



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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Report Highlights

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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.

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.

Comments and Recommendations: Our report included more than fifty Comments and Recommendations. Summaries of some of the Comments are listed below:

Payroll Policies, Procedures, and Internal Controls:

- **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.
- **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.
- **Balancing of Vacation Leave** - We found no supporting documentation to support the carryover of excessive vacation hours for the Deputy State Treasurer.
- **Vacation Leave Payout** - We found no supporting documentation to support vacation hours used and earned for then-Deputy State Treasurer Byrd.

Report Highlights (continued)

Expenditures (other than payroll expenditures):

- **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.
- **Prepayments** - We noted significant prepayments to numerous vendors well in advance of the services actually being provided.
- **Questionable Expenditures** - Questionable expenditures of nearly \$6,500 were identified.
- **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.
- **Contract Overpayment** - The State Treasurer overpaid a contract in the amount of \$338,373.

Treasury Management Banking Functions:

- **Treasurer's Report** - The monthly Treasurer's Report had not been fully completed since February 2003.

Unclaimed Property:

- **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.
- **Unclaimed Property 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.

Outstanding Warrants:

- **Cumulative Warrant Register** - There has not been a report generated in NIS to replace the NWR Cumulative Warrant Register.

Fixed Assets:

- **Missing Assets/Assets Not Tagged** - One laptop computer was missing and numerous assets were not tagged as "Property of the State of Nebraska."

State Disbursement Unit (SDU):

- **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.
- **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.
- **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.
- **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.

We have detailed our findings, and the State Treasurer's responses, in the Comments and Recommendations section of the report, which can be found at www.auditors.state.ne.us.