

**ATTESTATION REPORT  
OF THE  
NEBRASKA STATE TREASURER  
JULY 1, 2002 THROUGH JUNE 30, 2003 AND  
FOR THE PERIOD JULY 1, 2003  
THROUGH JANUARY 6, 2004 AND  
OTHER AUDITORS' REPORTS ON THE  
NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
DECEMBER 31, 2002**

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NEBRASKA STATE TREASURER

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## NEBRASKA STATE TREASURER

### **BACKGROUND**

The Nebraska State Treasurer, is a constitutional officer, 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.

NEBRASKA STATE TREASURER

**EXIT CONFERENCE**

An exit conference was held April 6, 2004 with the Nebraska State Treasurer to discuss the results of our examination. Those in attendance for the Nebraska State Treasurer were:

<b>NAME</b>	<b>TITLE</b>
Ron Ross	State Treasurer
Scott Yank	Deputy State Treasurer

## NEBRASKA STATE TREASURER

### SUMMARY OF COMMENTS

During our examination 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 WITHOUT RECOMMENDATIONS

1. ***Investigation of State Treasurer Byrd:*** On August 20, 2003, the Nebraska State Patrol initiated an investigation of State Treasurer Byrd regarding the issuance of State warrants within the State accounting system that did not have the required documentation attached authorizing the issue of such warrants. On November 26, 2003, State Treasurer Byrd plead guilty to one count of Official Misconduct. Treasurer Byrd was sentenced on December 23, 2003, to 300 hours of Community Service and resigned her position effective January 6, 2004.
2. ***Internal Control Structure:*** In gaining an understanding of the Control Structure of the State Treasurer's office for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004 we concluded the Control Structure was not conducive to fair financial presentation, as management (State Treasurer Byrd) chose to override certain internal controls, as reflected in the Nebraska State Patrol investigation report summary.

#### COMMENTS AND RECOMMENDATIONS

1. ***Nebraska Information System:*** Significant areas of concern or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. ***Payroll Policies, Procedures, and Internal Controls:*** In our examination of payroll expenditures of the State Treasurer's office we noted the following:
  - A. ***Payroll Allocation/Compliance with A-87 Requirements*** - The State Treasurer's office was in noncompliance with State or Federal laws or regulations.
  - B. ***Timesheets - Employees in the TM, UP, and NCSP Divisions*** - There were no time records to support some employees worked 40 hours per week.
  - C. ***Lack of Segregation of Duties Over Payroll*** - We noted internal control should be improved.
  - D. ***Authorization to Support Salary Rates*** - For 13 of 17 employees tested we were unable to locate adequate documentation authorizing the salary rates paid. In addition, for 8 of the 13 employees we also could not locate adequate documentation authorizing their salary changes from January 2003 through December 2003.
  - E. ***Authorization to Support Leave Used*** - For 4 of 17 employees tested we were unable to locate adequate documentation authorizing certain vacation or sick leave used.

NEBRASKA STATE TREASURER

SUMMARY OF COMMENTS

(Continued)

COMMENTS AND RECOMMENDATIONS, CONTINUED

2.
  - F. **Compensatory Time Recorded on NIS** - The State Treasurer does not use NIS to record compensatory time earned and used.
  - G. **One-Time Payments/Bonuses** - The State Treasurer paid in excess of \$70,000 in bonuses which were processed incorrectly in the State accounting system, and we found no supporting documentation the State Treasurer approved these bonuses.
  - H. **Balancing of Vacation Leave** - We found no supporting documentation to support the carryover of excessive vacation hours for the Deputy State Treasurer.
  - I. **Vacation Leave Payout** - We found no supporting documentation to support vacation hours used and earned for then-Deputy State Treasurer Byrd.
  
3. **Expenditures:** We examined, on a test basis, expenditures other than payroll expenditures. We noted the following:
  - A. **Lack of Supporting Documentation/Original Invoices** - The State Treasurer did not have required documentation authorizing the issuance of some warrants. Twenty-two warrants totaling \$363,546 were issued on February 21, 2003 and the majority of these warrants were cancelled on June 27, 2003, totaling \$301,401. Three of the twenty-two warrants totaling \$24,560 were not cancelled until January 24, 2004. We also noted overpayments and payments being made from photocopies of invoices.
  - B. **Purchase of Scanners** - The State Treasurer did not use a competitive bidding process to purchase two high-end scanners at a combined purchase price of \$627,654 as required by State law and State purchasing policies. We also noted:
    - No documentation to support the allocation of this cost to the various State Treasurer's programs;
    - The costs of the scanners were recorded in the capital asset records inconsistently with the accounting records; and
    - Contractual and Federal reporting requirements were not met.
  - C. **Cost Allocation Between Programs** - No documentation was provided to support the allocation of other expenditures to the various programs totaling \$106,391.
  - D. **Prepayments** - We noted significant prepayments to numerous vendors well in advance of the services actually being provided.
  - E. **Use of DAS State Purchasing Bureau** - Purchases of \$417,243 in microcomputer systems/related peripherals and software were made by the State Treasurer, other than the scanners noted above, without a formal bidding process being used as required by State law and State purchasing policies.
  - F. **Reconciliation of Disbursement Documents to the General Ledger** - There was no documentation to support the State Treasurer's office reconciled accounts payable documents processed to the General Ledger.



NEBRASKA STATE TREASURER

SUMMARY OF COMMENTS

(Continued)

COMMENTS AND RECOMMENDATIONS, CONTINUED

3.
  - G. **Contracts Not on File** - Two contract documents were incomplete.
  - H. **Fees Per Invoice Do Not Match Fee Schedule** - The fee schedule to support amounts paid to one vendor could not be found in the contract file, and also could not be supported by information from the vendor.
  - I. **Questionable Expenditures** - Questionable expenditures of nearly \$6,500 were identified.
  - J. **Invoices Not Paid Timely** - Thirteen invoices were not paid timely. We noted payments from a few days over the 45 day State statute requirement, to payments being made on invoices that were nearly two years old.
  - K. **Outstanding Warrants** - The State Treasurer was not following up on old outstanding warrants, and the money for expired Escheat Trust Fund warrants were incorrectly deposited into the State's General Fund.
  - L. **Contracts** - In a test of 18 of the State Treasurer's more significant contracts we noted: three of the contracts were not signed by all parties involved; there was no evidence the contract underwent a legal review for 16 of the contracts; two contracts were not on the NIS database; and there was no documentation the services were bid out or had approval from Department of Administrative Services (DAS) Materiel Division for not following the bidding process for 17 of the contracts.
  - M. **Contract Overpayment** - The State Treasurer overpaid a contract in the amount of \$338,373.
  
4. **Treasury Management Banking Functions:** The following are the items we noted during our review of the Treasury Management's banking functions:
  - A. **Review of Bank Activity** - There was no documented independent review of bank reconciliations performed by Treasury Management staff.
  - B. **Bank Reconciliations** - For two of three reconciliations tested, reconciling items were not cleared timely (within a month). The reconciliation for State Street Bank, Medium Term Investment Pool as of March 31, 2003, included reconciling items totaling \$100 million that were older than one month. The reconciliation for US Bank, main account as of December 31, 2003, included reconciling items totaling \$192,378 that were older than one month.
  - C. **Master Month-End Reconciliation** - For the Master Month-End Reconciliation we noted the following:
    - Reconciling items on the master reconciliation for four of ten banks tested did not agree to the individual reconciliations performed by Treasury Management staff.
    - For one of ten banks selected, the Ledger balance did not agree to the Treasurer's Ledger as of November 30, 2003.

NEBRASKA STATE TREASURER

SUMMARY OF COMMENTS

(Continued)

COMMENTS AND RECOMMENDATIONS, CONTINUED

4. C. • The month-end master reconciliation contained lines for reconciling items and a NAS reconciliation that were no longer used by the Treasurer's Office.
- D. ***Pledged Collateral*** - The Treasurer's Office had insufficient pledged collateral to cover the deposits at US Bank on March 25, 2003 of nearly \$18 million. We also noted the Treasurer's Office did not have procedures in place to ensure the securities used as pledged collateral were allowable per statute.
- E. ***Treasurer's Report*** - The monthly Treasurer's Report had not been fully completed since February 2003.
- F. ***Investment Interest for the SDU Fund*** - Fund 72640, the IV-D Support Payment Distributive Fund for the State Disbursement Unit (SDU), a fund of the Department of Health and Human Services (HHS), was being credited for interest earned by the Medium Term Investment Pool. However, the Treasurer did not consider this fund when determining amounts available for investment.
5. ***Unclaimed Property***: During our review of unclaimed property we noted the following:
- A. ***Public Sale of Unclaimed Property*** - There had been no public sale of unclaimed property conducted since February 1994, a period in excess of nine years.
- B. ***Transfers Not Conducted Timely*** - One of six transfers was not calculated correctly. The transfer from the separate trust fund to the Permanent School Fund was short \$2,745,948. We also noted three of six transfers were not transferred per the timeframe required by State Statute 69-1317.
- C. ***Public Notice of Unclaimed Property*** - The public notice and the letters sent to potential claimants did not contain certain information as required by State statute. We also noted there was no documentation to support the required letters were sent within 120 days as required by State statute.
- D. ***Claimant Proof of Ownership Not on File*** - One of fifteen claims tested did not have proof of ownership on file prior to payment of \$8,625.
- E. ***Lack of Segregation of Duties in Unclaimed Property*** - There was a lack of segregation of duties in the Unclaimed Property Division.
- F. ***Recording of Unclaimed Property Receipts*** - Two of thirty-two deposits were not coded to the proper fund and account.
- G. ***Reporting of Unclaimed Property*** - The State Treasurer did not enforce State statutes requiring businesses to report all unclaimed property. Reporting was on a voluntary basis.
- H. ***Unclaimed Property Securities*** - We noted the following during the testing of unclaimed securities:
- One of ten holder reports was not on file with the State Treasurer.
  - Thirteen of eighty-two securities were not properly recorded in the Wagers System.

NEBRASKA STATE TREASURER

SUMMARY OF COMMENTS

(Continued)

COMMENTS AND RECOMMENDATIONS, CONTINUED

5. **H.**
- We noted 9 of 40 holder reports had aggregate amounts reported by the State Treasurer even though the detail was available to record the property separately by owner.
  - We noted 4 of 40 holder reports had aggregate amounts that did not have the owner's information reported.
- I. *Unclaimed Property Safety Deposit Boxes*** - We noted the following during the testing of safety deposit boxes:
- One of six safety deposit boxes did not have a physical inventory documented upon receipt.
  - One of six safety deposit boxes did not contain all of the property listed on the physical inventory sheet.
  - There were 143 safety deposit boxes received in 2003 that were not entered on the Unclaimed Property system or the safety deposit box spreadsheet maintained by the Division.
  - There was not an adequate safeguarding of safety deposit boxes kept in the basement vault.
  - There was not an independent physical inventory conducted.
6. ***Outstanding Warrants:*** In our examination of outstanding warrants we noted the following:
- A. *Outstanding Warrants Procedures Review*** - There was a lack of documentation to indicate all procedures were performed.
- B. *Outstanding Warrants Report*** - The June 30, 2003 outstanding warrants report was not accessible on the State Treasurer's website until March 2004, even though the State Treasurer obtained the report from DAS in October 2003.
- C. *Cumulative Warrant Register*** - There has not been a report generated in NIS to replace the NWR Cumulative Warrant Register.
- D. *Cancellation Procedures*** - DAS did not send 2 of 35 cancelled warrants tested to the State Treasurer on a timely basis. Also, the State Treasurer did not verify that all cancelled warrants were received from DAS to be retained in their vault.
7. ***Fixed Assets:*** In our examination of the State Treasurer's fixed assets records we noted the following:
- A. *Lack of Segregation of Duties Over Fixed Assets*** - Internal controls need to be improved.
- B. *Missing Assets/Assets Not Tagged*** - One laptop computer was missing and numerous assets were not tagged as "Property of the State of Nebraska."

NEBRASKA STATE TREASURER

SUMMARY OF COMMENTS

(Continued)

COMMENTS AND RECOMMENDATIONS, CONTINUED

7. C. **Disposal of Assets** - Unused capital assets were not properly disposed of, or were not stored in a secure area.
  
8. **State Disbursement Unit (SDU):** In our examination of the records of the SDU we noted:
  - A. **SDU Bank Reconciliation** - A reconciliation of the Fund 72640 balance per the accounting records to the balance per the bank records had not been performed and a \$892,133 variance was noted at January 6, 2004.
  - B. **Reconciliation Processes** - There are three major systems the State of Nebraska uses to account annually for hundreds of millions of dollars of receipts and disbursements of child support (CHARTS, KidCARE, and NIS). We noted there are limited reconciliation procedures of these systems to ensure all activity is properly accounted for and the systems are in balance.
  - C. **Bad Debt, Duplicate Warrants, and Cancelled Warrants** - The State Treasurer's office did not record bad debt, duplicate warrants issued in error, and cancelled warrant activity for the period on NIS, overstating the IV-D Support Payment Distribution - SDU Fund 72640 cash balance. General Funds totaling \$353,712 were used for bad debt and subsequent recoveries were not deposited back to the General Fund.
  - D. **Misapplied Payments** - Procedures regarding the proper recording and recovery of misapplied payments need to be improved. The State General Fund provided \$249,535 to the SDU for misapplied payments.
  - E. **Daily Suspense Report** - The Daily Suspense Report dated October 14, 2003 showed 198 payments to the SDU, totaling \$150,163, which had not been matched to a recipient.
  - F. **Federal Reporting** - The State Treasurer's office expended \$305,254 more in Federal letter of credit funds than they reported to the Health and Human Services System.
  
9. **Transfers and Allocations:** In our examination of the cigarette allocations made by the State Treasurer's office we were unable to determine if the allocation had been correctly made because changes made in State statutes are unclear whether the amounts are to be distributed October 1 through September 30, or whether the allocation should continue on a fiscal year basis, July 1 through June 30.

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.

NEBRASKA STATE TREASURER

**SUMMARY OF COMMENTS**

(Continued)

Draft copies of this report were furnished to the 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. Where no response has been included, the Treasurer declined to respond. 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 examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA STATE TREASURER

COMMENTS WITHOUT RECOMMENDATIONS

1. **Investigation of State Treasurer Byrd**

On August 20, 2003, the Nebraska State Patrol initiated an investigation of State Treasurer Byrd regarding the issuance of State warrants within the State accounting system that did not have the required documentation attached authorizing the issue of such warrants. As the investigation continued, additional issues were brought to the attention of the State Patrol. The original State Patrol investigation was completed on October 20, 2003. On November 26, 2003, State Treasurer Byrd plead guilty to one count of Official Misconduct, after being cited on November 25, 2003, as a condition of a plea agreement with the Attorney General. The Attorney General had been prepared to charge the Treasurer with 13 Class II misdemeanors for her actions. One count was for the failure to use a bid process in the purchase of two scanners and the remaining twelve counts related to the issuance of twelve warrants without documentation. State Treasurer Byrd was sentenced on December 23, 2003, to 300 hours of Community Service and resigned her position effective January 6, 2004. The following summarizes the results of the State Patrol investigation.

**(Note: The references to comments relate to the Comments and Recommendations prepared based on the Auditor of Public Accounts' examination, which can be found in the Comments and Recommendations section of this report).**

- A. The Treasurer issued State warrants that did not have the required documentation attached authorizing the issue of such warrants. Twenty-two warrants were issued on February 21, 2003, totaling \$363,546. A majority of these warrants were cancelled on June 27, 2003, totaling \$301,440. This is in violation of State of Nebraska, Department of Administrative Services (DAS) accounting policy PROC-35, paragraph 15.b., as authorized by Neb. Rev. Stat. Section 81-1110.01 R.R.S. 1999, which stated, in part, "Attach to the Disbursement Document . . . original invoices, or contract and a copy of the Purchase Order, if applicable."

Based on this evidence, the State Attorney General brought official misconduct charges against State Treasurer Byrd under Neb. Rev. Stat. Section 28-924 R.R.S. 1995, which states, in part, "A public servant commits official misconduct if he knowingly violates any statute or lawfully adopted rule or regulation relating to his official duties . . . ."

As noted above, State Treasurer Byrd plead guilty to one count of Official Misconduct. (See **Comment 3.A.**)

- B. The Treasurer purchased two high-end scanners from Imaging Business Machines, Limited for a total purchase price of \$627,654. No Request for Proposal (RFP) or bid process was used. This was in violation of Neb. Rev. Stat. Section 81-1118 (5)(a) R.R.S. 2002, which states, "The state purchasing bureau shall be responsible for all purchases by all state agencies other than the University of Nebraska. The materiel division shall administer the public notice and bidding procedures and any other areas designated by the Director of Administrative

NEBRASKA STATE TREASURER

**COMMENTS WITHOUT RECOMMENDATIONS**

(Continued)

**1. Investigation of State Treasurer Byrd (Continued)**

Services to carry out the lease or purchase of personal property. All purchases of and contracts for materials, supplies, or equipment and all leases of personal property shall be made in the following manner except in emergencies approved by the Governor: (a) 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.”

Terms of payment were changed from 100% due at order to 50% due with purchase order and 50% due prior to shipment because State Treasurer Byrd no longer had access to the budget resources to pay the entire cost at one time. There seems to have been no need for such high-end scanners at the SDU, and no need for two scanners. Payments of \$313,827 were made on June 27, 2003 and August 25, 2003 for the scanners. **(See Comment 3.B.)**

The following additional concerns were noted.

- C. State Treasurer Byrd distributed approximately \$73,000 in additional pay to employees from March 2003 through August 2003. These bonuses do not appear to be a criminal violation, but rather an accounting practice that seems questionable. Additional pay was not recorded on NIS as bonuses, but was instead recorded as a one-time increase in regular pay. **(See Comment 2.G.)**
- D. Numerous checks were received by the SDU that were made out to other individuals or businesses. The Daily Suspense Report dated October 14, 2003 shows 198 payments to the SDU, totaling \$150,163, which had not been matched to a recipient. This was a possible violation of banking rules covered by the Uniform Commercial Code regulations. **(See Comment 8.E.)**
- E. Numerous purchases of computer hardware were made and billed to the SDU unit. This resulted in 66% of the costs being paid from Federal funds. Concerns were raised whether all the computer items were related to SDU functions, as it appears some items were placed in the Capitol office and not at the SDU office. Purchases were made during the months of April 2003 through June 2003, at a total of \$119,030. This was a possible violation of Federal regulations. **(See Comment 3.C.)**
- F. Salaries of full-time SDU employees were being paid with Federal dollars when they actually spent time working on Unclaimed Property or Information Technology issues at the Capitol office. The State Treasurer indicated there was a tradeoff of hours with some non-SDU employees performing SDU work. However, the State Treasurer was unable to offer any documentation that accurately tracked the trading of hours. This was a possible violation of Federal regulations. **(See Comment 2.A.)**

NEBRASKA STATE TREASURER

**COMMENTS WITHOUT RECOMMENDATIONS**

(Continued)

**1. Investigation of State Treasurer Byrd (Concluded)**

- G. Employees did not adequately understand whether or not they were salaried employees or hourly wage employees. This affected how the employees were paid when they were sent home early and whether they could earn and use compensatory time. Other concerns were made over the State Treasurer's methods of treating employees. This was a possible violation of Federal labor laws. **(Not addressed specifically in this examination report)**

The current State Treasurer has been made aware of the Nebraska State Patrol's Investigation report.

**2. Internal 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 entity's 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 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.



NEBRASKA STATE TREASURER

**COMMENTS WITHOUT RECOMMENDATIONS**

(Continued)

**2. Internal Control Structure (Concluded)**

In gaining an understanding of the Control Structure of the State Treasurer's office for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004 we concluded the Control Structure was not conducive to fair financial presentation, as management (State Treasurer Byrd) chose to override certain internal controls, as reflected in the investigation report summarized above. Because of management's apparent override of certain controls, the Report on Compliance and on Internal Control Over Financial Reporting Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with *Government Auditing Standards* will include this internal control weakness as a reportable condition and material weakness.

## NEBRASKA STATE TREASURER

### COMMENTS AND RECOMMENDATIONS

*Treasurer's Response – General: The Treasurer's Office would like to acknowledge the hard work and thoroughness of the State Auditor's staff. We recognize the need for improvements, several of which have been implemented. We will have a continuous improvement process in place to make the necessary changes.*

#### **1. Nebraska Information System**

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the Department of Administrative Services (DAS) Accounting Division performed some reconciliation procedures. As of April 28, 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records. The monthly reconciliations during the audit period and subsequent months indicate fluctuations in the variance amounts. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be done timely and on a monthly basis to ensure all financial information is correct in NIS.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Nebraska Information System (Continued)**

- b. Two key financial reports to be prepared and presented by the DAS Accounting Division were not completed in a timely manner. The Annual Budgetary Report as of June 30, 2003 was not completed until January 2004. The Comprehensive Annual Financial Report has yet to be completed for the fiscal year ended June 30, 2003. Timely reporting of the State's financial information is key to all users of such information, especially State policy makers, when making informed policy decisions.
- c. As of June 30, 2003 a comprehensive written NIS policy and procedures manual had not been prepared. Subsequent to June 30, 2003, DAS Accounting Division has made some progress in updating the prior Nebraska Accounting System (NAS) and Nebraska Employees Information System (NEIS) policy and procedures manuals to incorporate NIS policies. However, as of the date of this report these policy updates are not complete. With hundreds of users of NIS, it becomes imperative the State has a comprehensive policy and procedure manual to help ensure consistent and accurate accounting of the State's financial transactions.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.
- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only states, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System** (Concluded)

- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

*Treasurer's Response: The Treasurer's Office is willing and able to work collaboratively with the Nebraska Information System.*

2. **Payroll Policies, Procedures, and Internal Controls**

The State Treasurer's Office was comprised of four Divisions during the examination of fiscal year ended June 30, 2003 and for the period of July 1, 2003 through January 6, 2004: Treasury Management (TM), Unclaimed Property (UP), the Nebraska College Savings Plan (NCSP) and Child Support Payment and Disbursement Center (SDU).

The number of employees for these Divisions as of June 30, 2003 and January 6, 2004 were as follows:

Division	Number of Employees	Number of Employees
	As of June 30, 2003	As of January 6, 2004
TM	6	6
UP	6	4
NCSP	1	1
SDU	40	45
Total	53	56

During the fiscal year ended June 30, 2003 the TM Division was funded by the State's general fund and funds were appropriated by the Legislature under Program 503. During the period July 1, 2003 through January 6, 2004 the TM Division was funded by a cash fund (revenues generated from specific activities), again appropriated by the Legislature under Program 503. The UP and NCSP

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Payroll Policies, Procedures, and Internal Controls (Continued)**

Divisions were funded by cash funds and funds were appropriated by the Legislature in Programs 512 and 505 for the entire period. The SDU Division was funded 34% by the State General Fund and 66% by Federal funds and appropriated by the Legislature in Program 24 for the entire period.

Our examination of the State Treasurer's payroll records, policies, procedures, and internal controls for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004 noted noncompliance with policies and procedures, noncompliance with Federal requirements, and a lack of internal controls. Our testing noted the following:

**A. Payroll Allocation/Compliance with A-87 Requirements**

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) also states, “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 the following, “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.”

There was no periodic certification, nor was it noted on their timesheets that the employees at the SDU worked 100% of their time solely on a Federal program.

In addition, 24 employees worked in several Divisions, which are funded by the Legislature through appropriations in the programs noted above. Each of these employee's time was allocated between various divisions/programs/funds (including the SDU Division, which is funded 66% with Federal funds), however, we found no documentation to support the allocation of these costs between the various divisions/programs/funds.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies, Procedures, and Internal Controls** (Continued)

A. **Payroll Allocation/Compliance with A-87 Requirements** (Concluded)

In addition, good internal controls require a method of allocating time spent by division/program/fund and preparing and maintaining documentation to support actual time spent by division/program/fund.

When OMB Circular A-87 required certifications were not completed the State Treasurer was in noncompliance with Federal regulations and there is a greater risk that Federal sanctions will be levied against the office.

In addition, when documentation is not prepared and maintained to support allocation of payroll costs there is increased risk: 1) the allocation of costs between division/program/fund will not be done correctly, 2) records will not be available to support costs charged to division/program/fund in accordance with legislative appropriation requirements, and 3) the State Treasurer will have questioned costs related to Federal noncompliance with Federal laws and regulations.

This was a prior audit finding in our fiscal year ended June 30, 2002 audit report.

We recommend the State Treasurer develop policies and procedures to ensure certifications required by OMB Circular A-87 are prepared, documented, and maintained. We further recommend the State Treasurer prepare and maintain written documentation to support allocation of payroll costs by division/program/fund to ensure costs are appropriately charged, and ensure compliance with State and Federal laws and regulations. The documentation for the allocation of these costs should be reviewed periodically to ensure payroll costs continue to be allocated correctly.

*Treasurer's Response: The Treasurer's Office has established policies and procedures in an effort to ensure the allocation of payroll costs is proper and in compliance with State and Federal laws and regulations.*

B. **Timesheets - Employees in the TM, UP, and NCSP Divisions**

At June 30, 2003 and at January 6, 2004 the State Treasurer employed 13 and 11 employees respectively in the TM, UP, and NCSP Divisions. These employees were not required and did not maintain time records to support they worked 40 hours per week. All employees did accrue vacation and sick leave. Employees were required and did maintain leave slips to support leave taken.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies, Procedures, and Internal Controls** (Continued)

B. **Timesheets - Employees in the TM, UP, and NCSP Divisions** (Concluded)

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, sound business practices, as well as good internal control, would require hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation be kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave adequate documentation should be maintained to support the employees' having "earned" the amounts recorded in the leave records by documenting the amount of time worked each week.

Without accurate records of time worked and leave used being kept via timesheets, time logs, etc, supporting the amount of time employees worked each week the State Treasurer was not in compliance with State Statute 84-1001(1); there was an increased risk of incorrect calculation of payroll; and vacation and sick leave balances were not supported.

We recommend the State Treasurer keep timesheets for all employees. The timesheets should include an accurate account of hours worked per day as well as leave used per day. The timesheets should be signed by the employees, approved by their supervisors, and kept on file for future review.

*Treasurer's Response: The State Disbursement Unit already maintains timesheets for all employees. The employees in other divisions under the Treasurer's supervision are currently tracking their hours on timesheets.*

C. **Lack of Segregation of Duties Over Payroll**

As of June 30, 2003 and January 6, 2004 seven employees were authorized to both prepare and approve all payroll transactions in NIS as they were set up in NIS security as Code 22 under the HR/Payroll functional security matrix. This security access gave those employees access to all HR/Payroll functions and thus did not provide for an adequate segregation of duties.

Good internal controls require an adequate segregation of duties to ensure no single individual is in a position to both perpetrate and conceal errors or irregularities.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies, Procedures, and Internal Controls** (Continued)

C. **Lack of Segregation of Duties Over Payroll** (Concluded)

Without a proper segregation of duties, there is an increased risk of loss or misuse of State funds.

We recommend the Treasurer review the functional matrix for HR/Payroll and assign each employee the coding that represents those duties for which they are responsible.

*Treasurer's Response: The functional matrix for payroll was reviewed and adjustments were made to the level of access for certain individuals within the Treasurer's Office to limit the number of individuals that have access to higher payroll functions.*

D. **Authorization to Support Salary Rates**

For 13 of 17 employees tested we were unable to locate adequate documentation authorizing the salary rates paid. In addition, for 8 of the 13 employees we also could not locate adequate documentation authorizing their salary changes from January 2003 through December 2003. Documentation found, if any, consisted of handwritten notations with no documentation found of management's approval of these rates.

Good internal controls require adequate documentation authorizing salaries paid. Without adequate documentation authorizing salary rates there was an increased risk in loss or misuse of State funds.

We recommend the State Treasurer prepare and maintain adequate documentation authorizing salary rates. This documentation should, at a minimum, include the salary rate, the effective date, and management approval of the salary rate.

*Treasurer's Response: The Treasurer and Deputy State Treasurer currently approves all salary increases.*

E. **Authorization to Support Leave Used**

For four of seventeen employees tested we were unable to locate adequate documentation authorizing certain vacation or sick leave used. We were unable to find adequate documentation for the following leave used:

1. For one employee 8 hours of vacation and 2.75 hours of sick leave used for the pay period April 30, 2003.



NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies, Procedures, and Internal Controls** (Continued)

E. **Authorization to Support Leave Used** (Concluded)

2. For one employee 33.25 hours of vacation and 47.25 hours of sick leave used for the pay period April 30, 2003 (APA was told these hours reflect the hours used January 2003 through April 2003).
3. For one employee 54.80 hours of vacation and 40 hours of sick leave used for the pay period April 30, 2003 (APA was told these hours reflect the hours used January 2003 through April 2003).
4. For one employee 6.75 hours of sick leave used for the pay period October 31, 2003.

The State Treasurer's policy required leave slips to be submitted, signed by employee, and the employee's immediate supervisor. Documentation found for these four employees, if any, consisted of handwritten notations. However, no leave slips were found, nor was documentation found of management's approval for this leave being recorded as used on NIS. In addition, the State Treasurer did not require approved timesheets to record the leave used.

Good internal controls require adequate documentation authorizing leave used. The leave used should reflect the hours used during the pay period.

When adequate documentation authorizing leave was not prepared and maintained there was greater risk leave records were not accurate, and a possible loss of State resources due to the improper payment of vacation and sick leave.

We recommend the State Treasurer properly document and authorize leave used. This can be accomplished by having leave slips approved by the supervisor authorizing the leave to be taken, and the recording of the leave used on timesheets, signed by the employee and the employee's immediate supervisor for the leave actually taken.

*Treasurer's Response: Leave slips are presently being used by the Treasurer's Office with the appropriate supervisor authorizing the leave. See also our response to 2.B. above.*

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Payroll Policies, Procedures, and Internal Controls (Continued)**

**F. Compensatory Time Recorded on NIS**

The State Treasurer does not use NIS to record compensatory time earned and used. Instead of using NIS, the State Treasurer kept manual records (Excel spreadsheets) of compensatory time earned and used for each employee.

NIS was established by the Legislature as the official personnel data and payroll processing system for the State of Nebraska. It has the capabilities to maintain compensatory time balances, earnings, and usage.

When manual records are kept there is an increased risk of inaccurate compensatory time being kept, resulting in a greater possibility of loss of State resources due to the improper payment of this type of leave to employees. In addition, the purpose of a statewide system is to have information that provides information for all State agencies, and when this information is not available for all State agencies it makes it more difficult for users of statewide information (DAS Accounting Division) to get this information.

This is a prior comment from our June 30, 2002 audit report in which the State Treasurer did not keep compensatory time on the statewide accounting system.

We recommend the State Treasurer use NIS to record compensatory time balances, earnings, and usage.

**G. One-Time Payments/Bonuses**

The Payroll system for the State of Nebraska, starting January 1, 2003, was part of NIS. This system has the capabilities to process one-time payments/bonuses for employees. We examined NIS and the State Treasurer's payroll records for the period January 1, 2003 through December 31, 2003 for one-time payments/bonuses for all employees. Our examination, as well as the investigation summary in the Comments Without Recommendations section of this report, revealed the following:

1. The State Treasurer paid one-time payments/bonuses to 44 of 52 employees, primarily during the months of March 2003 through August 2003. These one-time payments/bonuses totaled in excess of \$70,000.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies & Procedures and Internal Controls** (Continued)

G. **One-Time Payments/Bonuses** (Concluded)

2. We found no documentation that the State Treasurer approved these one-time payments/bonuses. (However, we were told the State Treasurer was fully aware of these payments). The only indication we found in the payroll records that these one-time payments/bonuses were paid was handwritten notations on the State Treasurer's payroll registers. In addition, we found no documentation supporting the reasons for the one-time payments/bonuses.
3. The one-time payments/bonuses were incorrectly processed and coded. These one-time payments/bonuses were processed as one-time overrides and coded as regular salaries/wages. These payments should have been processed and coded as bonuses in NIS as this more accurately reflects the true nature of the transactions. By processing these transactions as one-time overrides and coding them as regular salaries/wages it appears on the Payroll Register that the employee received a salary increase. In addition, the only way the one-time payments/bonuses could be identified was by looking at the detailed information in NIS. No NIS reports reflected the true nature of these transactions as the State Treasurer processed them.

Good internal controls require documentation authorizing and supporting the basis for one-time payments/bonuses. In addition, good accounting practices would require these payments be recorded in NIS to reflect the true nature of the transactions.

Without proper documentation to support salary changes there was an increased risk in loss or misuse of State funds. In addition, when transactions are miscoded the financial records of the State are inaccurate and misleading.

We recommend the State Treasurer document and approve all one-time payments/bonuses. In addition, this type of transaction should be recorded in NIS as a bonus.

*Treasurer's Response: The current administration will not have one-time payments/bonuses to employees.*

H. **Balancing of Vacation Leave**

At December 31, 2002 the Deputy State Treasurer, Mary Brock, had a vacation leave balance of 324.22 hours. The State Treasurer's Personnel Policy stated, "All employee's accumulated vacation time in excess of thirty-five days (280 hours) shall be forfeited as of

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies, Procedures, and Internal Controls** (Continued)

H. **Balancing of Vacation Leave** (Concluded)

December 31 of each calendar year . . . excess carryover leave may be approved by the State Treasurer.” We found no documentation that the State Treasurer approved the carryover of excessive hours of 44.22, nor were the excess hours lapsed.

The State Treasurer was in noncompliance with its own personnel policies. In addition, if it is determined these excess hours should have been lapsed; the Deputy Treasurer upon her termination January 6, 2004, may have been overpaid for her vacation leave.

We recommend the State Treasurer comply with its personnel policies and lapse excessive vacation hours at year-end or properly approve them for carryover. We also recommend the State Treasurer determine if the amount of vacation termination pay of the Deputy State Treasurer was proper.

*Treasurer’s Response: Personnel polices of the Treasurer’s Office have been updated with the assistance of an employee task force and input from the Treasurer, Deputy State Treasurer and the Business Manager. These policies serve as a guide to be followed consistently and applied to all employees within the Treasurer’s Office.*

I. **Vacation Leave Payout**

Prior to becoming State Treasurer, Lorelee Byrd was the Deputy State Treasurer. On October 1, 2001 she was appointed State Treasurer. As a result, she moved from a State position where she earned vacation hours to a State position where she did not. At the time she became State Treasurer, she had vacation hours of 370 (280 from prior year and 90 hours of current year). The change in positions required a vacation payoff under Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 and the State Treasurer’s personnel policies. Lorelee Byrd, Deputy State Treasurer, was paid \$7,000 for her vacation balance.

Based on our review of the payout records we noted the following exceptions:

1. We saw no leave request forms in her personnel file that would indicate vacation was ever used. Therefore, it would be difficult to say whether the balance paid was accurate. There was no support to verify vacation hours used.
2. Deputy State Treasurer Byrd did not keep timesheets to support she rendered 40 hours of labor each week to accrue full-time vacation earnings, therefore, there are no records to support vacation earnings.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Policies & Procedures and Internal Controls** (Concluded)

I. **Vacation Leave Payout** (Concluded)

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, sound business practices, as well as good internal control, would require hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave, adequate documentation should be maintained to support the employees' having "earned" the amounts recorded in the leave records by documenting the hours worked each week.

The State Treasurer's Personnel Policies stated, "Employees who leave state government employment for any reason shall be paid for any unused accumulated vacation leave earned (but not in excess of 35 days unless authorized by the State Treasurer in his sole discretion), calculated on their base hourly rate."

Good internal controls require proper authorization to support leave used and earned.

Without proper documentation to support leave used and earned it is not possible to determine if the vacation hours paid to then Deputy State Treasurer, Lorelee Byrd, were correct.

We recommend the current State Treasurer review the records of this payout and determine if the vacation payout to former Deputy State Treasurer Byrd requires any adjustments.

3. **Expenditures**

Our examination of expenditures covered the four Divisions of the State Treasurer's office during the examination of the fiscal year ended June 30, 2003 and for the period of July 1, 2003 through January 6, 2004. Those four Divisions were Treasury Management (TM), Unclaimed Property (UP), the Nebraska College Savings Plan (NCSP) and Child Support Payment and Disbursement Center (SDU).

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

During the fiscal year ended June 30, 2003 the TM Division was funded by the State's general fund and funds were appropriated by the Legislature under Program 503. During the period July 1, 2003 through January 6, 2004 the TM Division was funded by a cash fund (revenues generated from specific activities), again appropriated by the Legislature under Program 503. UP and NCSP Divisions were funded by cash funds and funds were appropriated by the Legislature in Programs 512 and 505 for the entire period. The SDU Division was funded 34% By the State General Fund and 66% by Federal funds and appropriated by the Legislature in Program 24 for the entire period.

Total operating, travel, and capital outlay expenditures from those Divisions for the fiscal year ending June 30, 2003 totaled \$3,487,150, of which \$1,799,358 was subject to testing during our examination. For the period July 1, 2003 through January 6, 2004, those expenditures totaled \$889,907, of which \$797,445 was subject to testing during our examination. Our examination of expenditures noted the following:

**A. Lack of Supporting Documentation/Original Invoices**

Good internal control should include procedures to ensure adequate original supporting documentation is attached to each disbursement document.

NAS Manual, PROC-035, Section 15(b), states original invoices are to be attached to the disbursement document. PROC-035 also states that to write a warrant and record a payment, all original payment requests including invoices, contracts, and any other necessary documentation is to be included. In addition, per NAS Manual, PREA-002, Section 4(a)(ii), the pre-audit review should verify that an original itemized billing from the vendor is attached to the disbursement document. These same requirements would apply to documents processed under NIS as well.

OMB Circular A-87, Attachment A, section C(1)(j) requires expenditures under a Federal award to be adequately documented.

As noted in the investigation summary in the Comments Without Recommendations section of this report, State Treasurer Byrd issued State warrants that did not have the required documentation attached authorizing the issue of such warrants. Twenty-two warrants were issued on February 21, 2003, totaling \$363,546. A majority of these warrants were cancelled on June 27, 2003, totaling \$301,440.

The APA's examination supports the above investigation finding.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**A. Lack of Supporting Documentation/Original Invoices** (Continued)

Included in the 22 warrants mentioned above, three warrants totaling \$24,560 were not cancelled until January 24, 2004. For further information on these warrants see the first bullet of this comment.

Besides the lack of documentation for the warrants identified in the investigation the APA's examination of expenditure documents noted the following:

1. The State Treasurer made payments without any invoices or supporting documentation, or without original invoices. We noted seven documents where the document was processed and warrants were drawn before the invoice had been received, and the warrants were allegedly held by the State Treasurer for a considerable amount of time before being sent to the vendor. Three of these warrants were never sent, and were kept locked up in the vault at the Treasurer's office. These warrants were cancelled immediately after the APA notified the current State Treasurer. All documents posted on February 21, 2003. An additional document that was not tested during the examination but was observed by APA staff during the time of the investigation was also held for a considerable amount of time before being sent. The warrants that were being held were to the following vendors: two to the U.S. Postmaster for \$3,042 and \$1,044, two to Wagers & Associates for \$4,000 each, two to First Financial Computer Services for \$16,975 and \$11,760, one to Datastor Inc. for \$4,560, and one to Politzer and Haney for \$16,000.

Good internal control requires warrants to be written only after the invoice has been received, and warrants be sent immediately to the vendor once they have been written.

We noted two original invoices that had been altered, without any documentation indicated who made the changes or why the changes had been made. The first invoice was an invoice from Datastor Inc. for \$3,600. The vendor was asked to send us a copy of the original invoice they had sent to the State Treasurer in order to verify that an alteration had been made. This change had no effect on the amount that was paid. The second invoice was an invoice from Fairfax Imaging for \$179,975. A charge for annual maintenance was removed from the original invoice, as well as one other minor detail change. Neither of these changes appears to have had an effect on the amount due or actually paid.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

A. **Lack of Supporting Documentation/Original Invoices** (Continued)

2. Payment was made by the State Treasurer for post office box fees for the SDU for the period May 31, 2003 through May 30, 2004. Health and Human Services also paid for four of these same post office boxes a few days later for the period May 31, 2003 through November 29, 2003. The receipts for both of these payments were attached to the disbursement document. This resulted in an overpayment of \$458. Only one of the boxes had an original invoice, four boxes had copied invoices, and five boxes had no invoice at all. If only original invoices would have been used for payment, this duplicate payment may not have occurred.
3. Billings from First National Bank of Omaha for processing service fees related to child support credit card payments were incomplete. This payment was for the period June through December 2002, and each monthly merchant statement was a photocopy and was missing the second page of three. It appears this was because when the statements were photocopied, the backside of page one did not get copied. Because of this, we were unable to verify that the fees charged were correct. It also appears nobody was reviewing these statements to ensure the correct amount was being paid.

When payments are made from non-original invoices, warrants are drawn and held by an agency, original invoices are altered by an agency, or when documentation attached to a disbursement document is inadequate, there is an increased risk in loss or misuse of State and Federal funds.

We recommend the State Treasurer establish internal control procedures to ensure the following:

- Only original invoices are used to make payments (this may include stamping originals as they arrive in the mail);
- Documents and warrants are only processed after an invoice has been received;
- Warrants get sent directly from DAS to the vendor and not back to the State Treasurer first;
- Original invoices are not being altered without proper documentation; and
- All necessary supporting documentation be attached to the disbursement document before the document is processed.



NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

A. **Lack of Supporting Documentation/Original Invoices** (Concluded)

We further recommend the State Treasurer work with HHSS to determine if a credit was ever received for the duplicate payment to the U.S. Postmaster.

*Treasurer's Response: The Treasurer's Office is working with HHSS to determine if credit was received for the duplicate payment to the U.S. Postmaster.*

B. **Purchase of Scanners**

As noted in the investigation summary in the Comments Without Recommendations section of this report State Treasurer Byrd purchased two high-end scanners at a total purchase price of \$627,654. The investigation also noted there was no Request for Proposal (RFP) or bid process used by the State Treasurer in this purchase and that this was in direct violation of Neb. Rev. Stat. Section 81-1118(5)(a) R.R.S. 2002, which states: "The state purchasing bureau shall be responsible for all purchases by all state agencies other than the University of Nebraska. The materiel division shall administer the public notice and bidding procedures and any other areas designated by the Director of Administrative Services to carry out the lease or purchase of personal property. All purchases of and contracts for materials, supplies, or equipment and all leases of personal property shall be made in the following manner except in emergencies approved by the Governor: (a) 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."

The APA's examination supports the above investigation finding. We were unable to locate any documentation indicating an RFP had been prepared or documentation to support a bid process was used in the purchase of the scanners.

When large purchases are made without bidding processes being followed in accordance with statutory requirements there is less assurance the State will receive the required equipment at the best possible price.

The investigation also noted there seems to have been no need for such high-end scanners at the SDU Division. The APA's discussion with current staff and the current State Treasurer seems to support that position. Based on discussion with staff the following was noted:

1. An upgrade to the scanner at the SDU Division was perhaps needed but a much less expensive model would have adequately met their needs;

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

B. **Purchase of Scanners** (Continued)

2. One scanner was being used by the SDU Division (and other divisions) but only for a short period of time each day; and
3. The other scanner is not being used at all.

There was evidence obtained in the investigation to support the scanners were perhaps purchased by State Treasurer Byrd to be used in a centralized receipting system. A centralized receipting system by the State Treasurer was brought before the Legislature in a previous legislative session but they took no action to approve such a system.

As part of the costs of the scanners were charged to the SDU Division, which is 66% federally funded, the APA also considered OMB Circular A-87, which states that for a cost to be allowable, it must "be necessary and reasonable for proper and efficient performance and administration of Federal awards."

The APA also obtained documentation giving the State Treasurer's office approval to purchase one scanner to be used by the SDU Division in the amount of \$407,480.

The approval was given by the State Department of Health and Human Services (HHS), who the State Treasurer's office contracts with to operate the SDU Division, and the Federal Department of Health and Human Services, Office of Child Support Enforcement (HHS-CSE), who funds 66% of the operations of the SDU Division.

In addition to the investigation findings noted above, the APA's examination noted the following:

1. The State Treasurer could not provide documentation to support the basis for allocation of charges between programs. The purchase of the scanners was paid in two equal payments of \$313,827, which were made on June 27, 2003 and August 25, 2003. The following schedule shows how these payments were originally allocated to various programs when paid and how the costs were later allocated by an adjusting journal entry:

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Expenditures (Continued)

B. Purchase of Scanners (Continued)

**June 27, 2003 Payment of \$313,827**

Program/Fund Type	Costs	Percentage of Total
TM/General Fund	\$ 12,490	4.0%
UP/Cash Fund	15,001	4.8%
SDU/General and Federal		
General (34% of \$286,336)	97,354	31.0%
Federal (66% of \$286,336)	188,982	60.2%
Total	\$ 313,827	100.0%

**August 25, 2003 Payment of \$313,827**

Program/Fund Type	Costs	Percentage of Total
TM/General Fund	\$ 12,000	3.8%
UP/Cash Fund	15,001	4.8%
SDU/General and Federal		
General (8.9% of \$286,826)	25,562	8.1%
Federal (91.1% of \$286,826)	261,264	83.3%
Total	\$ 313,827	100.0%

In December 2003, shortly before Treasurer Byrd resigned (January 6, 2004), the State Treasurer's office processed two journal entries to reallocate the total scanner costs between the above programs. As noted above HHS and the Federal Department of HHS-CSE approved the purchase of one scanner in the amount of \$407,480. Based on this information it appears Treasurer Byrd decided it would be appropriate to allocate the approved scanner price of \$407,480, 100% to the SDU Division, which was funded 66% by the Federal government, and 34% by the State General Fund. The remaining amount of \$220,174 (Total purchase price of \$627,654 minus \$407,480) would be allocated to other programs. The following schedule reflects the journal entries processed by the State Treasurer's office:

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Expenditures (Continued)

B. Purchase of Scanners (Continued)

December 2003 Journal Entries

<u>Program/Fund Type</u>	<u>Costs</u>	<u>Percentage of Total</u>
TM/General Fund	\$ 25,000	3.9%
UP/Cash Fund	60,000	9.6%
SDU/General and Federal		
General	273,718	43.6%
Federal (66% of \$407,480)	268,936	42.9%
Total	<u>\$ 627,654</u>	<u>100.0%</u>

2. The two scanners were recorded on the capital asset records at a cost of \$313,827 each. This was inconsistent with the allocation of costs between the two scanners of the December 2003 journal entry of \$407,480 allocated to one scanner and \$220,174 to the second scanner.
3. Contractual and Federal reporting requirements were not met. The State Treasurer was required to report SDU expenditures monthly to HHS to meet contractual and Federal reporting requirements. For the purchase of the scanners the State Treasurer reported \$286,336 (The June 27, 2003 costs recorded to the SDU). As the State Treasurer has not reported the SDU expenditures to HHS since October 2003, the December 2003 journal entry adjustment has not been reported.

Good internal control requires the basis for allocation 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 was important in order to prevent agencies from funding one program with the funds from another through disproportional cost sharing. In addition, good accounting procedures would require capital assets be recorded and reports be prepared consistent with amounts recorded in the accounting system.

OMB Circular A-87, Section C(3)(a) states "A cost is allowable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Section E(2)(b) also states, "Typical direct costs chargeable to Federal awards are . . . Cost of materials acquired, consumed, or expended specifically for the purpose of those awards."

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

B. **Purchase of Scanners** (Concluded)

When the basis of allocations between programs was not documented, there was an increased risk of the State Treasurer shifting funding from one program to another through disproportional cost sharing. In addition, when accounting procedures are not followed to ensure capital assets are recorded and reports are not prepared consistently with amounts recorded in the accounting system these reports cannot be relied upon by users for their intended purposes.

We recommend the State Treasurer:

- Purchase equipment in accordance with statutory requirements;
- Work with HHS and the Federal Department of HHS-CSE to determine what cost, if any, should be charged to the SDU Division in compliance with OMB Circular A-87, which states that for a cost to be allowable, it must “be necessary and reasonable for proper and efficient performance and administration of Federal awards;”
- Determine and document the allocation of the purchase cost of the scanners to the programs based on relative benefits received to each program;
- Determine the appropriate cost of each scanner to be recorded on the capital assets records when the appropriate costs have been determined by consultation with HHS and the Federal Department of HHS-CSE; and
- File amended reports with HHS to reflect appropriate charges to the SDU program after consultation with HHS and the Federal Department of HHS-CSE.

*Treasurer’s Response: The second scanner is being returned to the manufacturer. The Treasurer’s Office and HHSS is completing proper allocation procedures.*

C. **Cost Allocation Between Programs**

As noted in the investigation summary in the Comments Without Recommendations section of this report numerous purchases of computer hardware were made and billed to the SDU Division. Concerns were raised whether all the computer items were related to SDU Division functions, as it appears some items were placed in the Capitol office and not at the SDU Division office.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**C. Cost Allocation Between Programs** (Concluded)

The APA's examination supports the above investigation finding. Our examination noted the following:

The State Treasurer could not provide documentation to support the basis for allocation of certain charges between programs. (For allocation of costs for the purchase of scanners see Comment 3.B.) Per discussion with IT personnel, it appears some expenditures were incorrectly allocated. All but one of the documents in question was paid at least partially with Federal funds. Expenditures charged to Federal monies where the allocation appeared reasonable, but the State Treasurer could not provide documentation to support how the allocation was determined totaled \$106,391. Federal expenditures charged entirely to the SDU Division that should have been allocated among other programs as well totaled \$7,319.

Good internal control requires the basis for allocation 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.

OMB Circular A-87, Section C(3)(a) states, "A cost is allowable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Section E(2)(b) also states, "Typical direct costs chargeable to Federal awards are . . . Cost of materials acquired, consumed, or expended specifically for the purpose of those awards."

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

We recommend the State Treasurer document how percentages or dollar amounts are determined for all allocations between programs. We further recommend the State Treasurer consider whether or not they should do a journal entry to adjust any inappropriate allocations.

*Treasurer's Response: See response to 3. B.*

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Expenditures (Continued)

D. Prepayments

In our examination of the State Treasurer's disbursement documents we noted several payments made in fiscal year 2003 for services well in advance of the service actually being provided. Our testing was on a sample basis and, therefore, the following amounts may not include all prepayments made by the State Treasurer. Some of the prepayments were required by contract. These were to the following vendors and totaled \$250,930: Centurion for \$33,926, Data Management Products for \$164,493, First Financial Computer for \$47,310, and NCR Corporation for \$3,680. However, two of the payments to First Financial Computer were made before the invoices were even received. Other prepayments were noted that were not required by contract, they are as follows: Automated Systems for \$15,750, Datastor Inc. for \$11,130, First Financial Computer for \$18,576, U.S. Postmaster for \$1,521, and World Technologies for \$50,000. These prepayments can be broken down into the following categories: prepayments made 3 to 6 months in advance totaled \$16,572, 6 to 12 months in advance totaled \$14,871, and more than one year in advance totaled \$15,534. The prepayment of \$50,000 to World Technologies could not be classified into a timeframe because there was no invoice for the payment. The State Treasurer paid \$50,000 more than the total from all the invoices in order to increase their credit balance at World Technologies for future postage expenses. The contract with World Technologies required the State Treasurer to pay for postage in advance, however as noted in the State Patrol investigation, the State Treasurer built up a credit balance at World Technologies that far exceeded what was necessary and expected.

NAS Manual, Concept 005, states, "Though prepayments are not illegal, per se, they are in conflict with the normal claims process since the State has given up assets in anticipation of goods or services being rendered at a later date . . . Since the potential for loss to the State is greater under prepayment situations, extreme care should be exercised and a conscious effort should be undertaken to minimize prepayments at the agency level."

We recommend the State Treasurer weigh the cost-benefit of prepaying for services to determine if it is in the State's best interest to pay for services in advance.

*Treasurer's Response: Future prepayments will be kept to a minimum and any prepayments will be reviewed to determine the cost benefit of the transaction in an effort to better utilize the State's money.*

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

**E. Use of DAS State Purchasing Bureau**

In our examination of the State Treasurer's expenditure documents, we noted several purchases of hardware and software that should have been approved and processed through DAS IMServices Division and DAS Purchasing Division, or approved by DAS Purchasing Division as a sole or restrictive source purchase. On April 10 and April 16, 2003 the State Treasurer spent \$96,292 on computer hardware from Dell. Almost a month later on May 6, they spent another \$15,073, and on June 18, another \$27,224 on computer hardware from Dell. We found no documentation the Treasurer's Office went through DAS Purchasing for approval and processing of any of these purchases. The following expenditures also should have been processed and/or approved by DAS Purchasing and IMServices Division, but were not: \$29,954 to ASAP Software for Microsoft software, \$18,000 and \$52,000 to Centurion, Inc. for software for the SDU Division, \$16,000 to Data Management Products for software, \$8,000 to Datastor for software not on the core-item list, and \$154,700 to Fairfax Imaging for software and a flatbed scanner. The total of all these purchases was \$417,243.

Good internal controls would include policy and procedures to ensure compliance with State purchasing laws and regulations, which include the following:

Neb. Rev. Stat. Section 81-1118(5) R.S.Supp., 2002 states, "The state purchasing bureau shall be responsible for all purchases by all state agencies . . . All purchases of and contracts for materials, supplies, or equipment . . . shall be made in the following manner . . . (a) 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; (b) By a competitive informal bidding through the materiel division in all cases in which the purchases are of estimated value equal to or exceeding five thousand dollars but less than ten thousand dollars; (c) By unrestricted open market purchases through the materiel division in all cases in which purchases are of estimated value of less than five thousand dollars . . ."

IMServices and State Purchasing are responsible for the acquisition, coordination, and consolidation of all Microcomputer Systems/ Related Peripherals and Software. All requests over \$10,000 are to be submitted on a DAS Form 1909.

Recent legislation, 2003 Neb. Laws LB 626, changed the requirement of sections (a), (b), and (c) above effective August 31, 2003. As of that date, the competitive bidding threshold for section (a) was twenty-five thousand dollars or more, section (b) ten thousand dollars but less than twenty-five thousand dollars, and section (c) less than ten thousand dollars.



NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

E. **Use of DAS State Purchasing Bureau** (Concluded)

Without policies and procedures to ensure compliance with State purchasing laws and regulations, there is an increased risk in the State Treasurer making purchases that are not financially in the best interest of the State.

We recommend the State Treasurer establish policies and procedures to ensure compliance with applicable State purchasing laws and regulations.

*Treasurer's Response: The Treasurer's Office intends to follow State purchasing laws and regulations currently and in the future.*

F. **Reconciliation of Disbursement Documents to the General Ledger**

We were provided no documentation to support the State Treasurer's office reconciled accounts payable documents processed to the General Ledger.

Good internal control requires procedures to ensure all financial transactions are authorized, complete, and accurate.

Without a documented review of a general ledger report, there was an increased risk for unauthorized or incorrect transactions to post to the State Treasurer's accounts.

We recommend an individual not involved in the processing of accounts payable reconcile individual documents to a general ledger report. This review should be documented.

*Treasurer's Response: Someone other than the person processing accounts payable will reconcile documents to the general ledger.*

G. **Contracts Not on File**

During our examination of the State Treasurer's disbursement documents and related contracts, we noted:

1. There was no contract on file for the payment of \$1,290 for maintenance on archiving module and credit card payment software for the SDU Division for the period October through December 2003.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**G. Contracts Not on File** (Concluded)

2. The contract with Fairfax Imaging for the purchase of a scanner, software, and support services was missing its Schedule A, which included the terms of the contract. Fairfax Imaging later provided this schedule upon request to the State Treasurer near the end of the examination.

Sound business practice requires all contracts entered into by an agency be kept on file at the agency for review and compliance purposes.

Without maintaining a copy of the contract, there is an increased risk the State Treasurer's office may pay more than the agreed upon amounts set forth in the contract.

We recommend the State Treasurer maintain a complete signed final copy of all contracts to which they are legally bound.

*Treasurer's Response: The Treasurer Office will maintain a complete set of signed final copies of all contracts. The Treasurer's Office is in the process of obtaining all contracts currently not on file at the Office.*

**H. Fees Per Invoice Do Not Match Fee Schedule**

The rates charged by First National Bank of Omaha (FNO) for processing charges for the periods January through November 2002, and June 2003 could not be verified. A fee schedule was requested by the Treasurer's office from FNO for these periods, however, some of the fees did not agree to what was charged on the invoice. The total amount of fees charged for the two documents tested was \$143,789, which was all charged to the SDU Division.

Good internal control would require a comparison of fees charged to the fee schedule that was set by the vendor and agreed to in the contract.

Without internal control procedures to verify amounts charged are correct, there was an increased risk of loss or misuse of State funds.

We recommend the State Treasurer develop internal control procedures to review the bank fees being charged each month, and document their review on the invoices for subsequent inspection. We further recommend the Treasurer's office compare what they paid in fees to the fee schedule to recover any overpayments they may have made.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

H. **Fees Per Invoice Do Not Match Fee Schedule** (Concluded)

*Treasurer's Response: Bank fees are currently being reviewed by comparing actual fees with the appropriate fee schedule.*

I. **Questionable Expenditures**

During our testing of expenditures we noted the former IT Director ordered and approved the purchase of two items that appear to not have been necessary expenditures for the State and thus, we considered them questionable expenditures. Macromedia Fireworks software was purchased for \$289 (\$191 of which was charged to a Federal award) from Automated Systems Inc., which according to SDU Division IT staff, is not being used. They were unaware why this software would have been purchased. A Kodak i260 flatbed exception scanner was purchased for \$6,200 from Fairfax Imaging, Inc. on June 18, 2003, but has not been received at the Treasurer's office. The scanner is listed on their fixed asset Master List with an acquisition date of August 1, 2004. According to IT staff, this scanner was and is not needed. The Macromedia software was charged entirely to the SDU Division and a portion of the scanner was also charged to the SDU Division.

OMB Circular A-87 states that for a cost to be allowable, it must "be necessary and reasonable for proper and efficient performance and administration of Federal awards."

Good internal controls would require procedures to be in place to ensure expenditures are necessary and reasonable and are not made before goods have been received.

Without adequate internal controls over expenditures, there is an increased risk of misuse of State and Federal funds, as may be the case with the examples listed above.

We recommend the State Treasurer communicate with Fairfax Imaging to determine the status of the scanner that was purchased and whether a refund can be received if the scanner is not wanted. We further recommend internal controls be established to ensure all expenditures are necessary and reasonable and are not made until goods have been received.

*Treasurer's Response: A refund of the amount paid for a different scanner has been requested from the vendor.*

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Expenditures** (Continued)

**J. Invoices Not Paid Timely**

Neb. Rev. Stat. Section 81-2403(1) R.R.S. 1999 requires payment to vendors within 45 calendar days after (1) receipt of goods or services, or (2) the date of receipt of the bill, whichever is later, unless there is a written agreement to the contrary. Policies and procedures and good internal controls would include procedures to ensure compliance with this Statute.

When invoices are not paid in a timely manner the State Treasurer runs the risk of paying interest charged by the vendor.

During our examination of the State Treasurer's disbursement documents, we noted the Treasurer was not paying invoices in a timely manner. A payment to Centurion for \$52,000 was a balance due on an invoice received nearly 21 months earlier. A payment to Data Management Products for \$41,730 included balances due on two invoices that were nearly two years old, and one invoice that was nearly seven months old. A payment to Deloitte and Touche for \$6,000 was made 86 days after the invoice was received. Payment of \$90,388 was made to First National Bank of Omaha for seven months worth of invoices. Payment of \$3,179 to US Bank was made 79 days after the invoice was received. Two invoices totaling \$30,965 to World Technologies were not paid until 58 and 63 days after they were received. Other payments that were made more than 45 days after the invoice or the goods or services were received were to Dell Marketing, Kutak Rock, Lancaster County, and ACS Unclaimed Property Clearinghouse. A total of 13 invoices were not paid timely.

We recommend the State Treasurer establish policies and procedures and internal controls to ensure vendor invoices are paid in a timely manner and in accordance with State Statute.

*Treasurer's Response: The Treasurer's Office has established policies and procedures to ensure vendors are paid in a timely manner in accordance with State Statute.*

**K. Outstanding Warrants**

As of March 8, 2004, the State Treasurer had not reviewed the June 30, 2003 Outstanding Warrant listing. In addition, outstanding warrants drawn from the Escheat Trust Fund for the payment of unclaimed property claims were being allowed to expire with the money being put back into the State's General Fund. These warrants should have been cancelled before they expired, so that the money would go back to the Escheat Trust Fund (also referred to as Unclaimed Property Trust Fund).

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**K. Outstanding Warrants** (Concluded)

We understand that this process may have been going on for some time, perhaps since the inception of the Unclaimed Property Act. However, we do not know the dollar amounts that might be involved, as we did not review the Treasurer's detailed records.

Good internal control requires the State Treasurer to implement timely, adequate procedures for the followup of outstanding warrants. Good internal control also should include procedures to ensure uncashed unclaimed property warrants are cancelled before they expire.

Neb. Op. Atty. Gen. No. 98043 states, “. . . those warrants drawn on the Unclaimed Property Trust Fund for payment of unclaimed property claims which remain uncashed after one year should be returned to the Unclaimed Property Trust Fund.”

We recommend the State Treasurer perform the following:

- Develop policies and procedures and internal control procedures to follow up on all old outstanding warrants.
- For Escheat Trust Fund expired outstanding warrants:
  1. Review the detail records to determine the extent of past errors;
  2. Consult with the Attorney General's office to determine what action, if any, should be taken to correct any past errors; and
  3. Develop policies and procedures and internal control procedures to ensure all future expired un-cashed warrants from the Escheat Trust Fund are returned to that fund.

*Treasurer's Response: The Treasurer's Office is in the process of establishing procedures to review the old outstanding warrant listing and perform a review of expired outstanding warrants as they relate to the Escheat Trust Fund.*

**L. Contracts**

During our examination of the State Treasurer's expenditures, we tested 18 of their more significant contracts and noted the following: three of the contracts were not signed by all parties involved; there was no evidence that the contract underwent a legal review for

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**L. Contracts** (Continued)

16 of the contracts; two contracts were not on the NIS database; and there was no documentation the services were bid out or had approval from DAS Materiel Division for not following the bidding process for 17 of the contracts.

Sound business practice and good internal control over contracts require agencies to keep signed copies of all contracts to which they are legally bound. It also requires contracts be reviewed by an individual with the legal expertise and knowledge to determine if the contract is in compliance with contract law or Federal and State laws and regulations governing contracts, and to ensure the best interest of the State is being served.

Executive Order No. 02-03 required all agencies to process and document all contracts through NIS: "By no later than August 31, 2003, all agencies shall have completed entry of information onto the NIS about all contracts made prior to April 1, 2003 that are still in effect."

Executive Order No. 02-03 also stated, "Agency directors shall assure that each service contract and personal service contract in excess of \$25,000 is competitively bid at the agency level in the manner prescribed by the DAS Materiel *Procedures for the Procurement of Contractual Services* manual or a process approved by the DAS Director or designee." The Executive Order was rescinded by the Governor effective August 31, 2003.

Recent legislation, 2003 Neb. Laws LB 626, replaced the requirements of Executive Order No. 02-03 above and was effective August 31, 2003. As of that date the competitive bidding threshold for service contracts became \$50,000. The legislation also required agencies to perform other procedures as it relates to service contracts.

When a legal review of a contract is not performed there is an increased risk a contract will not be in conformity with contract law or Federal and State laws and regulations governing contracts, and to ensure the best interest of the State is being served. In addition, when a review is not documented there is no assurance the review was actually performed. Without the State Treasurer following the processes set forth by DAS for contracts, there was an increased risk the contracts were not financially in the best interest of the State.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Continued)

**L. Contracts** (Concluded)

We recommend the State Treasurer implement policies and procedures and internal controls over service contracts to ensure:

- Copies of all contracts are maintained on file;
- Contracts are signed by all parties to the contract;
- Existing contracts are entered onto NIS;
- Contracts have a legal review; and
- Contracts follow all applicable laws and regulations in procuring services.

*Treasurer's Response: The Treasurer's Office will follow all applicable laws and regulations related to procuring services, and obtain a legal review as deemed necessary. Contracts will be properly entered into NIS.*

**M. Contract Overpayment**

The State Treasurer had a contract with Affiliated Computer Services, Inc. (ACS) to identify and collect unclaimed property for the State of Nebraska. The contract was entered into on June 20, 1994. The fee schedule in the contract noted the vendor shall be paid as follows and states in part: "1. A sum equal to twelve percent (12%) of the value of the "net abandoned property" (a term hereinafter defined) actually paid or delivered to the Bank on behalf of the State by an abandoned property holder (in its initial report and the next succeeding report); provided however, in no event shall the fees for any twelve-month period as determined by the anniversary date of the Agreement exceed the amount appropriated or otherwise encumbered by this Agreement, as set forth in Exhibit 5, attached hereto."

Exhibit 5 of the contract states the following: "This Agreement shall be subject to an annual fee cap of \$500,000."

Since the contract was dated June 20 the APA considered the fee cap to relate to the annual period beginning June 19 and ending June 20 of the next year. The APA examined the accounting records for the period June 19, 2003 through the end of the examination date of January 6, 2004. The accounting records revealed the State Treasurer paid ACS \$838,373 for this period or an excess of \$338,373 over the annual cap limit of \$500,000.

Good internal control polices and procedures would ensure contract overpayments are not made.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Expenditures** (Concluded)

**M. Contract Overpayment** (Concluded)

We recommend the State Treasurer implement policies and procedures and internal controls to ensure future payments on all contracts are made in accordance with contractual agreements. In addition, we recommend all necessary action be taken to obtain a refund of the overpayment and to research the accounting records for past annual payments to determine if ACS was over paid in past years.

*Treasurer's Response: A refund of the amount in excess of the \$500,000 has been received which was discovered by the new Treasurer.*

**4. Treasury Management Banking Functions**

The Treasury Management Division of the Treasurer's Office is responsible for the safekeeping of the State's assets; managing State deposits; and fulfilling fiduciary responsibilities of the office. Treasury Management Division staff maintain the following records: receipts spreadsheet, Treasurer's ledger, bank reconciliations, and master month-end reconciliation.

The receipts spreadsheet is an Excel spreadsheet of all the receipts that have been processed during the day. This spreadsheet is by bank account and includes: deposits to the small banks; deposits received at the Treasurer's office window; ACH/EFT documents; revenue receipts; county documents; and child support receipt documents.

The Treasurer's ledger is an Excel spreadsheet of all activity that has gone through the Treasurer's office relating to individual bank accounts. A running balance is maintained based on the receipts processed and warrants cleared by the bank.

Bank reconciliations are done on a daily or monthly basis depending upon when the bank issues statements. The Treasurer's ledger balance is the balance to which the bank statement balance is reconciled.

A master reconciliation is prepared each month-end combining all bank reconciliations for that date together. This reconciliation was performed by the Deputy State Treasurer, who did not perform any of the other reconciliations. All Treasury Management Division staff had access to all of the above records.



NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Treasury Management Banking Functions** (Continued)

In addition to the above noted records, the Treasury Management Division was responsible for determining the amount available for investment in the Medium Term Investment Pool. The cash position of the State was reviewed each morning to ensure enough money was in the bank accounts to handle any warrant clearings or automated clearing house (ACH) transactions. If there were extra funds in the bank accounts, a transfer was done to the Medium Term Investment Pool.

The following are the items we noted during our review of the Treasury Management Division's banking functions.

A. **Review of Bank Activity**

There was no documented independent review of bank reconciliations performed by Treasury Management Division staff. We also noted there was no independent review and approval of transfers between the State of Nebraska's bank accounts. A summary sheet of transfers was completed each day by the individual who performed the cash position review, however, there was no documentation to show who completed the transfers or if there was any type of independent review performed.

Good internal control requires a documented independent review of bank reconciliations and bank transfers to ensure propriety. Without an independent review of bank reconciliations and transfers, errors could go undetected.

We recommend the Treasurer's office implement an independent review of bank reconciliations. We also recommend the Treasurer's office implement an independent review and approval of all transfers from or to the State's bank accounts. Any review of bank reconciliations or transfers should be documented.

*Treasurer's Response: Treasury Management staff now stamps each bank statement with a balanced by and reviewed by stamp. The staff member balancing the bank statement and the reviewer each initial the statement.*

*The summary sheet of wire transfers is also stamped and initialed by both the person initiating the wire transfers and the individual reviewing the summary sheet.*

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Treasury Management Banking Functions** (Continued)

**B. Bank Reconciliations**

For two of three reconciliations tested, reconciling items were not cleared timely (within a month). The reconciliation for State Street Bank-Medium Term Investment Pool as of March 31, 2003, included reconciling items totaling \$100 million that were older than one month. All reconciling items were due to posting errors on the Treasurer's ledger. The reconciliation for US Bank-main account as of December 31, 2003, included reconciling items totaling \$192,378 that were older than one month. These items were all deposits recorded on the bank that had not been posted to the receipts spreadsheet or NIS. The oldest item was from April 2, 2003. ACH credits made up the majority of the old receipt items on US Bank's reconciliation. When ACH items came into the bank, the Treasurer's office compared the amounts to ACH invoices prepared by agencies. When no invoice was received, limited research was done on the ACH credit due to time and information available.

Sound accounting practice requires timely review and correction of reconciling items. Sound accounting practice also requires deposits be posted to the State's accounting system in a timely manner. When deposits are not posted to the accounting system in a timely manner the individual fund's balance and interest earned are understated.

We recommend the Treasurer's office implement procedures to address reconciling items in a timely manner, and deposits in the bank should be posted to the State's accounting system in a more timely manner.

*Treasurer's Response: All reconciling ACH deposits referenced in this audit have been cleared by agency NIS invoice documents after being contacted by TM staff. State agency personnel are responsible for the process that generated these ACH payments by either invoicing federal agencies or receiving federal grants. It is the responsibility of the state agency to submit a NIS invoice document to the Treasurer's Office in anticipation of the ACH payment settling to the US Bank Account without treasury staff involvement. This process has not changed since the conversion of NAS to NIS. State agency finance/accounting staff greatly outnumber the Treasury Management staff available to research these payments.*

**C. Master Month-End Reconciliation**

The following items were noted during our review of the June 30 and November 30, 2003 master month-end reconciliations:

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Treasury Management Banking Functions** (Continued)

**C. Master Month-End Reconciliation** (Continued)

1. Reconciling items on the master reconciliation for four of ten banks tested did not agree to the individual reconciliations performed by Treasury Management Division staff. For the US Bank Child Support account as of November 30, a posting error of \$413,883 was noted; however, this amount did not appear on the reconciliation prepared by Treasury Management Division staff. It appears this was a plug figure to make the bank and ledger balance. The reason for the “plug” could have been due to the amount noted as returned checks being a positive amount rather than negative. A purchase of investments for the Medium Term Investment Pool in November was noted as a transfer not on ledger rather than an investment purchase not on ledger. We also noted items that were adjusting the bank balance on the individual reconciliations changed to adjusting the ledger balance on the master reconciliation. These included posting errors and American Express/Discover card fees.
2. For one of ten banks selected, the ledger balance did not agree to the Treasurer’s ledger as of November 30, 2003. The balance used for the reconciliation was the previous day’s balance and did not include activity posted on the last day in November.
3. The month-end master reconciliation contained lines for reconciling items and a NAS reconciliation that were no longer used by the Treasurer’s office. Also, bank names had not been changed to reflect bank mergers or purchases. The spreadsheet was developed by a previous State Treasurer and had not been modified since then.

Sound accounting practice and good internal control requires reconciling items be recorded consistently between individual and master month-end reconciliations. Good internal control also requires a review of spreadsheets used during daily operations to ensure information is correct and functioning properly.

When items on the master reconciliation are not classified correctly, there is an increased risk that the reconciliation between NIS and the bank performed by DAS is incorrect. When old spreadsheets are used there is an increased risk of errors in month end reconciliations used by DAS.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Treasury Management Banking Functions** (Continued)

**C. Master Month-End Reconciliation** (Concluded)

We recommend the Treasurer's office implement procedures to ensure items are properly classified on the master reconciliation. These procedures should include a supervisory review and approval. We also recommend the Treasurer's office review spreadsheets used in daily operations to ensure information noted on spreadsheets is still current and spreadsheets are still performing the functions needed. Items should be listed on the master reconciliation as noted on the individual reconciliations. If adjustments are necessary to the worksheet to accommodate new items, those changes should be made.

*Treasurer's Response: Treasury Management staff have been working with DAS Accounting on the bank reconciliation process.*

*Treasury Management staff corrected the November 30, 2003 bank reconciliation and a new copy of the reconciliation as well as a new Monthly Master Reconciliation was provided to DAS Accounting.*

**D. Pledged Collateral**

The Treasurer's office did not have sufficient pledged collateral to cover the deposits at US Bank on March 25, 2003. A security with the market value of approximately \$30 million was released on the 21<sup>st</sup> and replaced by a security with a market value of \$15 million. This decreased the total pledged collateral to \$71 million. The balance on March 25<sup>th</sup> was \$ 88,906,370. Thus the State of Nebraska had unsecured cash on March 25<sup>th</sup> of \$17,906,370. We also noted the Treasurer's office did not have procedures in place to ensure the securities used as pledged collateral were allowable per statute.

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 no less than one hundred two percent of the amount on deposit which is in excess of the amount so insured." Neb. Rev. Stat. Section 77-2387 R.S.Supp., 2003 defines the type of securities that can be used as pledged collateral.

When sufficient pledged collateral is not maintained there is noncompliance with State Statute and an increased risk of loss of public funds.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Treasury Management Banking Functions** (Continued)

D. **Pledged Collateral** (Concluded)

We recommend the Treasurer's office implement procedures for monitoring of pledged collateral to ensure compliance with Sections 77-2395 and 77-2387. These procedures should include a detailed spreadsheet listing the pledged collateral for all banks that is reviewed on a periodic basis.

*Treasurer's Response: Treasury Management staff developed a monthly collateral spreadsheet to reflect the total market value of collateral pledged by the three national banks the Treasurer's Office maintains accounts with. The collateral reports submitted by the banks to the Treasurer's Office are now initialed by a staff member and compared to the information sent by the Federal Reserve to the Treasurer's Office regarding all three bank relationships. A staff member compares the reports also verifying that the type of collateral pledged meets state statute requirements.*

*Pledged collateral requirements were reviewed with the current staff members responsible for setting daily cash position.*

E. **Treasurer's Report**

The monthly Treasurer's Report has not been fully completed since February 2003. The Summary of Active Accounts has been completed; however, the journal portion and the Summary of Investment Securities for the State have not been completed since February 2003.

The Summary of Active Accounts showed the reconciliation between the Treasurer's ledger balances and the bank balances. The Journal portion showed the beginning balances, cash receipts, vouchers and transfers-net, warrants issued, and the ending balance by fund type. The Summary of Investment Securities showed the cash balance invested in the Operating Investment Pool for each agency and the amount invested for Trusts. Treasurer's office staff stated the new accounting system, NIS, does not easily provide the information needed to complete the report.

Neb. Rev. Stat. Section 84-602 R.R.S. 2003, requires the Treasurer to report the following information to DAS each December, March, June, and September, or more often if required: all money received, all penalties and interest on delinquent taxes, all disbursements of public funds and the amount of the unexpended balance of all funds. Neb. Rev. Stat. Section 84-602

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Treasury Management Banking Functions** (Concluded)

E. **Treasurer's Report** (Concluded)

R.R.S. 2003 also requires the Treasurer to report the condition of the treasury and its operations for the preceding year to the Legislature within ten days after the commencement of each regular session or as soon as practicable.

We recommend the Treasurer's office review Section 84-602 and the format of the current Treasurer's Report to determine if any changes are necessary due to the new accounting system. If the current format of the Treasurer's Report is within the statutory requirements set out in Section 84-602, we recommend the Treasurer's office work with DAS to obtain information needed for the report from NIS.

*Treasurer's Response: The Treasurer's Office will work with DAS Accounting on the improvement of the Treasurer's Report.*

F. **Investment Interest for the SDU Fund**

Fund 72640, the IV-D Support Payment Distributive Fund for the SDU Division, a fund of the Nebraska Health and Human Services System (HHSS), was being credited for interest earned by the Medium Term Investment Pool. However, the Treasurer did not consider this Fund when determining amounts available for investment.

Sound business practice requires investment interest earned be credited to the funds that are included in the investment. Since the bank account balance for the SDU Division was not used in determining amounts available for investment, the Fund was receiving interest that the General Fund should have been receiving and money in the SDU Division bank account was not actually earning interest.

We recommend the Treasurer, in conjunction with HHSS, determine if it is appropriate for the SDU Division distributive fund to be credited interest earned by the Medium Term Investment Pool or if the bank balance in the Child Support accounts should be invested.

*Treasurer's Response: The Treasurer's Office worked with DAS Accounting. Fund 72640 is not being used to determine amounts available for investment.*

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property**

There is a separate Unclaimed Property Division within the State Treasurer's office. The Unclaimed Property Division receives cash, securities, and safety deposit boxes (personal belongings) that have been determined to be unclaimed by the business holding the property. We sampled each of the three kinds of unclaimed property and noted the following:

**A. Public Sale of Unclaimed Property**

Neb. Rev. Stat. Section 69-1316(a) R.R.S. 2003 states, "All abandoned property other than money, securities, bonds, or similar property delivered to the State Treasurer under the Uniform Disposition of Unclaimed Property Act shall be sold by him or her to the highest bidder at public sale in whatever city in the state affords in his or her judgment the most favorable market for the property involved . . . 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."

Neb. Rev. Stat. Section 69-1317(b)(2)(i) R.R.S. 2003 states, "on or before November 1 of each year thereafter, the State Treasurer shall transfer any balance in excess of an amount not to exceed five hundred thousand dollars from the separate trust fund to the permanent school fund."

Good internal control requires policies and procedures to ensure compliance with Section 69-1316.

We noted there has been no public sale of unclaimed property conducted since February 1994, a period in excess of nine years.

The State Treasurer was not in compliance with State Statute. There is a potential risk of loss in the value of items, and the proceeds from the sale of these items are not included in the Permanent School Fund and available for investment.

We recommend the State Treasurer implement policies and procedures and internal controls to comply with Section 69-1316 and hold a public sale at least every five 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.

*Treasurer's Response: The Treasurer's Office is coordinating an auction for safe deposit box items that have been held for more than five years. The auction will take place this fall.*

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Unclaimed Property** (Continued)

**B. Transfers Not Conducted Timely**

Neb. Rev. Stat. Section 69-1317(b)(2)(i) R.R.S. 2003 states, “on or before November 1 of each year thereafter, the State Treasurer shall transfer any balance in excess of an amount not to exceed five hundred thousand dollars from the separate trust fund to the permanent school fund.”

Neb. Rev. Stat. Section 69-1317(b)(3) R.R.S. 2003 states, “On July 15, 2003, the State Treasurer shall transfer two hundred thousand dollars from the separate trust fund to the General Fund and one hundred thousand dollars from the separate trust fund to the Treasury Management Cash Fund.”

Also, good internal control requires policies and procedures to ensure compliance with Section 69-1317.

We noted one of six transfers was not calculated correctly. The transfer from the separate trust fund to the Permanent School Fund was short \$2,745,948.

We also noted three of six transfers were not transferred per the timeframe required by State Statute. One transfer was to be completed by November 1, 2002; however, it was not transferred until January 2, 2003. The other two transfers were to be completed on July 15, 2003; however, they were not transferred until November 17, 2003.

The State Treasurer was not in compliance with State Statute. There is also a risk of loss of investment interest in the Permanent School Fund because the correct amount was not transferred.

We recommend the State Treasurer implement policies and procedures and internal controls to comply with State Statute and ensure transfers are completed timely and accurately.

*Treasurer’s Response: Transfer, 69-1317 (b) (2) 2003, was corrected.*

*Transfer, 69-1317 (b) (3) 2003, was unable to be done in July 2003 per the State Statute as there were no funds available in the fund until November 2003. The transfer was completed in November 2003 when the funds were available.*



NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property** (Continued)

**C. Public Notice of Unclaimed Property**

Neb. Rev. Stat. Section 69-1311(a) R.R.S 2003 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. If no address is listed or if the address is outside this state, the notice shall be published in the county in which the holder of the abandoned property has his principal place of business within this state and also in a legal newspaper having statewide circulation. The published notice . . . shall contain: (1) . . . last-known addresses, if any . . . (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.”

Neb. Rev. Stat. Section 69-1311(d) R.R.S. 2003 states, “Within one hundred twenty days from the receipt of the report required by section 69-1310, the State Treasurer shall mail a notice to each person having an address listed therein who appears to be entitled to property of the value of twenty-five dollars or more presumed abandoned . . .” Section (e) of Section 69-1311 states, in part, “The mailed notice shall contain: (2) The name and address of the person holding the property and any necessary information regarding changes of name and address of the holder. (3) A statement that, if satisfactory proof of claim is presented by the owner to the State Treasurer, arrangements will be made to transfer the property to the owner as provided by law.”

Also good internal control requires policies and procedures to ensure compliance with Section 69-1311.

The public notice advertised in the Omaha World Herald did not contain the following information as required by State Statute:

- Each person’s last known address.
- A statement that information concerning the amount or description of 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.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Unclaimed Property** (Continued)

C. **Public Notice of Unclaimed Property** (Concluded)

Also, if no address was listed then the property was not published.

We were unable to verify the State Treasurer sent the letters within one hundred twenty days of receipt of the report. The letters did not contain the following information as required by State Statute:

- Holder's address.
- A statement that, if satisfactory proof of claim is presented by the owner to the State Treasurer, arrangements will be made to transfer the property to the owner as provided by law.

The State Treasurer was not in compliance with State Statute.

We recommend the State Treasurer implement policies and procedures and internal controls to:

- Comply with State Statute and include the required information in public notices or consider changing the language or requirements within the State Statute to reflect current procedures, and
- The individual who prepares the 120-day letter should print, date, initial or sign, and retain the query generated in the Wagers system.

*Treasurer's Response: The State Statutes will be followed to comply with Unclaimed Property Statutes.*

D. **Claimant Proof of Ownership Not on File**

Good internal control requires policies and procedures be followed to ensure proof of ownership is obtained prior to payment.

We noted one of fifteen claims tested did not have proof of ownership on file prior to payment. It was noted by staff that the State Treasurer knew the claimant personally and, therefore, she did not require the proof of ownership to be obtained. The claim was for \$8,625.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Unclaimed Property** (Continued)

D. **Claimant Proof of Ownership Not on File** (Concluded)

If policies and procedures are not in place and followed by all staff there is an increased risk of loss or theft of State funds.

We recommend the State Treasurer obtain proof of ownership prior to payment of unclaimed property and retain copies for subsequent review.

E. **Lack of Segregation of Duties in Unclaimed Property**

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.

We noted there was a lack of segregation of duties in the Unclaimed Property Division due to the following:

1. One individual picked up the State Treasurer's mail. This individual worked in the Unclaimed Property Division and because the Unclaimed Property Division mail was easily identifiable this person could conceal a piece of mail before bringing it to the office. It is unlikely someone would detect a piece of mail was missing because there is little expectation of what mail is to be received prior to receiving it.
2. There was no initial listing of money conducted. The Unclaimed Property Division mail was opened by two individuals within the Division, one individual took the reports and checks and created the deposit within the Wagers system and NIS. The deposit document and checks were then given back to the approver of the document and the document was approved within NIS. The individual approving the document did not have an initial listing of money to verify what was received was deposited.

Without an adequate segregation of duties or compensating controls in place there is an increased risk of loss or theft of State funds.

We recommend the State Treasurer implement policies and procedures and internal controls to ensure there is an adequate segregation of duties over unclaimed property.

- Two individuals should pick up the mail together,

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Unclaimed Property** (Continued)

E. **Lack of Segregation of Duties in Unclaimed Property** (Concluded)

- There should be an initial listing of money conducted, and
- The Wagers deposit document, initial listing of money, and NIS deposit document should be compared to each other to ensure what was received was deposited correctly.

*Treasurer's Response: Policies and procedures are in place to make an initial listing of checks to verify what was received was deposited.*

F. **Recording of Unclaimed Property Receipts**

Neb. Rev. Stat. Section 84-617(1) R.R.S. 2003 states, "There is hereby created the State Treasurer Administrative Fund. Funds received by the State Treasurer pursuant to his or her administrative duties shall be credited to the fund. Such funds shall include: . . . (e) Payments for copies, including microfilm, computer disk, or magnetic tape, of listings of owners of unclaimed property held by the State Treasurer pursuant to the Uniform Disposition of Unclaimed Property Act . . . Money in the State Treasurer Administrative Fund . . . shall be credited to the Unclaimed Property Cash Fund."

Sound accounting practice requires proper coding of deposits to the correct fund and account.

We noted two of thirty-two deposits were not coded to the proper fund and account. Fees for unclaimed property listings are to be deposited to the State Treasurer Administrative Fund and then transferred to the Unclaimed Property Cash Fund and deposited into a sales and charges account code. However, the State Treasurer coded the fees to the Unclaimed Property Escheat Trust Fund and the escheat monies account code.

We recommend the State Treasurer properly code monies to the correct fund and account. We also recommend a journal entry be prepared for the fees incorrectly coded to the Escheat Trust Fund and escheat monies account code.

G. **Reporting of Unclaimed Property**

Neb. Rev. Stat. Section 69-1310(a) R.R.S. 2003 states, "Every person holding funds or other property, tangible or intangible, presumed abandoned under the Uniform Disposition of Unclaimed Property Act shall report to the State Treasurer with respect to the property as hereinafter provided."

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property** (Continued)

**G. Reporting of Unclaimed Property** (Continued)

Neb. Rev. Stat. Section 69-1322 R.R.S. 2003 states, “(a) If the State Treasurer has reason to believe that any person has failed to report property in accordance with the Uniform Disposition of Unclaimed Property Act, the State Treasurer may demand that such person file a verified report or otherwise comply with the act within thirty days of the demand. (b) The State Treasurer may at reasonable times and upon reasonable notice examine the records of any person if he or she has reason to believe that such person has failed to report property that should have been reported pursuant to the act . . . .”

Neb. Rev. Stat. Section 69-1323 R.R.S. 2003 states, “If any person refuses to deliver property to the State Treasurer as required under sections 69-1301 to 69-1329, he shall bring an action in a court of appropriate jurisdiction to enforce such delivery.”

Neb. Rev. Stat. Section 69-1324 R.R.S. 2003 states, “(a) A person who fails to pay or deliver property within the time prescribed by the Uniform Disposition of Unclaimed Property Act shall be required to pay to the State Treasurer interest calculated pursuant to section 45-103 . . . (b) A person who willfully fails to render any report or perform other duties required under the act shall pay a civil penalty of one hundred dollars for each day the report is withheld or the duty is not performed, but not more than five thousand dollars. (c) A person who willfully fails to pay or deliver property to the State Treasurer as required under the act shall pay a civil penalty equal to twenty-five percent of the value of the property that should have been paid or delivered . . . (e) Any person who willfully refuses to pay or deliver abandoned property to the State Treasurer as required under the act shall be guilty of a Class II misdemeanor.”

Sound business practice requires management to ensure all businesses are reporting unclaimed property as required by State Statute.

We noted the State Treasurer does not enforce Section 69-1310, requiring businesses to report all unclaimed property. Reporting is on a voluntary basis.

Without adequate policies and procedures in place there is an increased risk businesses will not report unclaimed property in their possession.

We recommend the State Treasurer implement policies and procedures and internal controls to ensure all businesses report unclaimed property in their possession as required by State Statute.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Unclaimed Property** (Continued)

G. **Reporting of Unclaimed Property** (Concluded)

This may be accomplished by:

- Obtain a list of all businesses in the State of Nebraska and send postcards indicating the laws requiring businesses to report and the State Treasurer's website where forms and information can be obtained.
- Send the postcards to: 1) all businesses, or 2) those businesses which would most likely possess unclaimed property.
- Require a positive confirmation, where the entity must return a response indicating they do or do not have unclaimed property.

*Treasurer's Response: Sending notices to all businesses in the State of Nebraska is a sound idea and something the Treasurer's Office will be investigating in addition to other means of properly obtaining any unclaimed property held by Nebraska businesses.*

H. **Unclaimed Property Securities**

Neb. Rev. Stat. Section 69-1310 R.R.S. 2003 states, "(a) Every person holding funds or other property . . . presumed abandoned under the Uniform Disposition of Unclaimed Property Act shall report to the State Treasurer with respect to the property as hereinafter provided. (b)(3) . . . items of less than twenty-five dollars may be reported in the aggregate."

Sound accounting practice and good internal control requires policies and procedures to be in place to ensure information is properly recorded and retained for subsequent review.

We noted the following:

1. One of ten holder reports was not on file with the State Treasurer.
2. Thirteen of eighty-two securities were not properly recorded in the Wagers system.
3. Nine of forty holder reports had aggregate amounts the State Treasurer was not recording separately within the Wagers system.
4. Four of forty holder reports had aggregate amounts that did not have the owner's information reported.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property** (Continued)

**H. Unclaimed Property Securities** (Concluded)

Section 69-1310 permits holders with one individual with several unclaimed properties under twenty-five dollars to report them as one property. Therefore, owner's information should be reported by holders and recorded by the State Treasurer.

The State Treasurer is not required to publish or send notice to individuals with unclaimed property valued at less than twenty-five dollars therefore, if records are not adequately maintained and properly recorded in the Wagers system, there is an increased risk individuals may not be aware of unclaimed property being held by the State Treasurer. Also, if holders do not report owner information the State Treasurer is unable to determine who the owner of unclaimed property is.

We recommend the State Treasurer implement policies and procedures and internal controls to:

- Ensure records are adequately maintained and recorded in the Wagers system.
- Someone separate from the data entering procedure perform a review of the system to ensure data is input correctly.
- Record aggregate property by the owner's information.

*Treasurer's Response: Following are comments to those items noted by the auditors:*

1. *The holder report that was not found at the time of the audit has subsequently been found.*
2. *In order to meet these requirements the Unclaimed Property Director will no longer input reports into the Wagers system and will conduct random reviews of holder reports to ensure their accuracy.*

**I. Unclaimed Property Safety Deposit Boxes**

During the testing of unclaimed property we noted the following in regard to safety deposit boxes:

1. One of six safety deposit boxes did not have a physical inventory documented upon receipt.
2. One of six safety deposit boxes did not contain all of the property listed on the physical inventory sheet.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property (Concluded)**

**I. Unclaimed Property Safety Deposit Boxes (Continued)**

3. There were 143 safety deposit boxes received in 2003 that were not entered on the Unclaimed Property System or on the safety deposit box spreadsheet maintained by the Division.
4. There was not an adequate safeguarding of safety deposit boxes kept in the basement vault. A significant number of the State Treasurer staff had access to the safety deposit boxes kept in the basement and individuals were allowed to enter the basement vault unaccompanied.
5. There was not an independent physical inventory conducted.

Good internal control requires policies and procedures to ensure physical inventories are conducted and items are recorded on the Unclaimed Property System and safety deposit box spreadsheet upon receipt. Good internal control also requires an adequate safeguarding of unclaimed property to ensure contents are not misplaced or susceptible to theft and that an independent physical inventory is conducted at least annually.

Without adequate records, safeguarding of safety deposit boxes, or an independent physical inventory conducted there is an increased risk of loss or theft of unclaimed property.

We recommend the State Treasurer implement policies and procedures and internal controls to:

- Ensure a physical inventory is performed after the receipt of all safety deposit boxes,
- Ensure all safety deposit boxes are recorded on the Unclaimed Property System and safety deposit box spreadsheet,
- Ensure the safeguarding of safety deposit boxes by requiring two individuals to accompany each other when entering the basement vault, and
- Conduct an independent physical inventory at least annually to ensure all safety deposit boxes entered into the Unclaimed Property System are accounted for.



NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Unclaimed Property** (Concluded)

**I. Unclaimed Property Safety Deposit Boxes** (Concluded)

*Treasurer's Response: Following are comments to those items noted by the auditors:*

1. *A physical inventory is done on every safe deposit box item that is received, the item in question in #1 above that did not have an inventory sheet was received in 1987.*
2. *This item was received in 1991, it was noted by the auditor's staff that in Wagers there was a comment that the contents of this safe deposit box were sold and the proceeds for the sale were \$127.50.*
- 3 & 4. *Future safe deposit box owner information will be entered in a timely fashion and the yearly physical inventory will be checked against the items entered in Wagers, as well as verifying the inventory against the safe deposit box spreadsheet. An independent physical inventory is in the process of being implemented.*

**6. Outstanding Warrants**

In our examination of outstanding warrants we noted the following:

**A. Outstanding Warrants Procedures Review**

Good internal control requires documenting the review of reports. Also, a separate independent individual should review any changes made to ensure accuracy.

During review of the outstanding warrant procedures it was noted there was a lack of documentation to indicate all procedures were performed. The following was noted:

1. The review of the Cumulative Warrant Register to the DAS Warrant Register was not documented. This was performed to verify everything from the single warrant writer system was in the State accounting system.
2. The comparison of the e-mail from lottery, informing the State Treasurer of the warrants written, to the Warrant Reconciliation Errors report was not documented.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Outstanding Warrants (Continued)

A. Outstanding Warrants Procedures Review (Continued)

3. The comparison of the two accounts payable exception reports generated in NIS was not documented. Also, the exception reports were not documented consistently to indicate someone had researched every item on the report. There was also not another individual consistently involved in the review of the error reports to ensure any adjustments made to the system were accurate.
4. The comparison of the NWR Clearing Bank Tapes report and the Bank Reconciliation report to the bank file total to ensure the amounts agree was not documented.
5. The calculator tapes used during the adjustment process were not retained during the audit period.
6. The State Treasurer did not retain copies of the checks sent back to the bank for stop payments or expired warrants.
7. The State Treasurer was not utilizing all of the codes available to be able to track the different types of warrants in NIS.

Without adequate documentation to verify reports are reviewed and changes are accurate there is an increased risk of errors being undetected.

We recommend the State Treasurer implement policies and procedures and internal controls to ensure the review of reports is documented and initialed by the individual performing the review. We also recommend the exception reports be reviewed daily by another individual to ensure all warrants listed were researched and the changes to the system were accurate. The review should be documented and initialed by the individual performing the review.

*Treasurer's Response: Following are comments to those items noted by the auditors:*

1. *No Cumulative Warrant Register report is provided in the NIS system.*
2. *TM staff did compare the email from Lottery to the NWR010 report in NAS. The email, and NWR report were printed off, compared and kept in a binder.*

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Outstanding Warrants** (Continued)

**A. Outstanding Warrants Procedures Review** (Concluded)

*Treasurer's Response, Concluded:*

3. *TM staff has always compared the two accounts payable exception reports. TM staff now initial each report and write the number of items on each report. The individual who input the update into NIS as well as the individual verifying the update in NIS both initial the exception reports.*
4. *The comparison is completed on a daily basis when TM staff compares NIS reports to the daily bank clearing pad spreadsheet. The debits posted to the Treasurer's ledger are compared to the bank-clearing pad.*
5. *Calculator tapes used for warrant adjustments have always been retained in the daily posting pack. TM staff was not asked for this information.*
6. *TM staff do not retain copies of warrants returned to the bank for recredit since the bank who charged the warrant to the state images the items before they are presented to the state for payment.*
7. *TM Staff members are now utilizing the Forgery code in NIS.*

**B. Outstanding Warrants Report**

Neb. Rev. Stat. Section 84-602 R.R.S 2003 states the State Treasurer's duty is "(3) To keep a just, true and comprehensive account of all money received and disbursed; (4) To keep a just account with each fund, and each head of appropriation made by law, and the warrants drawn against them; (5) To render a full statement to the Department of Administrative Services . . . the amount of the balance of the several funds unexpended."

Sound accounting practice also requires an outstanding warrant list be available to State agencies in order to follow up on outstanding warrants prior to expiration.

We noted the June 30, 2003 outstanding warrants report was not accessible on the State Treasurer's website until March 2004, even though the State Treasurer obtained the report from DAS in October 2003.

Without an outstanding warrants list State agencies cannot follow up on an outstanding warrant prior to the warrant's expiration. NIS did not have a report that agencies could run, therefore, agencies were relying upon the State Treasurer to provide outstanding warrant information.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Outstanding Warrants** (Continued)

B. **Outstanding Warrants Report** (Concluded)

We recommend the State Treasurer ensure the outstanding warrants report is available within a reasonable amount of time.

*Treasurer's Response: State Treasury staff will make this information available on the website to agency personnel when received from DAS Accounting.*

C. **Cumulative Warrant Register**

Good internal control requires ensuring information from the accounting subsystems are recorded properly in the official State accounting system.

We noted there had not been a report generated in NIS to replace the NWR Cumulative Warrant Register. Therefore, the State Treasurer was unable to determine that all subsystem warrants written through the Single Warrant Writer System were properly recorded to NIS.

We recommend the Treasurer's office implement controls to ensure warrants written through the Single Warrant Writer System are properly recorded on NIS.

*Treasurer's Response: The Treasurer's Office does not issue State warrants and the function to determine completeness is a DAS Accounting responsibility. The Treasurer's Office will work with DAS Accounting on the bank reconciliation process.*

D. **Cancellation Procedures**

Neb. Rev. Stat. Section 84-602 R.R.S. 2003 states the State Treasurer's duty is "(3) To keep a just, true and comprehensive account of all money received and disbursed; (4) To keep a just account with each fund, and each head of appropriation made by law, and the warrants drawn against them."

Good internal control requires policies and procedures to ensure all cancelled warrants are accounted for and retained in one central location for subsequent review.

We noted DAS did not send two of thirty-five cancelled warrants tested to the State Treasurer on a timely basis. Also, the State Treasurer did not verify that all cancelled warrants were received from DAS to be retained in their vault.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

6. **Outstanding Warrants** (Concluded)

D. **Cancellation Procedures** (Concluded)

We recommend DAS send all cancelled warrants to the State Treasurer daily to be retained in the vault. We also recommend the State Treasurer generate the A/P Payment History Detail Report daily to ensure all cancelled warrants listed are received from DAS.

*Treasurer's Response: Treasury staff will work with DAS Accounting to get a process in place regarding the cancelled warrants.*

7. **Fixed Assets**

In our examination of the State Treasurer's fixed assets records we noted the following:

A. **Lack of Segregation of Duties Over Fixed Assets**

As of June 30, 2003 and January 6, 2004 six employees were authorized to add, change, and transfer asset transactions in NIS because they were set up in NIS security as Code 20 under the Fixed Asset Functional Security Matrix. In addition, four of the six were authorized to set up new business units and add or change budget information as they were set up with a Code 40 under the Fixed Asset Functional Security Matrix.

Also, the State Treasurer did not review the Fixed Asset Integrity Reports. We were unable to determine how often they reviewed the Unposted Fixed Asset Transaction Report. The Unposted Fixed Asset Report dated February 27, 2004 had journal entries and voucher transactions dating back to October 2003 and December 2003.

Good internal control requires an adequate segregation of duties to ensure no single individual is in a position to both perpetrate and conceal errors or irregularities.

Good internal control also requires regular review of fixed asset reports to ensure the fixed asset transactions are promptly reviewed and followed up on. Reviewing these reports on a regular basis would ensure the accuracy of the fixed asset listing.

Without a proper segregation of duties and regular review of fixed asset reports, there is an increased risk in loss or misuse of State assets.

We recommend the State Treasurer review the security functional matrix for Fixed Assets and implement procedures to ensure a proper segregation of duties over fixed assets.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Fixed Assets** (Continued)

A. **Lack of Segregation of Duties Over Fixed Assets** (Concluded)

We also recommend the State Treasurer review the Fixed Asset Integrity Reports on a monthly basis. The Unposted Fixed Asset Report should be reviewed after the posting of payables to determine the disposition of each transaction.

B. **Missing Assets/Assets Not Tagged**

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. In addition, Section 81-1118.02(2) states, if any property is lost, destroyed, or unaccounted for by the negligence or carelessness of the State agency, the Materiel Administrator shall, with the advice of the Attorney General, take the proper steps to recover such property or the reasonable value thereof from the State agency and from the person bonding such agency, if any. Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal control also requires an adequate record be maintained to account for the assets of the State.

During our testing of the fixed assets, we noted the following:

1. The State Treasurer's staff could not locate one laptop selected from the fixed asset records. This laptop was thought to have been purchased in 2000 or 2001; however, they were unable to determine how long it had been missing.
2. One laptop was located at the SDU Division but was not on the Fixed Asset Listing.
3. Three laptops were not tagged with an asset number.
4. Two laptops were not labeled "Property of the State of Nebraska."
5. During our floor to list testing we noted not all chairs, desks, or file cabinets were tagged "Property of the State of Nebraska."

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Fixed Assets** (Concluded)

B. **Missing Assets/Assets Not Tagged** (Concluded)

We recommend the State Treasurer take appropriate steps to determine the status of the missing laptop. If the laptop cannot be located and is presumed to be missing or stolen, then we recommend the State Treasurer contact DAS Materiel Division to report the missing laptop. We also recommend all State Treasurer property be properly tagged to ensure compliance with State Statute.

C. **Disposal of Assets**

We noted eight monitors, two printers, and ten CPUs in the hallway of the basement of the State Capitol building. Even though this area has restricted access many State employees have access to this area. We also noted 22 Gateway monitors stored in the SDU Division building. According to State Treasurer's staff, all the above items had been in storage and not used for over a year.

Neb. Rev. Stat. Section 81-161.04(1) R.S.Supp., 2002, states, whenever any personal property is no longer needed, the using agency shall notify DAS Materiel Division -Surplus Property who shall direct the sale. In addition, good internal control over unused capital assets would ensure they were stored in a secure area.

When fixed assets are no longer needed or used by the agency and not reported to DAS Materiel Division-Surplus Property, the agency is not in compliance with State Statute. In addition, when unused items were not stored in a secure area there was a greater risk property would get misplaced or misappropriated.

We recommend the State Treasurer take appropriate steps to initiate the disposal of the fixed assets no longer in use by the agency and to take steps to properly secure all unused property until it is properly disposed.

8. **State Disbursement Unit (SDU)**

A. **SDU Bank Reconciliation**

The IV-D Support Payment Distribution SDU Fund 72640 is under the authority of the Nebraska Health and Human Services System (HHSS) and is used by HHSS and the SDU Division to record child support received and disbursed to the child's custodian. Good

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

8. State Disbursement Unit (SDU) (Continued)

A. SDU Bank Reconciliation (Continued)

internal control requires procedures to ensure bank records agree to the State's accounting records (NIS). Good internal control also requires reconciling items be researched and resolved in a timely manner.

We noted that a reconciliation of the Fund 72640 balance per the accounting records to the balance per the bank records had not been performed. Bank balancing was performed daily to the Treasurer's ledger; however, this balancing only considered receipts and items noted may or may not have affected NIS.

We compared NIS to bank balances, adjusting for items on the Treasurer's balancing worksheets, outstanding warrants, outstanding EFTs, and other items we believe need to be considered. Our comparison noted the following:

Date	Adjusted NIS Balance	Adjusted Bank	Variance
6/30/02	\$ 975,066	\$ (417,915)	\$ (1,392,981)
6/30/03	\$ 3,250,945	\$ 1,762,344	\$ (1,488,601)
1/06/04	\$ 2,145,342	\$ 1,253,209	\$ (892,133)

We also noted various items such as non-sufficient funds checks, expired warrants, and recoveries were not promptly recorded on NIS. (See additional information in Comment 8.C. (Bad Debt, Duplicate Warrants, and Cancelled Warrants) and Comment 8.D. (Misapplied Payments).

We further noted the January 6, 2004 reconciliation of the bank to the Treasurer's ledger included 141 items that were older than one year and had not yet been resolved.

There is an increased risk of loss or for errors to occur without adequate and timely reconciliation of bank records to the accounting records.

We recommend the Treasurer work with HHSS to implement procedures to periodically reconcile bank records to the accounting records. We further recommend all transactions be promptly recorded on NIS, and that reconciling items be researched and resolved in a timely manner.



NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**A. SDU Bank Reconciliation (Concluded)**

*Treasurer's Response: The Treasurer's Office is currently working with DAS Accounting and HHSS on the reconciliation of bank accounts to NIS. The old reconciling items are being investigated and are being cleared in a timely matter at present.*

**B. Reconciliation Processes**

HHSS is responsible for the collection, disbursement, and enforcement of child support in the State of Nebraska. To meet this responsibility HHSS has developed a computerized system called Children Have A Right to Support (CHARTS). CHARTS maintains millions of records and tracks hundreds of millions of dollars of child support receipts and disbursements.

HHS selected the State Treasurer's office to operate the SDU Division for the receipting and disbursement of child support beginning December 24, 2001. The SDU Division developed an automated system (KidCARE) to record the receipts and disbursements related to child support. NIS is the official accounting system of the State.

In gaining an understanding of the operations of the three systems as noted above (CHARTS, KidCARE, and NIS) we noted there were limited reconciliation procedures performed between the systems to ensure all activity was properly accounted for and the fund balance per NIS equaled the undisbursed child support as recorded in CHARTS. We noted the following was not performed:

1. Reconciliation of child support collected by the SDU Division through KidCARE to CHARTS - When this reconciliation is not being performed there is a greater risk errors and omissions will go undetected and that all child support receipts received by the SDU Division will not be recorded in CHARTS.
2. Reconciliation of child support collected by the SDU Division through KidCARE to NIS - When this reconciliation is not being performed there is a greater risk that errors and omissions will go undetected and all child support receipts received by the SDU Division will not be recorded in NIS.
3. Reconciliation of child support subsequently disbursed by the SDU Division to CHARTS and NIS - When this reconciliation is not being performed there is a greater risk errors will go undetected and unauthorized payments could be made resulting

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU)** (Continued)

**B. Reconciliation Processes** (Concluded)

in a loss of funds. SDU Division staff performed a daily reconciliation of the CHARTS payout file, SDU Payment Register and NIS. However, we noted several days with variances. One of five days tested had an unresolved variance of \$10,008.

Good accounting and internal control procedures would include reconciliation between systems to ensure all activity is properly accounted for and the systems are in balance.

A similar comment was noted in our prior audit report.

We recommend the SDU Division work with HHSS to develop reconciliation procedures between CHARTS, KidCARE, and NIS systems to ensure all activity is properly accounted for and the systems are in balance.

*Treasurer's Response: Following are comments to those items noted by the auditors:*

- 1. A reconciliation process between Kidcare and Charts has been implemented.*
- 2. Reconciliation between Kidcare and NIS has begun by identifying bad checks. The SDU and Treasurer's Office will work with DAS Accounting on the reconciliation with NIS.*
- 3. The SDU is working more closely with HHSS to perform reconciliation between all three areas. The SDU and Treasurer's Office will also work with DAS Accounting on the reconciliation with NIS.*

**C. Bad Debt, Duplicate Warrants, and Cancelled Warrants**

Court ordered support was received and disbursed from one central location, the SDU Division. The SDU Division was responsible for receipting, depositing, and crediting the correct non-custodial parent and effective date to child support monies received. The SDU Division was also responsible for the disbursement of the child support to the payee.

The Interagency Agreement-Attachment A (Request For Information) between the State Treasurer's office and the HHS stated that the contractor is "liable for the amount of subsequent Non-Sufficient Fund (NSF) receipts from any payor or employer that tendered

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**C. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

a receipt with NSF where the contractor has received notice from the bank. The contractor must provide the funds within twenty-four hours of the notification of the NSF.”

The Request for Information (RFI) also noted, “if a payee receives an overpayment as a result of the contractor’s error, the contractor shall notify the payee that the payment was made in error and to return the payment to the contractor. The contractor shall provide the funds for the correct disbursement. If payment is not received from the payee after notification, the contractor may record in CHARTS the incorrect disbursement. The contractor may also be reimbursed by withholding future, current, or arrearage payments as the Child Support Enforcement policy permits.”

Sound business practice requires policies and procedures be in place for the collection and funding of outstanding bad debt obligations, as well as the write-off of outstanding accounts deemed uncollectable. Sound business practice also requires written policies and procedures for the cancellation of State warrants on NIS.

We noted the following related to child support disbursements:

**1. Bad Check and ACH Debt**

The SDU Division was accountable for all bad debts resulting from child support. The SDU Division had contracted with a collection agency, e-Tech Solutions, to collect bad check debt resulting only from insufficient funds and closed accounts. The State Treasurer's office pursued collections for bad checks that were not collected by e-Tech Solutions and bad electronic payments made through ACH transactions.

- Bad Check debt needing recovery at June 30, 2003 totaled \$184,362 and at January 6, 2004 totaled \$273,461.
- Bad ACH debt needing recovery at June 30, 2003 totaled \$92,629 and at January 6, 2004 totaled \$129,501.
- Two transactions within NIS authorized by the State Treasurer to use \$353,712 State General Funds for bad debt. No funds had been deposited back into the State General Fund for those bad debt items that were funded

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**C. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

by the General Fund and were subsequently recovered. We also noted the General Funds were not transferred to the SDU Division bank account, but were maintained on a separate ledger by the State Treasurer.

- The SDU Division had inadequate procedures to pursue collection on bad debt not collected through e-Tech Solutions. It was noted for those items e-Tech Solutions did not pursue collection on, the SDU Division may have mailed only one letter to pursue the recovery of the returned check item.
- Neb. Rev. Stat. Section 43-3342.03(2) R.S.Supp., 2002 allows the State Treasurer to charge a fee for ACH items returned due to non-sufficient funds. The SDU Division did not charge a fee for those returned ACH items.
- The SDU Division did not have set procedures in place to ensure that after receiving non-sufficient payments, future payments were remitted through guaranteed funds.
- The SDU Division did not have written policy or procedures established for the funding or write-off of bad check debt.
- The Master Bad Check List maintained by the SDU Division included items returned for endorsement issues. These returned items should not have been reflected on the Master Bad Check List because they were items that were not due to the SDU Division. These were actually receipts that were not payable to the SDU Division, but were deposited and accounted for in the Child Support Distributive Fund balance (Fund 72640). Therefore, these items were due back to the payor. Endorsement items improperly reflected on the Master Bad Check List totaled \$17,870 at June 30, 2003; and \$22,925 at January 6, 2004.
- The format of the Bad ACH List changed from fiscal year 2002. One of ten returned ACH items tested was not properly reflected on the new format.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**C. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

- Returned check and ACH items were not recorded on NIS.
- The returned checks' disbursement and recovery status was not properly reflected on the Master List for three of nine returned check items tested and for three of ten returned ACH items tested.
- Documentation was not on file to support recovery procedures were taken on the returned item for one of ten returned check items tested and for five of ten returned ACH items tested.
- Recovery items were not recorded on NIS.

Without adequate policies or procedures in place regarding the recovery and funding of bad debt, the SDU Division will not have sufficient funds to pay all outstanding obligations and additional State General Funds will be required. Without the proper recording on NIS of the bad debt and recovery, the IV-D Support Payment Distribution cash balance (Fund 72640) will be misstated.

**2. Duplicate Warrants**

On both February 19 and 20, 2002 a warrant print file was sent to the print vendor twice. The SDU Division became aware of the problem when payees called in to report they had received duplicate payments. The SDU Division changed their procedures to verify when the warrant print file had been sent to the print vendor, and processes at the print vendor also changed to ensure duplicate warrants were not issued. The SDU Division did notify HHS of the duplicate disbursement; however, the disbursement was never recorded on NIS.

- For \$215,765, letters were mailed June 2002 to the payees requesting the amount be paid in full or a payment plan be established; however, the SDU Division had not pursued any further recovery efforts of these warrants.
- \$30,975 was unaccountable and no collection procedures had been pursued.
- The total of duplicate warrants still unrecovered at June 30, 2003 and January 6, 2004 was \$184,419 and \$183,929, respectively.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**C. Bad Debt, Duplicate Warrants, and Cancelled Warrants (Continued)**

**3. Cancelled Warrants**

On occasion the SDU Division was notified by HHSS that a warrant would need to be cancelled within KidCARE. If the physical warrant was in the SDU Division's custody, it was stamped cancelled and the warrant's status was changed within KidCARE. The physical warrants were kept at the SDU Division.

Additionally, the SDU Division ran queries for HHS to determine if any warrants were due to expire. These warrants should have then been cancelled within NIS and transferred back to the fund of origination.

- During the period from June 25, 2003 through January 6, 2004, warrants totaling \$90,417 were cancelled by the SDU Division but were not recorded on NIS; and expired warrants totaling \$267,241 were not recorded on NIS.

Similar findings regarding bad debt, duplicate warrants, and cancelled warrants were noted in the prior audit.

We recommend the State Treasurer's office:

- Record all bad debt, duplicate warrants, and cancelled warrants on NIS.
- Develop and implement written policies and procedures regarding the collection and funding of outstanding bad debt and the write-off of any uncollectable accounts.
- Deposit recoveries on bad debt funded by the State General Fund to the General Fund.
- Develop procedures to ensure future payments are remitted through guaranteed funds.
- Work with HHSS and DAS to ensure cancelled warrants are recorded on NIS.
- SDU Division pursue the adjustment of the payee's records in CHARTS to reflect the receipt of the duplicate payment and/or to retain future payments as HHSS policy permits.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **State Disbursement Unit (SDU)** (Continued)

C. **Bad Debt, Duplicate Warrants, and Cancelled Warrants** (Concluded)

*Treasurer's Response: The SDU is liable for bad debt and the Treasurer's Office will be working with both the Legislature and State Accounting to fund these monies. The SDU has implemented new status codes in both Kidcare and Charts to allow both systems to recognize the different elements of bad debt and the impact on all three systems. A new full-time collections person has been hired to work the bad debt. Policies and procedures have been implemented to help prevent and the collection of bad debt. We are working with HHSS and DAS Accounting to identify and properly record cancelled warrants both in Kidcare, Charts, and NIS.*

D. **Misapplied Payments**

The SDU was responsible for receipting, depositing, and crediting the correct non-custodial parent and effective date to child support monies received. The SDU Division was also responsible for the disbursement of the child support to the payee. The SDU Division referred to collections credited to the wrong child support case as "misapplied." When these misapplied collections resulted in an erroneous payment the SDU Division termed these "misapplied payments." Federal regulations do not allow a state to recoup an overpayment of support through the intercept of a subsequent child support payment unless the custodial parent agrees.

Good internal control requires adequate procedures to pursue the collection and recovery of those receipts that were misapplied and resulted in a payment to the incorrect payee.

Additionally, the RFI also notes, if a payee receives an overpayment as a result of the contractor's error, the contractor shall notify the payee that the payment was made in error and return the payment to the contractor. The contractor shall provide the funds for the correct disbursement. If payment is not received from the payee after notification, the contractor may record in CHARTS the incorrect disbursement. Additionally, the contractor may also be reimbursed by withholding future, current, or arrearage payments as the Child Support Enforcement policy permits.

We noted the following regarding recovery of misapplied payments:

- The SDU Division would mail a letter to the incorrect payee notifying them of the amount needing to be returned. The SDU Division had not followed up on the outstanding amounts due to the SDU Division.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

8. State Disbursement Unit (SDU) (Continued)

D. Misapplied Payments (Continued)

- CHARTS would track the SDU misapplied adjustment code. CHARTS would sum the SDU misapplied codes on a periodic basis and create a journal entry in NIS to transfer the funds from HHS General Fund appropriations to the IV-D Child Support Distributive Fund (Fund 72640). The SDU Division had not returned any of the funds they had recovered back to the State General Fund.
- HHSS had provided \$249,535 from the State General Fund during the period July 1, 2002 to January 6, 2004 to fund the SDU Division's misapplied payments.

During testing of the misapplied payments we noted the following:

- Documentation was not on file to support the incorrect payee was contacted regarding the recovery process for eight out of ten misapplied receipts tested.
- Recovery funds were noted for one out of ten items selected for testing; that one item was not recorded in NIS.
- An HHSS-CSE Accountant indicated the query of the amount transferred to Fund 72640 from the General Fund did not always reflect what was actually disbursed. He noted CHARTS would total everything coded as an SDU Division misapplied payment whether it had been disbursed or not. This actually caused more funds to be sent to Fund 72640 than needed to fund the misapplied payments.

Without proper controls and procedures in place to account for all misapplied payments and recoveries, there is the increased risk of loss or misuse of both State General Funds and obligated child support funds. Failing to account for those misapplied payments that have been recovered and were funded with State General Funds increases the risk the IV-D Child Support Distributive Fund (Fund 72640) will be overstated. Additionally, the Fund will be overstated due to the transfer of State General Funds for those misapplied items that were not disbursed.

We recommend the SDU Division immediately implement policies and procedures to account for all misapplied payments, recoveries, and funds due back to the State General Fund. We also recommend the SDU Division record all recovered misapplied payments on NIS.



NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**D. Misapplied Payments (Concluded)**

Additionally, documentation should be maintained to support recovery procedures were pursued. Further, the SDU Division should consider working with HHSS to implement additional recovery procedures.

*Treasurer's Response: Misapplied payments are identified both on the Kidcare side and the Charts side. We are working with HHSS to insure that these payments are also accurately reflected in NIS.*

**E. Daily Suspense Report**

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 should include an adequate segregation of duties so no one individual can handle all phases of a transaction from beginning to end.

As noted in the investigation summary in the Comments Without Recommendations section of this report, numerous checks were received by the SDU Division that were made out to other individuals or businesses. According to staff, SDU Division employees were told not to spend time researching these payments and the money would continue to sit in the Treasurer's account earning interest. The Daily Suspense Report dated October 14, 2003 showed 198 payments to the SDU Division, totaling \$150,163 that had not been matched to a recipient.

The APA examination supports the above investigation finding.

The Daily Suspense Report is a listing of collections receipted into KidCARE that have not been identified to the proper case due to insufficient information. Therefore, a zero number is assigned to the receipt until further research can determine how the receipt should be processed. During our review of procedures over the Daily Suspense Report we reviewed the report at two periods, October 14, 2003 and January 6, 2004. We noted the following:

- Many items on the January 6, 2004 report were unidentifiable because not enough supporting information was provided with the receipt; therefore, the item was never cleared from the report.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. State Disbursement Unit (SDU) (Continued)**

**E. Daily Suspense Report (Continued)**

- The SDU Division did not have any written policies or procedures over unidentifiable collections listed on the Daily Suspense Report. This includes procedures of how often the report should be reviewed and by whom, how items are removed from the report, and what should be done with those items that are marked as unidentifiable when the appropriate custodial parent cannot be located.
- One employee was able to research the unidentifiable item, request an adjustment within CHARTS, and remove the item from the KidCARE Daily Suspense Report. There was no supervisory review of the Daily Suspense Report.
- When the payor was contacted and a refund was initiated by the payor having the bank debit the funds out of the SDU Division's bank account, no transactions were recorded on NIS to account for the reduction of the funds in Fund 72640. However, beginning October 2003 the SDU Division began recording these transactions on NIS.

**1. January 6, 2004 Daily Suspense Report**

- Research and corrective action was not taken for 10 out of 11 receipts tested.
- Research and corrective action was not taken in a timely manner for all 11 receipts tested.

**2. October 14, 2003 Daily Suspense Report**

- APA was unable to determine if two of five unidentified receipts tested were appropriately removed from the Daily Suspense Report.
- Documentation was not on file to support two of five unidentified receipts were applied to the appropriate child support case or returned to the payor.
- All five receipts tested were not resolved in a timely manner.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **State Disbursement Unit (SDU)** (Continued)

E. **Daily Suspense Report** (Concluded)

Without proper internal controls there is an increased risk the agency is receipting funds that are not due to the SDU Division which inaccurately increases the balance of the Child Support Distributive Fund (Fund 72640). Additionally, allowing one person to control all phases of a transaction from beginning to end increases the risk of loss or misuse of funds received into the Child Support Distributive Fund.

We recommend the SDU Division develop a plan of organization, procedures and records to provide reliable financial records, provide an adequate segregation of duties so that no one individual can handle all phases of a transactions, and determine refunds processed through the bank account to ensure the transactions were properly recorded on NIS.

*Treasurer's Response: The daily suspense report points out both misendorsed items as well as unidentifiable items. We have implemented a procedure to refund the misendorsed items and to properly reflect this within Kidcare, Charts, and NIS. The unidentifiable items are now being identified and handled appropriately.*

F. **Federal Reporting**

The contract between the State Treasurer's office and HHSS to operate the SDU Division states, ". . . the Treasurer shall submit, on a monthly basis, an itemized billing statement to the Title IV-D agency for all expenses incurred . . . which are directly associated with the operation of the SDU."

During our review of the Treasurer's monthly billing documents, we noted the following:

- For the period August 2000 through October 2003, the Treasurer expended \$305,254 more in Federal letter of credit funds than they reported to HHSS. After adjusting for \$42,126 in expenses not claimed that appear to be allowable, the Treasurer still expended \$263,128 more in Federal letter of credit funds than what was reported.
- No reports were filed after October 2003.

By expending Federal letter of credit funds, but not reporting those expenditures to HHSS, the State Treasurer used Federal funds to pay for expenses that should have been paid from State funds.

NEBRASKA STATE TREASURER

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **State Disbursement Unit (SDU)** (Concluded)

F. **Federal Reporting** (Concluded)

We recommend the State Treasurer's office work with HHSS to determine whether any funding should be refunded. In addition, we recommend the State Treasurer's office only expend Federal letter of credit funds for expenses that are directly related to the operation of the SDU Division and report those expenditures in a timely manner.

*Treasurer's Response: The SDU and the Treasurer's Office have been working with HHSS to determine the proper allocation of costs and any adjustment that may be necessary. Procedures are currently in place to properly allocate SDU related costs between Federal and State funds.*

9. **Transfers and Allocation**

Neb. Rev. Stat. Section 77-2602 R.S.Supp., 2003 established a tax on cigarette sales and indicated how the tax should be allocated. The tax was 31 cents until October 1, 2002, and then increased to 64 cents for each pack of 20 cigarettes. The allocation is based on cents per pack, with certain minimums based on collections from the fiscal year ended June 30, 1998. Among the 11 funds that receive an allocation, General Fund 10000 was to receive 21 cents and the Building Renewal Allocation Fund 26520 was to receive 5 cents until October 1, 2002, and 7 cents after that.

In addition, the Legislature changed section 77-2602(3)(c) with 2003 Neb. Laws LB 759, Section 3. The change increased the minimum amount of cigarette tax that should be transferred to the Building Renewal Allocation Fund effective October 1, 2003.

Our review of the allocations for the fiscal year ended June 30, 2003, and for the first six months of the fiscal year ending June 30, 2004, noted the State Treasurer started allocating additional money to the Building Renewal Allocation Fund based on the changes made by LB 759 effective July 1, 2003 rather than the effective date of LB 759 of October 1, 2003. This may have caused the Building Renewal Allocation Fund to receive \$654,519 more than it should have and the General Fund to receive \$654,519 less than it should have.

It appears the reason the State Treasurer started allocating the cigarette tax in this manner starting July 1, 2003, instead of October 1, 2003, three months before the effective date of the changes made by LB 759, was because historically the transfers were done by the State Treasurer on a fiscal year basis, or July 1 through June 30.

NEBRASKA STATE TREASURER

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. Transfers and Allocation (Concluded)**

Due to the way Section 77-2602 and the changes made by LB 759 were written, we were unable to determine if the allocation to the Building Renewal Allocation Fund should be October 1, through September 30 based on the changes made by LB 759 or whether the allocation should continue on a fiscal year basis (July 1 through June 30).

We recommend the State Treasurer's office review the above statute and changes made by LB 759 in conjunction with the State Attorney General's office to determine whether or not the allocation of amounts to the Building Renewal Allocation Fund has been correctly done or if a correction is needed.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA STATE TREASURER

## INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedules of revenues, expenditures, and changes in fund balances of the Nebraska State Treasurer (Treasurer) for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004, and the statements of assets and liabilities of the AIM College Savings Plan, the TD Waterhouse 529 College Savings Plan, and the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust as listed in the table of contents, as of December 31, 2002 and the related statements of operations and changes in net assets, for the period ended December 31, 2002. The Treasurer's management is responsible for the schedule of revenues, expenditures, and changes in fund balances and the AIM College Savings Plan, the TD Waterhouse 529 College Savings Plan, and the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust. Our responsibility is to express an opinion based on our examination. We did not examine the financial statements of the AIM College Savings Plan, the TD Waterhouse 529 College Savings Plan, and the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to those financial statements is based on the reports of the other auditors.

Except as discussed in the following two paragraphs, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedules of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Other auditors reported they conducted their audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements of the AIM College Savings Plan, the TD Waterhouse 529 College Savings Plan, and the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust 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. The other auditors reported they believed their audit, which included confirmation of security holdings by correspondence with the custodians, provided a reasonable basis for their opinion.

We did not examine portions of the following funds for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004, respectively: Highway Trust Fund (61240) revenues of \$460,606,901 and \$240,801,179; the Permanent School Fund (63340) revenues of \$25,251,450 and \$20,939,081, expenditures of \$180,545 and \$231,382, and other financing sources of \$11,126,905 and \$2,503,282; the Excess Liability Fund (62220) revenues of \$10,218,792 and \$7,528,883, expenditures of \$8,034,541 and \$6,608,514; and Other Funds revenues of \$14,976,636 and \$3,755,009, expenditures of \$29,858,450 and \$10,968,708, due to funds of \$3,530,686 and \$1,648,842, due to governments of \$10,822,175 and \$(15,364,409), and other financing sources of \$(35,102) and \$1,825,000.

As more fully disclosed in Note 11 to the financial schedules, 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 long-term investment portion of the common fund balances, noted in the paragraph above, along with required disclosures, are reported and are subject to examination in those other State agencies.

In our opinion, except for the adjustments, if any, as might have been determined to be necessary had we examined evidence regarding the fund balances and changes in fund balances as noted in paragraph four above the schedules referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska State Treasurer for the fiscal year ended June 30, 2003, and for the period July 1, 2003 through January 6, 2004 based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services as described in Note 1 and based on the opinion of other auditors, the financial statements, referred to above present fairly, in all material respects, the financial position of the AIM College Savings Plan, the TD Waterhouse 529 College Savings Plan, and the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust, as of December 31, 2002 and the related statements of operations and changes in net assets, for the period ended December 31, 2002 presented in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2004, 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 a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

April 6, 2004

A handwritten signature in black ink that reads "Don Dunlop CPA". The signature is written in a cursive style.

Assistant Deputy Auditor



NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	State General Fund 10000	Cash Reserve Fund 11000	Convention Center Support Fund 21190	Unclaimed Property Cash Fund 21200	Education Savings Plan Administrative Fund 21240	MIRF Cash Fund 21260	Treasurer Administrative Cash Fund 21270	Spirit Plate Proceeds Cash Fund 21280
<b>REVENUES:</b>								
Appropriations	\$ 22,582,855	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	126,507	22,249,832	-	-	-	3,000,000	-	-
Intergovernmental	-	29,095,931	-	-	-	-	-	-
Sales and Charges	5,655,769	-	-	(291)	124,798	-	17,974	266,325
Miscellaneous	11,121,720	-	11,528	4,296	1,039	36,515	379	41,322
<b>TOTAL REVENUES</b>	<b>39,486,851</b>	<b>51,345,763</b>	<b>11,528</b>	<b>4,005</b>	<b>125,837</b>	<b>3,036,515</b>	<b>18,353</b>	<b>307,647</b>
<b>EXPENDITURES:</b>								
Personal Services	743,315	-	-	158,594	38,404	-	-	-
Operating	1,229,880	-	-	170,088	93,091	-	-	-
Travel	5,338	-	-	2,506	2,678	-	-	-
Capital Outlay	184,488	-	-	32,534	-	-	-	-
Government Aid	20,419,834	-	909,566	-	-	3,050,000	-	-
<b>TOTAL EXPENDITURES</b>	<b>22,582,855</b>	<b>-</b>	<b>909,566</b>	<b>363,722</b>	<b>134,173</b>	<b>3,050,000</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,903,996	51,345,763	(898,038)	(359,717)	(8,336)	(13,485)	18,353	307,647
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	-	-	-	-	-	-	-
Deposits to General Fund	(163,385,566)	-	-	-	-	-	-	-
Operating Transfers In	180,445,123	15,130,682	794,314	328,735	-	-	-	-
Operating Transfers Out	(33,963,553)	(117,400,000)	(238,294)	-	-	-	(17,862)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(16,903,996)</b>	<b>(102,269,318)</b>	<b>556,020</b>	<b>328,735</b>	<b>-</b>	<b>-</b>	<b>(17,862)</b>	<b>-</b>
Net Change in Fund Balances	-	(50,923,555)	(342,018)	(30,982)	(8,336)	(13,485)	491	307,647
FUND BALANCES, JULY 1, 2002	2,132	110,066,100	356,422	35,737	11,150	265,466	9,458	858,480
FUND BALANCES, JUNE 30, 2003	<b>\$ 2,132</b>	<b>\$ 59,142,545</b>	<b>\$ 14,404</b>	<b>\$ 4,755</b>	<b>\$ 2,814</b>	<b>\$ 251,981</b>	<b>\$ 9,949</b>	<b>\$ 1,166,127</b>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ -	\$ 59,142,545	\$ 14,404	\$ 17,822	\$ 2,875	\$ 251,981	\$ 9,949	\$ 1,166,127
Petty Cash	1,000	-	-	-	-	-	-	-
Deposits with Vendors	1,132	-	-	2,071	-	-	-	-
Long Term Investments	-	-	-	-	-	-	-	-
Due to Vendors	-	-	-	(15,138)	(61)	-	-	-
Deposits	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,132</b>	<b>\$ 59,142,545</b>	<b>\$ 14,404</b>	<b>\$ 4,755</b>	<b>\$ 2,814</b>	<b>\$ 251,981</b>	<b>\$ 9,949</b>	<b>\$ 1,166,127</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	Mutual Finance Assistance Cash Fund 21290	State General Construction Fund 33000	Capital Construction Fund 38000	Federal Fund 40000	Financial Responsibility Trust Fund 61220	Highway Trust Fund 61240	Highway Tax Trust Fund 61250	Bessey Memorial Trust Fund 61260
<b>REVENUES:</b>								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	4,500,000	-	-	-	-	441,728,983	-	-
Intergovernmental	-	-	-	2,600,739	-	-	-	-
Sales and Charges	-	-	-	-	-	60,670,607	7,740,022	-
Miscellaneous	70,221	24	36,129	2,135	99	778,929	57,136	185
<b>TOTAL REVENUES</b>	<b>4,570,221</b>	<b>24</b>	<b>36,129</b>	<b>2,602,874</b>	<b>99</b>	<b>503,178,519</b>	<b>7,797,158</b>	<b>185</b>
<b>EXPENDITURES:</b>								
Personal Services	-	-	-	836,327	-	-	-	-
Operating	-	15,160,411	39,643	1,455,879	3,908	-	-	27
Travel	-	416	-	4,324	-	-	-	-
Capital Outlay	-	12,379,924	2,231,254	306,344	-	-	-	-
Government Aid	3,747,590	27,200	-	-	-	-	7,438,996	-
<b>TOTAL EXPENDITURES</b>	<b>3,747,590</b>	<b>27,567,951</b>	<b>2,270,897</b>	<b>2,602,874</b>	<b>3,908</b>	<b>-</b>	<b>7,438,996</b>	<b>27</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	822,631	(27,567,927)	(2,234,768)	-	(3,809)	503,178,519	358,162	158
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In	1,896,708	27,790,000	3,894,200	-	-	2,449,879	-	-
Operating Transfers Out	(16,195)	-	-	-	-	(504,414,324)	-	(493)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,880,513</b>	<b>27,790,000</b>	<b>3,894,200</b>	<b>-</b>	<b>-</b>	<b>(501,964,445)</b>	<b>-</b>	<b>(493)</b>
Net Change in Fund Balances	2,703,144	222,073	1,659,432	-	(3,809)	1,214,074	358,162	(335)
<b>FUND BALANCES, JULY 1, 2002</b>	<b>16,195</b>	<b>237,256</b>	<b>140,215</b>	<b>-</b>	<b>3,824</b>	<b>-</b>	<b>2,043,222</b>	<b>15,836</b>
<b>FUND BALANCES, JUNE 30, 2003</b>	<b>\$ 2,719,339</b>	<b>\$ 459,329</b>	<b>\$ 1,799,647</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 1,214,074</b>	<b>\$ 2,401,384</b>	<b>\$ 15,501</b>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ 2,719,339	\$ 813,700	\$ 1,799,647	\$ -	\$ 15	\$ 1,214,074	\$ 2,401,384	\$ 1,113
Petty Cash	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-	-	14,388
Due to Vendors	-	(354,371)	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,719,339</b>	<b>\$ 459,329</b>	<b>\$ 1,799,647</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 1,214,074</b>	<b>\$ 2,401,384</b>	<b>\$ 15,501</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	Common School Fund 61270	Escheat Trust Fund 61280	College Savings Endowment Fund 61290	J M Amos Education Trust Fund 61300	Aeronautics Trust Fund 61700	Excess Liability Fund 62220	Motor Fuel Trust Fund 62460	Normal School Endowment Fund 63280
<b>REVENUES:</b>								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Sales and Charges	-	-	14,733	-	-	8,075,649	-	-
Miscellaneous	105,429	12,178,703	21	373	823,084	5,720,213	124,113	2,005
<b>TOTAL REVENUES</b>	<b>105,429</b>	<b>12,178,703</b>	<b>14,754</b>	<b>373</b>	<b>823,084</b>	<b>13,795,862</b>	<b>124,113</b>	<b>2,005</b>
<b>EXPENDITURES:</b>								
Personal Services	-	-	-	-	-	-	-	-
Operating	-	5,657,754	-	-	964	8,211,563	-	322
Travel	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>5,657,754</b>	<b>-</b>	<b>-</b>	<b>964</b>	<b>8,211,563</b>	<b>-</b>	<b>322</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	105,429	6,520,949	14,754	373	822,120	5,584,299	124,113	1,683
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In	61,730	-	-	-	-	-	264,539	-
Operating Transfers Out	-	(4,691,277)	-	-	(449,999)	-	(523,862)	(6,009)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>61,730</b>	<b>(4,691,277)</b>	<b>-</b>	<b>-</b>	<b>(449,999)</b>	<b>-</b>	<b>(259,323)</b>	<b>(6,009)</b>
Net Change in Fund Balances	167,159	1,829,672	14,754	373	372,121	5,584,299	(135,210)	(4,326)
<b>FUND BALANCES, JULY 1, 2002</b>	<b>-</b>	<b>6,055,598</b>	<b>-</b>	<b>8,720</b>	<b>6,500,048</b>	<b>51,610,139</b>	<b>2,784,837</b>	<b>187,100</b>
<b>FUND BALANCES, JUNE 30, 2003</b>	<b>\$ 167,159</b>	<b>\$ 7,885,270</b>	<b>\$ 14,754</b>	<b>\$ 9,093</b>	<b>\$ 6,872,169</b>	<b>\$ 57,194,438</b>	<b>\$ 2,649,627</b>	<b>\$ 182,774</b>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ 167,159	\$ 7,895,122	\$ 14,754	\$ 9,093	\$ -	\$ 7,735,313	\$ 2,649,627	\$ 7,547
Petty Cash	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-	-
Long Term Investments	-	-	-	-	6,872,169	49,459,125	-	175,227
Due to Vendors	-	(9,852)	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 167,159</b>	<b>\$ 7,885,270</b>	<b>\$ 14,754</b>	<b>\$ 9,093</b>	<b>\$ 6,872,169</b>	<b>\$ 57,194,438</b>	<b>\$ 2,649,627</b>	<b>\$ 182,774</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	Veterans Aid Fund 63330	Permanent School Fund 63340	Permanent University Endowment Fund 63350	Agriculture Endowment Fund 65130	Cultural Preservation Endowment Fund 66920	J J Soukup Trust Fund 68910	(See Note 7) Base State Fuels Fund 71210	(See Note 8) Motor Vehicle Fee Fund 71220
<b>REVENUES:</b>								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	1,311,579	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Sales and Charges	-	-	-	-	-	-	-	-
Miscellaneous	277,079	5,186,592	17,582	18,874	63,871	49,192	-	-
<b>TOTAL REVENUES</b>	<b>277,079</b>	<b>6,498,171</b>	<b>17,582</b>	<b>18,874</b>	<b>63,871</b>	<b>49,192</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES:</b>								
Personal Services	-	-	-	-	-	-	-	-
Operating	49,920	483,636	1,370	3,008	9,972	14,000	-	-
Travel	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>49,920</b>	<b>483,636</b>	<b>1,370</b>	<b>3,008</b>	<b>9,972</b>	<b>14,000</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	227,159	6,014,535	16,212	15,866	53,899	35,192	-	-
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	6,764,363	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In	-	4,362,542	-	-	-	-	-	-
Operating Transfers Out	(930,279)	(9,012,689)	(25,483)	(56,050)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(930,279)</b>	<b>2,114,216</b>	<b>(25,483)</b>	<b>(56,050)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	(703,120)	8,128,751	(9,271)	(40,184)	53,899	35,192	-	-
<b>FUND BALANCES, JULY 1, 2002</b>	<b>28,191,142</b>	<b>290,135,681</b>	<b>1,005,690</b>	<b>1,749,214</b>	<b>5,453,505</b>	<b>222,874</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30, 2003</b>	<b>\$ 27,488,022</b>	<b>\$ 298,264,432</b>	<b>\$ 996,419</b>	<b>\$ 1,709,030</b>	<b>\$ 5,507,404</b>	<b>\$ 258,066</b>	<b>\$ -</b>	<b>\$ -</b>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ 362,082	\$ 35,463,005	\$ 253,363	\$ 74,657	\$ -	\$ -	\$ 614	\$ -
Petty Cash	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-	-
Long Term Investments	27,125,940	262,801,427	743,056	1,634,373	5,507,404	258,066	-	-
Due to Vendors	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	(614)	-
Due To Government	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 27,488,022</b>	<b>\$ 298,264,432</b>	<b>\$ 996,419</b>	<b>\$ 1,709,030</b>	<b>\$ 5,507,404</b>	<b>\$ 258,066</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	<i>(See Note 8)</i> Car Line Refund Fund 71630	<i>(See Note 6)</i> IV-D Support Payment Distribution Fund - SDU 72640	<i>(See Note 7 &amp; 8)</i> Insurance Tax Fund 77520	<i>(See Note 7)</i> Aircraft Fuel Tax Fund 77590	<i>(See Note 7)</i> Severance Tax Fund 77610	<i>(See Note 8)</i> Highway Allocation Fund 77640	<b>Total (Memorandum Only)</b>
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,582,855
Taxes	-	-	-	-	-	-	472,916,901
Intergovernmental	-	-	-	-	-	-	31,696,670
Sales and Charges	-	-	-	-	-	-	82,565,586
Miscellaneous	-	-	-	-	-	-	36,728,788
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>646,490,800</b>
EXPENDITURES:							
Personal Services	-	-	-	-	-	-	1,776,640
Operating	-	-	-	-	-	-	32,585,436
Travel	-	-	-	-	-	-	15,262
Capital Outlay	-	-	-	-	-	-	15,134,544
Government Aid	-	-	-	-	-	-	35,593,186
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,105,068</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-	-	-	561,385,732
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	6,764,363
Deposits to General Fund	-	-	-	-	-	-	(163,385,566)
Operating Transfers In	-	-	-	-	-	-	237,418,452
Operating Transfers Out	-	-	-	-	-	-	(671,746,369)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(590,949,120)</b>
Net Change in Fund Balances	-	-	-	-	-	-	(29,563,388)
FUND BALANCES, JULY 1, 2002	-	-	-	-	-	-	507,966,041
FUND BALANCES, JUNE 30, 2003	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 478,402,653</b>
FUND BALANCES CONSIST OF:							
General Cash	\$ -	\$ 3,009,644	\$ 15,442,321	\$ 564	\$ 138,880	\$ 19,255,358	\$ 162,034,078
Petty Cash	-	-	-	-	-	-	1,000
Deposits with Vendors	-	-	-	-	-	-	3,203
Long Term Investments	-	-	-	-	-	-	354,591,175
Due to Vendors	-	-	-	-	-	-	(379,422)
Deposits	-	(3,009,644)	-	-	-	-	(3,009,644)
Due to Fund	-	-	(15,434,530)	(564)	(138,880)	-	(15,574,588)
Due To Government	-	-	(7,791)	-	-	(19,255,358)	(19,263,149)
<b>TOTAL FUND BALANCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 478,402,653</b>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	State General Fund 10000	Cash Reserve Fund 11000	Treasury Management Cash Fund 21180	Convention Center Support Cash Fund 21190	Unclaimed Property Cash Fund 21200	Education Savings Plan Administrative Cash Fund 21240	MIRF Cash Fund 21260
<b>REVENUES:</b>							
Appropriations	\$ 3,139,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	53,449	14,680,435	-	-	-	-	260,000
Intergovernmental	-	29,095,931	-	-	-	-	-
Sales and Charges	2,934,105	-	223,021	-	-	101,113	-
Miscellaneous	4,336,667	-	974	-	5,379	643	10,096
<b>TOTAL REVENUES</b>	<b>10,463,331</b>	<b>43,776,366</b>	<b>223,995</b>	<b>-</b>	<b>5,379</b>	<b>101,756</b>	<b>270,096</b>
<b>EXPENDITURES:</b>							
Personal Services	250,198	-	107,765	-	72,067	20,792	-
Operating	158,363	-	28,781	-	23,774	46,454	-
Travel	456	-	118	-	2,129	1,395	-
Capital Outlay	178,971	-	14,010	-	46,298	211	-
Government Aid	2,551,122	-	-	-	-	-	260,000
<b>TOTAL EXPENDITURES</b>	<b>3,139,110</b>	<b>-</b>	<b>150,674</b>	<b>-</b>	<b>144,268</b>	<b>68,852</b>	<b>260,000</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,324,221	43,776,366	73,321	-	(138,889)	32,904	10,096
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	9,312,924	-	-	-	-	-	-
Operating Transfers In	52,435,034	60,633,624	100,000	-	357,278	14,754	-
Operating Transfers Out	(69,072,179)	(30,755,807)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(7,324,221)</b>	<b>29,877,817</b>	<b>100,000</b>	<b>-</b>	<b>357,278</b>	<b>14,754</b>	<b>-</b>
Net Change in Fund Balances	-	73,654,183	173,321	-	218,389	47,658	10,096
FUND BALANCES, JULY 1, 2003	2,132	59,142,545	-	14,404	4,755	2,814	251,981
FUND BALANCES, JANUARY 6, 2004	<b>\$ 2,132</b>	<b>\$ 132,796,728</b>	<b>\$ 173,321</b>	<b>\$ 14,404</b>	<b>\$ 223,144</b>	<b>\$ 50,472</b>	<b>\$ 262,077</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ -	\$ 132,796,728	\$ 173,412	\$ 14,404	\$ 221,077	\$ 66,465	\$ 262,077
Petty Cash	1,000	-	-	-	-	-	-
Deposits with Vendors	1,132	-	-	-	2,071	-	-
Long Term Investments	-	-	-	-	-	-	-
Accounts Receivable - Invoiced	-	-	-	-	-	-	-
Due to Vendors	-	-	(91)	-	(4)	(15,993)	-
Deposits	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,132</b>	<b>\$ 132,796,728</b>	<b>\$ 173,321</b>	<b>\$ 14,404</b>	<b>\$ 223,144</b>	<b>\$ 50,472</b>	<b>\$ 262,077</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	Treasurer Administrative Cash Fund 21270	Spirit Plate Proceeds Cash Fund 21280	Mutual Finance Assistance Cash Fund 21290	State General Construction Fund 33000	Capital Construction Fund 38000	Federal Fund 40000	Life Insurance Demutualization Fund 61210
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	799,903	-
Sales and Charges	9,575	144,235	-	-	-	-	-
Miscellaneous	118	27,248	8,712	76,641	29,091	-	2,128,302
<b>TOTAL REVENUES</b>	<b>9,693</b>	<b>171,483</b>	<b>8,712</b>	<b>76,641</b>	<b>29,091</b>	<b>799,903</b>	<b>2,128,302</b>
<b>EXPENDITURES:</b>							
Personal Services	-	-	-	-	-	410,956	-
Operating	-	-	-	6,646,246	128,784	303,221	-
Travel	-	-	-	500	384	729	-
Capital Outlay	-	-	-	2,530,304	1,637,372	84,997	-
Government Aid	-	-	1,825,000	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>1,825,000</b>	<b>9,177,050</b>	<b>1,766,540</b>	<b>799,903</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,693	171,483	(1,816,288)	(9,100,409)	(1,737,449)	-	2,128,302
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Operating Transfers In	-	-	1,825,000	8,850,000	755,807	-	-
Operating Transfers Out	(15,131)	-	(2,719,339)	-	-	-	(300,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(15,131)</b>	<b>-</b>	<b>(894,339)</b>	<b>8,850,000</b>	<b>755,807</b>	<b>-</b>	<b>(300,000)</b>
Net Change in Fund Balances	(5,438)	171,483	(2,710,627)	(250,409)	(981,642)	-	1,828,302
FUND BALANCES, JULY 1, 2003	9,949	1,166,127	2,719,339	459,329	1,799,647	-	-
FUND BALANCES, JANUARY 6, 2004	<b>\$ 4,511</b>	<b>\$ 1,337,610</b>	<b>\$ 8,712</b>	<b>\$ 208,920</b>	<b>\$ 818,005</b>	<b>\$ -</b>	<b>\$ 1,828,302</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 4,269	\$ 1,337,610	\$ 8,712	\$ 600,792	\$ 818,220	\$ -	\$ 1,828,302
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-	-
Accounts Receivable - Invoiced	242	-	-	-	-	-	-
Due to Vendors	-	-	-	(391,872)	(215)	-	-
Deposits	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 4,511</b>	<b>\$ 1,337,610</b>	<b>\$ 8,712</b>	<b>\$ 208,920</b>	<b>\$ 818,005</b>	<b>\$ -</b>	<b>\$ 1,828,302</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	Financial Responsibility Trust Fund 61220	(See Note 7) Highway Trust Fund 61240	Highway Tax Trust Fund 61250	Bessey Memorial Trust Fund 61260	Common School Fund 61270	Escheat Trust Fund 61280	College Savings Endowment Fund 61290
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	236,190,597	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Sales and Charges	-	21,855,054	1,854,010	-	-	-	-
Miscellaneous	-	320,881	19,440	1,030	17,354	9,460,767	78
<b>TOTAL REVENUES</b>	<b>-</b>	<b>258,366,532</b>	<b>1,873,450</b>	<b>1,030</b>	<b>17,354</b>	<b>9,460,767</b>	<b>78</b>
<b>EXPENDITURES:</b>							
Personal Services	-	-	-	-	-	-	-
Operating	-	-	-	13	-	3,983,005	-
Travel	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Government Aid	-	-	4,274,834	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>4,274,834</b>	<b>13</b>	<b>-</b>	<b>3,983,005</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	258,366,532	(2,401,384)	1,017	17,354	5,477,762	78
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Operating Transfers In	-	2,319,226	-	-	-	-	-
Operating Transfers Out	-	(261,742,637)	-	(201)	-	(3,306,306)	(14,754)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(259,423,411)</b>	<b>-</b>	<b>(201)</b>	<b>-</b>	<b>(3,306,306)</b>	<b>(14,754)</b>
Net Change in Fund Balances	-	(1,056,879)	(2,401,384)	816	17,354	2,171,456	(14,676)
FUND BALANCES, JULY 1, 2003	15	1,214,074	2,401,384	15,501	167,159	7,885,270	14,754
FUND BALANCES, JANUARY 6, 2004	\$ 15	\$ 157,195	\$ -	\$ 16,317	\$ 184,513	\$ 10,056,726	\$ 78
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 15	\$ 186,387	\$ -	\$ 1,138	\$ 184,513	\$ 10,167,860	\$ 78
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Long Term Investments	-	-	-	15,179	-	-	-
Accounts Receivable - Invoiced	-	-	-	-	-	-	-
Due to Vendors	-	(29,192)	-	-	-	(111,134)	-
Deposits	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 15</b>	<b>\$ 157,195</b>	<b>\$ -</b>	<b>\$ 16,317</b>	<b>\$ 184,513</b>	<b>\$ 10,056,726</b>	<b>\$ 78</b>

The accompanying notes are an integral part of the schedule.

(Continued)



NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	J M Amos Education Trust Fund 61300	Aeronautics Trust Fund 61700	Excess Liability Fund 62220	Motor Fuel Trust Fund 62460	Normal School Endowment Fund 63280	Veterans Aid Fund 63330	Permanent School Fund 63340
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	809,373
Intergovernmental	-	-	-	-	-	-	-
Sales and Charges	-	-	7,704,244	-	-	-	-
Miscellaneous	205	(166,391)	27,757	59,586	12,406	1,902,436	20,146,800
<b>TOTAL REVENUES</b>	<b>205</b>	<b>(166,391)</b>	<b>7,732,001</b>	<b>59,586</b>	<b>12,406</b>	<b>1,902,436</b>	<b>20,956,173</b>
<b>EXPENDITURES:</b>							
Personal Services	-	-	-	-	-	-	-
Operating	-	441	6,669,493	-	154	23,869	231,338
Travel	-	-	-	-	-	-	44
Capital Outlay	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>441</b>	<b>6,669,493</b>	<b>-</b>	<b>154</b>	<b>23,869</b>	<b>231,382</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	205	(166,832)	1,062,508	59,586	12,252	1,878,567	20,724,791
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	2,503,282
Deposits to General Fund	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	2,949,028
Operating Transfers Out	-	(167,869)	-	-	(2,444)	(378,281)	(3,664,863)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(167,869)</b>	<b>-</b>	<b>-</b>	<b>(2,444)</b>	<b>(378,281)</b>	<b>1,787,447</b>
Net Change in Fund Balances	205	(334,701)	1,062,508	59,586	9,808	1,500,286	22,512,238
<b>FUND BALANCES, JULY 1, 2003</b>	<b>9,093</b>	<b>6,872,169</b>	<b>57,194,438</b>	<b>2,649,627</b>	<b>182,774</b>	<b>27,488,022</b>	<b>298,264,432</b>
<b>FUND BALANCES, JANUARY 6, 2004</b>	<b>\$ 9,298</b>	<b>\$ 6,537,468</b>	<b>\$ 58,256,946</b>	<b>\$ 2,709,213</b>	<b>\$ 192,582</b>	<b>\$ 28,988,308</b>	<b>\$ 320,776,670</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 9,298	\$ -	\$ 9,987,456	\$ 2,709,213	\$ 7,717	\$ 370,409	\$ 43,520,857
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Long Term Investments	-	6,537,468	48,283,837	-	184,865	28,617,899	277,255,816
Accounts Receivable - Invoiced	-	-	-	-	-	-	-
Due to Vendors	-	-	(14,347)	-	-	-	(3)
Deposits	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-
Due To Government	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 9,298</b>	<b>\$ 6,537,468</b>	<b>\$ 58,256,946</b>	<b>\$ 2,709,213</b>	<b>\$ 192,582</b>	<b>\$ 28,988,308</b>	<b>\$ 320,776,670</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	Permanent University Endowment Fund 63350	Agriculture Endowment Fund 65130	Cultural Preservation Endowment Fund 66920	J J Soukup Trust Fund 68910	<i>(See Note 7)</i> Base State Fuels Fund 71210	<i>(See Note 8)</i> Motor Vehicle Fee Fund 71220	<i>(See Note 8)</i> Car Line Refund Fund 71630
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Sales and Charges	-	-	-	-	-	-	-
Miscellaneous	57,588	115,813	387,139	(9,364)	-	-	-
<b>TOTAL REVENUES</b>	<b>57,588</b>	<b>115,813</b>	<b>387,139</b>	<b>(9,364)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES:</b>							
Personal Services	-	-	-	-	-	-	-
Operating	654	1,438	4,813	7,105	-	-	-
Travel	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>654</b>	<b>1,438</b>	<b>4,813</b>	<b>7,105</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	56,934	114,375	382,326	(16,469)	-	-	-
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	(10,362)	(22,792)	(347,495)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(10,362)</b>	<b>(22,792)</b>	<b>(347,495)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	46,572	91,583	34,831	(16,469)	-	-	-
FUND BALANCES, JULY 1, 2003	996,419	1,709,030	5,507,404	258,066	-	-	-
<b>FUND BALANCES, JANUARY 6, 2004</b>	<b>\$ 1,042,991</b>	<b>\$ 1,800,613</b>	<b>\$ 5,542,235</b>	<b>\$ 241,597</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 259,066	\$ 76,347	\$ -	\$ -	\$ 614	\$ 26,734	\$ -
Petty Cash	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-	-
Long Term Investments	783,925	1,724,266	5,542,235	241,597	-	-	-
Accounts Receivable - Invoiced	-	-	-	-	-	-	-
Due to Vendors	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	(614)	-	-
Due To Government	-	-	-	-	-	(26,734)	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 1,042,991</b>	<b>\$ 1,800,613</b>	<b>\$ 5,542,235</b>	<b>\$ 241,597</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE TREASURER  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Period July 1, 2003 through January 6, 2004

	(See Note 6) IV-D Support Payment Distribution Fund - SDU 72640	(See Note 7 & 8) Insurance Tax Fund 77520	(See Note 7) Aircraft Fuel Tax Fund 77590	(See Note 7) Severance Tax Fund 77610	(See Note 8) Highway Allocation Fund 77640	<b>Total (Memorandum Only)</b>
<b>REVENUES:</b>						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,139,110
Taxes	-	-	-	-	-	251,993,854
Intergovernmental	-	-	-	-	-	29,895,834
Sales and Charges	-	-	-	-	-	34,825,357
Miscellaneous	-	-	-	-	-	38,977,396
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>358,831,551</b>
<b>EXPENDITURES:</b>						
Personal Services	-	-	-	-	-	861,778
Operating	-	-	-	-	-	18,257,946
Travel	-	-	-	-	-	5,755
Capital Outlay	-	-	-	-	-	4,492,163
Government Aid	-	-	-	-	-	8,910,956
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,528,598</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-	-	326,302,953
<b>OTHER FINANCING SOURCES (USES):</b>						
Sales of Assets	-	-	-	-	-	2,503,282
Deposits to General Fund	-	-	-	-	-	9,312,924
Operating Transfers In	-	-	-	-	-	130,239,751
Operating Transfers Out	-	-	-	-	-	(372,520,460)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(230,464,503)</b>
Net Change in Fund Balances	-	-	-	-	-	95,838,450
FUND BALANCES, JULY 1, 2003	-	-	-	-	-	478,402,653
FUND BALANCES, JANUARY 6, 2004	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 574,241,103</b>
<b>FUND BALANCES CONSIST OF:</b>						
General Cash	\$ 2,405,391	\$ 407,367	\$ -	\$ 8,436	\$ 18,453,296	\$ 226,914,260
Petty Cash	-	-	-	-	-	1,000
Deposits with Vendors	-	-	-	-	-	3,203
Long Term Investments	-	-	-	-	-	369,187,087
Accounts Receivable - Invoiced	-	-	-	-	-	242
Due to Vendors	-	-	-	-	-	(562,851)
Deposits	(2,405,391)	-	-	-	-	(2,405,391)
Due to Fund	-	(366,630)	-	(8,436)	-	(375,680)
Due To Government	-	(40,737)	-	-	(18,453,296)	(18,520,767)
<b>TOTAL FUND BALANCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 574,241,103</b>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA STATE TREASURER  
**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**STATEMENT OF ASSETS AND LIABILITIES**

As of December 31, 2002

	College Savings Plan of Nebraska	TD Waterhouse 529 College Savings Plan	AIM College Savings Plan	Total
<b>Assets:</b>				
Investments in Underlying Funds, at Value	\$ 160,918,403	\$ 22,355,128	\$ 55,499,978	\$ 238,773,509
Cash and Cash Equivalents	22,858,155	3,850,480	-	26,708,635
Receivables for:				
Investments Sold	-	-	103,268	103,268
Portfolio Shares Sold	-	-	320,872	320,872
Dividends	861	132	26,859	27,852
Other Assets	-	-	2,720	2,720
<b>Total Assets</b>	<b>183,777,419</b>	<b>26,205,740</b>	<b>55,953,697</b>	<b>265,936,856</b>
<b>Liabilities:</b>				
Accrued Expenses	97,105	14,468	102,523	214,096
Payables for:				
Investments Purchased	-	-	347,752	347,752
Portfolio Shares Required	-	-	500	500
Commissions Payable for Fund Units Sold	85,780	17	-	85,797
<b>Total Liabilities</b>	<b>182,885</b>	<b>14,485</b>	<b>450,775</b>	<b>648,145</b>
<b>Net Assets</b>	<b>\$ 183,594,534</b>	<b>\$ 26,191,255</b>	<b>\$ 55,502,922</b>	<b>\$ 265,288,711</b>

See Independent Accountant's Report and accompanying Notes to the Financial Statements.

NEBRASKA STATE TREASURER  
**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**STATEMENT OF OPERATIONS**  
For the Year Ended December 31, 2002

	College Savings Plan of Nebraska	TD Waterhouse 529 College Savings Plan	AIM College Savings Plan	Total
Investment Income:				
Dividends and Mutual Fund Distributions	\$ 2,775,674	\$ 295,378	\$ 318,594	\$ 3,389,646
Total Investment Income	<u>2,775,674</u>	<u>295,378</u>	<u>318,594</u>	<u>3,389,646</u>
Expenses				
Administrative Services Fees	30,696	26,322	245,966	302,984
Management Fees	668,750	54,836	-	723,586
12b-1 Fees	88,331	30	-	88,361
TDW Management Fees	-	10,515	-	10,515
Total Expenses	<u>787,777</u>	<u>91,703</u>	<u>245,966</u>	<u>1,125,446</u>
Less: Fee Waivers	-	-	(192)	(192)
Net Expenses	<u>787,777</u>	<u>91,703</u>	<u>245,774</u>	<u>1,125,254</u>
Net Investment Income	<u>1,987,897</u>	<u>203,675</u>	<u>72,820</u>	<u>2,264,392</u>
Realized and Unrealized Gain (Loss) on Investments				
Net Realized Gain (loss)	(11,174,586)	(994,028)	(375,598)	(12,544,212)
Realized Gain Distributions	-	-	7	7
Net Realized Gain (Loss)	<u>(11,174,586)</u>	<u>(994,028)</u>	<u>(375,591)</u>	<u>(12,544,205)</u>
Net Unrealized Appreciation (depreciation)	<u>(4,090,112)</u>	<u>(430,175)</u>	<u>(5,753,912)</u>	<u>(10,274,199)</u>
Net Gain (Loss) on Investments	<u>(15,264,698)</u>	<u>(1,424,203)</u>	<u>(6,129,503)</u>	<u>(22,818,404)</u>
Net Increase (Decrease) in Net Assets	<u>\$ (13,276,801)</u>	<u>\$ (1,220,528)</u>	<u>\$ (6,056,683)</u>	<u>\$ (20,554,012)</u>

See Independent Accountant's Report and accompanying Notes to the Financial Statements.

NEBRASKA STATE TREASURER  
**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**STATEMENT OF CHANGES IN NET ASSETS**  
For the Year Ended December 31, 2002

	College Savings Plan of Nebraska	TD Waterhouse 529 College Savings Plan	AIM College Savings Plan	Total
Operations:				
Net Investment Income	\$ 1,987,896	\$ 203,675	\$ 72,820	\$ 2,264,391
Net Realized Gain (Loss) on Investments	(11,174,586)	(994,028)	(375,591)	(12,544,205)
Unrealized Appreciation (Depreciation)	(4,090,112)	(430,175)	(5,753,912)	(10,274,199)
Net Increase (Decrease) in Net Assets Resulting from Operations	<u>(13,276,802)</u>	<u>(1,220,528)</u>	<u>(6,056,683)</u>	<u>(20,554,013)</u>
Capital Share Transactions				
Proceeds from Sales	170,924,541	28,845,904	-	199,770,445
Payment for Redemptions	(17,067,255)	(1,434,121)	-	(18,501,376)
Distributions to Shareholders from Net Investment Income	-	-	(40)	(40)
Share Transactions - Net	-	-	57,811,756	57,811,756
Total Increase from Unit Transactions	<u>153,857,286</u>	<u>27,411,783</u>	<u>57,811,716</u>	<u>239,080,785</u>
Total Increase in Net Assets	140,580,484	26,191,255	51,755,033	218,526,772
Net Assets:				
Beginning of Period	<u>43,014,050</u>	<u>-</u>	<u>3,747,889</u>	<u>46,761,939</u>
End of Period	<u>\$ 183,594,534</u>	<u>\$ 26,191,255</u>	<u>\$ 55,502,922</u>	<u>\$ 265,288,711</u>

See Independent Accountant's Report and accompanying Notes to the Financial Statements.

# NEBRASKA STATE TREASURER

## NOTES TO THE SCHEDULES

For the Fiscal Year Ended June 30, 2003 and  
For the Period July 1, 2003 through January 6, 2004

### 1. Criteria

The accounting policies of the Nebraska State Treasurer are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Treasurer was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 and January 6, 2004 includes only those payables posted to NIS before June 30, 2003 and January 6, 2004 and not yet paid as of those dates. The amounts recorded as expenditures as of June 30, 2003, and January 6, 2004 **do not** include amounts for goods and services received before June 30, 2003 and January 6, 2004, which had not been posted to NIS as of June 30, 2003 and January 6, 2004.

NIS also records other liabilities (primarily in the Distributive Fund type) in accounts titled Deposits, Due to Fund, and Due to Government. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information on the activity recorded to those accounts for the fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004, and the ending balances as of June 30, 2003 and January 6, 2004, see Notes 6, 7, and 8.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

1. **Criteria** (Continued)

The Treasurer had no accounts receivable at June 30, 2003 and had accounts receivable included in revenues of \$242 at January 6, 2004. The Treasurer had accounts payable for services received but not yet paid of \$379,422 at June 30, 2003 and \$562,851 at January 6, 2004 included in expenditures. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Treasurer are:

**10000 – General Fund** – accounts for all financial resources not required to be accounted for in another fund.

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

**30000 – Construction Funds** – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

**40000 – Federal Funds** – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

**60000 – Trust Funds** – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

**70000 – Distributive Funds** – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

The major revenue object account codes established by NIS used by the Treasurer are:

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

**Taxes** – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit.

**Intergovernmental** – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.



NEBRASKA STATE TREASURER

**NOTES TO THE SCHEDULES**

(Continued)

1. **Criteria** (Continued)

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

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Treasurer are:

**Personal Services** – Salaries, wages, and related employee benefits provided for all persons employed by the Treasurer.

**Operating** – Expenditures directly related to a program’s primary service activities.

**Travel** – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

**Capital Outlay** – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

**Government Aid** – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Treasurer include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long term investments. Accounts receivable are recorded as an increase to revenues and an increase to fund balances on the schedules. General cash represents the cash balance of a fund as reflected on NIS. The long term investments reported by the Treasurer is reported in the “Common” funds. Common funds are funds in which more than one agency can record transactions. The long term investment portion of the fund balances are the responsibility of other State agencies. All Governmental Accounting Standards Board (GASB) Statement 3 disclosures for long term investments will be made in those other State agencies examination reports. For more information on Common funds see Note 11.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balances. Other liabilities recorded on NIS for

NEBRASKA STATE TREASURER

**NOTES TO THE SCHEDULES**

(Continued)

**1. Criteria** (Concluded)

the Treasurer's funds at June 30, 2003 and at January 6, 2004 include Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts. The activity process on NIS through these accounts is summarized in Notes 6, 7, and 8.

**Other Financing Sources** – Operating transfers, and proceeds of fixed asset dispositions.

**2. State Agency**

The Nebraska State Treasurer (Treasurer) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Treasurer is exempt from State and Federal income taxes. The schedule includes all funds of the Treasurer.

The Nebraska State Treasurer is part of the primary government for the State of Nebraska.

**3. Beginning Balance**

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting, except certain liability transactions were recorded to accounts titled Deposits, Due to Fund and Due to Government. Therefore, the beginning fund balances at July 1, 2002 do not include accounts receivables or accounts payable, but do include the liability accounts noted above that were recorded on NAS. Thus, the July 1, 2002 beginning fund balance, when a fund had recorded one or more of the liability accounts noted above, does NOT represent the cash fund balance. For further information on the funds that include one or more of the liability accounts in the beginning fund balance see Notes 6, 7, and 8.

**4. 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.

**5. Capital Assets**

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures in governmental funds. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks,

NEBRASKA STATE TREASURER

**NOTES TO THE SCHEDULES**

(Continued)

**5. Capital Assets (Concluded)**

and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). Depreciation expenses would be reported in the CAFR for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized. The Treasurer had a capitalization policy to capitalize all assets costing \$1,000 or more. However, the figures below include many items below this amount including a practice of capitalizing items and maintaining items on the capital asset records, which have a higher risk of theft such as computers, monitors, and printers.

Capital asset activity of the Treasurer for the fiscal year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>			<u>Ending Balance</u>
	July 1, 2002	<u>Increases</u>	<u>Decreases</u>	June 30, 2003
Capital Assets, Equipment	\$ 807,248	\$ 172,628	\$ -	\$ 979,876

Capital asset activity of the Treasurer for the period July 1, 2003 through January 6, 2004 was as follows:

	<u>Beginning Balance</u>			<u>Ending Balance</u>
	July 1, 2003	<u>Increases</u>	<u>Decreases</u>	January 6, 2004
Capital Assets, Equipment	\$ 979,876	\$ 629,059	\$ -	\$ 1,608,935

**6. Changes in Deposits**

For the Fiscal Year Ending June 30, 2003

<u>Fund</u>	<u>Balance July 1, 2002</u>	<u>In</u>	<u>Out</u>	<u>Balance June 30, 2003</u>
IV-D Support Payment Distribution Fund – SDU 72640	\$ 158,568	\$232,615,807	\$229,764,731	\$ 3,009,644

For the Period Ending July 1, 2003 through January 6, 2004

<u>Fund</u>	<u>Balance July 1, 2003</u>	<u>In</u>	<u>Out</u>	<u>Balance January 6, 2004</u>
IV-D Support Payment Distribution Fund – SDU 72640	\$ 3,009,644	\$123,190,915	\$123,795,168	\$ 2,405,391

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

**7. Changes in Due to Fund**

For the Fiscal Year Ending June 30, 2003

Fund	Balance July 1, 2002	In	Out	Balance June 30, 2003
Base State Fuels Fund 71210	\$ 597	\$ 17	\$ -	\$ 614
Insurance Tax Fund 77520	14,571,145	22,996,981	22,133,596	15,434,530
Aircraft Fuel Tax Fund 77590	-	2,036,855	2,036,291	564
Severance Tax Fund 77610	-	1,953,617	1,814,737	138,880

For the Period July 1, 2003 thorough January 6, 2004

Fund	Balance July 1, 2003	In	Out	Balance January 6, 2004
Base State Fuels Fund 71210	\$ 614	\$ -	\$ -	\$ 614
Highway Trust Fund 61240	-	83,404,425	83,404,425	-
Insurance Tax Fund 77520	15,434,530	296,509	15,364,409	366,630
Aircraft Fuel Tax Fund 77590	564	1,229,624	1,230,188	-
Severance Tax Fund 77610	138,880	893,765	1,024,210	8,435

**8. Changes in Due to Government**

For the Fiscal Year Ending June 30, 2003

Fund	Balance July 1, 2002	In	Out	Balance June 30, 2003
Motor Vehicle Fee Fund 71220	\$ -	\$ 15,632,770	\$ 15,632,770	\$ -
Car Line Refund Fund 71630	-	5,349,901	5,349,901	-
Insurance Tax Fund 77520	-	2,568,526	2,560,735	7,791
Highway Allocation Fund 77640	19,417,665	218,129,535	218,291,842	19,255,358

For the Period July 1, 2003 through January 6, 2004

Fund	Balance July 1, 2003	In	Out	Balance January 6, 2004
Motor Vehicle Fee Fund 71220	\$ -	\$ 7,639,578	\$ 7,612,844	\$ 26,734
Car Line Refund Fund 71630	-	1,851,599	1,851,599	-
Insurance Tax Fund 77520	7,791	32,946	-	40,737
Highway Allocation Fund 77640	19,255,358	118,001,664	118,803,726	18,453,296

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

9. Transfers

For the Fiscal Year Ending June 30, 2003

Fund	Transfer In	Transfer Out
General Fund	\$ 180,445,123	\$ 33,963,553
Cash Reserve Fund	15,130,682	117,400,000
Convention Center Support Fund	794,314	238,294
Unclaimed Property Cash Fund	328,735	-
Treasurer Administrative Cash Fund	-	17,862
Mutual Finance Assistance Cash Fund	1,896,708	16,195
State General Construction Fund	27,790,000	-
Capital Construction Fund	3,894,200	-
Highway Trust Fund	2,449,879	504,414,324
Bessey Memorial Trust Fund	-	493
Common School Fund	61,730	-
Escheat Trust Fund	-	4,691,277
Aeronautics Trust Fund	-	449,999
Motor Fuel Trust Fund	264,539	523,862
Normal School Endowment Fund	-	6,009
Veterans Aid Fund	-	930,279
Permanent School Fund	4,362,542	9,012,689
Permanent University Endowment Fund	-	25,483
Agriculture Endowment Fund	-	56,050
Total for the Fiscal Year Ended June 30, 2003	\$ 237,418,452	\$ 671,746,369

For the Period July 1, 2003 through January 6, 2004

Fund	Transfer In	Transfer Out
General Fund	\$ 52,435,034	\$ 69,072,179
Cash Reserve Fund	60,633,624	30,755,807
Treasury Management Cash Fund	100,000	-
Unclaimed Property Cash Fund	357,278	-
Education Savings Plan Administrative Cash Fund	14,754	-
Treasurer Administrative Cash Fund	-	15,131
Mutual Finance Assistance Cash Fund	1,825,000	2,719,339
State General Construction Fund	8,850,000	-
Capital Construction Fund	755,807	-

NEBRASKA STATE TREASURER

**NOTES TO THE SCHEDULES**

(Continued)

**9. Transfers** (Concluded)

Fund	Transfer In	Transfer Out
Life Insurance Demutualization Fund	-	300,000
Highway Trust Fund	2,319,226	261,742,637
Bessey Memorial Trust Fund	-	201
Escheat Trust Fund	-	3,306,306
College Savings Endowment Fund	-	14,754
Aeronautics Trust Fund	-	167,869
Normal School Endowment Fund	-	2,444
Veterans Aid Fund	-	378,281
Permanent School Fund	2,949,028	3,664,863
Permanent University Endowment Fund	-	10,362
Agriculture Endowment Fund	-	22,792
Cultural Preservation Endowment Fund	-	347,495
Total for the Period July 1, 2003 through January 6, 2004	<u>\$ 130,239,751</u>	<u>\$ 372,520,460</u>

The Highway Trust Fund transfers include monthly transfers from the Ethanol Board, allocation of the tax and fee collections to the Department of Roads, municipalities, and counties, and other miscellaneous transfers. The Permanent School Fund transfers include Unclaimed Property receipts, fund earnings from the Escheat Trust Fund transferred to the Department of Education and other miscellaneous transfers. All other funds are due to various statutory and legislative mandated transfers.

**10. 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 examination in the examination of the State Treasurer’s office:

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

10. Funds and Activity of the State Treasurer (Continued)

For the Fiscal Year Ended June 30, 2003

	Highway Trust Fund 61240	Permanent School Fund 63340	Excess Liability Fund 62220	Other Funds	Total of All Funds
<b>REVENUES:</b>					
Taxes	\$441,728,983	\$ 1,311,579	\$ -	\$ 4,500,000	\$447,540,562
Sales and Charges	18,739,567	-	8,075,649	7,740,022	34,555,238
Miscellaneous	138,351	23,939,871	2,143,143	2,736,614	28,957,979
<b>TOTAL REVENUES</b>	<u>\$460,606,901</u>	<u>\$ 25,251,450</u>	<u>\$ 10,218,792</u>	<u>\$ 14,976,636</u>	<u>\$511,053,779</u>
<b>EXPENDITURES:</b>					
Operating	\$ -	\$ 180,545	\$ 8,034,541	\$ 15,219,656	\$ 23,434,742
Travel	-	-	-	416	416
Capital Outlay	-	-	-	14,611,178	14,611,178
Government Aid	-	-	-	27,200	27,200
<b>TOTAL EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 180,545</u>	<u>\$ 8,034,541</u>	<u>\$ 29,858,450</u>	<u>\$ 38,073,536</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	\$ -	\$ 6,764,363	\$ -	\$ -	\$ 6,764,363
Operating Transfers In	-	4,362,542	-	-	4,362,542
Operating Transfers Out	-	-	-	(35,102)	(35,102)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ 11,126,905</u>	<u>\$ -</u>	<u>\$ (35,102)</u>	<u>\$ 11,091,803</u>
<b>LIABILITY ACCOUNTS:</b>					
Due to Fund	\$ -	\$ -	\$ -	\$ 3,530,686	\$ 3,530,686
Due to Government	-	-	-	10,822,175	10,822,175
<b>TOTAL LIABILITY ACCOUNTS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,352,861</u>	<u>\$ 14,352,861</u>

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

**10. Funds and Activity of the State Treasurer** (Concluded)

For the Period July 1, 2003 through January 6, 2004

	Highway Trust Fund 61240	Permanent School Fund 63340	Excess Liability Fund 62220	Other Funds	Total of All Funds
<b>REVENUES:</b>					
Taxes	\$236,190,597	\$ 809,373	\$ -	\$ -	\$236,999,970
Sales and Charges	4,514,824	-	7,704,244	1,854,010	14,073,078
Miscellaneous	95,758	20,129,708	(175,361)	1,900,999	21,951,104
<b>TOTAL REVENUES</b>	<u>\$240,801,179</u>	<u>\$ 20,939,081</u>	<u>\$ 7,528,883</u>	<u>\$ 3,755,009</u>	<u>\$273,024,152</u>
<b>EXPENDITURES:</b>					
Operating	\$ -	\$ 231,338	\$ 6,608,514	\$ 6,800,148	\$ 13,640,000
Travel	-	44	-	884	928
Capital Outlay	-	-	-	4,167,676	4,167,676
<b>TOTAL EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 231,382</u>	<u>\$ 6,608,514</u>	<u>\$ 10,968,708</u>	<u>\$ 17,808,604</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	\$ -	\$ 2,503,282	\$ -	\$ -	\$ 2,503,282
Operating Transfers In	-	-	-	1,825,000	1,825,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ 2,503,282</u>	<u>\$ -</u>	<u>\$ 1,825,000</u>	<u>\$ 4,328,282</u>
<b>LIABILITY ACCOUNTS:</b>					
Due to Fund	\$ -	\$ -	\$ -	\$ 1,648,842	\$ 1,648,842
Due to Government	-	-	-	(15,364,409)	(15,364,409)
<b>TOTAL LIABILITY ACCOUNTS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,715,567)</u>	<u>\$ (13,715,567)</u>

Also, the long-term investment balances of \$348,825,705 for the fiscal year ending June 30, 2003 and \$369,187,087 for the period July 1, 2003 through January 6, 2004 were not subject to testing in this examination.

**11. Change in Funds Reported**

The Treasurer's fiscal year ended June 30, 2002 audit report included three pension trust funds (Judges Retirement Fund, Patrol Retirement Fund, and School Retirement Fund) as they were considered "Common" funds under NAS. (For explanation of Common funds see Note 10 above). For fiscal year ended June 30, 2003 and for the period July 1, 2003 through January 6, 2004 these funds are no longer considered Common funds with the Treasurer's office and under NIS are reported only as Public Employees Retirement System funds.



NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

12. Financial Statement Adjustments

The following are the adjustments made to amounts recorded on the State accounting system (NIS) as shown in the financial schedule for the fiscal year ended June 30, 2003 and for the period July 1, 2002 through January 6, 2004:

For the Fiscal Year Ended June 30, 2003

Fund	Amounts Recorded on NIS		Adjusted Amounts on Financial Schedule	
	Major Account	Amount	Major Account	Amount
State General Fund 10000	Transfer Out	\$ 2,056,208	Transfer Out	\$ -
	Deposits to General Fund	\$ (2,056,208)	Deposits to General Fund	\$ -
	Taxes	\$ (1,152,776)	Taxes	\$ -
	Deposits to General Fund	\$ 1,152,776	Deposits to General Fund	\$ -
Mutual Finance Assistance Cash Fund 21290	Due to Fund (Balance)	\$ (1,700,737)	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ (195,971)	Due to Gov't (Balance)	\$ -
	Transfers In	\$ -	Transfers In	\$ 1,896,708
Highway Trust Fund 61240	Transfer In	\$ 75,242,470	Transfer In	\$ 2,449,879
	Transfer Out	\$ (577,206,915)	Transfer Out	\$ (504,414,324)
Motor Vehicle Fee Fund 71220	Tax Refund Payable (Balance)	\$ (5,701)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ 445,346	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ (451,047)	Due to Gov't (Balance)	\$ -
Car Line Refund Fund 71630	Government Aid (In)	\$ 3,293,694	Due to Government (In)	\$ 3,293,694
	Government Aid (Out)	(3,293,694)	Due to Government (Out)	\$ (3,293,694)
IV-D Support Payment Distribution Fund – SDU 72640	Deposits (In)	\$ 233,112,202	Deposits (In)	\$ 232,774,375
	Deposits (Out)	\$ (230,198,255)	Deposits (Out)	\$ (229,764,731)
	General Cash (Balance)	\$ 3,447,532	General Cash (Balance)	\$ 3,009,644
	Deposits (Balance)	\$ (3,453,236)	Deposits (Balance)	\$ (3,009,644)
	Due to Fund (Balance)	\$ (3,325)	Due to Fund (Balance)	\$ -
Insurance Tax Fund 77520	Government Aid	\$ (10,242,940)	Government Aid	\$ -
	Due to Gov't (Out)	\$ (24,609,417)	Due to Gov't (Out)	\$ (24,693,327)
	Transfer In	\$ 10,159,030	Transfer In	\$ -
	Due to Gov't (Balance)	\$ (5,383,275)	Due to Gov't (Balance)	\$ (7,791)
	Tax Refund Payable (Balance)	\$ (13,017,774)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ 2,874,818	Due to Fund (Balance)	\$ (15,434,530)

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

12. **Financial Statement Adjustments** (Continued)

Fund	Amounts Recorded on NIS		Adjusted Amounts on Financial Schedule	
	Major Account	Amount	Major Account	Amount
	Due to Vendors (Balance)	\$ (122,484)	Due to Gov't (Balance)	\$ (122,484)
Highway Allocation Fund 77640	Tax Refund Payable (Balance)	\$ (8,007)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ (2,923,937)	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ (16,323,414)	Due to Gov't (Balance)	\$ (19,255,358)

Description of Adjustments

State General Fund 10000: To eliminate duplicate activity and reclassify activity to another agency.

Mutual Finance Assistance Cash Fund 21290: To reclassify Due to Fund and Due to Gov't to Transfer In.

Highway Trust Fund 61240: To eliminate duplicate activity.

Motor Vehicle Fee Fund 71220: To correct Tax Refund Payable, Due to Fund, and Due to Gov't.

Car Line Refund Fund 71630: To show true ins and outs of the distributive fund.

IV-D Support Payment Distribution Fund – SDU 72640: To record activity from bad debt.

Insurance Tax Fund 77520: To eliminate duplicate activity and to reclassify and correct Tax Refund Payable, Due to Fund, and Due to Gov't.

Highway Allocation Fund 77640: To reclassify amounts as Due to Gov't, not vendors and to reclassify Tax Refund Payable and Due to Fund as Due to Gov't.

For the Period July 1, 2002 through January 6, 2004

Fund	Amounts Recorded on NIS		Adjusted Amounts on Financial Schedule	
	Major Account	Amount	Major Account	Amount
Mutual Finance Assistance Cash Fund 21290	Due to Fund (Balance)	\$ (1,700,737)	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ (195,971)	Due to Gov't (Balance)	\$ -
	Fund Equity	\$ 1,887,996	Fund Equity	\$ (8,712)
Motor Vehicle Fee Fund 71220	Tax Refund Payable (Balance)	\$ (5,701)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ (486,664)	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ 465,631	Due to Gov't (Balance)	\$ (26,734)
IV-D Support Payment Distribution Fund – SDU 72640	Deposits (In)	\$ 123,022,046	Deposits (In)	\$ 123,190,915
	Deposits (Out)	\$ (123,501,268)	Deposits (Out)	\$ (125,893,766)
	General Cash (Balance)	\$ 2,968,310	General Cash (Balance)	\$ 2,405,391
	Deposits (Balance)	\$ (2,923,519)	Deposits (Balance)	\$ (2,405,391)
	Due to Fund (Balance)	\$ (53,819)	Due to Fund (Balance)	\$ -

NEBRASKA STATE TREASURER

NOTES TO THE SCHEDULES

(Continued)

12. **Financial Statement Adjustments** (Concluded)

Fund	<i>Amounts Recorded on NIS</i>		<i>Adjusted Amounts on Financial Schedule</i>	
	Major Account	Amount	Major Account	Amount
Insurance Tax Fund 77520	Due to Gov't (Balance)	\$ 9,981,134	Due to Gov't (Balance)	\$ 40,737
	Tax Refund Payable (Balance)	\$ (13,017,774)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ 2,545,363	Due to Fund (Balance)	\$ (366,630)
Highway Allocation Fund 77640	Due to Vendors (Balance)	\$ (18,444,208)	Due to Gov't (Balance)	\$ (18,444,208)
	Tax Refund Payable (Balance)	\$ (8,007)	Tax Refund Payable (Balance)	\$ -
	Due to Fund (Balance)	\$ (3,066,470)	Due to Fund (Balance)	\$ -
	Due to Gov't (Balance)	\$ (15,378,819)	Due to Gov't (Balance)	\$ (18,453,296)

Description of Adjustments

Mutual Finance Assistance Cash Fund 21290: To eliminate Due to Fund, Due to Gov't, and adjust Fund Equity.

Motor Vehicle Fee Fund 71220: To Correct Tax Refund Payable, Due to Fund, and Due to Gov't.

IV-D Support Payment Distribution Fund – SDU 72640: To record activity from bad debt.

Insurance Tax Fund 77520: To eliminate duplicate activity and to reclassify and correct Tax Refund Payable, Due to Fund, and Due to Gov't.

Highway Allocation Fund 77640: To reclassify amounts as Due to Gov't, not vendors and to reclassify Tax Refund Payable and Due to Fund as Due to Gov't.

NEBRASKA STATE TREASURER  
**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Period Ended December 31, 2002

The Nebraska Educational Savings Plan Trust (Trust) is comprised of three funds: The Endowment Fund, the Administrative Fund, and the Program Fund.

The Endowment Fund (Fund number 61290) and Administrative Fund (Fund number 21240) are funds recorded on the Nebraska Information System (NIS). They are included in the Schedule of Revenues, Expenditures, and Changes in Fund Balances on pages 87 and 85, respectively, for the fiscal year ended June 30, 2003, and pages 92 and 90, respectively, for the period July 1, 2003 through January 6, 2004, of this report.

The Program Fund is comprised of three plans: the College Savings Plan of Nebraska, the TD Waterhouse 529 College Savings Plan, and the AIM College Savings Plan. Other auditors, whose reports thereon have been furnished to us, audited these plans. Only total columns for the statements of assets and liabilities and the related statements of operations and changes in net assets for those plans were included in the Nebraska State Treasurer attestation report (These Statements can be found on pages 96 through 98 of this report). Individual portfolio statements and other plan information (such as Financial Highlights) can be found in the separate auditor's reports and can be obtained from the Nebraska State Treasurer's office. The note disclosures as reported in the individual plan Auditor's Report can be found in this Attestation report on the following pages:

- College Savings Plan of Nebraska-Pages 112 through 117
- TD Waterhouse 529 College Saving Plan-Pages 118 through 122
- AIM College Savings Plan-Pages 123 through 139

**COLLEGE SAVINGS PLAN OF NEBRASKA**

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The College Savings Plan of Nebraska (the Plan) is a series of the Nebraska Educational Savings Plan Trust (the Trust). The Trust was established in accordance with Nebraska Legislative Bill 1003 (the Act), to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education.

The Plan has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the Internal Revenue Code of 1986, as amended. Accounts in the Plan have not been registered with the Securities and Exchange Commission or with any state securities commission pursuant to exemptions from registration available for securities issued by a public instrumentality of a state.

The Plan is comprised of six Target Portfolios and 22 Individual Fund Portfolios. The Target Portfolio financial statements report on the Target Portfolios, each of which invests in a combination of Underlying Funds managed by a Sub-Advisor, recommended

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**COLLEGE SAVINGS PLAN OF NEBRASKA**  
(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

by, and approved by, the Nebraska Investment Council. The Individual Fund Portfolios invest in a single Underlying Fund managed by a Sub-Advisor, recommended by, and approved by, the Nebraska Investment Council.

The financial statements presented reflect only the College Savings Plan of Nebraska Series of the Nebraska Educational Savings Plan Trust and are not intended to present fairly the financial position of the Nebraska Educational Savings Plan Trust as a whole and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

The Act authorizes and appoints the Nebraska State Treasurer as Trustee. The State Treasurer has entered into a management contract with Union Bank & Trust Company of Lincoln, Nebraska (Program Manager). Under this contract, the Program Manager provides day-to-day administrative, recordkeeping, and marketing services to the Plan. The Program Manager provides separate accounting for each beneficiary. In addition, the Program Manager administers and maintains overall trust and individual account records.

The financial statements and financial highlights have been prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management's estimates.

The following is a summary of significant accounting policies followed by the Target Portfolios and the Individual Fund Portfolios (the Portfolios):

1. Security Valuation

Investments in the Underlying Funds are valued at the closing net asset or unit value per share of each Underlying Fund on the day of valuation.

2. Security Transactions and Investment Income

Security transactions are recorded on the dates the transactions are entered into (the settlement dates). Realized gain and losses on security transactions are determined on the specific identification method. Dividend income and gain distributions from the Underlying Funds, if any, are recorded on the ex-dividend date.

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**COLLEGE SAVINGS PLAN OF NEBRASKA**  
(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

3. Expenses

Expenses included in the accompanying financial statements reflect the expenses of each Portfolio and do not include any expenses associated with the Underlying Funds. Each Portfolio indirectly bears its proportional share of the fees and expenses of the Underlying Funds in which it invests.

4. Federal Income Tax

The Program has been designated to comply with the requirements for treatment as a qualified tuition program under Section 529 of the Internal Revenue Code. Therefore, no federal income tax provision is required.

5. Units

Contributions by a participant are evidenced through the issuance of units in the particular Portfolio. Contributions to and withdrawals from the Portfolios are subject to terms and limitations defined in the Enrollment Handbook between the participant and the Plan. Contributions received by the Program Manager before the close of trading on the New York Stock Exchange on any business day are credited to the account to which the contribution is made within one business day thereafter. Contributions are invested in units of the assigned Portfolio on the business day the contribution is credited to the participant's account. Withdrawals are based on the net asset value calculated for such Portfolio on the business day on which the Program Manager processes the withdrawal request. The earnings portion of non-qualified withdrawals, in addition to applicable federal and state income tax, may be subject to a 10% federal tax penalty.

6. Portfolios

All Portfolios are offered in the following fee structure: Direct, Fee Structure A, Fee Structure C, and Fee Structure H. Direct accounts do not pay fees in addition to the program expenses of the Plan. Fee Structure A units have a 3.5% front-end sales load and a 0.35% ongoing fee in addition to program expenses. Fee Structure C units pay no front-end sales load and have a 0.65% ongoing fee in addition to program expenses. Fee Structure H units have front-end sales load of 5.75% and a 0.10% ongoing fee in addition to program expenses.

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**COLLEGE SAVINGS PLAN OF NEBRASKA**  
(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**

7. Risk

Balances in the accounts are not guaranteed or insured by the State of Nebraska or any instrumentality of the State of Nebraska, the Nebraska State Treasurer, the Program Manager or any of its affiliates, the FDIC, or any other party.

8. Financial Highlights

Ratios and total return included on the financial highlights are not annualized for periods of less than one (1) year. Ratios for periods of less than one year include management's estimates of performance based on the performance of the Underlying Fund(s).

Recognition of the net investment income by the funds is affected by the timing of the declaration of dividends by the underlying investment companies in which the funds invest.

Total return is net of both fees and expenses of the Underlying Fund(s), as well as the program management fee attributable to the portfolio.

Expense ratios do not include expenses of the Underlying Fund. The impact of the Underlying Fund(s)' expense ratios on each portfolio can vary according to changes in the Underlying Fund(s)' expenses and the investment weighting each portfolio has in the Underlying Fund(s).

**NOTE B. PROGRAM EXPENSES**

For the year ended December 31, 2002, except as noted below, there was an annual account maintenance fee of \$24 for each Account (the Account Fee), which was charged at \$6.00 per quarter. For new Accounts established on or after September 12, 2002, the annual account maintenance fee is \$20 for each Account which is charged at \$5.00 per quarter. Effective January 1, 2003, the annual Account Fee will be \$20 for all Accounts which will be charged to each Account at \$5.00 per quarter.

In addition, a program management fee of 0.60% of the average daily net assets is accrued by each Portfolio on a daily basis. This fee is not reflected as a direct charge against the Participant's account but rather is reflected in the Net Asset Value of each Portfolio.

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**COLLEGE SAVINGS PLAN OF NEBRASKA**  
(Continued)

**NOTE C. PORTFOLIOS**

Participants in the Plan may designate their accounts be invested in one of four Age-Based Portfolios designed to reduce the exposure to principal loss the closer in age the beneficiary is to college, one of six Target Portfolios that keep the same asset allocation between equity and fixed income securities, or in Individual Fund Portfolios.

The following tables show the investment allocations of the Age-Based and Target Portfolios:

Age-Based Portfolios

Beneficiary Age	Aggressive (Equity/Fixed Income)	Growth (Equity/Fixed Income)	Balanced (Equity/Fixed Income)	Conservative (Equity/Fixed Income)
0 - 5	100/0%	80/20%	60/40%	40/60%
6 - 10	80/20%	60/40%	40/60%	20/80%
11 - 15	60/40%	40/60%	20/80%	0/100%
16 - 20	40/60%	20/80%	0/100%	0/100%
21+	20/80%	0/100%	0/100%	0/100%

Target Portfolios

Type of Security	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Conservative
Equity	100%	80%	60%	40%	20%	0%
Fixed Income	0%	20%	40%	60%	80%	100%

**NOTE D. PARTICIPANT CONTRIBUTIONS**

Participant contributions postmarked by December 31, 2002, but received by the Plan after December 31, 2002, amounted to \$5,344,518. Such contributions are not reflected in the accompanying financial statements.



NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

COLLEGE SAVINGS PLAN OF NEBRASKA

(Continued)

**NOTE E. PERIODS OF OPERATIONS**

Except as noted on the financial highlights for certain fee structures, the periods of operations are as follows:

Target Portfolios	
Conservative Fund	January 1, 2002 to December 31, 2002
Fund 20	January 1, 2002 to December 31, 2002
Fund 40	January 1, 2002 to December 31, 2002
Fund 60	January 1, 2002 to December 31, 2002
Fund 80	January 1, 2002 to December 31, 2002
Fund 100	January 1, 2002 to December 31, 2002
Individual Fund Portfolios	
American Century Equity Income Fund	September 27, 2002 to December 31, 2002
American Century Income & Growth Fund	September 27, 2002 to December 31, 2002
Fidelity Advisor Diversified International Fund	September 27, 2002 to December 31, 2002
Fidelity Advisor Equity Growth Fund	September 27, 2002 to December 31, 2002
Janus Enterprise Fund	September 27, 2002 to December 31, 2002
PIMCO Total Return Fund	September 27, 2002 to December 31, 2002
T. Rowe Price Institutional Foreign Equity Fund	September 27, 2002 to December 31, 2002
Vanguard Calvert Social Index Fund	September 27, 2002 to December 31, 2002
Vanguard Extended Market Index Fund	September 27, 2002 to December 31, 2002
Vanguard Growth Index Fund	September 27, 2002 to December 31, 2002
Vanguard Intermediate- Term Bond Index Fund	September 27, 2002 to December 31, 2002
Vanguard Institutional Index Fund	October 2, 2002 to December 31, 2002
Vanguard Total International Stock Index Fund	October 7, 2002 to December 31, 2002
Vanguard Mid Cap Index Fund	September 27, 2002 to December 31, 2002
Vanguard Prime Money Market Fund	October 10, 2002 to December 31, 2002
Vanguard Short-Term Bond Index Fund	October 4, 2002 to December 31, 2002
Vanguard Small Cap Growth Index Fund	September 27, 2002 to December 31, 2002
Vanguard Small Cap Index Fund	September 27, 2002 to December 31, 2002
Vanguard Small Cap Value Index Fund	September 27, 2002 to December 31, 2002
Vanguard Total Bond Market Fund	September 27, 2002 to December 31, 2002
Vanguard Total Stock Market Index Fund	October 1, 2002 to December 31, 2002
Vanguard Value Index Fund	September 27, 2002 to December 31, 2002

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**TD WATERHOUSE 529 COLLEGE SAVINGS PLAN**

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The TD Waterhouse 529 College Savings Plan (the Plan) is a separate class of accounts in the College Savings Plan of Nebraska. The College Savings Plan of Nebraska is a separate series of the Nebraska Educational Savings Plan Trust (the Trust). The Trust was established in accordance with Nebraska Legislative Bill 1003 (the Act), to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education.

The Plan has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the Internal Revenue Code of 1986, as amended. Accounts in the Plan have not been registered with the Securities and Exchange Commission or with any state securities commission pursuant to exemptions from registration available for securities issued by a public instrumentality of a state.

The Plan is comprised of six Target Portfolios. The Target Portfolio financial statements report on the Target Portfolios, each of which invests in a combination of Underlying Funds managed by a Sub-Advisor, recommended by, and approved by, the Nebraska Investment Council.

The financial statements presented reflect only the TD Waterhouse 529 College Savings Plan and are not intended to present fairly the financial position of either the Nebraska Educational Savings Plan Trust as a whole or the College Savings Plan of Nebraska and the results of their operations in conformity with accounting principles generally accepted in the United States of America.

The Act authorizes and appoints the Nebraska State Treasurer as Trustee. The State Treasurer has entered into a management contract with Union Bank & Trust Company of Lincoln, Nebraska (Program Manager). Under this contract, the Program Manager provides day-to-day administrative, recordkeeping, and marketing services to the Plan. The Program Manager provides separate accounting for each beneficiary. In addition, the Program Manager administers and maintains overall trust and individual account records. The Program Manager has subcontracted some of these duties to TD Waterhouse.

The financial statements and financial highlights have been prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management's estimates.

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**TD WATERHOUSE 529 COLLEGE SAVINGS PLAN**

(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

The following is a summary of significant accounting policies followed by the Target Portfolios (the Portfolios):

1. Security Valuation

Investments in the Underlying Funds are valued at the closing net asset or unit value per share of each Underlying Fund on the day of valuation.

2. Security Transactions and Investment Income

Security transactions are recorded on the dates the transactions are entered into (the settlement dates). Realized gain and losses on security transactions are determined on the specific identification method. Dividend income and gain distributions from the Underlying Funds, if any, are recorded on the ex-dividend date.

3. Expenses

Expenses included in the accompanying financial statements reflect the expenses of each Portfolio and do not include any expenses associated with the Underlying Funds. Each Portfolio indirectly bears its proportional share of the fees and expenses of the Underlying Funds in which it invests.

4. Federal Income Tax

The Program has been designated to comply with the requirements for treatment as a qualified tuition program under Section 529 of the Internal Revenue Code. Therefore, no federal income tax provision is required.

5. Units

Contributions by a participant are evidenced through the issuance of units in the particular Portfolio. Contributions to and withdrawals from the Portfolios are subject to terms and limitations defined in the Enrollment Handbook between the participant and the Plan. Contributions received by the Program Manager before the close of trading

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**TD WATERHOUSE 529 COLLEGE SAVINGS PLAN**  
(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

on the New York Stock Exchange on any business day are credited to the account to which the contribution is made within one business day thereafter. Contributions are invested in units of the assigned Portfolio on the business day the contribution is credited to the participant account.

Withdrawals are based on the net asset value calculated for such Portfolio on the business day on which the Program Manager processes the withdrawal request. The earnings portion of non-qualified withdrawals, in addition to applicable federal and state income tax, may be subject to a 10% federal tax penalty.

6. Portfolios

All Portfolios are offered in the following fee structure: Direct, Fee Structure A, Fee Structure C, and Fee Structure H. Direct accounts do not pay fees in addition to the program expenses of the Plan. Fee Structure A units have a 3.5% front-end sales load and a 0.35% ongoing fee in addition to program expenses. Fee Structure C units pay no front-end sales load and have a 0.65% ongoing fee in addition to program expenses. Fee Structure H units have front-end sales load of 5.75% and a 0.10% ongoing fee in addition to program expenses.

7. Risk

Balances in the accounts are not guaranteed or insured by the State of Nebraska or any instrumentality of the State of Nebraska, the Nebraska State Treasurer, the Program Manager or any of its affiliates, the FDIC, or any other party.

8. Financial Highlights

Ratios and total return included on the financial highlights are not annualized for periods of less than one (1) year. Ratios for periods of less than one year include management's estimates of performance based on the performance of the Underlying Fund(s).

Recognition of the net investment income by the funds is affected by the timing of the declaration of dividends by the underlying investment companies in which the funds invest.

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**TD WATERHOUSE 529 COLLEGE SAVINGS PLAN**  
(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**

Total return is net of both fees and expenses of the Underlying Fund(s), as well as the program management fee attributable to the portfolio.

Expense ratios do not include expenses of the Underlying Fund. The impact of the Underlying Fund(s)' expense ratios on each portfolio can vary according to changes in the Underlying Fund(s) expenses and the investment weighting each portfolio has in the Underlying Fund(s).

There is an annual account maintenance fee of \$30 for each Account (the Account Fee) charged at \$7.50 per quarter.

**NOTE B. PROGRAM EXPENSES**

In addition, a program management fee of 0.85% of the average daily net assets is accrued by each Portfolio on a daily basis. This fee is not reflected as a direct charge against the Participant's account but rather is reflected in the Net Asset Value of each Portfolio.

**NOTE C. PARTICIPANT CONTRIBUTIONS**

Participant contributions postmarked by December 31, 2002, but received by the Plan after December 31, 2002 amounted to \$690,304. Such contributions are not reflected in the accompanying financial statements.

**NOTE D. PORTFOLIOS**

Participants in the Plan may designate their accounts be invested in one of four Age-Based Portfolios designed to reduce the exposure to principal loss the closer in age the beneficiary is to college or one of six Target Portfolios that keep the same asset allocation between equity and fixed income securities.

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

TD WATERHOUSE 529 COLLEGE SAVINGS PLAN

(Continued)

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**

The following tables show the investment allocations of the Age-Based and Target Portfolios:

Age-Based Portfolios

Beneficiary Age	Aggressive (Equity/Fixed Income)	Growth (Equity/Fixed Income)	Balanced (Equity/Fixed Income)	Conservative (Equity/Fixed Income)
0 - 5	100/0%	80/20%	60/40%	40/60%
6 - 10	80/20%	60/40%	40/60%	20/80%
11 - 15	60/40%	40/60%	20/80%	0/100%
16 - 20	40/60%	20/80%	0/100%	0/100%
21+	20/80%	0/100%	0/100%	0/100%

Target Portfolios

Type of Security	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Conservative
Equity	100%	80%	60%	40%	20%	0%
Fixed Income	0%	20%	40%	60%	80%	100%

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**AIM COLLEGE SAVINGS PLAN**

**NOTE A. SIGNIFICANT ACCOUNTING POLICIES**

The AIM College Savings Plan (the “Plan”) is a series of the Nebraska Educational Savings Plan Trust (the “Trust”). The Trust was established pursuant to Nebraska law and is overseen by the Nebraska State Treasurer, who serves as Trustee. The Trust is designed to qualify as a tax-advantaged savings plan under section 529 of the Internal Revenue Code of 1986, as amended. The plan enables individuals to save and invest on a tax-deferred basis in order to fund future higher education expenses of a child or beneficiary.

The Plan, which commenced operations on December 3, 2001, is comprised of twenty-four different portfolios (the “Portfolios”). Ten of the portfolios, known as the Model Portfolios invest in a combination of underlying funds managed by AIM Advisors, Inc. (the “Advisor”). On October 8, 2002, the Plan began offering an additional 14 portfolios. These portfolios, known as the Individual Fund Portfolios invest in individual mutual funds managed by the Advisor.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of the significant accounting policies followed by the Plan in the preparation of its financial statements.

1. Security Valuations

Investments in the underlying funds are valued according to the following policy. A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales on a particular day, the security is valued at the closing bid price on that day. Each security traded in the over-the-counter market (but not securities reported on the NASDAQ National Market System) is valued at the basis of prices furnished by independent pricing services or market makers. Each security reported on the NASDAQ National Market System is valued at the NASDAQ Official Closing Price (“NOCP”) as of the close of the customary trading session on the valuation date or absent an NOCP, at the closing bid price. Debt

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**AIM COLLEGE SAVINGS PLAN**

(Continued)

**NOTE A. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

obligations (including convertible bonds) are valued on the basis of prices provided by an independent pricing service. Prices provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to special securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Securities for which market prices are not provided by any of the above methods are valued based upon quotes furnished by independent sources and are valued at the last bid price in the case of equity securities and in the case of debt obligations, the mean between the last bid and asked prices. Securities for which market quotations are not readily available or are questionable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers in a manner specifically authorized by the Board of Trustees. Short-term obligations having 60 days or less to maturity and commercial paper are valued at amortized cost which approximates market value. For purposes of determining net asset value per share, futures and option contracts generally will be valued 15 minutes after the close of the customary trading session of the New York Stock Exchange ("NYSE").

Foreign securities are converted into U.S. dollar amounts using exchange rates as of the close of the NYSE. Generally, trading in foreign securities is substantially completed each day at various times prior to the close of the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of the close of the respective markets. Events affecting the values of such foreign securities may occur between the times at which the particular foreign market closes and the close of the customary trading session of the NYSE which would not be reflected in the computation of the Fund's net asset value. If a development/event is so significant that there is a reasonably high degree of certainty as to both the effect and the degree of effect that the development/event has actually caused that closing price to no longer reflect actual value, the closing prices, as determined at the close of the applicable foreign market, may be adjusted to reflect the fair value of the affected foreign securities as of the close of the NYSE as determined in good faith by or under the supervision of the Board of Trustees.



NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**AIM COLLEGE SAVINGS PLAN**

(Continued)

**NOTE A. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

2. Securities Transactions and Investment Income

Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Dividend distributions from the underlying funds are recorded on the ex-dividend date. The Fund allocates income and realized and unrealized capital gains and losses to a class based on the relative net assets of each class.

3. Distributions

Distributions from income from underlying funds, if any, are recorded to income on ex-dividend date. Distributions from net realized capital gains from underlying funds, if any, are recorded to realized gains on ex-dividend date.

4. Federal Income Taxes

The Plan intends to comply with the requirements under Section 529 of the Internal Revenue Code; therefore, no provision for federal income taxes is recorded in the financial statements.

5. Expenses

Expenses included in the accompanying financial statements reflect the expenses of each Portfolio and do not include any expenses associated with the underlying funds. Administrative services fees directly attributable to a class of shares are charged to the respective classes' operations. Each Portfolio indirectly bears its proportional share of the fees and expenses of the underlying funds in which it invests. Accordingly, each Portfolio's investment return will be net of both the fees and expenses of the underlying funds and the expenses attributable to the Portfolio.

**NOTE B. PLAN FEES**

The operation of the Plan is governed by a Marketing and Administrative Services Agreement between the Trust; the Nebraska State Investment Council (the "Council"); Union Bank & Trust Company (the "Program Manager"); AIM Capital Management, Inc. (the "Investment Manager"); AIM Distributors, Inc. (the "Distributor"), and AIM Fund Services, Inc. (the "Servicing Agent").

NEBRASKA STATE TREASURER

**NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**AIM COLLEGE SAVINGS PLAN**  
(Continued)

**NOTE B. PLAN FEES, CONTINUED**

The Portfolios accrue an administrative service fee daily which is based on the net assets of each portfolio, based on the following annual rates:

Class A 0.35%  
Class B 1.10%  
Class C 1.10%

Prior to October 8, 2002, Class B and Class C shares administrative service fees were 0.90% and 0.90%, respectively.

An initial sales charge is assessed on purchases of Class A shares of the Portfolios. Such commissions are not expenses of the Portfolios. They are deducted from, and are not included in, the proceeds from sales of Class A shares. Contingent deferred sales charges may be imposed on redemptions of Class B and Class C shares. For the year ended December 31, 2002, the Distributor retained the following fees:

<b>Portfolio</b>	<b>Class A Commissions</b>	<b>Class B Contingent Deferred Sales Charge</b>	<b>Class C Contingent Deferred Sales Charge</b>
AIM Aggressive Growth Portfolio	\$ 16,825	\$ 119	\$ 28
AIM Balanced Portfolio	9,609	-	707
AIM Growth Portfolio	13,705	-	-
AIM 16+ Years to College Portfolio	11,526	99	544
AIM 13-15 Years to College Portfolio	8,817	528	-
AIM 10-12 Years to College Portfolio	9,479	243	81
AIM 7-9 Years to College Portfolio	9,555	938	130
AIM 4-6 Years to College Portfolio	14,685	337	44
AIM 1-3 Years to College Portfolio	9,655	-	122
AIM College Now Portfolio	2,617	-	75
AIM Aggressive Growth Fund Portfolio	80	-	-
AIM Basic Value Fund Portfolio	852	-	-
AIM Blue Chip Fund Portfolio	212	-	-
AIM Capital Development Fund Portfolio	115	-	-
AIM Constellation Fund Portfolio	442	-	-
AIM Intermediate Government Fund Portfolio	494	-	-

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

**NOTE B. PLAN FEES, CONCLUDED**

Portfolio	Class A Commissions	Class B Contingent Deferred Sales Charge	Class C Contingent Deferred Sales Charge
AIM International Core Equity Fund Portfolio	7	-	-
AIM International Growth Fund Portfolio	87	-	-
AIM Large Cap Basic Value Fund Portfolio	-	-	-
AIM Large Cap Growth Fund Portfolio	45	-	-
AIM Mid Cap Core Equity Fund Portfolio	127	-	-
AIM Money Market Fund Portfolio	-	-	-
AIM Premier Equity Fund Portfolio	7	-	-
AIM Small Cap Growth Fund Portfolio	113	-	-

**NOTE C. SHARE INFORMATION**

The Portfolios offer Class A, Class B, and Class C shares. Class A shares are sold with a front-end sales charge. Class B shares and Class C shares are sold with a contingent deferred sales charge. Transactions in shares outstanding during the period from commencement of operations through December 31, 2002, were as follows:

**AIM Aggressive Growth Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	415,189	\$ 3,744,064
Class B	144,459	1,283,826
Class B	160,203	1,436,592
Reacquired:		
Class A	(14,504)	(109,229)
Class B	(5,458)	(48,648)
Class C	(9,196)	(71,615)
	<u>690,693</u>	<u>\$ 6,234,990</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Balanced Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	205,263	\$ 1,933,333
Class B	139,524	1,305,056
Class B	331,990	3,177,176
Reacquired:		
Class A	(6,532)	(57,922)
Class B	(1,957)	(16,791)
Class C	(17,681)	(157,860)
	<u>650,607</u>	<u>\$ 6,182,992</u>

**AIM Growth Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	262,588	\$ 2,463,462
Class B	234,544	2,209,941
Class C	318,123	3,007,764
Reacquired:		
Class A	(14,774)	(122,327)
Class B	(4,189)	(34,115)
Class C	(14,744)	(120,670)
	<u>781,548</u>	<u>\$ 7,404,055</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM 16+ Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	255,773	\$ 2,262,609
Class B	204,809	1,842,611
Class C	119,681	1,074,036
Reacquired:		
Class A	(30,062)	(240,191)
Class B	(9,687)	(75,739)
Class C	(10,621)	(82,291)
	<u>529,893</u>	<u>\$ 4,781,035</u>

**AIM 13-15 Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	197,745	\$ 1,789,256
Class B	198,087	1,787,123
Class C	128,840	1,182,615
Reacquired:		
Class A	(8,268)	(67,488)
Class B	(19,879)	(159,686)
Class C	(7,134)	(58,070)
	<u>489,391</u>	<u>\$ 4,473,750</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM 10-12 Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	219,045	\$ 2,008,541
Class B	274,368	2,518,798
Class C	197,542	1,833,439
Reacquired:		
Class A	(10,019)	(85,107)
Class B	(19,516)	(162,161)
Class C	(20,953)	(182,009)
	<u>640,467</u>	<u>\$ 5,931,501</u>

**AIM 7-9 Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	217,429	\$ 1,996,910
Class B	353,396	3,236,994
Class C	166,332	1,531,135
Reacquired:		
Class A	(15,508)	(130,790)
Class B	(13,337)	(112,834)
Class C	(10,257)	(87,359)
	<u>698,055</u>	<u>\$ 6,434,056</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM 4-6 Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	279,259	\$ 2,627,213
Class B	296,934	2,805,183
Class C	297,198	2,775,874
Reacquired:		
Class A	(13,843)	(121,508)
Class B	(13,429)	(118,540)
Class C	(11,799)	(110,991)
	<u>834,320</u>	<u>\$ 7,857,231</u>

**AIM 1-3 Years to College Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	200,109	\$ 1,946,367
Class B	18,986	189,992
Class C	265,487	2,612,167
Reacquired:		
Class A	(5,089)	(48,553)
Class B	(268)	(2,502)
Class C	(27,814)	(262,778)
	<u>451,411</u>	<u>\$ 4,434,693</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM College Now Portfolio**

	Year Ended December 31, 2002	
	Shares	Amount
Sold:		
Class A	72,850	\$ 721,511
Class B	28,265	281,892
Class C	140,564	1,384,748
Reacquired:		
Class A	(5,414)	(53,447)
Class B	(74)	(726)
Class C	(21,751)	(213,599)
	<u>214,440</u>	<u>\$ 2,120,379</u>

**AIM Aggressive Growth Fund Portfolio**

	October 24, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	1,818	\$ 18,357
Class B	3,611	36,478
Class C	133	1,300
Reacquired:		
Class A	(18)	(175)
Class B	(25)	(250)
Class C	(3)	(25)
	<u>5,516</u>	<u>\$ 55,685</u>



NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Best Value Fund Portfolio**

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	11,581	\$ 133,540
Class B	4,246	48,514
Class C	2,675	30,732
Reacquired:		
Class A	(35)	(400)
Class B	(69)	(814)
Class C	(10)	(125)
	18,388	\$ 211,447
	18,388	\$ 211,447

**AIM Blue Chip Fund Portfolio**

	October 24, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	4,390	\$ 44,174
Class B	1,605	15,774
Class C	1,025	10,171
Reacquired:		
Class A	(7)	(75)
Class B	(13)	(125)
Class C	(2)	(25)
	6,998	\$ 69,894
	6,998	\$ 69,894

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Capital Development Fund Portfolio**

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	2,588	\$ 27,835
Class B	1,012	11,536
Class C	954	10,250
Reacquired:		
Class B	(9)	(100)
	4,545	\$ 49,521

**AIM Constellation Fund Portfolio**

	October 18, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	13,598	\$ 136,226
Class B	2,321	23,182
Class C	6,158	60,924
Reacquired:		
Class A	(13)	(125)
Class B	(3)	(25)
Class C	(12)	(125)
	22,049	\$ 220,057

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Intermediate Government Fund Portfolio**

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	9,147	\$ 91,146
Class B	25,240	250,932
Class C	18,719	187,025
Reacquired:		
Class A	(5)	(50)
Class B	(43)	(425)
Class C	(10)	(100)
	53,048	\$ 528,528

**AIM International Core Equity Fund Portfolio**

	October 28, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	233	\$ 2,410
Class C	523	5,325
	756	\$ 7,735

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Continued)

AIM COLLEGE SAVINGS PLAN  
 (Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM International Growth Fund Portfolio**

	November 14, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	1,826	\$ 18,164
Class B	13	125
Class C	2,734	27,055
	<u>4,573</u>	<u>\$ 45,344</u>

**AIM Large Cap Basic Value Fund Portfolio**

	October 24, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	12	\$ 122
Class B	1,703	17,334
Class C	2,627	27,055
	<u>4,342</u>	<u>\$ 44,511</u>

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Large Cap Growth Fund Portfolio**

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	3,173	\$ 32,622
Class B	1,392	14,695
Class C	500	5,375
Reacquired:		
Class A	(14)	(150)
Class B	(345)	(3,695)
Class C	(17)	(175)
	4,689	\$ 48,672
	4,689	\$ 48,672

**AIM Mid Cap Core Equity Fund Portfolio**

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	5,020	\$ 54,962
Class B	4,556	50,820
Class C	3,792	41,713
Reacquired:		
Class A	(9)	(100)
Class B	(349)	(3,849)
	13,010	\$ 143,546
	13,010	\$ 143,546

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONTINUED

**AIM Money Market Fund Portfolio**

	October 11, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	113,308	\$ 113,308
Class B	83,982	83,982
Class C	195,335	195,335
Issued as reinvestment dividends		
Class A	22	22
Class B	7	7
Class C	11	11
Reacquired:		
Class A	(100)	(100)
Class B	(275)	(275)
Class C	(150)	(150)
	392,140	\$ 392,140
	392,140	\$ 392,140

**AIM Premier Equity Fund Portfolio**

	October 28, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	3,750	\$ 37,743
Class B	908	8,955
Class C	898	9,018
Reacquired:		
Class A	(2)	(25)
	5,554	\$ 55,691
	5,554	\$ 55,691

NEBRASKA STATE TREASURER

NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST  
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

AIM COLLEGE SAVINGS PLAN

(Continued)

NOTE C. SHARE INFORMATION, CONCLUDED

AIM Small Cap Growth Fund Portfolio

	October 8, 2002 (Date sales commenced) to December 31, 2002	
	Shares	Amount
Sold:		
Class A	3,240	\$ 36,088
Class B	2,934	33,710
Class C	1,738	19,615
Reacquired:		
Class B	(450)	(5,110)
	<u>7,462</u>	<u>\$ 84,303</u>

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA STATE TREASURER **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Treasurer for the fiscal year ended June 30, 2003, and for the period July 1, 2003 through January 6, 2004 and have issued our report thereon dated April 6, 2004. The report was qualified, as certain amounts were not examined as part of the State Treasurer's examination as they are examined as part of other State agencies. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related 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 schedule of revenues, expenditures, and changes in fund balances, is 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that are required to be reported under *Government Auditing Standards*, and is described in the Comments and Recommendations Section of our report as Comment Number 2.A. (Payroll Allocation/Compliance with A-87 Requirements) We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska State Treasurer in the Comments and



Recommendations Section of this report as Comment Number 2.B. (Timesheets - Employees in the TM, UP and NCSP Divisions), Comment Number 2.H. (Balancing of Vacation Leave), Comment Number 2.I. (Vacation Leave Payout), Comment Number 3.A. (Lack of Supporting Documentation/Original Invoices), Comment Number 3.B. (Purchase of Scanners), Comment Number 3.C. (Cost Allocation Between Programs), Comment Number 3.D. (Prepayments), Comment Number 3.E. (Use of DAS State Purchasing Bureau), Comment Number 3.I. (Questionable Expenditures), Comment Number 3.J. (Invoices Not Paid Timely), Comment Number 3.L. (Contracts), Comment Number 4.D. (Pledged Collateral), Comment Number 4.E. (Treasurer's Report), Comment Number 5.A. (Public Sale of Unclaimed Property), Comment Number 5.B. (Transfers Not Conducted Timely), Comment Number 5.C. (Public Notice of Unclaimed Property), Comment Number 5.F. (Recording of Unclaimed Property Receipts), Comment Number 5.G. (Reporting of Unclaimed Property), Comment Number 5.H. (Unclaimed Property Securities), Comment Number 7.B. (Missing Assets/Assets Not Tagged), Comment Number 7.C. (Disposal of Assets), Comment Number 8.F. (Federal Reporting), and Comment Number 9 (Transfers and Allocations).

#### Internal Control Over Financial Reporting


In planning and performing our examination, we considered the Nebraska State Treasurer's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, 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 schedule. Reportable conditions are described in the Comments Without Recommendations Section of this report as Comment Number 2 (Internal Control Structure) and the Comments and Recommendations Section of this report as Comment Number 1 (Nebraska Information System), Comment Number 2 (Payroll Policies, Procedures, and Internal Controls), Comment Number 3 (Expenditures), and Comment Number 8.A. (SDU Bank Reconciliation).

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 schedule being examined 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, of the reportable conditions described above, we consider to the Comment Without Recommendations Comment Number 2 (Internal Control Structure), the Comments and Recommendations Comment Number 1 (Nebraska Information System), and Comment Number 8.A. (SDU Bank Reconciliation) to be 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 and Recommendations Section of the report as Comment Number 4.A. (Review of Bank Activity), Comment Number 4.B. (Bank Reconciliations), Comment Number 4.C. (Master Month-End Reconciliation), Comment Number 4.D. (Pledged Collateral), Comment Number 5.B. (Transfers Not Conducted Timely), Comment Number 5.C. (Public Notice of Unclaimed Property), Comment Number 5.D. (Claimant Proof of Ownership Not on File), Comment Number 5.E. (Lack of Segregation of Duties in Unclaimed Property), Comment Number 5.F. (Recording of Unclaimed Property Receipts), Comment Number 5.G. (Reporting of Unclaimed Property), Comment Number 5.H. (Unclaimed Property Securities), Comment Number 5.I. (Unclaimed Property Safety Deposit Boxes), Comment Number 6.A. (Outstanding Warrants Procedures Review), Comment Number 6.B. (Outstanding Warrants Report), Comment Number 6.C. (Cumulative Warrant Register), Comment Number 6.D. (Cancellation Procedures), Comment Number 7.A. (Lack of Segregation of Duties Over Fixed Assets), Comment Number 7.B. (Missing Assets/Assets Not Tagged), Comment Number 7.C. (Disposal of Assets), Comment Number 8.B. (Reconciliation Processes), Comment Number 8.C. (Bad Debt, Duplicate Warrants, and Cancelled Warrants), Comment Number 8.D. (Misapplied Payments), and Comment Number 8.E. (Daily Suspense Report).

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.

April 6, 2004

  
Assistant Deputy Auditor