

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF ROADS
JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA DEPARTMENT OF ROADS

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NEBRASKA DEPARTMENT OF ROADS

BACKGROUND

The Department of Roads is responsible for the construction and maintenance of Nebraska's roads and highways. The Department is also involved in the planning of transportation in the State and in assisting rural and urban public transportation systems. Highway maintenance and construction operations are administered from eight district offices located in Omaha, Lincoln, Norfolk, North Platte, Grand Island, Bridgeport, McCook, and Ainsworth.

The Director-State Engineer is the Department's chief executive officer. The Director's responsibilities include:

- Implementing objectives established by the Legislature and the Governor consistent with an integrated State highway system;
- Recommending short and long range highway needs and revenue needs; and
- Communicating policies and programs to the public, Governor, and Legislature.

The Department's remaining responsibilities are divided among two deputy directors and eight field districts. The two deputy directors and eight field district engineers report to the Director.

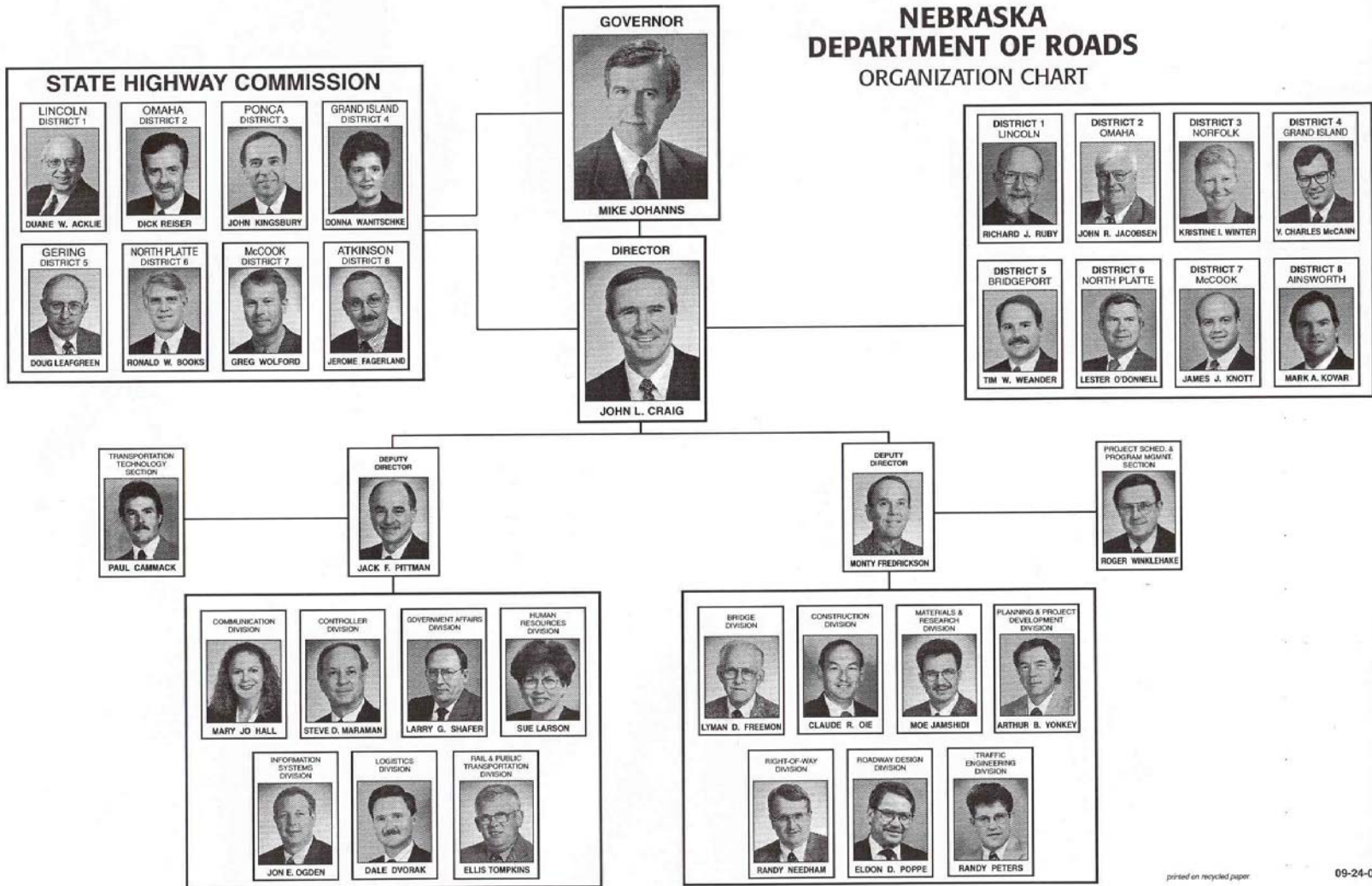
Responsibilities include: highway planning, mass transit administration, highway safety, risk management, computer systems, human resources, material purchases and supplies, administration of county and city federal aid highway programs, the State recreational road program, transportation technology program, six-year highway construction program, highway location studies, environmental evaluations, highway functional studies, roadway design, bridge design, traffic engineering and right-of-way acquisitions, highway construction, highway maintenance, materials and research, and ensuring appropriate technical advances in maintenance and construction methods are incorporated.

The State Highway Commission was created by the Legislature to advise the Director on policies to carry out the Department's duties and responsibilities. The Governor, with legislative approval, appoints Commission members to six-year terms. Members represent Nebraska's eight highway commission districts, with the Director-State Engineer serving as an ex officio member. Commission members are paid \$20 a day while conducting Commission business. The Commission holds public hearings throughout the State to advise the public of Department policies, activities, and future highway construction projects.

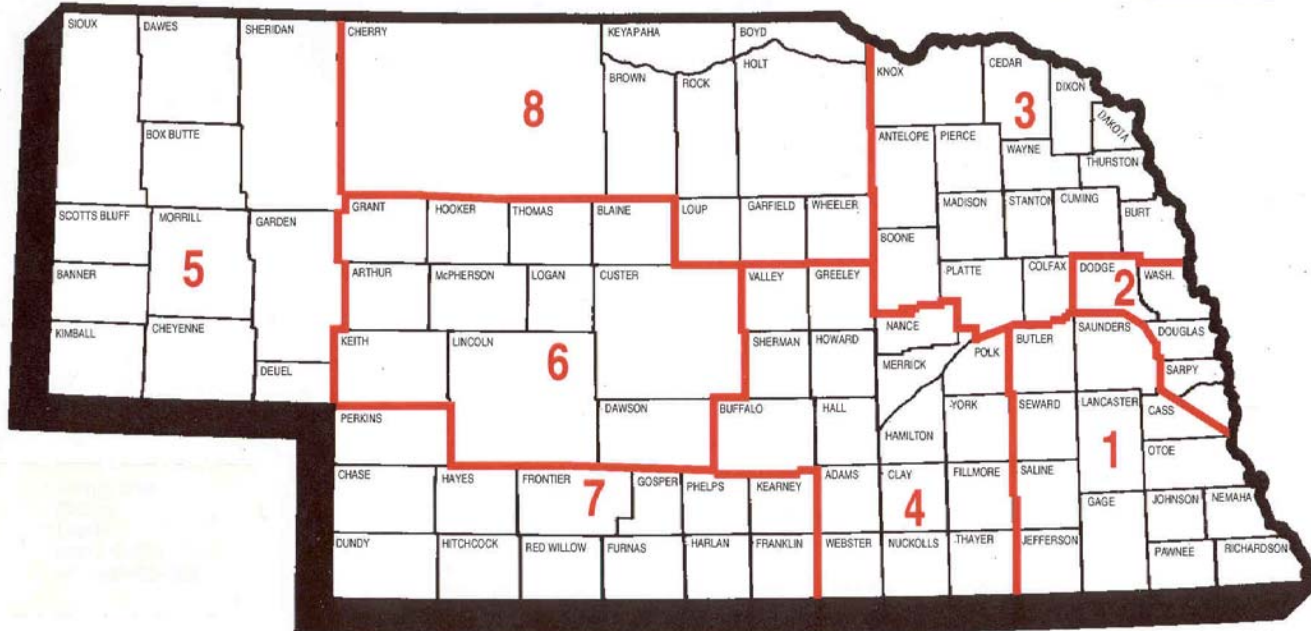
MISSION STATEMENT

We provide and maintain, in cooperation with public and private organizations, a safe, efficient, affordable, and coordinated statewide transportation system for the movement of people and goods.

NEBRASKA DEPARTMENT OF ROADS ORGANIZATION CHART



Nebraska ♦ Department ♦ of ♦ Roads



NEBRASKA DEPARTMENT OF ROADS

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Roads, 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. ***Reconciliation of Systems:*** A reconciliation of the Department's system to the Nebraska Accounting System was not performed for the fiscal year.
2. ***Travel Expenses:*** Unreasonable lodging expenses of \$541 were paid.
3. ***Contract Overpayments:*** We noted six contract payments for highway and bridge construction exceeded contract amounts by \$588,084.
4. ***Fixed Assets and Inventory:*** Controls were not adequate to ensure mobile radio equipment and computer equipment were properly accounted for.
5. ***State Property Damage:*** Procedures were not adequate to ensure costs were accurate, adequately supported, and charged in a timely manner.
6. ***Vehicle and Equipment Usage Logs:*** Vehicle usage was not adequately recorded.
7. ***Control Over Highway Safety Receipts:*** There was a lack of segregation of duties in the Highway Safety Division.

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

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

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

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

1. Reconciliation of Systems

The Nebraska Accounting System (NAS) is the official accounting system for the State of Nebraska. The Department also utilized an internal accounting system. Good internal control requires procedures to ensure transactions processed in the Department's system are accurately reflected in the official State system.

The Department of Roads performed a reconciliation of the Department's system to NAS for the month of June, however, no reconciliation was performed for the fiscal year. We performed limited procedures for the fiscal year and noted a journal entry to correct a miscoding was completed for the Department's system but a corresponding entry was not completed on the NAS system. As a result, \$1,147,500 for the purchase of right-of-way was charged to operating expenses that should have been reflected as capital assets purchases in the financial statements. A similar comment was noted in the prior audit.

We recommend the Department perform an annual reconciliation of the Department's system to NAS for the fiscal year and review any significant and unusual items.

Department's Response: The Department of Roads recognizes the need to keep our accounting system and the state accounting system accurate and reconciled. We will review our current processes and practices to determine where improvements will be made.

(It should be noted, with implementation of new state government business processes, the Nebraska Information System (NIS) -- in the spring of 2003, the current state accounting system will be replaced.) This will require a new and different reconciliation process than is currently performed.

2. Travel Expenses

NAS Manual Concept 005, Travel Expense Policies, states, "Lodging may be reimbursed when an employee is away from home overnight." The NAS manual also states, "It is DAS Accounting policy that a person must be more than 60 miles from his or her workplace in order to be eligible for lodging. We realize there may be reasons to pay for lodging for distances less than 60 miles. Such reasons include, but are not limited to work requirements, medical conditions or weather; in those instances the reason must be clearly stated on the disbursement document." The NAS manual also states, "The absence must be of such duration that you cannot reasonably leave and return to that location before and after each day's work." The Internal Revenue Service requires employees to substantiate the cost of meals under an accountable plan. Adequate accounting generally requires the use of a log or receipts to document actual expenses. This guideline is set forth in the NAS Manual, Concept 005. Concept 005 also clearly states that no reimbursement may be made for alcoholic beverages. Good internal control requires procedures to ensure disbursements are reasonable, necessary, and in accordance with State guidelines.

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

2. **Travel Expenses** (Concluded)

We noted the following:

- Nine employees stayed overnight in Kearney when their headquarter city was less than 60 miles from the conference. There was no documentation with the disbursement document to support the reason for staying overnight. The amount totaled \$541. A similar finding was noted in the prior audit.
- Two of six employee travel reimbursements tested did not have adequate meal documentation. One employee did not have a log or receipts for one day and the other employee's log did not agree with the amount claimed and reimbursed.
- An employee was reimbursed \$7 for alcoholic beverages included with meals on one document tested. The \$7 was paid back to the State after we brought this matter to the Department.

Noncompliance with State guidelines increases the risk of misuse of funds.

We recommend the Department implement procedures to ensure disbursements are reasonable, necessary, and in accordance with State guidelines.

Department's Response: The Department of Roads agrees that travel expenses, for which reimbursement is sought, should be reasonable, necessary, and in accordance with State guidelines. The Department of Roads will review all of its current practices, policies and procedures and ensure that travel expense reimbursements meet the established state criteria.

3. **Contract Overpayments**

Good internal control requires procedures to ensure contract provisions are adhered to. Good business practice requires written documentation to support any payments exceeding contract provisions. During fiscal year 2002, the Department paid \$316,311,356 to highway and bridge contractors.

We noted 2 of 25 contractor payments tested exceeded the original contract amount. No documentation was maintained to support the increased payment. The payments included three projects that were over the original contracts by a total of \$471,772. We also noted 4 of 20 final contractor payments tested exceeded the contract amounts by \$116,312. The contract amounts for the 20 final payments tested totaled \$36,733,635. The Department indicated that contract overruns were a routine occurrence as project materials were based on estimated quantities included as part of the contract. Good business practices require that no amount should be paid in excess of the contracted amount without proper documentation and approval.

Lack of proper supporting documentation increases the risk for loss or misuse of State funds.

COMMENTS AND RECOMMENDATIONS

3. Contract Overpayments (Concluded)

We recommend the Department maintain documentation showing approval when contracted amounts are exceeded.

Department's Response: Quantity overruns are measured and documented within the Department of Road's Construction Management System through "Site Manager" (a customized software program developed for state departments of transportation to specifically manage highway construction projects). Authorization for payment of all items within the contract, including overruns, requires three (3) levels of approval. The Project Manager, the District Engineer or his/her assistant, and the Construction Division must approve each and every estimate prior to payment.

The Department believes these three (3) levels of oversight and approval eliminates or greatly minimizes the risk of loss or misuse of state funds.

4. Fixed Assets and Inventory

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include adequate segregation of duties so no one individual can handle all phases of a transaction, and maintaining the purchase date and cost in inventory records.

The Department maintains five separate inventory lists for their fixed assets. These lists include a Fleet Management System which includes vehicles and heavy equipment, the Statewide Inventory System (SWIS) which includes furniture and equipment not included on another inventory list, a computer hardware and computer aided drafting and design (CADD) equipment listing, a mobile radio listing, and a land and building listing.

Our prior audits noted weaknesses in the Department's fixed assets controls, and our current review of the Department's fixed assets controls noted the following:

- There was a lack of segregation of duties over mobile radio equipment and the computer and CADD equipment. For each type of inventory, one individual maintained inventory records, made additions to the inventory list, ensured all items purchased were added to the inventory list, and made deletions to the inventory list.
- The purchase cost on the computer hardware and CADD equipment inventory list was the purchase order cost, not the actual cost paid for the item on the NAS disbursement document. We also noted numerous computer items listed with no purchase cost.

These weaknesses increase the possibility of loss or misuse of State property.

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

4. **Fixed Assets and Inventory** (Concluded)

We recommend the Department:

- Ensure an adequate segregation of duties exists over computer hardware/CADD and radio equipment fixed asset records.
- Maintain complete and accurate records for computer/CADD equipment.

Department's Response: The Department of Roads agrees that segregation of duties and accuracy of inventory values are important to safeguard the state's assets and the accuracy of the state's financial reports. The Department will review our current processes, as they relate to fixed assets and inventories. Where possible we will segregate duties and use payment records to determine appropriate cost.

As part of the State's implementation of NIS (Nebraska Information System) we have been reviewing the values of all items placed into inventory. Also, as part of that review, we are developing new processes that incorporate the control and value features of the NIS asset module. These changes should address the majority of the audit findings.

5. **State Property Damage**

The purpose of the State Property Damage Program within the Highway Safety Division is to identify and document the physical damage done to the State's highways as a result of accidents or vandalism, to determine the Department's costs to fix the damage and restore the driving conditions to the required level of safety, and to collect the repair costs from the responsible individuals. During fiscal year ended June 30, 2002, the Department collected \$541,105 in property damages.

Good internal control requires supporting documentation be kept on file to ensure costs are accurate and determined in a timely manner.

We tested ten property damage cases reported in fiscal year 2002. Seven of ten cases had exceptions as noted below:

- Two cases were not billed in a timely manner. One case the damage report was dated December 2001, however, the invoice was not sent until April 2002. In other case the damage report was dated August 2001, however, the invoice was not sent until the end of October 2001. The invoices totaled \$641 and \$1,160, respectively.
- In one case there was no supporting documentation on file to verify equipment miles or rates, labor hours, or material amounts. The supervisor on the audit verbally relayed the information needed to assess the charges.
- In three cases material costs charged did not reasonably agree to the material inventory rate listing. The total shortage was approximately \$80.

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

5. **State Property Damage** (Concluded)

- In one case the equipment rate did not reasonably agree to the equipment inventory rate listing. The individual responsible for billing the charges indicated that he was using the 1996 equipment inventory rate listing, and some of the amounts he made up because they were not on his listing. The total shortage was \$191.
- In two cases the labor charges were not calculated correctly. For one case the hours were not correct for an undercharge of \$2 and the other case was over assessed the labor additive rate by \$9.
- In two cases equipment miles charged did not agree to the supporting documentation on file.

These weaknesses were also noted in our prior year audit. Without adequate documentation to support costs charged are accurate, there is an increased risk for loss of State funds.

We recommend the Department maintain adequate documentation over property damage to ensure costs charged are accurate and billed in a timely manner. We also recommend the Department implement procedures to ensure billing rates are uniformly calculated.

Department's Response: The Department of Roads agrees that accurate and supported costs should be used in its billing for the repair costs associated with fixing accident related damage to the state's infrastructure. We will review current processes used by the Department and make changes necessary to improve the accuracy of these billings.

The time it takes to issue a billing is a complex issue. Depending on the nature of the damage done and weather conditions, complete repairs may not be made for some time from the date of the accident damage. Once repaired, billing someone for the cost of those repairs can also be a function of identifying the responsible parties, determining liability and being assured that all costs associated with the damage have been submitted for billing.

The Department will review our internal process to see what improvements can be made in the timing of our billings for damage to state property.

6. **Vehicle and Equipment Usage Logs**

Good internal controls require vehicle and equipment usage be properly recorded and charged to the correct division or entity using the vehicle.

Equipment usage was recorded on timesheets and crew cards and not on detailed vehicle logs. While the timesheets and crew cards indicated when the vehicle was used, by whom the vehicle was used, and the distance the vehicle was driven, the timesheets and crew cards did not record the points between which the vehicles were used, the time of day the usage occurred, and the purpose of the travel.

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

6. Vehicle and Equipment Usage Logs (Continued)

This has been a finding in our prior audits. Our current review of vehicle usage noted the following:

- The Department physically records the odometer readings only once a year. No procedures had been performed as of December 18, 2002, to review and investigate variances on the March 8, 2002 report.
- Ten vehicles tested were driven for a total of 134,410 miles according to the odometer readings, but had only 125,024 miles recorded on timesheets and crew cards. This is an understatement of 9,368 miles or 7 percent. None of the vehicles usage recorded agreed to the odometer readings, eight of the vehicles had understated mileage used. We also reviewed the ten vehicles tested in the prior audit and noted mileage for those vehicles were again understated for fiscal year 2002 by a total of 8,000 miles.
- It appears most vehicles had understated mileage usage as 77 of 110 vehicles reviewed had understated mileage. We reviewed all vehicles on 5 of 22 pages reported. Only one vehicle had usage that agreed to the odometer readings. Usage was understated from 7 to 37,028 miles on 77 vehicles, including 34 vehicles, each having an understatement of more than 1,000 miles. Usage was overstated 48 to 136,277 miles on 32 vehicles, including 5 vehicles, each having an overstatement of more than 1,000 miles.
- The Department could not provide information as to the total variance between the recorded mileage and actual mileage for all vehicles (approximately 2,100 vehicles) as this information was not available.

The Department responded to our prior audit comment that vehicle usage was properly recorded and that their system worked well. Our current and prior audits noted significant usage variances and clearly indicates the Department's present procedures are not adequate to control vehicle usage and prevent fraud, waste, or abuse.

We recommend the Department implement procedures to ensure vehicle usage is properly recorded on timesheets and crew cards. We further recommend the Department implement procedures to review and investigate variances.

Department's Response: In the second paragraph of this finding the audit report notes all of the informational items that the Department of Roads records, relative to its vehicle usage. It also points out the few items of information not recorded. What the audit fails to mention is that the information currently collected by the Department of Roads complies with all of the vehicle information requirements mandated by the Legislature for our agency. (State Statute (81-1025 (2) (a))

NEBRASKA DEPARTMENT OF ROADS

COMMENTS AND RECOMMENDATIONS

6. **Vehicle and Equipment Usage Logs** (Concluded)

Department's Response, Concluded:

The observation made by the audit as to the accurate recording of the data required on timesheets and crew cards is a concern and will be reviewed. Variances uncovered as the result of our physically recording the odometer readings and the mileage recorded in our equipment management system will also be reviewed and investigated to determine what the actual amounts should be; with corrections made accordingly.

7. **Control Over Highway Safety Receipts**

Good internal control over receipts requires one individual not have the authority to perform all aspects of the receipting process. Good controls require the duties be segregated or an independent individual review transactions processed.

We noted the Highway Safety Division has one individual responsible for establishing initial control over receipts, recording the receipt document, mailing requested reports, reconciling receipts, and delivering receipts to the Controller Division for deposit. This was also noted in our prior audit report.

The Highway Safety Division deposited approximately \$24,500 during fiscal year 2002. Although this is not a significant source of revenue for the Department, we feel the Department has sufficient personnel to adequately segregate these duties.

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

We recommend the Department have separate individuals involved in the processing of Highway Safety receipts to ensure an adequate segregation of duties.

Department's Response: The Department shares the concerns expressed in the audit over any potential misuse of State funds. However, the audit, while noting the amount of the receipts handled by Highway Safety, fails to point out that, with few exceptions, the payments received are in the form of checks made out to the State of Nebraska, Department of Roads, and could not be easily cashed by an individual. Thus making the potential for loss to the State insignificant.

The Department will segregate duties by having the Highway Safety Customer Service Clerk's supervisor review receipts prior to the actual deposits being made.

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NEBRASKA DEPARTMENT OF ROADS

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Roads (Department), as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

Also, as discussed in Note 1, the financial statements of the Nebraska Department of Roads, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Department of Roads. They do not purport to, and

do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Roads, 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 December 18, 2002, on our consideration of the Nebraska Department of Roads' 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 Department's basic financial statements. The combining nonmajor fund financial statements, schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules, 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.

December 18, 2002

Pat Reding, CPA

Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Roads' financial report presents a narrative overview and analysis of the financial activities of the Nebraska Department of Roads for the fiscal year ended June 30, 2002. Please read it in conjunction with the Department'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 Department of Roads' basic financial statements. The Department's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Department's overall financial status. Over time, increases or decreases in the Department's net assets are one indicator of whether its financial health is improving or deteriorating. The Department'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 Department. Nonfinancial factors also need to be considered to assess the overall health of the Department. Agency-wide financial statements divide the Department into three kinds of activities:

Governmental activities – The Department'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. The Department had no business-type activities for fiscal year ended June 30, 2002.

Component units – No component units for the Department were identified.

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

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

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

NEBRASKA DEPARTMENT OF ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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

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

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as combining statements for non-major funds (which are shown in the fund financial statements in a single column), and schedules of service efforts and accomplishments. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Department of Roads' 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 DEPARTMENT AS WHOLE

Changes in Net Assets

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

NEBRASKA DEPARTMENT OF ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Unrestricted	\$ 105,687,220	\$ 114,556,740
Total Net Assets	<u>\$ 105,687,220</u>	<u>\$ 114,556,740</u>

Governmental Activities

Receipts for the Department's governmental activities decreased less than one percent, while expenses increased ten percent.

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 29,532,281	\$ 24,750,497	19%
Operating Grants & Contributions	93,059	61,626	51%
Capital Grants & Contributions	170,739,950	176,401,684	-3%
General Receipts:			
Appropriations	777,056	384,870	102%
Investment Interest	3,958,647	4,076,265	-3%
Total Receipts	<u>205,100,993</u>	<u>205,674,942</u>	<u>0%</u>
DISBURSEMENTS:			
Transportation	534,533,490	484,353,353	10%
Total Disbursements	<u>534,533,490</u>	<u>484,353,353</u>	<u>10%</u>
Excess (Deficiency) before Other Financing Sources and Uses	(329,432,497)	(278,678,411)	-18%
OTHER FINANCING SOURCES & USES	<u>320,562,977</u>	<u>294,984,207</u>	<u>9%</u>
Increase (Decrease) in Net Assets	(8,869,520)	16,305,796	-154%
Beginning Net Assets July 1	<u>114,556,740</u>	<u>98,250,944</u>	<u>17%</u>
Ending Net Assets June 30	<u>\$ 105,687,220</u>	<u>\$ 114,556,740</u>	<u>-8%</u>

NEBRASKA DEPARTMENT OF ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Department of Roads uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Grade Crossing Protection Fund 2671 fund balance increased 28% from the prior year. The balance increased in order to fund future high cost projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

CAPITAL ASSET AND DEBT ADMINISTRATION

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

NEBRASKA DEPARTMENT OF ROADS
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 105,672,995
Petty Cash	11,700
Deposit with Vendors	<u>2,525</u>
Total Assets	<u><u>\$ 105,687,220</u></u>
Net Assets	
Unrestricted	<u>\$ 105,687,220</u>
Total Net Assets	<u><u>\$ 105,687,220</u></u>

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

NEBRASKA DEPARTMENT OF ROADS
STATEMENT OF ACTIVITIES - CASH BASIS
June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)
Function-Transportation	
Disbursements:	
Personal Services	\$ 103,165,214
Operating	79,126,028
Travel	1,166,860
Capital Asset Purchases	346,173,695
Government Aid	4,901,693
Total Disbursements	534,533,490
Program Receipts:	
Charges for Services	29,532,281
Operating Grants & Contributions	93,059
Capital Grants & Contributions	170,739,950
Net Program Receipts (Disbursements)	(334,168,200)
General Receipts and Other Financing Sources & Uses:	
Appropriations	777,056
Unrestricted Investment Interest	3,958,647
Other Financing Sources & Uses	320,562,977
Total General Receipts, and Other Financing Sources & Uses	325,298,680
Change in Net Assets	(8,869,520)
Net Assets July 1, 2001	114,556,740
Net Assets June 30, 2002	\$ 105,687,220

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

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

	Major Funds				Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Roads Operations Fund 2270	Highway Cash Fund 2271	Grade Crossing Protection Fund 2671		
Assets						
Cash in State Treasury	\$ -	\$ 58,548,128	\$ 28,574,557	\$ 11,717,418	\$ 6,832,892	\$ 105,672,995
Petty Cash	-	11,700	-	-	-	11,700
Deposit with Vendors	-	2,525	-	-	-	2,525
Total Assets	\$ -	\$ 58,562,353	\$ 28,574,557	\$ 11,717,418	\$ 6,832,892	\$ 105,687,220
Fund Balances						
Reserved for:						
Vendor Deposits	\$ -	\$ 2,525	\$ -	\$ -	\$ -	\$ 2,525
Unreserved	-	58,559,828	28,574,557	11,717,418	-	98,851,803
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	-	6,832,892	6,832,892
Total Fund Balances	\$ -	\$ 58,562,353	\$ 28,574,557	\$ 11,717,418	\$ 6,832,892	\$ 105,687,220

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

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

	Major Funds		
	General Fund	Roads Operations Fund	Highway Cash Fund
	1000	2270	2271
RECEIPTS:			
Appropriations	\$ 777,056	\$ -	\$ -
Federal Grants & Contracts	-	170,833,009	-
Sales & Charges	-	21,897,986	259,418
Miscellaneous:			
Investment Interest	-	2,794,862	332,451
Other Miscellaneous	-	4,297,435	-
TOTAL RECEIPTS	777,056	199,823,292	591,869
DISBURSEMENTS BY FUNCTION:			
Transportation	777,056	530,012,787	-
TOTAL DISBURSEMENTS	777,056	530,012,787	-
Excess (Deficiency) of Receipts Over (Under) Disbursements	-	(330,189,495)	591,869
OTHER FINANCING SOURCES (USES):			
Sales of Assets	-	1,768,143	-
Net Distributive Activity:			
Ins	-	852,811	-
Outs	-	(853,062)	-
Deposits from Common Fund	-	10	2,620
Operating Transfers In	-	318,686,031	320,186,889
Operating Transfers Out	-	(4,678,131)	(318,686,031)
TOTAL OTHER FINANCING SOURCES (USES)	-	315,775,802	1,503,478
Net Change in Fund Balances	-	(14,413,693)	2,095,347
FUND BALANCE, JULY 1, 2001	-	72,976,046	26,479,210
FUND BALANCE, JUNE 30, 2002	\$ -	\$ 58,562,353	\$ 28,574,557

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

Grade Crossing Protection Fund 2671	Other Funds	Total Governmental Funds (Memorandum Only)
\$ -	\$ -	\$ 777,056
-	-	170,833,009
-	3,072,442	25,229,846
538,815	292,519	3,958,647
-	5,000	4,302,435
538,815	3,369,961	205,100,993
1,208,710	2,534,937	534,533,490
1,208,710	2,534,937	534,533,490
(669,895)	835,024	(329,432,497)
-	-	1,768,143
-	-	-
-	836,033	1,688,844
-	(789,976)	(1,643,038)
2,877,640	-	2,880,270
360,000	-	639,232,920
-	-	(323,364,162)
3,237,640	46,057	320,562,977
2,567,745	881,081	(8,869,520)
9,149,673	5,951,811	114,556,740
\$ 11,717,418	\$ 6,832,892	\$ 105,687,220

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

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

A. Reporting Entity

The Nebraska Department of Roads (Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department 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 Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Department of Roads. No component units were identified. The Nebraska Department of Roads 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 Department 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 Department. 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 Department 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,

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

services, or 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 Department 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. Other Financing Sources and Uses, which includes statutory transfers by the State Treasurer to the Department from motor fuel taxes and vehicle fees.

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

The Department reports the following major governmental funds:

General Fund. The General Fund is used to account for State aid payments related to public transportation systems that operate locally.

Roads Operations Cash Fund 2270. This is the Department's primary operating fund. This fund acts as the collection point for all monies which are not directed by the Legislature to other fund accounts. This fund also acts as the recipient of the transfer of State funds from the Highway Cash Fund and acts as the focal point for most highway expenditures.

Highway Cash Fund 2271. This fund receives all revenue transferred to the Department from the Highway Trust Fund, including funds generated by the motor and special fuel variable excise tax. These funds are then transferred to the Department's Operations Cash Fund up to the limit as established by the Legislature.

Grade Crossing Protection Cash Fund 2671. This fund is used to account for improvements of the safety of railroad grade crossings in the State.

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 Department 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

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 Department. This differs from governmental generally accepted accounting principles (GAAP), which requires the Agency-wide and fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department were designated for investment during fiscal year 2002.

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

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

Depreciation expenses on capital assets 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 Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

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 vendor deposits.

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.

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State agencies have the option to purchase building contents and inland marine coverage.

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

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department 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 \$3,352,047 and the Department contributed \$5,229,194.

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Net Distributive Activity**

Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department, which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

The Department's Net Distributive Activity for the audit period consists of sales tax collections and remittances to the Nebraska Department of Revenue, advance deposits received from individuals or companies for services provided by the Department and the related charges when the service is provided, monthly transfers of gas tax collections to the State Aid Bridge Fund, interest earned by the State Aid Bridge Fund, and project costs paid from the State Aid Bridge Fund.

6. **Transfers**

Operating Transfers In and Operating Transfers Out relate mainly to the distribution of Highway Trust Funds. By statute, most motor fuel taxes and vehicle fees are deposited into the Highway Trust Fund and allocated by the State Treasurer to the Department of Roads, Nebraska counties, and Nebraska municipalities. The Department's allocation is transferred into the Highway Cash Fund. During the fiscal year ended June 30, 2002, \$320,546,988 in Highway Trust Funds were transferred to the Highway Cash Fund. The Department then transfers funds from the Highway Cash Fund to the Roads Operation Cash Fund, based on Legislative appropriations, to cover their annual expenditures. During the fiscal year ended June 30, 2002, \$318,686,031 was transferred from the Highway Cash Fund to the Roads Operation Cash Fund.

7. **Capital Assets Purchases**

Capital Assets Purchases includes \$316,311,356 in payments to highway and bridge contractors.

8. **Charges for Services**

Charges for Services on the Agency-Wide financial statement and Sales & Charges on the fund financial statement includes \$18,862,134 in reimbursements from local governments for their matching share of road projects.

NEBRASKA DEPARTMENT OF ROADS

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. **Deposits from Common Funds**

Deposits from Common Funds includes the Railroad Excise Tax collected by the Nebraska Department of Revenue and deposited directly into the Grade Crossing Protection Fund.

10. **Other Miscellaneous Receipts**

Other Miscellaneous Receipts include \$2,346,673 of reimbursements received from non-governmental sources; \$1,436,834 from fines, penalties, and property damage; \$338,960 from land use and rental revenues; and \$179,968 from other miscellaneous receipts.

11. **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 Department implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Department'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 Department 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 Department.

NEBRASKA DEPARTMENT OF ROADS
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>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM: 305-Public Transportation Aid	\$ 1,068,972	\$ 1,068,972	\$ 777,056	\$ 291,916

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF ROADS

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 Department's legally adopted annual budget amount. The Department's budgetary comparison schedule includes the general fund. A budgetary comparison could not be shown for the major special revenue funds (Roads Operations Fund 2270, Highway Cash Fund 2271, Grade Crossing Protection Fund 2671) because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

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

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department 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 DEPARTMENT OF ROADS

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 Department's major special revenue funds 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. Appropriations for programs funded in whole or in part from the Department's major federal special revenue funds may be increased to the extent receipts of these funds exceed the original budget estimate.

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

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

	Special Revenue			Total Nonmajor Governmental Funds
Assets	N-Trac Cash Fund 2272	Recreation Road Fund 2672	State Aid Bridge Fund 7757	Funds
Cash in State Treasury	\$ 6,448	\$ 6,411,603	\$ 414,841	\$ 6,832,892
Fund Balances				
Unreserved, Reported in Nonmajor Special Revenue Funds	\$ 6,448	\$ 6,411,603	\$ 414,841	\$ 6,832,892

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

	Special Revenue Funds			Total Nonmajor Governmental Funds
	N-Trac Cash Fund 2272	Recreation Road Fund 2672	State Aid Bridge Fund 7757	
RECEIPTS:				
Sales & Charges	\$ -	\$ 3,072,442	\$ -	\$ 3,072,442
Miscellaneous:				
Investment Interest	152	292,367	-	292,519
Other Miscellaneous	5,000	-	-	5,000
TOTAL RECEIPTS	5,152	3,364,809	-	3,369,961
DISBURSEMENTS BY FUNCTION:				
Transportation	-	2,477,026	57,911	2,534,937
TOTAL DISBURSEMENTS	-	2,477,026	57,911	2,534,937
Excess (Deficiency) of Receipts Over (Under) Disbursements	5,152	887,783	(57,911)	835,024
OTHER FINANCING SOURCES (USES):				
Net Distributive Activity:				
Ins	-	-	836,033	836,033
Outs	-	-	(789,976)	(789,976)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	46,057	46,057
Net Change in Fund Balances	5,152	887,783	(11,854)	881,081
FUND BALANCES, JULY 1, 2001	1,296	5,523,820	426,695	5,951,811
FUND BALANCES, JUNE 30, 2002	\$ 6,448	\$ 6,411,603	\$ 414,841	\$ 6,832,892

NEBRASKA DEPARTMENT OF ROADS
SCHEDULES OF DISBURSEMENTS BY PROGRAM, MAJOR ACCOUNT, AND FUNDING SOURCE
 Fiscal Years Ended June 30, 1998 through 2002
UNAUDITED

Disbursements by Program

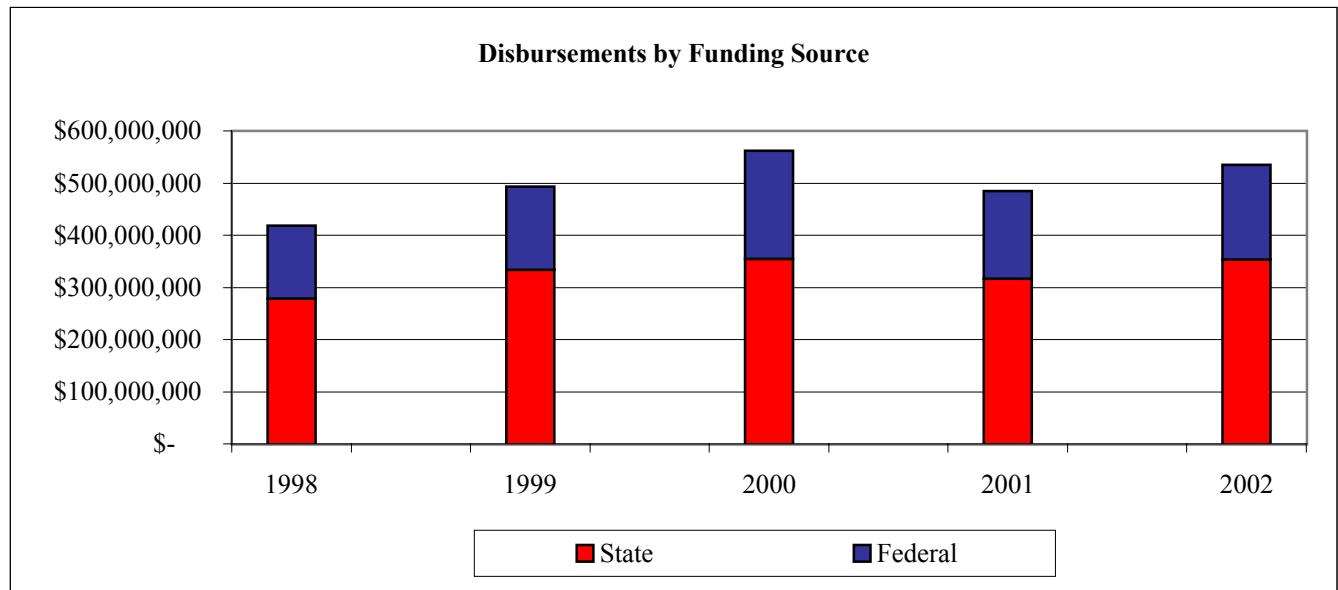
	1998	1999	2000	2001	2002
Public Transit Aid	\$ 1,603,398	\$ 1,657,151	\$ 1,533,104	\$ 1,495,961	\$ 1,835,449
Highway Administration	11,418,917	12,398,932	13,296,287	13,523,797	13,811,945
Construction	326,821,694	393,990,875	457,894,367	364,938,202	418,089,928
Highway Maintenance	68,735,929	67,927,976	68,433,452	87,231,165	86,689,217
Service & Support	9,139,940	16,030,543	19,394,934	14,738,527	10,050,141
Capital Construction	1,202,614	1,758,117	799,953	2,425,701	4,056,810
	<u>\$ 418,922,492</u>	<u>\$ 493,763,594</u>	<u>\$ 561,352,097</u>	<u>\$ 484,353,353</u>	<u>\$ 534,533,490</u>

Disbursements by Major Account Category

	1998	1999	2000	2001	2002
Personal Services	\$ 85,662,374	\$ 91,208,391	\$ 92,885,391	\$ 99,304,844	\$ 103,165,214
Operating Expenses	55,633,912	57,631,903	55,622,748	74,203,630	79,126,028
Travel	801,416	911,135	909,592	1,003,825	1,166,860
Capital Asset Purchases	273,788,134	339,665,401	407,813,458	305,680,427	346,173,695
Government Aid	3,036,656	4,346,764	4,120,908	4,160,627	4,901,693
	<u>\$ 418,922,492</u>	<u>\$ 493,763,594</u>	<u>\$ 561,352,097</u>	<u>\$ 484,353,353</u>	<u>\$ 534,533,490</u>

Disbursements by Funding Source

	1998	1999	2000	2001	2002
State	\$ 279,014,237	\$ 333,592,402	\$ 355,101,990	\$ 316,294,604	\$ 353,183,071
Federal	139,908,255	160,171,192	206,250,107	168,058,749	181,350,419
Total	<u>\$ 418,922,492</u>	<u>\$ 493,763,594</u>	<u>\$ 561,352,097</u>	<u>\$ 484,353,353</u>	<u>\$ 534,533,490</u>

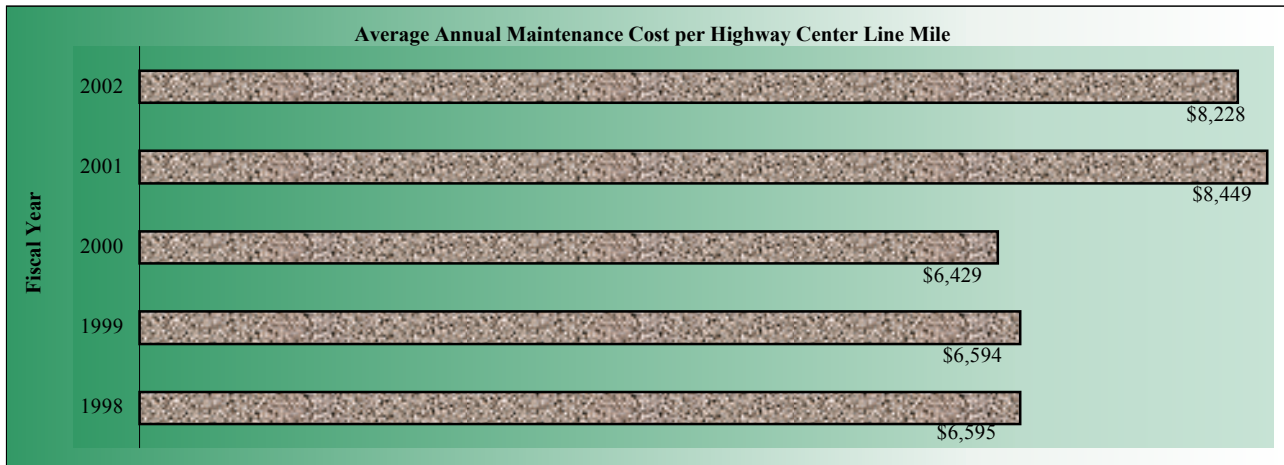


NEBRASKA DEPARTMENT OF ROADS
SCHEDULE OF SERVICE EFFORTS & ACCOMPLISHMENTS
 Fiscal Years Ended June 30, 1998 through 2002
UNAUDITED

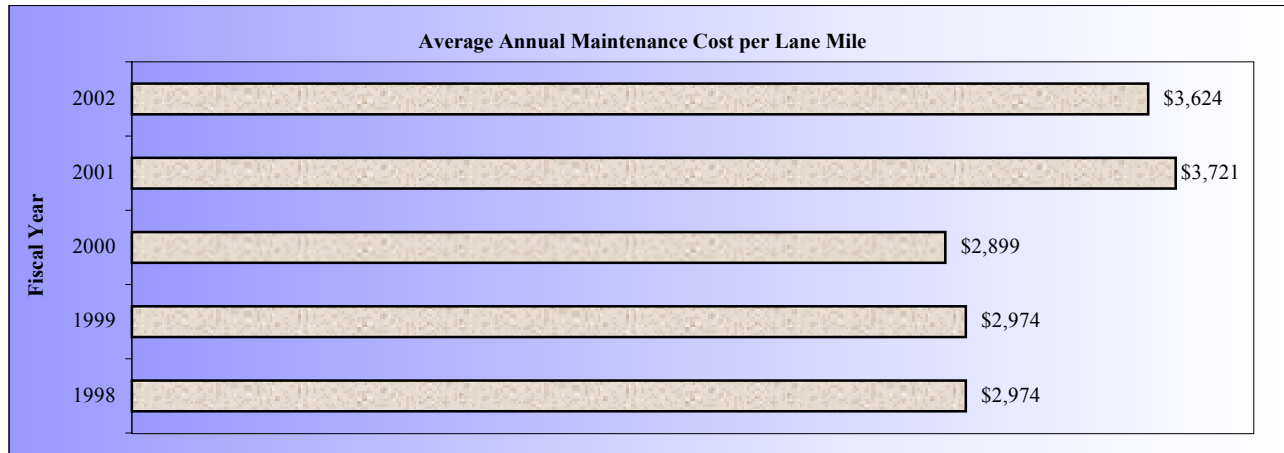
	Fiscal Year				
	1998	1999	2000	2001	2002
Staffing Levels at June 30					
Permanent Employees	2,265	2,284	2,251	2,228	2,186
Temporary Employees	245	251	254	269	279
Construction Mileage					
Interstate	77	109	127	148	186
District	872	909	960	675	643
Total # of Miles under Construction	949	1,018	1,087	823	829
Bridges Reconstructed or Rehabilitated	126	76	109	99	92
Construction Costs					
Highway & Bridge Contract Payments	\$ 250,401,277	\$ 306,896,026	\$ 380,422,308	\$ 271,168,775	\$ 318,248,369
Engineering Contract Payments	16,811,767	18,698,547	14,670,507	21,534,433	19,072,015
Department Payroll	39,414,085	42,656,741	42,305,003	44,241,791	45,397,062
Other Construction Costs	22,397,906	28,663,177	22,749,234	30,852,230	39,118,564
Total Construction Costs	329,025,035	396,914,491	460,147,052	367,797,229	421,836,010
Maintenance Costs					
Payroll	27,043,362	27,255,626	26,750,338	33,298,731	31,982,587
Equipment	15,401,771	14,880,877	14,392,367	22,418,899	19,634,120
Other Maintenance	23,287,617	23,598,124	22,936,090	28,497,582	30,410,799
Total Maintenance Costs	65,732,750	65,734,627	64,078,795	84,215,212	82,027,506
Administration Costs					
Payroll	8,367,230	8,995,548	9,472,933	10,426,993	10,223,784
Other	3,723,081	4,190,726	4,613,998	4,037,440	3,826,398
Total Administration	12,090,311	13,186,274	14,086,931	14,464,433	14,050,182
Capital Facilities, Services & Support					
Payroll	11,183,162	12,499,537	15,206,305	12,439,670	16,960,051
Other	3,546,248	8,676,127	11,628,807	8,063,694	3,427,859
Total Cap Facilities, Svc & Support	14,729,410	21,175,664	26,835,112	20,503,364	20,387,910
Public Transportation Assistance Costs	3,316,892	5,003,594	4,418,835	4,492,502	6,348,497
Total Costs per Department System	<u>\$ 424,894,398</u>	<u>\$ 502,014,650</u>	<u>\$ 569,566,725</u>	<u>\$ 491,472,740</u>	<u>\$ 544,650,105</u>
Total Costs per NAS	<u>\$ 418,922,492</u>	<u>\$ 493,763,594</u>	<u>\$ 561,352,097</u>	<u>\$ 484,353,353</u>	<u>\$ 534,533,490</u>

Note: Total costs per the Department's system does not agree to the Nebraska Accounting System due to timing differences as the Department System recognizes costs when they are incurred and NAS recognizes disbursements when paid. Also certain items, such as local match, are recorded "net" on NAS and the Department records as "gross" with a corresponding revenue.

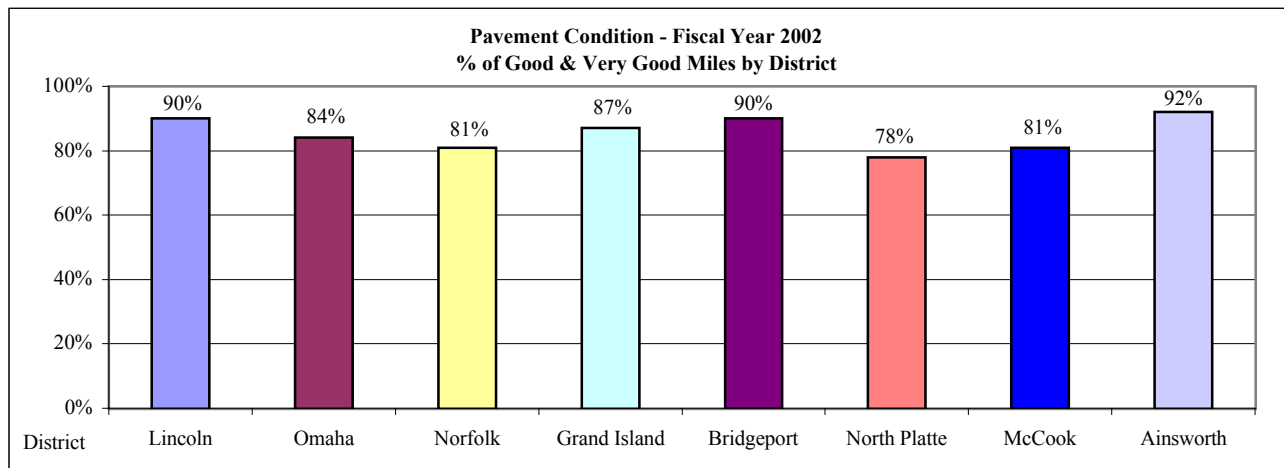
**NEBRASKA DEPARTMENT OF ROADS
MAINTENANCE COSTS AND PAVEMENT CONDITION
UNAUDITED**



Note: Center Line Miles are the total of miles on the State highway system, not the number of lane miles. Total of 9,970 Center Line Miles on the State highway system.



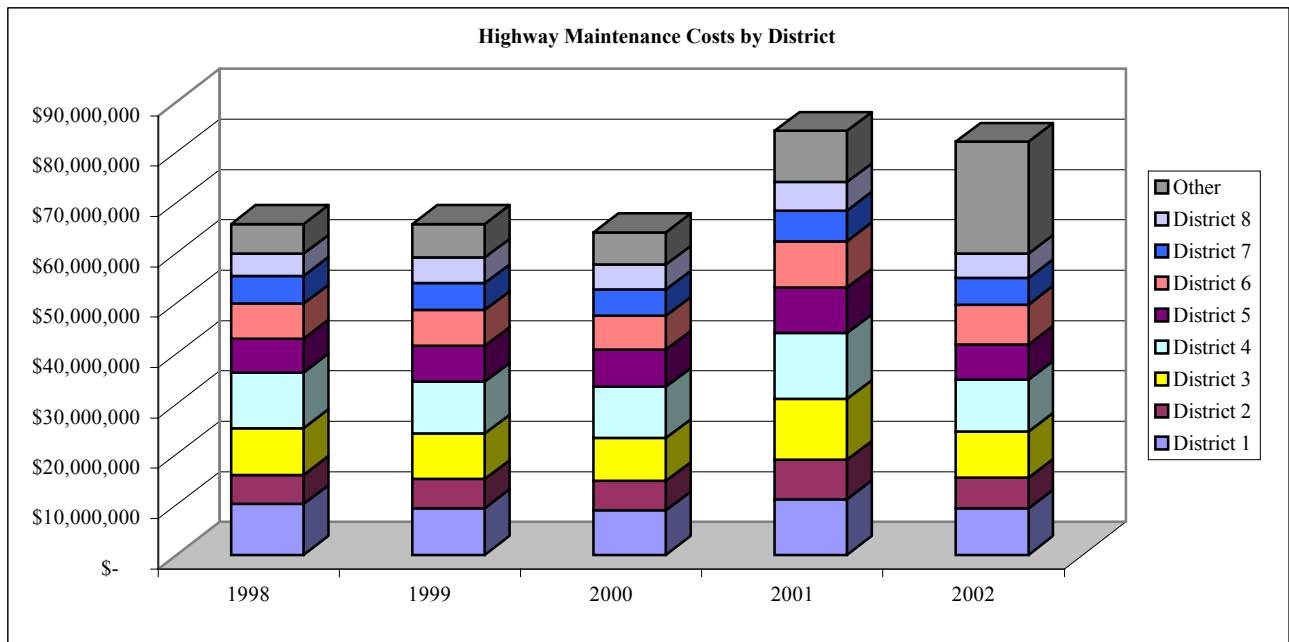
Note: Lane Miles are determined by the number of traffic lanes. For example one mile of Interstate would be considered four/six lane miles (four/six lanes of traffic per mile). Total of 22,630 State highway lane miles.



Note: Surface conditions are rated by Department of Roads personnel based upon annual visual inspections and ride quality. Surface condition is determined by the severity and extent of pavement distresses such as existing cracking and potholes. Pavement condition does not include gravel highway miles.

NEBRASKA DEPARTMENT OF ROADS
SCHEDULE OF MAINTENANCE COSTS BY DISTRICT
 UNAUDITED

District Location	1 Lincoln	2 Omaha	3 Norfolk	4 Grand Island	5 Bridgeport	6 North Platte	7 McCook	8 Ainsworth
Highway Miles								
Interstate	65	46	3	110	102	155	-	-
Expressway	143	129	121	137	73	-	-	-
Other	1,367	341	1,403	1,467	1,078	1,158	1,030	1,041
Average Daily Traffic-Fiscal Year 2002								
Interstate	29,630	64,445	16,240	19,920	7,800	15,730	-	-
Expressway	8,410	15,095	6,590	5,915	4,205	-	-	-
Other	2,170	9,820	1,710	1,695	1,345	1,110	1,340	825
Average Maintenance Cost per District Mile (Note 1)								
2002	\$ 5,873	\$ 11,810	\$ 5,350	\$ 5,997	\$ 5,574	\$ 6,035	\$ 5,125	\$ 4,650
Average Maintenance Cost per District Average Daily Traffic (Note 1)								
2002	\$ 312	\$ 68	\$ 374	\$ 373	\$ 523	\$ 471	\$ 3,940	\$ 5,868
Highway Maintenance Costs by Fiscal Year								
1998	\$ 10,127,977	\$ 5,757,873	\$ 9,288,434	\$ 11,056,436	\$ 6,745,356	\$ 6,935,301	\$ 5,511,633	\$ 4,373,721
1999	\$ 9,302,760	\$ 5,750,196	\$ 9,060,814	\$ 10,288,023	\$ 7,141,107	\$ 7,099,958	\$ 5,338,502	\$ 5,074,848
2000	\$ 8,874,172	\$ 5,850,640	\$ 8,479,862	\$ 10,157,890	\$ 7,337,144	\$ 6,774,395	\$ 5,238,042	\$ 4,933,635
2001	\$ 11,080,141	\$ 7,830,392	\$ 12,033,207	\$ 13,099,683	\$ 9,061,340	\$ 9,202,978	\$ 6,091,450	\$ 5,637,198
2002	\$ 9,249,342	\$ 6,093,932	\$ 9,169,398	\$ 10,278,078	\$ 6,984,765	\$ 7,924,154	\$ 5,279,007	\$ 4,840,786



Note 1: Calculated based on district costs. Maintenance costs may vary due to traffic volume, traffic load, and weather conditions.

Other: Highway maintenance costs not charged to a specific district. Other costs increased for fiscal year 2002 as a result of a change in accounting procedures on the Department's accounting system to distribute payroll additive.

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NEBRASKA DEPARTMENT OF ROADS 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 Department of Roads as of and for the year ended June 30, 2002, and have issued our report thereon dated December 18, 2002. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Roads. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Roads' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Roads in the Comments Section of this report as Comment Number 2 (Travel Expenses) and Comment Number 3 (Contract Overpayments).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Roads' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements

and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Roads in the Comments Section of this report as Comment Number 1 (Reconciliation of Systems), Comment Number 2 (Travel Expenses), Comment Number 3 (Contract Overpayments), Comment Number 4 (Fixed Assets and Inventory), Comment Number 5 (State Property Damage), Comment Number 6 (Vehicle and Equipment Usage Logs), and Comment Number 7 (Control Over Highway Safety Receipts).

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

Pat Reding, CPA

Assistant Deputy Auditor

December 18, 2002