

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF LABOR  
JULY 1, 2002 THROUGH JUNE 30, 2003**

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the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original  
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NEBRASKA DEPARTMENT OF LABOR

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## NEBRASKA DEPARTMENT OF LABOR

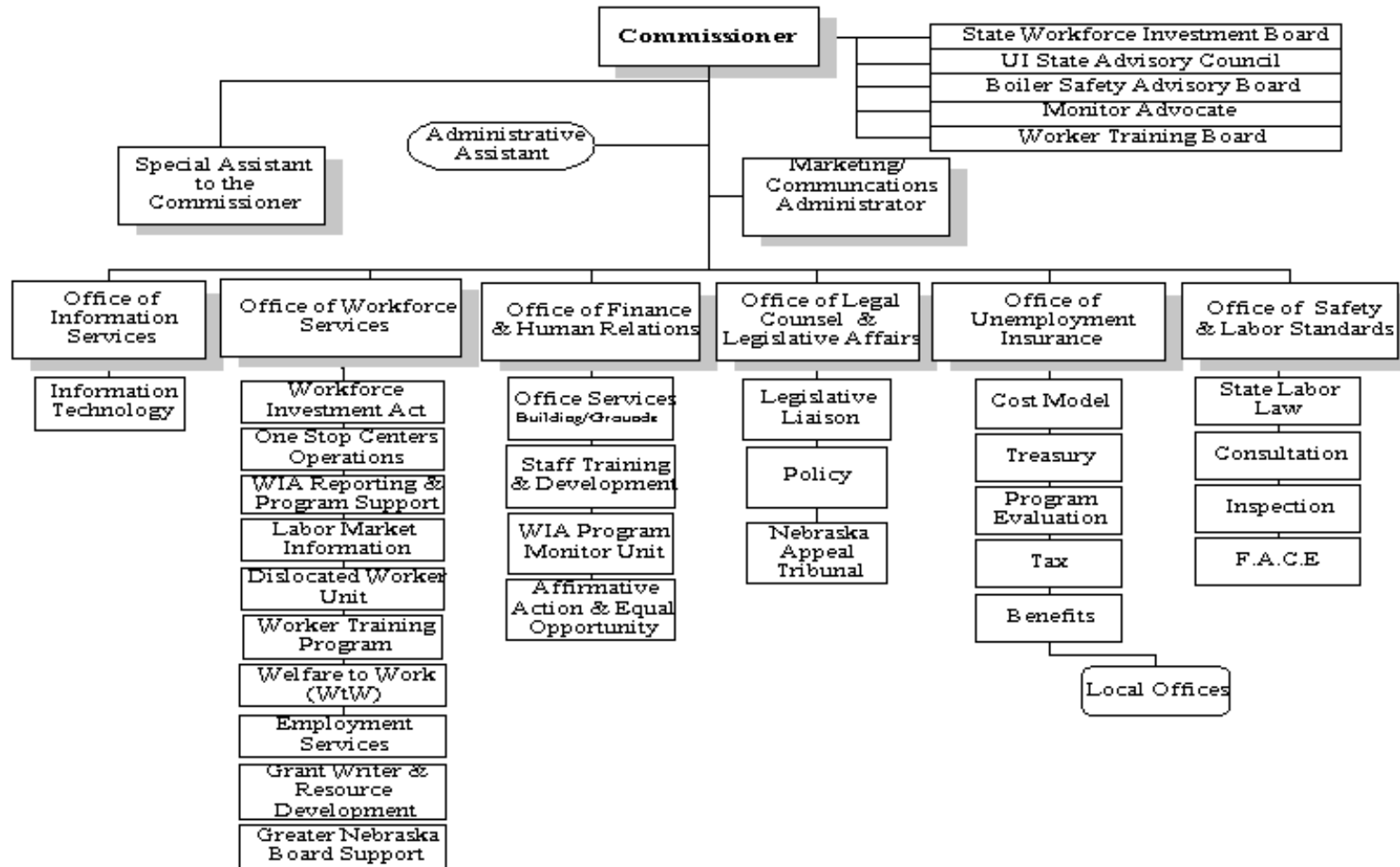
### **BACKGROUND**

The Nebraska Department of Labor (Department) protects the welfare of working Nebraskans. It enforces State and Federal laws and distributes Federal funds relating to unemployment compensation insurance, job development and placement activities, special job training and employment programs, and worker health and safety. It also enforces labor laws and does boiler, elevator, and amusement ride inspections.

Elements of the current Department were initially established in 1877 through the creation of a Bureau of Labor, Census, and Industrial Statistics. The Labor Commissioner, who is appointed by the Governor, heads the Department. The Department is organized into six divisions, which include the Office of Workforce Services, the Office of Unemployment Insurance, the Office of Safety and Labor Standards, the Office of Legal Counsel and Legislative Affairs, the Office of Information Services, and the Office of Finance and Human Relations.

NEBRASKA DEPARTMENT OF LABOR

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF LABOR

**EXIT CONFERENCE**

An exit conference was held May 4, 2004 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Labor were:

<b>NAME</b>	<b>TITLE</b>
Kay Marti	Director of Finance and Human Relations
Becky Tejral	Budget Officer
Denise Schroeder	Administrative Assistant
Jackie Gleason	Buyer I
Jonnie Cline	Program Coordinator
Heather Zessin	Accountant
Jean Percival	Accountant
Dina Hohn	Accountant
Rosemary Rotherham	Accountant

## NEBRASKA DEPARTMENT OF LABOR

### SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Labor, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

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 Expenditures:*** There was no reconciliation between payroll expenditures paid through the State's accounting system and the payroll expenditures recorded on the Federal accounting system. Of the 50 employee timesheets tested, 19 did not agree to the funds charged on the State's accounting system. These distribution errors resulted in \$13,080 of \$61,072 of payroll expenditures tested charged to incorrect State or Federal funds.
3. ***Payroll Records:*** One of five terminated employees tested were not removed from the Department's payroll calculate within a timely manner. Three of ten employees tested with negative leave did not have the Division Director's approval. Authorization forms for deductions were not maintained for 5 of 26 employees tested.
4. ***Boiler Program Fund Balance:*** The program fund balance had exceeded one year's worth of expenditures for each of the last four years.

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department 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 DEPARTMENT OF LABOR

**COMMENTS AND RECOMMENDATIONS**

**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 DEPARTMENT OF LABOR

**COMMENTS AND RECOMMENDATIONS**

(Continued)

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

- 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.
- 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.



NEBRASKA DEPARTMENT OF LABOR

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Payroll Expenditures**

The Department utilized various accounting systems during fiscal year 2003 to report expenditures; Nebraska Employee Information System (NEIS), Nebraska Accounting System (NAS), Nebraska Information System (NIS), and the Federal Accounting Reporting System (FARS). The State accounting system is the official recording of payroll expenditures.

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 controls should include procedures in place to ensure expenditures reported on the various accounting systems agree.

During our review of the Department's payroll expenditures, we noted the following:

- After payroll had posted in the State's accounting system, the Department recorded the payroll expenditures in the Federal system, FARS. A reconciliation was not performed to ensure payroll expenditures recorded between the two systems agreed.
- 19 of 50 employee timesheets tested for regular, sick, vacation, and other leave expenditures did not agree to the funds charged on the State's accounting system. These distribution errors resulted in \$13,080 of \$61,072 of payroll expenditures tested charged to incorrect State or Federal funds, a 21% error rate. Of these errors, \$8,558 in regular pay was due to input errors by Department staff and \$4,522 in leave was due to input errors and the NIS distribution issue identified in Comment 1.d. above.

Without a monthly reconciliation, there is no assurance the payroll expenditures actually paid through NIS were properly accounted for in FARS, and properly reported to the Federal government. Additionally, without procedures in place to ensure employees' actual time was recorded to the proper fund and program in the State's accounting system, there is an increased risk that charges to funds will be misstated causing unreliable financial records. As a result of the errors noted, we were unable to determine if the schedule was fairly presented, and we determined the report should be qualified.

We recommend the Department ensure the payroll distribution in NIS accurately reflects timesheets submitted by employees. Additionally, we recommend the Department implement procedures to ensure all payroll expenditures paid through NIS agree to what is reported in FARS. Finally, we recommend the Department work with the Department of Administrative Services to resolve the NIS payroll distribution concerns.

NEBRASKA DEPARTMENT OF LABOR

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Payroll Expenditures (Concluded)**

*Department's Response: We are in the process of adjusting the NIS system to agree with our internal FARS system for the period of July 2002 – May 2003. We began the accumulation of data in December 2003 and completed it in June 2004. The correcting entries will be reviewed with the State Auditors prior to entry into NIS.*

*A process was put in place on June 1, 2003, where we externally load a NIS Time and Pay History report for each month's actual payroll expenses into the FARS system. This is used to calculate the actual salary paid for our Federal reports, therefore both systems should agree.*

**3. Payroll Records**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal controls would include removing terminated employees from payroll to ensure no additional payments are made; enforcing the Department's and the State's policies for approval of negative leave; and adequate documentation be on file to support all employee deductions were authorized, which is also required by Title 273 NAC 11-002.04.

We noted the following:

- One of five terminated employees tested was not removed from the Department's payroll calculate within a timely manner. The employee was not removed until four months after the termination date.
- Per Title 273 NAC 9-006.02, Agency Heads may advance vacation and sick leave to employees in an amount not to exceed 80 hours. The Department requires approval of negative leave by the employee's Division Director and Supervisor. Three of ten employees tested with negative leave did not have the Agency Head or Division Director's approval.
- Authorization forms for deductions were not maintained for 5 of 26 employees tested.

Without adequate procedures and policies over payroll records there is an increased risk of loss or misuse of funds. Without documentation to support employee payroll deductions there is the increased risk of unauthorized deductions.

NEBRASKA DEPARTMENT OF LABOR

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Payroll Records** (Concluded)

We recommend the Department implement procedures to ensure terminated employees are promptly removed from payroll. The Department should comply with the policy to obtain approval for negative leave usage. Additionally, the Department should maintain adequate documentation to support all employee payroll deductions.

*Department's Response: We now have a process in place where an employee is terminated from the NIS system once their final payroll warrant has processed.*

*Until recently, we were unable to retrieve a leave balance report from NIS. Currently these reports are processed once a quarter due to the amount of time it takes to produce each report and distributed to each Supervisor. One of the features we expected to have in NIS was on-line access for supervisors of employees' leave balance to easily track any requests that would be an advance leave. Until NIS is able to provide Employee Self Service for each employee/supervisor to access leave balances timely, we will make every attempt to ensure advanced leave is approved by the appropriate Supervisor and Division Director.*

*Payroll deduction confirmation forms were sent to each employee in April. Each employee was to review the deduction list, approve if correct or notate any errors, then sign and return to Human Relations by the end of April 2004. The HR staff has made necessary corrections. The staff is also working with State Personnel as some forms did not list every payroll deduction even though the benefit is being deducted in NIS. These statements will be distributed on an annual basis after each enrollment period.*

4. **Boiler Program Fund Balance**

Neb. Rev. Stat. Section 48-724 R.R.S. 1998 states the Commissioner shall establish the amount of the inspection fee, certificate fee, and registration fee by rule or regulation at the level necessary to meet the costs of administering the Boiler Inspection Act.

During our review, we noted the program fund balance had exceeded one year's worth of expenditures for each of the last four years.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Expenditures	\$ 327,668	\$ 340,931	\$ 342,954	\$ 312,280
Fund Balance at June 30	\$ 332,840	\$ 359,057	\$ 370,999	\$ 417,566

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Boiler Program Fund Balance (Concluded)**

An excessive fund balance may indicate that fees are too high or administrative costs are not properly charged.

We recommend the Department review program fees and take steps to reduce the fund balances to appropriate levels.

*Department's Response: The Boiler Program Inspectors consistently have staff turnover which results in less expenditures than estimated due to those vacancies. Additionally we believe that the salary rate set for Boiler Inspectors is too low, which is consistent with inspectors leaving the State for jobs in the private sector that pays more.*

*If the salary rate for the inspectors is increased to a point that we can compete with the private sector, we believe we will have greater staff retention and the expenditures will be more in line with the revenue.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF LABOR

### INDEPENDENT ACCOUNTANT'S REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
[haeffner@mail.state.ne.us](mailto:haeffner@mail.state.ne.us)

We have examined the accompanying schedules of revenues, expenditures, and changes in fund balances of the Nebraska Department of Labor (Department) for the fiscal year ended June 30, 2003. The Department's management is responsible for the schedules of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[ddunlap@mail.state.ne.us](mailto:ddunlap@mail.state.ne.us)

Except as discussed in the following paragraph, 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 schedule 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.

**Pat Reding, CPA**  
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**Tim Channer, CPA**  
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**Mary Avery**  
SAE/Finance Manager  
[marya@mail.state.ne.us](mailto:marya@mail.state.ne.us)

During our examination we noted the Department did not properly allocate payroll charges to the correct fund. Due to the incorrect distribution of personal services expenditures, we were unable to satisfy ourselves as to the accuracy of the Nebraska Department of Labor's expenditures and balances by fund as of June 30, 2003. Although we extended our audit procedures, it was impracticable to extend our procedures sufficiently to determine the extent to which each fund may have been affected by this procedure not being properly completed.

**Dennis Meyer, CGFM**  
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**Mark Avery, CPA**  
Subdivision Audit  
Review Coordinator  
[mavery@mail.state.ne.us](mailto:mavery@mail.state.ne.us)

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the proper distribution of personal services expenditures, the schedules referred to above present,

**Robert Hotz, JD**  
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in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Labor for the fiscal year ended June 30, 2003, based on the accounting system and procedures as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2004, on our consideration of the Nebraska Department of Labor'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.

May 4, 2004

Pat Reding, CPA  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF LABOR  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NEBRASKA INFORMATION SYSTEM**  
For the Fiscal Year Ended June 30, 2003

	General Fund 10000	NE Amusement Ride Fund 22300	Farm Labor Contractors Fund 22310	Employment Sec Sp Cont Fund 22320	Elevator Inspection Fund 22340	Workplace Safety Consult Fund 22350
<b>REVENUES:</b>						
Appropriations	\$ 439,923	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Sales & Charges	344	61,090	3,750	-	477,454	175,910
Miscellaneous	(1,232)	617	96	657,977	13,369	5,611
<b>TOTAL REVENUES</b>	<b>439,035</b>	<b>61,707</b>	<b>3,846</b>	<b>657,977</b>	<b>490,823</b>	<b>181,521</b>
<b>EXPENDITURES:</b>						
Personal Services	302,595	50,259	4,548	-	358,154	360,172
Operating	128,044	5,836	593	345,778	54,603	66,607
Travel	8,534	1,201	-	-	29,581	24,369
Capital Outlay	750	-	-	29,768	201	201
Government Aid	-	-	-	-	75	-
<b>TOTAL EXPENDITURES</b>	<b>439,923</b>	<b>57,296</b>	<b>5,141</b>	<b>375,546</b>	<b>442,614</b>	<b>451,349</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(888)	4,411	(1,295)	282,431	48,209	(269,828)
<b>OTHER FINANCING SOURCES (USES):</b>						
Sales of Assets	14	-	-	-	-	-
Deposits to General Fund	874	-	-	-	-	-
Adjustments to Fund Balance	-	-	-	-	-	-
Deposits to Common Fund	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	4,411	(1,295)	282,431	48,209	(269,828)
FUND BALANCES, JULY 1, 2002	-	6,095	4,626	1,205,932	302,723	276,197
FUND BALANCES, JUNE 30, 2003	\$ -	\$ 10,506	\$ 3,331	\$ 1,488,363	\$ 350,932	\$ 6,369
<b>FUND BALANCES CONSIST OF:</b>						
General Cash	\$ -	\$ 10,506	\$ 3,331	\$ 1,488,363	\$ 350,857	\$ 6,564
Deposits with Vendors	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	75	-
Due to Vendors	-	-	-	-	-	-
Deposits-Tax Intercepts	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	(195)
<b>TOTAL FUND BALANCES</b>	<b>\$ -</b>	<b>\$ 10,506</b>	<b>\$ 3,331</b>	<b>\$ 1,488,363</b>	<b>\$ 350,932</b>	<b>\$ 6,369</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF LABOR  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NEBRASKA INFORMATION SYSTEM**  
For the Fiscal Year Ended June 30, 2003

	Contractor Registration Fund 22360	Boiler Inspection Fund 22370	Federal Letter-of-Credit Fund 40000	Employment Sec Adm Fund 42310	OSHA Fund 42320	Welfare- to-Work Fund 42330	NE Job Training Fund 42350
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	51,916	25,083,631	507,369	716,940	2,781,109
Sales & Charges	99,169	342,545	-	399,849	6	484	833,193
Miscellaneous	1,802	17,167	14,118	110,065	(95)	190,766	24,727
<b>TOTAL REVENUES</b>	<b>100,971</b>	<b>359,712</b>	<b>66,034</b>	<b>25,593,545</b>	<b>507,280</b>	<b>908,190</b>	<b>3,639,029</b>
<b>EXPENDITURES:</b>							
Personal Services	69,889	249,306	46,540	18,135,029	344,104	92,019	326,284
Operating	13,262	42,002	14,588	6,642,190	110,967	137,404	515,217
Travel	565	20,836	4,838	293,656	36,102	17,687	62,615
Capital Outlay	11	136	68	299,147	15,926	946	10,983
Government Aid	25	-	-	210,296	-	659,461	1,430,665
<b>TOTAL EXPENDITURES</b>	<b>83,752</b>	<b>312,280</b>	<b>66,034</b>	<b>25,580,318</b>	<b>507,099</b>	<b>907,517</b>	<b>2,345,764</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	17,219	47,432	-	13,227	181	673	1,293,265
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	5,745	-	-	45
Deposits to General Fund	-	-	-	-	-	-	-
Adjustments to Fund Balance	-	-	-	-	-	-	(1,291,378)
Deposits to Common Fund	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,745</b>	<b>-</b>	<b>-</b>	<b>(1,291,333)</b>
Net Change in Fund Balances	17,219	47,432	-	18,972	181	673	1,932
<b>FUND BALANCES, JULY 1, 2002</b>	<b>35,329</b>	<b>370,999</b>	<b>-</b>	<b>481,230</b>	<b>216</b>	<b>190</b>	<b>2,486</b>
<b>FUND BALANCES, JUNE 30, 2003</b>	<b>\$ 52,548</b>	<b>\$ 418,431</b>	<b>\$ -</b>	<b>\$ 500,202</b>	<b>\$ 397</b>	<b>\$ 863</b>	<b>\$ 4,418</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 52,548	\$ 417,566	\$ -	\$ 480,978	\$ 181	\$ 152	\$ (120)
Deposits with Vendors	-	-	-	1,135	216	-	2,370
Accounts Receivable	-	865	-	18,089	-	734	1,897
Due to Vendors	-	-	-	-	-	(23)	(51)
Deposits-Tax Intercepts	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	322
<b>TOTAL FUND BALANCES</b>	<b>\$ 52,548</b>	<b>\$ 418,431</b>	<b>\$ -</b>	<b>\$ 500,202</b>	<b>\$ 397</b>	<b>\$ 863</b>	<b>\$ 4,418</b>

The accompanying notes are an integral part of the schedule.

(Continued)



NEBRASKA DEPARTMENT OF LABOR  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NEBRASKA INFORMATION SYSTEM**  
For the Fiscal Year Ended June 30, 2003

	Job Training Fund 42360	AGI Grant Fund 42370	Temporary School Fund 61360	State Unemployment Insurance Fund 62310	NE Training and Support Fund 62320	Income Tax Setoff Fund 72310	<b>Total (Memorandum Only)</b>
<b>REVENUES:</b>							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 439,923
Intergovernmental	7,236,331	400,000	-	-	-	-	36,777,296
Sales & Charges	79,517	-	-	-	-	-	2,473,311
Miscellaneous	7,128	4,520	400	1,841,211	58,154	-	2,946,401
<b>TOTAL REVENUES</b>	<b>7,322,976</b>	<b>404,520</b>	<b>400</b>	<b>1,841,211</b>	<b>58,154</b>	<b>-</b>	<b>42,636,931</b>
<b>EXPENDITURES:</b>							
Personal Services	375,423	63	-	-	63,772	-	20,778,157
Operating	213,194	744	-	-	12,051	-	8,303,080
Travel	34,439	117	-	-	523	-	535,063
Capital Outlay	3,001	-	-	-	2,882	-	364,020
Government Aid	6,685,092	-	-	-	1,724,304	-	10,709,918
<b>TOTAL EXPENDITURES</b>	<b>7,311,149</b>	<b>924</b>	<b>-</b>	<b>-</b>	<b>1,803,532</b>	<b>-</b>	<b>40,690,238</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,827	403,596	400	1,841,211	(1,745,378)	-	1,946,693
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	-	-	-	-	-	-	5,804
Deposits to General Fund	-	-	-	-	-	-	874
Adjustments to Fund Balance	-	-	-	-	-	-	(1,291,378)
Deposits to Common Fund	-	-	(400)	-	-	-	(400)
Operating Transfers In	-	-	-	-	2,350,255	-	2,350,255
Operating Transfers Out	-	-	-	(1,900,255)	-	-	(1,900,255)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(400)</b>	<b>(1,900,255)</b>	<b>2,350,255</b>	<b>-</b>	<b>(835,100)</b>
Net Change in Fund Balances	11,827	403,596	-	(59,044)	604,877	-	1,111,593
<b>FUND BALANCES, JULY 1, 2002</b>	<b>(43)</b>	<b>-</b>	<b>-</b>	<b>43,041,334</b>	<b>1,112,513</b>	<b>54</b>	<b>46,839,881</b>
<b>FUND BALANCES, JUNE 30, 2003</b>	<b>\$ 11,784</b>	<b>\$ 403,596</b>	<b>\$ -</b>	<b>\$ 42,982,290</b>	<b>\$ 1,717,390</b>	<b>\$ 54</b>	<b>\$ 47,951,474</b>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ 11,688	\$ 403,596	\$ -	\$ 42,982,290	\$ 1,717,390	\$ 40,384	\$ 47,966,274
Deposits with Vendors	205	-	-	-	-	-	3,926
Accounts Receivable	-	-	-	-	-	-	21,660
Due to Vendors	-	-	-	-	-	-	(74)
Deposits-Tax Intercepts	-	-	-	-	-	(39,161)	(39,161)
Due to Fund	(109)	-	-	-	-	(1,169)	(1,151)
<b>TOTAL FUND BALANCES</b>	<b>\$ 11,784</b>	<b>\$ 403,596</b>	<b>\$ -</b>	<b>\$ 42,982,290</b>	<b>\$ 1,717,390</b>	<b>\$ 54</b>	<b>\$ 47,951,474</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF LABOR  
**SCHEDULE OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE**  
**UNEMPLOYMENT COMPENSATION FUND**  
 For the Fiscal Year Ended June 30, 2003

	Unemployment Compensation Fund
REVENUES:	
Contributions	\$ 96,117,305
Interest and Penalties	483,150
State Unemployment Insurance Tax Receipts	60,432
Interest on Trust Fund	7,407,841
Reimbursements from Other States	2,064,434
Federal Benefit Program	53,957,249
Reed Act Funds	534,440
TOTAL REVENUES	160,624,851
EXPENDITURES:	
Benefits Paid	160,362,957
Reimbursements to Other States	6,088,579
TOTAL EXPENDITURES	166,451,536
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,826,685)
OTHER FINANCING SOURCES (USES):	
Operating Transfers In	235,246,241
Operating Transfers Out	(258,560,095)
TOTAL OTHER FINANCING SOURCES (USES)	(23,313,854)
Net Change in Fund Balance	(29,140,539)
FUND BALANCE, JULY 1, 2002	180,222,875
FUND BALANCE, JUNE 30, 2003	\$ 151,082,336

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

For the Fiscal Year Ended June 30, 2003

**1. Criteria**

NIS;

The accounting policies of the Nebraska Department of Labor 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 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-NIS for the Department was obtained directly from NIS. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balance-Unemployment Compensation Fund was obtained directly from bank statements and the Unemployment Insurance accounting system. 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 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003 which had not been posted to NIS as of June 30, 2003.

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.

Unemployment Compensation Fund;

The Unemployment Compensation Fund is maintained by the Nebraska Department of Labor Commissioner, per Neb. Rev. Stat. Section 48-618 R.S.Supp., 2002, and is on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received and expenditures when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires that use of the modified accrual basis for governmental and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

(Continued)

**1. Criteria** (Continued)

Per Neb. Rev. Stat. Section 48-618 R.S.Supp., 2002, the Commissioner of Labor shall designate a treasurer and custodian of the fund, who shall be selected in accordance with Section 48-609, and who shall administer such fund in accordance with the directions of the Commissioner and shall issue his or her warrants upon it in accordance with such rules and regulations as the Commissioner shall prescribe.

Accounts Receivables;

The Department had accounts receivable included in revenues of \$20,660 from interagency billings and had accounts receivable not included in the Schedule of \$420,427 from reimbursement from other agencies for miscellaneous charges, shared costs with private companies, and reimbursements from private companies for access to the Nebraska Workforce Access System. DAS did not require the Department to record their receivables separate from the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The Unemployment Insurance Compensation Fund had accounts receivable of \$2,841,756 from outstanding contributions and penalties.

The fund types established by NIS that are used by the Department 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.

**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 Department intercepts State income tax refunds to offset outstanding obligations derived from the overpayment of unemployment benefits.

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

(Continued)

**1. Criteria** (Continued)

The major revenue object account codes established by NIS used by the Department 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.

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

**Sales & 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 and State Unemployment Insurance Tax receipts.

The major revenue account codes established for the Unemployment Compensation Fund are:

**Contributions** – The share of combined tax that is paid by employers quarterly and credited to the State's account in the Unemployment Trust Fund. Contributions together with State Unemployment Insurance Tax make up the combined tax.

**Interest and Penalties** – Penalties for failure to file a required tax report and interest on late payments.

**State Unemployment Insurance Tax (SUIT) Receipts** – When SUIT is in effect, twenty percent of the combined tax paid by employers is paid into the State Unemployment Insurance Trust Fund. Principal is to be used exclusively for payment of unemployment benefits. Interest generated by this Fund is transferred into the Nebraska Training and Support Trust Fund and is used to award training grants for incumbent workers.

**Interest on Trust Fund** – Interest earned on amounts on deposit with the Secretary of the U.S. Treasury.

**Reimbursement from Other States** – Multi-state claims initially paid by Nebraska and billed to the other states quarterly.

**Federal Benefit Program** – Money from the Federal government for various Federal unemployment programs.

**Reed Act Funds** – A refund distribution amount paid by the Federal government to the states to purchase tangible assets.

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

(Continued)

**1. Criteria** (Concluded)

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

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

**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.

The major expenditure account codes established for the Unemployment Compensation Fund are:

**Benefits Paid** – Money payments payable to an individual with respect to his or her unemployment.

**Reimbursements to Other States** – Multi-state claims initially paid another state and billed to Nebraska by the other states.

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

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance. General Cash represents the cash balance of a fund as reflected on NIS.

**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 balance.

**Other Financing Sources** – Long-term debt proceeds, operating transfers, and proceeds of fixed asset dispositions.

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

(Continued)

**2. State Agency**

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

The Nebraska Department of Labor is part of the primary government for the State of Nebraska.

**3. Beginning Balance-NIS**

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 Accounts Receivable, Due to Vendor, Deposits, and Due to Fund. Therefore, the beginning fund balances 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.

**4. Totals-NIS**

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-NIS**

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, 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.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	\$ 1,353,163	\$ 19,353	\$ -	\$ 1,372,516
Land	184,000	-	-	184,000
Equipment	3,287,754	460,126	317,204	3,430,676
Total	<u>\$ 4,824,917</u>	<u>\$ 479,479</u>	<u>\$ 317,204</u>	<u>\$ 4,987,192</u>

NEBRASKA DEPARTMENT OF LABOR

**NOTES TO THE SCHEDULES**

(Continued)

**6. Transfers-NIS**

Transfers during the period include the quarterly transfer of interest from the State Unemployment Insurance Trust Fund to the Nebraska Training and Support Fund.

**7. Adjustments to Fund Balance-NIS**

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account. An adjustment was made to the Nebraska Job Training Fund (42350). The Department returned \$1,291,378 to a State agency that was over billed in the prior fiscal year.



# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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We have examined the accompanying schedules of revenues, expenditures, and changes in fund balances of the Nebraska Department of Labor for the fiscal year ended June 30, 2003, and have issued our report thereon dated May 4, 2004. The report was qualified for the effects of the incorrect payroll distribution. 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 Department of Labor's schedules of revenues, expenditures, and changes in fund balances, are free of material misstatements, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Labor in the Comments Section of this report as Comment Number 3 (Payroll Records).

### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Labor's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedules 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 Department of Labor's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in the Comments Section of the report as Comment Number 1 (Nebraska Information System) and Comment Number 2 (Payroll Expenditures)

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. We consider the reportable conditions described above to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Labor in the Comments Section of the report as Comment Number 3 (Payroll Records) and Comment Number 4 (Boiler Program Fund Balance).

May 4, 2004

*Pat Reding, CPA*

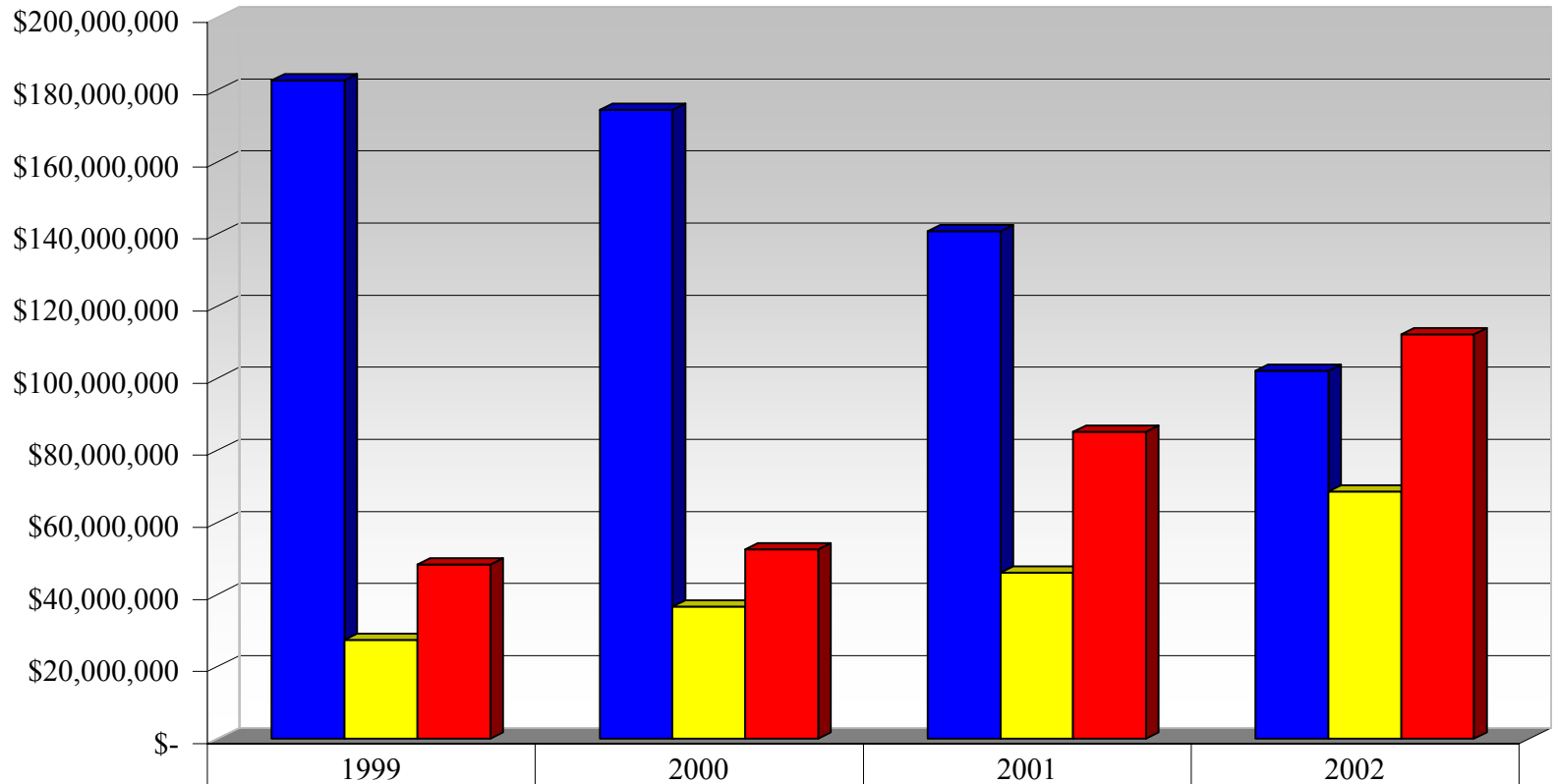
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF LABOR

**STATISTICAL SECTION**

Our examination was conducted for the purpose of forming an opinion on the schedules of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedules of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF LABOR  
**UNEMPLOYMENT COMPENSATION FUND**  
 For Calendar Years 1999 through 2002



■ Trust Fund Balance at December 31	\$182,666,415	\$174,432,945	\$140,843,079	\$102,032,102
■ Employer Contributions	\$27,438,857	\$36,700,079	\$46,065,994	\$68,548,217
■ Net Benefits Paid	\$48,320,732	\$52,513,662	\$85,175,595	\$112,228,180

Source: Department of Labor Advisory Council Annual Report issued October 2003.

NEBRASKA DEPARTMENT OF LABOR  
**UNEMPLOYMENT BENEFIT CLAIMS**  
 For the Federal Fiscal Years Ending September 30, 1999 through 2003

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total Initial Claims	59,260	53,526	69,289	84,311	88,426
Monetary Determinations	41,104	38,415	48,897	60,246	64,296
Number of Benefit Payments Issued	311,815	303,675	391,758	551,193	640,612
Gross Benefit Payments	\$ 48,322,368	\$ 50,614,626	\$ 71,791,230	\$ 108,682,655	\$ 128,901,843

Source: Quarterly Federal ETA Reports 218, 2112, and 5159

NEBRASKA DEPARTMENT OF LABOR  
**WORKFORCE INVESTMENT ACT**  
For the Program Years Ending June 30, 2001 through 2003

	2001		2002		2003	
	Negotiated Performance Level	Actual Performance Level	Negotiated Performance Level	Actual Performance Level	Negotiated Performance Level	Actual Performance Level
<b>ADULTS</b>						
Entered Employment Rate	71.0%	76.9%	72.0%	77.1%	72.0%	81.2%
Employment Retention Rate	71.0%	91.1%	72.0%	85.4%	72.0%	84.4%
<b>DISLOCATED WORKER</b>						
Entered Employment Rate	77.0%	82.1%	78.0%	86.4%	79.0%	91.0%
Employment Retention Rate	85.0%	88.9%	86.0%	91.9%	87.0%	93.8%
<b>OLDER YOUTH</b>						
Entered Employment Rate	50.0%	80.9%	51.0%	76.7%	51.0%	71.2%
Employment Retention Rate	77.0%	83.9%	78.0%	87.5%	79.0%	78.6%
<b>YOUNGER YOUTH</b>						
Skill Attainment Rate	50.0%	82.8%	51.0%	73.9%	51.0%	80.5%
Diploma or Equivalent Attainment Rate	45.0%	28.6%	38.0%	44.0%	42.0%	73.0%
Retention Rate	54.0%	70.7%	55.0%	71.4%	55.0%	54.4%

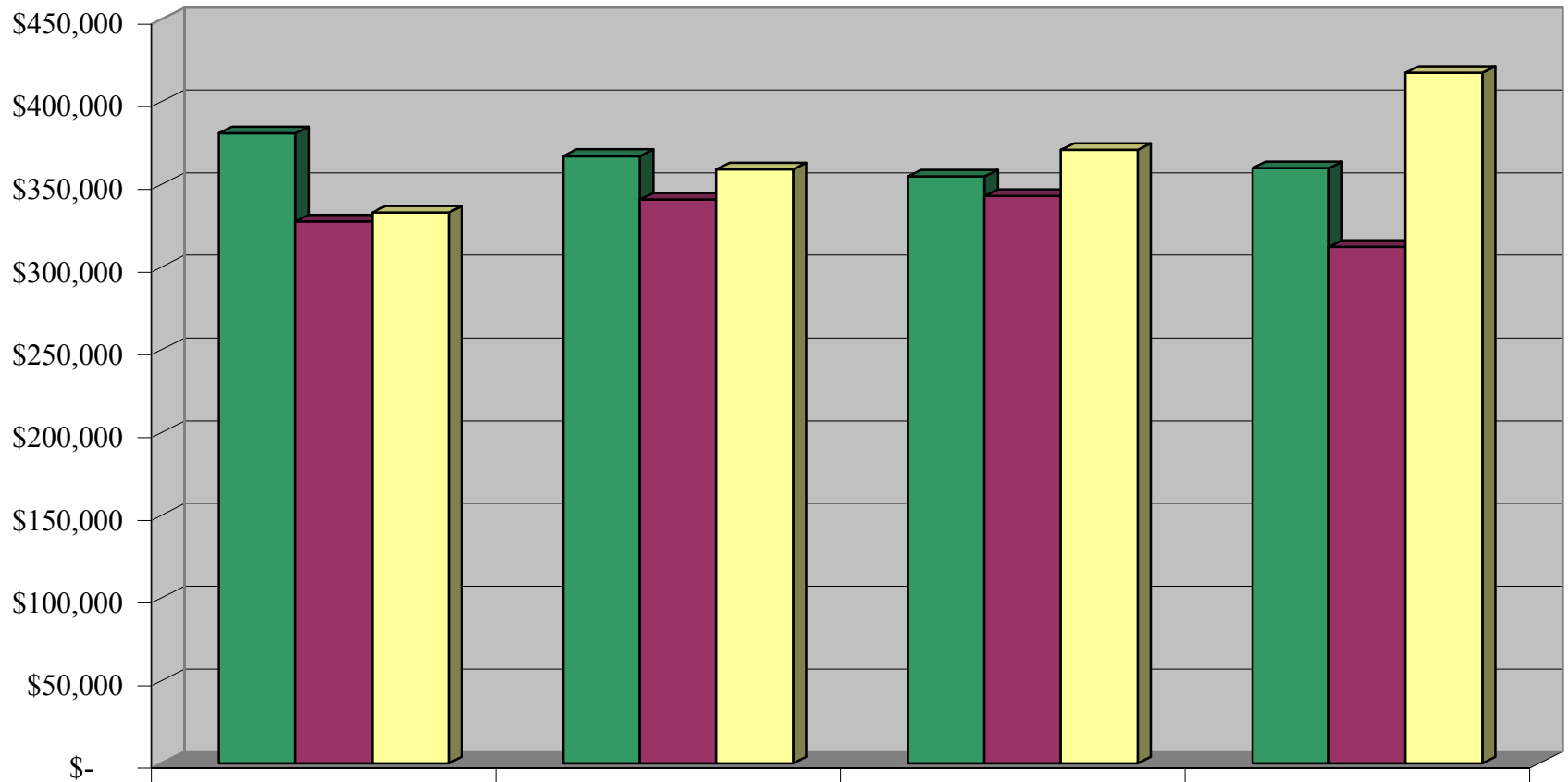
Entered Employment Rate: Is the percentage of program participants employed one quarter after program completion.

Employment Retention Rate: Is the percentage of program participants still employed three quarters after program completion.

Note: The Nebraska Department of Labor negotiates with the Federal government to establish performance measure standards. If the negotiated standard is not met, Federal funding for the program may be decreased. If the negotiated standard is exceeded the program is eligible for incentive funds.

Source: Workforce Investment Act Annual Reports for Program Years Beginning July 1, 2000, 2001 and 2002

NEBRASKA DEPARTMENT OF LABOR  
**BOILER PROGRAM EXPENDITURES COMPARED TO FUND BALANCE**  
 For the Fiscal Years Ending June 30, 2000 through 2003



■ Revenues	\$381,028	\$367,148	\$354,896	\$359,712
■ Expenditures	\$327,668	\$340,931	\$342,954	\$312,280
■ Fund Balance at June 30	\$332,840	\$359,057	\$370,999	\$417,566