer's office, the State Treasurer significantly restricted the auditors' access to the State Treasurer's staff. While these restrictions were relaxed near the end of audit fieldwork, these restrictions presented a significant obstacle during the majority of the audit.
2. **Allocation of Charges Between Programs:** The basis for the allocation of charges between programs of the State Treasurer's office were not documented.
3. **Payroll Documentation:** For two of two employees tested who were paid entirely with Federal monies, with the exception of State matching requirements, the timesheets did not identify that the employees worked solely on a Federal program, and there was no periodic certification that the employees worked solely on a Federal program. Two of two employees tested who were paid partially with Federal monies did not have adequate personnel activity reports to support their hours worked on the Federal program.
4. **Pledged Collateral:** At June 30, 2002, \$2,591,104 of deposits in bank accounts at First National Bank of Omaha were not collateralized as required by State Statute. Also, the State Treasurer relied on the market value of the pledged collateral provided by the pledging institutions to determine pledged collateral was adequate to cover deposits in bank accounts.
5. **Convention Center Facility Financing Assistance Act Transfers:** Under 2002 Neb. Laws LB 1309, Section 8, the Legislature earmarked \$353,546 to be disbursed to the City of Omaha, as part of a fiscal year 2001-2002 appropriation. The effective date of the bill was April 11, 2002. However, disbursement was not made until March 20, 2003. Legislative Bill 1309, Section 8, also stated, "The State Treasurer shall transfer \$151,520 from the Convention Center Support Fund to the Local Civic, Cultural, and Convention Center Financing Fund within five days after the effective date of this Act." The effective date was April 11, 2002. This transfer occurred on May 10, 2002, one month later.
6. **Bidding Process:** The purchase of two encoding machines, for a total of \$11,320, were bid out in a manner inconsistent with State Statute. The bid documentation for this purchase consisted of email bids and printouts from web pages, and was not bid through the Department of Administrative (DAS) – Materiel Division. For the purchase of a coin

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SUMMARY OF COMMENTS

(Continued)

counting machine, with a cost of \$3,126, bids were received from two companies instead of the three required. Furthermore, this purchase was not reported to DAS as required. Two purchases of computers were made from two different vendors for amounts of \$18,050 and \$45,742. Neither purchase had the approval of the DAS-Information Management Services Division as required.

7. ***Supporting Documentation for Disbursements:*** When testing one document for payment to Data Management Products, for a total of \$115,248, we requested the contract to verify the amounts charged were correct. We received Schedule 00-1, of which there were three parts, Phase I, Phase II, and Phase III. The amounts on these schedules did not match the amounts billed on the invoices. Also, the invoices had descriptions such as "Maintenance 2002," "Phase I Contract Maint," "Phase II Contract Maint," and "01-1 Schedule 12-07-01." The provided schedules also referenced a "Master Agreement," which we requested but did not receive. Travel expenses for on-site programmers were charged on these invoices, however, because we did not have the Master Agreement, we could not determine if these charges were allowable or if the dollar amounts were appropriate.
8. ***Internal Control Over Payroll:*** One employee was responsible for reconciling the attendance report to the payroll calculate, however this reconciliation was not documented. The State Treasurer stated she reviewed payroll calculates on a monthly basis, but this review was not documented. Of two terminated employees tested, one employee had 13.25 hours of vacation leave deducted from the final vacation leave balance used to calculate the final payroll paid. Our understanding was that this was related to sick leave used. The State Treasurer's office did not maintain written documentation for the allocation of payroll costs between programs.
9. ***Overtime Compensation:*** For two of two terminated employees tested, overtime was paid out at one and one half times the employee's regular hourly rate when the employee worked in excess of 40 hours and there was no holiday in the workweek. During weeks which included a holiday, which should be counted as hours worked according to the State Treasurer's personnel policy, the holiday was not counted as hours worked in the calculation of overtime paid. We also noted employees who were not terminated who were paid overtime at one and one half times their regular hourly rate instead of receiving compensation in the form of compensatory time off at their regular hourly rate.
10. ***Public Sale of Unclaimed Property:*** A public sale of Unclaimed Property has not been held since February 1994, a period in excess of the five years prescribed by statute.

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SUMMARY OF COMMENTS

(Continued)

11. **Authorized Signatures:** Two of 18 (11%) disbursement documents tested were not approved by an individual authorized to approve disbursements. There was no authorization on file at DAS for those individuals approving these two documents. Because of the preaudit process being completed by the State Treasurer these documents were never reviewed by DAS but were reviewed by State Treasurer staff.
12. **Published Notice of Unclaimed Property:** The published public notices for March 2002 did not contain each person's last-known address, the notice was not entitled "Notice of Names of Persons Appearing to be Owner's of Abandoned Property," and the notice did not include a statement that additional information could be obtained by any interested party by contacting the State Treasurer as required by statute.
13. **Capital Assets:** Two employees were responsible for maintaining the capital asset inventory records, adding capital asset items to the list, deleting capital asset items from the list, and completing the physical inventory of capital assets. While two employees were required to be involved in capital asset transactions, one employee had the ability to handle all aspects of a capital asset transaction without any documented supervisory review. As of January 8, 2003, there had been no capital asset additions recorded to the State Treasurer's capital asset inventory listing since November 14, 2001. In fiscal year 2002, there were \$22,746 in purchases over \$1,000 that were coded to a 4800 capital asset account code on the Nebraska Accounting System (NAS), but were not added to the State Treasurer's capital asset inventory system. Alternatively, if purchases are not of a capital nature the purchase should not be coded to a capital outlay account. One of five items traced from the floor to the inventory list was not tagged "Property of the State of Nebraska," and was not on the capital asset inventory listing. This item was an Encoder and was purchased on February 28, 2002 for \$5,660. As of March 17, 2003, the State Treasurer's office had not filed their June 30, 2002 capital asset inventory list with the DAS Materiel Administrator as required by August 31, 2002.
14. **James M. Amos Educational Trust Fund:** The entire amount in the James M. Amos Educational Trust Fund – 6130 had not been lapsed to the General Fund as required by statute. The balance as of June 30, 2003 was \$8,720. No documentation was available to support why these funds had not been lapsed to the General Fund.
15. **Accountability and Disclosure Commission Filing:** No Nebraska Accountability and Disclosure Commission Statement of Financial Interests was on file for the Deputy State Treasurer who served from October 2001 to approximately June 2002.

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SUMMARY OF COMMENTS

(Concluded)

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 State Treasurer 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.

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COMMENTS AND RECOMMENDATIONS

1. Control Structure

In conducting an audit of an entity's financial statements in accordance with Generally Accepted Government Auditing Standards (GAGAS) an auditor is required to gain an understanding of that entity's internal control components. Internal control consists of the following components:

Control Environment. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.

Risk Assessment. This control component deals with how management is identifying risk, considering their significance, the likelihood of their occurrence, and how they should be managed.

Control Activities. Control activities are the policies and procedures that help ensure management directives are carried out.

Information and Communication. This control component deals with whether or not an entity's information and communication processes (accounting system, records, and reports) are adequate to provide assurance information is available to management to make appropriate decisions in managing and controlling the agencies activities and to prepare reliable financial reports.

Monitoring. This control component deals with how management is monitoring its controls to ensure they are operating as intended and they are modified as appropriate for changes in conditions.

Based on this understanding the auditor then makes a decision on what, how much, and when to test transactions for financial statement purposes and for compliance with laws and regulations.

In order for auditors to effectively meet GAGAS, they must have unrestricted access and the ability to communicate with auditee staff who are responsible for the above control components. Without this ability the audit is much less efficient and the auditor must often perform additional procedures, if possible, to develop an opinion on the financial statements.

During the course of the audit of the State Treasurer's office, the State Treasurer significantly restricted the auditors' access to the State Treasurer's staff. The State Treasurer originally required all communications regarding the audit to go through the State Treasurer or the Deputy State Treasurer (collectively identified as management). We also did not have unrestricted access to information and documentation without first going through one of these individuals. We could not talk to staff without first going through management and, in addition, it was a requirement of the State Treasurer

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COMMENTS AND RECOMMENDATIONS

1. Control Structure (Continued)

either she or her Deputy be present during the discussion. While these restrictions were relaxed near the end of audit fieldwork, these restrictions presented a significant obstacle during the majority of the audit.

Without unrestricted access to the State Treasurer's staff, the auditors were greatly hindered in their ability to get complete and accurate information as required by GAAS. In addition, a significant amount of extra time was spent on written communications requesting information that was not always provided to the auditors in a timely manner. Management, understandably, have their normal duties to perform, and cannot be expected to spend an inordinate amount of time with the auditors. However, management should have the appropriate level of staff available to the auditor, for a reasonable amount of time, as well as information and documentation so the audit may be performed in an effective and efficient manner and in accordance with GAGAS.

Without unrestricted access to auditee staff and information, and when documentation is not provided to the auditors in a timely manner, it is more difficult to perform an efficient and effective audit and issue an audit in accordance with GAGAS.

We make no recommendation. We have no authority to recommend to the State Treasurer that she make a change in management directive. However, the Auditor of Public Accounts (APA) is statutorily required to audit the State Treasurer's office. The APA has a responsibility to perform that audit in an efficient and effective manner, and in accordance with GAGAS. In future audits, if the State Treasurer does not provide the APA with unrestricted access to appropriate staff and information and documentation in a timely manner the APA may have to consider an appropriate modification to the Independent Auditors' Report.

State Treasurer's Response: The individuals responsible for Internal Control are the Treasurer, Deputy Treasurer, Assistant Deputy Treasurer, the Director of Unclaimed Property, the Manager of the Child Support Payment Center and the Director of the College Savings Plan.

We requested that the State Auditor refer questions and/or requests to the Deputy and in her absence to the secondary point of contact. This approach allows for an orderly flow of information and it also allows key management staff to be actively involved in the audit process.

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COMMENTS AND RECOMMENDATIONS

1. **Control Structure** (Continued)

State Treasurer's Response, Continued:

It may be important to note that the following audits and reviews took place simultaneously:

The annual year end KMPG

The State Auditor's Contract Review

The Federal Government's extensive audit of the Child Support Payment Center

The on-going IV & V audit of the Child Support Payment Center

The State Auditor's audit of the Child Support Payment Center

The State Auditor's audit of the State Treasurer's Office

Our management team believes that providing a structure for questions and information requests was the best approach to take given the high level of audit activity that occurred in a relatively compressed amount of time.

Further, it is important to acknowledge that the State implemented a new Human Resources/Payroll system and a new Accounting System during this exact same time frame. Few if any other state agencies were impacted to the degree that the State Treasurer's Office by these implementations.

The most qualified staff was provided to the State Auditor. After the audit was underway the State Auditor was allowed unrestricted access to staff.

Requested documents were either copied under the supervision of the State Auditor or the State Auditor was allowed to utilize our copy machine and copy whatever was needed.

During the review the State Auditor directed questions to lower level staff and on occasion to our Vocational Rehabilitation Interns. This resulted in inaccurate and undocumented findings.

Further, the State Auditor requested that we provide personnel files for an employee from the Department of Education. Clerical staff was very reluctant to inform the State Auditor that we could not provide such documentation. While lower level staff was reluctant and uncertain of what to do--the Deputy State Treasurer took corrective action.

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COMMENTS AND RECOMMENDATIONS

1. Control Structure (Concluded)

State Treasurer's Response, Concluded:

Additionally, the State Auditor required that we provide full and complete personnel records including medical information and private personnel information. It was inappropriate to make this request of lower level staff. The Deputy State Treasurer is in a position to provide such information.

The State Auditor's personnel did not understand how to use the following reports from the DAS Payroll System: Calculated Payroll Detail Report, Leave Status Report and the Summary of Overtime Report. The Auditor said he had never even seen the DAS NEIS Report Packet that contains over 8 different NEIS Reports necessary to post and process monthly payroll. The Deputy State Treasurer was in better position to provide training to the Auditor's staff on payroll issues and provide a full explanation of reports.

The State Treasurer's Office has numerous banking deadlines throughout the workday. The Treasury Management Division is staffed by 6 Treasury personnel. The State Auditor had up to 4 auditors in the Treasury Division. We felt it was more conducive to our work environment (and to meet our daily banking deadlines) to have all questions funneled through either the Deputy Treasurer Mary Brock or the Assistant Deputy Treasurer Michelle Raphael.

As the audit progressed the auditors had unrestricted access. The Treasurer and Deputy were not present during the questioning of the staff. If the staff did not understand the auditor's questions or if they felt they were being asked inappropriate questions they may have requested that the Deputy be present.

Auditors' Response: The timing of this audit, beginning after the November election for State Treasurer, was known well in advance by the Treasurer's office. The Auditor's contract review procedure was conducted June-August 2002. The Treasurer could have responded in a timely manner and prevented any overlap in timing. An essential part of an audit is to have access to the individuals who are actually responsible for the day to day, accounting functions of the entity under audit. Management normally will answer auditors inquiries based on the process they believe is supposed to be in place, which may or may not be the process actually in place. Auditor of Public Accounts staff were reasonable, flexible, and within their statutory authority during the course of the State Treasurer's audit. Future audits will require unrestricted access to State Treasurer staff and information. Timeframes for information requests will need to be strictly followed.

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COMMENTS AND RECOMMENDATIONS

2. Allocation of Charges Between Programs

Good internal control requires the basis for the allocation of charges among various programs be reasonable and documented. Since the State of Nebraska budgets on a program basis, documenting the basis of allocations between programs is important in order to prevent agencies from funding one program with the funds from another through disproportional cost sharing.

The basis for the allocation of charges between programs of the State Treasurer's office were not documented. This was also a comment in a prior audit.

When the basis of allocations between programs is not documented, there is increased risk of shifting funding from one program to another through disproportional cost sharing.

We recommend the State Treasurer document the basis for all allocations.

State Treasurer's Response: We believe our allocations of charges to be "reasonable" and "documented". However it may be necessary to consider that significantly more Unclaimed Property is reported today than ever before and each year the staff returns more money than previously. No additional staff has been requested for at least the last eight years---yet the work has significantly increased.

Further, last year we voluntarily returned \$600,000 of our Child Support Budget and we will not only take a 10 per cent reduction of \$350,000 this year but when you consider the Federal funding associated with the reduction-- this equals a \$1,000,000 reduction of tax dollars.

In short we operate this office like a business. We flow resources to effectively meet the daily work requirements and it results in a cost efficient office capable of handling more with less.

The State Treasurer is an active manager in the daily affairs of the Office. This comment refers to "good internal controls"—we believe the best control is a Constitutional Officer on site and actively involved in the daily management of the Office. The Treasurer is an active participant throughout the workday allocating resources to meet the demands of our customers.

Simple observation of our workday would provide more than enough documentation to know that our costs are "reasonable".

Auditors' Response: There is a difference between whether a cost is a reasonable cost of the State Treasurer's office and whether a cost is a reasonable cost of a specific program within the State Treasurer's office. Adequate documentation of the basis for the allocation of costs between programs consists of more than the State Treasurer's signature on a document. We recommend the basis for the allocation of costs between programs be documented.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

3. Payroll Documentation

The United States Office of Management and Budget (OMB) Circular No. A-87 – Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Section 11.h (3), requires “where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official . . .” Section (4) goes on to say, “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . .” Section (5) states, “Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee . . .”

For two of two employees tested that were paid entirely with Federal monies (State Disbursement Unit), with the exception of State matching requirements, the timesheets did not identify that the employees worked solely on a Federal program, and there was no periodic certification that the employees worked solely on a Federal program. Two of two employees tested that were paid partially with Federal monies did not have adequate personnel activity reports to support their hours worked on the Federal program.

Without proper documentation of time to support expenditures of Federal monies for payroll, the State Treasurer was not in compliance with OMB Circular A-87, and there is an increased risk of misuse of Federal funds.

We recommend the State Treasurer include on the State Disbursement Unit (SDU) timesheet a statement that certifies the employee worked solely on the Federal Child Support program for the period covered or identify specifically hours worked for the Child Support program at the SDU and hours worked for other programs. For the employees who do not work solely on the Child Support program at the SDU, but are paid partially with Federal monies, we recommend these employees maintain a personnel activity report that meets the requirements of OMB Circular A-87 Section 5. This includes accounting for the total activity for which each employee is compensated and must be signed by the employee to support the portion of their payroll paid with Federal monies.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

3. **Payroll Documentation** (Concluded)

State Treasurer's Response: Our Office worked closely with Health and Human Services to develop a method of reporting payroll costs. Ultimately it is Health and Human Services that requests the federal reimbursement and provides documentation to the federal office. We will forward this comment to the appropriate Health and Human Services staff and review it with them to determine if any changes are necessary.

Our records are complete and certifiable.

Auditors' Response: The agreement between the State Treasurer's Office and the Nebraska Department of Health and Human Services for the operation of the State Disbursement Unit (SDU) states, "The Treasurer agrees to comply with all applicable federal and state laws and regulations in the performance of this Agreement." Payroll records were not in compliance with federal regulations.

4. **Pledged Collateral**

Neb. Rev. Stat. Section 77-2395 R.S.Supp., 2002 states, "the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than 102 percent of the amount on deposit in excess of the amount so insured." Good internal control requires procedures be in place to ensure information used in determining the adequacy of pledged collateral is accurate.

At June 30, 2002, \$2,591,104 of deposits in bank accounts at First National Bank of Omaha were not collateralized as required by State Statute. Our understanding was this occurred because of the addition of the SDU bank accounts. Also, the State Treasurer relied on the market value of the pledged collateral provided by the pledging institutions to determine pledged collateral was adequate to cover deposits in bank accounts. The State Treasurer did not verify the market values used to determine pledged collateral was adequate. While not materially different, auditor's calculations of the market values of pledged securities for one pledging bank tested did not agree to the market values provided by the pledging bank.

The State Treasurer was not in compliance with State Statute and there is an increased risk of loss of public money if the depository institution were to fail. There is an increased risk deposits in bank accounts are not sufficiently collateralized when market values of pledged securities are not verified independently of the pledging depository.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

4. **Pledged Collateral** (Concluded)

We recommend the State Treasurer implement procedures to ensure deposits in bank accounts are collateralized as required by State Statute. Procedures should include a recalculation of the market value of the pledged collateral to ensure accuracy.

State Treasurer's Response: Verification was performed throughout the year. We do not perform a daily verification on all bank accounts, as this would require additional staffing. We verify collateral several times throughout the year and we utilize a number of sources to obtain valuations. The potential of a variation of values exists at any time. However, to suggest that the State's deposits were at risk and that First National Bank of Omaha may fail is not accurate. For many years First National Bank of Omaha has provided outstanding service to the State and is one of our most highly regarded financial institutions.

We will refer the comment to the appropriate management staff at our depository institutions for review.

Auditors' Response: State Statutes require public funds to be collateralized to prevent loss in the event of the failure of the financial institution where public funds are deposited. Our understanding was the State Treasurer used the value of the pledged securities provided by the pledging financial institution to determine the adequacy of securities pledged. If other sources were used to obtain valuations of securities pledged, no documentation of this was provided. We recommend the valuations used to verify pledged securities be documented.

5. **Convention Center Facility Financing Assistance Act Transfers**

The Convention Center Facility Financing Assistance Act is found at Neb. Rev. Stat. Sections 13-2601 to 13-2612 R.S.Supp., 2002. Section 13-2603 creates a governing board consisting of five State government officials, one of which is the State Treasurer.

Under 2002 Neb. Laws LB 1309, Section 8, the Legislature earmarked \$353,546 to be disbursed to the City of Omaha, as part of a fiscal year 2001-2002 appropriation. The effective date of the bill was April 11, 2002. However, the disbursement was not made until March 20, 2003.

Legislative Bill 1309, Section 8, also stated, "The State Treasurer shall transfer \$151,520 from the Convention Center Support Fund to the Local Civic, Cultural, and Convention Center Financing Fund within five days after the effective date of this Act. The effective date was April 11, 2002. This transfer occurred on May 10, 2002, one month later.

As a result, there was a loss of investment interest or the use of these monies by the Fund and by the City of Omaha.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

5. Convention Center Facility Financing Assistance Act Transfers (Concluded)

We recommend the State Treasurer's office complete transfers within statutory timeframes.

State Treasurer's Response: Our staff explained this situation and we voluntarily reported this situation to the State Auditor. A corrective action plan was previously implemented and the Auditor is aware of this.

Auditors' Response: Our understanding was the \$353,546 transfer to the City of Omaha was made after the auditors' brought it to the attention of the State Treasurer.

6. Bidding Process

Neb. Rev. Stat. Section 81-1118(5)(a) R.S.Supp., 2002 states all purchases for goods shall be made "by a competitive formal sealed bidding process through the materiel division in all cases in which the purchases are of estimated value in the amount of ten thousand dollars or more." This process includes a public notice, sealed bids, and a public opening of these bids. The Department of Administrative Services (DAS) Procurement Manual for Goods section III.A. "Direct Purchase Authority" states, "A monthly report . . . shall be submitted to the DAS Materiel Administrator for all purchases made by agencies between \$500.00 and \$4999.99. When possible, a minimum of three (3) competitive bids should be solicited, with the lowest responsible bidder that meets specifications receiving the award (Neb. Rev. Stat. Section 81-161 R.S.Supp., 2002), these are to be documented on purchases between \$500.00 and \$4,999.99." Exhibit 1 in the DAS Procurement Manual for Goods states that all computer hardware and software purchases of an amount greater than \$10,000 must be approved by DAS – Information Management Services (IMServices) Division, by the purchasing agency submitting DAS Form 1909 to DAS.

The purchase of two encoding machines, for a total of \$11,320, were bid out in a manner inconsistent with State Statute. The bid documentation for this purchase consisted of email bids and printouts from web pages, and was not bid through DAS – Materiel Division. For the purchase of a coin counting machine, with a cost of \$3,126, bids were received from two companies. The file also included an additional bid from one of these companies for a similar machine, but of a different size and specifications. Furthermore, this purchase was not reported to DAS as was required. Two purchases of computers from two separate vendors were for amounts of \$18,050 and \$45,742. Neither purchase had the approval of the DAS-IMServices Division.

The State Treasurer was not in compliance with State Statute. Also, when large purchases are not bid in a formal manner, there is an increased risk that the State will not receive the lowest bid due to a lack of public notice. This results in noncompliance with DAS policies and regulations.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

6. **Bidding Process** (Concluded)

We recommend the State Treasurer comply with State Statutes by purchasing items according to the proper bidding and purchasing procedures through DAS.

State Treasurer's Response: This has been a concern of the Auditor in previous audits and similarly to previous responses it is important to note that Constitutional Officers have a certain ability in the operation and management of their offices, particularly as it relates to the core functions of their office.

The customary practice of the State Treasurer's Office for the past eight years has been to secure goods and services for the best price and in the most cost efficient and effective manner possible. This is well documented in our files and in our budget requests.

Auditors' Response: While we agree the State Treasurer has broad authority to operate her office as she believes appropriate, without specific documentation excluding the State Treasurer from Statutory bidding and purchasing requirements she would be subject to these requirements.

7. **Supporting Documentation for Disbursements**

Good internal control requires matching the amounts from invoices to contracts to ensure the prior negotiated amounts are correctly charged.

During the testing of one document for payment to Data Management Products, for a total of \$115,248, we requested the contract to verify the amounts charged were correct. We received Schedule 00-1, of which there were three parts, Phase I, Phase II, and Phase III. The amounts on these schedules did not match the amounts billed on the invoices. Also, the invoices had descriptions such as "Maintenance 2002," "Phase I Contract Maint," "Phase II Contract Maint," and "01-1 Schedule 12-07-01." The provided schedules also referenced a "Master Agreement," which we requested but did not receive. Travel expenses for on-site programmers were charged on these invoices, however since we did not have the Master Agreement, we could not determine if these charges were allowable or if the dollar amounts were appropriate.

When invoices are not matched to contracts, there is an increased risk an incorrect amount will be paid. For the contract in question, we could not determine if the amounts charged were correct.

We recommend the State Treasurer create procedures to ensure the amounts paid are in agreement with the contracted amounts.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

7. **Supporting Documentation for Disbursements** (Concluded)

State Treasurer's Response: The Master Agreement was furnished twice as requested by the Auditor. The misunderstanding has occurred in part because the Auditor's staff did not refer their questions to the appropriate staff but instead insisted on discussing this with our Accounts Payable Clerk.

Invoices were properly paid. The Treasurer in conjunction with Health and Human Services, DAS, IMS implemented the Nebraska Child Support Payment Center. We had months to do what other states took years to plan. Throughout this period our activity was monitored closely by several divisions within Health and Human Services. Payments made were for the goods or services provided to help us meet the strict time deadlines facing the State.

Payments are well documented for services provided. Procedures were adjusted to allow us to move quickly to implement the Child Support Payment Center and avoid additional federal fines that would have totaled several million dollars. Services provided were adjusted to meet the needs of this rapid implementation.

Auditors' Response: Amounts paid could not be traced to the contracts provided to us. We recommend payments for goods and services provided as part of a contract not be paid unless the amount billed agrees to the amounts agreed upon and documented in the contract. Contracts and any amendments or adjustments should be maintained on file.

8. **Internal Control Over Payroll**

Good internal control requires an adequate segregation of duties to ensure no single individual can handle all aspects of a transaction from beginning to end, leave usage be documented, and a method of allocation for time spent and expenditures between programs be documented in writing.

We noted the following:

- One employee was responsible for reconciling the payroll attendance report to the payroll calculate, however, this reconciliation was not documented. The State Treasurer stated she reviewed payroll calculates on a monthly basis, but this review was not documented.
- Of two terminated employees tested, one employee had 13.25 hours of vacation leave deducted from the final vacation leave balance used to calculate their final payroll paid. Our understanding was that this was related to sick leave used by the employee in excess of the sick leave balance. Documentation of the reason vacation hours were adjusted could not be traced to a timesheet, a leave request form, or other documentation.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

8. **Internal Control Over Payroll** (Continued)

- The State Treasurer's office did not maintain written documentation for the allocation of payroll costs between programs. This was a comment in a prior audit.

There is an increased risk of loss or misuse of State funds when a proper segregation of duties is not in place. Without written documentation for the allocation of payroll between programs there is increased risk an incorrect allocation will be made.

As payroll is currently processed using the new Nebraska Information System (NIS) we recommend procedures be developed to ensure there is an adequate segregation of duties over payroll under the NIS. We also recommend whenever employees use vacation or sick leave, they should complete leave request forms to be approved and kept on file, or document the leave used on their timesheets. Additionally, the reasons for any adjustments made to leave balances should be documented. We also recommend written documentation be maintained to support the basis of costs allocated.

State Treasurer's Response: We believe the comments on payroll to be inaccurate.

Documentation was provided and all questions were answered. Leave slips are completed and they were provided. The Manager of the Child Support Division met with the auditor and provided a complete and detailed explanation of the payroll records in question and documented each situation.

This misunderstanding may be in part caused by the auditor not understanding how to use NEIS documentation, how to calculate a time sheet, overtime and that he requested personnel files for the Department of Education employees.

Further, the auditor demanded that medical records and other sensitive personal information be provided on our employees. We provided the complete personnel records including the most sensitive of medical information with one exception.

Questions asked may have been somewhat inappropriate. The auditor questioned if the former Treasurer 'created' employees and cashed their paychecks thus defrauding the State. This was disconcerting and was witnessed by Treasury employees.

The State Treasurer signed and/or countersigned virtually all payroll records and often the Deputy signed records also. The State Treasurer reviews each payroll record monthly. The State Treasurer reviews all leave slips monthly. It is not necessary that written reports be prepared for the sole purpose proving this to an auditor.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

8. **Internal Control Over Payroll** (Concluded)

State Treasurer's Response, Concluded:

Cost allocation is carefully considered and documented.

Auditors' Response: Documentation maintained to document the termination payment for one of two employees tested was not adequate. The auditor uses NEIS reports on all audits of State agencies, so understanding NEIS reports was not an issue. Access to NEIS reports, payroll, and personnel files was an issue. Our understanding was the State Treasurer removed medical information and sensitive personnel information from the personnel files before providing the auditors access even though the Auditor of Public Accounts has statutory access to almost any information requested during the course of an audit. Auditor of Public Accounts employees are statutorily bound to maintain the confidentiality of information disclosed to them in the course of an audit. Audit workpapers statutorily are not public records. An audit test to verify payroll expenses are accurate is to verify employees actually exist. The State Treasurer interpreted this as an accusation that State Treasurer employees were fictitious. Without an adequate segregation of duties over payroll or a documented compensating control there is an increased risk of errors occurring in payroll or State funds being misused. Documentation of the allocation of payroll costs between programs was not provided to the auditors. Documentation of the allocation of payroll costs between programs consists of more than a signature on a payroll document.

9. **Overtime Compensation**

Written Personnel Policies of the State Treasurer state, "Employees shall receive compensation at their regular hourly rate in the form of compensatory time off, at the State Treasurer's discretion, for hours worked in excess of 40 hours in any work week." The policy also states holidays shall be counted as hours worked.

For two of two terminated employees tested, overtime was paid at one and one half times the employee's regular hourly rate when the employee worked in excess of 40 hours and there was no holiday in the workweek. During weeks which included a holiday, which should be counted as hours worked according to the State Treasurer's personnel policy, the holiday was not counted as hours worked in the calculation of overtime paid. We also noted employees who were not terminated who were paid overtime at one and one half times their regular hourly rate instead of receiving compensation in the form of compensatory time off at their regular hourly rate.

When the State Treasurer pays overtime at one and one half times the employee's regular rate, and when the State Treasurer is not counting holiday hours as hours worked, they are not in compliance with their own personnel policies.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

9. **Overtime Compensation** (Concluded)

We recommend the State Treasurer either change their policy to reflect how they actually handle compensatory time and overtime, or comply with their already prescribed policy.

State Treasurer's Response: We believe the State Treasurer has the ability to change and/or temporarily implement changes to the personnel policies as may be needed. We understand it is difficult for the Auditor to understand and fully appreciate all of the decision making processes that went into the partnership and implementation that the State Treasurer in cooperation with Health and Human Services, IMS and DAS implemented an effective and efficient child support payment processing center. This implementation required emergency shifts to be implemented 24 by 7---even holidays---some staff requested "comp time" others over time and others, including management from the highest levels of the Executive Branch, asked for no compensation. Our first concern was to process child support payments.

Auditors' Response: State Treasurer employees were not paid in compliance with the State Treasurer's written overtime compensation policies.

10. **Public Sale of Unclaimed Property**

Neb. Rev. Stat. Section 69-1316 R.R.S. 1996 states “. . . The State Treasurer shall hold a sale whenever he or she decides, but a sale must be conducted at least once every five years . . . He or she need not offer any property for sale if, in his or her opinion, the probable cost of sale exceeds the value of the property.”

A public sale of Unclaimed Property has not been held since February 1994, a period in excess of five years. There was no documentation the probable cost of sale exceeded the value of the property.

The State Treasurer is not in compliance with State Statute. There is a potential risk of loss in the value of items, and proceeds from the sale of these items is not included in the permanent school fund and available for investment.

We recommend the State Treasurer comply with State Statute and hold a sale every 5 years. If it is determined the cost of the sale would exceed the value of the property, we recommend the State Treasurer document this determination. The documentation should show evidence that the items held as unclaimed have been reviewed and identified as to their worth.

State Treasurer's Response: We have begun the process to utilize modern technologies such as "E bay" and other websites to determine if the costs associated with a sale would be prohibitive.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

10. Public Sale of Unclaimed Property (Concluded)

State Treasurer's Response, Concluded:

Additionally, we have requested the assistance of numerous Veterans organizations to help us return priceless war medals, war Bibles, letters and other personal items before we consider auctioning them to the public.

11. Authorized Signatures

The Nebraska Accounting System (NAS) Manual, CONC-005, General Policies, Section 6 states, "Original, authorized signatures are required on all manually prepared accounting and payroll input documents . . . Authorized agents may be appointed by the agency director to act in his behalf in order to establish control, delegate authority and improve efficiency of processing."

Two of 18 (11%) disbursement documents tested were not approved by an individual authorized to approve disbursements. There was no authorization on file at DAS for those individuals approving these two documents. Because of the preaudit process these documents were never reviewed by DAS but were reviewed by State Treasurer staff.

When documents are signed by an unauthorized individual there is an increased risk that invalid expenses may be paid or fraud may occur.

We recommend the State Treasurer develop procedures to ensure documents are approved by authorized individuals considering the impact of the implementation of NIS.

State Treasurer's Response: The Auditor notes in this comment that State Treasury staff reviewed the payments. This office handles hundreds of accounting transactions daily in an efficient and accurate manner. As the Auditor noted Treasury staff reviewed the payments in question and allowed them to be processed.

Auditors' Response: When transactions are not approved by authorized individuals the established internal control process is not in place and operating as designed. There is an increased risk the transactions will be incorrect, invalid, or fraudulent in nature.

12. Published Notice of Unclaimed Property

Neb. Rev. Stat. Section 69-1311 R.R.S. 1996 states, "Between March 1 and March 10 of each year the State Treasurer shall cause notice to be published once in an English language legal newspaper of general circulation in the county in this State in which is located the last-known address of any person to be named in the notice . . . The published notice shall be entitled Notice of Names of Persons

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

12. Published Notice of Unclaimed Property (Continued)

Appearing to be Owners of Abandoned Property, and shall contain: (1) The names in alphabetical order and last-known addresses . . . (2) A statement that information concerning the amount or description of the property and the name and address of the holder may be obtained by any person possessing an interest in the property by addressing an inquiry to the State Treasurer”

The published public notices for March 2002 as attached to the Nebraska Press Advertising Service invoice did not contain the following information as required by State Statute:

- Each person’s last-known address.
- The notice was not entitled “Notice of Names of Persons Appearing to be Owner’s of Abandoned Property.”
- The notice did not include a statement that additional information could be obtained by any person possessing an interest in the property by contacting the State Treasurer.

The State Treasurer was not in compliance with State Statute.

We recommend the State Treasurer comply with State Statute and include the required information in public notices published.

State Treasurer’s Response: The ad that ran in March of 2003 was titled properly—“Notice of Names of Persons Appearing to be Owners of Abandoned Property”.

Names are published by the county of the last known address. This procedure does provide limited information about addresses and also protects rightful owners. Since a significantly high proportion of names have no address associated with the property we attempt to also advertise those names. Organizing the ad by county has been the long-standing policy of previous State Treasurers and is an efficient method to organize tens of thousands of names some with and some without complete addresses.

Not only did we invite questions but also we printed a claim form in the ad allowing for anyone seeing a name or business name to make an inquiry or claim. The phone number and website information were also provided.

Auditors’ Response: The March 2003 advertisement for unclaimed property did include in fine print “Notice of Names of Persons Appearing to be Owners of Unclaimed Property.” This statement was not the title of the advertisement. The names were published by county of the last known address. The advertisement did not include each person’s last known address as required by Statute. While there was a claim form included in the advertisement, there was no statement that information concerning the amount or description of the property

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

12. Published Notice of Unclaimed Property (Concluded)

Auditors' Response, Concluded:

and the name and address of the holder may be obtained by any person possessing an interest in the property by addressing an inquiry to the State Treasurer, as required by Statute.

13. Capital Assets

Good internal control requires a proper segregation of duties so no one individual is in a position to handle all phases of a transaction. Good internal control requires inventory additions to be added to the capital asset inventory listing in a timely manner. The State Treasurer's policy is to record items valued at or above \$1,000 to the State Treasurer's office official inventory listing. The NAS Manual states only those purchases of items of a capital nature should be coded to a capital outlay account code. Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999, states all State property shall be indelibly tagged, marked, or stamped as "Property of the State of Nebraska," and each agency shall state positively that each item has been so tagged, marked, or stamped. Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states 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. The inventory shall be completed and filed with the DAS Materiel Administrator by August 31 of each year.

We noted the following:

- Two employees were responsible for maintaining the capital asset inventory records, adding capital asset items to the list, deleting capital asset items from the list, and completing the physical inventory of capital assets. While two employees were required to be involved in capital asset transactions, one employee had the ability to handle all aspects of a capital asset transaction without any documented supervisory review.
- As of January 8, 2003, there had been no capital asset additions recorded to the State Treasurer's capital asset inventory listing since November 14, 2001. In fiscal year 2002, there were \$22,746 in purchases over \$1,000 that were coded to a 4800 capital asset account code on NAS, but were not added to the State Treasurer's capital asset inventory system. Alternatively, if purchases are not of a capital nature the purchase should not be coded to a capital outlay account.
- One of five items traced from the floor to the capital asset inventory list was not tagged "Property of the State of Nebraska," and was not included on the capital asset inventory listing. This item was an Encoder and was purchased on February 28, 2002 for \$5,660.
- As of March 3, 2003 the State Treasurer's office had not filed their June 30, 2002 capital asset inventory list with the DAS Materiel Administrator.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

13. Capital Assets (Concluded)

There is an increased risk of loss or misuse of State property when a segregation of duties is not in place over capital assets, and, when capital asset purchases are not added to the capital asset inventory listing in a timely manner. Without properly tagging all State property as “Property of the State of Nebraska,” and without filing the capital asset inventory list with DAS by August 31, the State Treasurer is not in compliance with State Statute.

We recommend the State Treasurer implement procedures to ensure there is an adequate segregation of duties over capital assets or implement other controls to compensate for the lack of segregation of duties. We recommend the State Treasurer add purchases to the capital asset inventory system in a timely manner. This should be no later than six months after the item is purchased. We recommend all capital asset items be given a tag number and be marked as “Property of the State of Nebraska.” Purchases, which are not of a capital nature, should not be coded to capital outlay accounts. We recommend the State Treasurer file their capital asset inventory listing with the DAS Materiel Administrator by August 31 of each year.

State Treasurer’s Response: The Auditor is incorrect in the finding that the encoder machine was not marked “Property of the State of Nebraska”. The auditors staff acknowledged to Mary Brock and Paul Kramer that he had missed the notation on the encoding machine. This comment should be removed from the report.

The two purchases were for two used check encoding machines and these have been added to the inventory.

The inventory has been filed.

There has been no misuse or loss to the State.

Auditors’ Response: The encoder was tagged “Property of the State of Nebraska” when reviewed a second time. When there is not an adequate segregation of duties over capital assets the risk of loss or misuse of State property is increased.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

14. James M. Amos Educational Trust Fund

Neb. Rev. Stat. Section 81-2013 R.R.S. 1999 states, "The entire amount in the James M. Amos Educational Trust Fund shall lapse to the General Fund on October 7, 1993, if the named beneficiary has not started a course of post-high school education prior to such date."

The balance in the James M. Amos Educational Trust Fund - 6130 as of June 30, 2003 was \$8,720. No documentation was available to support why these funds had not been transferred to the General Fund.

Without properly lapsing all funds in the trust to the General Fund, the State Treasurer was not in compliance with State Statute.

We recommend the State Treasurer either document why the Fund has not been lapsed to the General Fund or close out the Fund by lapsing the balance to the General Fund.

State Treasurer's Response: This is being looked into since the statute has certain requirements that must be met prior to lapsing the money to the General Fund.

15. Accountability and Disclosure Commission Filing

Title 4 NAC 2-002.11(73) of the Nebraska Administrative Code states the Deputy State Treasurer is required to file a Statement of Financial Interests with the Accountability and Disclosure Commission. Neb. Rev. Stat. Section 49-1495 R.S.Supp., 2002 states, "An individual appointed to an office . . . shall, before assuming duties, file a statement for the preceding calendar year with the commission."

The Accountability and Disclosure Commission did not have a Statement of Financial Interests on file for a Deputy State Treasurer. The individual noted was the Deputy State Treasurer from October 2001 through approximately June 2002.

As a result, the financial interests of a public official were not disclosed to the public in the manner prescribed by State Statute.

We recommend the State Treasurer create policies and procedures to ensure the proper filings are made for the appropriate officials of the State Treasurer's office.

State Treasurer's Response: An interim Deputy David Gilmore, a Pastor, was named for a period of a few months. A Deputy is required by statute and until a permanent Deputy could be appointed David Gilmore served in the position. The interim Deputy did not file the report however the permanent Deputy Mary Brock has had her report on file for several months.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

15. **Accountability and Disclosure Commission Filing** (Concluded)

State Treasurer's Response, Concluded:

Mr. Gilmore is a respected Pastor of a local church and had no financial interests that resulted in a conflict of interest. The interests of the State were not compromised in any way.

The new Deputy's reports were filed many months ago and before the statutory requirement.

Auditors' Response: The interim Deputy State Treasurer served for approximately nine months. The fact he was an interim Deputy and a Pastor would have no impact on the requirement to file a Statement of Financial Interests.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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NEBRASKA STATE TREASURER

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INDEPENDENT AUDITORS' REPORT

Don Dunlap, CPA
Asst. Deputy Auditor
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We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Nebraska State Treasurer, as of and for the year ended June 30, 2002, which collectively comprise the State Treasurer's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Treasurer's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Except as discussed in the following paragraph, 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.

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We did not audit the following portions of the Highway Trust Fund 6124 receipts of \$440,645,493, the Permanent School Fund 6334 receipts of \$2,715,181, disbursements of \$51, and other financing sources of \$10,766,611, the Excess Liability Fund 6222 receipts of \$4,579,651, disbursements of \$12,185,511,

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and Other Funds - receipts of \$35,575 and disbursements of \$39,369,293. We also did not audit additions and deductions of the Pension Trust Funds.

As more fully disclosed in Note 8 to the financial statements, certain funds of the State Treasurer are common funds with other State agencies. Common Funds are funds where State agencies in addition to the State Treasurer record transactions. The cash balances and changes in cash balances noted in paragraph 3 are subject to audit in those other State agencies.

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 State Treasurer are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska State Treasurer. They do not purport to, and do not, present fairly the cash balances of the governmental activities, business-type 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, except for the adjustments, if any, as might have been determined to be necessary had we examined evidence regarding the cash balances and changes in cash balances as noted in paragraph three above, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Nebraska State Treasurer, 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 March 28, 2003, on our consideration of the Nebraska State Treasurer'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 State Treasurer's basic financial statements. The combining nonmajor fund financial statements, 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 combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the adjustments, if any, as might have been determined to be necessary had we examined evidence

regarding the cash balances and changes in cash balances as noted in paragraph three above, 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.

Handwritten signature of Timothy J. Channer CPA in cursive script.

Assistant Deputy Auditor

March 28, 2003

NEBRASKA STATE TREASURER

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska State Treasurer's financial report presents a narrative overview and analysis of the financial activities of the Nebraska State Treasurer for the fiscal year ended June 30, 2002. Please read it in conjunction with the State Treasurer'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 State Treasurer's basic financial statements. The State Treasurer'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.

Because this is the first time the State Treasurer's audit was completed under the new Governmental Accounting Standards Board (GASB) Statement Number 34 reporting model no prior year comparative financial information will be presented.

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 State Treasurer's overall financial status. Over time, increases or decreases in the State Treasurer's net assets are one indicator of whether its financial health is improving or deteriorating. The State Treasurer'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 State Treasurer. Nonfinancial factors also need to be considered to assess the overall health of the State Treasurer. Agency-wide financial statements divide the State Treasurer into three kinds of activities:

Governmental activities – The State Treasurer's basic services are included here. These activities are generally financed through taxes, 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.

Component units – No component units for the State Treasurer were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the State Treasurer, reporting the State Treasurer's operations in more detail than the agency-wide statements by providing information about the State Treasurer'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.

NEBRASKA STATE TREASURER

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The proprietary fund statements offer financial information about the activities the government operates like businesses.

Fiduciary fund statements provide information about financial relationships in which the State Treasurer acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements.

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 combining statements for non-major funds (which are shown in the fund financial statements in a single column). This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska State Treasurer'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 AGENCY AS A WHOLE

Net Assets

For the fiscal year ended June 30, 2002, net assets of the State Treasurer (current assets resulting from cash basis transactions) were as follows:

NEBRASKA STATE TREASURER

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities
	<u>2002</u>
Restricted	\$ 321,507,537
Unrestricted	120,201,216
Total Net Assets	<u>\$ 441,708,753</u>

Governmental Activities

Receipts for the State Treasurer's governmental activities for the fiscal year 2002 were as follows:

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities
	<u>2002</u>
RECEIPTS:	
Program Receipts:	
Charges for Services	\$ 64,881,940
Federal Grants & Contracts	2,050,416
General Receipts:	
Appropriations	27,595,338
Taxes	451,911,822
Investment Interest	22,042,185
Other	2,579,736
Total Receipts	<u>571,061,437</u>
DISBURSEMENTS:	
General Government	5,277,586
Culture - Recreation	9,186
Education	466,667
Health and Social Services	47,677
Miscellaneous (Intergovernmental)	30,873,148
Capital Outlay	39,369,293
Total Disbursements	<u>76,043,557</u>
Excess (Deficiency) before Other Financing Sources and Uses	495,017,880
OTHER FINANCING SOURCES & USES	<u>(555,336,294)</u>
Increase (Decrease) in Net Assets	(60,318,414)
Beginning Net Assets July 1	<u>502,027,167</u>
Ending Net Assets June 30	<u>\$ 441,708,753</u>

NEBRASKA STATE TREASURER

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Nebraska State Treasurer uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. No significant changes from the prior year were noted. One fund experienced a noteworthy change from the prior year and is highlighted as follows: The Cash Reserve Fund 1100 decreased by \$60,170,000 from a balance of \$170,236,100 at June 30, 2001 to a balance of \$110,066,100 at June 30, 2002. This was due to transfers to General Fund 1000 to cover disbursements of the General Fund. Receipts in the General Fund were down because of the overall economic climate.

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

Due to economic conditions the Cash Reserve Fund balance is expected to continue to be reduced to meet General Fund needs.

NEBRASKA STATE TREASURER
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
June 30, 2002

	Governmental Activities	Business-type Activities	Total (Memorandum Only)
Assets			
Cash in State Treasury	\$ 135,794,528	\$ 1,698,236	\$ 137,492,764
Petty Cash	1,000	-	1,000
Deposit with Vendors	1,132	-	1,132
Investments	305,912,093	49,911,903	355,823,996
Total Assets	\$ 441,708,753	\$ 51,610,139	\$ 493,318,892
Net Assets			
Restricted for:			
Principal Endowment	\$ 321,507,537	\$ -	\$ 321,507,537
Excess Liability Costs	-	51,610,139	51,610,139
Unrestricted	120,201,216	-	120,201,216
Total Net Assets	\$ 441,708,753	\$ 51,610,139	\$ 493,318,892

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

NEBRASKA STATE TREASURER
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

		Program Receipts	
Disbursements	Charges for Services	Operating Grants and Contributions	
Functions:			
Governmental Activities:			
General Government	\$ 5,277,586	\$ 297,028	\$ 2,073,575
Culture and Recreation	9,186	(203,016)	-
Education	466,667	1,041,261	(1,060,783)
Health and Social Services	47,677	-	(152,418)
Transportation	-	59,437,588	115,305
Miscellaneous (Intergovernmental)	30,873,148	6,886,689	-
Capital Outlay	39,369,293	2,126	-
Total Governmental Activities	76,043,557	67,461,676	975,679
Business-type Activities:			
Excess Liability	12,355,881	4,579,651	4,767,199
Total Business-type Activities	12,355,881	4,579,651	4,767,199
Total Governmental and Business-type Activities	\$ 88,399,438	\$ 72,041,327	\$ 5,742,878

General Receipts and Other Financing Sources & Uses:

- Appropriations
- Property Taxes
- Tobacco Products Taxes
- Insurance Premium Taxes
- Sales and Use Taxes on Motor Vehicles
- Petroleum Products Taxes
- Severance Taxes
- Unrestricted Investment Interest
- Other Financing Sources & Uses
- Total General Receipts and
Other Financing Sources & Uses

Change in Net Assets

Net Assets July 1, 2001

Net Assets June 30, 2002

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

Net (Disbursements) Receipts and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total (Memorandum Only)
\$ (2,906,983)	\$ -	\$ (2,906,983)
(212,202)	-	(212,202)
(486,189)	-	(486,189)
(200,095)	-	(200,095)
59,552,893	-	59,552,893
(23,986,459)	-	(23,986,459)
(39,367,167)	-	(39,367,167)
<u>(7,606,202)</u>	<u>-</u>	<u>(7,606,202)</u>
-	(3,009,031)	(3,009,031)
-	<u>(3,009,031)</u>	<u>(3,009,031)</u>
<u>(7,606,202)</u>	<u>(3,009,031)</u>	<u>(10,615,233)</u>
27,595,338	-	27,595,338
129,394	-	129,394
3,000,000	-	3,000,000
7,098,440	-	7,098,440
151,439,944	-	151,439,944
289,087,270	-	289,087,270
1,156,774	-	1,156,774
23,116,922	-	23,116,922
<u>(555,336,294)</u>	<u>-</u>	<u>(555,336,294)</u>
<u>(52,712,212)</u>	<u>-</u>	<u>(52,712,212)</u>
(60,318,414)	(3,009,031)	(63,327,445)
<u>502,027,167</u>	<u>54,619,170</u>	<u>556,646,337</u>
<u>\$ 441,708,753</u>	<u>\$ 51,610,139</u>	<u>\$ 493,318,892</u>

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

	Major Funds			Other Funds	Total Governmental Funds (Memorandum Only)
	State General Fund 1000	Cash Reserve Fund 1100	Permanent School Fund 6334		
Assets					
Cash in State Treasury	\$ -	\$ 110,066,100	\$ 20,379,005	\$ 5,349,423	\$ 135,794,528
Petty Cash	1,000	-	-	-	1,000
Deposit with Vendors	1,132	-	-	-	1,132
Investments	-	-	269,756,676	36,155,417	305,912,093
Total Assets	<u>\$ 2,132</u>	<u>\$ 110,066,100</u>	<u>\$ 290,135,681</u>	<u>\$ 41,504,840</u>	<u>\$ 441,708,753</u>
Fund Balances					
Reserved for:					
Postage	\$ 1,132	\$ -	\$ -	\$ -	\$ 1,132
Endowment Principal	-	-	290,135,681	31,371,856	321,507,537
Unreserved	1,000	110,066,100	-	-	110,067,100
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	10,132,984	10,132,984
Total Fund Balances	<u>\$ 2,132</u>	<u>\$ 110,066,100</u>	<u>\$ 290,135,681</u>	<u>\$ 41,504,840</u>	<u>\$ 441,708,753</u>

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

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

	Major Funds		
	State General Fund 1000	Cash Reserve Fund 1100	Highway Trust Fund 6124
RECEIPTS:			
Appropriations	\$ 27,595,338	\$ -	\$ -
Taxes	129,394	-	440,527,214
Federal Grants & Contracts	-	-	-
Sales & Charges	5,160,251	-	59,425,166
Miscellaneous:			
Investment Interest	21,864,146	-	887,229
Donations & Contributions	-	-	-
Other Miscellaneous	1,726,438	-	12,422
TOTAL RECEIPTS	56,475,567	-	500,852,031
DISBURSEMENTS BY FUNCTION:			
General Government	-	-	-
Culture - Recreation	-	-	-
Education	-	-	-
Health and Social Services	-	-	-
Miscellaneous (Intergovernmental)	27,595,338	-	-
Capital Outlay	-	-	-
TOTAL DISBURSEMENTS	27,595,338	-	-
Excess (Deficiency) of Receipts Over (Under) Disbursements	28,880,229	-	500,852,031
OTHER FINANCING SOURCES (USES):			
Sales of Assets	-	-	-
Deposits to General Fund	(70,578,897)	-	-
Distributive Activity:			
Ins	-	-	-
Outs	-	-	-
Operating Transfers In	94,598,249	-	3,601,852
Operating Transfers Out	(52,899,581)	(60,170,000)	(504,453,883)
TOTAL OTHER FINANCING SOURCES (USES)	(28,880,229)	(60,170,000)	(500,852,031)
Net Change in Fund Balances	-	(60,170,000)	-
FUND BALANCES, JULY 1, 2001	2,132	170,236,100	-
FUND BALANCES, JUNE 30, 2002	\$ 2,132	\$ 110,066,100	\$ -

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

Permanent School Fund 6334	Other Funds	Total Governmental Funds (Memorandum Only)
\$ -	\$ -	\$ 27,595,338
1,156,774	10,098,440	451,911,822
-	2,050,416	2,050,416
-	296,523	64,881,940
(1,060,810)	351,620	22,042,185
-	-	-
1,041,261	(200,385)	2,579,736
<u>1,137,225</u>	<u>12,596,614</u>	<u>571,061,437</u>
-	5,277,586	5,277,586
-	9,186	9,186
462,179	4,488	466,667
-	47,677	47,677
-	3,277,810	30,873,148
-	39,369,293	39,369,293
<u>462,179</u>	<u>47,986,040</u>	<u>76,043,557</u>
<u>675,046</u>	<u>(35,389,426)</u>	<u>495,017,880</u>
4,923,117	-	4,923,117
-	-	(70,578,897)
-	1,513,244	1,513,244
-	(1,513,244)	(1,513,244)
5,843,494	40,879,708	144,923,303
(9,707,233)	(7,373,120)	(634,603,817)
<u>1,059,378</u>	<u>33,506,588</u>	<u>(555,336,294)</u>
1,734,424	(1,882,838)	(60,318,414)
<u>288,401,257</u>	<u>43,387,678</u>	<u>502,027,167</u>
<u>\$ 290,135,681</u>	<u>\$ 41,504,840</u>	<u>\$ 441,708,753</u>

NEBRASKA STATE TREASURER
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUNDS - ENTERPRISE FUND
June 30, 2002

	Excess Liability Fund 6222
Assets	
Cash in State Treasury	\$ 1,698,236
Investments	49,911,903
	<u>51,610,139</u>
Total Assets	<u>\$ 51,610,139</u>
 Net Assets	
Restricted for:	
Excess Liability	\$ 51,610,139
	<u>51,610,139</u>
Total Net Assets	<u>\$ 51,610,139</u>

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

NEBRASKA STATE TREASURER
**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**
PROPRIETARY FUNDS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2002

	<u>Excess Liability Fund 6222</u>
OPERATING RECEIPTS:	
Sales & Charges	\$ 4,579,651
TOTAL OPERATING RECEIPTS	<u>4,579,651</u>
OPERATING DISBURSEMENTS:	
Services and Supplies	172,433
Insurance Claims	12,068,000
Other Expenses	115,448
TOTAL OPERATING DISBURSEMENTS	<u>12,355,881</u>
Operating Loss	<u>(7,776,230)</u>
NONOPERATING RECEIPTS:	
Investment Income	4,767,199
TOTAL NONOPERATING RECEIPTS	<u>4,767,199</u>
Change in Net Assets	(3,009,031)
NET ASSETS, JULY 1, 2001	<u>54,619,170</u>
NET ASSETS, JUNE 30, 2002	<u><u>\$ 51,610,139</u></u>

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

NEBRASKA STATE TREASURER
STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets			
Cash in State Treasury	\$ 60,069	\$ 6,132,964	\$ 36,036,452
Investments	4,435,598,176	207,723,068	-
Deposits with Vendors	-	2,070	-
Total Assets	<u>4,435,658,245</u>	<u>213,858,102</u>	<u>\$ 36,036,452</u>
Liabilities			
Due to Depositor	-	-	\$ 3,824
Due to Other Fund/Government	-	-	36,032,628
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 36,036,452</u>
Net Assets			
Held in trust for:			
Pension Benefits	4,435,658,245	-	
Unclaimed Property	-	6,055,598	
Aeronautics	-	6,500,047	
Other	-	201,302,457	
Total Net Assets	<u>\$ 4,435,658,245</u>	<u>\$ 213,858,102</u>	

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

NEBRASKA STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

	Pension Trust Funds	Private-Purpose Trust Funds
ADDITIONS:		
Sales & Charges	\$ -	\$ 291
Contributions	-	203,473,000
Net appreciation (depreciation) in fair value of investments	(264,270,972)	(8,009,600)
Investment Income	97,457,395	-
Miscellaneous	5,881,246	11,595,430
Operating Transfers In	37,000,000	334,619
Total Additions	(123,932,331)	207,393,740
DEDUCTIONS:		
Personal Services	-	173,906
Operating	20,589,207	5,592,144
Benefits	-	1,290,000
Travel	-	4,314
Capital Asset Purchases	-	10,495
Investment Expense	-	210,000
Operating Transfers Out	3,565,000	6,543,115
Total Deductions	24,154,207	13,823,974
Change in Net Assets Held in Trust	(148,086,538)	193,569,766
Net Assets July 1, 2001	4,583,744,783	20,288,336
Net Assets June 30, 2002	\$ 4,435,658,245	\$ 213,858,102

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

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

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

A. Reporting Entity

The Nebraska State Treasurer is a State agency established under and governed by the laws of the State of Nebraska. As such, the State Treasurer is exempt from State and Federal income taxes. The financial statements include all funds of the State Treasurer. The State Treasurer has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the State Treasurer, or the significance of their relationship with the State Treasurer 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 State Treasurer 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 State Treasurer.

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

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 State Treasurer, 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 State Treasurer, except for fiduciary activities. 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 State Treasurer reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

privileges provided by a given function or segment and 2) grants and 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 State Treasurer 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. Additional general receipts include Insurance Premium Taxes, Sales and Use Taxes on Motor Vehicles, Petroleum Products Taxes, and Investment Interest.

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

The State Treasurer reports the following major governmental funds:

General Fund - 1000. This is the State Treasurer's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Cash Reserve Fund - 1100. This Fund is considered to be part of the General Fund. This Fund is to be used when General Fund receipts are not sufficient to meet General Fund disbursements. Transfers in to the Cash Reserve Fund are made when actual net General Fund receipts exceed estimated net General Fund receipts. Transfers out to the General Fund are made when requested by the Department of Administrative Services for cash flow purposes or by legislative directive.

Highway Trust Fund - 6124. This Fund is used to account for the maintenance and preservation of State highways. Monies are received from sales taxes on motor vehicles, motor fuel taxes, federal aid, and other highway user fees.

Permanent School Fund - 6334. This Fund receives proceeds from the sale of school lands, income from school lands, escheat monies, and investment income. The income from this Fund is distributed to public schools.

The State Treasurer reports the following major proprietary fund:

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Excess Liability Fund - 6122. The Excess Liability Fund is an Enterprise Fund. Monies collected from annual surcharges levied on qualified health care providers in Nebraska collected by the Nebraska Department of Insurance are deposited into the Fund. The Fund may be used to pay claims, costs associated with collecting, protecting, and administering the Fund.

Additionally, the State Treasurer reports the following fund types:

Fiduciary Fund Types:

Pension Trust Funds. These funds account for the State Employee Retirement System, County Employee Retirement System, School Retirement System, Judges Retirement System, State Patrol Retirement System and Deferred Compensation pension benefits.

Private-Purpose Trust funds. These funds account for property escheated to the State held for private individuals, Nebraska College Savings Plan activity held for private individuals, and proceeds from the sale of excess airfields.

Agency funds. These funds account for assets held by the State pending distribution to other governments and individuals.

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 State Treasurer 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 State Treasurer. This differs from governmental generally accepted accounting principles (GAAP), which requires the Agency-wide, proprietary, and fiduciary 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.

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 State Treasurer, except for the State Building Fund 3300, Financial Responsibility Trust Fund 6122 - Cash Account 1113, Insurance Investment Fund 6123, Cultural Preservation Endowment Fund 6692, Car Line Refund Fund 7163, and Suspense Fund 7999, were designated for investment during fiscal year 2002.

Investments. Neb. Rev. Stat. Section 72-1247 R.R.S. 1998 authorized the State Investment Officer to invest the State's funds in accordance with the prudent person rule. The State Investment Officer may not buy on margin, buy call options, or buy put options. Section 72-1247 was repealed, effective July 1, 2002. The State Treasurer's investments are categorized to give an indication of the level of custodial risk assumed by the State Treasurer at year end. Category 1 includes investments that are insured, registered, or for which the securities are held by the State or its agent in the State's name. The investments of the State Treasurer are categorized as Category 1 or not categorized as required by Governmental Accounting Standards Board Statement Number 3.

U.S. Government Securities	\$ 71,006,097
Corporate Bonds	80,999,960
Equity Securities	48,056,909
Municipal Bonds	399,110
Foreign Government Securities	2,159,198
Total Category 1	<u>\$ 202,621,274</u>

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments (Not Categorized)	
Mutual Funds	\$ 355,724,877
Pooled Cash Investments	5,200,913
Investments (Not Audited)	
Pension Trust Investments	<u>4,435,598,176</u>
Total Non Categorized Investments	<u>\$ 4,796,523,966</u>
Category 1 Investments	\$ 202,621,274
Non Categorized Investments	<u>4,796,523,966</u>
Total Investments	<u>\$ 4,999,145,240</u>

A reconciliation of deposits and investments to the basic financial statements follows:

Deposits and Investments	
Total Investments	\$ 4,999,145,240
Carrying Amount of Deposits	<u>179,722,249</u>
Total	<u>\$ 5,178,867,489</u>
Statement of Net Assets:	
Cash in State Treasury	\$ 137,492,764
Investments	355,823,996
Statement of Fiduciary Net Assets:	
Pension Trust Funds:	
Cash in State Treasury	60,069
Investments	4,435,598,176
Private-Purpose Trust Funds:	
Cash in State Treasury	6,132,964
Investments	207,723,068
Agency Funds:	
Cash in State Treasury	<u>36,036,452</u>
Total	<u>\$ 5,178,867,489</u>

Neb. Rev. Stat. Section 72-1247 R.R.S. 1998 authorized the State Investment Officer to participate in securities lending transactions, where securities are loaned to broker dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

end. At year-end, the State had no credit risk exposure to borrowers because the amounts owed the borrowers exceeded the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Generally, either the State or borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investments pools. Because loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian. At June 30, 2002, there was \$39,328,046 on securities loan.

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 expense on capital assets was 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 State Treasurer earn sick and annual leave and may be allowed to accumulate compensatory leave or may be paid overtime. Temporary and intermittent employees 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 government-wide and fiduciary fund 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.

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the State Treasurer'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 deposits and Endowment Principal.

2. **Totals**

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

3. **Contingencies and Commitments**

Risk Management. The State Treasurer 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 State Treasurer, 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.

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- 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.

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

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

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. 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

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 State Treasurer 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.

For the fiscal year ended June 30, 2002, employees contributed \$14,367 and the State Treasurer contributed \$22,413.

5. Operating Transfers In, Operating Transfers Out, and Distributive Activity

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

The State Treasurer's transfers in, transfers out, and distributive activity for the audit period consists of the following:

<u>Explanation</u>	<u>Amount</u>
Operating Transfers In - Major Funds:	
General Fund:	
Various statutory and legislative mandated transfers	\$ 94,598,249
Highway Trust Fund:	
Monthly transfers from the Ethanol Board	3,601,852
Permanent School Fund:	
Unclaimed Property receipts transfer	5,812,702
Other miscellaneous transfers	30,792
Total Permanent School Fund transfers in	5,843,494
Total	104,043,595

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

**5. Operating Transfers In, Operating Transfers Out, and Distributive Activity
(Concluded)**

	<u>Amount</u>
Operating Transfers In - Nonmajor Funds:	
State Building Fund:	
Legislative transfers from the General Fund	39,539,763
Non-material transfers for all remaining Nonmajor Funds	<u>1,339,945</u>
Total	<u>40,879,708</u>
Total Operating Transfers In - All Funds	<u>\$ 144,923,303</u>
Operating Transfers Out - Major Funds:	
General Fund:	
Various statutory and legislative mandated transfers	\$ 52,899,581
Cash Reserve Fund:	
Various statutory and legislative mandated transfers	60,170,000
Highway Trust Fund:	
Allocation of the tax and fee collections to the Department of Roads, municipalities, and counties	504,453,883
Permanent School Fund:	
Fund earnings transferred to the Department of Education	<u>9,707,233</u>
Total	<u>627,230,697</u>
Operating Transfers Out - Nonmajor Funds:	
Non-material transfers for all Nonmajor Funds	<u>7,373,120</u>
Total	<u>7,373,120</u>
Total Operating Transfers Out - All Funds	<u>\$ 634,603,817</u>
Distributive Activity Ins - All Funds	
Aircraft Fuel Tax Fund	
Collection of aircraft fuel taxes	<u>\$ 1,513,244</u>
Distributive Activity Outs - All Funds	
Aircraft Fuel Tax Fund	
Aircraft fuel taxes transferred to the Department of Aeronautics	<u>\$ 1,513,244</u>

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **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	\$ 548,906
New Appropriations	28,342,232
Total Appropriations	<u>28,891,138</u>
Disbursements	<u>(27,595,338)</u>
Ending (Appropriations) Balance June 30, 2002	<u><u>\$ 1,295,800</u></u>

7. **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 State Treasurer implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the State Treasurer’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 State Treasurer 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 State Treasurer.

8. **Funds and Activity of the State Treasurer**

The State Treasurer, by State Statute, has responsibilities over certain transactions of certain funds of the State. Other State agencies also are responsible for transactions processed through these same funds. To account for these responsibilities the State has established funds that are “common” to more than one State agency. Common funds are funds in which more than one agency can record transactions. As such, certain transactions, which are processed through these common funds of the State Treasurer and other State agencies, are the responsibility of the other State agencies. The following is a summary of the funds/or activity of funds, which are not subject to audit in the audit of the State Treasurer’s office:

NEBRASKA STATE TREASURER

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. Funds and Activity of the State Treasurer (Concluded)

- A. General Fund 1000 is used by those State agencies which receive General Fund appropriations. The receipts and disbursements of the General Fund are subject to audit in each State agency which records General Fund activity. The General Fund balance is recorded under the State Treasurer. Only that activity related to the State Treasurer's General Fund appropriations is shown on the State Treasurer's financial statements.
- B. Highway Trust Fund 6124 - Taxes of \$440,527,214, Sales and Charges of \$105,857, and Other Miscellaneous receipts of \$12,422 were collected by other State agencies and deposited directly into the fund, and were therefore subject to audit in other State agencies.
- C. Permanent School Fund 6334 - Taxes of \$1,156,774, Investment Interest of \$579,025, Other Miscellaneous receipts of \$979,382, Education Function expenses of \$51, Sale of Assets of \$4,923,117, and Operating Transfers In of \$5,843,494 were subject to audit in other agencies.
- D. Excess Liability Fund 6222 - This is a fund common with the Nebraska Department of Insurance. Receipts of \$4,579,651 were subject to audit in the audit of the Department of Insurance. Services and Supplies expense of \$117,511 of a total of \$172,433, and Insurance Claims of \$12,068,000 were also subject to audit in the audit of the Nebraska Department of Insurance.
- E. Other Funds - The following other funds had activity which was subject to audit in other agencies: Receipts of \$2,126 and disbursements of \$39,263,854 in State Building Fund 3300, and disbursements of \$105,439 in Capitol Construction Fund 3800. Normal School Endowment Fund 6328 - Investment Interest of \$361. Veteran's Aid Fund 6333 - Investment Interest of \$17,439. Permanent University Endowment Fund 6335 - Investment Interest of \$12,079. Ag Endowment Fund 6513 - Investment Interest of \$3,570. Activity of the three Pension Funds (Judges Retirement Fund 6323, Patrol Retirement Fund 6327, and School Retirement Fund 6336).

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

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>AMOUNTS</u>
PROGRAM:				
12-Salary - State Treasurer	\$ 63,735	\$ 63,735	\$ 62,627	\$ 1,108
24-State Disbursement Unit	2,287,648	2,214,181	1,068,043	1,146,138
119-Aid to Natural Resource Districts	2,301,138	2,209,092	2,209,092	-
120-Aid to Municipalities	17,531,500	16,830,240	16,830,240	-
149-Aid to Counties	7,393,808	7,098,056	7,098,056	-
503-Treasury Management	393,635	382,044	323,915	58,129
505-Educational Savings Plan	93,790	3,365	3,365	-
TOTAL DISBURSEMENTS	<u>\$ 30,065,254</u>	<u>\$ 28,800,713</u>	<u>\$ 27,595,338</u>	<u>\$ 1,205,375</u>

See Notes to Supplementary Information

NEBRASKA STATE TREASURER

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

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 State Treasurer's legally adopted annual budget amount. The State Treasurer's budgetary comparison schedule includes the general fund. A budgetary comparison could not be shown for the State Treasurer's major special revenue fund, the Highway Trust Fund – 6124, 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 schedule 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 State Treasurer and all other State agencies must submit their budget request for the biennium beginning the following July 1. 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. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

NEBRASKA STATE TREASURER

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

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, and the State Treasurer's major special revenue fund which includes the Highway Trust Fund – 6124 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 appropriations must also be approved by the Legislature as a deficit appropriations bill.

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

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2002

	Special Revenue						
	Convention Center Support Fund 2119	Education Savings Plan Administrative Fund 2124	MIRF Cash Fund 2126	Treasurer Administrative Cash Fund 2127	Spirit Plate Proceeds Cash Fund 2128	Mutual Finance Assistance Cash Fund 2129	Motor Fuel Trust Fund 6246
Assets							
Cash in State Treasury	\$ 356,422	\$ 11,150	\$ 265,466	\$ 9,458	\$ 858,480	\$ 16,195	\$ 2,784,837
Investments	-	-	-	-	-	-	-
Total Assets	<u>\$ 356,422</u>	<u>\$ 11,150</u>	<u>\$ 265,466</u>	<u>\$ 9,458</u>	<u>\$ 858,480</u>	<u>\$ 16,195</u>	<u>\$ 2,784,837</u>
Fund Balances							
Reserved for:							
Endowment Principal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Reported in Nonmajor Special Revenue Funds	<u>356,422</u>	<u>11,150</u>	<u>265,466</u>	<u>9,458</u>	<u>858,480</u>	<u>16,195</u>	<u>2,784,837</u>
Total Fund Balances	<u>\$ 356,422</u>	<u>\$ 11,150</u>	<u>\$ 265,466</u>	<u>\$ 9,458</u>	<u>\$ 858,480</u>	<u>\$ 16,195</u>	<u>\$ 2,784,837</u>

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2002

	Special Revenue		Capital Projects			Permanent Funds	
	Cultural Preservation Endowment Fund 6692	Total	State General Fund 3300	Capitol Construction Fund 3800	Total	Bessey Memorial Trust Fund 6126	Normal School Endowment Fund 6328
Assets							
Cash in State Treasury	\$ -	\$ 4,302,008	\$ 237,256	\$ 140,215	\$ 377,471	\$ 1,068	\$ 7,236
Investments	5,453,505	5,453,505	-	-	-	14,768	179,864
Total Assets	\$ 5,453,505	\$ 9,755,513	\$ 237,256	\$ 140,215	\$ 377,471	\$ 15,836	\$ 187,100
Fund Balances							
Reserved for:							
Endowment Principal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,836	\$ 187,100
Unreserved, Reported in Nonmajor Special Revenue Funds	5,453,505	9,755,513	237,256	140,215	377,471	-	-
Total Fund Balances	\$ 5,453,505	\$ 9,755,513	\$ 237,256	\$ 140,215	\$ 377,471	\$ 15,836	\$ 187,100

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2002

	Permanent Funds				Total	Total Nonmajor Governmental Funds
	Veteran's Aid Fund 6333	Permanent University Endowment Fund 6335	Ag Endowment Fund 6513	J J Soukup Trust Fund 6891		
Assets						
Cash in State Treasury	\$ 347,086	\$ 242,968	\$ 71,586	\$ -	\$ 669,944	\$ 5,349,423
Investments	27,844,056	762,722	1,677,628	222,874	30,701,912	36,155,417
Total Assets	<u>\$ 28,191,142</u>	<u>\$ 1,005,690</u>	<u>\$ 1,749,214</u>	<u>\$ 222,874</u>	<u>\$ 31,371,856</u>	<u>\$ 41,504,840</u>
Fund Balances						
Reserved for:						
Endowment Principal	\$ 28,191,142	\$ 1,005,690	\$ 1,749,214	\$ 222,874	\$ 31,371,856	\$ 31,371,856
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	-	-	10,132,984
Total Fund Balances	<u>\$ 28,191,142</u>	<u>\$ 1,005,690</u>	<u>\$ 1,749,214</u>	<u>\$ 222,874</u>	<u>\$ 31,371,856</u>	<u>\$ 41,504,840</u>

(Concluded)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds					
	Convention Center Support Fund 2119	Education Savings Plan Administrative Fund 2124	MIRF Cash Fund 2126	Treasurer Administrative Cash Fund 2127	Spirit Plate Proceeds Cash Fund 2128	Mutual Finance Assistance Cash Fund 2129
RECEIPTS:						
Taxes	\$ -	\$ -	\$ 3,000,000	\$ -	\$ -	\$ 7,098,440
Federal Grants & Contracts	-	-	-	-	-	-
Sales & Charges	-	83,333	-	17,768	195,422	-
Miscellaneous:						
Investment Interest	2,877	334	39,120	441	36,975	108,790
Other Miscellaneous	-	-	-	-	-	-
TOTAL RECEIPTS	2,877	83,667	3,039,120	18,209	232,397	7,207,230
DISBURSEMENTS BY FUNCTION:						
General Government	-	162,942	3,050,000	-	-	-
Culture - Recreation	-	-	-	-	-	-
Education	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-
Miscellaneous (Intergovernmental)	-	-	-	-	-	3,277,810
Capital Outlay	-	-	-	-	-	-
TOTAL DISBURSEMENTS	-	162,942	3,050,000	-	-	3,277,810
Excess (Deficiency) of Receipts Over (Under) Disbursements	2,877	(79,275)	(10,880)	18,209	232,397	3,929,420
OTHER FINANCING SOURCES (USES):						
Distributive Activity:						
Ins	-	-	-	-	-	-
Outs	-	-	-	-	-	-
Operating Transfers In	505,065	90,425	-	-	-	-
Operating Transfers Out	(151,520)	-	-	(17,748)	-	(6,018,168)
TOTAL OTHER FINANCING SOURCES (USES)	353,545	90,425	-	(17,748)	-	(6,018,168)
Net Change in Fund Balances	356,422	11,150	(10,880)	461	232,397	(2,088,748)
FUND BALANCES, JULY 1, 2001	-	-	276,346	8,997	626,083	2,104,943
FUND BALANCES, JUNE 30, 2002	\$ 356,422	\$ 11,150	\$ 265,466	\$ 9,458	\$ 858,480	\$ 16,195

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds				Capital Projects	
	Federal General Fund 4000	Motor Fuel Trust Fund 6246	Cultural Preservation Endowment Fund 6692	Aircraft Fuel Tax Fund 7759	Total	State Building Fund 3300
RECEIPTS:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 10,098,440	\$ -
Federal Grants & Contracts	2,050,416	-	-	-	2,050,416	-
Sales & Charges	-	-	-	-	296,523	-
Miscellaneous:						
Investment Interest	-	115,305	167,220	-	471,062	-
Other Miscellaneous	505	-	(203,016)	-	(202,511)	2,126
TOTAL RECEIPTS	<u>2,050,921</u>	<u>115,305</u>	<u>(35,796)</u>	<u>-</u>	<u>12,713,930</u>	<u>2,126</u>
DISBURSEMENTS BY FUNCTION:						
General Government	2,050,921	-	-	-	5,263,863	-
Culture - Recreation	-	-	9,186	-	9,186	-
Education	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-
Miscellaneous (Intergovernmental)	-	-	-	-	3,277,810	-
Capital Outlay	-	-	-	-	-	39,263,854
TOTAL DISBURSEMENTS	<u>2,050,921</u>	<u>-</u>	<u>9,186</u>	<u>-</u>	<u>8,550,859</u>	<u>39,263,854</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>-</u>	<u>115,305</u>	<u>(44,982)</u>	<u>-</u>	<u>4,163,071</u>	<u>(39,261,728)</u>
OTHER FINANCING SOURCES (USES):						
Distributive Activity:						
Ins	-	-	-	1,513,244	1,513,244	-
Outs	-	-	-	(1,513,244)	(1,513,244)	-
Operating Transfers In	-	744,455	-	-	1,339,945	39,539,763
Operating Transfers Out	-	-	(65,347)	-	(6,252,783)	(78,041)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>744,455</u>	<u>(65,347)</u>	<u>-</u>	<u>(4,912,838)</u>	<u>39,461,722</u>
Net Change in Fund Balances	-	859,760	(110,329)	-	(749,767)	199,994
FUND BALANCES, JULY 1, 2001	<u>-</u>	<u>1,925,077</u>	<u>5,563,834</u>	<u>-</u>	<u>10,505,280</u>	<u>37,262</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ -</u>	<u>\$ 2,784,837</u>	<u>\$ 5,453,505</u>	<u>\$ -</u>	<u>\$ 9,755,513</u>	<u>\$ 237,256</u>

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Capital Projects		Permanent Funds			
	Capitol Construction Fund 3800	Total	Bessey Memorial Trust Fund 6126	Normal School Endowment Fund 6328	Veteran's Aid Fund 6333	Permanent University Endowment Fund 6335
RECEIPTS:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants & Contracts	-	-	-	-	-	-
Sales & Charges	-	-	-	-	-	-
Miscellaneous:						
Investment Interest	9,790	9,790	(32)	(706)	(152,418)	7,552
Other Miscellaneous	-	2,126	-	-	-	-
TOTAL RECEIPTS	<u>9,790</u>	<u>11,916</u>	<u>(32)</u>	<u>(706)</u>	<u>(152,418)</u>	<u>7,552</u>
DISBURSEMENTS BY FUNCTION:						
General Government	-	-	25	-	-	-
Culture - Recreation	-	-	-	-	-	-
Education	-	-	-	309	-	1,309
Health and Social Services	-	-	-	-	47,677	-
Miscellaneous (Intergovernmental)	-	-	-	-	-	-
Capital Outlay	105,439	39,369,293	-	-	-	-
TOTAL DISBURSEMENTS	<u>105,439</u>	<u>39,369,293</u>	<u>25</u>	<u>309</u>	<u>47,677</u>	<u>1,309</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(95,649)</u>	<u>(39,357,377)</u>	<u>(57)</u>	<u>(1,015)</u>	<u>(200,095)</u>	<u>6,243</u>
OTHER FINANCING SOURCES (USES):						
Distributive Activity:						
Ins	-	-	-	-	-	-
Outs	-	-	-	-	-	-
Operating Transfers In	-	39,539,763	-	-	-	-
Operating Transfers Out	-	(78,041)	(531)	(6,472)	(947,476)	(27,447)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>39,461,722</u>	<u>(531)</u>	<u>(6,472)</u>	<u>(947,476)</u>	<u>(27,447)</u>
Net Change in Fund Balances	(95,649)	104,345	(588)	(7,487)	(1,147,571)	(21,204)
FUND BALANCES, JULY 1, 2001	<u>235,864</u>	<u>273,126</u>	<u>16,424</u>	<u>194,587</u>	<u>29,338,713</u>	<u>1,026,894</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 140,215</u>	<u>\$ 377,471</u>	<u>\$ 15,836</u>	<u>\$ 187,100</u>	<u>\$ 28,191,142</u>	<u>\$ 1,005,690</u>

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Permanent Funds			Total Nonmajor Governmental Funds
	Ag Endowment Fund 6513	J J Soukup Trust Fund 6891	Total	
RECEIPTS:				
Taxes	\$ -	\$ -	\$ -	\$ 10,098,440
Federal Grants & Contracts	-	-	-	2,050,416
Sales & Charges	-	-	-	296,523
Miscellaneous:				
Investment Interest	(6,819)	23,191	(129,232)	351,620
Other Miscellaneous	-	-	-	(200,385)
TOTAL RECEIPTS	(6,819)	23,191	(129,232)	12,596,614
DISBURSEMENTS BY FUNCTION:				
General Government	-	13,698	13,723	5,277,586
Culture - Recreation	-	-	-	9,186
Education	2,870	-	4,488	4,488
Health and Social Services	-	-	47,677	47,677
Miscellaneous (Intergovernmental)	-	-	-	3,277,810
Capital Outlay	-	-	-	39,369,293
TOTAL DISBURSEMENTS	2,870	13,698	65,888	47,986,040
Excess (Deficiency) of Receipts Over (Under) Disbursements	(9,689)	9,493	(195,120)	(35,389,426)
OTHER FINANCING SOURCES (USES):				
Distributive Activity:				
Ins	-	-	-	1,513,244
Outs	-	-	-	(1,513,244)
Operating Transfers In	-	-	-	40,879,708
Operating Transfers Out	(60,370)	-	(1,042,296)	(7,373,120)
TOTAL OTHER FINANCING SOURCES (USES)	(60,370)	-	(1,042,296)	33,506,588
Net Change in Fund Balances	(70,059)	9,493	(1,237,416)	(1,882,838)
FUND BALANCES, JULY 1, 2001	1,819,273	213,381	32,609,272	43,387,678
FUND BALANCES, JUNE 30, 2002	\$ 1,749,214	\$ 222,874	\$ 31,371,856	\$ 41,504,840

(Concluded)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	Pension Trust Judges Ret. Fund 6323	Pension Trust Patrol Ret. Fund 6327	Pension Trust School Ret. Fund 6336	Total Pension Trust Fund	Unclaimed Property Cash Fund 2120	Escheat Trust Fund 6128
Assets						
Cash in State Treasury	\$ 19,735	\$ 40,334	\$ -	\$ 60,069	\$ 33,667	\$ 6,055,598
Investments	79,918,784	185,230,319	4,170,449,073	4,435,598,176	-	-
Deposits with Vendors	-	-	-	-	2,070	-
Total Assets	<u>79,938,519</u>	<u>185,270,653</u>	<u>4,170,449,073</u>	<u>4,435,658,245</u>	<u>35,737</u>	<u>6,055,598</u>
Liabilities						
Due to Depositor	-	-	-	-	-	-
Due to Other Funds/Government	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets						
Held in trust for:						
Pension Benefits	79,938,519	185,270,653	4,170,449,073	4,435,658,245	-	-
Other	-	-	-	-	35,737	-
Unclaimed Property	-	-	-	-	-	6,055,598
Aeronautics	-	-	-	-	-	-
Total Net Assets	<u>\$ 79,938,519</u>	<u>\$ 185,270,653</u>	<u>\$ 4,170,449,073</u>	<u>\$ 4,435,658,245</u>	<u>\$ 35,737</u>	<u>\$ 6,055,598</u>

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	College Savings Plan	J M Amos Education Trust Fund 6130	Aeronautics Trust Fund 6170	Total Private-Purpose Trust Funds	Financial Responsibility Trust Fund 6122	Highway Tax Trust Fund 6125
Assets						
Cash in State Treasury	\$ -	\$ 8,720	\$ 34,979	\$ 6,132,964	\$ 3,824	\$ 2,043,222
Investments	201,258,000	-	6,465,068	207,723,068	-	-
Deposits with Vendors	-	-	-	2,070	-	-
Total Assets	<u>201,258,000</u>	<u>8,720</u>	<u>6,500,047</u>	<u>213,858,102</u>	<u>\$ 3,824</u>	<u>\$ 2,043,222</u>
Liabilities						
Due to Depositor	-	-	-	-	\$ 3,824	\$ -
Due to Other Funds/Government	-	-	-	-	-	2,043,222
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 3,824</u>	<u>\$ 2,043,222</u>
Net Asset						
Held in trust for:						
Pension Benefits	-	-	-	-		
Other	201,258,000	8,720	-	201,302,457		
Unclaimed Property	-	-	-	6,055,598		
Aeronautics	-	-	6,500,047	6,500,047		
Total Net Assets	<u>\$ 201,258,000</u>	<u>\$ 8,720</u>	<u>\$ 6,500,047</u>	<u>\$ 213,858,102</u>		

(Continued)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUNDS
June 30, 2002

	Base State Fuel Fund 7121	Insurance Tax Fund 7752	Highway Allocation Fund 7764	Total Agency Funds	Total Fiduciary Funds
Assets					
Cash in State Treasury	\$ 595	\$ 14,571,145	\$ 19,417,666	\$ 36,036,452	\$ 42,229,485
Investments	-	-	-	-	4,643,321,244
Deposits with Vendors	-	-	-	-	2,070
Total Assets	<u>\$ 595</u>	<u>\$ 14,571,145</u>	<u>\$ 19,417,666</u>	<u>\$ 36,036,452</u>	<u>4,685,552,799</u>
Liabilities					
Due to Depositor	-	-	-	3,824	3,824
Due to Other Funds/Government	595	14,571,145	19,417,666	36,032,628	36,032,628
Total Liabilities	<u>\$ 595</u>	<u>\$ 14,571,145</u>	<u>\$ 19,417,666</u>	<u>\$ 36,036,452</u>	<u>36,036,452</u>
Net Asset					
Held in trust for:					
Pension Benefits					4,435,658,245
Other					201,302,457
Unclaimed Property					6,055,598
Aeronautics					<u>6,500,047</u>
Total Net Assets					<u>\$4,649,516,347</u>

(Concluded)

NEBRASKA STATE TREASURER
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002

	Pension Trust Judges Ret. Fund 6323	Pension Trust Patrol Ret. Fund 6327	Pension Trust School Ret. Fund 6336	Total Pension Trust Funds
ADDITIONS:				
Sales & Charges	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Net appreciation (depreciation) in fair value of investments	(4,907,821)	(11,276,984)	(248,086,167)	(264,270,972)
Investment Interest	1,803,954	4,156,638	91,496,803	97,457,395
Miscellaneous	1,302,671	4,578,575	-	5,881,246
Operating Transfers In	-	-	37,000,000	37,000,000
Total Additions	(1,801,196)	(2,541,771)	(119,589,364)	(123,932,331)
DEDUCTIONS:				
Personal Services	-	-	-	-
Operating	3,868,368	8,620,574	8,100,265	20,589,207
Travel	-	-	-	-
Benefits	-	-	-	-
Capital Asset Purchases	-	-	-	-
Investment Expense	-	-	-	-
Operating Transfers Out	32,000	33,000	3,500,000	3,565,000
Total Deductions	3,900,368	8,653,574	11,600,265	24,154,207
 Change in Net Assets Held in Trust	 (5,701,564)	 (11,195,345)	 (131,189,629)	 (148,086,538)
Net Assets July 1, 2001	85,640,083	196,465,998	4,301,638,702	4,583,744,783
Net Assets June 30, 2002	<u>\$ 79,938,519</u>	<u>\$ 185,270,653</u>	<u>\$4,170,449,073</u>	<u>\$4,435,658,245</u>

Unclaimed Property Cash Fund 2120	Escheat Trust Fund 6128	College Savings Plan	J M Amos Education Trust Fund 6130	Aeronautics Trust Fund 6170	Total Private-Purpose Trust Funds
\$ 291	\$ -	\$ -	\$ -	\$ -	\$ 291
-	-	203,473,000	-	-	203,473,000
-	-	(8,078,000)	-	68,400	(8,009,600)
-	-	-	-	-	-
10,465	11,160,205	-	433	424,327	11,595,430
334,619	-	-	-	-	334,619
<u>345,375</u>	<u>11,160,205</u>	<u>195,395,000</u>	<u>433</u>	<u>492,727</u>	<u>207,393,740</u>
173,906	-	-	-	-	173,906
134,463	5,456,892	-	-	789	5,592,144
4,314	-	-	-	-	4,314
-	-	1,290,000	-	-	1,290,000
10,495	-	-	-	-	10,495
-	-	210,000	-	-	210,000
-	6,147,321	-	-	395,794	6,543,115
<u>323,178</u>	<u>11,604,213</u>	<u>1,500,000</u>	<u>-</u>	<u>396,583</u>	<u>13,823,974</u>
22,197	(444,008)	193,895,000	433	96,144	193,569,766
<u>13,540</u>	<u>6,499,606</u>	<u>7,363,000</u>	<u>8,287</u>	<u>6,403,903</u>	<u>20,288,336</u>
<u>\$ 35,737</u>	<u>\$ 6,055,598</u>	<u>\$ 201,258,000</u>	<u>\$ 8,720</u>	<u>\$ 6,500,047</u>	<u>\$ 213,858,102</u>

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NEBRASKA STATE TREASURER 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 State Treasurer as of and for the year ended June 30, 2002, and have issued our report thereon dated March 28, 2003. The report was qualified, as certain amounts were not audited as part of the State Treasurer's audit as they are audited as part of other State agencies. The report also notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska State Treasurer. 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 State Treasurer'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described in the Comments Section of our report as Comment Number 3 (Payroll Documentation) and Comment Number 4 (Pledged Collateral). We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska State Treasurer in the Comments Section of this report as Comment Number 5 (Convention Center Facility Financing Assistance Act Transfers), Comment Number 6 (Bidding Process), Comment

Number 10 (Public Sale of Unclaimed Property), Comment Number 12 (Published Notice of Unclaimed Property), Comment Number 13 (Capital Assets), Comment Number 14 (James M. Amos Educational Trust Fund), and Comment Number 15 (Accountability and Disclosure Commission Filing).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska State Treasurer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska State Treasurer's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 2 (Allocation of Charges Between Programs), Comment Number 7 (Supporting Documentation for Disbursements), and Comment Number 8 (Internal Control Over Payroll).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska State Treasurer in the Comments Section of the report as Comment Number 4 (Pledged Collateral) and Comment Number 13 (Capital Assets).

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

Handwritten signature of Timothy J. Chambers CPA in cursive script.

Assistant Deputy Auditor

March 28, 2003